Dear Shareholders,

It is fair to say that 2007 was a good year. Although our Fund's NAV performance was not what it had been in previous years, it nevertheless exceeded our longterm goal of 10% average annual growth and was far better than the performance of world equity markets.

Table 1. Fund's performance since launch

	Vltava Fund	Our long-term goal	MSCI World Equity, Local Currency
2004 (4 months)	8.60%	3.24%	9.03%
2005	29.81%	10.00%	13.74%
2006	18.90%	10.00%	13.52%
2007	10.77%	10.00%	2.82%
Total	**85.68%**	**37.41%**	**44.75%**

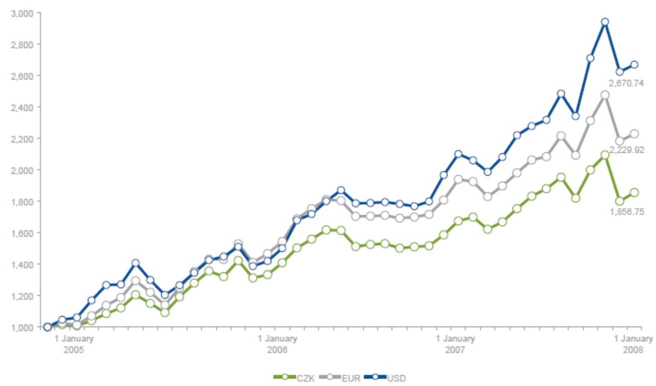
Our results look even better when we express the world markets' performance in the Fund's base or reporting currency, which is the Czech koruna.

Table 2. Fund's performance vs. world markets in CZK

	Vltava Fund	Our long-term goal	MSCI World Equity, in CZK
2004 (4 months)	8.60%	3.24%	(3.81%)
2005	29.81%	10.00%	18.76%
2006	18.90%	10.00%	0.11%
2007	10.77%	10.00%	(6.62%)
Total	**85.68%**	**37.41%**	**6.79%**

In that we calculate the Fund's results and NAV in the Czech koruna, and since almost all of the Fund's investments are made abroad and are therefore denominated in foreign currencies, the exchange rates between the Czech koruna and those foreign currencies have an important impact on the Fund's NAV. Because the koruna has been very strong over the last several years, we have been hedging most of our currency exposure back into the Czech currency in order to minimise the currency risk. That hedging, of course, comes at a price. We estimate that it cost us about 2.5–3% of NAV during 2007. That is significant, but the hedging paid off because the Czech koruna strengthened much more than that against most other currencies. Another way of looking at the importance of currency movements is to consider our NAV performance when expressed in dollars or euros. As visible from Graph 1, the koruna's strength means that a dollar-based or euro-based investor benefited from having the Fund's international investments rebased to the Czech currency.

Graph 1. NAV performance in CZK, USD and EUR



Although we are happy with the 2007 NAV performance, in fundamental terms the Fund actually did much better than its NAV suggests. How is that possible? Simply put, we think there are measures other than NAV that give a better picture of the Fund's performance. The main one is what is called "look-through earnings". It is the Fund's pro rata share of earnings from those companies that we hold in our portfolio. (For a more thorough description and explanation of look-through earnings, please see our 2006 annual report). Look-through earnings per one share of the Fund were actually up by more than 60%! They moved from CZK 219 at the end of 2006 to CZK 355 at the end of 2007. How can this happen? Well, generally due to two things. First, the profits of the companies that we own continue to rise nicely. Secondly, we managed to buy some stocks very cheaply during the three market setbacks that occurred last year – in February, August and November.

The average price/earnings (P/E) multiple of the stocks that we had in the portfolio at the end of the 2007 was 7.5. And that is a historical P/E, based upon earnings that our companies made during 2007. We believe that the projected P/E – which is the multiple based upon expected earnings for 2008 – is about 6.5. These ratios are very low by any standard and suggest that we own low-priced stocks. In fact, these ratios have never been lower in the Fund's life. For comparison's sake, the Fund's historical P/E at the end of 2006 was 10.2.

Of course, one can say that low P/E might signal much poorer earnings prospects for the future, and that could certainly be true. But we try to select companies that are not only good and cheap, but also which have attractive earnings outlooks. So far, we neither see nor predict significant negative earnings developments among our stocks.

Let us do a bit more of simple mathematics. Lookthrough earnings per share of CZK 355 means that companies in our portfolio now earn in one year more than one-third of the initial price of the Fund's share. Investors that bought the Fund's shares at CZK 1,000 in September 2004 see that their initial investments now provide a 35% return.

Dividends show a similar picture. The Fund's dividend yield is 4.2%. That means that the dividend per share is about 78 CZK. Therefore, investors who bought the Fund's shares at CZK 1,000 in September 2004 see that their initial investments now provide a 7.8% dividend return.

You may be asking by now, why then did the NAV last year grow by just 10.7%? Well, there could be two different answers. The first possibility is that there is a very good reason why our portfolio looks so cheap. That reason could be that the future global economic environment will be awful and so earnings will suffer greatly and develop negatively. Secondly, it could be that markets are not efficient and do not price stocks correctly at all times.

I am sure you have guessed that we do not believe the first reason to be the most important factor at play, but rather that the second is decisive. Acting accordingly, we pay little (if any) attention to the global macroeconomic outlook and the buzz of the news media. Rather, we try to focus on one thing above all else: to buy good companies at good prices. The markets may be quite unruly in this new year. There will be volatility, and stock prices may go down. But we believe that this would bring many opportunities to find good investments, and sooner or later it would show up positively in the Fund's NAV. If you read or hear about stocks going down, be happy. We are most likely investing your money at low share prices.

We like it when prices go down. Why? Because we receive several million in dividends every month from our investments. We use those dividends to buy more stocks, which bring us more dividends to buy more stocks to get more dividends….And the lower the stock prices the more stocks we can buy. Most people think that it is better if stocks go up, but for longterm value investors like us, it is better when stocks go down. If a dividend-paying stock were to go up and stay there forever, then we would make less money by accumulating that stock over time (and collecting dividends) than if that stock were to go down and stay there forever. It is simple math, but people usually think otherwise.

While markets will continue to go up and down, we would like to thank you, the shareholders, for your steady support and loyalty. The fact that over more than 3 years we have seen practically no redemptions and that most of you have been adding to your investments and recommending us to new investors brings us our greatest satisfaction. We will work hard to continue to earn and deserve your trust.

Daniel Gladiš, February 2008

For more information

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Historical performance over any particular period will not necessarily be indicative of the results that may be expected in future periods.

Returns for the individual investments are not audited, are stated in approximate amounts, and may include dividends and options.