



# Financial Statements

Shari'ah Supervisory Board Report	18
Auditors' Report	19
Statement of Income	20
Balance Sheet	21
Statement of Cash Flows	22
Statement of Changes in Shareholders' Equity	23
Notes to the Financial Statements	24

# Shari'ah Supervisory Board Report

## TO THE SHAREHOLDERS OF INTERNATIONAL INVESTMENT BANK B.S.C (C)

Asslam Alaikum Wa Rahamt Allah Wa Barakatuh - In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed the principles and the contracts relating to the transactions conducted by the International Investment Bank B.S.C. (c) ("the Bank") during the year ended December 31, 2004. We have conducted our review with a view to form an opinion as to whether the Bank has complied with rules and principles of Islamic Shari'ah and also with the specific fatwas, rulings and guidelines issued by us. The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with the rules and principles of Islamic Shari'ah. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you. We conducted our review that included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Bank. We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Bank has not violated any rules and principles of Islamic Shari'ah.

In our opinion:

the contracts, transactions and dealings entered into by the Bank during the period ended December 31, 2004 are in compliance with the rules and principles of Islamic Shari'ah;

the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles;

all earnings that have been realised from sources or by means prohibited by rules and principles of Islamic Shari'ah have been disposed of to charitable causes; and

the calculation of Zakat is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and the straight path.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Nizam Yaquby  
Chairman of the Shari'ah Supervisory Board

12 Safar 1426  
22 March 2005



## Auditors' Report

### TO THE SHAREHOLDERS OF INTERNATIONAL INVESTMENT BANK (C)

We have audited the accompanying balance sheet of International Investment Bank BSC (c) ("the Bank") as of 31 December 2004, and the related statements of income, cash flows and changes in shareholders' equity for the period from 6 October 2003 to 31 December 2004. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'ah rules and principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with both International Standards on Auditing and Auditing Standards for Islamic Financial Institutions. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2004, and the results of its operations and of its cash flows for the period from 6 October 2003 to 31 December 2004 in accordance with International Financial Reporting Standards, Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions and the Islamic Shari'ah rules and principles as determined by the Shari'ah Supervisory Board of the Bank.

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Bahrain Monetary Agency Law, nor of the Memorandum and Articles of Association of the Bank, have occurred for the period from 6 October 2003 to 31 December 2004 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its banking licence. We obtained all the information and explanations which we required for the purpose of our audit.

*Ernst + Young*

23 March 2005  
Manama, Kingdom of Bahrain

## Statement of Income


FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	6 October 2003 to 31 December 2004 US\$ '000
<b>Income</b>		
Investment banking fees	4	2,378
Brokerage fee		1,082
Income on due from financial institutions	5	608
Change in investment carried at fair value through statement of income		150
Dividend income		27
TOTAL INCOME		4,245
Participation fees		(567)
		3,678
<b>Expenses</b>		
Staff compensation and benefits		1,640
General and administration	6	687
Depreciation		22
Pre-incorporation expenses	7	543
TOTAL EXPENSES		2,892
<b>NET INCOME FOR THE PERIOD</b>		<b>786</b>

The attached notes 1 to 17 form part of these financial statements

## Balance Sheet

31 DECEMBER 2004



	Note	2004 US\$ '000
<b>ASSETS</b>		
Cash and balances with banks	8	164
Due from financial institutions	9	27,970
Non-trading investments	10	14,105
Other assets		2,052
Equipment		142
<b>TOTAL ASSETS</b>		<b>44,433</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities		647
<b>EQUITY</b>		
Share capital	11	43,000
Reserves		786
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>43,786</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>44,433</b>

The financial statements for the period 6 October 2003 to 31 December 2004 were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2005.

**Saeed Abdul Jalil Al Fahim**  
Chairman

**Abed Al Zeera**  
Acting Chief Executive Officer

The attached notes 1 to 17 form part of these financial statements

## Statement of Cash Flows

FOR THE PERIOD ENDED 31 DECEMBER 2004

	6 October 2003 to 31 December 2004 US\$ '000
<b>OPERATING ACTIVITIES</b>	
Net income for the period	786
Adjustments for non-cash item:	
Depreciation	22
Change in investment carried at fair value through statement of income	(150)
	<u>658</u>
Changes in operating assets and liabilities:	
Due from financial institutions	(27,970)
Other assets	(2,052)
Liabilities	647
	<u>(28,717)</u>
Net cash used in operating activities	<u>(28,717)</u>
<b>INVESTING ACTIVITIES</b>	
Purchase of non-trading investments	(13,955)
Purchase of equipment	(164)
	<u>(14,119)</u>
Net cash used in investing activities	<u>(14,119)</u>
<b>FINANCING ACTIVITIES</b>	
Issue of share capital	43,000
	<u>43,000</u>
Net cash from financing activities	<u>43,000</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>164</u>
Cash and cash equivalents at beginning of the period	-
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<u><u>164</u></u>

The attached notes 1 to 17 form part of these financial statements

## Statement of Changes in Shareholders' Equity

FOR THE PERIOD ENDED 31 DECEMBER 2004

	Share capital US\$ '000	Statutory reserve US\$ '000	Investment fair value reserve US\$ '000	Retained earnings US\$ '000	Total US\$ '000
Issue of share capital	43,000	-	-	-	43,000
Net income for the period 6 October 2003 to 31 December 2004	-	-	-	786	786
Transfer to statutory reserve	-	79	-	(79)	-
Transfer to investment fair value reserve	-	-	150	(150)	-
<b>Balance at 31 December 2004</b>	<b>43,000</b>	<b>79</b>	<b>150</b>	<b>557</b>	<b>43,786</b>

The attached notes 1 to 17 form part of these financial statements

# Notes to the Financial Statements

31 DECEMBER 2004

## 1 - INCORPORATION AND ACTIVITIES

### Incorporation

International Investment Bank BSC (c) (the "Bank") was incorporated in the Kingdom of Bahrain by Amiri Decree No. 21 of 2001 to carry out investment banking activities in accordance with teaching of Islam (Shari'ah). It operates under an investment banking licence issued by the Bahrain Monetary Agency ("the BMA").

The Bank was incorporated on 6 October 2003, under commercial registration number 51867 as a Bahrain Joint Stock Company (closed). It started investment activity on 13 October 2003. The Bank's registered office is at Al Baraka Tower, PO Box 11616, Manama, Kingdom of Bahrain.

### Activities

The core business activities of the Bank are investment, underwriting and placement in real estate and private equity and corporate finance.

The Bank employed 17 employees as of 31 December 2004.

## 2 - SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (IFRS), Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and in conformity with the Bahrain Commercial Companies Law.

These financial statements are prepared in US Dollars, being the currency of the Bank's share capital.

### Accounting convention

The financial statements are prepared under the historical cost convention as modified for the re-measurement at fair value of non-trading investments.

### Early adoption of IAS 32 and 39

The Bank has early adopted the revised versions of IAS 32 and 39 which would have become mandatory for year ending 31 December 2005.

### Due from financial institutions

Due from financial institutions comprise of commodity murabaha receivables and investment in mudaraba.

Murabaha receivables are sales on deferred terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the murabeh over the agreed period.

Mudaraba investments are partnerships where the Bank ("rabb-ul-mal") gives money to another ("mudarib") for investing in a commercial enterprise for a definite period of time.

### Non-trading investments

All investments are initially recognised at cost including incremental transaction costs. At the time of acquisition, non-trading investments are classified as either "carried at fair value through income statement" or "available for sale".

## Notes to the Financial Statements

31 DECEMBER 2004



### Non-trading investments (continued)

#### *Carried at fair value through income statement*

Non-trading investments classified as "carried at fair value through income statement" are remeasured at fair value with all changes in fair value being recorded in the statement of income.

#### *Available for sale*

After initial recognition, non-trading investments which are classified "available for sale" are remeasured at fair value. Fair value changes are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative gain or loss is included in the statement of income for the period.

### Fair values

The determination of fair value is done for each investment individually in accordance with the valuation policies set out below:

- (i) For investments quoted in an active market, fair value is determined by reference to quoted market prices.
- (ii) For investments in units in funds, fair value is determined based on the latest net asset value provided by the fund administrator.
- (iii) For recent non-quoted acquisitions, cost is assumed to be the fair value. For other investments, where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another investment which is substantially the same, or is based on an assessment of the value of future cash flows. Future cash flows are determined by the Bank at current profit rates for assets with similar terms and risk characteristics.

### Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in statement of income.

### Equipment

All items of equipment are recorded at cost, less accumulated depreciation. Depreciation is provided on a straight line basis over the estimated useful lives of the equipment.

### Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

### Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Bank of the cash equivalent value of anticipated future cash flows, is recognised in the statement of income. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

## Notes to the Financial Statements

31 DECEMBER 2004

### 2 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Revenue recognition

##### Acquisition and placement income

The Bank earns several types of fees during the acquisition and placement process for rendering services including: structuring of transactions, acquiring and leasing properties, placing with clients and arranging debt. These fees are recognised when earned.

##### Management fees

Management fees represent a recurring fee earned by the Bank for rendering management and administrative services to the fund. Management fees are recognised as and when services are rendered.

##### Murabaha receivables

Income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Income that is 90 days or more overdue is excluded from income.

##### Mudaraba investments

Income is recognised when it is quantifiable or on distribution by the mudarib, whereas the losses are charged to income when advised by the mudarib.

##### Dividends

Dividends from investments in equities are recognised when the right to receive payment is established.

##### Brokerage

Brokerage is recognised when earned.

#### Employees' end of service benefits

Provision is made for amounts payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the balance sheet date. Bahraini employees of the Bank are covered by contributions made to the General Organisation of Social Insurance Scheme (GOSI) as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

#### Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank, and accordingly, are not included in the balance sheet.

#### Zakat

In accordance with its Articles of Association, the Bank is not required to pay Zakat on behalf of its shareholders.

## Notes to the Financial Statements

31 DECEMBER 2004



### 3 - RISK MANAGEMENT

Risk management is an integral part of the Bank's decision-making process. Various management committees, comprising members of senior management drawn from key areas of the Bank, guide and assist with overall management of the Bank's balance sheet risks.

#### a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual counter-parties. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties and limits the duration of exposures.

The distribution of assets by geographic region and industry sector was as follows:

	31 December 2004 US\$ '000
Geographic region:	
Middle East	33,133
Asia	11,300
	<u>44,433</u>
Industry sector:	
Power generation	11,300
Real estate	2,805
Banking and financial institutions	28,134
Others	2,194
	<u>44,433</u>

#### b) Profit rate risk

The fair value of financial assets may be affected by current market forces including interest rates.. The Bank recognises income on certain of its financial assets on a time-apportioned basis. The following table indicates the profit rates on these at the balance sheet date based on the annualised income to be recognised, expressed as a percentage of the principal outstanding.

	2004
Commodity murabaha	2.39%
Investment in mudaraba	1.87%

#### c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is not exposed to significant foreign currency exposures.

## Notes to the Financial Statements

31 DECEMBER 2004

### 3 - RISK MANAGEMENT (CONTINUED)

#### d) Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. The Bank limits this risk through managing assets with liquidity in mind and manages liquidity on periodical basis.

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2004 based on contractual repayment arrangements:

	Total US\$ '000	Up to 1 month US\$ '000	1 to 3 months US\$ '000	3 months to 1 year US\$ '000	1 to 3 years US\$ '000	Over 3 years US\$ '000	No fixed maturity US\$ '000
<b>ASSETS</b>							
Cash and balances with banks	164	164	-	-	-	-	-
Due from financial institutions	27,970	-	13,854	14,116	-	-	-
Non-trading investments	14,105	-	-	-	-	2,805	11,300
Other assets	2,052	15	45	1,992	-	-	-
Equipment	142	-	-	-	-	-	142
<b>Total assets</b>	<b>44,433</b>	<b>179</b>	<b>13,899</b>	<b>16,108</b>	<b>-</b>	<b>2,805</b>	<b>11,442</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
Liabilities	647	-	647	-	-	-	-
Total shareholders' equity	43,786	-	-	-	-	-	43,786
<b>Total liabilities and shareholders' equity</b>	<b>44,433</b>	<b>-</b>	<b>647</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,786</b>

#### e) Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

## Notes to the Financial Statements

31 DECEMBER 2004



### 4 - INVESTMENT BANKING FEES

	6 October 2003 to 31 December 2004 US\$ '000
Structuring fees	1,095
Acquisition and lease fees	702
Placement fees	191
Debt arrangement fees	165
Management fees	225
	<u>2,378</u>

### 5 - INCOME ON DUE FROM FINANCIAL INSTITUTIONS

	6 October 2003 to 31 December 2004 US\$ '000
Income on investment in mudaraba	453
Profit on commodity murabaha	155
	<u>608</u>

### 6 - GENERAL AND ADMINISTRATION

	6 October 2003 to 31 December 2004 US\$ '000
Legal and professional charges	198
Rent and maintenance	110
Travelling	102
Others	277
	<u>687</u>

## Notes to the Financial Statements

31 DECEMBER 2004

### 7 - PRE-INCORPORATION EXPENSES

	6 October 2003 to 31 December 2004 US\$ '000
Staff expense	358
Travelling	88
Legal fees	65
Rent and other utilities	41
Others	6
	<u>558</u>
Less: Pre-operating income on investment in Mudaraba	15
	<u><u>543</u></u>

### 8 - CASH AND BALANCES WITH BANKS

	31 December 2004 US\$ '000
Cash	1
Current accounts	163
	<u><u>164</u></u>

### 9 - DUE FROM FINANCIAL INSTITUTIONS

	31 December 2004 US\$ '000
Commodity murabaha	20,273
Less: Deferred profits	(62)
	<u>20,211</u>
Investment in mudaraba	7,759
	<u><u>27,970</u></u>

## Notes to the Financial Statements

31 DECEMBER 2004



### 10 - NON-TRADING INVESTMENTS

	31 December 2004 US\$ '000
<i>Carried at fair value through income statement - unquoted</i> Bank's share in Bahrain Property Fund (note 10.1)	<b>2,805</b>
<i>Available for sale-unquoted (at cost)</i> BTU Power Company II (note 10.2)	<b>11,300</b>
	<b><u>14,105</u></b>

10.1 During the period, the Bank launched a closed-ended US\$ 18.57 million (BD 7 million) "Bahrain Property Fund (the "fund")" that invests in residential and commercial properties in the Kingdom of Bahrain. The Bank owns 14.29% of the units as of 31 December 2004.

10.2 During the period the Bank acquired 8.34% shares in BTU Power Company II (an exempted company incorporated in Cayman Islands). BTU Power Company II holds 50% in Meiya Power Company (MPC), which is the ultimate cash generating unit. MPC is a Bermuda incorporated company whose principal activities are to develop, acquire, finance, construct, own and manage electric power and steam generation facilities in Asia.

### 11 - SHARE CAPITAL

	31 December 2004 US\$ '000
Authorised: 200,000,000 ordinary shares of US\$ 1 each	<b><u>200,000</u></b>
Issued and fully paid: 43,000,000 ordinary shares of US\$ 1 each	<b><u>43,000</u></b>

#### Statutory reserve

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its Statutory Reserve till such time as the reserve equals 50% of the issued share capital of the Bank. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Bahrain Monetary Agency.

#### Investment fair value reserve

The investment fair value reserve represents unrealized revaluation gains on investments. In accordance with AAOIFI, this reserve is only distributable when realised.

## Notes to the Financial Statements

31 DECEMBER 2004

### 12 - ASSETS UNDER MANAGEMENT

Total assets under management (being the Bahrain Property Fund) as at 31 December 2004 were:

	Bank US\$ '000	Client US\$ '000	Total US\$ '000
Non-trading investments	<u>2,805</u>	<u>16,824</u>	<u>19,629</u>

Proprietary assets are included in the balance sheet, while clients' funds, which are managed in fiduciary capacity without recourse to the Bank, are not included in the balance sheet.

### 13 - TRANSACTIONS WITH RELATED PARTIES

Related parties comprise major shareholders, directors of the Bank, close members of their families, entities owned or controlled by them and companies where the Bank has greater than 10% holding.

The significant balances with related parties at 31 December 2004 were as follows:

	31 December 2004 US\$ '000
<b>Assets</b>	
Investment in Bahrain Property Fund	2,805
Investment banking fees receivable from Bahrain Property Fund	1,969
Other receivables from Bahrain Property Fund	23
	<u>4,797</u>
<b>Liabilities</b>	
Payable to Bahrain Property Fund	<u>43</u>

## Notes to the Financial Statements

31 DECEMBER 2004



Transactions with related parties included in the statement of income are as follows:

	6 October 2003 to 31 December 2004 US\$ '000
Investment banking fees from Bahrain Property Fund	1,969
Brokerage fees	1,082
Structuring fees	218
Dividend on investment in Bahrain Property Fund	27
Participation fees	(567)

### 14 - FAIR VALUES

The estimated fair value of the Bank's financial instruments are not significantly different from their book values as at the balance sheet date.

### 15 - SHARI'AH SUPERVISORY BOARD

The Bank's Shari'ah Supervisory Board consists of three Islamic scholars who review the Bank's compliance with general Shari'ah principles and specific fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Islamic Shari'ah principles.

### 16 - SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations.

### 17 - COMPARATIVE FIGURES

The Bank's financial statements cover the period 6 October 2003 to 31 December 2004. This being the first period of operations, comparative information is not applicable.