



DILMUNIA FUND REPORT

JUNE 2011



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WELCOME

Despite the first half of the year being overshadowed by unfavourable political and economic events locally and globally, with a knock-on effect for the real estate industry, the focus for Dilmunia moving forward is to affect progress on the ground, reach out to a greater number of international and local sales agents, and establish an on-site sales centre in order to proactively drive sales outreach.

Ithmaar Development Company ("IDC") is pleased to release the ninth Dilmunia Development Fund ILP. (the "Fund") newsletter, on behalf of Ithmaar-Dilmunia General Partner Company, and the Fund Manager, Ithmaar Bank B.S.C. for the period ending June 30, 2011. This report covers both Q1 and Q2 reporting periods.

This issue is the first update since our detailed report to investors in December 2010. The first half of the year has been overshadowed by unfavourable global and local events. These included political unrest in various countries in the Middle East and associated increases in oil prices, natural disasters in Japan, and financial crises on the periphery of the European Union. In Bahrain, political troubles arrested GDP growth in the first half of 2011 and while economic activity is now picking up, output growth for the year as a whole is likely to be markedly less than forecast at the beginning of the year.

The political disturbance caused a slowdown in economic development and will decelerate revenues from several sectors. The Formula One race was called off costing the hospitality segment all associated revenues, while the credit agencies lowering of Bahrain government's long- and short-term sovereign ratings citing concerns that political unrest could roil the country for some time to come has had and will continue to have further repercussions on the wider economy and on the real-estate sector. In late August, postdating this report, the Central Informatics Organisation (CIO) expected the economy to expand by 1.6% this year, less than the 4.5 per cent seen by the Finance Ministry in March.

The recent unrest greatly affected the residential market across Bahrain. There has been a shift in demand in the leasehold market, which has caused rent reductions of up to 25% in certain areas forcing landlords to offer incentives to tenants in a bid to maintain occupancy levels. In the short term it seems as though the market will remain tenant friendly as rents look set to stabilise at current rates. Over the past three months the residential market has shown signs of stabilising. To this end, Amwaj and Riffa Views have been the best performing areas of the Kingdom, predominantly due to the security as well as good quality development concepts. Amwaj has seen a steady increase in population, given a number of expatriates who used to live in the traditional areas of Saar

and Budaiya have moved across the island to take advantage of the lifestyle, and Bahrainis are looking to purchase units to live in, thus benefiting from the lifestyle and security on offer. This trend, if sustained, will cause price points for rental and sales locations within these properties to rise, creating greater demand from both end users and developers for more land, which will enhance the profile and rates for land in neighbouring schemes such as Dilmunia at Bahrain.

With relative stability returned to the Kingdom, the Economic Development Board (EDB) has taken a leading role in the aim of generating growth of inward investment to the island. This policy ties in with Government commitments to support projects and initiatives as set out in the National Strategy 2011 – 2014. Of prime importance will be the strategy for utilising the \$10 billion GCC grant which will form part of the ten year Gulf Development Programme. Bahrain's expected real GDP growth is 3.8% on average in 2011-15, according to the Economist Intelligence Unit. The services sector will be hurt in the coming few years of the forecast period due to the lack of confidence caused by the unrest, but high oil prices will offer a support to the economy. Standard & Poor's removed from "CreditWatch Negative" the ratings on Bahrain's central bank and sovereign wealth fund Bahrain Mumtalakat Holding Co. because of their belief in diminished near-term political tensions and an expectation that increased public spending will lift economic growth next year. To this end, the Government has announced plans for up BD 2.5 billion spending on social housing, and additional spending on major infrastructure projects over the next few years. The real estate industry globally has been hard hit during this prolonged economic downturn and Bahrain's market has also struggled with its residential and commercial sectors having suffered continued year-on-year negative growth in both rental and sales values since their peak in 2008. Instilling "Confidence" back into the real estate market will be the key to any future success for the country if local, regional and international investors are to be attracted back to Bahrain's shores.

There is no doubt that this can be achieved, but it will require cohesive public and private initiatives creating transparency in the market, introducing international best practice regulations, tailored to meet local needs and increasing the availability of affordable finance.



DILMUNIA PROJECT OVERVIEW

Dilmunia at Bahrain is a master-planned development positioning itself as a global leader in the promotion and enhancement of health and well-being. Dilmunia aims to enrich the Kingdom’s tourism offerings, bringing to the shores of Bahrain varied facilities and experiences for people living in and visiting the Kingdom.

The man-made island will be a mix of residential, hospitality, leisure and commercial developments, surrounding a core of comprehensive health and wellness amenities, which will together offer an alternative ‘balanced’ perspective towards life and living.

Dilmunia will be the destination for harried citizens of the Middle East and the world, in search of an environment that strives to prevent illness and promote healthy and active living. The project is being developed over an area of 125 hectares of reclaimed land rising up off the northeast seashore of Muharraq Island and only a few minutes away from the international airport, and in its own right would be a reason to visit Bahrain. By the end of May 2009, the entire island’s reclamation works was completed. We are proud to announce to the investors of the Fund that we have added another island to Bahrain’s existing archipelago.

Development Type	Health/Wellness, Residential, Commercial, Leisure, and Hospitality
Location	Off north-east coast of Muharraq, Kingdom of Bahrain
Total Reclaimed Area	1,250,000 m2
Total Estimated Investments Value	US\$ 1.6 Billion
Anchor / Signature Elements	Dilmunia Grand Canal Wellness Centre, and hospitality “boutique hotels”
Types of Residential Properties	Luxury condominiums and large variety of villas and apartments
Architectural Styles	Contemporary, except in themed hotels
Hotels	Three themed 5-star boutique hotels (Thai, Chinese & French) and two themed serviced apartments (business oriented and marina club)
Anticipated Completion Date	2014-15 (phase 1)



DILMUNIA FUND OVERVIEW

The Fund's objectives were to:

- Purchase approximately 650,000 m2 of land on the Island (the "Development Land"). This was achieved in late 2007, transaction value: US\$ 180.37 million.
- Develop infrastructure in respect of the entire island, up to the boundaries of each parcel within the Island. [The preliminary concept envisaged that the total cost for infrastructure would be approximately US\$ 118.25 million].
- Sell the sub-divided parcels within Development Land in order to exit the Fund investors; originally it was contemplated that there was going to be approximately 25 parcels of land.

Fund Objectives	Status
Purchase approximately 650,000 m2 of land on the Island (the "Development Land").	This was achieved in late 2007, transaction value: US\$ 180.371 million. Subsequently 165,000 m2 of the Development Land was sold later in 2007, and approx 15,000 m2 was sold, or has been reserved since.
Sell the sub-divided parcels within Development Land in order to exit the Fund investors; originally it was contemplated that there were to be approximately 25 parcels of land.	The master planning is progressing and preliminary approval has been obtained. The land was subdivided to approximately 75 sellable parcels of fund land. Further details presented under Master plan & Infrastructure Development.
Develop infrastructure in respect of the entire island, up to the boundaries of each parcel within the Island.	Part of the infrastructure works including earthworks for road network has already been completed. Other work is scheduled to commence in Q4 2011. Further details are presented in the Infrastructure Development section.





DILMUNIA KEY DEVELOPMENTS

- **The Land:** the entire land reclamation was completed by May 2009. Preparatory earthworks, land levelling for infrastructure and Grand Canal construction were completed in July 2010.
- **Master plan:** The Fund Developer received the reclamation completion certificate from the Municipality of Muharraq in April 2010. The Survey Certificate was received from the Survey and Land Registration Bureau in October 2010, officially marking Dilmunia on the map of Bahrain. Having received all technical sub-approvals in Q1/ Q2 2011 the final Master plan was submitted to the authorities in April 2011 and final approval is expected to be received in Q4 2011
- **The Canal:** The final layout of the canal has been fixed and detailed design work is progressing. Land preparation and earthworks on the canal have also commenced.
- **Landscape:** Preliminary designs for the landscaping design on Dilmunia are progressing and will be finalised soon.
- **Infrastructure:** Detailed infrastructure design works are ongoing by Mott McDonald, part of the detailed design was submitted in March 2011 and other reports in May 2011 with parallel infrastructure costing and cash-flow projections being prepared by Cost Consultants DJ Jones.
- **Services Consultations & Coordination:** Meetings continued with various authorities, particularly with the Roads Directorate, Electricity and Water Authority and Sanitary Engineering. A draft Technical Interface Agreement ("TIA") is to be signed with the Central Planning Office, this will enable the implantation of the Technical Interface Office ("TIO")


DILMUNIA FINANCIAL HIGHLIGHTS

The financial statements of the Fund as at June 2011 were prepared and the summary financial highlights appear below:

	June 30, 2010	June 30, 2011
Total Assets	US\$ 181,661,604	US\$ 178,288,768
Total Equity	US\$ 174,540,138	US\$ 173,202,247
Loss for the period	US\$ 1,556,761	US\$ 285,574

Suspension of management fees and our continuous efforts in reducing expenses has primarily contributed to reduction in loss for the period by 82% in comparison to 2010.

It may be noted that of the development properties forming part of the total assets above, approximately US\$ 134.6 million relates to the cost of land held in the books of the Fund, the fair value of which is approximately US\$ 400.7million as at June 30, 2011.





DILMUNIA MASTER PLAN & INFRASTRUCTURE DEVELOPMENT

Since their appointment in late 2009 for the Detailed Master Planning design and executing the Development Control Guidelines, AECOM continues working on these assignments while accommodating the relevant changes and requirements by the regulatory authorities. The final Master plan was issued by AECOM and the Fund Developer in December 2010. This has been submitted to the authorities in early 2011. Having received technical sub-approvals the Master plan was submitted for final approval in April 2011. Design Control Guidelines relevant to each plot are in the final stage and require Master plan approval before finalisation.

In parallel, AECOM is conducting the landscaping studies and services, and the detailed designs of the Grand Canal and Dilmunia Marina.

Following evaluation of 3 Geotechnical Investigation bids received and the appointment of Qatar Engineering Laboratories (QEL), the works were executed in two Phases as mentioned earlier. Phase 1 was completed by end of May 2010. This was followed by Phase 2 site works and testing. Site investigation reports were submitted for both Phase 1 & Phase 2 respectively. Reports for both phases were reviewed and approved by Infrastructure Consultant Mott MacDonald and the recommendations were incorporated in the Designs.

The Infrastructure Consultant, Mott MacDonald, has prepared the Infrastructure Master Plan Report, which covered all infrastructure disciplines. The report included assessments for canal structure options, treatment of solid waste, district cooling, and foul water. Demand estimates for power & water based on the original master plan were also developed. Relevant meetings with appropriate authorities to assess whether the master plan development is in line with the

authorities' requirements have commenced with support from Ansari Engineering Services ("AES"). The Infrastructure Consultant Mott MacDonald ("MML") issued a preliminary design report in August 2010 reflecting the requirements of the project detailed Master plan. MML has developed the preliminary designs for highway and pedestrian bridges and footbridges. The electrical network, potable water and sewage networks were further developed.

Detailed infrastructure design works are ongoing by MML, part of the detailed design was submitted in March 2011, and other reports in May 2011. In parallel, cost consultants DJ Jones is conducting infrastructure costing and preparing cash-flow projections. Due to the property market conditions, the infrastructure development is expected to be spread over a longer timeframe in alignment with projected market absorption of plots, this will allow better cash-flow management for the fund. Based on preliminary studies and costing, the infrastructure development has been designed to be developed in four overlapping phases. The phasing decision has been made with the intention of maximising the value of the plots in the project and facilitating the development of the infrastructure around the plots that have been acquired by third parties. It should be noted that the infrastructure phasing is flexible and can be modified to reflect investors' and developers' expectations.



DILMUNIA PROJECT DEVELOPMENT

Land Sales

The sale programme of Dilmunia at Bahrain was initiated during the second quarter of 2008 by offering 16 plots for sale to sub-developers. Going forward, the Fund Developer is looking to reach out to a larger pool of investors for sales in the latter part of 2011. The Fund Developer has reached out to a number of international sales agents to assist in this effort, and is in contact with a number of local agents within each of the GCC countries in order to assist with the sales outreach.

With a view to initiate sales momentum on Dilmunia the Fund Developer offered several selected plots at competitive prices. Several plots are also being offered at competitive market rates to enhance the development momentum. We're currently in discussion with local parties for the sale of two additional plots.

Wellness

Being the heart of Dilmunia, we have been very selective on whom to partner with to work on this landmark venture. From around 50 pre-selected worldwide medical operators and research centres, two stages of selection took place during 2008 and approximately 15 were shortlisted for further negotiations. By the end of June 2009, only 5 final shortlisted companies were invited to submit their bids.

The technical and financial assessments were completed for the 5 finalists and further discussions / meetings took place in December 2009; recommendation for the selection of preferred bidders was done during the second quarter of 2010 pending required approvals. Subsequent to final submissions and evaluations, the preferred partners were selected in July 2010.

The team consists of a healthcare entity, consulting firm and architect who offer a balanced combination of outstanding international reputation and brand value; in-depth knowledge of the international, regional and local healthcare space; and extensive international and regional experience and presence. A major workshop initiated the next phase of DHD progress in December 2010, in Dubai, UAE.

Hospitality

The first Memorandum of Understanding (MOU) for the operation and management of a hotel on Dilmunia was signed in May 2009 with Dusit Thani Public Ltd Company, for a 5-star hotel to be constructed on a site on the man-made island covering more than 30,000 m² of prime sea-front land. To date, the Developer received the final Hotel Management Agreement (HMA) and Technical Services Agreement (TSA) from Dusit International. These documents are currently under legal review. This will, to a large extent, mark the start of a new phase in the hospitality cluster in Dilmunia.

An MOU with another reputable international hotel chain for the management and development of a European-themed Resort and Spa was executed in November 9, 2010. Additionally, negotiations are ongoing with other operators at different stages, including a local hotel operator who expressed its interest to be part of Dilmunia. The Fund Developer is intending to bring at least one of these hotel developments to market in the form of a closed Hotel Company, after conducting commercial feasibility, as a means of increasing the development's appeal.



DILMUNIA MARKETING AND COMMUNICATION

In light of the current market conditions, and Dilmunia's positioning amid competing schemes, the developer has initiated a marketing and sales strategy review to magnify the strengths of the project. Our aim is to re-launch the Dilmunia at Bahrain project marketing & sales activities as we progress through significant milestones in the project's development, and as economic activity returns to normalcy in Bahrain. After launching a comprehensive Marketing strategy and design competition, proposals were received from 7 local and regional marketing agencies. The Fund developer has appointed Unisono Branding Consultants as its Marketing and Design partner for the Dilmunia at Bahrain Project. Our joint team will revamp Dilmunia's marketing message in light of market changes, focusing activities on direct marketing methods. This will target investors/developers through direct channels, road shows and via Public Relations and digital mediums - a more cost-efficient and effective method over paid advertising.

Additionally, the Fund Developer has begun construction of an on-site Sales Centre. Completion of the centre is expected in November 2011.

In June 2011, Dilmunia participated in the Cityscape Jeddah Exhibition, Jeddah, Saudi Arabia - where Dilmunia received significant recognition, admiration and valuable feedback from the Saudi Market. In preparation for this event, the developer issued new marketing collateral highlighting the Master plan produced as a result of the detailed design process, including new images, renders and brochures of Dilmunia at Bahrain. Work has also commenced on a new website to showcase the development, aimed to be launched with the on-site Sales centre in Q4 2011.



DILMUNIA KEY TARGETS

Development

- Development Control Guidelines, Q3 2011
- Finalising Landscaping and Canal Designs, Q4 2011
- Master Plan Final Approval from Authorities, Q3 2011

Infrastructure

- Planning Permission approvals, detailed infrastructure design and costing completion, Q3 2011
- Tendering & contractors' appointment, Q4 2011
- Commencement of infrastructure works (Phase 1), Q4 2011

Wellness

- The Fund Developer has finalised a team to conduct a detailed market study, feasibility analysis and preliminary master plan. With the exception of the feasibility consulting, contract negotiations are nearing completion to award the contract in Q4 2011.

Marketing

- On-site Sales Suite, Q4 2011
- New website, Q4 2011
- Enhanced PR & Direct Marketing Campaign



An island that embraces
nature and respects our
culture and heritage

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