

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA
KINGDOM OF BAHRAIN

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2008

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

Chairman

Mr. Nabeel Waheed

Directors

Mr. Omar Bouhadiba
Mr. Ali Raza Khan
Mr. Kantic DasGupta (upto October 26, 2008)
Mr. Denis Sabourin (from October 26, 2008)

Registered Office

Flat 141, Building 3,
Road 365, Block 316,
Manama,
Kingdom of Bahrain.

Bankers

Mashreqbank psc. Dubai, U.A.E.
National Bank of Abu Dhabi

Funds Company

Makaseb Funds Company B.S.C. (C)

Fund Manager

Mashreqbank psc. Dubai, U.A.E.

Administrator & Custodian

Gulf Investment Corporation, Kuwait

Auditor

Deloitte & Touche,
P.O. Box 421,
Manama,
Kingdom of Bahrain.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

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MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

DIRECTORS' REPORT

The Directors present the annual report and financial statements for the year ended December 31, 2008.

PRINCIPAL ACTIVITY

The Fund is a collective investment scheme and its primary objective is to achieve long term capital appreciation using a dynamic allocation strategy by investing mainly in the shares of companies listed on the stock exchanges of the United Arab Emirates.

REVIEW OF BUSINESS

The results of operations of the Fund are summarised on page 5.

APPROPRIATIONS

None

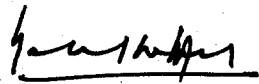
CHANGES IN DIRECTORS

Mr. Kantic DasGupta has been replaced by Mr. Denis Sabourin on October 26, 2008.

AUDITOR

A resolution proposing the reappointment of Deloitte & Touche as the auditor of the Fund for the year ending December 31, 2009 and authorising the Directors to determine their remuneration will be put to the Annual General Meeting.

On behalf of the Board



Director
March 18, 2009

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

Makaseb Emirates Opportunities Fund,
Manama,
Kingdom of Bahrain.

Report on the Financial Statements

We have audited the accompanying financial statements of Makaseb Emirates Opportunities Fund, which comprise the statement of assets and liabilities as at December 31, 2008, the statement of operations, the statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS (CONTINUED)*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Makaseb Emirates Opportunities Fund as of December 31, 2008, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

Without qualifying our opinion, we draw attention to the following:

- 1) As discussed under Note 7 (a) to the financial statements, the securities designated at fair value through profit or loss represent investments in listed securities, which provide the Fund with the opportunity for return through trading gains. The fair value of these securities are based on quoted market prices. Certain markets and securities may be illiquid and indicative market prices may not necessarily represent realisable value.
- 2) As discussed under Note 7 (b) to the financial statements, the Fund's minimum investment limit, which is specified as per the prospectus could not be maintained as of December 31, 2008 and the Central Bank of Bahrain has granted the Fund an extension to comply with this limit by June 4, 2009. As of March 18, 2009 the fund is in compliance with the minimum investment limit as per the prospectus.
- 3) As discussed under Note 19 to the financial statements, the Fund's Net Asset Value has decreased to approximately USD 2 million as at the year end. The Directors do not have any intention to wind up the Fund.

Manama – Kingdom of Bahrain
March 18, 2009

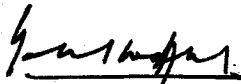
Deloitte & Touche
Deloitte & Touche

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 2008

	Notes	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
ASSETS			
Cash at banks	6 & 15	1,891,780	2,576
Securities designated at fair value through profit or loss	7	134,835	11,007,088
Total Assets		<u>2,026,615</u>	<u>11,009,664</u>
LIABILITIES			
Bank overdraft	8 & 15	-	2,259,216
Accrued fees and charges	9	25,074	33,379
Due to a related party	10	12,648	41,927
Total Liabilities		<u>37,722</u>	<u>2,334,522</u>
Net Assets		<u>1,988,893</u>	<u>8,675,142</u>
ANAYSIS OF NET ASSETS			
Capital	11	10,497,964	13,527,258
Net realised loss		(8,456,997)	(6,755,893)
Change in fair value of securities designated at fair value through profit or loss	7	(52,074)	1,903,777
Net Assets		<u>1,988,893</u>	<u>8,675,142</u>
Net asset value per unit	18	<u>2.77787</u>	<u>7.84730</u>

The financial statements were approved by the Directors on March 18, 2009 and signed on their behalf by:


 Director

The attached notes 1 to 19 form part of these financial statements.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Notes</u>	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
INVESTMENT INCOME			
Dividend income	12	261,984	149,435
Other operating income	12 & 15	324	1,790
		-----	-----
		262,308	151,225
EXPENSES			
Management fees	5 & 15	121,474	148,385
Administration fees	5	60,329	60,000
Custody fees	5	14,463	21,372
Transaction fees	5	22,815	14,760
Registrar fees	5	6,796	7,001
Professional fees		8,119	5,796
Interest expense		13,922	10,976
Other expenses	13	20,555	19,897
		-----	-----
Total Expenses		268,473	288,187
		-----	-----
Investment loss – net		(6,165)	(136,962)
		-----	-----
Realised and unrealised gain or loss on securities designated at fair value through profit or loss:			
Net realised (loss)/gain		(1,694,939)	1,213,622
Change in fair value		(1,955,851)	2,351,540
		-----	-----
Net (loss)/gain on securities designated at fair value through profit or loss		(3,650,790)	3,565,162
		-----	-----
Net (decrease)/increase in net assets resulting from operations		(3,656,955)	3,428,200
		=====	=====

The attached notes 1 to 19 form part of these financial statements.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Investment loss - net	(6,165)	(136,962)
Net realised (loss)/gain on securities designated at fair value through profit or loss	(1,694,939)	1,213,622
Change in fair value of securities designated at fair value through profit or loss	(1,955,851)	2,351,540
	-----	-----
Net (decrease)/increase in net assets resulting from operations	(3,656,955)	3,428,200
Change in net assets from capital share transactions	(3,029,294)	(2,225,190)
	-----	-----
Change in net assets	(6,686,249)	1,203,010
Net assets – beginning of year	8,675,142	7,472,132
	-----	-----
Net assets – end of year	<u>1,988,893</u>	<u>8,675,142</u>

The attached notes 1 to 19 form part of these financial statements.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Cash flows from operating activities		
Net (decrease)/increase in net assets resulting from operations	(3,656,955)	3,428,200
Adjustment for:		
Net loss/(gain) on securities designated at fair value through profit or loss	3,650,790	(3,565,162)
Dividend income	(261,984)	(149,435)
Interest expense	13,922	10,976
	-----	-----
	(254,227)	(275,421)
Changes in operating assets and liabilities:		
Change in other liabilities	(37,584)	10,386
	-----	-----
	(291,811)	(265,035)
Payments for purchase of securities designated at fair value through profit or loss	(24,226,129)	(32,385,817)
Proceeds from disposal of securities designated at fair value through profit or loss	31,447,592	32,340,125
Dividend received	261,984	149,435
Interest paid	(13,922)	(10,976)
	-----	-----
Net cash from / (used in) operating activities	7,177,714	(172,268)
	-----	-----
Cash flows from financing activities		
Proceeds from issue of units	-	168,336
Payments on redemption of units	(3,029,294)	(2,393,526)
	-----	-----
Net cash used in financing activities	(3,029,294)	(2,225,190)
	-----	-----
Net increase/(decrease) in cash and cash equivalents	4,148,420	(2,397,458)
Cash and cash equivalents at the beginning of the year	(2,256,640)	140,818
	-----	-----
Cash and cash equivalents at the end of the year	1,891,780	(2,256,640)
	=====	=====
Comprising:		
Cash at banks (Note 6 & 15)	1,891,780	2,576
Bank overdraft (Note 8 & 15)	-	(2,259,216)
	-----	-----
	1,891,780	(2,256,640)
	=====	=====

The attached notes 1 to 19 form part of these financial statements.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. **STATUS AND ACTIVITIES:**

Makaseb Emirates Opportunities Fund (“the Fund”) is an open-ended investment fund established by Makaseb Funds Company B.S.C. (c) (“the Fund Company”). The Fund is a collective investment scheme established pursuant to the Central Bank of Bahrain (“CBB”) regulations for the operation and marketing of collective investment schemes issued by CBB, Circular Number OG/356/92 of November 8, 1992 and subsequent supplementary circulars. The Fund is registered at the Ministry of Industry & Commerce and is authorised and approved by the CBB. It is established for a period of 25 years by the Fund Company. The life of the Fund can be extended by the Fund Company at the end of the 25th year.

The Fund was launched on June 27, 2005 and is denominated in US dollars. The objective of the Fund is to achieve long term capital growth using a dynamic allocation strategy by investing primarily in U.A.E. equities listed on the Abu Dhabi Securities Market and the Dubai Financial Market. The Fund’s investment policies are more fully defined in its Prospectus.

The Fund is managed by Mashreqbank psc (“the Investment Manager”) a bank incorporated in the United Arab Emirates. The Fund is administered by Gulf Investment Corporation gsc (“the Administrator”), a financial institution established under the auspices of the Gulf Corporation Council (“GCC”). The Fund Company is approved by the CBB and incorporated as a Bahrain Joint Stock Investment Company with Commercial Registration Number 55378 and has been established to act as an umbrella vehicle for funds including the Fund.

The financial statements represent the assets, liabilities and operations of the Fund only.

The Fund does not have employees, however, it uses the services of an Investment Manager, an Administrator and a Custodian for the fund management, administration and custody functions.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

2. ADOPTION OF NEW AND REVISED STANDARDS:

2.1 Standards and Interpretations effective in the current period

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 11: IFRS 2 Group and Treasury Share Transactions, IFRIC 12: Service Concession Arrangements and IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction. The adoption of these Interpretations has not led to any changes in the Fund's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
<i>New Interpretations:</i>	
IFRIC 13 Customer Loyalty Programmes	July 1, 2008
IFRIC 15 Agreements for the Construction of Real Estate	January 1, 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	October 1, 2008
IFRIC 17 Distributions of Non-cash Assets to Owners	July 1, 2009
<i>New Standards:</i>	
IFRS 8 Operating Segments	January 1, 2009
<i>Amendments to Standards:</i>	
IFRS 1 First-time Adoption of International Financial Reporting Standards-Amendment relating to cost of an investment on first time adoption	January 1, 2009
IFRS 2 Share-based payment-Amendment relating to vesting conditions and cancellations	January 1, 2009
IFRS 3 Business Combinations- Comprehensive revision on applying the acquisition method	July 1, 2009
IAS 1 Presentation of Financial Statements-Comprehensive revision including requiring a statement of comprehensive income	January 1, 2009
IAS 1 Presentation of Financial Statements-Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 23 Borrowing Costs-Comprehensive revision to prohibit immediate expensing	January 1, 2009
IAS 27 Consolidated and Separate Financial Statements-Amendment relating to cost of an investment on first time adoption	January 1, 2009

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

2. **ADOPTION OF NEW AND REVISED STANDARDS : (CONTINUED)**

2.2 Standards and Interpretations in issue not yet adopted (Continued)

		Effective for annual periods beginning on or after
<i>Amendments to Standards: (Continued)</i>		
IAS 27	Consolidated and Separate Financial Statements- Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 28	Investments in Associates-Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 31	Interests in Joint Ventures-Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 32	Financial Instruments: Presentation-Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items	July 1, 2009
Various Standards	Amendments resulting from May 2008 Annual Improvements to IFRS's	Various
IAS 39 & IFRS 7	Reclassification of Financial Assets	July 1, 2008

The Directors anticipate that all of the above Standards and Interpretations, as applicable, will be adopted in the Fund's financial statements in future periods and that the adoption of those Standards and Interpretations will have no material impact on the financial statements of the Fund in the period of initial application.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES:

Statement of Compliance

The financial statements have been prepared in conformity with the Prospectus dated May 12, 2005 and subsequent updates and in accordance with International Financial Reporting Standards (“IFRS”).

Basis of Preparation

The financial statements are prepared the historical cost convention, except for the revaluation of certain financial instruments.

The financial statements are presented in United States Dollars (“USD”) being the presentation currency of the Fund.

The significant accounting policies are as follows:

(a) Investments

The values of securities listed on a securities exchange are based on the last bid price on that exchange on the day of valuation. Transactions in marketable securities are accounted for on the trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investments within the time frame established by the market concerned.

Investments in securities are classified into securities designated at fair value through profit or loss which are initially recognised and subsequently measured at fair value. Any resultant change in the fair value is recognised in the statement of operations as unrealised gains or losses. Realised gains and losses from disposal of securities are determined on an average cost basis.

(b) Other Payables

Other payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the provider or not. These are carried at amortised cost which is the fair value of the consideration to be settled in the future.

(c) Dividend Income Recognition

Dividend income from investments is recognised when the Shareholders’ right to receive payment has been established.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

3. **SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

(d) **Foreign Currencies**

Foreign currency transactions are recorded in United States Dollars at the approximate rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currency at the valuation date are translated at the rates of exchange at that date.

The Fund isolates the portion of the results of operations resulting from changes in foreign exchange rates on investments in securities from the fluctuations arising from changes in market prices of investments in securities held.

Translation differences on monetary items are reported as part of the fair value gain or loss in the statement of operations.

(e) **Expenses**

All recurring expenses are accounted for on the accrual basis.

Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

(f) **Cash and Cash Equivalents**

Cash and cash equivalents are comprised of cash at bank net of bank overdraft.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

4. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:**

In the application of the Fund's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Fund's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Classification of investments

Management has to decide upon acquisition of an investment whether it should be classified as held to maturity, available for sale or investments at fair value through profit or loss. For those deemed to be held to maturity, the Fund ensures that the requirements of IAS 39 are met and in particular the Fund has the intention and ability to hold these to maturity. The Fund classifies investments as carried at fair value through profit or loss if they are acquired primarily for the purpose to be held for trading or upon initial recognition, it is designated by the Fund as at fair value through profit or loss. All other investments are classified as available for sale.

Key sources of estimation uncertainty

There were no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

5. **FEES:**

(a) **Management Fee**

The Investment Manager is entitled to an annual Management Fee at a maximum of 2% of the Net Asset Value (“NAV”) of the Fund for its services as Investment Manager. The Management Fee is calculated and accrued on each valuation day and is payable quarterly in arrears.

(b) **Performance Fee**

The Investment Manager is also entitled to a Performance Fee of 10% per annum of the appreciation in NAV which exceeds 10% per annum payable semi-annually in arrears, subject to a “High Water Mark” as described in the Prospectus of the Fund.

(c) **Administration Fee**

Under the Administration Agreement, the Fund pays the Administrator an agreed percentage of the NAV of the Fund (subject to a minimum of USD 60,000). The Administration Fee is calculated and accrued on each valuation day and is payable quarterly in arrears. The applicable rates depend on agreed thresholds and vary from 0.14% to 0.28%.

(d) **Custody Fee**

Under the Custody Agreement, the Fund pays the Custodian an agreed percentage of the investments of the Fund. The Custody Fee is calculated and accrued on each valuation day and is payable quarterly in arrears. The applicable rates depend on agreed thresholds and vary from 0.15% to 0.30%.

(e) **Transaction Fee**

Under the Administration Agreement, the Fund pays the Administrator USD 60 for each purchase and sale transaction pertaining to investments. The Fund also pays the Administrator USD 45 for each redemption transaction where the value of the redemption of units exceeds USD 100,000.

(f) **Registrar and Transfer Agent Fee**

The Fund is responsible for the fees and expenses of the Registrar and Transfer Agent. The registrar fee is BD 3 per subscription or redemption, subject to a minimum annual fee of BD 2,500.

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

6. **CASH AT BANKS:**

Cash at banks consist of cash held in current accounts with Mashreqbank psc, the Investment Manager (Note 15) and with National Bank of Abu Dhabi.

7. **SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:**

This caption is composed of the following:

December 31, 2008

Listed Shares

	<u>Cost</u> <u>USD</u>	<u>Fair value</u> <u>USD</u>	<u>Change in</u> <u>Fair value</u> <u>USD</u>
AED - Services	171,867	119,793	(52,074)
	-----	-----	-----
Unlisted Shares			
AED - Other	15,042	15,042	-
	-----	-----	-----
	<u>186,909</u>	<u>134,835</u>	<u>(52,074)</u>
	=====	=====	=====

The Directors estimate that the cost of unlisted shares approximates their fair values as of the balance sheet date.

December 31, 2007

Listed Shares

	<u>Cost</u> <u>USD</u>	<u>Fair value</u> <u>USD</u>	<u>Change in</u> <u>Fair value</u> <u>USD</u>
AED - Real Estate	1,918,483	2,045,523	127,040
- Industrial	1,853,404	2,756,071	902,667
- Services	3,014,954	3,991,242	976,288
- Investment	2,058,299	1,824,121	(234,178)
	-----	-----	-----
UAE Markets	8,845,140	10,616,957	1,771,817
	-----	-----	-----
OMR - Industrial	258,171	390,131	131,960
	-----	-----	-----
Oman Market	258,171	390,131	131,960
	-----	-----	-----
	<u>9,103,311</u>	<u>11,007,088</u>	<u>1,903,777</u>
	=====	=====	=====

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

7. **SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS: (CONTINUED)**

- (a) Investments in listed shares are classified as securities designated at fair value through profit or loss. These securities provide the Fund with the opportunity to enhance the return on investment through trading gains. The fair value of these securities is based on market prices, which may not necessarily represent realisable value because of market illiquidity.
- (b) As per the prospectus of the Fund, the investments in securities listed on stock exchanges in the United Arab Emirates (“UAE”) should comprise at least 55% of the NAV of the Fund. However, as of the balance sheet date, the investment in listed shares in UAE represents only 6.03% of the NAV of the Fund. The Directors sought CBB approval on this and the CBB has issued a no objection letter dated December 4, 2008 and allowed the Fund to continue with the lower investment limit up to June 4, 2009. As of March 18, 2009 the fund is in compliance with the minimum investment limit as per the prospectus.

8. **BANK OVERDRAFT:**

The bank overdraft had been obtained from Mashreqbank psc., the Investment Manager and carries interest at rate of EIBOR + 0.5% per annum (Note 15). As at December 31, 2008, the bank overdraft was nil.

9. **ACCRUED FEES AND CHARGES:**

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Administration fees	15,123	15,123
Registrar fees	1,658	1,571
Transaction fees	1,860	4,320
Custody fees	958	7,458
Professional fees	5,475	4,907
	<u>25,074</u>	<u>33,379</u>

10. **DUE TO A RELATED PARTY:**

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Due to:		
Mashreqbank psc. – Management fees	12,648	41,927

MAKASEB EMIRATES OPPORTUNITIES FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

11. **CAPITAL:**

The caption is composed of the following:

	<u>2008</u>		<u>2007</u>	
	<u>No. of units</u>	<u>USD</u>	<u>No. of units</u>	<u>USD</u>
Opening balance	1,105,494	13,527,258	1,479,139	15,752,448
Subscriptions during the year	-	-	30,500	168,336
Redemptions during the year	(389,516)	(3,029,294)	(404,145)	(2,393,526)
Ending balance	<u>715,978</u>	<u>10,497,964</u>	<u>1,105,494</u>	<u>13,527,258</u>

12. **INVESTMENT INCOME:**

An analysis of the Fund's investment income is as follows:

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Investment income:		
Dividends from listed shares	261,984	149,435
Other operating income:		
Interest income	324	1,790
	<u>262,308</u>	<u>151,225</u>

13. **OTHER EXPENSES:**

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Advertisement	-	749
Bank charges	34	805
Miscellaneous	16,233	18,343
Exchange loss	4,288	-
	<u>20,555</u>	<u>19,897</u>

14. **BUSINESS AND GEOGRAPHIC SEGMENTS:**

The Directors are of the opinion that the Fund is engaged in a single segment of business, being investments in equity securities issued by companies operating and generating revenue in the Middle East Region, principally the United Arab Emirates and therefore no further segmental reporting has been provided.

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15. RELATED PARTY TRANSACTIONS:

The Fund Company is a related party as it was incorporated to create the Fund.

Mashreqbank psc, Dubai, the Investment Manager, is also the parent company of the Funds Company.

Mashreq Securities L.L.C. is a related party and it is a fully owned subsidiary of Mashreqbank psc.

The following transactions occurred between the Fund and its related parties:

<u>Related party</u>	<u>Nature of Transactions</u>	<u>Amount Earned/(Incurred) 2008 / USD</u>	<u>Amount Earned/(Incurred) 2007 / USD</u>
Mashreqbank psc, Dubai	Interest expense	(13,922)	(10,976)
Mashreqbank psc, Dubai	Management fees	(121,474)	(148,385)
Mashreqbank psc, Dubai	Interest income	324	1,790

- (a) During the year the Mashreqbank psc. had not subscribed or redeemed any units in this Fund.
- (b) Cash at banks includes current accounts with Mashreqbank psc amounting to USD 1,877,092 (2007: overdraft 2,259,216) (Note 6).
- (c) The bank overdraft had been obtained from Mashreqbank psc (Note 8).

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Fund include cash at banks and securities designated at fair value through profit or loss.

Financial liabilities of the Fund include bank overdraft, accrued fees and charges and due to a related party.

Significant accounting policies

Significant accounting policies and methods adopted, including the criteria for recognition, basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial assets and liabilities are set out in Note 3.

Categories of financial instruments

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Financial assets		
Securities designated at fair value through profit or loss	134,835	11,007,088
Cash at banks	1,891,780	2,576
Financial liabilities		
Amortised cost	37,722	2,334,522

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16. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

Financial risk management objectives

The Fund Manager provides services to the Fund, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Fund through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include credit risk, liquidity risk and market risk comprising interest rate risk, foreign currency risk and equity price risk.

16.1 **CREDIT RISK AND CONCENTRATION OF CREDIT RISK**

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

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location.

To mitigate this risk, the Fund spreads its investments, to the extent possible, over various types of counterparties and products consisting mainly of equity securities. However, where concentration is inevitable, the Fund takes adequate precautions to reduce this additional risk to acceptable levels.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international rating agencies.

Exposure to credit risk

The management of the Fund believes that the carrying amount of financial assets recorded in the financial statements represents the Fund's maximum exposure to credit risk. The maximum exposure to credit risk at the reporting date was:

	<u>Carrying amount</u>	
	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Cash at banks	1,891,780	2,576
Securities designated at fair value through profit or loss	134,835	11,007,088
	-----	-----
	<u>2,026,615</u>	<u>11,009,664</u>
	=====	=====

Recorded financial assets have not been provided as collateral for any facilities.

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16. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

16.2 **LIQUIDITY RISK**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities, it arises because of the possibility (which may often be remote) that the entity could be required to pay its liabilities earlier than expected or reimburse the unit holders as a result of market illiquidity.

The Fund manages liquidity risk by maintaining sufficient cash at banks or by obtaining credit facilities from banks.

The liquidity profile of financial liabilities reflects the projected cash flows over the life of these financial liabilities. The liquidity profile of financial liabilities at December 31 was as follows:

	<u>Upto 3</u> <u>Months</u> <u>USD</u>
2008	
Financial Liabilities	
Accrued fees and charges	25,074
Due to a related party	12,648

	<u>37,722</u>
	=====
	<u>Upto 3</u> <u>Months</u> <u>USD</u>
2007	
Financial Liabilities	
Bank overdraft	2,259,216
Accrued fees and charges	33,379
Due to a related party	41,927

	<u>2,334,522</u>
	=====

16.3 **MARKET RISK**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

The Fund's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity price.

The Fund's market risk is managed through diversification of the investments portfolio exposure. The Fund's overall market positions are monitored on a daily basis by the Investment Manager.

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16. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

16.3 **MARKET RISK : (CONTINUED)**

16.3.1 **Interest Rate Risk**

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

The Fund is exposed to minimal risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund was exposed to interest rate risk in respect of its bank overdraft which was nil as of December 31, 2008.

The Investment Manager reviews the market analysis and expectations for interest rate movements as the basis on which Investment Manager monitors and manages the interest rate risk aspect and its impact on the Fund performance.

There are no assets or liabilities at the balance sheet date with variable interest rate exposure.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the overdraft. For the overdraft which was subjected to a variable rate of interest, the analysis is prepared assuming the amount of the overdraft at the balance sheet date was outstanding for the whole year. An increase or decrease of 25 basis point is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Fund's income for the year would decrease/increase by USD Nil (2007: 5,648).

16.3.2 **Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

The Fund's assets and liabilities are denominated primarily in United Arab Emirates Dirhams and Oman Riyals rather than United States Dollars, the presentation currency. The Fund is not exposed to significant currency risk since the United Arab Emirates Dirham and Oman Riyal are effectively pegged to the US Dollar.

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16. **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)**

16.3 **MARKET RISK : (CONTINUED)**

16.3.2 **Currency Risk: (Continued)**

The carrying amounts of the Fund's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
AED	2,026,615	8,359,682	-	-
OMR	-	390,130	-	-
BD	-	-	7,133	6,478
	<u>2,026,615</u>	<u>8,750,448</u>	<u>7,133</u>	<u>6,478</u>

16.3.3 **Equity Price Risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Fund manages the risk through diversification of investments in terms of geographical distribution, to the extent permissible in the Prospectus, and industry concentration. As at the year ends, all the Fund's equity investment were in equities listed on the securities markets of the United Arab Emirates.

Equity price sensitivity analysis

The effect on statement of operations (as a result of a change in the fair value of securities designated at fair value through profit or loss at December 31, 2008) due to a reasonably possible change in market indices which have been revised from 5% in 2007 to 10% for 2008 due to the volatility of the equity markets, with all other variables held constant, is as follows:

<u>Market</u>	<u>2008</u>		<u>2007</u>	
	<u>Change in equity price</u>	<u>Effect on Statement of Operations</u>	<u>Change in equity price</u>	<u>Effect on Statement of Operations</u>
	<u>%</u>	<u>USD</u>	<u>%</u>	<u>USD</u>
United Arab Emirates	+ 10	+ 13,484	+ 5	+ 530,848
Muscat	+ 10	-	+ 5	+ 19,506

There would be an equal and opposite impact on the statement of operations, had there been a decrease in equity prices by 10% (2007: 5%).

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17. **FAIR VALUE OF FINANCIAL INSTRUMENTS:**

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

The Directors believe that the fair values of financial instruments are not significantly different from the carrying values included in the financial statements.

18. **NET ASSET VALUE PER UNIT:**

	<u>Net Asset Value</u> <u>USD</u>	<u>Number of Units</u> <u>in Issue</u>	<u>Net Asset Value</u> <u>Per Unit</u> <u>USD</u>
As at December 31, 2008	1,988,893	715,978	2.77787
As at December 31, 2007	8,675,142	1,105,494	7.84730

The net asset value per unit is based on net assets and units outstanding at the year end.

19. **GOING CONCERN:**

Under the CBB regulation pertaining to Collective Investment Undertakings ("CIU"), Rulebook Volume 6, there is no minimum size set for a CIU. The regulation specifies however that if the NAV falls below USD 5 million, the Directors have the option to apply to the CBB for winding up of the Fund. The Directors of the Fund however do not have any intention to wind up the Fund within the next twelve months.