

Annual Report 2005



سوق البحرين للأوراق المالية
Bahrain Stock Exchange



www.bahrainstock.com



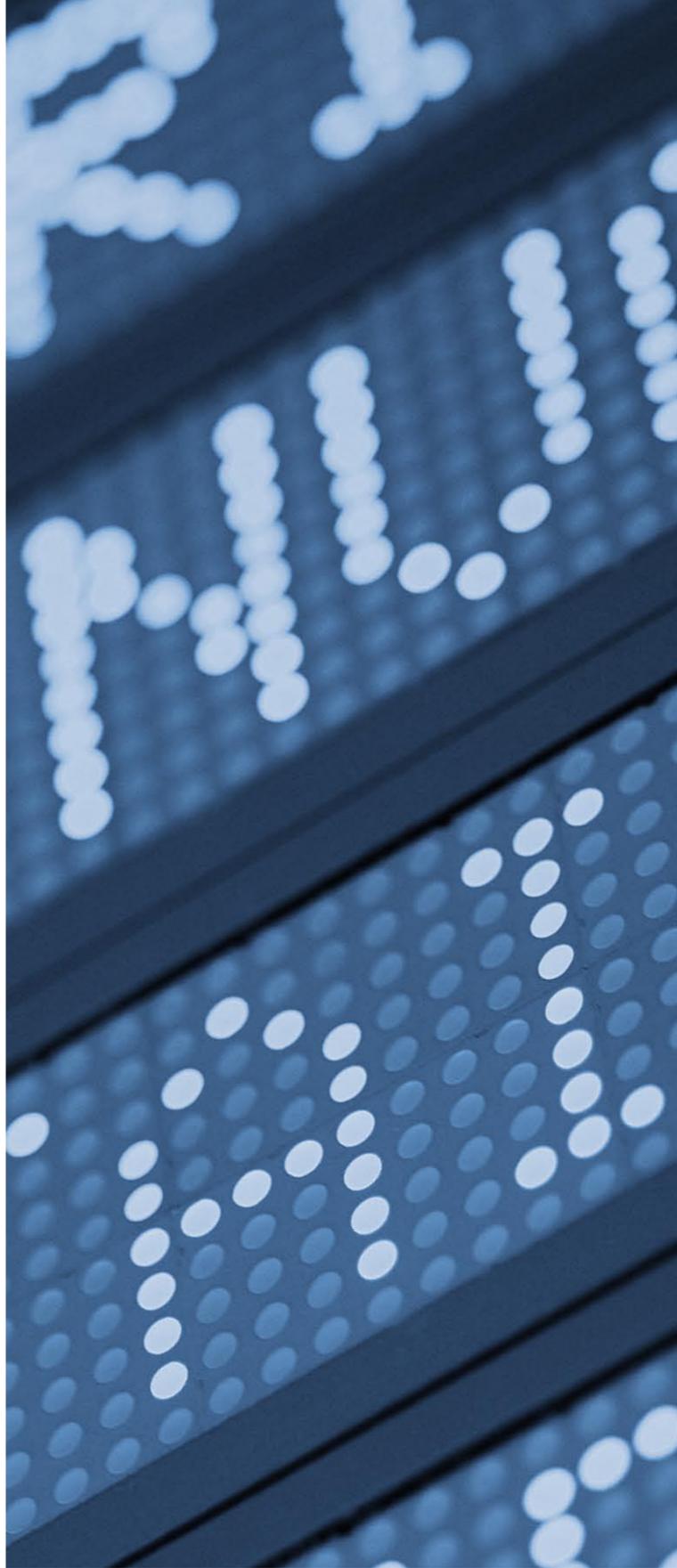
**H.H Shaikh Khalifa
Bin Salman Al Khalifa**
The Prime Minister



**H.M Shaikh Hamad
Bin Isa Al Khalifa**
The King of Bahrain



**H.H Shaikh Salman
Bin Hamad Al Khalifa**
Crown Prince and
Commander-in-Chief of the
Bahrain Defence force



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Bahrain Stock Exchange

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GCC countries have made balanced growth during 2005 enhanced by the increase of oil prices which supported the policy of GCC to diversify the sources of income, develop the non oil sectors, improve the infrastructure and rationalize national current accounts, balance of payment and state budget. On Capital Markets front, all bourses have recorded strong gains enhancing the investors' confidence with the unprecedented levels recorded by most indices during 2005.

The kingdom of Bahrain has continued its efforts to enhance the investment environment in order to increase the contribution of the private sector in the economic development process, in a way that increases the competitiveness of the Bahrain's economy to attract investments and reflects the improvement of Bahrain's competitive position in many reports that were released by international rating agencies concerned of monitoring the performance of economies worldwide.

The signing of the Free Trade Agreement (FTA) with the United State of America is considered one of the most important events to Bahrain economy during 2005. The agreement is expected to open new horizon of mutual cooperation with the biggest economy in the area of trade and investments. It will also improve and enhance the business environments in Bahrain, especially with non-tax environment that Bahrain enforces on income and capital gains.

Similar to other GCC countries, the Capital Market Sector in the Kingdom of Bahrain has witnessed the beginning of an active move in the primary market as some Initial Public Offerings (IPOs) took place and were well received in a way reflected the high level of liquidity available locally and regionally.

Based on its strategy to develop the Capital Market sector, Bahrain Monetary Agency (BMA) and Bahrain Stock Exchange assigned the World Bank to prepare a comprehensive proposal to develop the capital market sector in the Kingdom of Bahrain. A Memorandum of Understanding (MOU) was signed by Bahrain Monetary Agency and Bahrain Stock Exchange to coordinate, put in practice and implement directives and instructions issued by BMA which relate to the capital market sector until issuing the Central Bank Law.

I am honored to take this opportunity to express our gratitude and appreciation to His Majesty King Hamad bin Isa bin Salman Al Khalifa, King of the Kingdom of Bahrain, His Highness Shaikh Khalifa bin Salman Al Khalifa, The Prime Minister, and His Highness Shaikh Salman bin Hamad Al Khalifa, the Crown Prince and the Commander in Chief of the Bahrain Defense Force, for the valuable directions and the continued support to the Stock Exchange.

Many thanks go also to the members of the BSE's ex-Board of Directors whose contributions and visions played major role in

developing the bourse during the past years. I also thank officials and the rest of BSE's staff for the efforts exerted by them during the year, hoping they will continue their efforts in the days to come in order to achieve further advancement and development to BSE. I also thank all the listed companies for their continued cooperation and support extended to BSE's various projects.

Rasheed Mohammed Al-Maraj
Chairman



Trading activity continued its positive trend during 2005 in all GCC markets supported by the good performance of the economies of the countries in the region mainly due to the unprecedented increase in oil prices which had positive impact on the income of those countries and increased government spending on infrastructure. This was reflected positively on the general performance of most sectors in GCC economies. The performance of most GCC bourses went in line with local economies as they showed strong gains supported by high liquidity and outstanding performance that led to record results reported by most of listed companies. Those two factors along with others helped to promote the secondary market during 2005 and pushed trading to the highest level ever reached during the past years.

BSE made a good performance in 2005 compared 2004 as the index went up by 23.80% and the market capitalization increased by 28.24%. The value of shares traded went up by 53.55%, the volume by 42.68% while transactions made 42.68% growth. Three Bahraini shareholding companies were listed with a total paid up capital of BD 49.7 million which makes the companies listed on the bourse 48. Two bonds issued by local companies with a total value of BD 19.4 million. A government sukuk issue at a value of BD 30 million and another sukuk issued by a Kuwaiti company at a value of US \$ 100 million were both listed in the local bourse as well as 5 mutual funds.

In cooperation with Dow Jones International, BSE launched Dow Jones Bahrain index to monitor and measure price movements of local companies listed in the BSE and to be the first bourse in

the region launched an index that use Dow Jones internationally reliable criteria.

A memorandum of Understanding (MoU) was signed by Bahrain Monetary Agency and Bahrain Stock Exchange to increase co-operation between both parties in all areas of mutual interests in order to implement directives and instructions issued by BMA relating to the capital market till the issuance the Central Bank Law.

Both BMA and BSE have assigned the World Bank to conduct a comprehensive study to come up with practical methods to develop the local bourse and increase its role in the economic development process in the kingdom. Based on this study, a strategy will be formed and implemented to develop BSE in the next years.

During 2005, BSE has become a member in the Federation of European and Asian Securities which enable BSE to be exposed to others' experiences and benefit from the experiences of more than 30 bourses in all issues relating to the capital market.

On the management front, a new organizational structure was applied in 2005. The new structure is expected to enhance the productivity and the performance of BSE's Staff

On this occasion, on behalf of BSE, I am honored to extend our sincere thanks and gratitude to our wise leadership headed by His Majesty King Hamad bin Isa bin Salman Al Khalifa, King of

the Kingdom of Bahrain, His Highness Shaikh Khalifa bin Salman Al Khalifa, The Prime Minister, and His Highness Shaikh Salman bin Hamad Al Khalifa, the Crown Prince and the Commander in Chief of the Bahrain Defence Force, for their continuous support to the BSE since its inception.

It also gives me great pleasure to present our thanks to H.E. Chairman of Bahrain Stock Exchange, their excellencies members of the BSE's Board of Directors, officers and the rest of the staff for their outstanding efforts during the year, hoping they will continue with the same enthusiasm to achieve further prosperity and development to the BSE. Our thanks go for all the listed companies for the co-operation and support they always extend to the BSE.

Fouad A. Rahman Rashid
Director of the Exchange



Mr. Rasheed Mohammed Al Meraj
Chairman

Mr. Anwar Khalifa Al Sadah
V. Chairman

**** Mr. Ali Salman Thamer**
Director

Mr. Khalid Mohammed Kanoo
Director

**** Dr. Esam Abdulla Fakhroo**
Director

*** Mr. Hassan Ali Juma**
Director

*** Shaikh Mohammed bin Issa Al Khalifa**
Director

*** Mr. Adel Mohammed A. Shafi El Labban**
Director

**** Mr. A. Majeed A. Salam Breish**
Director

* Member of the Executive Committee

** Member of the Auditing Committee

Mr. Fouad A. Rahman Rashid
Director

Mr. Yousif Ahmed Al-Sharaf
Head, Administration and Finance

Mr. Ebrahim Jaffar Al Aradi
Head of Trading and Members Affairs

Mr. Mohammed Khalid Hamed
Head of Internal Audit

Mr. Adel Sameer Tawfiq
Legal Advisor

Mr. A. Hameed Ahmed A. Ghaffar
Head of Financial Analysis & Research

Mr. Ali Ahmed Al-Mansoor
Head of Public Relations & Marketing

Mr. Abdulla Jaffar Abdin
Asst. Head of Clearing & Settlement and Central Depository

Mrs. Narjes Farookh Jamal
Asst. Head of Information Technology



World oil prices continued to influence the economic performance of world markets. The price of U.S. oil closed at US\$61.04 at the end of December 2005 after exceeding US\$70 during the year. The OPEC basket achieved an average growth of 28.9% as it reached US\$50.66 in 2005, up from US\$36.04 in 2004. A number of factors played a role in bringing the oil prices to record levels; increasing demand from industrial and Asian countries, Geo-political tensions in oil producing countries, and natural disasters; especially the hurricanes that took place in the Gulf of Mexico, which damaged oil refineries, hence the latter cause refineries in producing countries to work at maximum production levels.

Despite the increase in oil prices the International Monetary Fund (IMF) expected a growth of 4.3% in the global economy for 2005. It lowered its growth estimates for the U.S. economy to 3.5%, down from 3.6%. Moreover, the U.S. deficit recorded US\$66.1 billion with exports exceeding imports by 63%. On the other hand, the Federal Reserve continued to increase interest rates up to 4.25% in order to control inflation and encourage savings.

In Europe, the Euro declined against the US dollar to US\$ 1.184 at the end of 2005 down from US\$ 1.355 at the end of 2004. IMF estimated growth for the two biggest economies in Eurozone, 1% growth in Germany and 1.5% growth in France, while inflation in Europe was estimated to be around 2%.

In Asia, the Japanese economy continued to grow bolstered by large corporate investment, increase in real estate prices and growth in consumer spending. The above positive economic indicators caused the IMF to announce the end of the depression period, and upgrading its growth estimates in the Japanese economy to 2%, compared to a previous estimation of 0.8%. In addition the IMF increased its growth estimates for the Chinese economy to 9% up from 8.5%. Emerging market prospects were described as "good", due to low lending rates, an increase in stock prices and healthy corporate company financial statements.

In 2005, most industrialized stock markets achieved positive growth. Japan being in the forefront recording a 40.2% growth, followed by Germany 27.1%, France 23.4%, Britain 16.7%, and the U.S.A. 3% according to the S & P 500 index.

Regional Markets

In general, economic indicators showed strong signs of growth for Arab economies in 2005. A number of factors have been responsible for the continued economic boom in the GCC countries mainly oil prices reaching record levels, a growth in the non-oil sector; especially in the transportation, telecommunication, real-estate, and banking sectors. Moreover, the GCC countries witnessed an increased flow of capital and liquidity.

In addition, to the increase in IPOs, and new listings the excellent financial results announced by listed companies are expected to strengthen the current financial status of the local economies.

In regards to the stock markets, Dubai achieved the highest growth among its regional peers recording a growth of 132.3%, followed by Saudi Arabia with 103.7%, Kuwait 78.6%, Qatar 70.2%, Abu Dhabi 69.4%, Oman 44.4% and Bahrain 23.8%.

The Local Market

Bahrain ranked fourth among 17 Middle Eastern countries in terms of GDP per capita after Qatar, UAE, and Kuwait. Bahrain's GDP per capita increased to \$12,218 in 2004 compared to US\$ 9,295 in 1991 recording a growth of 31.5%.

Bahrain All Share Index recorded a growth of 23.8% in 2005, the best performing Sector was the investment sector which recorded a growth of 48.1%, followed by the Commercial Banks with 14.3%, then the Services 6.7%, Hotels 2.1%. While the Insurance Sector decreased by 0.2%.

The total value of shares traded on BSE during 2005 was BD 268.1 million, an increase of 53.6% compared to 2004. Trading volumes during 2005 reached 458.3 million shares; compared to 336.5 million shares in 2004. The number of executed transactions increased to 22463 in 2005 compared to 15744 in 2004.

Bahraini investors traded 47.8% of the total value on the BSE, GCC 43.2% and the Non-GCC 42.7%. The Market Capitalization of the Bahraini public share-holding companies reached BD 6.55 billion in 2005 compared with BD 5.1 billion in 2004, recording an increase of 28.23%. The Investment Sector achieved the highest growth in the market capitalization of 51.6% comparing with 2004, followed by the

Commercial Banks Sector with a 17%, then the Services Sector with 15.6%, the Hotels and Tourism came forth with 11.8%, then the Industrial Sector with 10.9% and finally the Insurance Sector 3.4%. The Investment Sector was the first in terms of total market capitalization as it constituted 41.7% of BSE total market capitalization, followed by the Commercial Banks Sector with a 31.8%, 21.7% for the Services Sector, the Insurance Sector 2.8%, Hotels and Tourism 1.7% and the Industrial Sector 0.3%.

New Listings

A) Companies/Stocks

BSE listed three new companies in 2005 namely, the Al Khaleej Development Company with a total paid up capital of BD 18.85 million, Nass Company with a paid up capital of BD 20 million, and Al Banader Hotels Company with a paid up capital of BD 9 million.

B) Bonds & Sukuk

The year 2005 witnessed the listing a few Sukuk, as the Government of Bahrain listed Islamic Govt. Leasing Sukuk (Eleventh Issue) with a value of BD 30 million. While the Commercial Real Estate Sukuk Company B.S.C.(C), also listed its US\$100 million sukuk issue.

In terms of Bonds, BSE has listed Esterad US\$25 million bond issue Floating Rate Bond, and also listed the Bahrain Commercial Facilities (FRN) Fifth Issue valued at BD10 million.

C) Mutual Funds

In 2005 the total number of Mutual Funds listed on the BSE reached 23 funds after listing the Makaseb Emirates Opportunities Fund, Makaseb Qatar Equity Fund and Al-Tawfeek Gulf Equity Fund.



- 10 January Applying the new organizational structure in BSE.
- 30 January Listing of Al Khaleej Development Co. with a paid-up capital of US\$ 50 million.
- 16 March Listing of Islamic Govt. Leasing Sukuk (Eleventh Issue) with a value of BD 30 million.
- 23 March Signing a Memorandum of Understanding with Bahrain Monetary Agency (BMA) to coordinate in all areas of mutual interest to implement and develop regulations and rules relating to the Capital Market Sector
- 26 April Listing of Makaseb Emirates Equity Fund with a value of US\$ 5.65 million.
- 21 June Listing of The Commercial Estate Sukuk Company with a value of US\$ 100 million.
- 1 July Launching of Dow Jones Bahrain Index for Listed Bahraini Public Shareholding Companies.
- 6 July Listing of Bahrain Commercial Facilities (Fifth Issue) with a value of BD 10 million.
- 15 August Listing of Al-Tawfeek Arab Telecommunication Fund with a value of US\$ 500 million.
- 28 August Listing of Esterad Floating Rate Bond with a value of US\$ 25 million.
- 11 September Listing of Makaseb Qatar Equity Fund with a value of US\$ 44 million.
- 11 September Listing of Makaseb Emirates Opportunities Fund with a value of US\$ 500 million.
- 13 September Assigning World Bank to conduct a study to develop BSE.
- 17 September Joining Federation of European Asian Stock Exchange (FEAS)
- 26 October Listing of Al-Tawfeek Gulf Equity Fund with a value of US\$10 million.
- 21 November Listing of Banader Hotels Co. with a paid-up capital of BD 9 million.
- 22 November Listing of Nass Co. with a paid-up capital of BD 20 million.

Key Statistical Data 2005 - 2004

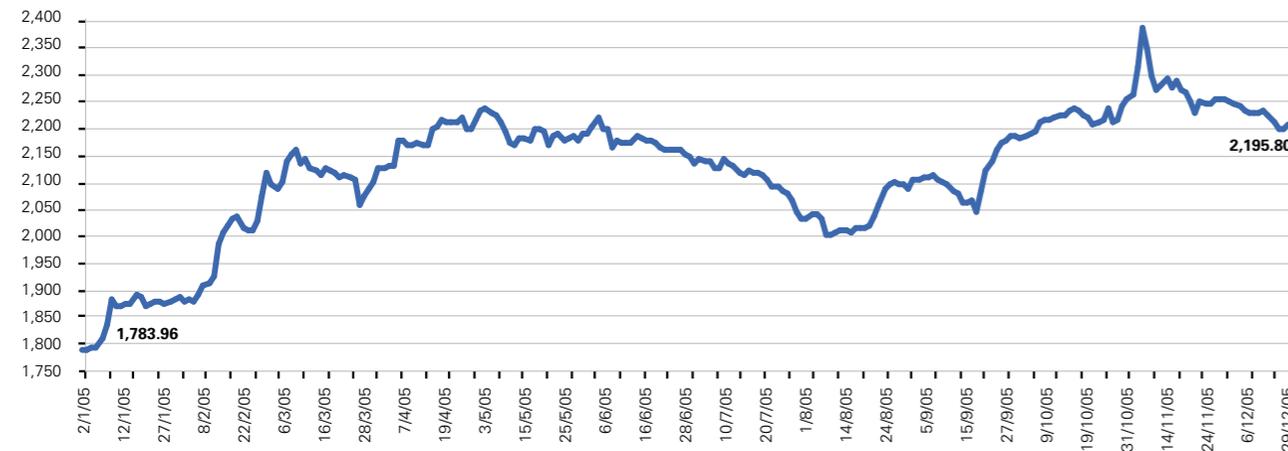
Comparison of Trading Activity

	2005	2004	Change	Change %
Total Market Capitalization (BD)	6,546,539,130	5,105,075,890	1,441,463,240	28.24
Average Value of Shares (B.D.)	268,085,064	174,574,511	93,510,553	53.56
Average Volume of Shares	458,314,282	336,513,915	121,800,367	36.19
Average no. of Transactions	22,463	15,744	6,719	42.68
Total Trading Days	249	247	2	0.81

BSE Indices Performance

Bahrain All Share Index				
Year end	2,195.80	1,773.65	422.15	23.80
High	2,375.90	1,773.65	602.25	33.96
Low	1,778.71	1,337.12	441.59	33.03
Dow Jones Bahrain Index				
Year end	183.75	149.15	34.60	23.20
High	199.86	149.42	50.44	33.76
Low	149.42	110.68	38.74	35.00
Esterad Index				
Year end	2,277.06	1,870.25	406.81	21.75
High	2,495.53	1,870.25	625.28	33.43
Low	1,876.51	1,353.15	523.36	38.68

Bahrain All Share Index Performance During 2005 (Points)



Sectorial Indices	2005	2004	Chg (%)
Bahrain All Share Index			
Commercial Banks	2,502.57	2,189.84	14.28
Investment	2,013.11	1,359.72	48.05
Insurance	2,101.29	2,104.88	(0.17)
Services	1,998.06	1,872.38	6.71
Industrial	1,493.06	1,346.45	10.89
Hotels & Tourism	2,077.55	2,035.63	2.06
No. of listed Companies			
Bahraini	38	35	
Closed	2	3	
Non Bahraini	7	7	
Total	47	45	

	2005	2004
Preferred Shares	2	1
No. of listed Bonds & Sukuk		
Bonds	8	8
Sukuk	9	12
No. of listed Mutual Funds	28	23

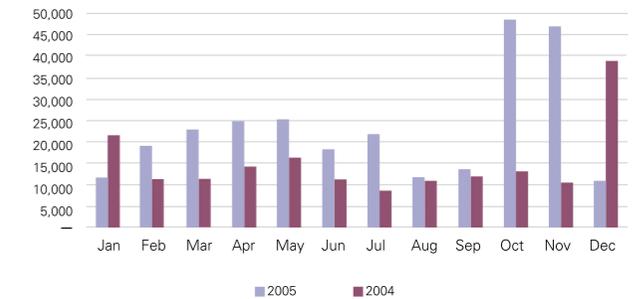
Equity Trading Activity for 2005-2004

Value (BD 000)	2005	2004	Chg (%)
Jan	11,211	20,678	(45.78)
Feb	18,712	11,167	67.57
Mar	22,394	10,738	108.56
Apr	24,262	13,728	76.73
May	24,552	16,011	53.35
Jun	17,677	10,894	62.27
Jul	21,106	8,266	155.33
Aug	11,178	10,469	6.77
Sep	13,334	11,561	15.34
Oct	47,241	13,017	262.91
Nov	45,747	10,327	342.99
Dec	10,672	37,719	(71.71)
Market	268,085	174,574	53.57

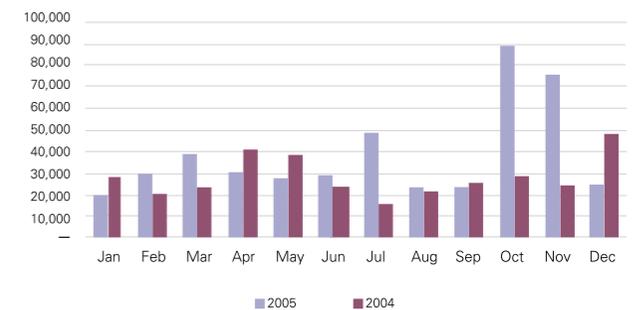
Volume (000)	2005	2004	Chg (%)
Jan	19,649	28,369	(30.74)
Feb	29,124	20,339	43.20
Mar	39,189	23,128	69.45
Apr	30,429	40,768	(25.36)
May	27,627	38,197	(27.67)
Jun	28,814	23,108	24.69
Jul	48,241	15,718	206.92
Aug	23,211	21,359	8.67
Sep	23,300	25,088	(7.13)
Oct	88,363	28,335	211.85
Nov	75,698	24,016	215.20
Dec	24,669	48,090	(48.70)
Market	458,314	336,514	36.19

No. of Transactions	2005	2004	Chg (%)
Jan	1,553	1,135	36.83
Feb	2,259	997	126.58
Mar	2,711	974	178.34
Apr	2,067	1,174	76.06
May	2,188	1,679	30.32
Jun	1,408	1,461	(3.63)
Jul	1,149	1,322	(13.09)
Aug	1,456	1,499	(2.87)
Sep	1,709	1,736	(1.56)
Oct	2,054	1,807	13.67
Nov	2,068	1,142	81.09
Dec	1,841	818	125.06
Market	22,463	15,744	42.68

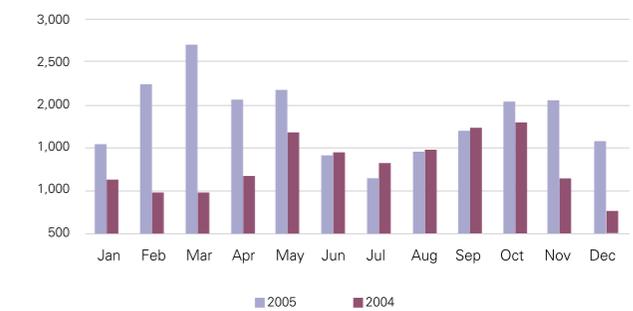
Total Value of Shares Traded (BD 000)



Total Volume of Shares Traded (000)



Total Number of Transactions

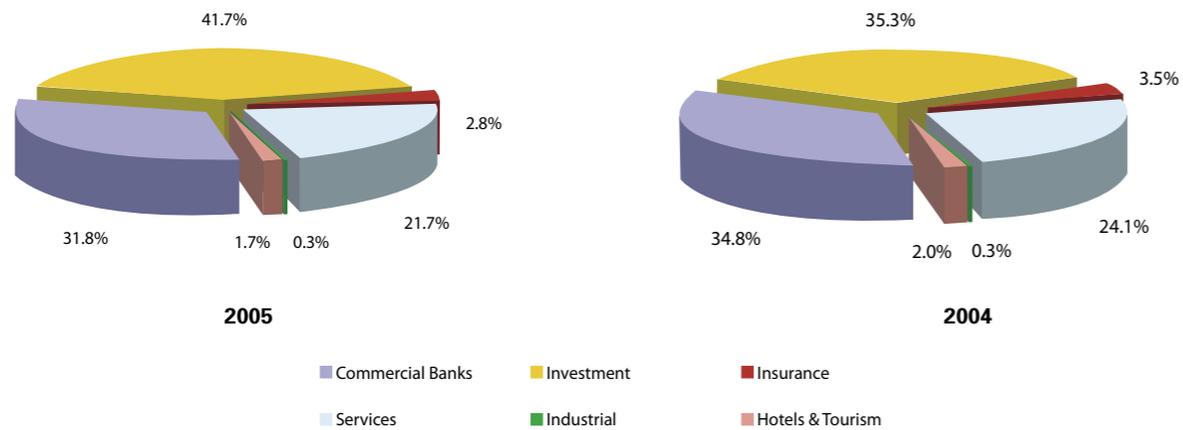


Market Cap (BD million)	2005	2004	Chg (%)
Commercial Banks	2,080.1	1,778.5	17.0
Investment	2,729.4	1,800.7	51.6
Insurance	185.5	179.4	3.4
Services	1,422.9	1,231.4	15.5
Industrial	17.3	15.6	10.9
Hotels & Tourism	111.4	99.6	11.8
Market	6,546.5	5,105.1	28.2

Growth in Market Capitalization by sector in 2005 (%)



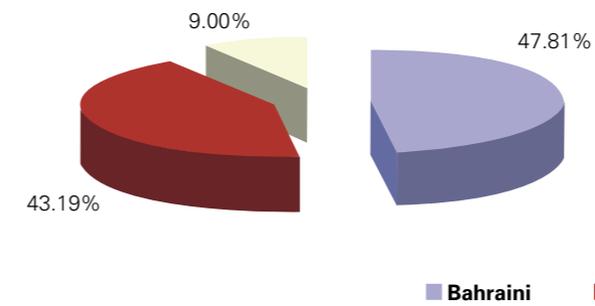
The Breakdown of Market Capitalization by sectors for the years 2005 & 2004



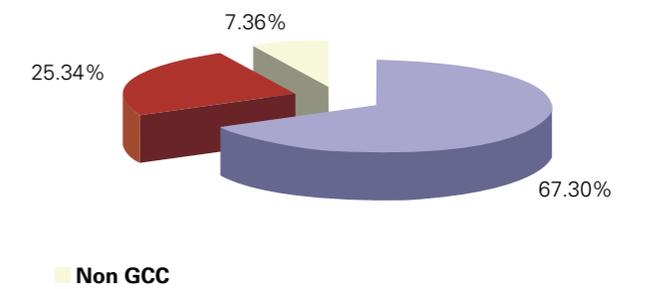
Trading by Nationalities (Value - BD)



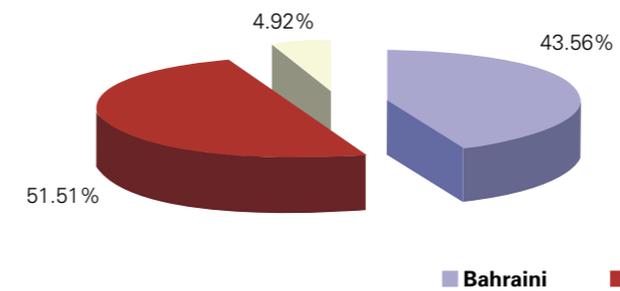
Percentage of Value of Trading in Terms of Nationality-2005



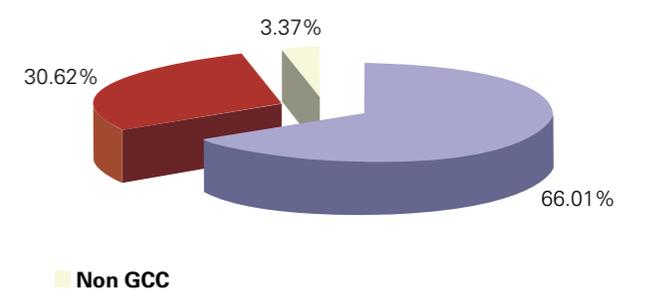
Percentage of Value of Trading in Terms of Nationality-2004



Percentage of Volume of Trading in Terms of Nationality-2005



Percentage of Volume of Trading in Terms of Nationality-2004



Listed Companies on the BSE

Commercial Banks Sector

National Bank of Bahrain
Bank of Bahrain & Kuwait
Ahli United Bank
Bahraini Islamic Bank
The Bahraini Saudi Bank

Investment Sector

Gulf Monetary Group
Arab Banking Corporation
United Gulf Bank
Investcorp Bank
Bahrain & Middle East Bank
Bahrain Commercial Facilities Co.
United Gulf Industries Co.
Taib Bank
Shamil Bank of Bahrain
Esterad Investment Co.
Gulf Finance House
Al Khaleej Development Co.

Insurance Sector

Bahrain Kuwait Insurance Co.
Al-Ahlia Insurance Co.
Arab International Insurance Co.
Takaful Insurance Co.
Arab Insurance Group
Bahrain National Holding Co.

Services Sector

Bahrain Ship Repairing & Eng. Co.
Bahrain Cinema Co.
General Trading & Food Process. Co.
Bahrain Maritime & Mercn. Int. Co
Bahrain Telecommunications Co.
Bahrain Car Parks Co.
Bahrain Duty Free Shop Complex
Nass Corporation BSC

Industrial Sector

Bahrain Flour Mills Co.
Delmon Poultry Co.

Hotels & Tourism Sector

Bahrain Hotels Co.
National Hotels Co.
Bahrain Tourism Co.
Bahrain Family Leisure Co.
Banader Hotels Co.

Closed Company

Securities & Investment Co.
United Paper Industries

Non-bahraini Companies

BankMuscat (Oman)
International Investment Group (Kuwait)
International Investor (Kuwait)
Sudan Telecommunications Co. (Sudan)
Qatar Telecom (Qatar)
United Finance Company (SAOG) (Oman)
Global Investment House (Kuwait)

Listed Mutual Funds

Islamic Development Bank Unit Investment Fund (\$)
SICO Selected Securities Funds (BD)
SICO Assured International Fund (Saif) (\$)
SICO Khaleej Equity Fund (\$)
MAN-AHLI Guaranteed 360 E.C Fund (\$)
MAN-AHLI Prisma Guaranteed Fund E.C Fund (\$)
MAN-AHLI Guaranteed 220 Plus E.C Fund (\$)
TAIB American Explorer Fund, Ltd. (\$)
TAIB Everest Fund (\$)
Taib Healthsciences Fund (Prev. Biomed Fund) (\$)
TAIB Crescent Global Fund (\$)
TAIB Income Fund (\$)
BNP Paribas Caravan Fund (\$)
First Arabian Equity 2000 Fund (\$) (Islamic)
Gulf International Bank Global Equity Fund (\$)

Gulf International Bank Enhanced Liquidity Management Fund (\$)
Gulf International Bank Falcon Emerging Markets Bond Fund (\$)
Gulf International Bank Falcon US Dollar High Yield Fund (\$)
Gulf International Bank Falcon High Yield Defensive Fund (\$)
Gulf International Bank Falcon Relative Value Fund (\$)
Gulfinvest International Trust Capital Guaranteed GCC Fund (BD)
Gulfinvest International Trust Capital Guaranteed GCC with
Minimum Return Fund (BD)
Gulfinvest International Trust Capital Guaranteed Gulf Fund (BD)
Makaseb Emirates Equity Fund (\$)
Makaseb Qatar Equity Fund (\$)
Makaseb Emirates Opportunities Fund (\$)
Al-Tawfeek Arab Telecommunication Fund (\$)
Al-Tawfeek Gulf Equity Fund (\$)

Listed Bonds & Sukuk

BCFC Bonds (4th issue)
Islamic Govt. Leasing Sukuk (Third Issue)
Islamic Govt. Leasing Sukuk (Sixth Issue)
ALBA Floating Rate Bonds 2013
Government Islamic Leasing Securities - 2008 (7th Issue)
Convertible Bonds United Finance Company SAOG-2008
Malaysian Global Sukuk - 2007
United Gulf Bank Bond - 2006
National Industries Group Holding

The Kingdom of Bahrain Notes - 2008
BMA International Sukuk Company (SPC) 2009
Ijarah Sukuk in Bahraini Dinar by BMA
EMAAR Variable Return Ijara Sukuk 2009
Islamic Govt. Leasing Sukuk (Eleventh Issue) 2010
The Commercial Real Estate Sukuk Company B.S.C.(C) - 2010
Bahrain Commercial Facilities (FRN) Fifth Issue - 2010
Esterad Floating Rate Bond - 2010



Authorised Brokers

Brokerage Firms

- ABC Securities
- BBK Brokerage Services
- Ahli United Bank
- Gulf Securities
- Securities & Investments Co.
- TAIB Securities Co.
- Gulfinvest Securities
- U.G.B Securities
- Global Investment House

Individual Brokers

- Abdulla Jaffer Zain Al-Abedin
- Nassir Abbas Khosrou
- Yousif Hassan Al-Ajaji

Local Equities

Listing*:

0.1% of the company's paid-up capital, with a maximum amount of BD15,000 and a minimum amount of BD5,000.

Annual subscription:**

- 1.0.1% of the first BD10 million of the company's paid up capital, with a minimum of BD3,000/-.
- 2.0.05% of the amount exceeding BD10 million, up to BD50 million.
- 3.0.025% of the amount exceeding BD50 million, with a maximum amount of BD20,000/-.

Clearing & Settlement:

- 1.0.0125% of the first BD15 million of the company's paid-up capital with a minimum of BD1,000.
- 2.0.00625% of the amount exceeding BD15 million of the company's paid-up capital, with maximum gross fees of BD4,000.

Non-Bahraini Equities

Listing*:

0.1% of the company's paid-up capital, with a maximum amount of BD15,000 and a minimum amount of BD5,000.

Annual Subscription:**

- 50% of the Bahraini shareholding company.
- Local Closed Companies

Listing*:

BD1,000.

Annual Subscription:

- 1.0.025% of the first BD5 million of the company's paid-up capital, with a minimum of BD1,000.
- 2.0.025% of the amount exceeding BD5 million, with a maximum amount of BD5,000.

Mutual Funds

- Listing*: BD300
- Annual Subscription: BD250

Bonds & Sukuk:

Government:

- Listing*: BD 1,500
- Annual Subscription**: BD 2,000

Private & Non Bahraini:

- Listing*: 0.05% of the total value with a minimum of BD 2,000 and maximum of BD 5,000.
- Annual Subscription**: BD 2,000.

Currency Warrants:

- Listing*: BD 250
- Annual Subscription: Nil.

Transfer Agents

- Membership*: BD500
- Annual Subscription: BD 250

Individual Brokers

- Membership*: BD 500
- Annual Subscription: BD250

Brokerage Firms

- Membership*: BD 1,000
- Annual Subscription: BD500

Custodianship

- Membership*: BD1,000
- Annual Subscription: BD 500

All the above amounts are expressed in Bahraini Dinars (BD).
 * A one-off payment.
 ** Applicable to companies only, whereby the remaining part of the financial year of a company's registration will be taken into consideration and charged on a quarterly basis.



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for the year ended 31 December 2005

Report of the Auditors to the Board Of Directors
Bahrain Stock Exchange 3 April 2006
Manama, Kingdom of Bahrain



We have audited the financial statements of The Bahrain Stock Exchange as at, and for the year ended, 31 December 2005 as set out on pages 25 to 33.

Respective responsibilities of directors and auditors

These financial statements are the responsibility of the directors of the Exchange. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Bahrain Stock Exchange as at 31 December 2005, the results of its operations, its cash flows and its changes in accumulated surplus for the year then ended, in accordance with International Financial Reporting Standards .

Other regulatory matters

In our opinion, the Exchange has maintained proper accounting records and the financial statements are in agreement therewith. To the best of our knowledge and belief, no violations of the Exchange's by-laws have occurred during the year that might have had a material adverse effect on the business of the Exchange or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

Manama - Kingdom of Bahrain
2005

	Notes	2005	2004
Current assets			
Cash and bank		89,201	56,722
Short-term deposit		657,672	416,165
Accounts receivable	3	76,467	124,673
Other receivables	4	8,974	18,148
Specialised regional market	8	-	199,080
Total current assets		832,314	814,788
Non-current assets			
Held to maturity investments	5	267,706	625,911
Property and equipment	6	319,755	407,753
Total non-current assets		587,461	1,033,664
TOTAL ASSETS		1,419,775	1,848,452
CURRENT LIABILITIES			
Accounts payable	10	115,487	25,591
Accrued expenses and other accounts payable		22,396	30,657
Provisions for labour law obligations	7	30,914	21,445
Specialised regional market	8	-	199,080
TOTAL LIABILITIES		168,797	276,773
ACCUMULATED SURPLUS (page 26)		1,250,978	1,571,679
TOTAL LIABILITIES AND ACCUMULATED SURPLUS		1,419,775	1,848,452

Rasheed Mohamed Al Maraj
Chairman

Fouad A. Rahman Rashed
Director of the Exchange

The Board of Directors approved the financial statements consisting of pages 25 to 33 on 3 April 2006

Income Statement

Statement of Cash Flows

for the year ended 31 December 2005

	Notes	2005	2004
INCOME			
Subscription fees		884,145	800,899
Registration fees		56,713	47,300
Dealing commission		224,643	119,643
Other income	9	74,596	91,440
Interest income		35,328	31,707
		1,275,425	1,090,989
EXPENSES			
Salaries and related costs		703,190	721,694
General and administrative		362,138	388,926
Remuneration of the Board of Directors and committees		7,200	15,100
Depreciation	6	156,411	207,110
Early retirement cost	10	367,187	-
Loss on sale of equipment		-	220
		1,596,126	1,333,050
Operating deficit		(320,701)	(242,061)
MOFNE contribution in market mechanism development		-	250,000
NET (DEFICIT)/SURPLUS for the year		(320,701)	7,939
ACCUMULATED SURPLUS at 1 January		1,571,679	1,563,740
ACCUMULATED SURPLUS at 31 December		1,250,978	1,571,679

Rasheed Mohamed Al Maraj
Chairman

Fouad A. Rahman Rashed
Director of the Exchange

The financial statements comprised of pages 25 to 33 on 3 April 2006

for the year ended 31 December 2005

	2005	2004
OPERATING ACTIVITIES		
Cash received from subscribers	990,964	821,481
Commissions and other revenues	298,123	197,200
Payments for salaries and related costs	(693,721)	(721,027)
Payments for early retirement	(280,796)	-
Payments for general and administrative expenses	(361,624)	(463,890)
Payments for remuneration of the Board of Directors and committees	(7,200)	(15,100)
Net cash flows from operating activities	(54,254)	(181,336)
INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	(68,480)	(68,658)
Proceeds from held to maturity investments	358,205	-
Bank interest	38,215	31,622
MOFNE contribution in market mechanism development	-	250,000
Proceeds from fixed assets sale	300	851
Net cash flows from investing and financing activities	328,240	213,815
Net increase in cash and cash equivalents	273,986	32,479
Cash and cash equivalents at the beginning of the year	472,887	440,408
Cash and cash equivalents at the end of the year	746,873	472,887

Rasheed Mohamed Al Maraj
Chairman

Fouad A. Rahman Rashed
Director of the Exchange

The financial statements comprised of pages 25 to 33 on 3 April 2006

for the year ended 31 December 2005

1 STATUS AND OPERATIONS

The Bahrain Stock Exchange ("the Exchange") was established pursuant to Amiri Decree 4/1987 as an independent entity and is governed by by-laws issued by the Ministry of Commerce and Agriculture under Ministerial Order 13/1988.

During 2002, the supervision authority of the market was transferred from the Ministry of Commerce to the Bahrain Monetary Agency, pursuant to Amiri Decree 22/2002

The objectives of the Exchange are to develop the market, encourage savings, spread investment awareness among the nationals, develop traded securities and financial instruments in the market to serve economic development in the Kingdom and to help in achieving the objectives of the Kingdom's economic policies and to promote the Kingdom as a financial centre.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards.

(b) Basis of preparation

The financial statements have been drawn up from the accounting records of the Exchange under the historical cost convention and have been consistently applied by the Exchange and are consistent with those used in the previous year.

The following significant accounting policies have been applied in the preparation of the financial statements of the Exchange.

Revenues from subscriptions, registration fees, rents, fixed deposit interest, dealing commissions and other income are recognised when earned.

Property and equipment

I) Recognition

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its residual amount if the carrying amount of the asset is greater than its estimated recoverable amount.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. When an item of property and equipment is sold or discarded, the respective cost and accumulated depreciation relating thereto are eliminated from the balance sheet, the resulting gain or loss being recognized in the income statement.

II) Subsequent cost

The Exchange recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Exchange and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

The financial statements comprised of pages 25 to 33 on 3 April 2006

for the year ended 31 December 2005

2 Significant accounting policies (continued)

III) Depreciation

Depreciation is calculated on cost by the straight-line method at annual rates which are intended to write off the net cost of the assets over the following estimated useful lives.

Furniture equipment, electronic dealing system	5 years
Computers and Vehicles	5 years

Fixed assets costing less than BD 50 are fully depreciated in the acquisition year.

Impairment

The carrying amounts of the Exchange's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. All impairment losses are recognised in the income statement.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Exchange will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. A provision is made when the carrying amount of the asset exceeds the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Held to maturity investments

Investments held to maturity are carried at cost, less provision for impairment.

Employee benefits

Pensions and other social benefits for Bahraini employees are covered by the Pension Fund Commission scheme to which employees and employers contribute monthly on a fixed-percentage-salaries basis. The Exchange's share of contributions to the funded scheme, which is a defined contribution scheme under IAS 19, is recognised as an expense in the income statement.

Expatriate employees are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector 1976, based on length of service and final salary and other allowances paid. Provision for this unfunded commitment, which represents a defined benefit scheme under IAS 19, has been made by calculating the notional liability had all employees left at the balance sheet date.

Foreign currencies

I) The financial statements are presented in Bahraini Dinars which is the exchange's functional and presentation currency.

II) At the balance sheet date, foreign currency monetary assets and liabilities are converted into Bahraini dinars at exchange rates ruling at the balance sheet date. Resulting exchange differences are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and at bank including time deposits of short maturity of three months or less.

The financial statements comprised of pages 25 to 33 on 3 April 2006

Notes to the 2005 Financial Statements

for the year ended 31 December 2005

3 ACCOUNTS RECEIVABLE

	2005	2004
Subscription and registration fees	43,300	91,182
Commissions receivable	25,793	32,981
Services fees receivable	7,374	510
	76,467	124,673

4 OTHER RECEIVABLES

	2005	2004
Balances at 31 December		
Interest payable	3,483	6,370
Prepaid expenses	5,491	11,778
	8,974	18,148

5 HELD TO MATURITY INVESTMENTS

	Amount	Due date	Interest earned on investment
Balances at 31 December 2003 and 2004			
Islamic Leasing Sukuk (Kingdom of Bahrain)	267,706	2008	3.75%
	267,706		

6 PROPERTY AND EQUIPMENT

	Furniture and other equipment	Computers	Vehicles	Work in progress	2005 Total	2004 Total
Cost						
At 1 January	327,027	1,016,771	6,120	157,324	1,507,242	1,452,704
Additions	35,247	26,590	-	6,642	68,479	68,658
Additions of specialised regional market assets	-	193,017	-	-	193,017	-
Disposals	(23,605)	-	-	-	(23,605)	14,120
Transfer	52,576	111,390	-	(163,966)	-	-
At 31 December	391,245	1,347,768	6,120	157,324	1,745,132	1,507,242
Depreciation						
At 1 January	297,457	795,912	6,120	-	1,099,489	905,428
Charge for the year	15,299	141,112	-	-	156,411	207,110
Accumulated depreciation of specialised regional market assets	-	193,017	-	-	193,017	-
Disposal	(23,539)	-	-	-	(23,539)	13,049
At 31 December	298,217	1,130,041	6,120	-	1,425,378	1,099,489
Net book value	102,028	217,727	-	-	319,755	407,753

The financial statements comprised of pages 25 to 33 on 3 April 2006

for the year ended 31 December 2005

7 PROVISIONS FOR LABOUR LAW OBLIGATIONS

	2005	2004
Balances at 31 December		
Leave entitlements	26,241	19,550
Leaving indemnity and air tickets	4,673	1,895
	30,914	21,445

Pension rights and other social benefits for the Bahraini employees are covered by the Pension Fund Commission to which the exchange and employees contribute monthly on a fixed percentage of salary basis. The Exchange's contributions for Bahraini employees for 2005 amounted to BD 54,019 (59,828 for 2004).

Expatriates employed under a specified contract period are entitled to leaving indemnity at the rate of one month's salary for each completed year of service.

8 SPECIALISED REGIONAL MARKET

The amount represents receipts and payments related to the specialised regional market that are recorded in the Exchange's books till the end of the project and will be transferred with all the details to the specialised regional market's management. The total amount received from the Ministry of Finance and National Economy was BD 189,000 and the remaining BD 10,080 was paid by the Exchange. The funds have been fully utilised for capital expenditure for the project.

Due to the project discontinuation the Exchange obtained the Ministry of Finance approval for the deletion of the assets and liabilities balances related to specialised regional market to be transferred to the Exchange's books. This transfer has not affect the Exchange's assets, liabilities and its income statement for the year ended 31 December 2005 as the transferred assets are fully depreciated and has no significant fair value.

9 OTHER INCOME

	2005	2004
Remote trading income	10,050	9,300
Central depository income	26,962	10,428
Subscription in the investor's guide publication	15,350	15,550
Services	14,520	13,655
Provision for impairment written back	-	36,165
Other revenues	7,714	6,342
	74,596	91,440

The financial statements comprised of pages 25 to 33 on 3 April 2006

for the year ended 31 December 2005

10 EARLY RETIREMENT COST

During 2004, The Exchange has proposed to its employees an early retirement program according to the Board of Director's approval number 5/5 dated 2 December 2004. A number of employees have applied for the program and been accepted by the Board according to decision number 2/1/2005 dated 22 March 2005. The total cost for the program was BD 368,187 which was recognised in the income statement and the remaining balance of BD 86,391 is shown as part of accounts payable as due to the Pension Fund Commission.

11 TRANSACTIONS WITH RELATED AND ASSOCIATED PARTIES

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Exchange. The key management personnel comprise members of the Board of Directors, the director of the Exchange and the deputy director of the information technology and central depository. Their short term compensation is as follows:

	2005	2004
Salaries and related costs	85,584	78,900
Board and committees attendance fees	7,200	15,100

12 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments consist of financial assets and liabilities.

Financial assets of the Exchange include cash and bank, short-term deposits, receivables and held to maturity investments.

Financial liabilities of the Exchange include accounts payable and accrued liabilities.

Accounting policies for financial assets and liabilities are set out in note 2.

The risks associated with financial instruments and the Exchange's approach to managing such risks are described below.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Exchange's bank and short-term deposits are at fixed interest rates and mature within three months and repricing occurs when funds are reinvested on maturity of a deposit.

The effective interest rate is the historical rate for a fixed rate instrument carried at cost, and the current market rate for a floating rate instrument. The effective interest rate for fixed deposits was 3.13% (2004: 1.7%).

The financial statements comprised of pages 25 to 33 on 3 April 2006

for the year ended 31 December 2005

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and causes the other party to incur a financial loss.

Cash is placed with locally incorporated banks having good credit ratings.

The Exchange exposure to credit risk is mainly in respect of trade receivables. Management seeks to limit credit risk by selectively granting credit terms to creditworthy customers and by limiting the credit period.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. All of the Exchange's transactions are in Bahraini dinars and therefore there is no currency risk.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by maintaining cash and cash equivalents at a high level so that sufficient funds are available, including unutilised credit facilities with banks, to meet any future commitments.

Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair value of the Exchange's financial assets and liabilities are not materially different from their carrying values.

13 FIDUCIARY ACTIVITIES

There are two bank accounts with total balance of BD 1,251 as 31 December 2005 in the name of the exchange and they are not shown as part of its assets as they use for clearing and settlement of deals.

14 DISTRIBUTION OF ASSETS AND LIABILITIES

All of the Exchange's assets and liabilities are in Bahrain. Therefore, the exchange is not exposed to any risk outside Bahrain.

15 COMPARATIVES

Certain comparative figures have been reclassified in order to conform with the current year's presentation. However, such reclassification does not affect previously reported net deficit, total assets or accumulated surplus.

The financial statements comprised of pages 25 to 33 on 3 April 2006