

# **CABEI Central American Fund plc**

## **CABEI Central American Portfolio**

### **Unaudited Financial Statements**

For the five months ended 30 June 2003



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## CABEI Central American Fund plc

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# Organisation

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## Registered Office of the Company

25/28 North Wall Quay  
Dublin 1  
Ireland

## Directors of the Company

Walter Dostmann (Chairman)  
Michael Greene  
Hartwig Krieg  
Per Åke Rydberg

Directors from Central American Bank for Economic  
Integration:

Jaime Chavez  
Nick Rischbieth Glöe  
Alejandro Rodriguez

Directors from Deutsche Asset Management —  
Americas:

Rodrigo Briones  
Richard T. Hale

## Investment Manager

Investment Company Capital Corporation  
One South Street  
Baltimore  
MD 21202  
USA

## Investment Advisor

DWS Finanz-Service GmbH  
Mainzer-Landstrasse 178-190  
60327 Frankfurt am Main  
Germany

## Administrator

Bank of Ireland Securities Services Limited  
New Century House  
International Financial Services Centre  
Mayor Street Lower  
Dublin 1  
Ireland

## Custodian

The Governor and Company of the Bank of Ireland  
Lower Baggot Street  
Dublin 2  
Ireland

## Independent Auditors

PricewaterhouseCoopers  
George's Quay  
Dublin 2  
Ireland

## Legal Advisor

A&L Goodbody  
International Financial Services Centre  
North Wall Quay  
Dublin 1  
Ireland

## Secretary

Goodbody Secretarial Limited  
International Financial Services Centre  
North Wall Quay  
Dublin 1  
Ireland

**Registered No: 303448**

## Background to the Fund

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This report should be read in conjunction with the full text and definitions section of the Offering Circular of the Company.

The CABEI Central American Fund plc (the “Company”) is not a recognised collective investment scheme for the purposes of Section 76 of the Financial Services Act 1986 (the “Act”) of the United Kingdom and this document has not been approved for the purposes of Section 57 of the Act by a person authorised under the Act (an “authorised person”). Accordingly, this document may only be issued or passed onto any person in the United Kingdom if that person is of a kind described in Article 11 (3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 (the “Order”) or otherwise pursuant to an exemption to Section 57 of the Act. In addition, no person who is an authorised person may issue or pass on this document or otherwise promote the Company, to any person in the United Kingdom unless such person is both:

- (i) of a kind described in Article 11 (3) of the Order or within any such exemption; and
- (ii) a person to whom such authorised person is permitted to promote the Company under Section 76 (2) of the Act and by the rules of a self-regulating organisation or the Securities and Investments Board applicable to such authorised person.

No action has been taken to permit an offering of participating shares in the Company (“Shares”) or the distribution of this document in any jurisdiction where action would be required for such purposes. Accordingly, this document does not constitute an offer or solicitation in any jurisdiction or in any circumstances in which such offer of solicitation is not authorised. In particular,

- (a) the Shares have not been registered under the United States Securities Act of 1933 (as amended) and are not being offered in the United States of America, nor may they be directly or indirectly offered or sold in the United States of America or in its territories or possessions or areas subject to its jurisdiction or for the benefit of nationals, citizens or residents thereof or persons who are normally resident therein (including the estate of any such person and corporations or partnerships created or organised therein) (“United States Persons”), except pursuant to an exemption; and
- (b) the Shares may not be offered or sold directly or indirectly in Japan or to residents of Japan except pursuant to applicable Japanese laws.

## Description of the Fund

- The Company is a designated limited liability, open-ended investment company with variable capital. It is a so-called umbrella company entitled to issue several classes of shares, the proceeds of which are to be invested in several portfolios. CABEI CENTRAL AMERICAN PORTFOLIO Shares are shares in the first portfolio of the Company, called the CABEI CENTRAL AMERICAN PORTFOLIO (the “Fund”). The Company is domiciled in the Republic of Ireland, and investment will generally be limited to debt and related instruments (including but not limited to bonds, loan participations, notes, deposits, credit linked deposits, certificates of deposit and debentures) and equity and related instruments (including but not limited to warrants and convertible securities) issued by sovereign issuers, their agents and instrumentalities, corporate issuers, supranational issuers, quasi-governmental issuers and any other issuers deemed fit for investment by the Directors, or a committee thereof. Countries for investment will include Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Mexico, Colombia, Argentina, Panama, the Dominican Republic, Belize and the Republic of China, and any other countries which become members of the Central American Bank for Economic Integration (“CABEI”) and which are deemed fit for investment by the Directors or a committee thereof. There will be no limit to the amount or proportion invested in the issuers of any one country. It is the goal of the Fund to invest the majority of its assets in Central American countries that are members of CABEI (Guatemala, Honduras, Nicaragua, El Salvador and Costa Rica), as market conditions warrant and with the risk/return profile of the Fund. There will be no restriction with respect to the currency of denomination of any of the securities mentioned above.
- Fund objective: to generate a high real rate of return.
- Effective from 1 February 2003, the Company is administered by Bank of Ireland Securities Services Limited. The administration agreement between the Fund and Investors Fund Services (Ireland) Limited was terminated on 31 January 2003. Investment Company Capital Corp., Baltimore serves as Investment Manager of the Company pursuant to an investment management agreement dated 1 January 2002, and DWS Finanz-Service GmbH Frankfurt serves as Investment Advisor pursuant to an investment advisory agreement dated 1 January 2002 between the Investment Manager and the Investments Advisor. The Investment Manager is a wholly-owned indirect subsidiary of Deutsche Bank AG; The Investment Advisor is an indirect subsidiary of Deutsche Bank AG.
- The Fund is denominated in US Dollars.
- The Fund’s Dealing Day is the first Business Day of each month.
- The Company is domiciled in Ireland. It is authorised in Ireland as an investment company and is a designated investment company pursuant to Section 256 of the Companies Act 1990 of Ireland and is supervised by the Irish Financial Services Regulatory Authority.
- The Fund’s Net Asset Value per Share is published five times per week in the Financial Times.

Enquiries to: Bank of Ireland Securities Services Limited  
New Century House  
Mayor Street Lower  
International Financial Services Centre  
Dublin 1, Ireland  
  
Tel. 353 1 670 0300  
Fax. 353 1 829 0144

The above details are in summary form only and must be read in conjunction with the detailed information contained in the Offering Circular of the Fund.

# Information for Shareholders

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## 1. Description

CABEI Central American Fund plc, incorporated on 12 March 1999 in Dublin, Ireland with registered number 303448 is a designated, limited liability, open-ended investment company with variable capital. It is a so-called umbrella company entitled to issue several classes of shares to be invested in several portfolios. The Company has issued shares in the CABEI CENTRAL AMERICAN PORTFOLIO (the “Fund”).

## 2. Investment Objective and Policy

The Fund’s investment objective is to generate a high real rate of return. The Fund seeks to achieve this objective by investing primarily in debt and related instruments (including but not limited to bonds, loans, loan participations, notes, deposits, credit linked deposits, certificates of deposit and debentures) and equity and related instruments (including but not limited to warrants and convertible securities), issued by sovereign issuers, their agents and instrumentalities, state-owned issuers slated for privatization, corporate issuers, supranational issuers, quasi-government issuers, and any other issuer deemed fit for investment by the Directors, or a committee thereof. Countries for investment will include Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Mexico, Colombia, Argentina, Panama, the Dominican Republic, Belize and the Republic of China, and any other countries which become members of CABEI and which are deemed fit for investment by the Directors or a committee thereof. There will be no limit to the amount or proportion invested in the issuers of any one country. It is the goal of the Fund to invest the majority of its assets in Central American countries that are members of CABEI (Guatemala, Honduras, Nicaragua, El Salvador and Costa Rica), as market conditions warrant and within the risk/return profile of the Fund. There will be no restriction with respect to the currency of denomination of any of the securities mentioned above.

## 3. Investment Management

Investment Company Capital Corporation serves as Investment Manager of the Company, pursuant to an investment management agreement dated 1 January 2002 who in turn have delegated the investor advisor functions to DWS Finanz-Services GmbH who serves as Investment Advisor pursuant to an investment advisory agreement dated 1 January 2002 between the Investment Manager and the Investment Advisor.

## 4. Net Asset Value

Net Asset Value of the Fund is calculated weekly. The Net Asset Value of the Fund is calculated by dividing the value of the Fund’s net assets (the value of its assets less its liabilities) by the total number of Shares outstanding. All securities held by the Fund for which market quotations are readily available are valued at the closing price on the primary exchange quoted for the securities. All other securities and assets for which market quotations are not readily available are taken at probable realisation value as determined in good faith by the Directors (or by a pricing committee of Directors established for the purpose), with the approval of the Custodian, although the actual calculation may be done by other competent and responsible persons. Any assets or liabilities initially expressed in currencies other than US Dollars are translated into US Dollars at the closing rate quoted by a recognised pricing service.

## 5. Issue and Repurchase of Shares

The procedures for the issue and repurchase of shares are described in detail in the Offering Circular dated 31 January 2003.

### Issue of Shares

Allotment of Shares are normally made with effect from a Dealing Day against applications received in Dublin by the Administrator by 5:00 pm Dublin time on the preceding Business Day.

### Repurchase of Shares

Requests for the repurchase of Shares must be received by the Administrator by 5:00 pm Dublin time on a Business Day which is at least ten Business Days prior to the relevant Dealing Day and will then normally be dealt with on that Dealing Day. Requests for the repurchase of Shares may be made either by facsimile, telex or in writing to the Administrator.

## 6. Published Information

Shareholders will receive audited annual and unaudited semi-annual Reports of the Company. Notices of general meetings will be sent to shareholders at least twenty-one days prior to meetings. The Net Asset Value per Share and dividend announcements, if any are published in the Financial Times. The subscription and redemption prices may be obtained from the registered office of the Company.

Past performance is not necessarily a guide to the future. Income from the investment may fluctuate in value and in money terms. Changes in rates of exchange between currencies may cause the value of the shares to diminish or increase.

This report covers the period from 1 February 2003 to 30 June 2003.

The net asset value of the CABEI Central American Fund was up 5.02% for the six months ended 30 June 2003. As of 30 June 2003, the Fund had net assets of US\$66.82 million and a net asset value of US\$1,265.09 per share. The Fund had an average duration of 4.4 years and an average maturity of 8.0 years at the end of the semi-annual period. The Fund held a total of 13 securities, and the average rating of the securities in the Fund was BB+, as rated by Standard & Poor's.

## Investment Environment

During the first half of 2003, the U.S. government bond market overall continued its solid returns of recent years. This performance was largely boosted by continued U.S. economic sluggishness, the fight on terrorism in the U.S. and abroad, equity market volatility, and the impending and then actual engagement of Iraq's military by coalition forces. After raising the prospects of deflation in May, the Federal Reserve Board cut the targeted federal funds rate by 25 basis points to 1.00% on June 25 in an effort to "add further support for an economy which it expects to improve over time." This was the 13th time since the start of 2001 that the Federal Reserve Board cut rates, bringing current interest rates to their lowest levels in more than four decades. For the semi-annual period, ten-year U.S. Treasury yields declined from 3.82% to 3.51%, hitting a 40-year low of 3.12% in mid-June. This environment and the perception that U.S. interest rates will likely stay low for some time was favorable for both Latin American debt issuers and the Latin American fixed income markets during the semi-annual period.

Each South American debt market posted positive returns for the first half of the year. The rally was driven by several additional factors that together enhanced international investor perception of the investment opportunities available in the region.

## Improved economic conditions

The currency depreciations that many countries in the region experienced last year improved the competitiveness of South American exports. Most South American nations posted comparatively high trade surpluses during the six-month period, which, in turn, bettered economic activity and debt service capacity. Domestic economic growth remained low, but advanced over last year, and inflation declined in most of the region.

## Positive political developments.

- In Argentina, Peronist politician Nestor Kirchner was elected president in March 2003. Though elected with only 20% or so of the vote, Kirchner since gained popularity with a majority of the country. There was strong economic growth during the first half of 2003 in Argentina. The International Monetary Fund (IMF) is rolling the nation's loans coming due, and Kirchner's administration has initiated discussions with external debt holders in an effort to facilitate an eventual debt restructuring.
- In Brazil, both foreign and domestic investors responded favorably to incoming president Luiz Inacio da Silva. In what is being referred to as the "Lula Effect," financial markets welcomed the new administration's fiscal and monetary policies. As Brazil is Latin America's second largest economy, this positive sentiment buoyed the region overall.
- Colombia's President Uribe maintained the high popularity he achieved at his election in May 2002, primarily because his tough stance against drug trafficking and guerrilla activity seemed to be getting results.

## Promising trade treaties

Despite Chile's opposition to the U.S. in the United Nations on the war with Iraq, U.S. and Chilean officials signed the first free trade treaty between the United States and a South American country on 6 June 2003, seen as a stepping stone toward an Americas free trade zone. While this new treaty still needs to be approved by both the Chilean and U.S. congresses, it is expected to pave the way for the signing of a similar treaty between the U.S. and several Central American countries soon. The U.S. has already begun free trade agreement negotiations with Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, and has signaled an intention to start bilateral free-trade talks with Colombia soon.

## Contained country-specific concerns

There were several unsettling factors that arose during the semi-annual period. However, these country-specific events did not have an unfavorable impact on the Latin American debt markets broadly.

- Mexico's economic growth was sluggish, primarily due to an uneven economic recovery in the U.S., its largest trading partner. On the other hand, Mexico's fiscal accounts were sound, benefiting from sizable

windfall profits from high oil prices. Inflation declined. Banco de Mexico maintained a tight monetary stance, but the country imported much of the U.S. Federal Reserve Board's monetary easing through capital inflows and improved borrowing conditions for large corporations. Indeed, Mexico's short-term interest rates fell to a historical low during the semi-annual period, with real interest rates below 2%.

- In Venezuela, the political and economic crisis that started with the oil industry strike last year continued. In spite of the crisis, the government appears willing and able to service its external debt. Capital controls were introduced at the end of January 2003 in an attempt to halt the slide of its bolivar. Since then, its international reserves recovered, and its oil production nearly rose to pre-strike levels.

The Central American debt markets, with the exception of the Dominican Republic, produced positive returns during the first half of 2003, but these markets lagged their South American neighbors, as fiscal and political challenges in many countries of the region put their ratings under pressure.

- Belize was downgraded by Moody's to Ba3 in May on the back of rapidly increasing public sector debt. With a 4.5% deficit expected for 2003, its rising debt burden is primarily the consequence of the government's expansionary fiscal policy during the last several years. Still, the government managed to issue a \$100 million 2015 bond in June.
- Costa Rica also struggled with high fiscal deficits, and consequently both Moody's and Standard & Poor's put its rating on negative outlook in April. New finance minister Alberto Dent announced several budget cuts that may reduce the consolidated fiscal deficit to between 4% and 5% of Gross Domestic Product (GDP), but still not enough to stabilize public debt. A congressional commission has been established to assess long-term fiscal reform.
- The Dominican Republic was downgraded to B+ by Standard & Poor's in June after its central bank took control of Banco Intercontinental, the country's third largest bank, upon evidence of massive fraud. The cost of this banking scandal, which already amounts to approximately 11% of the nation's GDP, will have to be assumed by the government. Such turmoil led to a strong increase in capital flight from the Dominican Republic's financial markets. Further, because the central bank's international reserves were

low, the country's peso depreciated significantly. As most government debt is dollar-denominated, its debt ratios deteriorated. The government is currently negotiating a credit program with multilateral lenders, including the IMF.

- El Salvador's BB+ rating was put on negative outlook by Moody's in May upon concerns about the weakness of its banking system, given the lack of a lender-of-last-resort in a dollarized economy. Two months earlier, the left-leaning opposition party FMLN won the nation's parliamentary elections, further unsettling the country's debt markets.
- Guatemala was downgraded by Standard & Poor's to BB- in May. General Rios Montt announced his intention to run in the November 2003 presidential elections, which, in turn, provoked much constitutional and diplomatic unrest. The political uncertainty also weighed on business and consumer confidence, bringing down prospects for 2003 economic growth. On the other hand, in June, the IMF approved a nine-month, US\$120 million stand-by arrangement with Guatemala as a precautionary measure. Its public sector deficit is expected to come in at a comparably low 1.7% or so for 2003, and its external debt burden is also currently low.

## Investment Strategy

Our primary strategy in the Fund was to continue to build the portfolio's exposure to Central America, while avoiding highly speculative positions. Early in the year, we increased the Fund's positions in Guatemala and the Dominican Republic, but we remained cautious on both countries. Indeed, by the end of the semi-annual period, we eliminated the Fund's position in the Dominican Republic, as we grew increasingly concerned about the ripple effects of the nation's banking scandal. We also reduced the Fund's holdings in Mexico during the first half of the fiscal year. We increased the duration on the Fund's holdings in Costa Rica when a 2003 eurobond came due. We had no holdings in Argentina throughout the semi-annual period. To date, we have not invested in Belize.

As of 30 June 2003, approximately 90% of the portfolio's assets were invested, with the remaining 10% of assets in cash and short-term holdings. The Fund was invested approximately 69% in securities from founding members of the Central American Bank for Economic Integration (CABEI), namely in Costa Rica, El Salvador, and Guatemala. Approximately 17% of the portfolio's assets

were invested in securities from CIBEI extra-regional members, namely Colombia and Mexico, and approximately 4% of the portfolio's assets were invested in securities from Panama.

### Investment Outlook

In the U.S., we expect economic growth to recover slowly over the near term, inflation to stay under control, and the Federal Reserve Board to maintain its accommodative stance. Nevertheless, there is a possibility that interest rates will rise from the historical lows seen in early June.

In Latin America, our key concern is the sustainability of the region's economic recovery. Generally, Latin American countries have relatively low savings rates and are dependent on capital inflows to generate high economic growth. In our view, continued inflows to the region may depend on a further reduction of risk aversion in the global capital markets and on the results of future political events. Thus, we are closely monitoring several important developments.

- In Argentina, the implementation of clear regulations for the banking sector appears to be crucial, as a resumption of bank lending is necessary for a sustainable recovery of its economy.
- In Brazil, the highly debated planned reforms of its Social Security and tax systems are important to stabilize its government debt, which has risen significantly over the last few years.
- In Colombia, a referendum on aspects of its fiscal reform is scheduled for October 2003.
- The government of the Dominican Republic is expected to reach a stand-by agreement with the IMF later this year. The IMF's stabilization program incorporates measures to improve public finances, although these measures may be difficult to implement in the months prior to the presidential elections scheduled for May 2004.
- In El Salvador, the run-up for presidential elections in March 2004 has begun. In spite of the opposition's strong showing in the parliamentary elections earlier in 2003, Tony Saca, the candidate who emerged from the primaries of the ruling Arena party, seems to enjoy strong voter support. He election would signal continuity in the country's macroeconomic policy.

- Guatemala is going through a difficult period as the presidential elections in November 2003 approach. The current administration has a low level of approval, following corruption scandals, human rights violations, and slow implementation of the 1996 peace accords. The opposition's candidate, Oscar Berger, is currently leading in the polls, and his victory would likely be welcomed by the nation's business community and financial markets.
- In Mexico, the victory of the opposition parties in the congressional election on 6 July clouded the prospects for fruitful discussions of unfinished economic reforms. The ability of President Fox to build a working coalition with congress is key for the rest of his term.
- Panama is preparing for its presidential elections to be held in May 2004. The current administration, led by President Moscoso's Partido Arnulfista, might lose against the Partido Revolucionario Democrático's candidate, Martin Torrijos.
- In Venezuela, a recall referendum that could eventually oust President Chavez is expected to be constitutionally legal after 19 August. Thereafter, the political tensions between the government and the opposition could escalate.

Given these as yet unresolved developments as well as investors' high expectations during the first half of 2003 and the risk of rising U.S. interest rates, we believe we could see corrections in Latin American debt markets in the months ahead.

In addition to the political conditions in Latin America, we intend to continue to closely monitor the fiscal, trade, and other factors impacting the credit quality of the Fund's countries and to pursue an investment policy focused on relative value. We are convinced that active management of a diversified Central American debt portfolio offers attractive total return opportunities.

**DWS Finanz-Service GmbH,  
Investment Advisor  
June 2003**

## Statement of Operations

	Notes	5 Months Ended 30 June 2003 USD	Period Ended 30 June 2002 USD
Operating Income	2	2,044,590	2,248,421
Operating Expenses	3	(1,116,474)	(641,328)
<b>Net Operating Income</b>		928,116	1,607,093
Realised (Loss)/Gain on Sale of Investments		(285,935)	1,394,924
Net Movement in Unrealised Appreciation/(Depreciation) on Investments		2,726,447	(783,413)
Net Currency Loss	1(c)	(845)	—
Unrealised Loss on Futures		—	(188,284)
<b>Increase in Net Assets resulting from Operations</b>		3,367,783	2,030,320
Distributions	1(d)	—	—
<b>Increase in Net Assets transferred to Statement of Changes in Net Assets</b>		3,367,783	2,030,320

*There are no recognised gains or losses arising in the period other than the increase in Net Assets attributable to Shareholders of the Fund. In arriving at the results of the financial period, all amounts above relate to continuing operations.*

## Statement of Net Assets

	Notes	30 June 2003 USD	30 June 2002 USD
<b>Current Assets</b>			
Investments	4	58,737,813	53,431,110
Debtors	5	5,736,670	1,890,986
Cash at Bank		3,189,733	6,350,652
		67,664,216	61,672,748
<b>Creditors</b> (amounts falling due within one year)	6	(845,627)	(427,757)
<b>Net Assets</b>		66,818,589	61,244,991
<b>Shareholders' Funds</b>	8	66,818,589	61,244,991

## Statement of Changes in Net Assets

	5 Months Ended 30 June 2003 USD	Period Ended 30 June 2002 USD
<b>Net Assets at beginning of period</b>	63,250,045	56,114,671
Increase in Net Assets resulting from Operations	3,367,783	2,030,320
Shares Issued	254,000	3,100,000
Shares Redeemed	(53,239)	—
Increase in Net Assets resulting from Share Transactions	200,761	3,100,000
<b>Increase in Net Assets</b>	3,568,544	5,130,320
<b>Net Assets at end of period</b>	66,818,589	61,244,991

## 1. Basis of Presentation

The financial statements have been prepared under the historical cost convention as modified to include investments at valuation.

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2001. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The information required by Financial Reporting Standard No. 1, "Cash Flow Statements", to be included in a Cash Flow Statement and by Financial Reporting Standard No. 3, "Reporting Financial Performance", to be included in a Statement of Total Recognised Gains and Losses and Reconciliation of Movements in Shareholders' Funds, is in the opinion of the Directors, contained in the Statement of Operations and the Statement of Changes in Net Assets on page 10.

The financial statements are prepared in US Dollars. Significant accounting policies adopted by the Fund are as follows;

### a) Investments

#### i) Valuation of Investments

Investments in securities are valued at the closing mid price on the date on which the net assets are being valued or if this is not available, at the last traded price. Investments in interest bearing securities, including deep discounts and zero coupon bonds are valued net of accrued interest which is taken to income and accrued income receivable. All other securities and assets for which market quotations are not readily available are taken at fair value as determined in good faith by the Investment Advisor, with the approval of the Custodian although the actual calculation may be done by other competent and responsible persons.

#### ii) Accounting for Investments

Purchases and sales of investments are accounted for on the day the transaction takes place, i.e., the Trade Date.

#### iii) Realised Profits and Losses on Sales of Investments

The computation of realised profits and losses on sales of investments is made on the basis of average cost.

### b) Income from Investments

#### i) Interest Income

Income from interest bearing securities is accrued for on a basis that reflects the coupon rate on the security. Bank deposit interest is accounted for on an accruals basis. Discount, original issue discount and premiums on bonds are amortised over the remaining life of the bond.

### c) Foreign Exchange

Assets and liabilities denominated in foreign currencies other than the currency of the Fund have been translated at the rate of exchange ruling at 30 June 2003. Transactions in foreign currencies are translated into US Dollars at the exchange rate ruling at the date of the transaction. Gains and losses on foreign exchange transactions are recognised in the Statement of Operations in determining the result for the period.

The following exchange rate to USD, at 30 June 2003, was used to convert investments and other assets and liabilities in currencies other than the currency of the Fund:

EUR 0.8708

### d) Distribution Policy

Dividends, where payable, will be paid out of net investment income (being the net revenue from dividends and interest, less expenses) together with the realised and unrealised capital gains less realised and unrealised capital losses after charging expenses.

### e) Organisational Expenses

The organisational expenses which comprise the initial expenses of launching and marketing the Fund are being amortised on a straight line basis over five years.

	5 Months Ended 30 June 2003 USD	Period Ended 30 June 2002 USD
Opening balance at 1 February 2003/ 1 January 2002	34,817	56,490
Additions	—	—
Amortised in the period	(8,333)	(9,961)
Closing Balance	<b>26,484</b>	<b>46,529</b>

## 2. Operating Income

	5 Months Ended 30 June 2003 USD	Period Ended 30 June 2002 USD
Income from Investments	2,032,636	2,199,945
Accretion of original issue discount	—	703
Accretion of discount	—	27,137
Bank Interest	11,954	20,636
	<b>2,044,590</b>	<b>2,248,421</b>

## 3. Operating Expenses

	5 Months Ended 30 June 2003 USD	Period Ended 30 June 2002 USD
Investment Management Fees	484,371	518,592
Performance Fees	488,379	—
Auditor's Fees	30,027	13,449
Amortisation of Organisational Expenses	8,333	9,961
Directors' Fees	3,000	20,548
Legal Expenses	59,725	34,516
Printing/Publishing	14,501	4,987
Marketing	198	18,709
Other Expenses	27,940	20,566
	<b>1,116,474</b>	<b>641,328</b>

## 4. Investments

	30 June 2003 USD	30 June 2002 USD
Cost at 1 February 2003/ 1 January 2002	59,455,835	46,272,438
Additions	2,312,500	22,745,993
Disposals	(8,156,001)	(17,278,728)
Cost at 30 June	<b>53,612,334</b>	<b>51,739,703</b>
Market Value at 30 June	<b>58,737,813</b>	<b>53,431,110</b>

## 5. Debtors

	30 June 2003 USD	30 June 2002 USD
Accrued Income	1,794,960	1,695,381
Sale of Securities awaiting Settlement	3,903,962	140,000
Unamortised Organisational Expenses	26,484	46,529
Prepaid Insurance	11,264	9,076
	<b>5,736,670</b>	<b>1,890,986</b>

## 6. Creditors (amounts falling due within one year)

Accrued Investment Management Fees	199,840	91,117
Accrued Performance Fee	493,450	—
Accrued Expenses	152,337	148,356
Unrealised loss on futures contracts	—	188,284
	<b>845,627</b>	<b>427,757</b>

## 7. Share Capital

### Participating Shares — Equity

The Company has equity share capital of EUR40,000 divided into 40,000 Subscriber Shares of EUR1 each (of which EUR10,005.25 has been paid up and which are beneficially owned by the Investment Manager). The Subscriber Shares do not form part of the Net Asset Value of the Company. They are thus disclosed in the Financial Statements by way of this note only. In the opinion of the Directors, this disclosure reflects the nature of the Company's investment business.

### Participating Shares — Non Equity

The Company has 500,000,000 Shares of no par value initially designated as unclassified Shares.

The Participating Shares are classified as non-equity in accordance with Financial Reporting Standard No. 4 "Capital Instruments" as they are redeemable at the request of the holders. The Shares are available as either

fully paid or partly paid Participating Shares of the Company. They carry voting rights. The Shares issued by the Company are freely transferable and entitled to participate equally in the profits and dividends of the Company and in its net assets upon liquidation. The Shares carry no preferential or pre-emptive rights and are entitled to one vote each at all meetings of the relevant class of Shareholders. All Shares rank pari-passu. The holders of Subscriber Shares are entitled to one vote only in respect of all their Subscriber Shares.

### Shares in Issue

Number Of Shares Issued and Fully Paid	30 June 2003	30 June 2002
Balance at beginning of period	52,651.386	50,000.000
Issued during period	210.275	2,651.386
Redeemed during period	(44.386)	—
Total number of shares in issue at period end	<b>52,817.275</b>	<b>52,651.386</b>

### 8. Net Asset Value

	USD
<b>Net Asset Value</b>	
As at 30 June 2003	<b>66,818,589</b>
As at 30 June 2002	<b>61,244,991</b>
As at 30 June 2001	<b>55,093,324</b>
<b>Net Asset Value Per Unit</b>	
As at 30 June 2003	<b>1,265.09</b>
As at 30 June 2002	<b>1,163.22</b>
As at 30 June 2001	<b>1,101.87</b>

### 9. Investment Management Fees

The Fund pays to the Investment Manager a fee at an annual rate of 1.80% of the Net Asset Value of the Fund accrued and payable monthly in arrears. The Investment Manager discharges out of its fee, the fees and expenses of the Investment Adviser, the Trustee and the Administrator.

The Investment Manager may also collect a Performance Fee of 20% of the Net Asset Value's percentage out-performance of the Hurdle Rate during the Relevant Period. The "Hurdle Rate" is a 12 month Libor plus 200 basis points per annum return of the Net Asset Value at the beginning of the Relevant Period, adjusted for subscriptions and redemptions on a time apportioned basis.

During the period Performance fees amounting to USD484,371 were payable to the Investment Manager

and at 30 June 2003 the balance outstanding to the Investment Manager was USD493,450.

### 10. Related Party Transactions

Financial Reporting Standard 8 "Related Party Transactions" (FRS8) requires the disclosure of information relating to material transactions with parties who are deemed to be related to the reporting entity.

Related parties include the Investment Manager and Investment Advisor who are listed on page 3. Amounts earned by the Investment Manager are disclosed in Note 3 on page 12. The Investment Manager discharges the fees of the Investment Advisor.

The Central Bank for Economic Integration is the majority shareholder with a 94.67% holding in the Fund at period end. It is also the Placement Agent.

### 11. Taxation

The Company qualifies as an investment undertaking as defined in Section 739B of the Taxes Consolidation Act, 1997 (as amended). It is not chargeable to Irish tax on its income and gains.

Tax may arise on the happening of a chargeable event. A chargeable event includes any distribution payments to shareholders or any encashment, redemption or transfer of shares. No tax will arise on the Company in respect of chargeable events in respect of:

- (i) a shareholder who is not Irish resident and not ordinarily resident in Ireland at the time of the chargeable event, provided the necessary signed statutory declarations are held by the Company; and
- (ii) certain exempted Irish resident investors who have provided the Company with the necessary signed statutory declarations.

Dividend income and interest and capital gains (if any) received by the Company may be subject to non-recoverable withholding tax in the countries of origin.

### 12. Soft Commission Arrangements

There are no soft commission arrangements affecting this Fund during the period.

### 13. Financial Instruments

The Fund's investment activities expose it to the various types of risk which are associated with the financial instruments and markets in which it invests. The following summary is not intended to be a comprehensive summary of all risks and Investors should

refer to the Prospectus for a more detailed discussion of the risks inherent in investing in the Fund.

**(a) Market price risk**

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Investment Advisor considers the asset allocation of the portfolio in order to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the Fund’s investment objective.

**(b) Credit risk**

Financial assets which potentially expose the Fund to credit risk consist principally of investments in cash balances and deposits with and receivables from brokers. The extent of the Fund’s exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Fund’s balance sheet. The Fund will be exposed to a credit risk on parties with whom it trades and will also bear the risk of settlement default.

The Fund minimises concentration of credit risk by undertaking transactions with a large number of customers and counterparties on recognised and reputable exchanges.

**(c) Foreign currency risk**

The Fund may invest in securities denominated in currencies other than its reporting currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner which has an adverse affect on the value of that portion of the Fund’s assets which are denominated in currencies other than its own currency.

**(d) Interest Rate Risk**

The Fund invests in securities which have both a fixed and zero rate of interest.

30 June 2003	Total	Fixed Rate Interest USD	Floating Rate Interest USD
US Dollar	58,737,813	58,737,813	—

30 June 2002	Total	Fixed Rate Interest USD	Zero Coupon Interest USD
US Dollar	53,431,110	53,431,110	—

	Fixed Rate Financial Assets Weighted Average Interest Rate (%)	Fixed Rate Financial Assets Weighted Average Period for which rate is Fixed (Years)
30 June 2003	8.79	10.27
30 June 2002	8.83	9.32

**(e) Liquidity risk**

The Fund’s assets comprise mainly realisable securities, which can be readily sold. The main liability of the Fund is the redemption of any shares that investors wish to sell.

**(f) Fair values of financial assets and financial liabilities.**

All of the financial assets of the Fund are held at fair value. Realised gains and losses on financial assets are disclosed in the Statement of Operations on page 10.

**14. Portfolio Changes**

A full listing of the Portfolio Changes for the period is available, upon request, at no cost from the Manager. A list of the 20 largest purchases and sales for the Fund is shown on page 16.

**15. Important Events During The Period**

Effective as of 1 February 2003, the Fund appointed Bank of Ireland Securities Services Limited as the Fund’s administrator and the Governor and Company of the Bank of Ireland as the Fund’s custodian.

## Schedule of Investments as at 30 June 2003

### Transferable Securities Admitted to an Official Stock Exchange Listing.

Holding	Investment	Value USD	% of Fund
<b>United States</b>			
<b>Corporate Fixed</b>			
5,000,000	11.58% Aes Clesa Series 28/06/2010	5,720,095	8.56
2,000,000	6.5% Petroleos Mexicanos 01/02/2005	2,130,600	3.19
<b>Government Fixed</b>			
4,000,000	8.625% Colombia (Republic of) 01/04/2008	4,415,000	6.61
12,000,000	8.11% Costa Rica (Republic of) 01/02/2012	12,870,000	19.26
3,000,000	8.05% Costa Rica (Republic of) 31/01/2013	3,233,250	4.84
4,500,000	9.5% El Salvador (Republic of) 15/08/2006	5,128,200	7.67
2,500,000	8.5% El Salvador (Republic of) 25/07/2011	2,756,993	4.13
6,500,000	8.25% El Salvador (Republic of) 10/04/2032	6,565,000	9.83
5,046,000	8.5% Guatemala (Republic of) 03/08/2007	5,449,680	8.16
3,000,000	10.25% Guatemala (Republic of) 08/11/2011	3,507,767	5.25
2,335,000	8.5% Mexico (United Mexican States) 01/02/2006	2,707,433	4.05
1,750,000	8.3% Mexico (United Mexican States) 15/08/2031	2,023,795	3.03
2,000,000	9.375% Panama (Republic of) 16/01/2023	2,230,000	3.34
<b>United States — Total</b>		<b>58,737,813</b>	<b>87.92</b>
<b>Total Value of Investments (Cost: USD53,612,334)</b>		<b>58,737,813</b>	<b>87.91</b>
Cash*		<b>3,189,733</b>	<b>4.77</b>
Other Net Assets		<b>4,891,043</b>	<b>7.32</b>
<b>Total Value of Fund</b>		<b>66,818,589</b>	<b>100.00</b>

\*All cash holdings held with the Governor & Company of the Bank of Ireland.

# Schedule of Portfolio Changes for the period ended 30 June 2003

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## Largest Purchases

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2,000,000	10.25% Guatemala (Republic of) 08/11/2011
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## Largest Sales

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4,000,000	8% Costa-Rica (Republic of) 01/05/2003
2,000,000	9.5% Dominican (Republic of) 27/09/2006
2,000,000	9.04% Dominican Republic 23/01/2013

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