

Private and Confidential

Prospectus

US\$400,000,000

40,000,000 Units at US\$10 per Unit
in:

Al Basha'er GCC Equity Fund

An open-ended investment fund which seeks medium to long-term capital appreciation through investing primarily in the shares of GCC-listed Shari'ah compliant companies. The Fund may also invest in shares of non-listed Shari'ah compliant companies up to 10% of it's Net Asset Value.

Minimum Initial Subscription US\$10,000

Subsequent subscriptions in multiples
of US\$3,000

October 9, 2005

Fund Sponsors, Investment Managers
and Placement Agents:

Gulf Finance House
Kuwait Finance & Investment Company

Fund Sponsor and Placement Agent:

Qatar Islamic Bank

Placement Agents:

Gulf Finance House Commercial Bank
Abu Dhabi Commercial Bank
Gulf Bank



Notice

THIS PROSPECTUS IS FURNISHED ON A CONFIDENTIAL BASIS FOR THE PURPOSE OF EVALUATING AN INVESTMENT IN THE UNITS (THE “**UNITS**”) OF AL-BASHA’ER GCC EQUITY FUND (THE “**FUND**”), AN OPEN-ENDED COLLECTIVE INVESTMENT SCHEME REGISTERED IN BAHRAIN AND ESTABLISHED BY AL KHALEEJ FUNDS & INVESTMENT COMPANY B.S.C (CLOSED) (THE “**INVESTMENT COMPANY**”) TO ENABLE INVESTORS TO GAIN EXPOSURE TO THE GULF COOPERATION COUNCIL EQUITY MARKETS IN ACCORDANCE WITH THE PRECEPTS OF ISLAMIC SHARI’AH. THE INFORMATION CONTAINED HEREIN IS INTENDED SOLELY FOR SELECTED INVESTORS HAVING THE NECESSARY EXPERTISE TO DETERMINE WHETHER TO ACCEPT THE RISKS INHERENT IN SUCH AN INVESTMENT. THIS PROSPECTUS IS NOT TO BE REPRODUCED OR REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF GULF FINANCE HOUSE, BAHRAIN (“**GFH**”), KUWAIT FINANCE & INVESTMENT CO., KUWAIT (“**KFIC**”) AND QATAR ISLAMIC BANK, QATAR (“**QIB**”).

THE DIRECTORS OF THE INVESTMENT COMPANY ACCEPT RESPONSIBILITY FOR THE INFORMATION IN THIS PROSPECTUS. TO THE BEST OF THE DIRECTORS’ KNOWLEDGE AND BELIEF, HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS PROSPECTUS IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION.

THE UNITS OFFERED PURSUANT TO THIS PROSPECTUS ARE BEING OFFERED ONLY (A) TO NATURAL PERSONS WHO ARE CITIZENS AND RESIDENTS OF THE KINGDOM OF BAHRAIN OR CORPORATIONS OR OTHER LEGAL ENTITIES ORGANISED UNDER THE LAWS OF BAHRAIN, (B) TO NATURAL PERSONS WHO ARE CITIZENS AND RESIDENTS OF OTHER COUNTRIES WHICH ARE MEMBERS OF THE GULF CO-OPERATION COUNCIL, AND CORPORATIONS AND OTHER LEGAL ENTITIES ORGANISED UNDER THE LAWS OF SUCH OTHER COUNTRIES, AND (C) TO OTHER NATURAL PERSONS AND LEGAL ENTITIES ACCEPTABLE TO EACH OF GFH, KFIC AND QIB AND TO WHOM GFH, KFIC AND QIB MAY OFFER SUCH UNITS IN ACCORDANCE WITH APPLICABLE LAWS.

A PROSPECTIVE INVESTOR SHOULD NOT TREAT THE CONTENTS OF THIS PROSPECTUS AS INVESTMENT, TAX OR LEGAL ADVICE. ALL PROSPECTIVE INVESTORS MUST MAKE THEIR OWN INVESTIGATION AND EVALUATION OF THE OPPORTUNITY TO INVEST IN THE UNITS OF THE FUND AND SHOULD CONSULT WITH THEIR OWN ADVISORS CONCERNING THE EVALUATION OF THE RISKS OF THE INVESTMENT AND ITS SUITABILITY FOR THEIR INDIVIDUAL REQUIREMENTS.

IN MAKING AN INVESTMENT DECISION IN RELATION TO THE UNITS, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE FUND AND THE UNITS AND THE TERMS OF THE PLACEMENT THEREOF, INCLUDING THE MERITS AND RISKS INVOLVED. INVESTMENT IN THE FUND WILL INVOLVE SIGNIFICANT RISKS DUE TO, AMONGST OTHER THINGS, THE NATURE OF THE FUND’S INVESTMENTS. INVESTORS SHOULD HAVE THE FINANCIAL ABILITY AND WILLINGNESS TO ACCEPT THE RISKS AND LIMITED LIQUIDITY, WHICH ARE CHARACTERISTICS OF THE INVESTMENT DESCRIBED HEREIN. CURRENTLY, THERE IS NO PUBLIC MARKET FOR THE UNITS OF THE FUND. HOWEVER, THE INVESTMENT COMPANY HAS DEVELOPED A LIQUIDITY MECHANISM THAT ALLOWS INVESTORS TO REDEEM THEIR UNITS AFTER 2 MONTHS FOLLOWING THE CLOSING DATE OF THE INITIAL OFFERING. IN THE SHORT TO MEDIUM TERM, THE INVESTMENT COMPANY INTENDS TO CREATE A SECONDARY MARKET FOR THE UNITS OF THE FUND BY WAY OF LISTING ON THE BAHRAIN STOCK EXCHANGE, THE KUWAIT STOCK EXCHANGE, OR ANY OTHER STOCK EXCHANGES IN THE REGION. SUCH LISTING IS NONETHELESS SUBJECT TO A NUMBER OF CONSIDERATIONS AS DESCRIBED IN THIS PROSPECTUS AND THEREFORE MAY NOT MATERIALIZE.

NO PERSON HAS BEEN AUTHORISED TO GIVE ANY INFORMATION CONCERNING THE INVESTMENT IN THE FUND OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS

PROSPECTUS, AND IF MADE OR GIVEN, SUCH INFORMATION OR REPRESENTATIONS MAY NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY OR ON BEHALF OF THE INVESTMENT COMPANY, GFH, KFIC AND QIB, THE FUND OR THE ADVISORS TO THE FUND. NO OFFERING LITERATURE OTHER THAN THIS PROSPECTUS WILL BE EMPLOYED IN THIS OFFERING OF THE UNITS.

THE DELIVERY OF THIS PROSPECTUS DOES NOT IMPLY THAT THE INFORMATION CONTAINED HEREIN IS CORRECT SUBSEQUENT TO THE DATE OF THIS PROSPECTUS. THIS PROSPECTUS CONTAINS CERTAIN "FORWARD-LOOKING" STATEMENTS AND INFORMATION RELATING TO THE FUND WHICH IS BASED ON THE BELIEFS OF THE INVESTMENT COMPANY, GFH, KFIC AND QIB AS WELL AS ASSUMPTIONS MADE BY AND INFORMATION CURRENTLY AVAILABLE TO THE INVESTMENT COMPANY, GFH, KFIC AND QIB. WHEN USED IN THIS PROSPECTUS, THE WORDS "ANTICIPATE", "BELIEVE", "ESTIMATE", "EXPECT", "INTEND" AND WORDS OR PHRASES OF SIMILAR IMPORT, AS THEY RELATE TO THE FUND, ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. SUCH STATEMENTS REFLECT THE CURRENT RISKS, UNCERTAINTIES AND ASSUMPTIONS RELATED TO CERTAIN FACTORS INCLUDING, WITHOUT LIMITATION, COMPETITIVE FACTORS, GENERAL ECONOMIC CONDITIONS, MARKET CONDITIONS, ONE TIME EVENTS, AND OTHER FACTORS DESCRIBED HEREIN, PARTICULARLY IN THE SECTION ENTITLED "PRINCIPAL RISK FACTORS". BASED UPON CHANGING CONDITIONS, SHOULD ANY ONE OR MORE OF THESE RISKS OR UNCERTAINTIES MATERIALISE OR SHOULD ANY UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE DESCRIBED HEREIN AS ANTICIPATED, BELIEVED, ESTIMATED, EXPECTED OR INTENDED. THE FUND, THE INVESTMENT COMPANY, GFH, KFIC AND QIB DO NOT INTEND TO UPDATE THESE FORWARD-LOOKING STATEMENTS.

NO PROFESSIONAL, FINANCIAL OR LEGAL ADVISOR OR ANY BAHRAINI GOVERNMENT AUTHORITY IDENTIFIED HEREIN OR ANY OTHER INDEPENDENT PARTY HAS INDEPENDENTLY VERIFIED OR ADVISED ON THE ACCURACY OR COMPLETENESS OF THIS PROSPECTUS, THE INFORMATION PRESENTED HEREIN, THE METHODS OF RAISING CAPITAL USED IN THIS PROSPECTUS, OR THE APPLICABLE LAWS OF ANY JURISDICTION. NEITHER DO ANY OF THE ABOVE ASSUME ANY RESPONSIBILITY FOR THE CONTENTS OF THE PROSPECTUS OR THE PERFORMANCE OF ANY OBLIGATIONS OF THE FUND. POTENTIAL INVESTORS ARE ADVISED TO SEEK THEIR OWN PROFESSIONAL ADVICE IN RELATION TO THE CONTENTS OF THIS PROSPECTUS.

THE PHOTOGRAPHS DEPICTED IN THE PROSPECTUS, EXECUTIVE SUMMARY, AND SUBSCRIPTION AGREEMENT, ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DO NOT REPRESENT IN ANY WAY WHATSOEVER ANY POTENTIAL INVESTMENT OPPORTUNITY, OR ASSETS, THAT THE FUND IS OFFERING TO INVESTORS FOR THE PURPOSES OF THIS OFFER.

THIS DOCUMENT DOES NOT CONSTITUTE, AND MAY NOT BE USED FOR THE PURPOSES OF, AN OFFER OR SOLICITATION BY ANY PERSON IN ANY JURISDICTION: (I) IN WHICH SUCH AN OFFER OR SOLICITATION IS NOT AUTHORISED; OR (II) IN WHICH THE PERSON MAKING SUCH AN OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO; OR (III) TO ANY PERSON TO WHOM IT IS UNLAWFUL OR UNAUTHORISED TO MAKE SUCH AN OFFER OR SOLICITATION.

THE UNITS OFFERED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), UNDER THE SECURITIES LAWS OF ANY U.S. STATE OR UNDER THE SECURITIES LAWS OR LAWS OF SIMILAR SECURITIES IMPORT OF ANY OTHER COUNTRY OR JURISDICTION. ANY OFFER, SALE, RESALE OR DELIVERY OF ANY OF THE UNITS IN THE U.S. OR TO ANY U.S. PERSON (AS DEFINED IN REGULATION UNDER THE ACT) WOULD CONSTITUTE A VIOLATION OF U.S. LAW UNLESS MADE IN COMPLIANCE WITH THE REGISTRATION REQUIREMENTS OF THE ACT OR PURSUANT TO AN EXEMPTION THEREFROM.

THIS PROSPECTUS HAS NOT BEEN REGISTERED AS A PROSPECTUS UNDER THE PUBLIC OFFER OF SECURITIES REGULATIONS 1995, AS AMENDED (THE "POS REGULATIONS") IN THE UNITED KINGDOM AND, ACCORDINGLY, THE UNITS MUST NOT BE OFFERED OR SOLD TO ANY PERSON IN THE UNITED KINGDOM EXCEPT IN CIRCUMSTANCES WHICH HAVE NOT RESULTED OR WILL NOT RESULT IN AN OFFER TO THE PUBLIC IN THE UNITED KINGDOM WITHIN THE MEANING OF THE POS REGULATIONS. THIS PROSPECTUS HAS NOT BEEN APPROVED AS A FINANCIAL PROMOTION FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 AND, ACCORDINGLY, THIS PROSPECTUS OR ANY OTHER DOCUMENT IN CONNECTION WITH THE ISSUE OR SALE OF THE UNITS MAY IN ANY EVENT ONLY BE COMMUNICATED, DISTRIBUTED OR ISSUED OR PASSED ON IN THE UNITED KINGDOM TO ANY PERSON OF A KIND DESCRIBED IN ARTICLE 19 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2001 OR TO A PERSON TO WHOM THIS DOCUMENT MAY OTHERWISE LAWFULLY BE COMMUNICATED, DISTRIBUTED OR ISSUED OR PASSED ON IN THE UNITED KINGDOM .

POTENTIAL INVESTORS ARE STRONGLY ADVISED TO READ THIS PROSPECTUS INCLUDING IN PARTICULAR THE SECTION HEADED "PRINCIPAL RISK FACTORS".

INVESTORS SHOULD BE AWARE THAT THE VALUE OF THE UNITS MAY DECREASE AS WELL AS INCREASE.

THE FUND IS REGISTERED IN BAHRAIN BUT SUCH REGISTRATION DOES NOT INVOLVE A DETAILED EXAMINATION OF THE MERITS OF THE FUND OR SUBSTANTIVE SUPERVISION OF THE INVESTMENT PERFORMANCE OR PORTFOLIO CONSTITUTION OF THE FUND BY THE KINGDOM OF BAHRAIN OR THE BAHRAIN MONETARY AGENCY.

THE MINISTRY OF COMMERCE OF THE KINGDOM OF BAHRAIN, THE BAHRAIN MONETARY AGENCY OR THE BAHRAIN STOCK EXCHANGE DO NOT TAKE ANY RESPONSIBILITY FOR THE ACCURACY OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE PERFORMANCE OF THE FUND, NOR SHALL THEY HAVE ANY LIABILITY TO ANY PERSON FOR ANY DAMAGE OR LOSS RESULTING FROM RELIANCE ON ANY STATEMENT OR INFORMATION CONTAINED HEREIN.

THERE IS NO FINANCIAL OBLIGATION OR COMPENSATION SCHEME IMPOSED ON OR BY THE KINGDOM OF BAHRAIN OR THE BAHRAIN MONETARY AGENCY IN FAVOR OF OR AVAILABLE TO THE INVESTORS OF THE FUND.

THE MINSITRY OF COMMERCE OF THE KINGDOM OF BAHRAIN, THE BAHRAIN MONETARY AGENCY OR THE BAHRAIN STOCK EXCHANGE DO NOT TAKE ANY RESPONSIBILITY FOR THE ACCURACY OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE PERFORMANCE OF THE FUND, NOR SHALL THEY HAVE ANY LIABILITY TO ANY PERSON FOR ANY DAMAGE OR LOSS RESULTING FROM RELIANCE ON ANY STATEMENT OR INFORMATION CONTAINED HEREIN.

THE CONCERNED AUTHORITIES IN THE STATE OF KUWAIT DO NOT TAKE ANY RESPONSIBILITY FOR THE ACCURACY OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE PERFORMANCE OF THE FUND. THE APPROVAL ISSUED FROM THE SUPERVISORY AUTHORITIES IN THE STATE OF KUWAIT TO THE PLACEMENT AGENT, KUWAIT FINANCE AND INVESTMENT COMPANY, IS ONLY IN RELATION TO THE PROMOTION OF UNITS IN THIS FUND IN THE STATE OF KUWAIT.

THIS PROSPECTUS HAS BEEN PREPARED IN BOTH THE ARABIC AND ENGLISH LANGUAGES AND, IN THE EVENT OF ANY DISCREPANCY OR AMBIGUITY BETWEEN THE TWO VERSIONS, THE PROVISIONS OF THE ENGLISH VERSION SHALL PREVAIL.

Table of Contents

GLOSSARY	6
PROFESSIONAL ADVISORS	12
EXECUTIVE SUMMARY	16
TERMS OF THE OFFER	21
SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS	25
THE FUND	28
EXPENSES & FEES RELATED TO THE FUND	34
MANAGEMENT OF THE FUND	36
PRINCIPAL RISK FACTORS	41
CONFLICTS OF INTEREST	44
TAXATION	45
ADDITIONAL IMPORTANT INFORMATION	46
CONTACT DETAILS	48

Glossary

Words and expressions not otherwise defined in this document have, unless the context otherwise requires, the following meanings:

“\$” or “US Dollar” or “US\$”	means the lawful currency for the time being of the United States of America
“Administrator”	means Gulf Clearing Company or such other entity appointed to act in such capacity from time-to-time by the Investment Company
“ADCB”	means Abu Dhabi Commercial Bank, which is a company registered under the laws of the United Arab Emirates and is licensed to conduct banking services
“Administration Agreement”	means the custody, transfer agent, administration, representative and registry agreement between Gulf Clearing Company and the Investment Company dated June 13, 2005 in relation to the Fund
“Applicant”	means any prospective investor that submits an Application to the Placement Agent in the manner specified in this Prospectus and the expression “Applicants” means more than one Applicant
“Articles”	means the Articles of Association of the Investment Company
“Auditors”	means Ernst & Young, Bahrain or such other entity appointed to act in such capacity from time-to-time by the Investment Company
“Bahrain”	means the Kingdom of Bahrain, currently a member of the Gulf Cooperation Council
“BD”	means Bahraini Dinar, Bahrain’s lawful currency for the time being
“BMA”	means the Bahrain Monetary Agency
“Board of Directors” or “Board”	means the board of directors from time-to-time of the Investment Company, including any duly constituted and authorised committee thereof
“Business Day”	means any day (other than (1) a Friday, (2) a day on which banks in Manama, Bahrain, or (3) a day the GCC stock exchanges, are authorized or obligated to close) on which clearing banks in Manama, Bahrain are open for a full range of banking transactions and the GCC stock exchanges are open for a full range of dealing transactions

“Closing Date”	means November 2, 2005 or such later date as determined by the Directors (subject to obtaining the necessary approvals from the relevant authorities) as the closing date for submitting applications for subscriptions for the Units. The Placement Agents shall only close the subscription for Units if aggregate subscriptions total a minimum of US\$25 million.
“Custodian”	means Gulf Clearing Company or such other entity appointed to act in such capacity from time-to-time by the Investment Company
“Custody Agreement”	means the custody, transfer agent, administration, representative and registry agreement between Gulf Clearing Company and the Investment Company dated June 13, 2005 in relation to the Fund
“Directors”	means the members of the Board of Directors of the Investment Company
“Fiscal Year”	means the fiscal period commencing on 1 January and ending on 31 December in each year
“Fund”	means Al-Basha’er GCC Equity Fund, an open-ended collective investment scheme established by the Investment Company and approved by the BMA with the principal purpose of investing in Shari’ah compliant equity securities that are issued and listed in the GCC. The Fund may also invest in shares of non-listed Shari’ah compliant companies up to 10% of it’s Net Asset Value
“GCC”	means member countries of the Gulf Cooperation Council for the time being including the Kingdom of Saudi Arabia, Kingdom of Bahrain, the Sultanate of Oman, the State of Qatar, the State of Kuwait and the United Arab Emirates
“GFH”	means Gulf Finance House, which is a Bahraini public joint stock company and registered under the laws of Bahrain and listed on the Bahrain Stock Exchange and Kuwaiti Stock Exchange. It is registered with the BMA and licensed to conduct investment banking services
“GFHCB”	means Gulf Finance House Commercial Bank, which is a company registered under the laws of the Kingdom of Bahrain. It is registered with the Bahrain Monetary Agency and licensed to conduct banking services

“Gulf Bank” or “GB”	means Gulf Bank, which is a company registered under the laws of the State of Kuwait and licensed to conduct banking services
“Hurdle Rate”	means the expected annual growth rate of 10% in the NAV as stipulated “EXPENSES & FEES RELATED TO THE FUND - Investment Management Fee”
“Investment Committee”	has the meaning given to it in the section “MANAGEMENT OF THE FUND - Investment Committee”
“Investment Company”	means the Al Khaleej Funds & Investment Company, a closed shareholding company incorporated and registered under the laws of Bahrain which establishes funds and schemes which are marketed to investors
“Investment Managers”	means GFH and/or KFIC or such other entity/entities appointed to act in such capacity from time-to-time by the Investment Company
“Investment Management Agreement”	means the investment management agreement between GFH, KFIC and the Investment Company, dated June 13, 2005 in relation to the management of the Fund
“Investment Management Fee”	means the annual investment management fee of 2.25% of the Fund’s NAV as stipulated in the section headed “EXPENSES & FEES RELATED TO THE FUND - Investment Management Fee”
“Investors”	means such selected persons or institutions whose offer to subscribe for the Units pursuant to the Subscription Agreement have been accepted by the Investment Company; the term can be used interchangeably with the term Units Holders
“KFIC”	means the Kuwait Finance & Investment Company, which is a Kuwaiti shareholding company incorporated and registered under the laws of Kuwait and listed on the Kuwaiti Stock Exchange. It is registered with the Central Bank of Kuwait and licensed to conduct both finance and investment services
“KSA” or “Saudi Arabia”	means the Kingdom of Saudi Arabia, currently a member of the Gulf Cooperation Council
“Kuwait”	means the State of Kuwait, currently a member of the Gulf Cooperation Council

“Memorandum of Association”	means the memorandum of association of the Investment Company
“MoC”	means the Bahrain Ministry of Industry and Commerce
“Net Asset Value” or “NAV”	means the consolidated or per Unit NAV of the Fund, as the context may require, calculated by the Administrator in accordance with generally accepted International Accounting Standards (“IAS”) and as set out in the section titled “SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Determination of the NAV”
“Offer”	means the initial invitation made by the Investment Company to prospective investors to offer to subscribe to the Units
“Offer Period”	means the period commencing from October 9, 2005 and ending on the Closing Date November 2, 2005
“Oman”	means the Sultanate of Oman, currently a member of the Gulf Cooperation Council
“Performance Fee”	means the fee to be paid to the Investment Managers in the event the Hurdle Rate is exceeded, as stipulated in the section headed “EXPENSES & FEES RELATED TO THE FUND - Investment Managers’ Fees”
“Placement Agents”	means GFH, KFIC, QIB, GFHCB, ADCB and GB or such other entity/entities appointed to act in such capacity from time-to-time by the Investment Company; GFH, KFIC, QIB, GFHCB, ADCB and/or GB shall be entitled to sub-contract and/or assign its rights and obligations under the Placement Agency Agreement to any third party
“Placement Agency Agreement”	means the respective individual placement agency agreement between GFH, KFIC, QIB, GFHCB, ADCB, GB and the Investment Company dated June 13, 2005 in relation to the Fund
“Portfolio Management Team”	has the meaning assigned to it in the section titled “MANAGEMENT OF THE FUND - The Portfolio Management Team”
“Principal Documents”	has the meaning given to it in the section headed “ADDITIONAL INFORMATION - Principal Documents”
“Prospectus”	means this Prospectus

“Qatar”	means the State of Qatar, currently a member of the Gulf Cooperation Council
“QIB”	means Qatar Islamic Bank, which is a company registered under the laws of the State of Qatar and listed on the Doha Stock Exchange. It is registered with the Qatari Central Bank and licensed to conduct investment banking services
“Registrar”	means Gulf Clearing Company or such other entity appointed to act in such capacity from time-to-time by the Investment Company
“Registrar Agreement”	means the share custody, transfer agent, administration, representative and registry agreement between Gulf Clearing Company and the Investment Company dated June 13, 2005 in relation to the Fund
“Representative”	means Gulf Clearing Company or such other entity appointed to act in such capacity from time-to-time by the Investment Company
“Representative Agreement”	means the share custody, transfer agent, administration, representative and registry agreement between Gulf Clearing Company and the Investment Company dated June 13, 2005 in relation to the Fund
“Shari’ah Investment Guidelines”	means the investment guidelines stipulated by the Shari’ah Supervisory Board as set out in the section headed “THE FUND - Shari’ah Investment Guidelines”
“Shari’ah Supervisory Board”	means the Fund’s independent Shari’ah supervisory board as set out in the section titled “MANAGEMENT OF THE FUND - Shari’ah Supervisory Board”
“Subscription Agreement”	means the irrevocable and unconditional offer by an Applicant to subscribe for Units as accepted by the Investment Company in the specified format
“Subscription Fee”	means the subscription fee of up to 3% of the Subscription Amount as stipulated in the section headed “EXPENSES & FEES RELATED TO THE FUND - Subscription Fee”
“Target Subscription”	means the targeted initial fund size of 40,000,000 units of US\$10 each, totaling US\$400,000,000

“UAE”	means the United Arab Emirates, currently a member of the Gulf Cooperation Council
“Units”	means the units to be issued by the Investment Company in the manner described in this Prospectus
“Unit Holder”	means any person, firm or company who or which holds Units and whose name appears as the holder of those Units at the same time in the Units Holders Register and the expression “Unit Holders” means more than one Unit Holder
“Unit Holders Register”	means the register held and maintained by or on behalf of the Investment Company in which the name and address of each Unit Holder is entered
“US”	means the United States of America
“Transfer Agent”	means Gulf Clearing Company or such other entity appointed to act in such capacity from time-to-time by the Investment Company
“Transfer Agency Agreement”	means the transfer agency agreement between Gulf Clearing Company and the Investment Company dated June 13, 2005 in relation to the Fund
“Valuation Date”	means a Business Day in which a determination of the NAV of the Fund takes place.

Professional Advisors

Fund Sponsors, Investment

Managers & Placement Agents **Gulf Finance House, Bahrain**

Established in Bahrain on October 16, 1999 as an Islamic investment bank, Gulf Finance House (“GFH”) plays an active role in providing Shari’ah-compliant products and services. GFH’s strong, diversified shareholder base ensures participation in profitable opportunities in selected markets, which is supported by opportunities derived through affiliations with reputed financial institutions in other markets.

A primary aim of GFH is to move away from excessive concentration on low-risk, short-term instruments through innovative products with higher risk/return ratios developed by experienced Islamic banking professionals, such as infrastructure financing and private equity investments within the Arabian Gulf and the wider Middle East and North Africa.

Kuwait Finance & Investment Company, Kuwait

Kuwait Finance & Investment Company (“KFIC”) is a Kuwaiti shareholding company incorporated under the Commercial Company Law No.15 of 1960 and amendments thereto. The company is listed on the Kuwaiti Stock Exchange and is registered with the Central Bank of Kuwait as an Investment Company licensed to conduct both finance and investment services.

KFIC was incorporated on March 27, 2000 under the name Kuwait Financing Services Company with a license to conduct financing services only. During 2003, KFIC underwent a change in ownership structure and business strategy, aiming to provide investment services to augment its flourishing financing services. This objective was realized in April 2004 when its application to add investment services was approved by the Central Bank of Kuwait.

The company is backed by an active and diverse shareholder base that come from the highest echelon of the business community. The Management team is comprised of reputable professionals with a long track record of Investment experience in the GCC.

Sponsor and Placement Agent **Qatar Islamic Bank, Qatar**

Qatar Islamic Bank (“QIB”) is a Qatari shareholding company established in 1982 as a financial and banking institution with the main objective of providing Islamic Banking services and investments in compliance with the Shari’ah principles. The main aim of QIB is to contribute to the development of the national economy. It has also become one of the most reputable financial institutions in the region.

QIB maintains a lead position in the local, regional and international banking sectors by providing developed and sophisticated banking services using a wide branch network across the State of Qatar. It also endeavours to satisfy its customer needs by providing various Islamic Products that are in compliance with Islamic Shari'ah principles.

QIB adopts a steady and a clear strategy, which takes into consideration the continual modernization of its banking and investment services using the latest banking technology. In this regard, QIB has recently completed a pioneer scheme to modernize and automate all its branches using a developed computer network, which satisfies even further the needs of its customers. QIB has also established Islamic Investment funds (like Bader Real Estate Fund) that were successful in achieving capital appreciation for investors.

Placement Agents

Gulf Finance House Commercial Bank

Capitalised at US\$80 million, GFHCB is positioned as a niche Islamic private bank, offering investment and financing products to high net worth individuals in Bahrain. GFHCB is a 100% subsidiary of Gulf Finance House Investment Bank, and has the objective of widening the activities and enhancing the customer and shareholder value of the group. The implications of this are a strategic positioning which both takes advantage of a market opportunity and is synergistic to the GFH business model, building on the performance of the overall group.

Abu Dhabi Commercial Bank, UAE

Abu Dhabi Commercial Bank ("ADCB") was formed in 1985 as a public shareholding company with limited liability, upon the merger of Emirates Commercial Bank and Federal Commercial Bank with Khaleej Commercial Bank, which was established in 1975.

ADCB's share capital is US\$340 million. The Government of Abu Dhabi through Abu Dhabi Investment Authority (ADIA) holds 65% of the paid up capital, while the balance 35% held by UAE Institutions and Nationals. The Bank in terms of Authorised as well as Paid up Capital is the largest in the country and in terms of Shareholders' Fund; it is among the top five. In additions, in terms of net profit, it was one of the highest rated local bank during 1998, 1999, 2000, 2001 and second during 2002. Total Shareholders' Funds as of December 31, 2002 stood at US\$1197 million.

ADCB efficiently handles payment instructions, Letter of Credit and Guarantees through a network of 36 branches in UAE and 2 branches in India (Mumbai and Bangalore). ADCB also offers Credit Card, Investment, Trade and Project Financing Services.

Gulf Bank, Kuwait

Gulf Bank was one of the first Kuwaiti banks to be established after independence of the State of Kuwait. It was incorporated by Amiri Decree No.44 on 23rd November 1960 and commenced business on 5th October 1961, under the supervision of the Central Bank of Kuwait.

Gulf Bank is the second largest commercial bank in Kuwait, and has shown a steep change in performance since 1999, due to change of management and management structure. Gulf Bank is one of the top rated banks in the region with an 'A' rating from Capital Intelligence, one of the top emerging market rating agencies in the world and strong ratings from the world's top international rating agencies, namely: 'A-' (Fitch), 'A2' (Moody's) and "BBB+" (Standard and Poor's). The positive rating reflects the Bank's sound profitability, good asset quality, stable retail deposit funding and adequate capitalization. The main business of the bank is Retail Banking, Corporate Banking, Treasury & Investment Management and International Banking. The IT support is rendered by the Support Services Group. Gulf Bank has continued to offer customers with a wider product range through a broader distribution channel mix that includes 34 branches and ATM networks, internet banking, online trading, wireless banking and telephone banking.

Shari'ah Supervisory Board

Shaikh Nizam Moh'd Saleh Yaquby

- Board Member of the Shari'ah supervisory board, Bahrain Islamic Bank
- Board and Executive Member of the Shari'ah supervisory board, Abu Dhabi Islamic Bank
- Board Member of the Dow Jones Islamic Index
- A Shari'ah board member of a number of other Islamic Banks
- His works have appeared in the following publications: Risalah fi al-Tawbah, Tahqiq al-Amal fi Ikhraj Zakat al-Fitr bi al-Mal

Dr. Abdul Sattar Abdul Kareem Abu Ghuddah

- Member of the Islamic Fiqh Academy
- Member of Accounting and Auditing Organization of the Islamic Financial Institutions, Bahrain

- Member of the Shari'ah Supervisory Board of a number of Islamic banks and financial institutions
- Holds a PhD in Islamic Law and has published many books on Islamic Financial transactions.

**Custodian, Transfer Agent,
Registrar & Administrator**

Gulf Clearing Company, Bahrain

Gulf Clearing Company ("Gulf Clearing Company"), Bahrain is a subsidiary of Gulf Clearing Company, Kuwait. Gulf Clearing Company, Kuwait was incorporated in 2001 while Gulf Clearing Company, Bahrain was established in 2003.

Gulf Clearing Company is one of the leading fund custody and administration service providers in the Kuwaiti and Bahraini markets. Total assets under custody currently exceed US\$3 billion and these are expected to hit the US\$4.5 billion mark by the end of year 2004.

Gulf Clearing Company fund custodian services cover different lines of conventional and Islamic investments. As one of the largest service registrars in Kuwait, it provides a wide range of associated services. In the GCC, it has developed the GCC Fund Custody View, an internet-based application that provides a timely access to the position of trades, assets held in safekeeping and custody accounts.

Legal Advisors

Haya Rashed Al Khalifa Law Firm, Bahrain

Haya Rashed Al Khalifa Law Firm is one of the leading law firms in Bahrain. Backed by over 20 years of experience, the firm has earned an excellent reputation for the quality of its legal advice. The firm offers a full range of legal services and delivers a professional, responsive and cost-effective service tailored to the needs of its clients.

Haya Rashed Al Khalifa Law Firm is retained by many Bahraini governmental departments and institutions, international and local banks, investment advisers, international accountancy firms, multinational companies and high net worth individuals from around the world. The profile of the firm's clients and practice has resulted in excellent contacts and working relationships with the Bahraini government and leading international law firms.

Auditors

Ernst & Young, Bahrain

A global organization which, apart from accounting and auditing, provides a range of other services, including tax reporting and operations, tax advisory, business risk services, transaction advisory, human capital services, and legal services.

Executive Summary

The following summary is qualified in its entirety by the detailed information included elsewhere in this Prospectus and should be read in conjunction with the full text of this document.

The Offer	The Offer is an invitation to prospective investors to offer to subscribe for the Units, subject to the terms of this Prospectus and the Subscription Agreement. The Investment Company is seeking to raise an initial amount of US\$400,000,000 by inviting prospective investors to offer to subscribe for 40,000,000 Units at US\$10 each, following which additional Units in the Fund will be offered on a continuous basis monthly. The Subscription Amount and the Subscription Fee must be paid in full upon subscription.
The Fund	<p>The Fund is an open-ended, investment vehicle.</p> <p>The Fund has been established by the Investment Company, which is established under the laws and regulations of Bahrain and has the principal purpose of creating and managing collective investment schemes including the Fund.</p>
The Investment Company	The Al Khaleej Funds & Investment Company, a Bahraini mutual fund investment company approved by the Bahrain Monetary Agency and incorporated as a closed joint stock company with Commercial Registration No. 56962, whose registered address is 14th Floor Al Salam Tower, P.O. Box 10006, Manama in Bahrain.
The Investment Objectives	The objective of the Fund is to achieve medium to long-term capital appreciation through investing primarily in issued securities of companies listed on stock exchanges in GCC countries which satisfy the Shari'ah Investment Guidelines. The Fund may also invest in shares of non-listed Shari'ah compliant companies up to 10% of its Net Asset Value.
The Investment Managers	GFH and KFIC will jointly act as the Investment Managers of the Fund pursuant to the terms and conditions of the Investment Management Agreement signed between the Investment Company and the Investment Managers.
Fund Sponsors and Placement Agents	Each of GFH, KFIC and QIB will act as Placement Agents of the Fund pursuant to the terms and conditions of their respective Placement Agent Agreements signed with the Investment Company.
Placement Agents	Each of GFHCB, ADCB and GB will act as Placement Agents of the Fund pursuant to the terms and conditions of their respective Placement Agent Agreements signed with the Investment Company.

Custodian, Administrator, Registrar and Transfer Agent	Gulf Clearing Company or such other entity appointed to act in such capacity from time-to-time by the Investment Company.
Auditor	Ernst & Young, Bahrain or such other entity appointed to act in such capacity from time-to-time by the Investment Company.
Currency	The Fund is denominated in US Dollars.
Life & Liquidation of the Fund	<p>Liquidation of the Fund, whether voluntary or otherwise, requires the prior approval of the BMA and the MoC, as stipulated in the Memorandum and Articles of Association of the Fund.</p> <p>The Fund has been established for a period of 25 years but the Directors may, at any time, subject to the prior approval of the BMA, propose to dissolve the Fund at an extraordinary general meeting of shareholders.</p>
Minimum Subscription	The minimum subscription by an Applicant for the Units is US\$10,000 and any additional amounts subscribed for shall be in multiples of US\$3,000.
Payment of Capital	Each Applicant shall pay the Subscription Amount plus the Subscription Fee by bank transfer in accordance with this Prospectus and the Subscription Agreement. The Investment Company reserves the right to reject, for whatever reason or for no reason at all, any offer to subscribe for the Units.
Offer Period	The offer to offer to subscribe for Units in the Fund pursuant to the Prospectus and the Subscription Agreement will commence on October 9, 2005 and will terminate on November 2, 2005.
Subsequent Subscriptions	Subsequent to the Offer, there will be continuous offering of Units on Valuation Days based on the NAV per Unit.
Redemption	Units will not be redeemed during the 2 months following the Closing Date. Thereafter, upon application to the Transfer Agent in writing and subject to ten Business Days notice, Units will be redeemed by the Fund on the next Valuation Day at the NAV per Unit prevailing.
Distributions	At the sole discretion of the Investment Managers a portion of the net investment income (income from dividends and profit from short-term Islamic products) may be distributed as dividends on the Units on an annual basis. Such dividends may be in the form of cash or additional units in the Fund.

Subscription Fee	An amount up to 3% of the Subscription, calculated based on the participation level, shall in addition to the Subscription Amount be paid to the Placement Agents. Prospective investors are referred to the section headed “EXPENSES & FEES RELATED TO THE FUND” for further details.
Investment Management Fee	<p>2.25% per annum of the NAV of the Fund accruing monthly and shall be payable to the Investment Managers quarterly in arrears.</p> <p>A Performance Fee may also be payable, condition to the Investors achieving the 10% per annum Hurdle Rate. The Performance Fee is equal to 10% of the appreciation in the NAV of the Fund which exceeds the 10% per annum Hurdle Rate. Such fees shall be calculated and accrued on a monthly basis using the weighted average units in issue and shall be payable to the Investment Managers at the end of each financial year. If the Hurdle Rate is not achieved, the Investment Managers will not receive the Performance Fee.</p>
Custody, Administrator, Transfer Agent and Registrar Fee	<p>An annual fee, calculated at the following rates of the NAV of the Fund, shall be paid to Gulf Clearing Company as Custodian, Administrator, Registrar and Transfer Agent of the Fund quarterly in arrears:</p> <ul style="list-style-type: none"> a) 0.125% for initial US\$100 million NAV of the Fund. b) 0.1% for initial value of the Fund if the NAV of the Fund is between US\$100 million and US\$200 million. c) 0.075% for initial value of the Fund if the NAV of the Fund is more than US\$300 million. d) If the annual fees as set out above fall below US\$50,000, the annual fees for the services provided by Gulf Clearing Company will be subject to a fixed minimum fee of US\$50,000 per annum.
Other Fees and Expenses	The Fund will pay other expenses incurred in connection with the operation of the Fund including, but not limited to, auditing fees, Shari’ah advisory fees, the annual listing fees, and brokerage costs and other transaction related expenses. The Fund will also pay a share of the annual expenses related to the registration and other expenses due to supervisory authorities of Al Khaleej Funds & Investment Company. The accounting treatment for such expenses will depend on their nature and will either be accrued for the calculation of the NAV or amortized. These pre-incorporation expenses are capped at

US\$150,000, which will be amortized over a period of 6 months and the annual expenses are estimated at \$25,000.

Investment Features

Several factors are conspiring to create an increasingly attractive investment climate in the GCC region. Foremost among these factors is the strong economic performance of the region on the back of resurgent oil prices, generally lower interest rates, good financial results by most listed banks and companies, growing discipline and transparency in the market, reduced geopolitical uncertainties, and investor concerns about the negative performance of the US and other major stock markets over the last three years. Arab investors, like many wealthy investors around the world, have been diversifying their investments in response mainly to the tumbling of the international equity markets - the Fund stands ready to attract this capital back to the home front.

Faced with the challenges of growth and globalization, the six members of the GCC are, to varying degrees, implementing comprehensive structural reforms over the medium term that will facilitate sustained growth and reinforce the investment environment in the region. The strategy includes the following elements:

- Fiscal consolidation and reforms aimed at enhancing the efficiency of the entire tax system, improving the public expenditure management systems so that more expenditures can be redirected toward capital formation, reducing subsidies, and insulating the economy against terms of trade shocks;
- Privatization of state-owned enterprises and the expansion of the private sector through legal and institutional reforms;
- Liberalization of restrictions on foreign capital inflows so that the needed capital and associated technologies to support privatization and private sector development could be made available. Of particular concern is the constraint on investment environment posed by the relatively undeveloped capital market;
- Labor market reforms to prevent unemployment pressures from derailing the reform effort; and
- Closer integration of the GCC economies and coordination of policies.

There is evidence that the foregoing positive developments in the region are encouraging local, Arab and international investors. Nevertheless, there is no assurance that these trends will continue into the future.

Investors are strongly advised to carefully review the section headed “PRINCIPAL RISK FACTORS” prior to making an investment decision.

Principal Risk Factors

Investment in the Fund will involve certain risks and should only be made by Applicants who understand the risks involved and are able and willing to withstand the risk of the loss of the entire amount invested. No assurance can be given that the Fund’s investment objective will be achieved. Prospective investors are referred particularly to the section headed “PRINCIPAL RISK FACTORS”.

Identification

In accordance with the Bahraini legal and regulatory requirements and those requirements of any jurisdiction into which an offer to subscribe for Units is made, Applicants, whether corporate or individuals, will be required to present (amongst other things) suitable forms of identification as determined by the relevant authorities at the time of making an application to subscribe for the Units.

Governing Law

The Fund shall be governed by and construed in accordance with the Laws of Bahrain and the Principles of Supervision, Operation and Marketing of Collective Investment Schemes under BMA Circular No. OG/356/92 of November 18, 1992, as well as by all relevant laws and regulations of other applicable countries.

This Offer and the Subscription Agreements will be governed by, and construed in accordance with, the laws of Bahrain. Each Investor irrevocably submits to the jurisdiction of the Bahraini courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

Terms of the Offer

The Offer is intended to provide prospective investors with the opportunity to invest in the Units of the Fund, subject to the terms of this Prospectus and the Subscription Agreement.

Applicants are invited to offer to subscribe for 40,000,000 Units at US\$10 each, equating to an initial offer of US\$400,000,000. The Investment Company may issue additional Units from time to time either as part of, or outside of this Offer.

The Directors of the Investment Company reserve the right to modify the terms and conditions of this Offer prior to the Closing Date. In addition, the Investment Company reserves the right to alter the Target Subscription.

Offer Period

The offer to offer to subscribe for Units in the Fund pursuant to the Prospectus and the Subscription Agreement will commence on October 9, 2005 and will terminate on November 2, 2005.

The Directors of the Investment Company reserves the right to change the Offer Period at any time subject to obtaining the prior approvals from the relevant authorities.

Minimum Subscription

The minimum subscription by an Applicant is US\$10,000, representing 1,000 Units. Additional subscriptions will only be accepted for amounts in multiples of US\$3,000.

Subscription Agreement and Conditions

Full details of the procedures to apply for Units in the Fund are contained in the Subscription Agreement and in this Prospectus. It should be noted that:

- the Subscription Agreement is irrevocable and may not be withdrawn;
- the Subscription Amount shall be payable in the manner determined by and at the time(s) set out in the Subscription Agreement and no Units will be issued until the Subscription Amount in respect of the relevant number of Units has been paid in full;
- the Units shall be issued to Investors by the Investment Company in accordance with the provisions of the Subscription Agreement; and
- the Subscription Amount will initially be deposited in an Islamically acceptable profit bearing account with the Investment Managers or the Placement Agents or any duly appointed receiving agent (the "Closing Account"). If, for whatever reason, the whole or part of a prospective investor's Subscription Amount is not accepted, all affected Subscription Amounts, together with the whole or part of the Subscription Fee thereon (as the case may be), will be repaid to the prospective Investor with or without revealing such reasons.

The basis for allocating the Units in the Fund will be determined at the sole discretion of the Investment Company. The Investment Company also reserves the right to reject in whole or in part and/or scale down any application to subscribe for Units or any part thereof, for any reason whatsoever and without being obliged to provide any reason and to terminate the Offer in respect of the Units at any time prior to the Closing Date. Applicants must recognize the risk that an application may not have been accepted to the extent anticipated or at all.

The Investment Company may issue additional Units from time to time either as part of or outside of this Offer without affecting the rights of the existing shareholders.

Details of Subscription

Applicants in the Fund must deliver to the Placement Agents' principal office by hand, post, or facsimile (with original by post) a signed Subscription Agreement evidencing their commitment to invest in the Units of the Fund. The signed Subscription Agreement should be received no later than the Closing Date and accompanied by the Subscription Amount and the Subscription Fee to be deposited in the manner set out below.

If the Subscription Agreements evidencing irrevocable commitments to subscribe for aggregate net amount equal to or in excess of US\$400,000,000 are received at any time during the Offer Period, the Investment Company may, by a written acceptance notice, allocate the rights to the Units among prospective Investors in such manner and amounts as the Investment Company in its absolute discretion shall determine.

The NAV of the Fund must reach US\$5 million no later than 6 months after the commencement of the Fund. In the event that the NAV fails to reach this amount within this 6 month period, or falls below this amount at any time thereafter, the BMA may require the Fund to be wound up, or require other action to be taken, in accordance with its instructions.

Payment of Subscription Amount and the Subscription Fee

Each Applicant shall pay the entire Subscription Amount and the Subscription Fee in accordance with this Prospectus and the Subscription Agreement. At the time of submission of the Subscription Agreement, the Placement Agents will receive from each Applicant the entire Subscription Amount and the Subscription Fee.

Money Laundering

It is a term of the Offer that the Placement Agents and the Investment Company are entitled to require, at their absolute discretion, verification of identity from any prospective Investor for Units in the Fund including, without limitation, any Investor who either (i.) tenders payment drawn on an account in the name of a person or persons other than the Investor or (ii.) appears to the Investment Company to be acting on behalf of some other person. Pending the provision of satisfactory evidence to the Placement Agents and the Investment Company as to the identity of the Investor and/or any person on whose behalf the Investor appears to be acting, the Placement Agents and the Investment Company may, at their absolute discretion, retain the Subscription Agreement lodged by an applicant and/or other remittance

relating thereto and/or not enter the Investor on the register of members or issue any certificate in respect of the Units allotted to the applicant.

If verification of identity is required, this may result in a delay with an application relating to and/or subsequent issue of the Units thereunder. The Placement Agents and the Investment Company reserve the right, at their absolute discretion, to reject any Subscription Agreement and/or subsequent issue of Units thereunder in respect of which the Placement Agents and the Investment Company consider that, having requested verification of identity, they did not receive satisfactory evidence of such identity by such time as may be specified in the request for verification of identity or, in any event, within a reasonable period of time. In the event of a Subscription Agreement and/or subsequent issue of Units thereunder being rejected in any such circumstances, the Placement Agents and the Investment Company reserve the right at their absolute discretion, but without obligation, to reject any Subscription Agreement relating thereto (in which event the money payable or paid in respect of the application will be returned without profit share to the account of the bank from which such sums were originally debited) and/or to endeavour to procure other subscribers for the Units in question (but in each case without prejudice to any rights the Placement Agents and the Investment Company may have to take proceedings to recover in respect of loss or damage suffered or incurred by them as a result of the failure to produce satisfactory evidence). Notwithstanding the foregoing, the Placement Agents and the Investment Company reserve the right to request, at any time prior to and following the allotment of the Units, an Investor to provide all such information as they may reasonably require to comply with any "know your customer" obligations in any jurisdiction which are binding upon them.

Neither the Placement Agents and the Investment Company nor any third party appointed as receiving agent shall be responsible or liable for any loss or damage (whether actual or alleged) arising from the election by the Placement Agents and the Investment Company or any receiving agent to treat a Subscription Agreement lodged by any applicant as invalid or to terminate any such Subscription Agreement as a result of the Placement Agents and the Investment Company or any third party appointed by the Placement Agents and the Investment Company as receiving agents not having received satisfactory evidence as to the identity of the applicant within a reasonable period of time following the request for verification of identity.

Acceptance

The Investment Company may allocate, at its own discretion, an amount less than the subscription requested (or reject a subscription in its entirety) and return payments as balance payments.

Each Subscription Agreement shall be deemed effective when it is accepted by the Investment Company. Subject to the foregoing, the lodging of the Subscription Agreement will constitute an irrevocable commitment by the Investor to pay up in full the Subscription Amount and Subscription Fee due, pursuant to the Subscription Agreement. A photocopy of the executed Subscription Agreement will be returned to each Investor as an acknowledgement of receipt. The Investment Company shall retain the original in such manner as it sees fit from time to time.

The Units will be registered in the Unit-Holders' Register as soon as practicable and in the name of the Investors whose subscriptions are accepted and in relation to which the Subscription Amounts have been paid. Investors will be provided with issue receipts, in lieu of share certificates, as evidence and proof of their subscription.

Governing Law

This Offer and the Subscription Agreements will be governed by, and construed in accordance with, the laws of the Kingdom of Bahrain. Each Investor irrevocably submits to the jurisdiction of the Bahraini courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

Subsequent Subscriptions and Redemptions

Subscription

Subsequent to the Offer, there will be continuous offering of Units on Valuation Days based on the NAV per Unit. The minimum initial subscription for Units in the Fund is US\$10,000. Additional subscriptions will be in multiples of US\$3,000.

A prospective investor is encouraged to obtain a copy of the Fund's current Prospectus and the latest available financial reports prior to submission of a Subscription Agreement for subscription. Only Subscription Agreements received prior to the determination of the Fund's NAV will qualify for subscription on that Valuation Day. Subscription Agreements received after the determination of the NAV will automatically qualify for subscription on the next Valuation Day unless written instructions to the contrary are received by the Transfer Agent from the subscriber at least seven Business Days prior to the next Valuation Day.

Subscription Agreement

Prospective investors will be required to complete and sign the Subscription Agreement, a copy of which is enclosed with this Prospectus. The completed Subscription Agreement should be sent to the Administrator or its delegate, or an authorized Placement Agent who should receive it at least five Business Days prior to the relevant Subscription Day (or such later time as may be agreed by the Directors of the Fund at their sole discretion). Prospective investors will likewise have to arrange for payment and the required documentation in accordance with the instructions set out in the Subscription Agreement and elsewhere in this Prospectus.

Subscription Price

Subsequent to the Offer, Units will be issued at a price equal to the NAV per Unit as determined on the relevant Valuation Day as stipulated in the sections headed "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Determination of NAV" and "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Valuation Day".

All such subscriptions will be subject to a Subscription Fee of up to 3% of the net subscription amount, payable upon subscription. Currently, there are no subscription related duties, taxes and stamp duties to be paid but, should there be any such additional payments, the issue price may be increased accordingly.

Valuation Day

The first Business Day of every calendar month shall be a Valuation Day. The Investment Managers may also determine additional days as Valuation Days, which must be Business Days subject to the approval of the regulatory authorities as stipulated in the section headed "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Suspension of Subscription and Redemption of Units" and "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Listing and Transfer of Units".

Determination of the NAV

The NAV will be determined at the close of business on each Valuation Day. The NAV per Unit will be calculated by the Administrator in accordance with IAS using the formula: (a) the total assets of the Fund less all liabilities, reserves and contingencies (including taxes and expenses) divided by (b) the total number of outstanding Units of the Fund prior to such Valuation Day. The assets of the Fund are separate from the assets of the Investment Company and from the assets of similar collective investment schemes created or marketed by the Investment Company.

Normally traded securities shall be valued at the last available closing price in the month immediately preceding Valuation Day at which such security traded unless such price is not representative. In respect of a security for which a representative price is not readily available or is not regularly traded, value shall be based on estimated realizable value. For other types of assets the Administrator shall determine the method of valuation.

The NAV of the Fund and the Units will be expressed in US Dollars. All assets and liabilities denominated in a currency other than US Dollars shall be estimated in US Dollar terms at the last available closing exchange rate in the month immediately preceding Valuation Day.

Redemption

The Fund will not redeem Units during the 2 months following the Closing Date. Thereafter, upon application to the Transfer Agent in writing and subject to ten Business Days notice, Units will be redeemed by the Fund on the next Valuation Day at the NAV per Unit prevailing then (as stipulated in the section titled "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Redemption Price"). The redemption request must include the Unit Holder's name, account number as registered with the Fund, amount to be redeemed and payment instructions. Payment will only be made to the Unit Holder or institutional distributor of record; payment to a third party will not be made. Payments of redemption proceeds will be in US Dollar not later than 10 business days after the relevant Valuation Day. Any bank transfer or clearing charges shall be borne by the redeeming Unit Holder. Minimum redemption is US\$10,000, however if the NAV of the Unit Holder's is less than US\$10,000, then the Investment Manager may redeem all outstanding Units of the redeeming Unit Holder without notice.

If applications for redemption exceed 10% of the number of outstanding Units, the Fund Company may restrict redemption to 10% of outstanding Units and allot redemption pro rata among applicants after fully meeting applications for redemption that are less than a certain minimum amount to be determined by the Fund Company. Applications for redemption that are not fully satisfied may be submitted for the next Valuation Day. Under certain exceptional circumstances redemption may be suspended as stipulated in the section headed "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Suspension of Subscription and Redemption of Units".

Redemption Price

The redemption price for Units in each offering subsequent to the Offer will be equal to the NAV per Unit as determined on the relevant Valuation Day as stipulated in the section headed "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Determination of NAV".

Suspension of Subscription and Redemption of Units

The Fund may temporarily suspend the determination of the NAV per Unit and, accordingly, the subscription and redemption of Units in the event that any of the following events occur:

- when any stock exchange on which a substantial portion of the Fund's investments are quoted or dealt in is closed other than for ordinary holidays, or during which dealings therein are restricted or suspended in a way that affects the valuation of the Fund's assets;
- any political, economic, military exigencies and other events that could hinder the disposal or the valuation of the Fund's assets;

- any breakdown in the means of communication or computation normally employed in determining the price or value of any of the investments made by the Fund;
- imposition of restrictions affecting the transfer of funds and transactions on behalf of the Fund which could adversely affect the normal activities of the Fund such as purchases, sales, deposits and withdrawals of assets; or
- a Bahraini court or Bahraini regulatory body issues restrictions and requires such suspension.

Where a suspension occurs for any of the reasons cited above, the Administrator shall notify the BMA as soon as practicable. For the entire duration of the suspension period, the Fund shall not issue, redeem or transfer Units.

Stock Transfer & Listing of Units

A secondary market for the Units of the Fund currently does not exist. However, the Investment Company plans to create such a secondary market for the Units by listing on the Bahrain Stock Exchange and/or on the Kuwait Stock Exchange.

In the event that the Investment Company lists the Units on the Bahrain Stock Exchange and/or on the Kuwait Stock Exchange, the Units will be freely transferable during trading days except to restricted persons specified in the section headed "SUBSEQUENT SUBSCRIPTIONS AND REDEMPTIONS - Ownership Restriction and Compulsory Redemptions". Transferees shall be subject to the same terms and conditions as subscribers including but not limited to the provision of information, documents and minimum subscription amount. No transfer will be affected unless a transfer form is completed and signed by both the seller and purchaser or their respective agents and submitted to the Transfer Agent.

Ownership Restrictions and Compulsory Redemptions

Applicants may subscribe provided legislation or regulations in Bahrain and in their country of citizenship, residence, domicile or incorporation permits them to do so. However, persons below 18 years of age are not allowed to subscribe unless he/she has the written authorization of his/her lawful guardian. US persons or US residents as defined in Regulation (S) under the US Securities Act of 1933 are likewise not allowed to subscribe. Likewise United Kingdom persons and United Kingdom residents are also not allowed to subscribe.

The Fund may compulsorily redeem any Unit, at the prevailing NAV per Unit, if the Investment Managers, in their absolute discretion, determine that:

- The holding of any Unit by the relevant Unit Holder is in contravention of any applicable laws or regulations or would result in adverse tax or other adverse consequences to the Fund; or
- Such compulsory redemption will keep the Fund from being required to register in the United Kingdom or under the US Investment Company Act of 1940 as amended.

The Fund may, at the discretion of the Directors, retain, for the account of the Fund, a compulsory redemption charge of up to 5% of the compulsory redemption proceeds.

The Fund

Legal Structure

The Fund is an open-ended, investment vehicle. The Fund is a collective investment scheme established pursuant to the BMA's no objection letter dated June 1, 2005 and the Principles of Supervision, Operation and Marketing of Collective Investment Schemes under BMA Circular No. OG/356/92 of November 18, 1992. The Investment Company has been approved by the Bahrain Ministry of Industry and Commerce and the Bahrain Monetary Agency. The Fund, which has been created through an instrument dated June 13, 2005, has been approved and is regulated by the BMA.

The Investment Company is established under the laws and regulations of Bahrain and has the principal purpose of creating and managing collective investment schemes including the Fund.

The Investment Company is a Bahraini closed shareholding company with limited liability incorporated under the laws of Bahrain with a fixed life of 25 years (may be extended by a resolution from its shareholders subject to the prior approval of the relevant authorities). The Investment Company has a paid-up capital of BD 1,000 divided into 30 shares with a par value of BD 33.333 per share. GFH, KFIC and QIB 10 shares each. The exposure of the shareholders for the liabilities of the Investment Company will be limited to the amount invested in the Shares acquired by such shareholder.

Geographic Focus

The Fund's portfolio shall be composed of securities, mainly stocks, which are issued in the following jurisdictions:

- Kingdom of Bahrain;
- State of Kuwait;
- State of Qatar;
- Sultanate of Oman;
- United Arab Emirates; and
- Kingdom of Saudi Arabia

The Fund's investments in equity securities in the GCC shall at all times seek to comply with the rules and restrictions on stock ownership applicable. The trend has been toward liberalization of ownership rules. As of May 2005, the markets of Oman, Qatar, Bahrain and Kuwait are open to investments subject to aggregate non local ownership limits in the range of 25% to 100%. In Saudi Arabia and the UAE, however, some stocks are off limit to non locals or non GCC nationals.

The Investment Managers may invest in other funds or with other managers through separate accounts where there are restrictions on direct stock ownership.

Investment Objective & Policies

The objective of the Fund is primarily to achieve medium to long-term capital appreciation through investing primarily in listed securities issued in the GCC countries in accordance with the Shari'ah Investment Guidelines. The Fund may also invest in shares of non-listed Shari'ah compliant companies up to 10% of its Net Asset Value.

All investments of the Fund must satisfy the Shari'ah Investment Guidelines and be supervised by the Shari'ah Supervisory Board. The Fund's assets are intended to be fully invested most of the time, allowing for some liquid funds to meet possible withdrawals from time to time. However, there may be times when investments are being liquidated from one or more markets and are not yet invested in alternative markets.

Initially, the Fund will invest a portion of its assets in Islamically structured instruments of corporate and governmental bodies of Arab and non-Arab countries which are denominated in US Dollar or in any currency and with remaining maturity not exceeding twelve months. Henceforth, the Investment Managers will invest in securities in accordance with the declared objectives of the Fund.

The actual selection among permitted investments will be heavily influenced by the Investment Managers' approach as stipulated in the section headed "THE FUND - The Investment Managers' Approach". Subject to the Shari'ah Investment Guidelines the following investment policies described herein shall apply.

The Fund may not:

- Invest in securities that are not issued in the GCC;
- Invest more than 10% of its assets in securities that are not traded on an official stock exchange or an organized market or cannot be resold due to legal or contractual restrictions; or
- Underwrite securities except for the purpose of acquiring them for its account.

The Fund may:

- Utilize over the counter regional and/or international broker dealers where this is believed to offer more efficient purchase and sale execution for the quantities desired;
- Utilize the services of other investment managers and invest in other investment schemes if such acts are believed to be beneficial to the Investors;
- Invest up to 100% of its assets in the securities issued in the GCC and denominated in their respective currencies or US Dollar;
- Acquire shares of the 100 most liquid stocks to the extent of at least 50% of the portfolio;
- Include a minimum representation of at least three countries in the portfolio at all times;
- Limit investments in companies with a market cap of less than US\$100 million to not more than 15% of the portfolio;
- Invest up to 60% of its assets in a single authorized GCC country;

- Invest up to 20% of its assets in a single issuer security including its parent and subsidiary companies;
- Acquire up to 15% of any category of securities of a single issuer;
- Invest up to 20% of its assets in mutual funds, unit trusts or other collective investment vehicles or schemes managed by third parties;
- Invest up to 10% of its assets in new issues of securities, even if non-traded, provided the terms of the issue indicate that listing on an official exchange is secured within a year of issue;
- Invest up to 100% of its liquid assets in short term Islamic products such as Murabaha Accounts or Mudarabah Accounts approved by the Shari'ah Supervisory Board in Islamic financial institutions, including but not limited to the Investment Managers or the Placement Agents;
- Retain funds in non-profit bearing deposits in US Dollar or currencies, with Islamic financial institutions, including but not limited to the Investment Managers or the Placement Agents, where investments may be made from time to time;
- Utilize funding on a temporary basis of up to 10% of its net assets for the purpose of meeting short term liquidity needs such as delays in receipt of sale proceeds, redemptions and the like, and where necessary provide reasonable security to the party facilitating such funding, after having the previous approval of the Shari'ah Supervision Board.

If an investment satisfies the above ratios at the time it is made and if subsequently the above limits are exceeded but not as a result of making further investment in that security or that category of securities, then this shall not constitute a violation of the above guidelines. To illustrate one case, such an event could occur if a security represented 10% of the assets of the Fund at the time an investment is made and subsequently its relative price out performs the overall portfolio of the Fund, in which case this would not represent a violation.

Moreover, in the event that an investment is made as a result of exercising a rights issue attached to existing securities of the Fund, then the above ratios may be exceeded. In such event, the Investment Managers shall, as soon as practicable and without jeopardizing the interests of Unit Holders, take such steps so as to comply with the above ratios to the same level prevailing before such event.

Shari'ah Investment Guidelines

The Shari'ah Investment Guidelines, as defined from time to time by the Shari'ah Supervisory Board of the Fund, prohibit investment in certain sectors considered harmful to mankind and the environment. These guidelines also prohibit investment in companies that have excessive interest bearing assets, liabilities or excessive interest as a percentage of revenue.

The Fund will make investments that do not violate the following restrictions and those set out elsewhere in this Prospectus. The Shari'ah Investment Guidelines as set out herein shall take precedence over any other criteria and may be modified from time to time by the Shari'ah Supervisory Board as deemed appropriate. Where an investment is made by the Fund which initially complies with these guidelines but subsequently ceases to be so then the Investment Manager shall take steps to sell such investment as soon as reasonably practicable with due regard to Unit Holders' interests and with the advice of the Shari'ah Supervisory Board.

Sector Guidelines

The Fund shall not invest in companies whose activities are deemed harmful to mankind or the environment. Such harmful activities include:

- gambling;
- all activities that relate to pork;
- non-Islamic production or sale of meat and poultry products;
- the production or sale of intoxicating liquor, tobacco;
- conventional interest bearing structured banking, finance, investment or insurance business;
- all mediums that contain pornographic material such as cinema, broadcasting, videos, compact disks, etc;
- owning or operating hotels where the sale of intoxicating liquor, pork or gambling is permitted; and
- any entity which does not, for any reason, meet the Shari'ah Supervisory Board's approval.

Financial Ratio Guidelines

Where a company is not operating in any of the above industries, but either holds interest bearing debt securities or has borrowed interest-bearing debt, then such company must satisfy the following guidelines:

- interest income or non-Shari'ah compliant gains (or both combined) not to exceed 5% of total revenue;
- debt to equity ratio not to exceed 30:70; and
- account receivable and cash money not to exceed 50% of the existing total assets.

Prohibited Transactions

The Fund may not:

- acquire preferred shares, units or warrants;
- lend its securities;
- acquire foreign currency by means of back-to back financing instruments;
- enter into any put, call, blended option, forward, futures and swap contracts related to foreign currencies, indices, financial instruments, commodities, precious metals, securities or certificates representative thereof;
- enter into hedging;
- engage in short selling;
- invest in non-Islamically structured interest-bearing debt instruments of whatever nature. Thus, non-Islamically structured bank deposits, treasury bills, bonds, zero coupons, floating rate notes, etc. are a non-exhaustive list of such prohibited debt instruments; and
- any other transaction which does not, for any reason, meet the Shari'ah Supervisory Board's approval.

Permitted Transactions

The Fund may:

- invest in securities such as ordinary shares and units subject to the guidelines indicated above;
- during periods of economic and political uncertainty, invest its assets in Islamic products such as Murabaha Accounts and/or Mudarabah Accounts approved by the Shari'ah Supervisory Board in Islamic Financial Institutions.
- acquire foreign currency for the purpose of purchasing securities denominated in that currency and for the day-to-day operations of the Fund, but not for the purposes of hedging or entering into short positions, and may sell such foreign currencies if it does not give rise to short positions; and
- only acquire financing if it is Islamically structured and in compliance with Shari'ah principles.

The Investment Managers' Approach

The Investment Company has appointed GFH and KFIC, as the joint Investment Managers of the Fund. Under the terms and conditions of the Investment Management Agreement, the Investment Managers will provide discretionary management services in respect of the Fund and are therefore given the right to analyze and appraise the assets in the Fund and to act on the Investors' behalf in the purchase, sale,

exchange, or tender of the stocks and other securities as may from time to time become necessary. The Investment Managers will select investments based on the guidelines set out in this Prospectus, particularly the guidelines contained in the sections headed “The Fund - the Shari’ah Investment Guidelines” and “The Fund - General Investment Guidelines”, and in compliance with Shari’ah Supervisory Board’s decisions. The Investment Managers will also ensure that all transactions are carried out at arms length.

The Investment Managers shall seek to achieve significant medium to long-term total return by actively managing the fund using the skills of an experienced Portfolio Management team, identifying and purchasing relatively undervalued securities and gradually disposing of those that become relatively overvalued.

The Investment Managers’ philosophy differs from most competitors as it rests on the premise that chances for achieving superior returns are greatly enhanced by focusing on stock selection regardless of index composition. Therefore, stock selection will be the primary allocation factor and not country and sector allocations as these are too volatile to predict and correctly position for. Furthermore, the Investment Managers believe that performance can be enhanced by limiting and concentrating positions to the best ideas and not taking a general market exposure portfolio. Cash levels can vary widely depending on the attractiveness of available opportunities. Diversification is sought by (1) number of stocks, (2) number of sectors, (3) number of countries, (4) emphasis on liquidity, and (5) cross-section of market capital exposure but avoiding small illiquid issues. These variables can differ significantly from index composition. The Investment Managers’ investment decision process combines fundamental, technical as well as event driven factors.

In marketing investment decisions, the Investment Managers intend to apply their expertise, experience and knowledge base, computerized and otherwise, of securities markets to make portfolio allocations and reallocations, by type of security, company, sector and country. The Investment Managers intend to maintain a database on GCC securities, particularly those in markets considered most attractive from time to time and to utilize, among other things, proprietary investment software to help in the evaluation and selection of securities.

The Investment Managers will utilize fundamental as well as technical analysis including such criteria as cash flow, earning ability and momentum, dividend-paying ability, tangible assets value, expected 12-month relative performance in relation to other securities in the same market, charts, mathematical models, etc. The Investment Managers intend also to obtain research from third parties to be better informed of the investment views prevailing in individual markets.

Expenses & Fees Related to the Fund

Launching & Operating Expenses

All expenses incurred by the Investment Managers in relation to launching the Fund, shall be borne by the Fund and capped at US\$150,000. Expenses above this amount shall be borne by the Investment Managers.

The Fund will be charged all other expenses incurred in connection with its normal operation including, but not limited to, transactional costs including brokerage, banking, exchange fees, legal fees, governmental charges and duties. The Fund will likewise bear the cost of the Directors, accountants, custodians, administrators, registrars, transfer agents, Shari'ah Supervisory Board members, auditors and/or any other agents employed by the Fund as well as the cost of publishing the NAV, subscription and redemption prices. The Fund will also pay a share of the annual expenses related to the registration and other expenses due to supervisory authorities of Al Khaleej Funds & Investment Company. The accounting treatment for such expenses will depend on their nature and will either be accrued for the calculation of the NAV or amortized. These pre-incorporation expenses are capped at US\$150,000, which will be amortized over a period of 6 months and the annual expenses are estimated at US\$25,000.

Subscription Fee

A Subscription Fee of up to 3% of the Subscription Amount shall be paid to the Placement Agents in connection with this Offer and is due and payable by the Investor immediately upon return of the signed Subscription Agreement.

The Subscription Fee is payable in addition to the Subscription Amount. The Subscription Fee will be paid to the Placement Agents and thus will not form part of the capital of the Fund. By virtue of this provision, the Subscription Fee will not be included in the calculation of the NAV and the Performance Fee.

Investment Managers' Fees

The following fees shall be paid to the Investment Managers in connection with the management of the Fund:

- **Investment Management Fee** — pursuant to the terms and conditions of the Investment Management Agreement, the Fund will pay the Investment Managers, a base management fee of 2.25% per annum of the NAV of the Fund accruing monthly, which shall be payable quarterly in arrears.
- **Performance Fee** — the Performance Fee is conditional to the Investors achieving the Hurdle Rate. The Performance Fee is equal to 10% of the appreciation in the NAV of the Fund exceeding the 10% per annum Hurdle Rate. The fees shall accrue on each Valuation Day and be payable annually in arrears. Such fees shall be calculated and accrued on a monthly basis using the weighted average units in issue and shall be payable to the Investment Managers at the end of each financial year.

If the Hurdle Rate is not achieved, the Investment Managers will not receive the Performance Fee.

For further details concerning the expenses and fees and profits realized by the Investment Managers in connection with this Offer, potential investors are invited to contact the Investment Managers.

Custodian, Administrator, Representative, Transfer Agent and Registrar Fees

An annual fee, calculated at the following rates of the NAV of the Fund, shall be paid to Gulf Clearing Company as Custodian, Administrator, Registrar and Transfer Agent of the Fund quarterly in arrears:

- a) 0.125% for initial US\$100 million NAV of the Fund.
- b) 0.1% for initial value of the Fund if the NAV of the Fund is between US\$100 million and US\$200 million.
- c) 0.075% for initial value of the Fund if the NAV of the Fund is more than US\$300 million.
- d) If the annual fees as set out above fall below US\$50,000, the annual fees for the services provided by Gulf Clearing Company will be subject to a fixed minimum fee of US\$50,000 per annum.

Management of the Fund

Board of Directors

Under the Investment Company's Articles, and consistent with the laws of Bahrain, the Board will have the overall responsibility for the operational aspects of the Fund. This includes establishing the structure, terms and conditions of the Fund, selection/de-selection of service providers, distribution policies, etc. The Directors are responsible to the shareholders to ensure compliance with the Fund's objectives and to monitor the activities of the Investment Managers, the Custodian, the Administrator, the Transfer Agent and the Registrar in the carrying out of their respective duties.

A meeting of the Board of Directors shall take place at six monthly intervals with the aim of reviewing the investment strategies that have been adopted and the recommended future policies.

The Company's Board currently has six members, who are:

- **Mr. Esam Y. Janahi**

A Bahraini national, Mr. Janahi is one of the main founders and Chief Executive Officer of GFH. He has broad experience in conventional and Islamic banking and the finance industry, particularly in structuring and managing investment funds, direct investments, asset management, and advisory services.

Previously, Mr. Janahi was with First Islamic Investment Bank (Bahrain) as Director and a member of the Executive Management Team. In that position, he was instrumental in the capital raising of First Islamic Bank and responsible for enhancing the Bank's profitability by marketing its products and services to corporate and high net worth individuals. Prior to this, Mr. Janahi held senior positions with several financial institutions. He was the Head of Institutional Marketing Group and a member of the Management Committee at Islamic Investment Company of the Gulf; Assistant Vice President for Corporate Finance and Private Banking at TAIB Bank; Managing Director of TAIB Securities, and a Financial Consultant at Merrill Lynch International.

Mr. Janahi holds a Bachelor's Degree in Industrial Management, with honors, from the University of Petroleum & Minerals, Saudi Arabia and a Master's Degree in Business Administration from the University of Hull, UK. He is a member of the National Futures Association, Chicago and the National Association of Securities Dealers, New York. Mr. Janahi was named "Islamic Banker of the Year 2003" by the World Islamic Banking Conference. He is also a member of the Shura Council of Bahrain.

- **Mr. Peter Panayiotou**

Mr. Panayiotou is a UK national and joined Gulf Finance House as Chief Operating Officer in May 2003 after several years in the London office of PriceWaterhouseCoopers. He has over 20 years experience serving the banking and financial services industry in Europe, the U.S.A. and the Middle East. His principal role at PwC in London was to lead transaction due diligence teams and to act as a consultant to the boards of banks, guiding them on corporate governance best practice. Mr. Panayiotou has led transaction teams on many cross border deals in the U.S.A., Europe and Russia, ranging from US\$100 million to US\$3 billion in value. He was also featured as a speaker at both GCC and national banking and Capital Markets Authority conferences. Previously, he led the

PriceWaterhouse practice in the Sultanate of Oman following a spell as a senior manager in the Bahraini office. Mr. Panayiotou is a Fellow of the Institute of Chartered Accountants in England and Wales and holds a degree in Jurisprudence from the University of Oxford.

- **Mr. Abdul Rahman Al-Saeed**

Mr. Al-Saeed is the Vice Chairman and Managing Director of Kuwait Finance & Investment Company. He is also a member of the Board of Directors of Kuwait Cable Vision Company. Mr. Al-Saeed [from January 2002 to March 2004] was Senior Vice President and Head of GCC Markets at Gulf Investment Corporation (GIC). Prior to his career at GIC [from 1997 to 2002], Mr. Al-Saeed was Head of Local Investments at Kuwait Middle East Financial & Investment Company (KMEFIC). Mr. Al-Saeed was a Supervisor in the Portfolio Department at Kuwait Real Estate Investment Consortium (KMEFIC) [from 1991 to 1996] and a Director of PAK Kuwait Investment Company representing the Kuwait Investment Authority (KIA) [from 1992 to 1996]. Mr. Al-Saeed holds a Masters degree from Glasgow University in Scotland and has completed the Portfolio Management Program at Harvard Business School.

- **Mr. Hamzah Behbehani**

Mr. Behbehani currently holds the post of Executive Vice President of Investment Services in Kuwait Finance & Investment Company. Previously [from 1997 to 2004], he was Senior Vice President & Head of Marketing at Gulf Investment Corporation. Prior to that [from 1986 to 1997], he held various positions in Portfolio Management & Client Sales with international firms including Banque Arabe et International d'Investissement, Merrill Lynch International, Cresvale and KUWAM Corporation. Mr. Behbehani started his career at Kuwait Foreign Trading Contracting & Investment Co. [from 1982 to 1986] where he was an Institutional Portfolio Manager. Mr. Behbehani holds a Masters degree in Business Administration from California State University, San Francisco, is registered with the National Association of Securities Dealers in the U.S.A. and with the Securities & Futures Authority in the U.K. and is a certified securities dealer with ISMA.

- **Professor Abdullatif A. Almeer**

Professor Almeer, a Qatari national, has been with Qatar Islamic Bank since 1993 and is currently the Assistant General Manager for Investments, Planning and Development. Previously, he was a professor of international marketing at Nova University in Florida, USA. He is a graduate of Cornell University in New York.

- **Mr. Mutaz M. Saqer**

Mr. Saqer has been with Qatar Islamic Bank since 1998 and is currently, Manager, in charge of Funds and Portfolio Management Department of the Bank. He has 10-years banking experience and worked previously with the Middle East Investment Bank in Jordan. He has a B.Sc degree in administrative and financial science from Amman Private University .

Investment Committee

An Investment Committee will be formed specifically for the Fund and will be comprised of representation from sponsors, Investment Managers and Placement Agents. The Investment Committee will assume supervisory and recommendatory roles and will be pre-occupied with general investment policies, risk management and performance analysis. More specifically, the Investment Committee will:

- i. approve the Investment Guidelines;
- ii. manage the overall risk of the Fund; and
- iii. analyze the performance of the Fund.

The foregoing entail the following:

- i. Monitoring the diversity of the Fund in terms of:
 - a. country allocation and representation;
 - b. sector allocation and representation;
 - c. market capitalization distribution; and
 - d. number of issues and issue concentration.
- ii. Monitoring the liquidity of the Fund; and
- iii. Analyzing performance relative to indices and by attribution to determine that performance is resulting from good stock selection.

The Investment Committee will meet at least once every two months to review the investment strategy and performance of the Fund that will be provided by the Portfolio Management Team with the following reports:

- i. overall performance vs. index;
- ii. performance by country, sector, and stock;
- iii. portfolio composition vs. index by country, sector, market capitalization and liquidity;
- iv. cash levels;
- v. number of issues and percentages to total; and
- vi. largest 5 holdings;

The Portfolio Management Team

The Portfolio Management Team is, among other things, responsible for the appropriate due diligence work involved in substantiating the long-term value of the equities selected, the day-to-day management of the Fund, and overseeing the performance of the Fund. The Portfolio Management Team will play an active role in developing appropriate ongoing investment strategies, making the ultimate investment decision and managing the Fund to seize opportunities and market discrepancies.

The Portfolio Management Team will focus on stock picking, taking into account the following:

- (a) Impact of economic and sector conditions.
- (b) Favorable stock fundamental conditions including:
 - market position,
 - financial position and
 - earnings and dividend prospects.
- (c) Market and stock technical conditions including:
 - flow of funds and supply/demand conditions and
 - event-driven conditions including corporate actions.

In order to achieve superior returns:

- (1) The Fund will be actively managed to seize opportunities or market discrepancies.
- (2) The Fund will be concentrated, i.e., stocks selected will be our best ideas and not a general market exposure.
- (3) Cash levels will remain low to assure exposure consistent with a long-term view. Fund disinvestment will be left to subscribers.

Shari'ah Supervisory Board

To ensure compliance with Islamic rules and principles in carrying out its objectives, the Fund has created a Shari'ah Supervisory Board composed of the following eminent Shari'ah Scholars:

- **Shaikh Nizam Moh'd Saleh Yaquby**

Shaikh Yaquby is a Bahraini national. He serves on the Shari'ah supervisory board of a number of Islamic Banks, including the Bahrain Islamic Bank and Abu Dhabi Islamic Bank. He is likewise a Board Member of the Dow Jones Islamic Index. He has published numerous written works which have appeared in the following publications:

- Risalah fi al-Tawbah
- Tahqiq al- Amal fi Ikhtiraj
- Zakat al-Fitr bi al-Mal

- **Dr. Abdul Sattar Abdul Kareem Abu Ghuddah**

Dr. Abu Ghuddah holds a PhD in Islamic Law and has published many books on Islamic financial transactions. He is a member of the Shari'ah Supervisory Board of a number of Islamic banks and financial institutions as well as a board member of the following: the Islamic Fiqh Academy and the Auditing Organization of the Islamic Financial Institutions in Bahrain.

The Shari'ah Supervisory Board will determine and apply Shari'ah principles and provide advice as necessary on issues that arise in the process of the Fund carrying out its investment activities.

Custodian, Administrator, Representative, Transfer Agent and Registrar

Gulf Clearing Company, Bahrain has been appointed as the Custodian, Administrator, Representative, Registrar and Transfer Agent of the Fund. Gulf Clearing Company, Bahrain is a subsidiary of Gulf Clearing Company, Kuwait which is a leading provider of custody services and other services in the GCC countries and currently holds over US\$3 billion in assets under custody.

As the Custodian, Gulf Clearing Company will, among other things, hold or arrange to hold in safe custody such securities, investments and financial instruments or any other assets belonging to the Fund or received from time to time by the Fund. The Custodian will also hold and receive cash belonging to the Fund and maintain bank accounts as may be directed by the Investment Company.

As the Administrator, Gulf Clearing Company will, among other things, be responsible for maintaining the Fund accounts, calculating the NAV per Unit and the amount to be purified from cash dividends, ensuring that the Fund's assets are invested in accordance with the Prospectus, filing notices and other matters with the regulators in Bahrain, safe-keeping of the Fund's documents and providing other administrative functions.

As the Registrar and Transfer Agent, Gulf Clearing Company will, among other things, be responsible for maintaining an accurate Unit Holders Register and the processing and recording of the transfer, issuance and redemption of Units.

Auditors

The Fund has appointed Ernst & Young, Bahrain, as its independent auditor for the first financial year. The Auditors shall submit their report to the general annual meeting of the shareholders. Such report will provide an opinion regarding the Fund's activities during the relevant financial year and comments, if any, regarding the balance sheet, income statement and any supporting schedules and notes. The Auditors will also review the un-audited semi-annual financials of the Fund.

Principal Risk Factors

An investment in the Fund involves certain risks and should only be made by prospective Investors who have the necessary expertise to fully evaluate the risks and make an informed investment decision and are therefore able to bear the economic risks inherent in the investment. It is strongly recommended that prospective Investors also consult their own professional advisors regarding the suitability of this investment.

No Operating History

Having been established this year only for the purpose of overseeing the Fund, the Investment Company does not have a track record of past performance. In essence, the success of the Investment Company will be measured in terms of the Fund's future performance which in turn rests in large part on the skills of its Investment Managers. And, while the key people who will be running the Fund have had years of successful fund management experience behind them, past success is certainly no guarantee of future performance.

Investment Returns Not Assured

Like any investment decision, investment performance is a major dimension in an Investor's mutual fund selection process. The level of dividend income, capital gains distribution, and change in the price (or NAV) of the Fund are all important aspects of return. Such return information enables the Investor to judge the investment behavior of the Fund and to appraise its performance in relation to other funds and investment vehicles.

It is extremely difficult, however, to get a firm grip as to what the future holds as far as returns (i.e., dividends, capital gains, and NAV) are concerned. For one, the potential returns on your equity investment are not keyed-in on one company but are directly linked to a portfolio of securities where it is difficult to get a clear reading on in terms of expected future performance. And, while equity investments in the Fund are for the most part immune to the business and financial risks normally present with individual securities due to the diversified nature of the portfolio, the investments are still exposed to a considerable amount of general market risks. As market risks remain, the payoff from your equity investment cannot be assured.

Shari'ah Investment Restrictions

The Shari'ah restrictions placed on investments may result in the Fund not performing as well as mutual funds with similar objectives but not subject to such restrictions. The Fund's Shari'ah Investment Guidelines which disallow investments in certain sectors and securities and subject companies to several financial filters generally provide a narrow choice of companies in which investments could be made and therefore a less diversified portfolio. Shari'ah precepts also disallow engaging in certain categories of financial transactions and assets and consequently the Fund is not permitted to use interest-paying debt instruments that maximize current income on excess cash, hedge currencies and undertake certain types of risks.

The Investment Managers shall have a quarterly review of Fund's portfolio to ensure continuing compliance to the Shari'ah Investment Guidelines. In the event that any such investments are in fact contrary to Islamic principles, then such investments will require divestment on short notice. Such divestments may, under certain circumstances, have an adverse effect on the financial performance of the Fund as a whole. Moreover, dividend purification involves certain costs.

Legal Status of the Fund

The Fund has been structured as contractual arrangement between the Investment Company and the Unit Holders which is regulated and supervised by the BMA. While it has been established as a collective investment scheme, the Fund is intended to be separate from the Investment Company and from all other investment schemes to be launched by the Investment Company.

Given the foregoing arrangement, the Fund is not registered with the Commercial Companies Law. This being the case, the Fund does not have a separate legal status. In the event that insolvency proceedings or proceedings for determining the Fund's liabilities arise, the extent to which the court would uphold such distinction between the Fund and the Investment Company and other collective schemes of the Investment Company remains unclear and untested.

Investment Selection and Decision Making

Investors in the Units will neither have any voting rights nor participation in any individual investment decision or involvement in the day-to-day management of the Investment Company or the Fund. Investors generally have no right to influence the management of the Fund whether by voting against, withdrawing, removing or replacing the Investment Managers or otherwise. Furthermore, Investors have no right to terminate any agreement to which the Investment Company or the Fund is or may be a party.

Economic, Political and General Market Risks

Investments in the Units are exposed to an array of changes in the economic, political and market fronts which are beyond the control of the Investment Company and Investment Managers. For instance, interest rate changes, foreign exchange movements, political developments, changes in government policies, taxation, and restrictions on foreign investments in some of the GCC countries can substantially and adversely affect the portfolio.

Liquidity of Investment

One of the major drawbacks that characterize investments in equity funds is the lack of liquidity. Most funds are fairly easy to buy, but they are not so easy to sell. That is, selling mutual funds is more often than not a do-it-yourself project that involves selling the shares back to the fund itself.

The foregoing characteristic drawback of a mutual fund investment is all the more exacerbated by the observation that the liquidity and marketability of securities quoted on GCC stock exchanges is constrained by the markets' lack of depth and narrow investor participation. While trading values compared to market capitalization have risen to levels considered to be historically high, they are considered to be still generally lower than the more volatile indices of the other emerging markets. Such a development may affect the performance of the Fund especially in times of weakened market conditions or substantial redemptions by Investors.

Other General Risks

No assurance can be given that the Investment Company and the Investment Managers will be successful or that they will meet the stated investment objectives of the Fund. Without limiting the generality of the foregoing, there can be no assurance that the targeted returns will be achieved.

In view of the various roles of the Investment Managers' employees in the Investment Company, Investment Committee and Portfolio Management Team, the Investment Managers, together with QIB, have the power to change the Directors, the Investment Committee, the Portfolio Management Team, any other advisors to the Fund, and the intended investment approach, criteria and strategy at its sole discretion. Such decisions may adversely affect the performance of the Fund and in turn have an adverse effect on the NAV of the Fund.

The Units in the Fund are denominated in US Dollars while the assets of the Fund may be in various currencies. Currency fluctuations may therefore adversely affect the US Dollar value of the Fund.

To maximise returns, Investors may need to hold on to their Units on a medium-term basis. As a consequence, they may not be suitable for short-term investment.

Currently, there is no public market for the Units of the Fund. The Investment Company is seeking to list the Units of the Fund on selected regional stock exchanges. Such listing may not materialize due to events beyond the control of the Investment Company.

There are certain restrictions that are in place that the Investors have to abide by prior to them being able to transfer their Units in the Fund other than by way of redemption in the manner described in this Prospectus. Moreover, there shall be no redemption during the first two months following the close of the Offer Period.

The board of directors of the Investment Company, the Investment Committee and the Portfolio Management Team are all employees of the Investment Managers and thus represent the interest of the Investment Managers. This may preclude an arm's length negotiation or conclusion of transactions between the Investment Company, the Fund, the Investment Managers and/or with third parties.

Conflicts of interest as described in this Prospectus in the section headed "CONFLICTS OF INTEREST", may influence the decision of the Directors of the Investment Company in matters such as investments and divestments, which may have an adverse effect on the performance of the Fund and the ability to achieve the investment objectives and targeted returns.

The foregoing does not purport to be a complete explanation and summary of all the risk factors involved in investing in the Fund. It is strongly recommended that all potential investors should seek independent advice from their own investment, legal, tax and other professional advisors.

Conflicts of Interest

The Investment Managers and the Investment Company may be subject to various conflicts of interest in their relationships with the Fund. These include:

Other Activities of the Investment Managers

The Investment Managers may enter into management agreements and/or serve as advisors with other investors, investment companies and funds as well as engage in other related or unrelated activities. There is no provision in the Investment Management Agreement that will prevent the Investment Managers either jointly or separately from engaging in such or other related activities. Although the Investment Managers will act fairly in its dealings with the Fund, advice by the Investment Managers in such other activities may raise conflicts in the allocation of management time, services or functions between the Fund, on the one hand, and such other activities or entities, on the other. Further, in the event that other investment funds with which the Investment Managers are associated develop relationships with the local managers, brokers or advisers that are furnishing services to the Investment Managers and the Fund, the Investment Managers' duty to those funds to foster such relationships could tend to influence the Investment Managers to take actions, or refrain from taking actions, that an independent investment manager might take or refrain from taking.

No Independent Advice

The terms of any agreements and arrangements among the Investment Managers and the Investment Company with respect to the Fund have been established by the Investment Managers and have not been negotiated at arm's length. The Investment Managers' employees are on the board and the investment committee of the Investment Company and the Fund respectively. No specific provisions have been or will be made for independent professional representation of the Investors with respect to potential conflicts of interest.

Investment in Shares of the Investment Managers and Related Companies

The Investment Managers in the normal course of business may recommend the Fund to invest in projects owned directly or indirectly by the Investment Managers and/or their related companies. The Investment Managers' employees are on the board and the investment committee of the Investment Company and the Fund respectively. There are no specific provisions in the Prospectus involving independent professional representation of the Investors in any investment decision in the Fund.

Taxation

This section is for general information only and contains comments of a general nature only based on current tax legislation and practice of tax authorities. It relates only to certain limited aspects of the taxation position of potential investors and is not, nor intended to be, in any way exhaustive. Potential investors should consult their own tax advisers about the tax consequences of an investment in the Fund before subscribing for any Units.

Bahrain

There is currently no income, withholding capital, corporation, inheritance or estate tax of any description applicable to the Fund or its Unit Holders. Under the current law in Bahrain, the Fund will not be subject to any tax on its profit, income, gains or appreciation whether arising in Bahrain or elsewhere. There are also currently no stamp duties that will be levied in Bahrain on the issue or transfer of Units. The only charge payable to the government by the Fund which may be construed as a type of tax is the annual registration fees payable to the MoC, Bahrain and the Bahrain Monetary Agency.

Accordingly, any dividends paid to the Unit Holders would not be subject to any type of tax in Bahrain, neither would any gains realized by the Unit Holders or fees received for services rendered by the Fund and the Investment Company.

The Unit Holders

Bahrain does not impose any withholding taxes. Accordingly, no withholding on account of any Bahrain tax is required by the Fund with respect to any dividend distributions made or any gains realized by the Unit Holders upon the sale of or redemption of the Units of the Fund.

It should be noted that despite limiting this section to the taxation of Bahraini companies and Bahraini resident shareholders, the Investment Managers reserve the right to market the investment to persons from any other jurisdiction. However, individual shareholders that are not resident in Bahrain are not subject to any Bahrain gift, estate, inheritance or similar taxes solely by reason of the ownership of the Units.

This section does not, under any circumstances, purport to discuss all the tax consequences that may be relevant to an investment in the Units. Neither is it intended that the foregoing discussion be a substitute to careful and, where appropriate, professional, tax planning. Accordingly, persons interested in subscribing for the Units should be aware of and, where appropriate, seek the proper advice on, the laws and regulations (such as those relating to taxation and exchange controls) applicable to the subscription for, and the holding or disposition of, the Units in the countries of their citizenship, residence and domicile.

Furthermore, the tax laws and regulations might change over the life of the Fund. The Investment Managers will notify the Unit Holders of such amendments or changes in the next performance report that is circulated to the Unit Holders after such amendment or change has come to the attention of the Investment Managers.

Additional Important Information

Rights of Unit Holders

Units in the Fund carry no preferential or pre-emptive rights and each Unit is entitled to a pro rata share of profit distributions, if any, and of the net assets of the Fund.

Life and Winding up of the Fund

The Fund is envisaged to run for a period of 25 years but the Directors reserve the right at any time, to propose to dissolve the Fund at an extraordinary meeting of shareholders. Such proposal will, however, be subject to the approval of the Bahrain Monetary Agency and the MoC in Bahrain. Liquidation of the Fund will adhere to the procedures prescribed by the laws of Bahrain and is without prejudice to the rights of the Unit Holders to participate in the orderly distribution of the assets of the Fund after all creditor claims are met.

Financial Year

The Fund's financial year will begin on January 1st and end on the 31st December of each year.

Reporting

The Fund's annual audited financial statements shall be sent within 90 days of the end of the financial year to each Investor.

Distribution to Investors

At the sole discretion of the Investment Managers a portion of the net investment income (income from dividends and profit from short-term Islamic products) is intended to be distributed as dividends on the Units on an annual basis. Such dividends may be in the form of cash or additional units in the Fund. The remaining portion of the net investment income will be re-invested in the Fund.

Any distributions made from time to time to the Investors in accordance with this Prospectus shall be made in accordance with the Articles within 14 days of the date that the dividend is declared.

Meeting of Unit Holders

The Fund does not intend to call Unit Holders' meetings.

Principal Documents

The Principal Documents relevant to the incorporation, establishment of the Investment Company and the Fund as well as the relationships between the key parties involved in this investment and their respective rights and obligations are as follows:

- Articles of Association;
- Memorandum of Association;
- Investment Management Agreement;
- Placement Agency Agreement;
- Custody, Transfer Agent, Administration, Representative and Registry Agreement ; and,
- Subscription Agreement.

This Prospectus should be read in conjunction with the Principal Documents, which should be studied in detail by potential investors. To the extent that there is any inconsistency between this Prospectus and the Principal Documents, the Principal Documents shall prevail. Those concerned may inspect copies of these Principal Documents at the principal offices of the Placement Agents, by appointment, during normal business hours.

Zakat

Those Investors who authorize the Fund to withhold Zakat will receive declared dividends net of Zakat. A fund called the “Zakat Fund” to be approved by the Board of Directors will be disbursed by the Fund in accordance with the approval of the Shari’ah Supervisory Board. Those Investors who choose otherwise may disburse their Zakat personally.

Idle Funds

The Fund’s surplus capital from time to time will, pending investment in securities, be invested in short term Islamic products such as Murabaha Accounts or Mudarabah Accounts approved by the Shari’ah Supervisory Board in Islamic Financial Institutions.

Indemnification

Every director, agent or officer of the Investment Company and the Investment Managers shall be indemnified out of the assets of the Fund against any liability incurred by him as a result of any act or failure to act in carrying out his functions other than such liability (if any) that he may incur by his own willful neglect or default. No such director, agent or officer shall be liable to the Fund for any loss or damage in carrying out his functions unless that liability arises through the willful neglect or default of such director, agent or officer.

Governing Law

This offer and the Subscription Agreements will be governed by, and construed in accordance with, the laws of Bahrain. Each Investor irrevocably submits to the jurisdiction of the Bahraini courts in respect of these matters. This does not prevent an action being taken against an Investor in any other jurisdiction.

Contact Details

Fund Sponsors and Placement Agents

Gulf Finance House
P.O. Box 10006, Manama
Kingdom of Bahrain
Telephone - (+973) 17 538538
Facsimile - (+973) 17 540006

Kuwait Finance & Investment Company
P.O. Box 21521, Safat 13037
State of Kuwait
Telephone - (+965) 889000
Facsimile - (+965) 2420175

Qatar Islamic Bank
P.O. Box 5501, Doha
State of Qatar
Telephone - (+974) 4409514
Facsimile - (+974) 4435324

Placement Agents

Gulf Finance House Commercial Bank
P.O. Box 10006, Manama
Kingdom of Bahrain
Telephone - (+973) 17 538538
Facsimile - (+973) 17 531522

Abu Dhabi Commercial Bank
P.O. Box 939, Abu Dhabi
United Arab Emirates
Telephone - (+971) 2 6962596
Facsimile - (+971) 2 6449032

Gulf Bank
Investment Department
PO BOX 3200, Safat, 13032
Kuwait
Telephone - (+965) 2449501
Facsimile - (+965) 2439216

Investment Managers

Gulf Finance House
P.O. Box 10006, Manama
Kingdom of Bahrain
Telephone - (+973) 17 538538
Facsimile - (+973) 17 540006

Kuwait Finance & Investment Company
P.O. Box 21521, Safat 13037
State of Kuwait
Telephone - (+965) 889 000
Facsimile - (+965) 2420175

Administrator, Custodian, Transfer Agent & Registrar

Gulf Clearing Company, Bahrain
P.O. Box 2400, Manama
Kingdom of Bahrain
Telephone - (+973) 17 218822
Facsimile - (+973) 17 210010

Gulf Clearing Company
P.O. Box 21109, Safat 13072
State of Kuwait
Telephone - (+965) 2408140
Facsimile - (+965) 2416289

Legal Advisors

Haya Rashed Al Khalifa Law Firm
P.O. Box 1188, Manama
Kingdom of Bahrain
Telephone - (+973) 17 537771
Facsimile - (+973) 17 537117

Auditors

Ernst & Young
P.O. Box 140, Manama
Kingdom of Bahrain
Telephone - (+973) 17 535455
Facsimile - (+973) 17 535405