

LHV Emerging Europe Alpha Fund

Annual Report 2008

(translation of the Estonian original)

LHV Emerging Europe Alpha Fund**Annual report****01.01.2008 – 31.12.2008**

Fund name	LHV Emerging Europe Alpha Fund
Fund type	Common fund
Fund Manager	Romanas Bulatovas
Main activity	Investment of fund assets, EMTAK 64301
Legal address	Tartu mnt. 2, Tallinn 10145
Phone	(372) 6800 400
Fax	(372) 6800 402
Fund Management company	AS LHV Varahaldus
Commercial Register no. of Fund Management Company	10572453
Manager of Fund Management Company	Mihkel Oja
Auditor	AS PricewaterhouseCoopers

The annual report comprises the Fund's management report, financial statements and the independent auditor's report.

Table of contents

MANAGEMENT REPORT	4
FINANCIAL STATEMENTS	5
Fund Management Company's Management Board's confirmation of the financial statements	5
Balance sheet	6
Statement of income and expenses	7
Statement of movements in assets	8
Statement of the Fund's investments as of 31.12.2008	9
Statement of the Fund's investments as of 31.12.2007	11
Structure of investments according to the investment policy	13
Notes to the financial statements	14
Note 1 Accounting policies and valuation methods used in preparing the financial statements	14
Note 2 Impacts of economic crisis	15
Note 3 Statement of commissions	16
Note 4 Statement of comparison of the Fund's net assets' value	17
Note 5 Related parties	17
Note 6 Other receivable	17
Note 7 Correction in initial fees	17
Note 8 Investment rules	17
INDEPENDENT AUDITOR'S REPORT	18
SIGNATURES OF THE MANAGEMENT BOARD OF THE FUND MANAGEMENT COMPANY TO THE 2008 ANNUAL REPORT	19

MANAGEMENT REPORT

LHV Emerging Europe Alpha Fund is a public open-ended common investment fund founded by AS LHV Varahaldus on 12 April 2007 and registered with the Financial Supervisory Authority on 16 May 2007. The fund is in compliance with the EU Council directive 85/611/EEC and the legislation of the Republic of Estonia regarding UCITs.

The fund invests in listed companies that benefit from growing consumption of goods and services in the Central and Eastern European region (including Russia and Ukraine). The fund manager searches for stocks that benefit from the region's long-term convergence with Western Europe. Most of the fund's assets are invested in the following industries: retail, banking, consumer loans, construction, real estate, healthcare, and entertainment.

2008 has proven very challenging as the sub-prime mortgage crisis in the USA has mutated into full-blown global financial crisis, which has adversely affected the real economy not only in the North America, but also in Europe and Asia. Over the summer of 2008 several biggest financial institution in the United States starting from federally-sponsored credit agencies (Freddie Mac and Fannie Mae), over to the insurers, including the biggest American company in the filed - AIG - to the commercial banks have needed a bail-outs and nationalisation. All this has scared the markets and forced sell offs across the board amid the process of de-leveraging. Frightened investors have sought the safety of US Treasury bills, driving down all other global currencies as well as dumping riskier securities. Over the same period the commodities boom has come to an abrupt end leaving the markets of commodities-driven countries such as Russia or Brazil very vulnerable all of sudden.

The Fund has been adversely affected by both reduced appetite for risk among investors, which has driven the share prices globally down as well as depreciation of regional currencies which have fallen in tandem with capital outflows from Central and Eastern Europe region. The outlook has been clouded by reduced growth prospects as well as doubts over sustainability of some countries' current accounts. Fortunately, no company in the portfolio has been put into administration leaving room for eventual recovery of all position in due time.

The difference of NAV presented in this report (see Note 4) from the initially disclosed NAV is mainly related to consideration of additional information received by the time of preparation of this report.

Comparison of Fund's return with the main stock exchange indices of Central and Eastern Europe region*

	NAV 31.12.2007	NAV 31.12.2008	Change during the period
Budapest SE BUX index	103,555	46,233	-55.35%
Zagreb SE CROBEX index	715,213	235,138	-67.12%
LHV Emerging Europe Alpha Fund	8,665	2,805	-67.63%
Warsaw SE mWIG40 index	1 124,615	362,206	-67.79%
Russian SE RTS index	1 570,671	447,990	-71.48%
Belgrade SE BELEXline index	48,347	13,525	-72.02%

* in euros, according to the official daily exchange rates

Source: stock exchanges and national banks of the countries

FINANCIAL STATEMENTS**Fund Management Company's Management Board's confirmation of the financial statements**

The Management Board of the Fund Management Company confirms the correctness and completeness of LHV Emerging Europe Alpha Fund 2008 financial statements as presented on pages 5 – 17.

- the principles, accounting methods and valuation bases used in preparing the financial statements are in compliance with the requirements applicable to investment funds in the Accounting Act, the Investment Funds Act and corresponding regulations of the Minister of Finance, based on the generally accepted accounting principles and good practice;
- the financial statements present a true and fair view of the financial position and the results of operations of the eurofond;
- LHV Emerging Europe Alpha Fund is a going concern.

Management Board of the Fund Management Company:

Mihkel Oja / signed /
Member of the Management Board

Rait Kondor / signed /
Member of the Management Board

Kerli Lõhmus / signed /
Member of the Management Board

Tallinn, 28 April 2009

Balance sheet*(in thousand Estonian kroons)*

Assets	Note	31.12.2008	31.12.2007
Securities		4 214 455	17 639 610
Equities		4 214 455	17 639 610
Deposits		274 144	390 736
Cash and cash equivalents		274 144	390 736
Other assets		4 653	5 585
Dividends to be received		0	5 585
Other receivables	6	4 653	0
Total assets		4 493 252	18 035 931
Liabilities and net assets			
Liabilities		11 457	46 625
Liabilities to Fund Management Company	5	9 679	41 138
Liabilities to depositary		1 540	5 488
Other liabilities		238	0
Fund's net assets' value (NAV)	4	4 481 795	17 989 306
Total liabilities and net assets		4 493 252	18 035 931

The notes on pages 14 to 17 are an integral part of these financial statements.

Statement of income and expenses*(in Estonian kroons)*

	Note	01.01.2008 – 31.12.2008	16.05.2007 - 31.12.2007
Net gain (loss) from investments		-10 170 502	-2 602 324
From equities		-10 170 827	-2 618 029
From deposits		325	15 706
Total net gains less losses		-10 170 502	-2 602 324
Operating expenses		310 945	312 048
Management fees	5	268 915	261 731
Depositary fees		29 795	31 170
Transaction fees	3	12 112	18 690
Other operating expenses		123	457
Other expenses		22 028	28 147
Foreign exchange loss		22 028	28 147
Total expenses		332 973	340 195
Net result of the Fund		-10 503 475	-2 942 518

The notes on pages 14 to 17 are an integral part of these financial statements.

Statement of movements in assets*(in Estonian kroons)*

	Note	2008	2007
1. Net assets at the beginning of the period		17 989 306	-
2. Money received from subscription of A-units		1 464 471	25 348 241
Money received from subscription of B-units		980	-
3. Money paid upon redemption of A-units		-4 468 655	-4 416 417
Money paid upon redemption of B-units		-832	-
4. Net result of the Fund		-10 503 475	-2 942 518
5. Net assets of the Fund at the end of the period	4	4 481 795	17 989 306
6. Number of outstanding A-units at the end of the period		102 030	132 772
Number of outstanding B-units at the end of the period		0	-
7. NAV of A-unit at the end of the reporting period	4	43,93	135,49
NAV of B-unit at the end of the reporting period	4	-	-

The notes on pages 14 to 17 are an integral part of these financial statements.

Statement of the Fund's investments as of 31.12.2008

(in Estonian kroons)

Issuer	Country of issuer	Quantity 31.12.2008	Average acquisition cost in currency	Currency	Total acquisition cost in EEK	Market price per unit as of 31.12.2008 in currency	Total market value in EEK	Proportion of the market value of Fund's assets
1. Securities							4 214 455	93,80%
Equities					13 815 504		4 214 455	93,80%
Raiffeisen Intl Bank Holding AG	Austria	450	113,82	EUR	801 396	19,30	135 891	3,02%
Nordecon International	Estonia	5 940	100,34	EEK	596 037	15,96	94 800	2,11%
Institut Gradevinarstva Hrvatske	Croatia	20	3 898,00	HRK	165 498	3 650,00	154 969	3,45%
Liburnia Riviera Hoteli D.D.	Croatia	55	6 925,64	HRK	808 620	1 115,00	130 185	2,90%
Dalekovod	Croatia	210	1 020,10	HRK	454 761	382,00	170 296	3,79%
AB Ukio Bankas PVA	Lithuania	70 000	2,23	LTL	705 491	0,74	234 602	5,22%
Prekybos AB Apranga PVA	Lithuania	11 500	17,63	LTL	918 429	2,16	112 500	2,50%
PKO Bank Polski SA	Poland	2 000	56,99	PLN	432 728	35,50	269 554	6,00%
LPP SA	Poland	60	2 219,80	PLN	505 652	1 140,00	259 683	5,78%
BRE Bank	Poland	369	524,43	PLN	734 678	196,50	275 281	6,13%
LC Corp Old Shares	Poland	34 965	4,76	PLN	632 084	0,58	76 992	1,71%
Mostostal-Export SA Share	Poland	29 000	8,36	PLN	920 586	1,86	204 785	4,56%
Aik Banka AD	Serbia	451	10 826,88	RSD	849 033	2 550,00	199 968	4,45%
Dunau Osiguranje A.D.	Serbia	360	11 303,79	RSD	707 573	1 760,00	110 169	2,45%
Metals Banka AD Novi Sad	Serbia	87	39 080,46	RSD	591 185	5 783,00	87 482	1,95%
Globos Osiguranje AD	Serbia	579	4 484,23	RSD	451 451	790,00	79 534	1,77%
Vino Zupa AD	Serbia	80	18 125,00	RSD	252 123	6 160,00	85 687	1,91%
Probanka D.D.	Slovenia	300	36,00	EUR	168 983	35,99	168 936	3,76%
Mercator share	Slovenia	100	351,27	EUR	549 620	158,20	247 529	5,51%

The notes on pages 14 to 17 are an integral part of these financial statements.

Issuer	Country of issuer	Quantity 31.12.2008	Average acquisition cost in currency	Currency	Total acquisition cost in EEK	Market price per unit as of 31.12.2008 in currency	Total market value in EEK	Proportion of the market value of Fund's assets
Komercni Banka	Czech Republic	110	3 912,11	CZK	251 007	2 970,00	190 560	4,24%
Zwack Unicum RT	Hungary	300	16 725,00	HUF	297 352	10 725,00	190 679	4,24%
Danubius Hotels RT	Hungary	1 130	9 951,57	HUF	666 428	4 440,00	297 334	6,62%
OTP Bank share	Hungary	1 700	5 319,41	HUF	535 915	2 875,00	289 648	6,45%
Sberbank Common Share	Russia	17 800	4,11	USD	818 871	0,74	147 391	3,28%
2. Deposits							274 144	6,10%
Current accounts								
Swedbank	Estonia			EEK		58 767	58 767	1,31%
Swedbank	Estonia			EUR		9 357	146 412	3,26%
Swedbank	Estonia			PLN		18 165	68 965	1,53%
3. Other assets							4 653	0,10%
Other receivable (lisa 6)							4 653	0,10%
TOTAL							4 493 252	100%

The notes on pages 14 to 17 are an integral part of these financial statements.

Statement of the Fund's investments as of 31.12.2007

(in Estonian kroons)

Issuer	Country of issuer	Quantity 31.12.2007	Average acquisition cost in currency	Currency	Total acquisition cost in EEK	Market price per unit as of 31.12.2007 in currency	Total market value in EEK	Proportion of the market value of Fund's assets
1. Securities							17 639 610	97,80%
Equities					19 916 273		17 639 610	97,80%
Raiffeisen Intl Bank Holding AG	Austria	550	113,82	USD	979 483	64,70	891 543	4,94%
Immoeast AG	Austria	3 200	10,22	EUR	511 769	23,80	369 009	2,05%
Nordecon International	Estonia	6 500	100,34	EUR	652 229	31,65	498 344	2,76%
Tallinna Kaubamaja share	Estonia	4 000	131,19	USD	524 778	24,27	488 174	2,71%
Olympic Entertainment Group	Estonia	4 994	78,92	EUR	394 134	44,53	273 487	1,52%
Liburnia Riviera Hoteli D.D.	Croatia	55	6 925,64	HRK	811 902	156,16	586 157	3,25%
Dalekovod	Croatia	142	1 259,99	HRK	381 362	17,80	514 509	2,85%
Institut Gradevinarstva Hrvatske	Croatia	30	12 293,33	EUR	786 090	8,06	903 535	5,01%
AB Utkio Bankas PVA	Lithuania	36 512	4,39	HUF	726 394	8 790,00	611 843	3,39%
Prekybos AB Apranga PVA	Lithuania	11 500	17,63	PLN	918 429	52,60	747 398	4,14%
PKO Bank Polski SA	Poland	3 400	52,58	USD	773 607	365,50	773 902	4,29%
LPP SA	Poland	100	2 219,80	JPY	960 583	10 951,00	1 154 751	6,40%
Jutrzenka SA	Poland	926	221,01	USD	885 633	61,43	560 996	3,11%
BRE Bank	Poland	369	524,43	PLN	837 397	13,10	806 378	4,47%
LC Corp Old Shares	Poland	34 965	4,76	PLN	720 459	30,10	458 456	2,54%
Mostostal-Export SA Share	Poland	29 000	8,36	PLN	1 049 298	108,10	524 560	2,91%
NFI Empik Media and Fashion SA	Poland	4 000	23,25	PLN	402 356	91,26	328 878	1,82%
Aik Banka AD	Serbia	539	10 818,53	EUR	1 156 885	17,40	1 048 075	5,81%
Dunau Osiguranje A.D.	Serbia	248	13 770,83	EUR	677 555	34,97	432 979	2,40%
Metals Banka AD Novi Sad	Serbia	45	40 000,00	RSD	357 113	30,63	388 119	2,15%

The notes on pages 14 to 17 are an integral part of these financial statements.

Issuer	Country of issuer	Quantity 31.12.2007	Average acquisition cost in currency	Currency	Total acquisition cost in EEK	Market price per unit as of 31.12.2007 in currency	Total market value in EEK	Proportion of the market value of Fund's assets
Globos Osiguranje AD	Serbia	272	5 090,92	RSD	274 725	5 499	296 747	1,65%
Probanka D.D.	Slovenia	300	36,00	EUR	168 983	76,58	207 005	1,15%
Mercator share	Slovenia	155	351,27	EUR	851 910	10,05	812 983	4,51%
Komercni Banka	Czech Republic	355	3 912,11	EUR	823 828	8,45	920 462	5,10%
ECM Real Estate Investments SH	Czech Republic	300	1 811,00	EUR	322 282	29,81	214 084	1,19%
Danubius Hotels RT	Hungary	1 130	9 951,57	SEK	693 215	15,18	640 861	3,55%
OTP Bank share	Hungary	1 550	9 759,19	EUR	932 489	111,41	839 882	4,66%
Zwack Unicum RT	Hungary	540	16 725,00	USD	556 747	24,81	541 101	3,00%
Sberbank Common Share	Russia	17 800	4,11	USD	784 639	32,32	805 392	4,47%
2. Deposits							390 736	2,17%
Current accounts								
Swedbank (interest 3,2-6,2%)	Estonia			EUR		24 916	389 849	2,16%
Swedbank	Estonia			EEK		886	886	0,00%
Swedbank	Estonia			LTL		0,24	1	0,00%
3. Other assets							5 585	0,03%
Dividends to be received							5 585	0,03%
TOTAL							18 035 931	100%

The notes on pages 14 to 17 are an integral part of these financial statements.

Structure of investments according to the investment policy*(in Estonian kroons)*

Investment criteria	31.12.2008	Proportion of the Fund's assets (%)	31.12.2007	Proportion of the Fund's assets (%)
Type of instrument				
Equities	4 214 455	93,80%	17 639 610	97,80%
Cash and term deposits	274 144	6,10%	390 736	2,17%
Other assets	4 653	0,10%	5 585	0,03%
Total	4 493 252	100,00%	18 035 931	100,00%
Investments by listing on stock exchange				
Securities listed on a stock exchange	4 214 455	93,80%	17 639 610	97,80%
Cash and term deposits	274 144	6,10%	390 736	2,17%
Other	4 653	0,10%	5 585	0,03%
Total	4 493 252	100,00%	18 035 931	100,00%
Country of the issuer				
Estonia	94 800	2,11%	1 260 005	6,99%
Other member state of the European Union	2 953 974	65,74%	13 408 293	74,34%
Countries outside the European Union	1 165 681	25,94%	2 971 312	16,47%
Cash and term deposits in Estonia	274 144	6,10%	390 736	2,17%
Other	4 653	0,10%	5 585	0,03%
Total	4 493 252	100,00%	18 035 931	100,00%
Investments by sectors				
Finance and banking	1 999 313	44,50%	7 292 601	40,43%
Manufacturing	2 215 142	49,30%	10 347 009	57,37%
Cash and term deposits	274 144	6,10%	390 736	2,17%
Other	4 653	0,10%	5 585	0,03%
Total	4 493 252	100,00%	18 035 931	100,00%

The notes on pages 14 to 17 are an integral part of these financial statements.

Notes to the financial statements**Note 1 Accounting policies and valuation methods used in preparing the financial statements****General principles**

The 2008 financial statements of LHV Emerging Europe Alpha Fund have been prepared in accordance with the Investment Funds Act and the requirements of the Accounting Act applicable to investment funds, and based on the generally accepted accounting principles and good accounting practices.

These financial statements reflect the economic activities of the Fund in the period from 01.01.2008 to 31.12.2008.

The amounts shown in these financial statements are presented in Estonian kroons.

These financial statements have been approved by the Management Board on 28 April 2009.

Foreign currency transactions

Foreign currencies are all currencies other than the Estonian kroon. Assets and liabilities denominated in a foreign currency at the balance sheet date have been revalued to Estonian kroons on the basis of the purchase (bid) exchange rates for transfers prevailing at depositary bank Swedbank as at the moment of valuation. Gains and losses on foreign currency transactions are recognised in the statement of income and expenses as income and expenses for the period.

Principles for recognition of investments of the Fund

Deposits include the Fund's settlement account balances and term deposits. Accrued, but unpaid interest on deposits is recognised together with the principal of the deposit.

For the purposes of these financial statements, securities include the securities specified in section 255 of the Investment Funds Act, which are shares, fund units, bonds.

Securities are carried at cost at the transaction date which also includes direct transaction expenses (commissions).

The value of investments is determined based on the prudence principle. The investment fund daily revalues its assets and liabilities to market price. Unrealised profits and losses resulting from revaluation are recognised in the corresponding line item "Net gain (loss) on investments" in the statement of income and expenses

The market value of securities listed on stock exchanges is determined on the basis of the closing price at the end of the balance sheet date. The market price of securities not listed on stock exchanges is determined on the basis of their last available transaction price, best available purchase price or cost or, alternatively, their cost is adjusted so that the value of securities would be as precisely as possible equal to the probable sales price. If the market price cannot be determined reliably, investments in shares are recognised at cost. Valuation of fund units is based on their redemption price at the end of the balance sheet date.

Bonds and other money market instruments are valued according to their market value. Valuation is based on prices at which the instruments are tradable on stock exchanges and other internationally recognised securities markets. Purchase and sales quotations are accounted for on the basis of prices of at least two market-makers. Bonds that are listed on a stock exchange, but are not actively traded have been valued according to the current possible sales price in the market. The market price of a bond also includes accrued interest. If the sales price cannot be determined reliably, bonds are valued at amortised cost based on the effective interest rate.

Derivatives (forward or swap contracts, warrants) are recognised at their fair value as assets or liabilities in the balance sheet. Gains and losses on derivatives are recognised in the statement of income and expenses as income and expenses for the period.

Calculation of net asset value of the investment fund

The Fund's net asset value (NAV) is determined on the basis of the Investment Funds Act, the procedure for determination of net asset value of investment funds established by the Minister of Finance, internal procedure rules of AS LHV Varahaldus (Fund Management Company), and the terms and conditions of the Fund.

To determine the Fund's net assets' value (NAV), the market value of total assets of the Fund is calculated from which the liabilities of the Fund are deducted. The NAV of the unit is calculated by dividing the total NAV by the number of units outstanding.

Income and expenses

Income and expenses are accounted for using the accrual basis of accounting. Interest income and dividend income is recognised when it is probable that the income will flow to the Fund and the amount of the income can be measured reliably. Interest income is recognised using the effective interest rate. Dividend income is recognised when the owner becomes legally entitled to receive it.

Management fee

The management fee is a fee payable to the Fund Management Company for the management of the Fund. The annual rate of the management fee is 2.5% of the Fund's Net assets' value. The management fee is deducted from the Fund's net assets' value on a daily basis and is paid at the last banking day of a month following the reporting month at the latest.

Transaction fees

In the statement of income and expenses, transactions fees include settlement expenses and service fees directly related to transactions made on account of the Fund.

Payments to unit holders, subscription and redemption fee

The maximum subscription fee for units is 2% of the NAV and payable to the Fund Management Company on account of the unit holder. There is no redemption fee. Subscription for and redemption of units takes place according to the terms and conditions established in the prospectus.

Note 2 Impacts of economic crisis

Management of the Fund Management Company has assessed the impacts of global liquidity crises and related economic crisis on the business activities of the Fund. Management estimates that the following circumstances constitute significant short and long-term threats:

- due to non-liquidity of financial markets, the value of the Fund's assets may fall;
- due to the large volatility and illiquidity in the financial markets, it may be difficult to estimate the fair value of the Fund's assets.

Management is not in the position to predict with sufficient reliability which would be the short- and long-term effect of the economic crisis on Fund's activities, performance and financial position. Management believes that they have taken all necessary measures to ensure sustainability of the Fund. Management assesses the

continuously changing economic situation and environment, and immediately adjusts, if necessary, the daily measures as well as short and long-term strategies related to risk management and asset management.

In the following table there are listed these positions in listed equities, which had low liquidity either prior or after the balance sheet date or which price was very volatile.

Equity	Currency	Market price per unit as of 31.12.08 in currency	Turnover on the stock exchange (shares) 31.12.08	Average turnover prior 3 months (shares)	Issued securities	Change over previous trading session	Change during the following trading session	Lowest price during the period 15.12.08 - 15.01.09	Highest price during the period 15.12.08 - 15.01.09
Probanka, d.d.	EUR	35,99	0	110	396 300	0,00%	0,00%	35,99	37,00
Mercator d.d.	EUR	158,20	228	338	3 765 361	0,18%	-0,13%	149,00	184,80
Liburnia Riviera Hoteli d.d.	HRK	1 115,00	33	98	302 641	-2,97%	5,88%	1 110,00	1 299,00
AIK Banka a.d.	RSD	2 550,00	19 743	10 300	7 310 649	11,06%	-8,31%	1 901,00	2 550,00
Vino župa a.d.	RSD	6 160,00	30	9	198 370	-1,93%	15,26%	6 160,00	7 500,00
Globos Osiguranje	RSD	790,00	10	127	1 045 929	-0,25%	-1,27%	551,00	792,00

Note 3 Statement of commissions

Commissions in 2008

Broker: Swedbank	Commissions when purchasing or selling securities tradable on the Tallinn Stock Exchange	Commissions when buying other tradable securities in Estonia	Commissions for purchasing or selling listed or non-listed securities in other countries	Total
Number of trades	6	-	42	48
Volume of trades	691 825	-	6 933 538	7 625 363
Sum of commissions	180	-	13 405	13 585
Weighted average commission (%)	0,026%	-	0,193%	0,178%

Commissions in amount of EEK 12 112 are recognised in the statement of income and expenses as expenses according to monthly statements by the fund's depositary and commissions in amount of EEK 1 273 have been direct transaction expenses and therefore included in the purchase price of securities.

Commissions in 2007

Broker: Swedbank	Commissions when purchasing or selling securities tradable on the Tallinn Stock Exchange	Commissions when buying other tradable securities in Estonia	Commissions for purchasing or selling listed or non-listed securities in other countries	Total
Number of trades	13	-	83	96
Volume of trades	6 441 558	-	23 097 581	29 539 140
Sum of commissions	-	-	118 049	118 049
Weighted average commission (%)	-	-	0,511%	0,4%

Commissions in amount of EEK 18 690 are recognised in the statement of income and expenses as expenses according to monthly statements by the fund's depositary and commissions in amount of EEK 99 359 have been direct transaction expenses and therefore included in the purchase price of securities.

Note 4 Statement of comparison of the Fund's net assets' value

beginning of activities: May 2007

	Fund's net assets' value	NAV of unit A	NAV of unit B
31.12.2007	17 989 306	135.49	-
31.12.2008	4 481 795	43.93	-

The difference in NAV presented in this report from the initially disclosed NAV is mainly related to consideration of additional information, which was received by the time of preparation of the financial statements, when evaluating investments.

Note 5 Related parties

For the purposes of these financial statements, related parties include the Fund Management Company AS LHV Varahaldus and other investment and pension funds under the management of the Fund Management Company as well as other companies belonging to the same consolidation group with the Fund Management Company. LHV Emerging Europe Alpha Fund pays a monthly management fee to the Fund Management Company. In 2008, the fees totalled 268 915 kroons (2007: 261 731 kroons). As at the balance sheet date, the payables to the Fund Management Company made up 9 679 kroons (2007: 41 138 kroons). There have been no transactions with other funds under the management of the Fund Management Company.

Note 6 Other receivable

Amount of EEK 4 653 has been recognized under other receivables due to correction in the calculation of depositary's fees.

Note 7 Correction in initial fees

In the annual report of 2007 the initial fees paid by unit-holders to the fund management company were recognized as expenses of the fund during the accounting period. It has been corrected in the annual report of 2008 so that the initial fees were not expenses of the fund, but paid at the expense of unit-holders. The correction does not affect the fund's NAV values.

Note 8 Investment rules

As of the balance sheet date the fund experienced a temporary violation of investment rules. The violation was caused by the rise in AB Ukio Bankas shares (+12.12%) on 29.12.08, which increased this positions proportion to the fund's assets from 4.68% to 5.22%. As a result, the value of all positions bigger than 5% increased over allowed limit. As the volatility of AB Ukio Bankas shares in December was in general lower, then such a rise is exceptional. The violation was liquidated on 06.01.2009.

Independent auditor's report

Signatures of the Management Board of the Fund Management Company to the 2008 annual report

The Management Board of Fund Management Company AS LHV Varahaldus has prepared the 2008 Annual Report of LHV Emerging Europe Alpha Fund which comprises the management report, financial statements and the independent's auditor's report.

Management Board of the Fund Management Company:

Mihkel Oja / signed /
Member of the Management Board

Rait Kondor / signed /
Member of the Management Board

Kerli Lõhmus / signed /
Member of the Management Board

Tallinn, 28 April 2009