

MAKASEB INCOME FUND
MANAMA
KINGDOM OF BAHRAIN

CONDENSED INTERIM FINANCIAL
INFORMATION FOR THE PERIOD
ENDED JUNE 30, 2008

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

<u>Chairman</u>	Mr. Nabeel Waheed
<u>Directors</u>	Mr. Omar Bouhadiba Mr. Ali Raza Khan Mr. Kantic Dasgupta
<u>Registered Office</u>	Flat 141, Building 3, Road 365, Block 316 Manama, Kingdom of Bahrain.
<u>Banks</u>	HSBC Bank Middle East Limited, Bahrain Citibank Manama
<u>Funds Company</u>	Makaseb Funds Company II B.S.C. (c)
<u>Fund Manager</u>	Mashreqbank psc. Dubai, U.A.E.
<u>Administrator & Custodian</u>	HSBC Bank Middle East Limited, Bahrain
<u>Auditor</u>	Deloitte & Touche, P.O. Box 421, Manama, Kingdom of Bahrain.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

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BH 99-8-12

REVIEW REPORT OF INTERIM FINANCIAL INFORMATION

Makaseb Income Fund,
Manama,
Kingdom of Bahrain

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Introduction

We have reviewed the accompanying condensed statement of assets and liabilities of Makaseb Income Fund, (“the Fund”), as at June 30, 2008, and the related condensed statement of operations, condensed statement of changes in net assets and condensed cash flow statement for the six-month period then ended. This condensed interim financial information is the responsibility of the Fund’s management. Our responsibility is to issue a report on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not presented fairly, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

Without qualifying our report, we draw attention to the Condensed Interim Financial Information. 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 investment through trading gains. The fair values of these securities is based on quoted market prices. Certain markets and securities may be illiquid and published market prices may not necessarily represent realisable value.

Manama – Kingdom of Bahrain
August 14, 2008

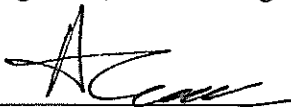
Deloitte & Touche

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

CONDENSED STATEMENT OF ASSETS AND LIABILITIES
AS AT JUNE 30, 2008
(Unaudited)

	<u>Note</u>	<u>June 30,</u> <u>2008</u> <u>USD</u>	<u>December 31,</u> <u>2007</u> <u>USD</u> (Audited)
ASSETS:			
Cash at banks		4,974,142	267,340
Securities designated at fair value through profit or loss	5	28,521,285	4,333,391
Other receivable		1,353,810	68,789
Total Assets		<u>34,849,237</u>	<u>4,669,520</u>
LIABILITIES:			
Bank overdraft		-	300,000
Accrued fees and charges		23,889	30,381
Unsettled purchases		2,492,485	-
Derivative financial liabilities	6	43,344	-
Due to a related party		49,359	11,077
Total Liabilities		<u>2,609,077</u>	<u>341,458</u>
Net Assets		<u>32,240,160</u>	<u>4,328,062</u>
ANALYSIS OF NET ASSETS:			
Capital		32,030,279	4,030,279
Net realised income		715,762	351,795
Change in fair value of Securities designated at fair value through profit or loss	5	(462,537)	(54,012)
Other losses	6	(43,344)	-
Net assets		<u>32,240,160</u>	<u>4,328,062</u>
Net assets per unit		<u>10.1526</u>	<u>10.38747</u>

The condensed interim financial information was approved by the Directors on August 14, 2008 and signed on their behalf by:


 Director

The attached notes 1 to 6 form part of this condensed interim financial information.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

CONDENSED STATEMENT OF OPERATIONS
FOR THE PERIOD ENDED JUNE 30, 2008
(Unaudited)

	<u>Six-Month</u> <u>Period Ended</u> <u>June 30, 2008</u> <u>USD</u>	<u>Six-Month Period</u> <u>Ended June 30,</u> <u>2007</u> <u>USD</u> <u>(Not Reviewed)</u>
INVESTMENT INCOME:		
Interest income	331,873	213,512
	-----	-----
	331,873	213,512
	-----	-----
EXPENSES:		
Management fees	56,814	50,500
Administration fees	14,659	12,500
Custody fees	15,000	15,000
Registrar fees	6,309	5,920
Professional fees	6,996	1,973
Other expenses, net	5,703	12,709
	-----	-----
Total expenses	105,481	98,602
	-----	-----
Investment gain – net	226,392	114,910
	-----	-----
Realised and unrealised gain or loss on securities designated at fair value through profit or loss:		
Net realised gain / (loss)	137,575	(22,930)
Change in fair value	(408,525)	47,561
	-----	-----
Net (loss)/gain on securities	(270,950)	24,631
	-----	-----
Loss from derivatives	(43,344)	-
	-----	-----
Net (decrease)/increase in net assets resulting from operations	(87,902)	139,541
	=====	=====

The attached notes 1 to 6 form part of this condensed interim financial information.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

CONDENSED STATEMENT OF CHANGES IN NET ASSETS
FOR THE PERIOD ENDED JUNE 30, 2008
(Unaudited)

	<u>Six-Month</u> <u>Period Ended</u> <u>June 30, 2008</u> <u>USD</u>	<u>Six-Month Period</u> <u>Ended June 30,</u> <u>2007</u> <u>USD</u> <u>(Not Reviewed)</u>
Increase in net assets from operations:		
Investment gain – net	226,392	114,910
Net realised gain /(loss) on securities	137,575	(22,930)
Change in fair value of securities	(408,525)	47,561
Loss from derivatives	(43,344)	-
	-----	-----
Net increase in net assets resulting from operations	(87,902)	139,541
Change in net assets from capital transactions	28,000,000	4,600,972
	-----	-----
Change in net assets	27,912,098	4,740,513
Net assets – beginning of the period	4,328,062	4,280,499
	-----	-----
Net assets – end of the period	<u>32,240,160</u>	<u>9,021,012</u>

The attached notes 1 to 6 form part of this condensed interim financial information

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN
CONDENSED CASH FLOW STATEMENT
FOR THE PERIOD ENDED JUNE 30, 2008
(Unaudited)

	<u>Six-Month</u> <u>Period Ended</u> <u>June 30, 2008</u> <u>USD</u>	<u>Six-Month</u> <u>Period Ended</u> <u>June 30, 2007</u> <u>USD</u> <u>(Not</u> <u>Reviewed)</u>
Net (decrease)/increase in net assets resulting from operations	(87,902)	139,541
Adjustment for:		
Net loss/(gain) on securities	270,950	(24,631)
Loss on derivatives	43,344	-
Changes in operating assets and liabilities:		
Change in other assets	(279,396)	(5,460)
Change in other liabilities	31,790	19,459
Net cash (used in) / from operating activities	(21,214)	128,909
Cash flows from investing activities		
Payments for purchase of securities	(30,724,735)	(12,108,859)
Proceeds from disposal of securities	7,752,751	11,070,204
Net cash used in investing activities	(22,971,984)	(1,038,655)
Cash flows from financing activities		
Proceeds from issue of units	28,000,000	6,806,000
Payments on redemption of units	-	(2,205,028)
Net cash (used in)/from financing activities	28,000,000	4,600,972
Net increase/(decrease) in cash and cash equivalents	5,006,802	3,691,226
Cash and cash equivalents at the beginning of the period	(32,660)	30,217
Cash and cash equivalents at the end of the period	4,974,142	3,721,443
Comprising:		
Cash at bank	4,974,142	3,721,443
	<u>4,974,142</u>	<u>3,721,443</u>

The attached notes 1 to 6 form part of this condensed interim financial information

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED JUNE 30, 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 Funds 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 authorized and approved by the CBB and established for a period of 25 years by the Funds Company. The life of the Fund can be extended by the Funds 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 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 HSBC Middle East Limited, Bahrain (“the Administrator”). The Funds 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 CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED JUNE 30, 2008

2. **BASIS OF PREPARATION:**

The condensed interim financial information has been prepared using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting.

3. **SIGNIFICANT ACCOUNTING POLICIES:**

The same accounting policies, presentation and methods of computation are followed in the condensed interim financial information as were applied in the preparation of the Fund's financial statements for the year ended December 31, 2007.

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 the condensed interim financial information.

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 of short term profit making. All other investments are classified as available for sale.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED JUNE 30, 2008

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

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:

Impairment of financial assets

The Fund's management reviews periodically items classified as financial assets to assess whether a provision for impairment should be recorded in the statement of operations. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

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 highest 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 in the Bloomberg are considered for the valuation. Therefore, the prices taken for the valuation purpose are based on different sources and may reflect the favourable positions depending on the availability of a broker's quotation.

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED JUNE 30, 2008

5. SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS:

This caption is composed of the following:-

June 30, 2008

ISSUER	COUNTRY	MATURITY	COUPON RATE	MARKET PRICE	REDEMPTION VALUE Original Currency	COST	FAIR VALUE	CHANGE IN FAIR VALUE
Listed bonds								
Euro								
Edcon Holding Proprietary Ltd	South Africa	June 15, 2015	EURIBO+550	51.00	1,000,000	857,259	805,290	(51,969)
U.A.E. Dirham								
Emirates Bank International	U.A.E.	March 26, 2018	EIBO+325	102.44	10,000,000	2,800,856	2,789,326	(11,530)
RaK Capital	U.A.E.	May 28, 2013	EIBO+115	99.19	10,000,000	2,712,049	2,700,817	(11,232)
USD								
Abu Dhabi Commercial Bank	U.A.E.	May 9, 2016	US LIB+60	90.91	2,500,000	2,313,749	2,272,787	(40,962)
Ahli United Bank	Bahrain	December 2, 2015	US LIB+95	92.38	1,000,000	1,002,500	923,750	(78,750)
Dar Al Arkan	Kuwait	July 16, 2012	US LIB+225	93.50	750,000	750,000	701,250	(48,750)
DP World Ltd	U.A.E.	July 2, 2037	6.85%	84.30	3,000,000	2,637,300	2,529,060	(108,240)
Dubai Sukuik Centre	U.A.E.	June 13, 2012	US LIB+37.5	90.75	1,500,000	1,385,625	1,361,250	(24,375)
GTB Finance	New Zealand	January 29, 2012	8.50%	98.50	1,000,000	965,000	985,000	20,000
Kazumunai Gaz Finance	New Zealand	July 2, 2013	8.38%	101.00	500,000	497,495	505,000	7,505
Kuwait Projects Co.	Kuwait	April 12, 2011	US LIB+90	91.69	1,800,000	1,730,785	1,650,480	(80,305)
Nakheel Development	U.A.E.	January 16, 2011	2.75%	93.63	5,500,000	5,156,250	5,149,375	(6,875)
State Bank of India – LONDON	U.K.	February 15, 2012	US LIB+38	94.63	1,500,000	1,416,466	1,419,375	2,909
TABREED 06 Finance Corp.	U.A.E.	July 20, 2011	US LIB+125	101.00	840,000	843,780	848,400	4,620
United Gulf Bank	Bahrain	October 13, 2016	US LIB+180	89.00	1,000,000	929,388	890,000	(39,388)
Vedanta Resources Plc	U.K.	January 15, 2014	8.75%	99.31	1,000,000	1,000,000	993,125	(6,875)
Winterhaven Finance – Nutriftek	New Zealand	April 17, 2009	9%	99.85	2,000,000	1,985,320	1,997,000	11,680
Grand Total						28,983,822	28,521,285	(462,537)

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED JUNE 30, 2008

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

This caption is composed of the following:-

December 31, 2007

Listed bonds

<u>ISSUER</u>	<u>COUNTRY</u>	<u>MATURITY</u>	<u>COUPON RATE</u>	<u>MARKET PRICE</u>	<u>REDEMPTION VALUE</u>	<u>COST</u>	<u>FAIR VALUE</u>	<u>CHANGE IN FAIR VALUE</u>
Kuwait Projects Company	Kuwait	April 12, 2011	%	98.6165	USD 800,000	USD 796,735	USD 788,932	USD (7,803)
Dar Al Arkan	Kuwait	July 16, 2012	LIB+225	99.4500	750,000	750,000	745,875	(4,125)
TABREED 06 Financing Corp.	U.A.E.	July 20, 2011	LIB+125	99.4790	840,000	843,780	835,624	(8,156)
United Gulf Bank	Bahrain	October 13, 2016	LIB+180	97.7170	500,000	494,388	488,585	(5,803)
Ahli United Bank	Bahrain	December 2, 2015	LIB+95	99.3750	1,000,000	1,002,500	993,750	(8,750)
Republic of Sri Lanka	Sri Lanka	October 24, 2012	8.25	96.1250	500,000	500,000	480,625	(19,375)
						4,387,403	4,333,391	(54,012)

MAKASEB INCOME FUND
MANAMA – KINGDOM OF BAHRAIN

NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE PERIOD ENDED JUNE 30, 2008

5. **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.

6. **DERIVATIVE FINANCIAL LIABILITIES**

The Fund has entered into commodity contract arrangements with Mashreqbank in order to buy or sell of Commodity Futures. As of the balance sheet date derivative liabilities arisen from the Futures buy-back agreements amount to USD 43,344. The details of such Futures are as follows;

Trade date	Underline Commodity	Quantity	Deal Price USD	Fair Value USD
June 2, 2008	US (30 year) Treasury Bonds	19,000	113.375	115.656

The fair value of the above Futures were decided based on the Futures trading terminal which is operated by Citi Bank.