



Avaron Emerging Europe Small Cap Fund

**Semi-Annual Report for the Financial Year 2010
(un-audited)**

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Fund Facts

Avaron Emerging Europe Small Cap Fund (hereinafter: „the Fund”) is registered in the Republic of Estonia as a contractual open-ended investment fund the units of which are publicly offered. The Fund complies with the requirements set out in the Council Directive 85/611/EEC of 20 December 1985.

| | |
|---|--|
| Name of the Fund | Avaron Emerging Europe Small Cap Fund |
| Fund management company | AS Avaron Asset Management |
| Registered address and contact details of the fund management company | Address: Narva road 5-58, Tallinn 10117, Estonia Phone: +372 66 44 200 Facsimile: +372 66 44 201 E-mail: info@avaron.ee www.avaron.ee |
| Depository | AS Swedbank |
| Auditor | AS Deloitte Audit Eesti |
| Supervisor | Estonian Financial Supervision Authority |
| Fund managers | Valdur Jaht, Peter Priisalm |
| Fund established | 3 April 2007 |
| Start of the Fund's activities | 23 April 2007 |
| Report period | 01 January 2010 – 30 June 2010 |

Confirmation of the Management Board of the Fund Management Company to the Semi-Annual Financial Statements of 2010

The Management Board of the fund management company has prepared the semi-annual Financial Statements of Avaron Emerging Europe Small Cap Fund on August 27, 2010.

The Financial Statements have been prepared in compliance with the requirements stipulated in the Estonian Accounting Act, the Investment Funds Act and Accounting Principles Generally Accepted in Estonia and it gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Emerging Europe Small Cap Fund. The Management Board considers Avaron Emerging Europe Small Cap Fund to carry its activities as a going concern.

The semi-annual Financial Statements of Avaron Emerging Europe Small Cap Fund have been approved by the fund management company and the fund managers.

| Name | Position | Signature | Date |
|---------------------------|---|------------------|-------------|
| Kristel Kivinurm-Priisalm | Chairman of the Management Board of the fund management company | | 27 Aug 2010 |
| Valdur Jaht | Member of the Management Board of the fund management company/ Fund manager | | 27 Aug 2010 |
| Peter Priisalm | Fund manager | | 27 Aug 2010 |

Balance Sheet

In Estonian kroon

| ASSETS | 30/06/2010 | 31/12/2009 |
|--|--------------------|--------------------|
| Securities | | |
| Shares and fund units | 208,818,117 | 139,007,929 |
| Bonds | 27,710,688 | 26,798,336 |
| Money market instruments | 5,907,171 | 11,858,981 |
| Derivative instruments | -617,464 | 0 |
| Total securities | 241,818,512 | 177,665,246 |
| Deposits | | |
| Cash and bank accounts | 17,318,976 | 23,115,804 |
| Term deposits | 8,200,000 | 0 |
| Total deposits | 25,518,976 | 23,115,804 |
| Other assets | | |
| Accrued income | 4,387,378 | 1,355,752 |
| Receivables for subscribed units | 0 | 134,849 |
| Miscellaneous receivables | 2,650,278 | 378,518 |
| Total other assets | 7,037,656 | 1,734,269 |
| TOTAL ASSETS | 274,375,143 | 202,515,319 |
| LIABILITIES AND NET ASSET VALUE | | |
| Liabilities | | |
| Payables to the management company | 301,363 | 318,240 |
| Payables to the depository | 58,746 | 46,679 |
| Other liabilities | 3,894,691 | 8,050 |
| Total liabilities | 4,254,800 | 372,969 |
| Net asset value of the fund | 270,120,343 | 202,142,351 |
| TOTAL LIABILITIES AND NET ASSET VALUE | 274,375,143 | 202,515,319 |

Statement of Income and Expenses

In Estonian kroon

| | 01.01-30.06.2010 | 01.01-30.06.2009 |
|--|-------------------|-------------------|
| INCOME | | |
| Net gain from investments | | |
| From shares and units | | |
| Sales profit/(-loss) | -413,627 | -51,654,346 |
| Unrealised profit /(-loss) | -5,537,888 | 62,118,664 |
| Dividends | 4,845,671 | 1,874,683 |
| Total from shares and units | -1,105,844 | 12,339,001 |
| From money market instruments | | |
| Sales profit/(-loss) | 185,184 | 0 |
| Unrealised profit /(-loss) | -8,021 | 0 |
| Total from money market instruments | 177,163 | 0 |
| From bonds | | |
| Sales profit/(-loss) | 5,610,413 | 36,220 |
| Unrealised profit /(-loss) | -3,361,195 | 943,380 |
| Interest income | 824,123 | 272,391 |
| Total from bonds | 3,073,340 | 1,251,991 |
| From deposits | | |
| Interest income | 39,206 | 274,584 |
| Total from deposits | 39,206 | 274,584 |
| From derivative instruments | | |
| Sales profit/(-loss) | 30,559 | 3,341,566 |
| Unrealised profit /(-loss) | -617,464 | -2,947,485 |
| Total from derivative instruments | -586,905 | 394,081 |
| Total net gain from investments | 1,596,960 | 14,259,657 |
| TOTAL INCOME | 1,596,960 | 14,259,657 |
| EXPENSES | | |
| Operating expenses | | |
| Management fee | 1,668,009 | 674,869 |
| Performance fee | 649,811 | 0 |
| Depository fee | 251,052 | 105,320 |
| Other operating expenses | 140,207 | 7,087 |
| Transaction costs | 69,075 | 48,078 |
| Total operating expenses | 2,778,154 | 835,354 |
| Other expenses | | |
| Other expenses | 0 | 41,300 |
| Net loss from transactions in foreign currencies | 890,809 | 1,251,016 |
| Total other expenses | 890,809 | 1,292,316 |
| TOTAL EXPENSES | 3,668,963 | 2,127,670 |
| NET RESULT OF THE FUND | -2,072,004 | 12,131,987 |

Statement of Investments

In Estonian kroon as of 30.06.2010

| Name | Issuer | Country | Nominal value | FX | Quantity | Average acquisition cost per unit | Average acquisition cost | Market value per unit | Total market value | Share of market value of fund's assets, % |
|--------------------------------|--------------------------------|---------|---------------|-----|-----------|-----------------------------------|--------------------------|-----------------------|--------------------|---|
| Shares and units | | | | | | | | | | |
| A AND D PHARMA HOLDINGS NV DR | A & D PHARMA HOLDINGS NV | RO | 1 | EUR | 44,868 | 80.56 | 3,614,405 | 61.80 | 2,772,830 | 1.01% |
| ADVANCE TERRAFUND SHARE | ADVANCE TERRAFUND REIT JSC | BG | 1 | BGN | 448,553 | 16.13 | 7,236,499 | 8.83 | 3,960,987 | 1.44% |
| ALBARAKA TURK KATILIM BANKAS | ALBARAKA TURK KATILIM BANKAS | TR | 1 | TRY | 102,623 | 22.15 | 2,273,407 | 23.62 | 2,423,467 | 0.88% |
| AMREST HOLDINGS N.V. SHARE/POL | AmRest Holdings NV | NL | 0.01 | PLN | 21,972 | 278.21 | 6,112,789 | 256.40 | 5,633,692 | 2.05% |
| ARCELIK AS SHARE | ARCELIK A.S. | TR | 1 | TRY | 123,500 | 48.98 | 6,049,208 | 53.82 | 6,646,406 | 2.42% |
| ASYA KATILIM BANKASI AS | ASYA KATILIM BANKASI AS | TR | 1 | TRY | 40,000 | 29.78 | 1,191,172 | 29.40 | 1,175,943 | 0.43% |
| BANCA ROMANA PENTRU DEZ.(RON) | ROMANIAN BANK FOR DEVELOPMENT | RO | 0.30 | RON | 58,360 | 53.22 | 3,105,933 | 38.33 | 2,237,203 | 0.82% |
| BANK HANDLOWY | BANK HANDLOWY WARSZAWIE SA | PL | 4 | PLN | 27,500 | 309.87 | 8,521,407 | 279.03 | 7,673,244 | 2.80% |
| BOMI SA | BOMI SA | PL | 0.01 | PLN | 76,000 | 53.61 | 4,074,082 | 46.38 | 3,524,791 | 1.28% |
| BOSNALIJEK DD SHARE | Bosnalijek DD | BA | 10 | BAM | 3,500 | 119.19 | 417,178 | 127.99 | 447,967 | 0.16% |
| BULGARIA REAL ESTATE FUND | BULGARIA REAL ESTATE FUND | BG | 1 | BGN | 942,083 | 6.83 | 6,433,355 | 2.74 | 2,577,127 | 0.94% |
| BULGARTABAC | BULGARTABAK HOLDING AD | BG | 1.0 | BGN | 17,900 | 183.86 | 3,291,050 | 119.96 | 2,147,370 | 0.78% |
| CERAMIKA NOWA GALA | CERAMIKA NOWA GALA | PL | 1 | PLN | 151,168 | 11.43 | 1,728,333 | 11.27 | 1,704,299 | 0.62% |
| CESKE ENERGETICKE ZAVODY AS | CESKE ENERGETICKE ZAVODY AS | CZ | 100 | CZK | 23,300 | 520.66 | 12,131,396 | 521.74 | 12,156,538 | 4.43% |
| CITY SERVICE AB | CITY SERVICE AB | LT | 1 | LTL | 58,947 | 22.92 | 1,350,873 | 40.31 | 2,376,042 | 0.87% |
| EGIS GYOGYS.NA | EGIS RT | HU | 1,000 | HUF | 6,225 | 944.81 | 5,881,426 | 1,035.91 | 6,448,527 | 2.35% |
| ELANA AGRICULTURAL LAND OPPORT | ELANA AGRICULTURAL LAND OPPORT | BG | 1.0 | BGN | 200,000 | 18.53 | 3,706,968 | 4.72 | 943,849 | 0.34% |
| IMMOFINANZ AG | IMMOFINANZ AG | AT | 1.0 | EUR | 115,446 | 28.68 | 3,311,447 | 33.34 | 3,849,034 | 1.40% |
| KAPSCH TRAFFICCOM AG | KAPSCH TRAFFICCOM AG | AT | 0.01 | EUR | 3,750 | 241.52 | 905,691 | 457.63 | 1,716,116 | 0.63% |
| KOMERCNI BANKA | KOMERCNI BANKA | CZ | 500 | CZK | 4,465 | 2,216.27 | 9,895,662 | 2,083.19 | 9,301,426 | 3.39% |
| KRKA | KRKA | SI | 400 | EUR | 4,333 | 1,044.30 | 4,524,935 | 1,024.78 | 4,440,373 | 1.62% |
| NEW WORLD RESOURCES NV-A CZK | NEW WORLD RESOURCES NV | NL | 10.71 | CZK | 19,400 | 144.39 | 2,801,093 | 133.46 | 2,589,176 | 0.94% |
| OLYMPIC ENTERTAINMENT GROUP SH | OLYMPIC ENTERTAINMENT GROUP AS | EE | 10 | EEK | 280,201 | 22.49 | 6,301,294 | 16.90 | 4,734,929 | 1.73% |
| OMV AG | OMV AG | AT | 1 | EUR | 13,800 | 376.28 | 5,192,605 | 387.07 | 5,341,561 | 1.95% |
| PANEVEZIO STATYBOS TRESTAS | PANEVEZIO STATYBOS TRESTAS | LT | 1 | LTL | 55,948 | 75.69 | 4,234,752 | 17.07 | 955,275 | 0.35% |
| PEGAS NONWOVENS CZK | PEGAS NONWOVENS SA | LU | 1 | CZK | 24,200 | 305.07 | 7,382,813 | 255.00 | 6,170,929 | 2.25% |
| PGE POLSKA GRUPA ENERGETYCZNA | POLSKA GUPA ENERGE-PDA-ALLT | PL | 10 | PLN | 41,250 | 86.78 | 3,579,639 | 79.18 | 3,266,313 | 1.19% |
| POLSKI KONCERN NAFTORNY ORLEN | POLSKI KONCERN NAFTOWAY ORLEN | PL | 1.25 | PLN | 41,048 | 141.28 | 5,799,263 | 133.78 | 5,491,490 | 2.00% |
| PREKYBOS AB APRANGA PVA | APRANGA AB | LT | 1,000 | LTL | 287,297 | 16.86 | 4,842,649 | 17.26 | 4,957,451 | 1.81% |
| PROSPECTIUNI SA BUCURESTI | PROSPECTIUNI SA BUCURESTI | RO | 2.50 | RON | 1,071,741 | 0.82 | 883,977 | 0.73 | 787,136 | 0.29% |
| RAIFFEISEN BANK | RAIFFEISEN BANK | AT | 1 | EUR | 5,607 | 550.30 | 3,085,552 | 492.68 | 2,762,439 | 1.01% |
| ROKISHKIO SHURIS | ROKISHKIO SHURIS | LT | 1 | LTL | 355,693 | 11.34 | 4,032,086 | 15.22 | 5,412,737 | 1.97% |
| SELCUK ECZA DEPOSU TICA. VE SA | Selcuk Eczas Deposu Ticaret ve | TR | 1 | TRY | 145,320 | 17.47 | 2,538,140 | 17.43 | 2,532,971 | 0.92% |
| SIF BANAT CRISANA(RO) | SIF BANAT CRISANA | RO | 0.10 | RON | 166,300 | 17.75 | 2,952,120 | 3.55 | 589,839 | 0.21% |
| SIF MOLDOVA (RON) | SIF MOLDOVA | RO | 0.10 | RON | 1,946,200 | 4.51 | 8,775,668 | 3.37 | 6,554,228 | 2.39% |
| SIF MUNTENIA(RO) | SIF MUNTENIA | RO | 0.10 | RON | 471,700 | 10.04 | 4,736,151 | 2.15 | 1,013,966 | 0.37% |
| SIF OLTENIA (RON) | SIF OLTENIA | RO | 0.10 | RON | 1,275,000 | 5.55 | 7,073,945 | 4.23 | 5,390,120 | 1.96% |
| STRABAG SE | STRABAG SE | AT | 1 | EUR | 19,150 | 307.40 | 5,886,768 | 277.86 | 5,321,097 | 1.94% |
| SWEDBANK AB SER A | SWEDBANK AB (SE) | SE | 21 | SEK | 55,200 | 97.35 | 5,373,711 | 119.24 | 6,582,254 | 2.40% |
| TELEFONICA O2 C.R. SHARE | TELEFONICA O2 C.R. | CZ | 100 | CZK | 44,800 | 236.16 | 10,579,895 | 250.19 | 11,208,478 | 4.09% |
| TELEKOM SPRSKE AD BANJA LUKA | TELEKOM SRPSKE AD BANJA LUKA | BA | 1.79 | BAM | 170,000 | 11.02 | 1,872,888 | 10.40 | 1,767,871 | 0.64% |
| TELEKOMUNIKACJA POLSKA | TELEKOMUNIKACJA POLSKA S.A. | PL | 3 | PLN | 335,974 | 60.67 | 20,382,461 | 53.92 | 18,115,750 | 6.60% |

Member of the Management Board:

Statement of Investments (continued)

In Estonian kroon as of 30.06.2010

| Name | Issuer | Cou ntry | Maturity | Nom. value | FX | Quantity | Avg acq. cost per unit | Average acquisition cost | Market value per unit | Total market value | Interest rate, % | Share of market value of fund's assets, % |
|---|-----------------------------|-------------|------------|---------------|-----|-----------|------------------------------|--------------------------------|-----------------------------|--------------------------|---------------------|---|
| TRANSGAZ SA MEDIAS | TRANSGAZ SA MEDIAS | RO | | 1 | RON | 2,030 | 700.88 | 1,422,780 | 771.35 | 1,565,836 | | 0.57% |
| TURK TELEKOMUNIKASYON | TURK TELEKOMUNIKASYON AS | TR | | 1 | TRY | 196,900 | 35.21 | 6,931,970 | 40.56 | 7,986,972 | | 2.91% |
| VIENNA INSURANCE GROUP | VIENNA INSURANCE GROUP | AT | | 1 | EUR | 11,234 | 631.46 | 7,093,768 | 536.33 | 6,025,106 | | 2.20% |
| WIENERBERGER AG | WIENERBERGER AG | AT | | 1 | EUR | 34,350 | 209.90 | 7,210,000 | 157.32 | 5,403,788 | | 1.97% |
| ZEMAITIJOS PIENAS | ZEMAITIJOS PIENAS | LT | | 1 | LTL | 324,830 | 8.98 | 2,916,472 | 6.57 | 2,133,175 | | 0.78% |
| Total shares and units | | | | | | | | 239,639,675 | | 208,818,117 | | 76.11% |
| Bonds | | | | | | | | | | | | |
| LATVIAN T-BOND 14.03.13 | GOVERNMENT OF LATVIA | LV | 2013-03-14 | 100 | LVL | 150,000 | 2,131.26 | 3,196,887 | 2,243.48 | 3,431,254 | 6.00 | 1.25% |
| MNV ZRT 4.4% CONVERT. | MNV ZRT | HU | 2014-09-25 | 100,000 | EUR | 600,000 | 1,570.81 | 9,424,849 | 1,507.84 | 9,362,528 | 5.30 | 3.41% |
| MOL 3.876% 05.10.15 | MOL MAGYAR OLAJ-ES GAZIPARI | HU | 2015-10-05 | 1,000 | EUR | 715,000 | 1,301.71 | 9,307,195 | 1,390.49 | 10,260,311 | 6.33 | 3.74% |
| ROMANIA RON 8% 25.10.2011 | GOVERNMENT OF ROMANIA | RO | 2011-10-25 | 10,000 | RON | 1,480,000 | 352.72 | 5,220,293 | 361.92 | 5,644,644 | 6.99 | 2.06% |
| Total bonds | | | | | | | | 27,149,224 | | 28,698,737 | | 10.46% |
| <i>*Accrued interest in the amount of EEK 988,048 has been added to the value of bonds; the accrued interest is recorded in the balance sheet under "Accrued income".</i> | | | | | | | | | | | | |
| Money market instruments | | | | | | | | | | | | |
| POLAND GOV PLN 25.07.2010 | GOVERNMENT OF POLAND | PL | 2010-07-25 | 1,000 | PLN | 1,570,000 | 365.28 | 5,734,866 | 376.25 | 5,907,171 | 3.10 | 2.15% |
| Total money market instruments | | | | | | | | 5,734,866 | | 5,907,171 | | 2.15% |
| Derivatives | | | | | | | | | | | | |
| Forward | SWEDBANK AS | EE | 2010-08-10 | | | | | | | -883,067 | | -0.32% |
| Forward | SWEDBANK AS | EE | 2010-08-10 | | | | | | | 265,603 | | 0.10% |
| Total derivatives | | | | | | | | | | -617,464 | | -0.23% |
| Total securities | | | | | | | | 272,523,764 | | 242,806,560 | | 88.49% |
| Deposits* | | | | | | | | | | | | |
| Current account | | | | | | | | | | 1,434,530 | | 0.52% |
| Deposit-Swedbank (EEK) | SWEDBANK AS | EE | 2010-07-01 | | EEK | | | 8,200,000 | | 8,206,150 | 0.09 | 2.99% |
| O/N deposit-Swedbank (EEK) | SWEDBANK AS | EE | 2010-07-01 | | EEK | | | 3,221,436 | | 3,221,445 | 0.10 | 1.17% |
| O/N deposit-Swedbank (EUR) | SWEDBANK AS | EE | 2010-07-01 | | EUR | | | 12,663,009 | | 12,663,064 | 0.15 | 4.62% |
| Total deposits | | | | | | | | 24,084,446 | | 25,525,189 | | 9.30% |
| <i>*Accrued interest in the amount of EEK 6,213 has been added to the value of bonds; it is recorded in the balance sheet under "Accrued income".</i> | | | | | | | | | | | | |
| Total investments | | | | | | | | 296,608,210 | | 268,331,749 | | 97.80% |
| Other assets | | | | | | | | | | | | |
| Accrued income (dividends receivable) | | | | | | | | | | 3,169,020 | | 1.15% |
| Accrued income (income tax reclaimed) | | | | | | | | | | 224,096 | | 0.08% |
| Miscellaneous receivables (unsettled trades) | | | | | | | | | | 2,650,278 | | 0.97% |
| Total other assets | | | | | | | | | | 6,043,394 | | 2.20% |
| TOTAL ASSETS OF THE FUND | | | | | | | | | | 274,375,143 | | 100.00% |

In Estonian kroon as of 31.12.2009

| Name | Issuer | Country | Nominal value | FX | Quantity | Average acquisition cost per unit | Average acquisition cost | Market value per unit | Total market value | Share of market value of fund's assets, % |
|--------------------------------|--------------------------------|---------|---------------|-----|-----------|-----------------------------------|--------------------------|-----------------------|--------------------|---|
| Shares and units | | | | | | | | | | |
| A AND D PHARMA HOLDINGS NV DR | A & D PHARMA HOLDINGS NV | RO | 1 | EUR | 17,168 | 124.58 | 2,138,832 | 62.58 | 1,074,408 | 0.53% |
| ADVANCE TERRAFUND SHARE | ADVANCE TERRAFUND REIT JSC | BG | 1 | BGN | 448,553 | 16.13 | 7,236,499 | 10.56 | 4,735,963 | 2.34% |
| BOMI SA | BOMI SA | PL | 0.01 | PLN | 60,000 | 54.80 | 3,288,259 | 47.23 | 2,833,902 | 1.40% |
| BOSNALIJEK DD SHARE | Bosnalijek DD | BA | 10 | BAM | 3,500 | 119.19 | 417,178 | 130.95 | 458,327 | 0.23% |
| BULGARIA REAL ESTATE FUND | BULGARIA REAL ESTATE FUND | BG | 1 | BGN | 566,083 | 9.44 | 5,346,303 | 2.92 | 1,652,698 | 0.82% |
| BULGARTABAC | BULGARTABAK HOLDING AD | BG | 1 | BGN | 17,900 | 183.86 | 3,291,050 | 142.98 | 2,461,644 | 1.22% |
| CESKE ENERGETICKE ZAVODY AS | CESKE ENERGETICKE ZAVODY AS | CZ | 100.00 | CZK | 20,850 | 519.16 | 10,824,465 | 510.88 | 10,651,762 | 5.26% |
| CITY SERVICE AB | CITY SERVICE AB | LT | 1 | LTL | 140,210 | 46.24 | 6,483,640 | 29.26 | 4,102,172 | 2.03% |
| EGIS GYOGYS.NA | EGIS RT | HU | 1,000 | HUF | 4,425 | 857.53 | 3,794,558 | 1,086.55 | 4,807,980 | 2.37% |
| ELANA AGRICULTURAL LAND OPPORT | ELANA AGRICULTURAL LAND OPPORT | BG | 1 | BGN | 200,000 | 18.53 | 3,706,968 | 6.54 | 1,308,591 | 0.65% |
| EQUEST BALKAN PROPERTIES PLC | EQUEST BALKAN PROPERTIES PLC | GB | 0.01 | GBP | 340,000 | 26.34 | 8,954,783 | 3.18 | 1,080,095 | 0.53% |
| ERSTE GROUP BANK AG | ERSTE GROUP BANK AG | AT | 1 | EUR | 2,250 | 412.30 | 927,674 | 407.72 | 917,374 | 0.45% |
| HRVATSKI TELEKOM DD | HRVATSKI TELEKOM DD | HR | 100 | HRK | 10,550 | 496.37 | 5,236,756 | 585.71 | 6,179,283 | 3.05% |
| IMMO EAST IMMOBILIEN ANLAGEN | IMMO EAST IMMOBILIEN ANLAGEN | AT | 1 | EUR | 57,564 | 34.10 | 1,962,728 | 60.24 | 3,467,378 | 1.71% |
| KAPSCH TRAFFICCOM AG | KAPSCH TRAFFICCOM AG | AT | 0.01 | EUR | 3,750 | 241.52 | 905,691 | 395.52 | 1,483,193 | 0.73% |
| KOMERCNI BANKA | KOMERCNI BANKA | CZ | 500 | CZK | 835 | 2,191.68 | 1,830,052 | 2,353.23 | 1,964,950 | 0.97% |
| KRKA | KRKA | SI | 1 | EUR | 4,333 | 1,044.30 | 4,524,935 | 1,000.69 | 4,335,973 | 2.14% |
| OMV AG | OMV AG | AT | 1 | EUR | 11,000 | 365.19 | 4,017,114 | 480.32 | 5,283,485 | 2.61% |
| PANEVEZIO STATYBOS TRESTAS | PANEVEZIO STATYBOS TRESTAS | LT | 1 | LTL | 55,948 | 75.69 | 4,234,752 | 17.16 | 960,342 | 0.47% |
| PEGAS NONWOVENS CZK | PEGAS NONWOVENS SA | LU | 1 | CZK | 24,200 | 305.07 | 7,382,813 | 263.74 | 6,382,626 | 3.15% |
| PROSPECTIUNI SA BUCURESTI | PROSPECTIUNI SA BUCURESTI | RO | 2.5 | RON | 1,071,741 | 0.82 | 883,977 | 0.80 | 861,637 | 0.43% |
| RAIFFEISEN BANK | RAIFFEISEN BANK | AT | 1 | EUR | 5,686 | 416.13 | 2,366,094 | 618.00 | 3,513,932 | 1.74% |
| ROKISHKIO SHURIS | ROKISHKIO SHURIS | LT | 1 | LTL | 280,893 | 10.00 | 2,810,077 | 13.59 | 3,816,493 | 1.88% |
| SIF BANAT CRISANA(RO) | SIF BANAT CRISANA | RO | 0.1 | RON | 166,300 | 17.75 | 2,952,120 | 4.17 | 693,024 | 0.34% |
| SIF MOLDOVA (RO) | SIF MOLDOVA | RO | 0.1 | RON | 1,946,200 | 4.51 | 8,775,668 | 4.20 | 8,182,201 | 4.04% |
| SIF MUNTENIA(RO) | SIF MUNTENIA | RO | 0.1 | RON | 471,700 | 10.04 | 4,736,151 | 2.62 | 1,235,100 | 0.61% |
| SIF OLTENIA (RO) | SIF OLTENIA | RO | 0.1 | RON | 583,500 | 6.06 | 3,537,265 | 4.68 | 2,732,892 | 1.35% |
| SPARKASSEN IMMOBILIEN AG | SPARKASSEN IMMOBILIEN AG | AT | 1 | EUR | 31,629 | 148.43 | 4,694,572 | 78.23 | 2,474,258 | 1.22% |
| STRABAG SE | STRABAG SE | AT | 1 | EUR | 7,700 | 307.57 | 2,368,290 | 323.86 | 2,493,736 | 1.23% |
| SWEDBANK AB SER A | SWEDBANK AB (SE) | SE | 21 | SEK | 32,500 | 90.77 | 2,949,913 | 108.32 | 3,520,428 | 1.74% |
| TALLINNA KAUBAMAJA | TALLINNA KAUBAMAJA AS | EE | 10 | EEK | 18,000 | 67.41 | 1,213,384 | 56.48 | 1,016,640 | 0.50% |
| TALLINNA VESI AS | TALLINNA VESI AS | EE | 10 | EEK | 29,022 | 158.49 | 4,599,710 | 156.47 | 4,541,072 | 2.24% |
| TELEFONICA O2 C.R. SHARE | TELEFONICA O2 C.R. | CZ | 100 | CZK | 44,800 | 236.16 | 10,579,895 | 248.50 | 11,132,609 | 5.50% |

Member of Management Board:

Statement of Investments (continued)

In Estonian kroon as of 31.12.2009

| Name | Issuer | Country | Maturity | Nomin al value | FX | Quantity | Avg acq. cost per unit | Average acquisition cost | Market value per unit | Total market value | Interest rate, % | Share of market value of fund's assets, % |
|---|--------------------------------|---------|------------|----------------------|-----|-----------|---------------------------------|--------------------------------|-----------------------------|--------------------------|---------------------|---|
| TELEKOM SPRSKE AD BANJA LUKA | TELEKOM SRPSKE AD BANJA LUKA | BA | | 1.79 | BAM | 170,000 | 11.02 | 1,872,888 | 11.92 | 2,026,252 | | 1.00% |
| TELEKOMUNIKACJA POLSKA | TELEKOMUNIKACJA POLSKA S.A. | PL | | 3 | PLN | 58,100 | 60.41 | 3,510,090 | 60.45 | 3,512,084 | | 1.73% |
| TEO LT AB | TEO LT AB | LT | | 1 | LTL | 1,478,214 | 6.99 | 10,337,545 | 8.29 | 12,251,541 | | 6.05% |
| TURK TELEKOMUNIKASYON SHARE | TURK TELEKOMUNIKASYON AS | TR | | 1 | TRY | 57,000 | 30.34 | 1,729,443 | 33.26 | 1,895,576 | | 0.94% |
| VIENNA INSURANCE GROUP | VIENNA INSURANCE GROUP | AT | | 1 | EUR | 6,270 | 685.97 | 4,301,014 | 563.24 | 3,531,502 | | 1.74% |
| WIENERBERGER AG | WIENERBERGER AG | AT | | 1 | EUR | 9,600 | 192.82 | 1,851,115 | 199.95 | 1,919,515 | | 0.95% |
| ZEMAITIJOS PIENAS | ZEMAITIJOS PIENAS | LT | | 1 | LTL | 324,830 | 8.98 | 2,916,472 | 4.66 | 1,515,290 | | 0.75% |
| Total shares and units | | | | | | | | 165,490,732 | | 139,007,929 | | 68.64% |
| Bonds* | | | | | | | | | | | | |
| EESTI ENERGI. EUR 4.5% 18.11.20 | EESTI ENERGIA AS | EE | 2020-11-18 | 1,000 | EUR | 478,000 | 922.33 | 4,408,745 | 1,342.38 | 6,456,242 | 4.50 | 3.19% |
| LITHUANIA EUR 3.75% 10.02.16 | GOVERNMENT OF LITHUANIA | LT | 2016-02-10 | 1,000 | EUR | 137,000 | 990.36 | 1,356,793 | 1,361.31 | 1,936,351 | 3.75 | 0.96% |
| LITHUANIA EUR 9.375% 22.06.14 | GOVERNMENT OF LITHUANIA | LT | 2014-06-22 | 1,000 | EUR | 144,000 | 1561.89 | 2,249,122 | 1,769.90 | 2,659,756 | 9.375 | 1.31% |
| MNV ZRT 4.4% CONVERT. 25.09.14 | MNV ZRT | HU | 2014-09-25 | 100,000 | EUR | 400,000 | 1593.49 | 6,373,977 | 1,708.18 | 6,906,132 | 4.40 | 3.41% |
| MOL 3.876% 05.10.15 | MOL MAGYAR OLAJ-ES GAZIPARI | HU | 2015-10-05 | 1,000 | EUR | 295,000 | 1056.07 | 3,115,410 | 1,306.40 | 3,896,507 | 3.876 | 1.92% |
| ROMANIA RON 8% 25.10.2011 | GOVERNMENT OF ROMANIA | RO | 2011-10-25 | 10,000 | RON | 1,480,000 | 352.72 | 5,220,293 | 356.86 | 5,361,658 | 8.00 | 2.65% |
| DANSKE PANK EST EEK 31.03.2010 | Danske Bank A/S Eestii filiaal | EE | 2010-03-31 | 10000 | EEK | 6,070,000 | 96.95 | 5,884,816 | 98.88 | 6,001,730 | 4.55 | 2.96% |
| POLAND GOV PLN 25.07.2010 | GOVERNMENT OF POLAND | PL | 2010-07-25 | 1000 | PLN | 1,570,000 | 365.28 | 5,734,866 | 373.07 | 5,857,251 | 3.68 | 2.89% |
| Total bonds | | | | | | | | 34,344,023 | | 39,075,628 | | 19.30% |
| <i>*Accrued interest in the amount of EEK 418,311 has been added to the value of bonds; the accrued interest is recorded in the balance sheet under "Accrued income".</i> | | | | | | | | | | | | |
| Total securities | | | | | | | | 199,834,755 | | 178,083,557 | | 87.94% |
| Deposits | | | | | | | | | | | | |
| Current account at depository | | | | | | | | | | 23,115,804 | | 11.41% |
| Total deposits | | | | | | | | | | 23,115,804 | | 11.41% |
| Total investments | | | | | | | | | | 201,199,361 | | 99.35% |
| Other assets | | | | | | | | | | | | |
| Accrued income (dividends) | | | | | | | | | | 755,064 | | 0.37% |
| Accrued income (income tax reclaimed) | | | | | | | | | | 182,376 | | 0.09% |
| Receivables for subscribed units | | | | | | | | | | 134,849 | | 0.07% |
| Miscellaneous receivables (trade settlement receivable) | | | | | | | | | | 243,669 | | 0.12% |
| Total other assets | | | | | | | | | | 1,315,958 | | 0.65% |
| TOTAL ASSETS OF THE FUND | | | | | | | | | | 202,515,319 | | 100.0% |

Statement of Changes in Net Assets

In Estonian kroon

| | 01.01-30.06.2010 | 01.01-30.06.2009 |
|--|-------------------------|-------------------------|
| Net asset value at the beginning of the period | 202,142,351 | 101,735,869 |
| Cash received for fund units issued | 82,225,848 | 1,089,111 |
| Cash paid for fund units redeemed | -12,090,593 | -8,606,770 |
| Subscription and redemption fees paid to the fund management company | -85,259 | -18,461 |
| Net result of the Fund | -2,072,004 | 12,131,987 |
| Net asset value at the end of the period | 270,120,343 | 106,331,736 |
| Number of A units in circulation at the end of the period: | 1,020,729.181 | 649,230.795 |
| Number of B units in circulation at the end of the period: | 2,306,658.126 | 2,311,118.325 |
| Number of C units in circulation at the end of the period: | | - |
| NAV of an A unit at the end of the period (EEK): | 44.7400 | 35.5398 |
| NAV of an B unit at the end of the period (EEK): | 45.5863 | 36.0251 |
| NAV of an C unit at the end of the period (EUR): | 10.3462 | - |

Notes to the Financial Statements

Note 1. Accounting Policies and Assessments Used

The semi-annual financial statements of Avaron Emerging Europe Small Cap Fund (hereinafter „the Fund“) for 2010 have been prepared in compliance with the effective Investment Funds Act as supplemented by the regulations of the Minister of Finance, and the Accounting Principles Generally Accepted in Estonia. The requirements of the Accounting Principles Generally Accepted in Estonia comply with the internationally acknowledged accounting and reporting principles and are stipulated in the Estonian Accounting Act, which is supplemented by the guidelines issued by the Estonian Accounting Standards Board.

The balance sheet and the statement of income and expenses and the notes to the financial statements have been prepared in accordance with the Minister of Finance Regulation No. 50 of 02.07.1998 "Requirements for the Annual and Semi-Annual Reports of Investment Funds". The financial statements have been prepared in Estonian kroon, unless a reference to another currency is made. The main accounting principles used when preparing the financial statements have been set out below.

Foreign currency transactions

Upon recording foreign currency transactions, the last bid rate established by the depository for the funds managed by AS Avaron Asset Management on the transaction date has been used (hereinafter referred to as the depository bid rate). The assets and liabilities fixed in foreign currency are translated into Estonian kroon based on the depository bid rate applicable on the balance sheet date.

Gains and losses from foreign currency transactions are recorded in the statement of income and expenses under "Gain/ (loss) from transactions in foreign currencies" on net basis.

Financial assets and liabilities

Financial assets include securities, deposits, accrued income, other receivables and derivative instruments with positive market value. Financial liabilities include accrual-based liabilities to the management company and depository and other liabilities as well as derivative instruments of negative market value. Financial assets and liabilities are initially recorded at cost, which is the fair value of the consideration paid or received to acquire the financial asset or liability. The initial acquisition cost includes all the expenses directly related to the financial asset or liability. The financial assets and liabilities are recorded in the balance sheet at the moment when the right of ownership is transferred to the Fund in accordance with the terms and conditions of the financial asset or liability contract.

Securities

Shares, units of investment funds, bonds, derivative instruments, structured bonds and other securities are recorded as securities in the balance sheet. The transaction date method is used when accounting for securities. Securities are initially recognised at acquisition cost, which is the fair value of the consideration paid for the security. The acquisition cost includes all direct expenses related to acquiring the financial asset. Securities are later accounted for in accordance with the following principles:

- The market value of shares traded on a regulated market is determined on the basis of the official closing price on the balance sheet date. If the closing price is unavailable, the official mid price is used. If mid price is also unavailable, the last official bid price is used.
- The value of bonds not traded on a regulated market is determined based on the average of the bid and ask quotes as provided by the price feed service provider being used. If the quotes are not available or if the quotes do not reflect the fair value of the bond in the opinion of the fund management company, the price is determined based on the yield curve method.
- The value of options not traded on a regulated market is determined based on the Black & Scholes valuation model. The inputs that are necessary for the calculation are determined by the fund management company after consulting with the counterparty of the option.

Unrealised gains/ (losses) from revaluation of securities are recorded in the statement of income and expenses under "Unrealised profit/ (loss)" on the corresponding instrument.

Securities are removed from the balance sheet when the fund has lost control over the corresponding financial assets either as a result of selling them or expiry of their term. When accounting for realised gains/ (losses) from securities transactions, the FIFO method is used. The line „Sales profit/ (loss)“ in

the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost. The sales amount of securities is the quantity of securities sold multiplied by the sales price less paid commissions.

Deposits

Cash and deposits are valued at nominal value. The balances of current accounts, overnight deposits and time deposits are recorded under deposits. Accrued interest on deposits is recorded as accrued income.

In order to determine the value of structured bonds and structured deposits, the bond or deposit is divided into separate components (for example deposit plus option). The value of each component is determined in accordance with the principles set out in the procedure for calculating net asset value. In order to determine the total value of the instrument, the values of different components are summed up.

Other assets

Other assets include receivables from revenues calculated on the accrual basis but not received yet, including interest, other similar receivables, dividend receivables, and other accrued income. Miscellaneous receivables include receivables from unsettled sale transactions.

Liabilities

Liabilities include management fee and performance fee payables to the fund management company, and depository fee and transaction fee payables to the depository. Liabilities also include payables to fund unit-holders for redeemed units. Miscellaneous liabilities include payables for securities purchase transactions.

Recognition of income and expenses

Sales revenue and expenditure is recorded on the accrual basis when all the essential risks relating to ownership have passed to the buyer and the sales revenue (expenditure) and the expenses relating to a transaction can be reliably established. Received dividends are recognised under "Dividends" at the moment when the shareholder's right to the dividend is fixed.

The operating expenses of the fund include the management fee and performance fee payable to the management company, the depository fee payable to the Fund's depository, fund administration fees, fees to the registrar of fund units and transaction fees. Transaction fees related to security purchase and sales transactions are recorded under "Transaction fees" in the statement of income and expenses. Commissions which arose and were paid in acquisition of securities, but are not clearly identifiable are included within the acquisition cost of securities.

Note 2. Statement of Commissions

In Estonian kroon
01.01.2010 - 30.06.2010

| | Number of transactions | Volume of transactions | Total commissions paid | Weighted average fee |
|---|------------------------|------------------------|------------------------|----------------------|
| UniCredit CAIB | 27 | 35,351,041 | - | 0.00% |
| AS SEB Pank | 8 | 33,354,541 | - | 0.00% |
| Ipopema Securities | 22 | 29,783,169 | - | 0.00% |
| Swedbank AS | 24 | 24,571,481 | - | 0.00% |
| Erste Group Bank AG | 19 | 23,690,913 | - | 0.00% |
| EVLI BANK PLC | 21 | 20,438,368 | - | 0.00% |
| Banco Espirito Santo de Investimento Poland | 17 | 20,435,846 | - | 0.00% |
| Patria Finance, a.s. | 7 | 12,173,635 | - | 0.00% |
| UBS Investment Bank | 1 | 8,329,218 | - | 0.00% |
| KBC Securities Romania S.A. | 12 | 8,153,383 | - | 0.00% |
| InterCapital Securities Ltd. | 8 | 5,035,074 | - | 0.00% |
| Concorde Securities | 2 | 2,086,868 | - | 0.00% |
| Sofia International Securities | 2 | 1,087,052 | - | 0.00% |
| TOTAL | 170 | 224,490,590 | 0 | 0.00% |

01.01.2009 - 30.06.2009

| | Number of transactions | Volume of transactions | Total commissions paid | Weighted average fee |
|---|------------------------|------------------------|------------------------|----------------------|
| Swedbank AS | 18 | 10 108 444 | - | 0,00% |
| AS SEB Pank | 8 | 17 139 062 | - | 0,00% |
| Banco Espirito Santo de Investimento Poland | 9 | 6 304 529 | - | 0,00% |
| Concorde Securities | 6 | 2 237 128 | - | 0,00% |
| Deutsche Bank AG | 1 | 3 118 930 | - | 0,00% |
| AB DNB Nord bankas | 3 | 4 751 448 | - | 0,00% |
| Erste Group Bank AG | 21 | 19 132 890 | - | 0,00% |
| EVLI Bank Plc | 2 | 519 560 | - | 0,00% |
| Bank Handlowy | 1 | 1 034 432 | - | 0,00% |
| ING Bank | 5 | 5 350 831 | - | 0,00% |
| InterCapital | 3 | 2 010 254 | - | 0,00% |
| Ipopema Securities | 7 | 7 066 005 | - | 0,00% |
| KBC Securities Romania | 2 | 652 048 | - | 0,00% |
| Lewis Charles Securities | 1 | 168 681 | - | 0,00% |
| Patria Finance | 7 | 3 708 513 | - | 0,00% |
| Clients/funds of Avaron Asset Management | 1 | 297 726 | - | 0,00% |
| TOTAL | 95,00 | 83 600 482 | 0 | 0,00% |

Note 3. Statement of Derivative Instruments

30.06.2010

| Type of instrument | Issuer of instrument | Name and quantity of underlying | Exercise date | Premium/price of instrument | Exercise price | | Market value | | Equity of the issuer of the instrument |
|--------------------|----------------------|-----------------------------------|---------------|-----------------------------|----------------|-----------------------------------|--------------|---------------------|--|
| | | | | | Per unit | Total | Per unit | Total | |
| FX forward | Swedbank AS | buy 445 975 EUR, sell 615 000 USD | 10/08/2010 | 1.379 | 1.3790 | buy 445 975 EUR, sell 615 000 USD | N/A | -883,067 EEK | 21 bn EEK |
| FX forward | Swedbank AS | buy 615 000 USD, sell 485 456 EUR | 10/08/2010 | 1.26685 | 1.26685 | buy 615 000 USD, sell 485 456 EUR | N/A | 265,603 EEK | 21 bn EEK |
| Total | X | X | X | X | X | X | X | -617,464 EEK | X |

31.12.2009

No outstanding positions

Note 4. Comparative Analysis of the Net Asset Value

| | <u>30/06/2010</u> | <u>31/12/2009</u> | <u>30/06/2009</u> |
|-----------------------------------|-------------------|-------------------|-------------------|
| Net asset value of the Fund (EEK) | 270,120,343 | 202,142,351 | 106,331,736 |
| Net asset value of A unit (EEK) | 44.7400 | 44.1370 | 35.5398 |
| Net asset value of B unit (EEK) | 45.5863 | 44.8586 | 36.0251 |
| Net asset value of B unit (EUR) | 10.3462 | 10.2668 | - |

Note 5. Other Information

The fund's annualised portfolio turnover ratio amounted to 59.6% in the first six months of 2010 (52.8% in FY 2009). The portfolio turnover ratio is computed by taking the lesser of purchases or sales and dividing by average monthly net assets.

The total expense ratio (including management, performance and depository fees) equalled 2.08% of net asset value for A units, 1.57% for B units and 3.00% for C units. The total expense ratio excluding performance fee equalled 2.08% for A units, 1.57% for B units and 1.58% for C units. All the reported expense ratios have been annualised.