



ANNUAL REPORT AND ACCOUNTS 2005

# The first independent Sharia'a compliant Islamic investment bank in the UK

EUROPEAN ISLAMIC INVESTMENT BANK PLC

بنك الإستثمار الإسلامي الأوروبي بي إس سي

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EIIB is not currently authorised by the UK's Financial Services Authority (FSA) to conduct banking business. An application has been made to the FSA for authorisation in respect of planned activities for which FSA authorisation is required under UK law.

## OUR MISSION

To achieve excellence in the provision of Sharia'a compliant investment banking products and services.

### HIGHLIGHTS

- First independent Sharia'a compliant Islamic investment bank in the UK seeking authorisation from the FSA
- Private placement share offering raising over £114 million additional capital
- Capability to manage high levels of business volumes from a low cost base
- Admission to the Alternative Investment Market (AIM) imminent

## CHAIRMAN'S STATEMENT

### In the name of Allah, the Most Gracious, the Most Merciful To the Shareholders of the European Islamic Investment Bank Plc

It gives me great pleasure to present the first annual report and financial statement for the European Islamic Investment Bank Plc, as at our year end 31 December 2005.

The European Islamic Investment Bank Plc was established in January 2005 with the purpose of applying to the Financial Services Authority (FSA) for permission under Part IV of the Financial Services and Markets Act 2000 to become the first independent Sharia'a compliant Islamic investment bank in the United Kingdom to be regulated by the FSA.

Our first achievement was to incorporate the Company with completely Sharia'a compliant Memorandum and Articles of Association, yet operating in conformity with the United Kingdom Companies Act.

European Islamic Investment Bank Plc was greatly assisted in this regard by the advice and guidance of our eminent Sharia'a Supervisory Board, consisting of Justice (rtd) Muhammad Taqi Usmani, Chairman, Dr. Abdul Sattar Abu Ghuddah, Dr. Abdul Latif M. Al Mahmood and Sheikh Nizam Yacouby.

In the second quarter of 2005 we launched a private placement share offering, which successfully raised a total of £108,449,646 capital, net of issue costs. This was an important milestone towards progressing the Company's application to seek approval from the FSA to conduct investment banking activities.

In June 2005, John Weguelin joined the company as Managing Director and was appointed to the Board. Mr. Weguelin is an experienced investment banker having previously held senior executive appointments with Bank of America and since his arrival has established the management team in London.

Prior to the submission of a formal application for FSA authorisation, we were required to submit to the FSA a draft regulatory business plan. This was completed and presented to the FSA for their consideration in the early part of June 2005, and we received their feedback in July 2005. The core elements of our draft regulatory business plan, prepared in conjunction with our advisors, Clifford Chance, Ernst & Young LLP and Islamic Joint Venture Partners BSC, were acceptable to the FSA with minor amendments and fine-tuning required.

This feedback provided us with the clearance to proceed with our formal application, which was presented to the FSA on 26 August 2005. I am delighted to advise you that on 17 January 2006, the FSA advised us that they had completed their review and were minded to grant us authorisation subject to satisfying completion of Systems and IT Control forms.

Whilst this application has to stand up to already established regulatory criteria, the FSA has taken a positive approach to what is a departure from conventional banking.

In December 2005, the Company moved to permanent offices in the City of London. The offices are modern, being located in the heart of the financial centre and are ideally suited to accommodate the Company's plans for the next few years.

The design of our investment banking model has been completed. The model is technology based thereby presenting capabilities to manage high levels of business volumes from a relatively low cost base, while delivering a quality service to our prospective clients to meet their investment banking requirements.

We have selected Infracore Technologies Limited as the core technology component of the model. Their Omni Enterprise system is an established Islamic product on the Indian sub continent and we have developed this further to support our specific requirements for Sharia'a compliant investment banking.

The development of our investment banking capability to a point where we can be open for business is estimated to be completed during the first quarter 2006 at which time we aim to be offering a range of Sharia'a compliant products including Treasury and Capital Markets products, Trade Finance, Asset Management and Advisory Services to both Muslims and Non-Muslims within the UK and Europe and to our partners in other parts of the world.

The subsequent planned increase in our share capital through a further share offering, and admission to the Alternative Investment Market (AIM) for trading in the shares of European Islamic Investment Bank Plc, will proceed shortly.

I should like to thank our shareholders for their support and encouragement of this exciting new Islamic banking venture, as well as the contribution of the Sharia'a Supervisory Board members and the Board of Directors for their diligent efforts to move the project along as quickly as possible. I should also like to thank John Weguelin and his team in London for their contribution to finalising the FSA application and development of the operating model, and finally to thank the FSA themselves for their kind advice, without which European Islamic Investment Bank Plc would not have been possible.



Adnan Ahmed Yousif  
*Chairman*

# REPORT OF THE DIRECTORS

The Directors of European Islamic Investment Bank Plc have pleasure in presenting their first annual report, together with the audited financial statements, for the period from 11 January 2005 to 31 December 2005.

## PRINCIPAL ACTIVITIES

European Islamic Investment Bank Plc was incorporated in the United Kingdom on 11 January 2005. During the period the Company commenced activities making Murabaha and Wakala placements. The Company intends to become the first independent Sharia'a compliant Islamic investment bank in the United Kingdom to be regulated by the FSA. The Company aims to provide Sharia'a compliant investment banking services in the United Kingdom, Continental Europe, the Middle East and other parts of the world.

## FINANCIAL RESULTS

The financial statements for the reporting period ended 31 December 2005 are shown on pages 12 to 23. The profit for the period after taxation amounts to £1,306,116.

## DIVIDEND

The Directors do not recommend the payment of a dividend but instead recommend the retention of the profit in the reserves to be used to absorb the latent risks that may occur from time to time in the Company's balance sheet.

## DIRECTORS AND COMPANY SECRETARY

The names of the directors and company secretary as at the date of this report and those who served during the period are as follows:

	<b>Date appointed</b>
Adnan Ahmed Yousif <i>Chairman</i>	17 February 2005
Khalid A. Al-Bassam	17 February 2005
Christophe Balet	11 January 2005, (resigned 25 January 2006)
Michael Carter	11 January 2005

	<b>Date appointed</b>
George K. Morton	17 February 2005
Shabir Randeree	17 February 2005
Hatem Abou Said	17 February 2005
John Clouting	6 June 2005
Yusef Rabah Abu Khadra	20 December 2005
John Weguelin <i>Managing Director</i>	1 June 2005
Tony Ellingham <i>Finance Director</i>	31 October 2005
Julie Marquiss	(First director, resigned 11 January 2005)
Stephan John Martin	(First director, resigned 11 January 2005)
M.A. Mohaimin Chowdhury <i>Company Secretary</i>	23 December 2005
Michael Carter <i>Company Secretary</i>	11 January 2005 (resigned 30 June 2005)
Patrick Graham <i>Company Secretary</i>	30 June 2005 (resigned 23 December 2005)

In accordance with the Articles of Association all directors will retire at the forthcoming annual general meeting and offer themselves for re-election.

With effect from 20 December 2005 Mr. Clouting resigned as an executive director and was re-appointed as a non-executive director.

Other than Mr. Weguelin and Mr. Ellingham, all other directors are non-executive. Other than Mr. Carter and Mr. Randeree all other non-executive directors are independent.

## DIRECTORS' INTERESTS

The directors who held office at the end of the financial period had the following beneficial interests in the ordinary shares of the Company according to the register of directors' interests:

<b>Name</b>	<b>Class of Share</b>	<b>Interest at end of Period</b>	<b>Interest at start of period or of appointment</b>
Adnan Ahmed Yousif	Ordinary	2,000,000	2,000,000
Khalid A. Al-Bassam	Ordinary	1,000,000	1,000,000
Christophe Balet	Ordinary	3,000,000	-
Michael Carter	Ordinary	1,000,000	-
George K. Morton	Ordinary	1,000,000	1,000,000
Shabir Randeree	Ordinary	1,000,000	1,000,000
Hatem Abou Said	Ordinary	1,000,000	1,000,000

Two directors, Mr. Christophe Balet and Mr. Michael Carter, are also directors of, and hold beneficial interests in, Islamic Holdings Jersey Limited, a company which is the registered holder of 6.56% of the issued shares of the Company.

None of the other directors who held office at the end of the financial period had any other disclosable interest in the shares of the Company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company were granted to any of the directors or their immediate families, or exercised by them, during the financial period.

#### SHARE CAPITAL

The Company was incorporated with an Authorised Share Capital of £20,000,000. During the period, the Company issued 1,524,437,000 ordinary shares for proceeds of £114,114,960 before issue costs and as at the reporting date the Issued Share Capital, fully paid, amounted to £15,244,370.

#### SHARIA'A SUPERVISORY BOARD MEMBERS AND SENIOR MANAGEMENT

The Sharia'a Supervisory Board members are as follows:

Justice (rtd) Muhammad Taqi Usmani	<i>Chairman</i>
Dr. Abdul Sattar Abu Ghuddah	<i>Member</i>
Dr. Abdul Latif M. Al Mahmood	<i>Member</i>
Sheikh Nizam Yacouby	<i>Member</i>

The senior management of the Company includes:

John Weguelin	<i>Managing Director</i>
Tony Ellingham	<i>Finance Director</i>
Danie Marx	<i>Head of Treasury and Capital Markets</i>
Grant Lowe	<i>Head of Risk Management</i>
M.A. Mohaimin Chowdhury	<i>Head of Legal, Sharia'a and Compliance</i>

#### POLITICAL CONTRIBUTIONS AND CHARITABLE DONATIONS

The Company made no political contributions or charitable donations during the period.

#### POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The Company follows "The Better Payment Practice Code" published by the Department of Trade and Industry, regarding the making of payments to suppliers.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

At 31 December 2005 the Company had an average of 27 days purchases outstanding in sundry creditors.

#### AUDITORS

The directors appointed Ernst & Young LLP as the Company's first auditors.

Resolutions concerning the re-appointment of Ernst & Young LLP as auditors and authorising the directors to set their remuneration will be proposed at the annual general meeting.

By order of the board  
Mohaimin Chowdhury  
Company Secretary

9 February 2006

Registered Office:  
31 Finsbury Pavement  
London EC2A 1NT

# REPORT OF THE SHARIA'A SUPERVISORY BOARD

For the period 11 January 2005 to 31 December 2005

## **In the name of Allah, The Beneficent, The Merciful**

To the Shareholders of European Islamic Investment Bank Plc

*Assalam Alaikum Wa Rahmat Allah Wa Barakatuh*

In compliance with our letters of appointment with European Islamic Investment Bank Plc ("EIIB"), we are required to submit this report.

Through our Sharia'a Audit Committee, we have reviewed the principles and the contracts relating to the transactions conducted by EIIB during the period 11 January 2005 to 31 December 2005 (the "Period"). We have conducted our review to form an opinion as to whether EIIB has complied with Sharia'a rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

EIIB's management is responsible for ensuring that EIIB conducts its business in accordance with Sharia'a rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of EIIB, and to report to you.

We conducted our review which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by EIIB for the transaction.

We planned and performed our review so as to obtain all the information and explanations that we considered necessary to provide us with sufficient evidence to give reasonable assurance that EIIB has not violated Sharia'a rules and principles.

In our opinion, the contracts, transactions and dealings entered into by EIIB during the Period that were reviewed are in compliance with Sharia'a rules and principles.

We beg Allah the Almighty to grant us all success and straight-forwardness.

*Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh*

Signed on behalf of the Sharia'a Supervisory Board of European Islamic Investment Bank Plc



Justice (rtd.) Muhammad Taqi Usmani  
*Chairman*

7 February 2006

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF EUROPEAN ISLAMIC INVESTMENT BANK PLC

We have audited the company's financial statements for the period ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## OPINION

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP *Registered Auditor*  
London  
10 February 2006

# CORPORATE GOVERNANCE

## COMPLIANCE WITH THE COMBINED CODE

The board considers that good corporate governance is central to achieving the Company's objectives and has applied these principles in drawing up the Company's risk management framework taking into consideration the combined code on corporate governance annexed to the UK Listing Authority rules.

## THE BOARD AND ITS COMMITTEES

The Company is led by a board comprising non-executive and executive directors with wide experience of Islamic and conventional banking. The appointment of directors is considered by the nominations committee and then the board. Following the provisions in the Articles of Association, all directors may stand for re-election by the shareholders at the first Annual General Meeting following their appointment and following that meeting must stand for re-election by the shareholders, at least every three years. Executive directors normally retire at age 65, as required by their service agreements. Independent non-executive directors are appointed for three-year renewable terms, which may be terminated without notice or payment of compensation.

The board meets at least four times a year. It has a programme designed to enable the directors to review corporate strategy and the operations and results of the business and to discharge their duties within a framework of prudent and effective controls relating to the assessment and management of risk.

The matters specifically referred to the board for decision include the approval of the annual report and accounts and any other financial statements; the payment of dividends; the long-term objectives of the Company; the strategies necessary to achieve these objectives; the Company's budgets and plans; significant

credit exposures; significant capital expenditure items; significant investments and disposals; the organisational structure of the Company; the arrangements for ensuring that the Company manages risk effectively; any significant change in accounting policies or practices; the appointment of the Company's main professional advisers; and the appointment of senior executives within the organisation.

The board has delegated to the managing director the power to make decisions on operational matters, including those relating to credit, liquidity, operational and market risk, within an agreed framework.

All directors have access to the services of the Company Secretary, and independent professional advice is available to the directors at the Company's expense, where they judge it necessary to discharge their duties as directors.

There are training programs and updates on particular issues for all directors.

The Board will, at least annually, review and approve its composition and charter in order to set the risk management framework of the bank. To assist the Board in executing its risk management function, it will review and approve the composition and charters of the following Board sub-committees:

### AUDIT COMMITTEE

The audit committee comprises Mr. Clouting (Chairman), Mr. Al-Bassam, Mr. Morton and Mr. Abu Khadra. The committee's terms of reference are available from the company secretary.

In discharging its duties, the committee is required to review the auditors' remuneration and, in discussion with them, to assess their independence and

recommend their re-appointment at the Annual General Meeting. The committee will also review the financial statements published in the name of the board and the quality and acceptability of the related accounting policies, practices and financial reporting disclosures; the scope of work of the internal auditor, reports from the internal auditor and the adequacy of resources; the effectiveness of the systems for internal control, risk management and compliance with financial services legislation and regulations; procedures by which staff may raise concerns in confidence; the results of the external audit and reports from the external auditor on their findings on accounting and internal control systems. The Chairman of the committee has held a meeting with the auditors, without executives present, and a meeting with the internal auditor alone.

### **NOMINATION COMMITTEE**

The nomination committee, comprising Mr. Al-Bassam (Chairman), Mr. Carter and Mr. Randeree, reviews the composition of the board, taking into account the skills, knowledge and experience of directors and considers and makes recommendations to the board on potential candidates for appointment as directors. The committee will also make recommendation to the board concerning the re-appointment of any independent non-executive director by the board at the conclusion of his or her specified term; the re-election of any director by the shareholders under the retirement provisions of the articles of association; any matters relating to the continuation in office of a director; and the appointment of any director to executive or other office, other than the positions of chairman and managing director, the recommendation for which would be considered at a meeting of the non-executive directors regarding the position of managing director, and all the directors regarding the position of chairman.

### **REMUNERATION COMMITTEE**

The remuneration committee, which comprises Mr. Randeree (Chairman) and Mr. Abou Said, will review the remuneration policy for senior management, to ensure that members of the executive are provided with appropriate incentives to encourage them to enhance the performance of the Company and that they are rewarded for their individual contribution to the success of the organisation. It will be made aware of, and advise on, major changes to employee benefits schemes and it also agrees the policy for authorising claims for expenses from the managing director and the chairman.

All the non-executive directors are invited to attend meetings if they wish, and they receive the minutes and have the opportunity to comment and have their views taken into account before the committee's decisions are implemented.

### **EXECUTIVE MANAGEMENT COMMITTEE**

In addition, the Board has also required that an executive management committee be formed to assist the managing director in performing his duties.

The executive management committee, comprises the managing director, finance director, head of risk management, head of asset management, head of treasury & capital markets, the head of human resources and head of legal, Sharia'a and compliance. Specifically, the committee considers the development and implementation of strategy, operational plans, policies and budgets; the monitoring of operating and financial performance; the assessment and control of risk; the prioritisation and allocation of resources; and the monitoring of competitive forces in each area of operation. The committee, assisted by its sub-committees: risk management, IT, human resources and asset and liability committees, also supports

the managing director in ensuring the development, implementation and effectiveness of the Company's risk management framework and the clear articulation of the Company's risk policies, and in reviewing the Company's aggregate risk exposures and concentrations of risk.

The committee may have specific powers delegated to it by the board from time to time and following the exercising of these powers, it reports to the board. To comply with the Company's Articles of Association, only committee members who are also directors of the Company participate in the exercising of any powers delegated by the board.

#### **MEETINGS WITH SHAREHOLDERS**

The chairman, the managing director and the finance director have meetings with representatives of major shareholders. In addition, all directors are invited to attend investment analysts' and stockbrokers' briefings on the financial results.

All shareholders are encouraged to attend and participate in the Company's annual general meeting.

The resolutions to be considered at the annual general meeting in 2006 will be decided on a show of hands. Details of the results will be announced on our website, [www.eiib.co.uk](http://www.eiib.co.uk) and will also be available from the company secretary.

## PROFIT AND LOSS ACCOUNT

for the period from 11 January 2005 to 31 December 2005

	Notes	For the period from 11 January 2005 to 31 December 2005 £
Operating revenue	(1d)	<b>3,840,502</b>
Operating charges		
Staff cost	2	(1,138,753)
Depreciation	7	(11,955)
Other operating charges	3	(850,000)
<b>Total Operating charges</b>		<b>(2,000,708)</b>
<b>Profit on ordinary activities before tax</b>	4	<b>1,839,794</b>
Tax on profit on ordinary activities	6	(533,678)
<b>Profit for the financial period</b>	14	<b>1,306,116</b>

The result for the period is derived entirely from continuing activities.  
There were no recognized gains or losses in the period other than as set out above.

*The notes on pages 15 to 23 form part of these financial statements.*

## BALANCE SHEET

at 31 December 2005

	Notes	31 December 2005 £	31 December 2005 £
<b>Fixed assets</b>			
Tangible assets	7		<b>432,707</b>
<b>Current assets</b>			
Debtors	8	327,451	
Murabaha and Wakala placements	9	111,214,717	
Cash at bank		435,706	
		<b>111,977,874</b>	
<b>Creditors: amounts falling due within one year</b>	10	1,254,819	
<b>Net current assets</b>			<b>110,723,055</b>
<b>Net assets</b>			<b>111,155,762</b>
<b>Capital and reserves</b>			
Called up share capital	12		15,244,370
Share premium	13		94,325,276
Profit and loss account	14		1,586,116
<b>Equity Shareholders' funds</b>			<b>111,155,762</b>

These financial statements were approved by the board of directors on 9 February 2006 and were signed on its behalf by:



Adnan Ahmed Yousif  
Chairman



J Weguelin  
Managing Director



T Ellingham  
Finance Director

The notes on pages 15 to 23 form part of these financial statements.

## CASH FLOW STATEMENT

for the period from 11 January 2005 to 31 December 2005

	Notes	2005 £
Net cash inflow from operating activities	16	2,645,439
Capital expenditure	7	(444,662)
Financing	17	109,449,646
Increase in cash	18	<b>111,650,423</b>

The notes on pages 15 to 23 form part of these financial statements.

# NOTES

forming part of the financial statements

## 1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements:

### (a) Accounting convention and basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with schedule 4 of the Companies Act 1985 and with applicable United Kingdom accounting standards. The financial statements have been prepared on a going concern basis.

### (b) Foreign currency

Income and expenses denominated in foreign currencies are converted into sterling at the rate prevailing at the date of the transaction.

### (c) Depreciation

Depreciation of tangible fixed assets is provided on a straight-line basis over their estimated useful lives as follows:

Computer hardware	3 years
Fixtures, fittings and office equipment	5 years
Leasehold improvements	5 years
Computer software, improvements and consultancy	5 years

### (d) Murabaha and Wakala receivables

Murabaha is an Islamic financing transaction, which represents an agreement whereby the company purchases a commodity and then sells it to a customer based on a promise received from the customer to buy the commodity according to specific terms and conditions. The selling price comprises the cost of the commodity and a pre-agreed profit margin.

Wakala is an Islamic financing transaction, which represents an agreement whereby the Company provides a certain sum of money to an agent who invests it according to specific conditions in order to

achieve specified return for a certain fee over a specified time period. The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Income, on both Murabaha and Wakala placements, is recognised on a time-apportioned basis over the period of the contract, based on the principal amounts outstanding. Murabaha and Wakala receivables are stated at cost less any provisions for impairment.

### (e) Taxation

Corporation taxation is provided on the operating profits on ordinary activities at the current rate.

### (f) Operating Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. In respect of premises the charge to profit and loss is after taking into consideration a rent free period.

### (g) Pension costs

The Company provides for a defined contribution pension scheme for all staff. The cost of the defined contribution scheme is equal to the contributions payable to the scheme for the accounting period and is recognised within operating charges in the profit and loss account.

### (h) Share awards to Directors

The cost of awards to directors that take the form of rights to shares is recognized over the period of the director's contract (normally 3 years).

### (i) Cash

Cash, for the purpose of the cash flow statement, comprises cash at bank and Murabaha and Wakala placements.

## NOTES (continued)

forming part of the financial statements

### 2 DIRECTORS' EMOLUMENTS AND STAFF COSTS

	2005
	<b>£</b>
Directors salaries and fees	541,696
Directors pension contributions	12,853
Staff salaries	216,966
Staff pension contributions	13,316
Social Security costs	36,623
Sharia'a Supervisory Board fees	136,334
Recruitment costs	162,733
Other staff costs	18,232
	<b>1,138,753</b>

The average number of persons employed by the Company during the period was 6.

### 3 OTHER OPERATING CHARGES

	2005
	<b>£</b>
Legal and professional	445,335
Consultancy	83,650
Other operating charges	321,015
	<b>850,000</b>

### 4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2005
	<b>£</b>
Profit on ordinary activities before taxation is stated after charging	
Auditors' remuneration:	
Audit	11,750
Other services – fees paid to the auditor and its associates	126,841
Depreciation	11,955
Rentals paid under operating leases: Premises	59,709

## NOTES (continued)

forming part of the financial statements

### 5 DIRECTORS EMOLUMENTS

2005

£

Directors' emoluments	554,549
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Included within Directors emoluments was £266,667 in respect of shares issued to Directors.

The total remuneration and benefits of the highest paid director was £114,000.

### 6 TAXATION

Analysis of charge in the year, and factors affecting the tax charge for the period

The current tax charge for the period differs from the rate of corporation tax applicable to the company in the UK (30%).

The differences are explained below:

2005

£

<b>Current tax reconciliation</b>	
Profit on ordinary activities before tax	1,839,794
Current tax at 30%	551,938
<b>Add effect of:</b>	
Expenses not deductible for tax purposes	11,503
<b>Less effect of:</b>	
Capital allowances for period in excess of depreciation	(29,763)
Tax on profit on ordinary activities	<b>533,678</b>

## NOTES (continued)

forming part of the financial statements

### 7 TANGIBLE FIXED ASSETS

	Leasehold Improvements £	Computers and Software £	Furniture and Fixtures £	Total £
<b>Cost or valuation</b>				
At 11 January 2005	-	-	-	-
Additions	36,715	367,409	40,538	444,662
<b>At 31 December 2005</b>	<b>36,715</b>	<b>367,409</b>	<b>40,538</b>	<b>444,662</b>
<b>Accumulated Depreciation</b>				
At 11 January 2005	-	-	-	-
Charge for the period	612	10,667	676	11,955
<b>At 31 December 2005</b>	<b>612</b>	<b>10,667</b>	<b>676</b>	<b>11,955</b>
<b>Net Book Value</b>				
<b>At 31 December 2005</b>	<b>36,103</b>	<b>356,742</b>	<b>39,862</b>	<b>432,707</b>
At 11 January 2005	-	-	-	-

Capital expenditure contractually committed at the balance sheet date but not provided for in these financial statements amounted to £329,000.

### 8 DEBTORS

	2005 £
Profit receivable – Murabaha and Wakala placements	243,135
Sundry debtors	58,949
Prepayments	25,367
	<b>327,451</b>

## NOTES (continued)

forming part of the financial statements

### 9 MURABAHA AND WAKALA PLACEMENTS

	2005
	<b>£</b>
Murabaha placements	101,214,717
Wakala placements	10,000,000
	<b>111,214,717</b>

### 10 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005
	<b>£</b>
Sundry creditors	50,000
Accruals	611,036
Other taxes and social security costs	60,105
Corporation Tax	533,678
	<b>1,254,819</b>

### 11 COMMITMENTS UNDER OPERATING LEASES

The commitment at the year end under a non-cancelable operating lease is as follows:

4th Floor, 131 Finsbury Pavement, London. The lease for the Company's premises, is for a five-year period from 27 December 2005 to 27 December 2010, at an annual rental of £314,310 gross of VAT, with a fifteen-month rent free period.

## NOTES (continued)

forming part of the financial statements

### 12 CALLED UP SHARE CAPITAL

2005

£

#### Authorised

2,000,000,000 ordinary shares of £0.01 each **20,000,000**

#### Allotted, called up and fully paid

1,524,437,000 ordinary shares of £0.01 each **15,244,370**

### 13 SHARE PREMIUM

The shares issued per note 12 above were as follows:

	Nominal Value Shares	Nominal Value £	Premium £
a) Issued in February 2005 to Directors of Islamic Holdings Jersey Limited (see note 15 a)) at par for cash.	5,000,000	50,000	-
b) Issued in February 2005 to Islamic Holdings Jersey Limited (see note 15 (a)) at par for cash.	95,000,000	950,000	-
c) Issued in February to Directors and Sharia'a Supervisory Board members in lieu of salaries.	12,000,000	120,000	-
d) Issued between April and June 2005 under private placement share offering at 8p per share for cash.	1,412,437,000	14,124,370	98,870,590
	<b>1,524,437,000</b>	<b>15,244,370</b>	
Less share issue costs			(4,545,314)
			<b>94,325,276</b>

Shares issued at par to Directors and the Sharia'a Supervisory Board, as per c) above, vest over a 3 year period and were issued in lieu of salaries as settlement of signing fees. They are deemed to have been issued at a premium of 7p per share under UITF17. This has given rise to a fair value charge to profit & loss account of £280,000 in addition to a charge of £120,000 for shares issued in lieu of salaries.

## NOTES (continued)

forming part of the financial statements

### 14 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S FUNDS

	Share Capital	Share Premium Account	Profit and Loss Account	Total
	£	£	£	£
Balance at 11 January 2005	-	-	-	-
Profit for the financial period	-	-	1,306,116	1,306,116
Amounts added back in respect of UITF 17 charges (re awards to Directors and Sharia'a Supervisory Board members)			280,000	280,000
New share capital subscribed (net of issue costs)	15,244,370	94,325,276	-	109,569,646
<b>Balance at 31 December 2005</b>	<b>15,244,370</b>	<b>94,325,276</b>	<b>1,586,116</b>	<b>111,155,762</b>

### 15 RELATED PARTY DISCLOSURES

(a) Two directors, Mr. Christophe Balet and Mr. Michael Carter, are also directors of, and hold beneficial interests in, Islamic Holdings Jersey Limited, a company which is the registered holder of 6.56% of the issued shares of the Company.

(b) During the period the Company has undertaken transactions with Islamic Joint Venture Partners BSC (IJVP), a related party of the Company by virtue of the fact that two directors of IJVP, Mr. Christophe Balet and Mr. Michael Carter, hold beneficial interests in IJVP and also serve on the board of the Company.

On 17 February 2005 the Company entered into two agreements with IJVP in connection with the share issue, as follows:

- (i) An Arrangement Fee of 2% of the amount subscribed in the share issue.
- (ii) A Distribution Advisory Fee of 2% of the amount subscribed in the share issue.

A total of £4,519,798 was paid to IJVP on behalf of the arranging syndicate of financial institutions and under these agreements.

Additionally, the Company has retained IJVP to handle investor relationships in the Gulf region on a retainer of £5,000 per month.

(c) Office rent costs of £30,000 have been accrued in the financial statements for temporary occupation of office space in Churchill House, Old Street, London, a property owned by DCD London & Mutual plc ("DCD"), a related party by virtue of the fact that Mr. Shabir Randeree is a director of DCD, and holds a beneficial interest in DCD and also serves on the board of the Company.

## NOTES (continued)

forming part of the financial statements

### 16 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005	2005
	£	£
Profit on ordinary activities before tax		1,839,794
Depreciation charges added back		11,955
Increase in debtors		(327,451)
Increase in creditors		721,141
Shares issued in lieu of salaries to Directors and Sharia'a Supervisory Board members (note 13)	120,000	
Charge under UITF 17 relating to the premium of 7p per share arising from shares issued to Directors and Sharia'a Supervisory Board members (note 13)	280,000	
		400,000
Net cash inflow from operations		<b>2,645,439</b>

### 17 FINANCING

	2005
	£
Called up share capital	15,244,370
Share premium	98,870,590
Proceeds from issues of ordinary share capital	114,114,960
Less: issue costs	(4,545,314)
Net Proceeds	109,569,646
Cost associated with the issue of shares to Directors and Sharia'a Supervisory Board members in lieu of salaries (note 13)	(120,000)
	<b>109,449,646</b>

## NOTES (continued)

forming part of the financial statements

### 18 ANALYSIS OF INCREASE IN CASH IN THE PERIOD

	2005
	<b>£</b>
Balance at 11 January 2005	-
Increase in Murabaha and Wakala Placements	111,214,717
Increase in Cash at Bank	435,706
Balance at 31 December 2005	<b>111,650,423</b>

### 19 PENSION COMMITMENTS

The Company provides for a defined contribution pension scheme for all staff. The assets of the scheme will be held separately from those of the company in independently administered funds. An unpaid amount of £26,169 arising from the Company's liability to make contributions from the commencement of employees' dates of service was included in accruals (note 10).



## COMPANY INFORMATION

### **DIRECTORS**

Adnan Ahmed Yousif *Chairman*  
Khalid A. Al-Bassam  
Michael Carter  
George K. Morton  
Shabir Randeree  
Hatem Abou Said  
John Clouting  
Yusef Rabah Abu Khadra  
John Weguelin *Managing Director*  
Tony Ellingham *Finance Director*

### **COMPANY SECRETARY**

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