

# **CABEI Central American Fund plc**

## **CABEI Central American Portfolio**

### **Audited Financial Statements**

For the 11 months ended 31 December 2003



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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 (German) (Chairman)

Directors from Deutsche Asset Management Americas:  
Rodrigo Briones (Chilean)  
Richard T. Hale (American)

Directors from Central American Bank for Economic Integration:  
Jaime Chavez (Honduran)  
Alejandro Rodriguez (Costa Rican)  
Nick Rischbieth Gloe (Honduran)

Other Directors:  
Michael Greene  
Per Åke Rydberg (Swedish)  
Hartwig Krieg (German)

**Investment Manager**

Investment Company Capital Corporation  
One South Street  
Baltimore  
MD 21202  
USA

**Investment Advisor**

DWS Finanz - Service GmbH  
Mainzer Landstrasse 178-190  
60323 Frankfurt am Main  
Germany

**Administrator**

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

## Organisation (continued)

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

**Independent Auditors** KPMG  
1 Harbourmaster Place  
International Financial Services Centre  
Dublin 1

**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.*

## Background to the Fund (continued)

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### 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. Investor Fund Services (Ireland) Limited resigned as administrators of the Company 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 Investment 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 Funds Dealing Day is the first Dealing 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 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-Service GmbH services as Investment Advisor pursuant to an investment advisory agreement dated 1 January 2002 between the Investment Manager and Investment Advisor.

## 3. 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 (but if bid and asked quotations are available, at the last current bid price, rather than the quoted closing price). 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 of exchange quoted by a recognised pricing service.

## 4. Issue and Repurchase of Shares

The procedures for the issue and repurchase of shares are described in detail in the Offering Circular dated 29 October 2003, revised offering circular.

### 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 on that Dealing Day. Requests for the repurchase of Shares may be made either by facsimile, telex or in writing to the Administrator.

## 5. 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 future performance. 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.

# Investment Advisor's Report (for the 11 Months Ended 31 December, 2003)

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The net asset value of the CABEI Central American Fund was up 7.21% for the 11 months ended 31 December, 2003. At the end of the annual period, the Fund had net assets of US\$68.33 million and a net asset value of US\$1,291.22 per share.

## Investment Environment

The year 2003 was marked by economic recovery in the United States, the Caribbean, Central America, and South America. In spite of the war with Iraq, rising petroleum prices, and some deflationary tendencies, the US economy expanded, primarily due to aggressive fiscal and monetary stimulus. Economic growth also accelerated in Central America, with the single exception of the Dominican Republic. Most notably, the Costa Rican economy is expected to have grown by more than 5% in 2003, led by a surge in high-technology exports. During the annual period, economic growth in Colombia and Mexico also exceeded their respective growth rates recorded for 2002.

In an environment of rising economic growth and ample global liquidity, most Central American debt markets produced positive returns for the year. However, fiscal and political challenges put their credit ratings under pressure. Indeed, Central American sovereign bond spreads rose by an average of 90 basis points during 2003, driven in large part by the economic crisis of the Dominican Republic.<sup>1</sup>

While 2003 proved to be a challenging year for Central America, most countries in the region made significant progress towards economic stability by the end of the year.

- Belize was downgraded by Moody's to Ba3 in May on the back of rapidly increasing public sector debt. Due to the government's expansionary fiscal policy, total public sector debt rose from 50% of Gross Domestic Product (GDP) to 80% of GDP over the five years ended 31 December, 2003. Still, Belize managed to reduce its fiscal deficit to approximately 2% of GDP in 2003, about half of the levels reported in prior years.
- 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. However, under new finance minister Alberto Dent, the country made progress in stabilizing its public debt.
- The Dominican Republic was shaken by a banking crisis, which had its roots in massive fraud at Banco Intercontinental, the country's third largest bank. As a result of the bailout of the bank's depositors, the government not only incurred high liabilities, but also created inflation and put pressure on its currency's exchange rate. Multilateral lenders, including the International Monetary Fund (IMF), provided a credit program to counter the effects of the banking crisis, however these disbursements were halted in October, due to the government's poor handling of problems in its electricity sector. During the course of the year, Moody's lowered the nation's rating from Ba2 to B2, and Standard & Poor's lowered its rating from BB- to CCC. On the positive side, multilateral support is likely to be restored in 2004, and overall debt levels remain comparatively low, and the risk of a sovereign default over the next two years also appears low, as the government shows a capacity and willingness to pay its private sector debt.
- El Salvador's Baa3 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. However, after intense discussions with the government, Moody's confirmed El Salvador's investment grade rating in December, stating that new banking regulations there should support the banking system's ability to confront episodes of financial stress.
- Guatemala was downgraded by Standard & Poor's to BB- in May, and political uncertainty in the run-up to its presidential elections weighed on business and consumer confidence during most of the year. On the other hand, former dictator Rios Montt did not receive the necessary votes to make it past the first round election in November, and political moderate Oscar Berger won the election in the second round held on December 28. Montt's party still rules the Congress, and President Berger will need to build consensus to govern effectively.

# Investment Advisor's Report (for the 11 Months Ended 31 December, 2003) (continued)

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## Investment Environment (Continued)

In the area of structural reforms, it is important to note that the Central American countries completed negotiations on a free trade agreement with the United States during 2003. This treaty, known as the Central American Free Trade Agreement (CAFTA) now awaits consideration by the US congress. If the treaty does become ratified, it would, in our view, become the most important trade reform since the North American Free Trade Agreement (NAFTA) was signed in the early 1990s. According to the president of the Central American Bank for Economic Integration (CABEI), Harry Brautigam, "CAFTA...will allow our countries to access new markets, consolidate their positions in old markets, harness new foreign investment, and introduce new technologies and knowledge." During the annual period, the US also opened negotiations with the Dominican Republic and Panama on bilateral free-trade arrangements

Low US interest rates enabled the Central American countries to access the international bond market at relatively favorable conditions. Costa Rica issued \$450 million of 2008 and 2013 bonds in January 2003. The Dominican Republic also accessed the market in January, prior to the banking crisis, with a \$600 million bond due 2013. Belize issued a \$100 million 2015 bond in June, and Guatemala brought a \$300 million 2013 bond to market in August 2003.

## Investment Strategy

Our strategy was to continue to build the portfolio's exposure to Central America, while avoiding highly speculative positions. In June, 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. Throughout the annual period, we gradually added to the Fund's exposure to Guatemala, as it became increasingly likely that former dictator Rios Montt would lose the November presidential elections. When Oscar Berger emerged as the winner of the second round of presidential elections on December 28, we had already increased the Fund's allocation to Guatemala by more than 8% of net assets. We also added to the Fund's holdings in El Salvador toward the end of the annual period.

We reduced the Fund's holdings in Mexico and Costa Rica. While we remain constructive on the macroeconomic outlook for each country, we believe most of the good news was already priced in to its bonds. Indeed, both countries' issues were trading at comparably low yields in the secondary market<sup>2</sup> toward the end of the year. We had no holdings in Argentina throughout the annual period. To date, we have not invested in Belize.

As prospects for an economic recovery in the US improved in November, we decided to help protect the portfolio against a rise in US interest rates. We partially hedged the portfolio's securities by selling interest rate futures contracts based on US Treasury notes and bonds.<sup>3</sup>

As of 31 December, 2003, the Fund had an average spread duration of 4.9 years and an average interest rate duration of 3.1 years.<sup>4</sup> The Fund's average maturity stood at 9.2 years. The Fund held a total of 14 securities, and the average rating of the securities in the Fund was BB, as rated by Standard & Poor's. At the end of the annual period, the Fund was invested approximately 78% in securities from founding members of CABEI, namely in Costa Rica, El Salvador, and Guatemala. Approximately 16% of the portfolio's assets were invested in securities from CABEI extra-regional members, namely Colombia and Mexico, and approximately 3% of the portfolio's assets were invested in securities from Panama. The remaining assets were invested in cash and short-term holdings.

## Investment Outlook

We expect the economic expansion that gained momentum in the United States during the second half of 2003 to continue during 2004, driven primarily by a rebound in investment spending. In our view, US Gross Domestic Product (GDP) growth could reach approximately 4% in the coming year. However, as the economic recovery remains fragile, we further expect that the Federal Reserve Board will not begin to increase the targeted federal funds rate until well into 2004. We believe that any tightening in monetary policy would likely translate into

# Investment Advisor's Report (for the 11 Months Ended 31 December, 2003) (continued)

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## Investment Outlook (Continued)

upward pressure on both US Treasury yields and Central American sovereign bond spreads. Therefore, we intend to closely monitor those economic indicators that most influence monetary policy decisions in the US, particularly consumer prices and employment growth.

In Central America, we do not anticipate massive increases in its debt markets' risk premia, despite potentially deteriorating global liquidity conditions. Macroeconomic stability in the region is improving, and we expect economic growth for Central America as a whole to accelerate during 2004.

On the political front, the March 2004 presidential election in El Salvador is a key event for the region, and it currently appears that a moderate candidate may be the victor there as was the case in Guatemala. Also, both the Dominican Republic and Panama are preparing for their presidential elections to be held in May 2004.

We intend to closely monitor these political events as well as the fiscal and macroeconomic factors impacting the credit quality of the Fund's countries and to pursue an investment policy focused on relative value. We remain convinced that active management of a diversified Central American debt portfolio offers attractive total return opportunities.

## DWS Finanz-Service GmbH, Investment Advisor

### NOTES

<sup>1</sup> The sovereign bond spread is the difference in yield between dollar-denominated sovereign bonds and US Treasury bonds with similar duration. The sovereign bond spread is measured by the Bear Stearns Central America/Caribbean Index (BSCAX), which tracks total returns for dollar-denominated sovereign debt instruments of ten countries in Central America and the Caribbean.

<sup>2</sup> Secondary markets are exchanges and over-the-counter markets where securities are bought and sold subsequent to original issuance, which took place in the primary market.

<sup>3</sup> A futures contract is an agreement to buy or sell a specific amount of a financial instrument at a particular price in a stipulated future month. The price is established between buyer and seller. A futures contract obligates the buyer to purchase the underlying security and the seller to sell it, unless the contract is sold to another before settlement date, which may happen if a trader waits to take a profit or cut a loss.

<sup>4</sup> Interest rate duration is the percentage price change of the portfolio for a given change in the US Treasury par curve. The higher the interest rate duration, the higher the portfolio's exposure to changes in US interest rates. Spread duration is the percentage price change of the portfolio for a given change in sovereign spread, ie, in the average yield spread of the Emerging Markets sovereign bonds held in the portfolio over the US Treasury par curve. The higher the spread duration, the higher the portfolio's exposure to changes in Emerging Markets credit risk.

# Director's Report

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The directors present herewith the annual report and audited financial statements for the 11 months ended 31 December 2003.

## Statement of Directors' Responsibilities

Company law in Ireland requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of its' results of operations for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts. They are also responsible for safeguarding the assets of the Company and to prevent and detect fraud and other irregularities. In this regard, they have entrusted the assets of the Company to a custodian for safeguarding in accordance with the Memorandum and Articles of Association of the Company.

## Principal Activities

The Company has been approved by the Irish Financial Services Regulatory Authority as an investment company pursuant to Part XIII of the Companies Act, 1990.

## Review of Business and Future Developments

This is reviewed in the Investment Advisor's Report on page 6 to 8.

## Results

The results for the period and the appropriation thereof are set out in the Statement of Operations on page 14.

## Events since the period end

There have been no significant events affecting the Company since the period end.

## Dividends

The directors do not recommend the payment of a dividend.

## Directors and Secretary

The Directors who held office during the period under review were:

Walter Dostmann	(Chairman)
Rodrigo Briones	
Alejandro Rodriguez	
Jaime Chavez	(Appointed 10 May 2003)
Michael Greene	
Per Åke Rydberg	
Hartwig Krieg	
Richard T.Hale	(Retired 1 April 2004)
Nick Rischbieth Gloe	

## Director's Report (continued)

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### **Directors' Interests in Shares and Contracts**

Walter Dostmann and Rodrigo Briones hold one subscriber share each. None of the Directors other than those listed above who held office at 31 December, 2003 had any interests in the Shares of the Company at that date or at any time during the financial period.

### **Transactions Involving Directors**

There are no contracts or arrangements of any significance in relation to the business of the Company in which the directors or company secretary had any interest as defined in the Companies Act, 1990 at any time during the period.

### **Accounting Records**

The directors believe that they have complied with the requirements of Section 202 of the Companies Act, 1990 with regard to the books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the Company are maintained at New Century House, IFSC, Mayor Street Lower, Dublin 1.

### **Auditors**

In accordance with Section 185 of the Companies act 1990, the auditors PricewaterhouseCoopers resigned from office. KPMG, Chartered Accountants were appointed as auditors to the Company and in accordance with Section 160(2) of the Companies Act, 1963, KPMG have agreed to continue in office.

### **ON BEHALF OF THE BOARD OF DIRECTORS**

Michael Greene

Director

Per Åke Rydberg

Director

Date: 15 April 2004

# Statement of Custodian's Responsibilities

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The Companies Act, 1990 (“the Act”) requires the custodian to take reasonable care so as to ensure that the Company is managed by the directors in accordance with the Act and the Memorandum and Articles of Association. In particular the custodian must:

- satisfy itself on a continuing basis on reasonable grounds and report that the Company has been managed in accordance with the limitations imposed on the investment and borrowing powers of the Company and custodian by the Memorandum and Articles of Association and the Act;
- take into its custody or under its control, the assets of the Company and hold them in trust for the shareholders in accordance with the Memorandum and Articles of Association and the Act; and
- satisfy itself that the valuation of the shares of the Company and that the sale, issue, repurchase and redemption of shares of the Company are being carried out in accordance with the Memorandum and Articles of Association and the Act.

To enable the custodian to fulfill its responsibilities under the Act and the Memorandum and Articles of Association, the custodian is required to keep proper financial records.

## **Custodian's Report**

The Governor and Company of the Bank of Ireland, as custodian to the CABEI Central American Fund plc has enquired into the conduct of the Company for the period ended 31 December 2003.

In our opinion, the Company was managed, in all material respects, throughout the year in accordance with the provisions of Part XIII of the Companies Act, 1990 and the Memorandum and the Articles of Association.

In particular, the Company was managed, in all material respects, in accordance with the limitations imposed on the investment and borrowing powers of the Company, by the Memorandum and the Articles of Association and the Act.

**The Governor & Company of the Bank of Ireland**

**Date: 15 April 2004**

# Independent Auditor's Report to the Shareholders of CABEI Central American Fund plc

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We have audited the financial statements, on pages 14 to 25.

This report is made solely to the company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the directors and the Independent auditors**

The directors are responsible for preparing the annual report. As described on page 9, this includes responsibility for preparing the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the financial statements agree with the books of account and report to you our opinion as to whether the company has kept proper books of account and whether the directors' report is consistent with the financial statements.

We also report to you if, in our opinion, information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## **Basis of Audit Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion, the financial statements we have audited give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its results of operations for the period then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts.

# **Independent Auditor's Report to the Shareholders of CABEI Central American Fund plc (continued)**

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We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion, the information given in the directors' report on pages 9 to 10 is consistent with the financial statements.

KPMG  
Chartered Accountants and Registered Auditors  
1 Harbourmaster Place  
Dublin  
Date: 15 April 2004

# Statement of Operations

		<b>11 MONTHS ENDED 31 DECEMBER 2003</b>	<b>13 MONTHS ENDED 31 JANUARY 2003</b>
	<b>Notes</b>	<b>USD</b>	<b>USD</b>
Operating income	2	4,614,468	5,146,074
Operating expenses	3	(1,934,124)	(1,904,308)
<b>Net operating income</b>		<u>2,680,344</u>	<u>3,241,766</u>
Realised (loss)/gain on sale of investments		(224,224)	921,394
Realised loss on futures		(318,750)	(84,515)
Net currency loss	1(c)	(780)	-
Net movement in unrealised appreciation/ (depreciation) on investments		2,698,973	(44,438)
Unrealised loss on futures		(90,235)	-
<b>Total return for the period</b>		<u>4,745,328</u>	<u>4,034,207</u>
<b>Net increase in shareholders funds</b>		<u><u>4,745,328</u></u>	<u><u>4,034,207</u></u>

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.

## ON BEHALF OF THE BOARD OF DIRECTORS

Michael Greene  
Director

Per Åke Rydberg  
Director

Date: 15 April 2004

# Statement of Net Assets

	Notes	31 DECEMBER 2003 USD	31 JANUARY 2003 USD
<b>CURRENT ASSETS</b>			
Investments	4	63,775,513	61,854,865
Debtors	5	2,035,786	1,722,442
Cash at Bank		3,135,896	295,745
		<hr/>	<hr/>
		68,947,195	63,873,052
<b>CREDITORS</b>			
(amounts falling due within one year)	6	(831,386)	(623,007)
		<hr/>	<hr/>
<b>NET ASSETS</b>		68,115,809	63,250,045
		<hr/> <hr/>	<hr/> <hr/>
<b>SHAREHOLDERS' FUNDS</b>	8	68,115,809	63,250,045
		<hr/> <hr/>	<hr/> <hr/>

## ON BEHALF OF THE BOARD OF DIRECTORS

Michael Greene  
Director

Per Åke Rydberg  
Director

Date: 15 April 2004

## Statement of Changes in Net Assets

	11 MONTHS ENDED 31 DECEMBER 2003 USD	13 MONTHS ENDED 31 JANUARY 2003 USD
<b>Net Assets at beginning of period</b>	63,250,045	56,114,671
Amounts received on creation of shares	254,000	3,101,167
Amounts paid on cancellation of shares	(133,564)	-
Increase in net assets resulting from share transactions	120,436	3,101,167
Increase in net assets resulting from operations (page 14)	4,745,328	4,034,207
<b>Net increase in shareholders' funds from investing activities</b>	4,865,764	7,135,374
<b>Net Assets at end of period</b>	68,115,809	63,250,045

### ON BEHALF OF THE BOARD OF DIRECTORS

Michael Greene  
Director

Per Åke Rydberg  
Director

Date: 15 April 2004

# Notes to the Financial Statements as at 31 December 2003

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## 1. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with accounting standards generally accepted in Ireland and under the historical cost convention as modified by the inclusion of securities at valuation and comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland.

The format and certain wordings of the financial statements have been adopted from those contained in the Companies (Amendment) Act, 1986 so that in the opinion of the Directors, they more appropriately reflect the nature of the Company's investment business.

The profit and loss account is referred to as the statement of operations. Unrealised gains are shown in the statement of operations. This represents a departure from the Companies Amendment Act, 1986. In the opinion of the Directors, this treatment is necessary to fairly present the results of operations.

The Company is exempt from the requirements of Financial Reporting Standard (FRS) No. 1 to include a cash flow statement as part of the financial statements because it is an open ended investment fund investing in liquid investments.

The information required by Financial Reporting Standard (FRS) No. 3 'Reporting Financial Performance' to be included in a statement of total recognised Gains and Losses and a Reconciliation of Movements in Shareholders Funds is, in the opinion of the Directors, contained in the statement of operations and statement of movement in shareholders' funds on pages 14 and 16.

In arriving at the results for the period all amounts in the statement of operations relate to continuing activities. In the opinion of the directors, the financial statements give, in all other respects, the information required by the Company Acts, 1963 to 2001.

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 bid 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. In valuing such securities and assets, the Investment Advisor will consider various factors, including (1) the fundamental analytical data relating to the investment, (2) the nature and duration of restrictions on disposition of the securities and (3) an evaluation of the forces of the market in which these securities are purchased and sold.

FutureS contracts are valued at close of business or, if deemed to be representative of fair market value, last quoted trade price at the period end.

The security Aes Clesa is valued by a pricing committee that uses broad methodologies in arriving at a valuation for the security. This value is used for the purposes of calculating the Net Asset Value of the fund and for financial statements purposes also.

# Notes to the Financial Statements as at 31 December 2003 (continued)

## 1. BASIS OF PRESENTATION (Continued)

### 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 31 December 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 rates, at 31 December 2003, were used to convert investments, assets and liabilities to the base currency of the Fund:

EUR/USD            0.7928

### 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.

	<b>11 MONTHS ENDED 31 DECEMBER 2003</b>	<b>13 MONTHS ENDED 31 JANUARY 2003</b>
	<b>USD</b>	<b>USD</b>
Opening balance	34,817	56,490
Additions	-	-
Amortised in the period	(34,817)	(21,673)
Closing Balance	<u>-</u>	<u>34,817</u>

## Notes to the Financial Statements as at 31 December 2003 (continued)

	<b>11 MONTHS ENDED 31 DECEMBER 2003 USD</b>	<b>13 MONTHS ENDED 31 JANUARY 2003 USD</b>
<b>2. OPERATING INCOME</b>		
Income from investments	4,583,647	5,072,923
Accretion of original issue discount	-	1,208
Accretion of discount	-	41,016
Bank Interest	30,821	30,927
	<hr/>	<hr/>
	4,614,468	5,146,074
	<hr/> <hr/>	<hr/> <hr/>
	<b>11 MONTHS ENDED 31 DECEMBER 2003 USD</b>	<b>13 MONTHS ENDED 31 JANUARY 2003 USD</b>
<b>3. OPERATING EXPENSES</b>		
Investment management fees	(1,091,651)	(1,171,195)
Performance fees	(557,619)	(352,284)
Auditor's fees	(47,763)	(29,296)
Amortisation of organisational expenses	(34,817)	(21,673)
Directors' fees	(8,909)	(38,509)
Directors' expenses	(39,422)	(18,829)
Legal expenses	(84,217)	(210,090)
Printing/publishing	(11,401)	(10,850)
Marketing	(17,963)	-
Other expenses	(40,362)	(51,582)
	<hr/>	<hr/>
	(1,934,124)	(1,904,308)
	<hr/> <hr/>	<hr/> <hr/>
	<b>31 DECEMBER 2003 USD</b>	<b>31 JANUARY 2003 USD</b>
<b>4. INVESTMENTS</b>		
Opening Cost	59,455,835	46,272,438
Additions	13,791,250	45,276,946
Disposals	(14,479,340)	(32,093,549)
	<hr/>	<hr/>
Closing Cost	58,767,745	59,455,835
	<hr/> <hr/>	<hr/> <hr/>
Closing Market Value	63,775,513	61,854,865
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Financial Statements as at 31 December 2003 (continued)

### 5. DEBTORS

	31 DECEMBER 2003 USD	31 JANUARY 2003 USD
Accrued interest	1,621,946	1,668,315
Prepaid insurance	25,168	19,310
Futures margin balance	388,672	-
Other receivables	-	34,817
	2,035,786	1,722,442
	2,035,786	1,722,442

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

Accrued investment management fees	(103,291)	(94,909)
Accrued performance fee	(562,690)	(352,283)
Accrued other expenses	(113,738)	(124,148)
Accrued organisational expenses	(51,667)	(51,667)
	(831,386)	(623,007)
	(831,386)	(623,007)

### 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 500,000,000,000 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.

## Notes to the Financial Statements as at 31 December 2003 (continued)

### 7. SHARE CAPITAL (Continued)

#### Shares in Issue

	31 DECEMBER 2003	31 JANUARY 2003
<b>NUMBER OF SHARES</b>		
<b>Issued and Fully Paid</b>		
Balance at beginning of period	52,651	50,000
Issued during period	210	2,651
Redeemed during period	(108)	-
	<hr/>	<hr/>
Total number of shares in issue at period end	52,753	52,651
	<hr/> <hr/>	<hr/> <hr/>

### 8. NET ASSET VALUE USD

As at 31 December 2003	68,115,809
	<hr/>
As at 31 January 2003	63,250,045
	<hr/>
As at 31 December 2001	56,114,671
	<hr/> <hr/>
<b>NET ASSET VALUE PER UNIT</b>	
As at 31 December 2003	1,291.22
	<hr/>
As at 31 January 2003	1,201.30
	<hr/>
As at 31 December 2001	1,122.29
	<hr/> <hr/>

### 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 Advisor, 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.

### 10. EFFICIENT PORTFOLIO MANAGEMENT

The Investment Manager may utilise derivatives and other techniques and instruments (including but not limited to options, swaps, futures and forwards) whether the intention of providing protection against risks of gaining exposure to certain markets, sectors or securities, or otherwise of increasing the return on the assets of the Portfolio. Such derivatives and other techniques and instruments will only be used for efficient portfolio management purposes in accordance with the conditions and limits laid down by the Financial Services Regulator. The Investment Manager may also, when facilities become available in the relevant markets, lend the Portfolio securities and/or purchase securities subject to repurchase agreements.

During the period the fund has used futures to hedge against market price movement. The counterparty for the futures is Deutsche Bank Securities Inc. Details of open future contracts are included in the schedule of investments on page 26.

## 11. 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 1. Amounts earned by the Investment Manager are disclosed in Note 3 on page 20. The Investment Manager discharges the fees of the Investment Advisor.

The Central American Bank for Economic Integration (CABEI) is the majority shareholder with a 94.78% holding in the Fund at period end. It is also the Placement Agent. Jaime Chavez, Alejandro Rodriguez and Nick Rischbieth Gloe directors of the fund are also directors of CABEI.

## 12. TAXATION

The Company will not be liable to tax in respect of its income and gains, other than on the occurrence of a chargeable event. A chargeable event includes any distribution or any redemption or transfer of shares.

A Chargeable event does not include:

- i) Any transaction in relation to Shares held in a recognised clearing system as designated by order of the Revenue Commissioners of Ireland; or
- ii) An exchange of Shares representing one Sub-fund for another Sub-fund of the Company; or
- iii) An exchange of Shares arising on a qualifying amalgamation or reconstruction of the Company with another fund.

A chargeable event will not occur in respect of shareholders who are neither resident nor ordinarily resident in Ireland and who have provided the Company with a relevant declaration to that effect.

In the absence of an appropriate declaration, the Company will be liable to Irish tax on the occurrence of a chargeable event.

Capital Gains, dividends and interest received may be subject to withholding taxes imposed by country of origin and such taxes may not be recoverable by the Company or its shareholders

## 13. SOFT COMMISSION ARRANGEMENTS

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

## 14. 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 Fund may employ efficient portfolio management techniques as described in note 10 to provide a degree of protection against market price falls. 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.

# Notes to the Financial Statements as at 31 December 2003 (continued)

## 14. FINANCIAL INSTRUMENTS (Continued)

### (b) Credit risk

Financial assets which potentially expose the Fund to credit risk consist principally of the credit risk of the underlying investments and to a lesser extent 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. At the year end the fund had exposure to its reporting currency only.

### (d) Interest Rate Risk

The fund invests in fixed interest securities that earn interest. Any change to the interest rates relevant for particular securities may result in the Investment Manager being unable to secure similar returns on the expiry of contract or the sale of securities.

In addition, changes to prevailing rates or changes in expectations of future rates may result in an increase or decrease in the value of the securities held. In general, if interest rates rise, the value of the fixed interest securities will decline along with certain expenses calculated by reference to assets of the Fund. A decline in interest rates will in general have the opposite effect.

### 31 December 2003

	<b>Fixed Rate Interest USD</b>
US Dollar	63,865,748

### 31 January 2003

	<b>Fixed Rate Interest USD</b>
US Dollar	61,854,865

# Notes to the Financial Statements as at 31 December 2003 (continued)

## 14. FINANCIAL INSTRUMENTS (Continued)

	<b>Fixed Rate Financial Assets Weighed Average Interest Rate (%)</b>	<b>Fixed Rate Financial Assets Weighted Average Period for which rate is Fixed (Years)</b>
<b>31 December 2003</b>	8.80	9.85
<b>31 January 2003</b>	8.75	9.50

### (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 15.

## 15. 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 largest purchases and sales for the Fund is shown on page 27.

## 16. IMPORTANT EVENTS DURING PERIOD

Effective as of 1 February, 2003, the company appointed Bank of Ireland Securities Services Limited as Administrators and Placement Agent replacing Investors Fund Services (Ireland) Limited. The Governor and Company of the Bank of Ireland ( 'the Custodian' ) as Custodian of the assets of the company, replacing Investors Trust and Custodial Services (Ireland) Limited. The prospectus was updated on the 29 October 2003 to reflect these changes.

## 17. COMPARATIVE FIGURES

The comparative figures are for the 13 month period to 31 January 2003.

## 18. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board on 15 April 2004.

## Schedule of Investments as at 31 December 2003

Holding	Investment	Notional Value USD	Value USD	% of Fund
<b>UNITED STATES</b>				
<b>Corporate Fixed</b>				
4,758,548	11.58% Aes Clesa Series 28/06/2010 (B)		5,594,178	8.21
2,000,000	6.5% Petroleos Mexicanos 01/02/2005		2,091,275	3.07
			<b>7,685,453</b>	
<b>Financial Futures</b>				
(100)	US 10 Year Note Future March 2004 (A)	(11,226,563)	(59,375)	(0.09)
(50)	US Long Bond March 2004 (A)	(5,465,625)	(30,860)	(0.05)
			<b>(90,235)</b>	
<b>Government Fixed</b>				
4,000,000	8.625% Colombia (Republic of) 01/04/2008		4,329,133	6.36
12,000,000	8.11% Costa Rica (Republic of) 01/02/2012		12,930,000	18.98
4,500,000	9.5% El Salvador (Republic of) 15/08/2006		5,103,000	7.49
4,000,000	8.5% El Salvador (Republic of) 25/07/2011		4,465,156	6.56
7,500,000	8.25% El Salvador (Republic of) 10/04/2032		7,506,075	11.02
2,000,000	9.25% Guatemala (Republic of) 01/08/2013		2,210,000	3.24
5,046,000	8.5% Guatemala (Republic of) 03/08/2007		5,525,370	8.11
4,000,000	10.25% Guatemala (Republic of) 08/11/2011		4,675,904	6.86
2,335,000	8.5% Mexico (United Mexican States) 01/02/2006		2,611,907	3.83
1,250,000	8.3% Mexico (United Mexican States) 15/08/2031		1,406,250	2.06
2,000,000	9.375% Panama (Republic of) 16/01/2023		2,177,500	3.20
3,000,000	8.05% Costa Rica (Republic of) 31/01/2013		3,240,000	4.77
			<b>56,180,295</b>	
<b>TOTAL VALUE OF INVESTMENTS</b>			<b>63,775,513</b>	<b>93.63</b>
<b>(Cost: USD 58,526,293)</b>				
<b>CASH*</b>			<b>3,135,896</b>	<b>4.60</b>
<b>OTHER NET ASSETS</b>			<b>1,204,400</b>	<b>1.77</b>
<b>TOTAL VALUE OF FUND</b>			<b>68,115,809</b>	<b>100.00</b>

### Analysis of Total Assets

	% of Total Assets
Transferable securities admitted to an official stock exchange listing	85.56
Transferable securities dealt with in another regulated market classified as (A) above	(0.14)
Transferable securities not listed on any stock exchange classified as (B) above	8.21
Current Assets	6.37
	<b>100.00</b>

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

# Schedule of Portfolio Changes for the period ended 31 December 2003

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## Largest Purchases

3,000,000	10.25% Guatemala (Republic of) 08/11/2011
2,250,000	8.3% Mexico (United Mexican States) 15/08/2031
2,000,000	10.375% Colombia (Republic of) 28/01/2033
2,000,000	9.25% Guatemala (Republic of) 01/08/2013
1,500,000	8.5% El Salvador (Republic of) 25/07/2011
1,000,000	8.25% El Salvador (Republic of) 10/04/2032
800,000	11.375% Mexico (United Mexican States) 15/09/2016

## Largest Sales

4,000,000	8% Costa-Rica (Republic of) 01/05/2003
2,750,000	8.3% Mexico (United Mexican States) 15/08/2031
2,000,000	10.375% Colombia (Republic of) 28/01/2033
2,000,000	9.5% Dominican (Republic of) 27/09/2006
2,000,000	9.04% Dominican Republic 23/01/2013
800,000	11.375% Mexico (United Mexican States) 15/09/2016
241,452	11.58% Aes Clesa Series 28/06/2010

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For more information please visit our website [www.deam-us.com](http://www.deam-us.com) under Offshore Funds  
(for Non-US Residents)





