

MAKASEB INCOME FUND
MANAMA
KINGDOM OF BAHRAIN

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

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

Chairman

Mr. Nabeel Waheed

Directors

Mr. Omar Bouhadiba
Mr. Ali Raza Khan
Mr. Kantic Dasgupta
Mr. Denis Sabourin (from July 14, 2008)

Registered Office

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

Banks

HSBC Bank Middle East Limited, Bahrain
Citibank, Bahrain
Mashreqbank psc, Dubai, U.A.E.

Fund Company

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

Fund Manager

Mashreqbank psc. Dubai, U.A.E.

Administrator & Custodian

HSBC Bank Middle East Limited, Bahrain

Auditor

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

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

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MAKASEB INCOME 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 an open ended investment fund and its primary objective is to provide current income primarily through investment in a portfolio of fixed and floating rate securities. The Fund invests primarily in the Gulf Cooperation Council States, Lebanon, Jordan, Iran, Syria, Algeria, Egypt and Tunisia, other MENA markets and selectively in South Asian markets.

REVIEW OF BUSINESS

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

APPROPRIATIONS

None

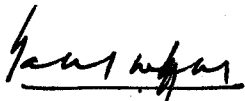
CHANGES IN DIRECTORS

During the year Mr. Denis Sabourin was added to the Board on July 14, 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 17, 2009

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS

Makaseb Income Fund,
Manama,
Kingdom of Bahrain.

Report on the Financial Statements

We have audited the accompanying financial statements of Makaseb Income Fund, ("the 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.

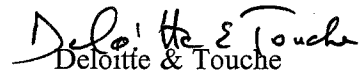
INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS: (CONTINUED)*Opinion*

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 7 (a) to the financial statements. The securities designated at fair value through profit or loss represent investments in listed securities, which according to the Fund Manager provide the Fund with the opportunity to enhance the return on investments through trading gains. The fair values of these securities are based on quoted market prices from various sources. Certain markets and securities may be illiquid and published market prices may not necessarily represent realisable value.

Manama – Kingdom of Bahrain
March 17, 2009

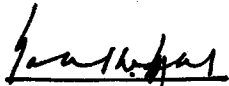

Deloitte & Touche

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

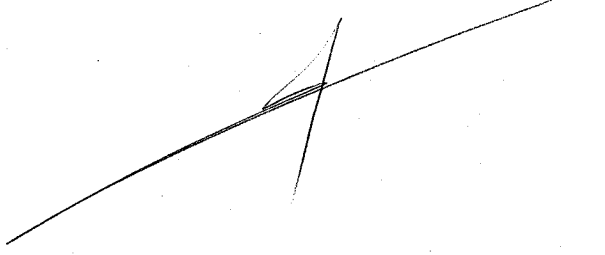
STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 2008

	<u>Notes</u>	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
ASSETS:			
Cash at banks	6 & 16	1,052,074	267,340
Securities designated at fair value through profit or loss	7	24,847,533	4,333,391
Interest receivable		429,858	68,789
		-----	-----
Total Assets		26,329,465	4,669,520
		-----	-----
LIABILITIES:			
Bank overdraft	9 & 16	-	300,000
Accrued fees and charges	10	26,632	30,381
Derivative financial liabilities	8 & 16	274,242	-
Due to a related party	11	52,840	11,077
		-----	-----
Total Liabilities		353,714	341,458
		-----	-----
Net Assets		25,975,751	4,328,062
		=====	=====
ANALYSIS OF NET ASSETS:			
Capital	12	32,030,279	4,030,279
Net realised income		1,083,611	351,795
Change in fair value of securities designated at fair value through profit or loss	7	(6,863,897)	(54,012)
Unrealised loss on derivative financial liabilities	8	(274,242)	-
		-----	-----
Net Assets		25,975,751	4,328,062
		=====	=====
Net assets value per unit	19	8.17993	10.38747
		=====	=====

The financial statements were approved by the Directors on March 17, 2009 and signed on their behalf by:



 Director



The attached notes 1 to 20 form part of these financial statements.

MAKASEB INCOME 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:			
Interest income	13	1,154,570	423,703
Other operating income	13	17,032	12,054
		-----	-----
		1,171,602	435,757
		-----	-----
EXPENSES:			
Management fees	5 & 16	169,944	81,505
Administration fees	5	32,263	25,000
Custody fees	5	30,165	30,000
Registrar fees	5	11,018	11,936
Professional fees		11,413	4,377
Exchange loss		56,277	-
Other expenses	14	16,697	20,401
		-----	-----
Total expenses		327,777	173,219
		-----	-----
Investment gain – net		843,825	262,538
		-----	-----
Realised and unrealised gain or loss on securities designated at fair value through profit or loss:			
Net realised (loss) / gain		(112,009)	42,144
Change in fair value		(6,809,885)	(64,190)
		-----	-----
Net loss on securities designated at fair value through profit or loss		(6,921,894)	(22,046)
		-----	-----
Unrealised loss on derivative financial liabilities		(274,242)	-
		-----	-----
Net (decrease)/increase in net assets resulting from operations		(6,352,311)	240,492
		=====	=====

The attached notes 1 to 20 form part of these financial statements.

MAKASEB INCOME 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 gain – net	843,825	262,538
Net realised (loss) / gain on securities designated at fair value through profit or loss	(112,009)	42,144
Change in fair value of securities designated at fair value through profit or loss	(6,809,885)	(64,190)
Unrealised loss on derivative financial liabilities	(274,242)	-
	-----	-----
Net (decrease) / increase in net assets resulting from operations	(6,352,311)	240,492
Change in net assets from capital share transactions	28,000,000	(192,929)
	-----	-----
Change in net assets	21,647,689	47,563
Net assets – beginning of the year	4,328,062	4,280,499
	-----	-----
Net assets – end of the year	<u>25,975,751</u>	<u>4,328,062</u>

The attached notes 1 to 20 form part of these financial statements.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Cash flows from operating activities		
Net (decrease) / increase in net assets resulting from operations	(6,352,311)	240,492
Adjustments for:		
Net loss on securities designated at fair value through profit or loss	6,921,894	22,046
Unrealised loss on derivative financial liabilities	274,242	-
Interest income	(1,167,852)	(435,757)
Interest expense	3,673	2,131
	-----	-----
	(320,354)	(171,088)
Changes in operating liabilities:		
Change in other liabilities	38,014	9,644
	-----	-----
	(282,340)	(161,444)
Payments for purchase of securities designated at fair value through profit or loss	(49,066,269)	(18,632,649)
Proceeds from disposal of securities designated at fair value through profit or loss	21,630,233	18,496,168
Security deposit for futures trading	(82,080)	-
Interest income received	806,783	430,108
Interest paid	(3,673)	(2,131)
	-----	-----
Net cash (used in) / from operating activities	(26,997,346)	130,052
	-----	-----
Cash flows from financing activities		
Proceeds from issue of units	28,000,000	6,806,000
Payments on redemption of units	-	(6,998,929)
	-----	-----
Net cash from / (used in) financing activities	28,000,000	(192,929)
	-----	-----
Net increase / (decrease) in cash and cash equivalents	1,002,654	(62,877)
Cash and cash equivalents at the beginning of the year	(32,660)	30,217
	-----	-----
Cash and cash equivalents at the end of the year	969,994	(32,660)
	=====	=====
Comprising:		
Cash at banks (Note 6 & 16)	969,994	267,340
Bank overdraft	-	(300,000)
	-----	-----
	969,994	(32,660)
	=====	=====

The attached notes 1 to 20 form part of these financial statements.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

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

1. STATUS AND ACTIVITIES:

Makaseb Income Fund (“the Fund”) is an open-ended investment fund established by Makaseb Funds Company II B.S.C. (c) (“the Fund Company”). The Fund is a collective investment scheme established pursuant to the Central Bank of Bahrain (“the CBB”) regulations for the operation and marketing of collective investment schemes issued by the CBB, Circular Number OG/356/92 of November 8, 1992 and subsequent supplementary circulars. The Fund is registered with the Ministry of Industry & Commerce and is authorised and approved by the CBB and 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 March 19, 2006 and is denominated in US Dollars. The objective of the Fund is to provide current income primarily through investment in a portfolio of fixed and floating rate securities, issued by sovereigns, agencies, autonomous bodies, financial institutions, corporate and special purpose vehicles, originating from MENA markets and other emerging economies. The Fund’s investment policies are 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 HSBC Bank Middle East Limited, Bahrain (“the Administrator”). The Fund Company is approved by the CBB and incorporated as a Bahrain Joint Stock Investment Company with Commercial Registration Number 59197 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 any employees, however, it uses the services of an Investment Manager, an Administrator and a Custodian for the fund management, fund administration and custody functions.

MAKASEB INCOME 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
IFRIC 18 Transfers of Assets from Customers	Transfers received on or after July 1, 2009
<i>New Standards:</i>	
IFRS 8 Operating Segments	January 1, 2009
<i>Amendments to Standards and Interpretations:</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 INCOME 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 and Interpretations: (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 Amendments resulting from May 2008 Annual Standards Improvements to IFRS	Various
IAS 39 & Reclassification of Financial Assets IFRS 7	July 1, 2008
IFRS 7 Improving Disclosures about Financial Instruments	January 1, 2009
IFRIC 9 Embedded Derivatives & IAS 39	Annual periods ending on or after June 30, 2009

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 INCOME 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 March 7, 2006 and in accordance with International Financial Reporting Standards (“IFRS”).

Basis of Preparation

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

The financial statements are presented in United States Dollars (“USD”) being the functional and 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) **Derivative Financial Instruments**

The Fund enters into derivative financial instruments to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Fund has not adopted hedge accounting.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

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

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

(c) **Other Payables and Accruals**

Other payables are recognised for amounts to be paid in the future for 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.

(d) **Interest Income Recognition**

Interest income is recognised on an accrual basis based on the outstanding balance and applicable effective interest rate.

(e) **Foreign Currencies**

Foreign currency transactions are recorded in United States Dollars at the approximate rates of exchange prevailing at the time of the transactions. Monetary 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, such as fixed income securities held at fair value through profit or loss, are reported as part of the fair value gain or loss in the statement of operations.

(f) **Expenses**

All recurring expenses are accounted for on an accrual basis.

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

(g) **Cash and Cash Equivalents**

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

MAKASEB INCOME 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, investments at fair value through profit or loss or as available for sale. 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

The following are the 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:

Determination of the market prices relevant for the valuation of investments

The Fund's management believes that the bond market in Middle East region does not show the characteristics of a developed bond market. In this situation, the management considers the executable prices quoted by the brokers as of the valuation date for the valuation purposes. In the absence of a quotation from a broker, the prices indicated on Bloomberg are considered for the valuation. Therefore, the prices taken for the valuation purpose are based on different sources and may reflect favourable positions depending on the availability of a broker's quotation.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

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

5. **FEES:**

(a) **Management Fee**

Under the Investment Management Agreement, 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 had been paid at an agreed reduced rate of 0.75% during the year. The Management Fee is calculated on a weekly basis 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 return in excess of 1% over the benchmark during a calendar year payable 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 25,000 per annum). The Administration Fee is accrued on a weekly basis and is payable monthly in arrears. The applicable rates depend on agreed thresholds and vary from 0.10% to 0.125%.

(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 accrued on a weekly basis and is payable monthly in arrears. The applicable rate depends on agreed thresholds and varies from 0.0175% to 0.24%. The Fund also pays the custodian USD 80 and USD 20 per market settlement for the assets held locally by the custodian and assets held centrally through Clearstream or Euroclear respectively. The minimum fee is USD 30,000 per annum.

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

The Fund is responsible for the fees and expenses of the Registrar and Transfer Agent. Currently the Registrar and Transfer Agent’s fee is being paid at BD 3,000 per annum.

6. **CASH AT BANKS:**

Cash at banks consists of cash held in current accounts at banks and in a clearing house and in a margin account maintained with Mashreqbank psc (Note 16). The margin account was opened for the purpose of entering in to futures transactions as disclosed in Note 8. As of December 31, 2008 the balance in this margin account was USD 165,686 (2007: USD 54,237) and out of this an amount of USD 82,080 (2007: Nil) was allocated as a security deposit to ensure that the fund has sufficient funds to meet any potential loss from futures trade. Therefore ,USD 82,080 is separated from cash and cash equivalents in the cash flow statement.

**MAKASEB INCOME 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:

This caption is composed of the following:-

December 31, 2008

Listed bonds

ISSUER	COUNTRY	MATURITY	COUPON RATE	MARKET PRICE	REDEMPTION VALUE in Original currency	COST	FAIR VALUE	CHANGE IN FAIR VALUE
			%	%		USD	USD	USD
Euro								
Edcon Holding Prop.	South Africa	June 15, 2015	EURIBO+550	23.58	500,000	428,630	166,640	(261,990)
ICICI Bank Ltd	Singapore	March 29, 2009	EURIBO+40	99.19	1,000,000	1,219,711	1,401,712	182,001
U.A.E. Dirhams								
Emirates Bank International	U.A.E.	March 26, 2018	EIBO+325	102.10	10,000,000	2,800,856	2,780,292	(20,564)
Rak Capital FRN	U.A.E.	May 28, 2013	EIBO+115	94.67	10,000,000	2,712,049	2,577,774	(134,275)
USD								
Kuwait Projects Company	Kuwait	April 12, 2011	US LIB+90	86.25	2,300,000	2,195,785	1,983,821	(211,964)
Dar Al Arkan	Kuwait	July 16, 2012	US LIB+225	92.25	750,000	750,000	691,875	(58,125)
TABREED 06 Financing Corp.								
United Gulf Bank	U.A.E.	July 20, 2011	US LIB+125	90.00	840,000	843,780	756,000	(87,780)
Ahli United Bank	Bahrain	October 13, 2016	US LIB+180	89.00	1,000,000	929,388	890,000	(39,388)
Abu Dhabi Commercial Bank	Bahrain	December 2, 2015	US LIB+95	89.50	1,000,000	1,002,500	895,000	(107,500)
Dana Gas	U.A.E.	May 9, 2016	US LIB+60	83.00	2,500,000	2,313,750	2,075,000	(238,750)
DBS Bank Ltd	J.E.- Jersey	October 31, 2012	7.5%	42.83	500,000	468,125	214,153	(253,972)
DP World Ltd	Singapore	May 16, 2017	5.125%	96.62	1,000,000	897,500	966,215	68,715
Dubai Holding	U.A.E.	July 2, 2037	6.85%	53.00	3,000,000	2,637,300	1,590,000	(1,047,300)
Dubai Sukuk Centre	Kuwait	February 6, 2012	US LIB+37.5	70.34	500,000	457,250	351,677	(105,573)
GTB Finance	U.A.E.	June 13, 2012	US LIB+37.5	66.62	1,500,000	1,385,625	999,291	(386,334)
	New Zealand	January 29, 2012	8.5%	60.07	1,000,000	965,000	600,725	(364,275)

MAKASEB INCOME 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)

December 31, 2008

Listed bonds (Continued)

ISSUER	COUNTRY	MATURITY	COUPON RATE	MARKET PRICE	REDEMPTION VALUE	COST	FAIR VALUE	CHANGE IN FAIR VALUE
			%	%	in Original currency	USD	USD	USD
USD								
Nakheel Development	U.A.E.	January 16, 2011	2.75	52.20	4,000,000	3,722,985	2,087,916	(1,635,069)
State Bank of India	U.K.	February 15, 2012	US LIB+38	92.13	1,500,000	1,416,466	1,381,950	(34,516)
Tamweel FDG	U.A.E.	January 23, 2013	4.31	56.99	1,000,000	580,000	569,999	(10,001)
Taga Abu Dhabi National	U.A.E.	August 1, 2013	6.6	93.50	1,000,000	999,410	934,993	(64,417)
Vedanta Resources Plc	U.K.	January 15, 2014	8.75	63.25	1,000,000	1,000,000	632,500	(367,500)
Winter Haven (Nutritek)	New Zealand	April 17, 2009	9	15.00	2,000,000	1,985,320	300,000	(1,685,320)
						31,711,430	24,847,533	(6,863,897)

**MAKASEB INCOME 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)

This caption is composed of the following:-

December 31, 2007

Listed bonds

ISSUER	COUNTRY	MATURITY	COUPON RATE	MARKET PRICE	REDEMPTION VALUE	COST	FAIR VALUE	CHANGE IN FAIR VALUE
USD Kuwait Projects Company Dar Al Arkan TABREED 06 Financing Corp.	Kuwait Cayman Islands	April 12, 2011 July 16, 2012	US LIB+90 US LIB+225	98.62 99.45	800,000 750,000	796,735 750,000	788,932 745,875	(7,803) (4,125)
United Gulf Bank Ahli United Bank Republic of Sri Lanka	U.A.E. Bahrain Bahrain Sri Lanka	July 20, 2011 October 13, 2016 December 2, 2015 October 24, 2012	US LIB+125 US LIB+180 US LIB+95 8.25%	99.48 97.72 99.38 96.13	840,000 500,000 1,000,000 500,000	843,780 494,388 1,002,500 500,000	835,624 488,585 993,750 480,625	(8,156) (5,803) (8,750) (19,375)
						<u>4,387,403</u>	<u>4,333,391</u>	<u>(54,012)</u>

MAKASEB INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
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7. SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:
(CONTINUED)

- (a) Investments in listed bonds are classified as investments 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 latest market prices, which may not necessarily represent realisable value because of market illiquidity.

8. DERIVATIVE FINANCIAL LIABILITIES:

The Fund has entered into arrangements with Mashreqbank, a related party (Note 16) in order to buy or sell futures. As of the balance sheet date derivative financial liabilities arising from the futures buy-back agreements amount to USD 274,242 (2007: nil). The underlying for these futures is US (30 year) Treasury Bonds. The details of such futures are as follows;

Opening date	Quantity	Deal Price USD	Fair Value USD	Loss per Unit USD	Total Loss USD
November 27, 2008	2,000	127.0000	141.42189	14.4219	28,844
November 27, 2008	2,000	126.9766	141.42189	14.4453	28,891
November 27, 2008	7,000	126.9923	141.42189	14.4296	101,007
November 27, 2008	8,000	126.9844	141.42189	14.4375	115,500
					274,242

The fair value of the above futures were determined based on the futures trading terminal operated by Citibank.

Subsequent to the balance sheet date on March 1, 2009, these futures matured and the Fund realised a profit of USD 18,773.

9. BANK OVERDRAFT:

The bank overdraft has been obtained from Mashreqbank psc., the Investment Manager. This facility is unsecured and carries interest of EIBOR + 0.50% per annum (2007: LIBOR + 0.25%). As at December 31, 2008 the bank overdraft was nil.

10. ACCRUED FEES AND CHARGES:

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Administration fees	8,319	6,525
Custody fees	7,665	7,830
Registrar fees	2,881	8,889
Other fees and expenses	7,767	7,137
	26,632	30,381

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

11. DUE TO A RELATED PARTY:

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Mashreqbank psc. – Management fees	52,840	11,077
	-----	-----
	<u>52,840</u>	<u>11,077</u>

12. 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	416,662	4,030,279	425,792	4,223,208
Subscriptions during the year	2,758,886	28,000,000	670,879	6,806,000
Redemptions during the year	-	-	(680,009)	(6,998,929)
	-----	-----	-----	-----
Ending balance	<u>3,175,548</u>	<u>32,030,279</u>	<u>416,662</u>	<u>4,030,279</u>

13. INVESTMENT INCOME:

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

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
Interest income:		
Interest from listed bonds	1,154,570	423,703
Other operating income:		
Interest on deposits	13,282	12,054
Other income	3,750	-
	-----	-----
	<u>1,171,602</u>	<u>435,757</u>

14. OTHER EXPENSES:

	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
CBB registration fees	5,358	5,333
Interest expense (Note 16)	3,673	2,131
Miscellaneous	7,666	12,937
	-----	-----
	<u>16,697</u>	<u>20,401</u>

MAKASEB INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
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15. **BUSINESS AND GEOGRAPHIC SEGMENTS:**

The Directors are of the opinion that the Fund is mainly engaged in a single segment of business, being investments in fixed and floating rate securities issued by entities operating and generating revenue in the Middle East, North Africa and other emerging markets as discussed under Note 7, and therefore no further segmental reporting has been provided.

16. **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 Fund Company.

Mashreq Securities L.L.C. is a related party as 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 Transaction</u>	<u>Amount Earned/</u>	<u>Amount Earned/</u>
		<u>(Incurred)</u>	<u>(Incurred)</u>
		<u>2008</u>	<u>2007</u>
		<u>USD</u>	<u>USD</u>
Mashreqbank psc, Dubai	Management fees	(169,944)	(81,505)
	Interest on overdraft	(3,673)	(2,131)

(a) The following related parties owned units in the Fund:

<u>Related party</u>	<u>Nature of Relationship</u>	<u>No. of units held as at</u>	
		<u>2008</u>	<u>2007</u>
Mashreqbank psc	Investment Manager of the Fund Company	2,600,922.06	136,100.00
Mashreq Securities L.L.C.	Fully owned subsidiary of Mashreqbank psc	569,724.11	275,660.08

No subscription or redemption fees has been charged from the above related parties for their subscriptions and redemptions in the units of the Fund.

- (b) Cash held at banks includes cash held in a margin account with Mashreqbank psc (Note 6).
- (c) The Fund has entered into commodity contract arrangements with Mashreqbank psc with respect to trading in Commodity Futures (Note 8).
- (d) The bank overdraft had been obtained from Mashreqbank psc (Note 9).

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

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Financial instruments consist of financial assets and financial liabilities.

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

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

Categories of financial instruments

	<u>2008</u>	<u>2007</u>
	<u>USD</u>	<u>USD</u>
Financial assets		
Securities designated at fair value through profit or loss	24,847,533	4,333,391
Receivables (including cash at banks)	1,481,932	336,129
Financial liabilities		
Derivatives financial liabilities at fair value through profit and loss	274,242	-
Amortised cost	79,472	341,458

Accounting policies for financial assets and liabilities are set out in Note 3.

The risk associated with financial instruments and the Fund's approaches to managing such risks are:

17.1 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 has an investment policy in place for selecting Debt Securities which are rated by recognised rating agencies. According to the investment policy, the investments in non-rated Debt Securities should not exceed 25% of the NAV. The investments in Debt Securities which are non-rated or rated below investment grade BB+ to B- should comprise only up to a maximum of 75% of the NAV of the Fund. The table below shows the credit quality by Debt Securities, based on the Ratings assigned by the rating agencies.

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

17.1. CREDIT RISK AND CONCENTRATION OF CREDIT RISK: (CONTINUED)

2008 ISSUER	Rating	Rating Agency	Fair Value USD	As a % of NAV
Kuwait Projects Company (Floating)	BBB+	S&P	1,983,821	8%
United Gulf Bank (Floating)	Ba1	Moody's	890,000	3%
Ahli United Bank (Floating)	BBB+	Fitch	895,000	3%
ICICI Bank Ltd Singapore (Floating)	BBB-	S&P	1,401,712	5%
Emirates Bank International (Floating)	A+	Fitch	2,780,292	11%
Rak Capital FRIV (Floating)	A	S&P	2,577,774	10%
Abu Dhabi Commercial Bank (Floating)	A-	S&P	2,075,000	8%
DBS Bank Ltd (Floating)	A+	S&P	966,215	4%
DPWorld Ltd (Fixed)	A+	S&P	1,590,000	6%
Dubai Holding (Floating)	A+	S&P	351,677	1%
Dubai Sukuk Centre (Floating)	A+	S&P	999,291	4%
State Bank of India (Floating)	BBB-	S&P	1,381,950	5%
Tamweel FDG (Fixed)	A	Fitch	569,999	2%
Taqa Abu Dhabi National (Fixed)	AA-	S&P	934,993	4%
TABREED 06 Financing Corp. (Floating)	BB	S&P	756,000	3%
Edcon Holding Prop (Floating)	B-	S&P	166,640	1%
GTB Finance (Fixed)	BB-	S&P	600,725	2%
Vedenta Resources Plc (Fixed)	BB	S&P	632,500	2%
Winter Haven Finance BV (Fixed)	D	S&P	300,000	1%
Non Rated				
Dar Al Arkan (Floating)	Not rated	N/A	691,875	3%
Dana Gas (Fixed)	Not rated	N/A	214,153	1%
Nakheel Development (Fixed)	Not rated	N/A	2,087,916	8%

			<u>24,847,533</u>	

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NOTES TO THE FINANCIAL STATEMENTS
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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

17.1 CREDIT RISK AND CONCENTRATION OF CREDIT RISK : (CONTINUED)

2007				
<u>ISSUER</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Fair Value USD</u>	<u>As a % of NAV</u>
Kuwait Projects Company (Floating)	BBB+	S&P	788,932	18%
TABREED 06 Financing Corp. (Floating)	BBB-	S&P	835,624	19%
United Gulf Bank (Floating)	Ba1	Moody's	488,585	11%
Ahli United Bank (Floating)	BBB+	Fitch	993,750	23%
Republic of Sri Lanka (Fixed)	B+	S&P	480,625	11%
Non Rated				
Dar Al Arkan (Floating)	Not rated	N/A	745,875	17%
			4,333,391	
			4,333,391	

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit 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	1,052,074	267,340
Securities designated at fair value through profit or loss	24,847,533	4,333,391
Interest receivable	429,858	68,789

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

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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

17.2 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 bank or by obtaining credit facilities from the banks.

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

	<u>Upto 3</u> <u>months</u> <u>USD</u>	<u>Total</u> <u>USD</u>
2008		
Financial Liabilities		
Accrued fees and charges	26,632	26,632
Due to a related party	52,840	52,840
	-----	-----
	<u>79,472</u>	<u>79,472</u>
	=====	=====
	<u>Upto 3</u> <u>months</u> <u>USD</u>	<u>Total</u> <u>USD</u>
2007		
Financial Liabilities		
Bank overdraft	300,000	300,000
Accrued fees and charges	30,381	30,381
Due to a related party	11,077	11,077
	-----	-----
	<u>341,458</u>	<u>341,458</u>
	=====	=====

17.3 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 and foreign currency exchange rates.

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.

MAKASEB INCOME FUND
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NOTES TO THE FINANCIAL STATEMENTS
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17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT: (CONTINUED)

17.3 MARKET RISK: (CONTINUED)

17.3.1 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 various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund is exposed to interest rate risk in respect of its securities designated at fair value through profit or loss.

The Investment Manager reviews the market analysis and expectations for interest rate movements as the basis on which Investment Manager manages these investments.

Interest rate sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for debt securities at the balance sheet date and for the overdraft. For floating rate income securities, the analysis is prepared assuming the amount of asset 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 relating to securities designated at fair value through profit or loss had been 25 basis points higher/lower and all other variables were held constant, the Fund's income for the year would increase/decrease by USD 33,036 (2007: increase/ decrease by USD 11,510)

17.3.2 Foreign 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, Euros and United States Dollars. The Fund is not exposed to significant currency risk on the United Arab Emirates Dirham since this currency is effectively pegged to the US Dollar.

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17.3 MARKET RISK: (CONTINUED)

17.3.2 Foreign 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>USD</u>	<u>2007</u> <u>USD</u>	<u>2008</u> <u>USD</u>	<u>2007</u> <u>USD</u>
AED	5,547,692	-	-	-
EUR	1,610,096	-	-	-
	-----	-----	-----	-----
	<u>7,157,788</u>	<u>-</u>	<u>-</u>	<u>-</u>

Foreign currency sensitivity analysis

The sensitivity analysis includes only outstanding foreign currency denominated monetary items other than the items in United Arab Emirates Dirhams and adjusts their translation at the period end for a 5% change in foreign currency rates with all other variables held constant. 5% represents management's assessment of the reasonably possible change in foreign currency rates. A negative number below indicates a decrease in the income and a positive number indicates an increase in income, where USD strengthens 5% against the relevant currency. For a 5% weakening of USD against the relevant currency, there would be an equal and opposite impact on the statement of operations.

<u>Currency</u>	<u>2008</u> <u>Effect on Statement</u> <u>of Operations</u> <u>USD</u>	<u>2007</u> <u>Effect on Statement</u> <u>of Operations</u> <u>USD</u>
EUR	- 80,505	-

18. **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 consider that the fair values of financial instruments are not significantly different from the carrying values included in the financial statements.

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19. **NET ASSETS VALUE PER UNIT:**

	<u>Net Assets Value</u> <u>USD</u>	<u>Number of Units</u> <u>in issue</u>	<u>Net Assets Value</u> <u>Per Unit</u> <u>USD</u>
As at December 31, 2008	25,975,751	3,175,548	8.17993
As at December 31, 2007	4,328,062	416,662	10.38747

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

20. **NON-ADJUSTING EVENT AFTER THE STATEMENT OF ASSETS AND LIABILITIES DATE:**

Subsequent to December 31, 2008 and up to the date of approval of these financial statements by the Board of Directors, there has been a general decrease in the market prices of securities designated at fair value through profit or loss and consequently the Net Asset Value of the Fund. The Net Asset Value of the Fund and the fair value of the securities designated at fair value through profit or loss as at March 17, 2009 amounts to USD 23,678,144 and USD 22,137,617 respectively with the Net Asset Value per Unit being USD 7.45640.