PD-ABI-343

CZECH & SLOVAK AMERICAN Enterprise Fund

1993 ANNUAL REPORT

THIRD ANNUAL REPORT

For the Year October 1, 1992
to September 30, 1993

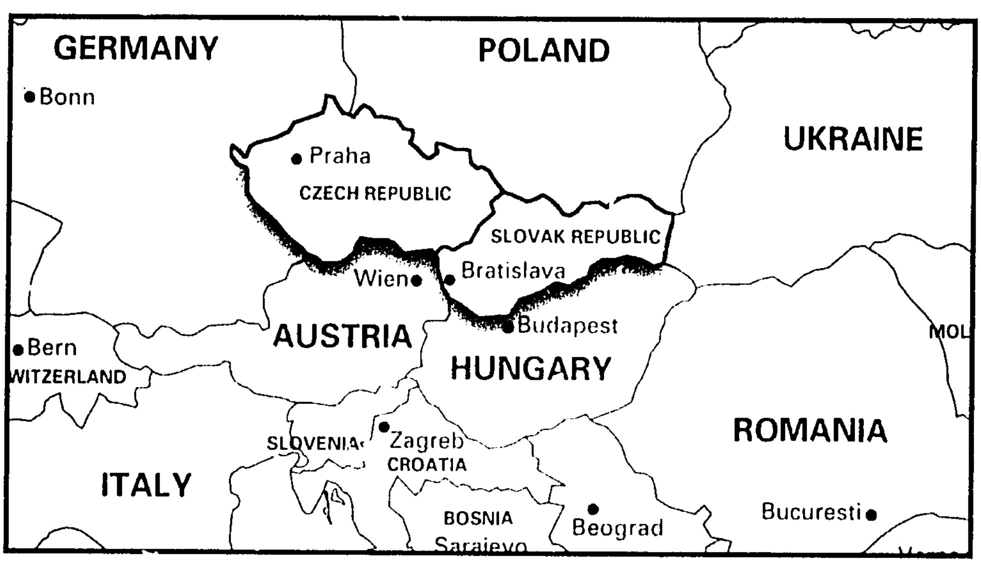
TABLE OF CONTENTS

A. Letter from the Board of Directors
p. 2

B. President's Report
p. 10

C. The Year in Review
p. 13

D. Financial Statements
p. 25



Purpose and Description

The Czech and Slovak American Enterprise Fund (the "Fund" or "CSAEF") was established by the U.S. government in March, 1991 to promote the development of small and medium-sized private enterprises in the Czech and Slovak Federal Republic ("CSFR") which have the likelihood of becoming commercially viable in a free-market environment. Formed pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act"), the Fund is similar to three other American Enterprise Funds presently operating in Bulgaria, Hungary and Poland. ◆ Following the dissolution of the CSFR on January 1, 1993, the Board of Directors of the CSAEF acted to create two separate subsidiary funds through which it pursues its activities; the Czech American Enterprise Fund (CAEF) and the Slovak American Enterprise Fund (SAEF). ◆ U.S. taxpayers have provided the money for the Fund through appropriations by the U.S. Congress. The Fund is privately managed by a Board of Directors (the "Board") consisting of U.S. and Czech and Slovak private citizens. The offices of the Fund are located in Prague, Bratislava, and Washington D.C. ◆ The CSAEF receives its funds from the U.S. Agency for International Development ("AID"). Sixty-five million dollars have now been appropriated, including five million dollars for Technical Assistance. ◆ The Fund invests in Czech and Slovak enterprises through loans and the provision of equity capital. Technical Assistance grants are also available. The Fund charges interest and fees and takes collateral on loans. For equity investments, the Fund takes an ownership interest related to the amount invested, and does not typically seek to retain a majority voting position. Joint investment with U.S. direct investors is especially encouraged. ◆

Letter from the Board of Directors

The Czech and Slovak American Enterprise Fund (CSAEF) has completed its second full year. The doors were opened for business in Prague and Bratislava on July 1, 1991.

These have been formative years in the transformation of the economies of both the Czech and the Slovak Republics. The pre-November 1989 command economy of Czechoslovakia was totally nationalized and the centralization of decision making was as concentrated in Prague as it had been in Moscow.

PRESCRIPTION FOR ECONOMIC DEMOCRACY

From the outset, the political leadership of President Havel and of then Finance Minister Klaus emphasized the rapid denationalization of the economy. Priority was given to the speed and breadth of the change through the transformation of ownership from the state to privately owned companies. Accomplishing such action promptly took on special purpose. The slow, deliberative procedure, driven by a bureaucratic staff which had been given a new mission but not a new personality, was minimized.

The privatization process had several segments: public utility state enterprises, very large enterprises, large enterprises, small retail enterprises, and cooperative state farms.

Commencing in January 1991, small retail enterprises were auctioned off locally to the highest bidder. Today, following on-going weekly auctions, more than 80,000 small retail trades in the Slovak and the Czech Republics are now privately owned. One notices the effect daily in the small shops and restaurants throughout the country. The quality, choice, service and ambiance now encountered represent a fundamental transformation.

Very large enterprises were converted, largely through a program which permitted citizens to acquire vouchers and exchange them for shares in new private corporations. Alternatively, citizens could use vouchers to subscribe to a mutual fund which, in turn, would acquire shares in newly privatized companies. This Phase I Privatization program has been completed. Some of the very largest companies did not go through the voucher program but were sold directly to foreign investors.

Additional large and medium-sized enterprises will be transformed through Phase II of the process which was recently announced. A new round of vouchers will be issued, thus further facilitating a very broad public ownership of former state enterprises.

The state cooperative farms have been progressively privatized. However, technical problems necessarily slow this process. First, restitution rights have to be determined and perhaps adjudicated. Second, land ownership records may not be of a quality to permit instant determination of title. Third, the old traditional farm ownership pattern frequently involved many farmers each owning small parcels of land scattered among large fields. Once nationalized and operated as one large farm, the advantages of large equipment and economy of scale were employed. Reverting to prior ownership has resulted in recognition that adjustments must be made if economic farming plots are to be viable. While agreement on such issues does not come overnight, the process is well underway.

Public utility state enterprises such as power generating plants, railroads, coal mines, and oil and gas pipelines remain in the hands of government. It is not now clear if some or any of these will be privatized.

While the above summary of privatization generally pertains to both the Czech Republic and the Slovak Republic, the former has gone farther and faster. It is quite possible that the two Republics will form different attitudes toward the degree and timing of privatization of their remaining large enterprises.

INDIVIDUALS AS SHAREHOLDERS

The voucher privatization process has resulted in broad individual ownership of companies. It is estimated that, following the first wave of privatization, there are 8.5 million shareholders in the two Republics. Seventy percent of the adults list share holdings among their own assets. The result of the voucher exchange was the formation of 429 Voucher Investment Funds. Each fund is limited to 20% ownership of any one company and approximately 70% of the publicly held shares are owned by these new Mutual Funds. It is still the early stage of this element of the public securities market and most have yet to attain profitability and liquidity. The next step of this transition is likely to be a consolidation of some funds into more economically viable units. Further, development of the nascent stock market, together with improved company information, will accelerate the rationalization of this important sector.

THE BURGEONING OF ENTREPRENEURSHIP

In the area of small and medium-sized businesses, where the CSAEF concentrates, similar dramatic changes have taken place in the last three years. In 1991 there were many would-be entrepreneurs. Frequently, their thinking was not well formed and their understanding of basics such as what a business plan is, was most rudimentary. The definition of equity capital was not well understood causing even the translators difficulty. Our early transactions tended to focus on entrepreneurs starting a business, or in the very early start-up phase of business. We helped them with basic marketing considerations, business planning, pricing, reliability of suppliers, financial information systems, and sales terms.

Today, we witness quite a different entrepreneur, one who presents more sophisticated issues, better analyzed problems, and more thoughtful business plans. The intervening years have been well employed.

This progress of entrepreneurship is symptomatic of what has happened in both Republics. Certainly the changes are not uniform, but in every instance they are both real and positive when measured in terms of the transformation toward a vital and viable market economy.

RISK TAKING BY THE ENTERPRISE FUNDS

Participating in the initial formation of businesses is unusual for venture capital funds. In the U.S., such early venture activity is speculative in nature and is frequently associated with a prospective technological break through. Rather, equity funds ordinarily wait until products and management are at least somewhat proven. However, the Congressional mandate and related legislative history, intending to help foster democratization, made clear that the CSAEF was to reach out and help launch entrepreneurship. It was recognized that more than the usual risk of loss on investments was necessary if the Enterprise Fund was to play the catalytic role envisioned by the creators of the legislation. We describe our role in this regard as being "one step ahead of the market, but not three".

The purpose of the CSAEF was clearly expressed in the Support for East European Democracy Act of 1989: "...to promote the development of private sectors, including small businesses..." The legislation adds that investments should be made where the Board of Directors of the CSAEF believes there is "...the likelihood of (achieving) commercial viability..." in a free market economy. The legislation does not require that the Enterprise Fund operate at a profit, although that would be the result if all of the investment judgments found commercial viability in each of the underlying investments. Nevertheless, the Board believes that investing in order that the Fund becomes profitable in time is necessary and consistent with the statutory mandate. Such an objective is somewhat different from the normal private sector objective of maximizing profits.

By way of illustration, consider the timing of the sale of an investment. Given the opportunity of selling an investment at a reasonable profit today and investing the funds to foster another business, or of holding the original investment for greater gain in the future, the Board would be inclined to sell sooner rather than later.

It is as much an art as it is a science to select business winners. And in practice all venture capital funds experience losses. Moreover, making investments in this environment of newly emerging former command economies carries the added hazards of inadequate financial data, inadequate marketing information, limited experience of management, evolving government policies, and price levels searching for a new free-market equilibrium. The experience of the CSAEF reflects these vagaries, and loss reserves have been created as evidence. Nevertheless, the overall portfolio is true to the assignment and the make up of the investments reflects real achievements. The prospects are good that in time the Fund will realize a reasonable profit on its activities.

THE CSAEF AND THE DIVISION OF THE REPUBLICS

The demise of Czechoslovakia on January 1, 1993, and its succession by the independent Czech and Slovak Republics, was met by the CSAEF with a business-as-usual approach. The organic corporate changes needed to match this new political reality neither changed our mission nor delayed our activity.

The CSAEF took on the aspect of a holding company with two operating Funds, one for each Republic: the Czech American Enterprise Fund and the Slovak American Enterprise Fund. Our underlying investments in each Republic are now being housed separately, rather than jointly. However, as before, our investments in the Slovak Republic are created and managed out of Bratislava and our investments in the Czech Republic are created and managed out of Prague.

THE CZECH REPUBLIC

The Czech Republic has a remarkable record of stability while undergoing a fundamental restructuring of its economy. This has been accomplished during a period of dramatic political change, collapse of previous export markets, European recession, and radical adjustment in the nation's economy. The free market emphasis together with tight reins upon fiscal and monetary policy have been essential ingredients in this transformation.

While no change of this magnitude can move ahead without some setbacks, we are confident that the Czech Republic will further improve its economic standing and be, perhaps, the most hospitable environment for investment in Europe for the foreseeable future. Today, the economy is estimated to be over 50% privatized and at the conclusion of Phase II Privatization, the number should rise to over 70%.

THE SLOVAK REPUBLIC

The Slovak Republic may be the best kept secret for investment in all of Eastern Europe. This is certainly true if the experience of the Slovak American Enterprise Fund is a barometer.

The entrepreneurial spirit is well established in Slovakia with the diligence and work ethic of managers and workers alike auguring well for the future. The macro economic policy is better than its critics state and the IMF requirements are being met. Nevertheless, serious questions remain about the ability to meet budgetary targets while retaining, and often subsidizing, a large number of loss producing state enterprises. Cutting subsidies and laying off workers adds to already high unemployment. The hope is that new jobs will be created, thus permitting workers to shift employment. The uncertainty of government actions given these choices leaves doubts in the foreign investment community about its determination to move effectively toward a market economy. At a point these doubts detract from the declared government desire to attract foreign investment.

All in all, both Republics are "success stories" to this date and each gives full promise of continued progress.

AN EARLY STAGE EVALUATION OF THE CSAEF

An assessment of the progress of the CSAEF, a venture capital type of fund, not three years into at least a ten year mandate, could be labeled premature. However, there are early indications of the Fund's promising introduction into these newly emerging capitalist markets. Private enterprise is expanding rapidly. Local investment decisions are increasingly based upon expected profitable returns, and managers there direct and reward people according to performance.

Nevertheless, both marketing information and acknowledgement that the buyer determines the product fall short of the full characteristics of a demand economy. Incrementally, however, major progress is being made. In one effort to stimulate access to a market for stocks, the CSAEF has invested in a local securities market information firm in order that investers may have ready access to such information prior to making investment decisions.

The invisible but apparent issue of ethics in various sectors appears to contain too much of a legacy of the past. Contract sanctity has probably not yet achieved the standard of our expectations, nor the requirements of an open commercial system. The court systems of both Republics trail the changes experienced in other branches of government. Vacancies and holdovers from a prior mentality slow the operation of the judicial system and do not seem to reflect all of the dispassion experienced in other legal code systems in Europe. However, one would not expect changed ethical practices (as law and convention define them in the U.S. or Western Europe) to precede policy reform as basic as the transformation underway in these Republics.

TECHNICAL ASSISTANCE

The CSAEF looks for discrete areas to assist which contribute to the practical application of policy reforms. These areas must relate to matters of particular concern to our own investments and the problems encountered by entrepreneurs. To further the statutory mandate of promoting the private acquisition of real property, a technical assistance project is underway to develop a computer program which will enable a municipality to act as a central registry of real property ownership. Such a system will facilitate property sales and real estate financing and is essential to municipalities where property taxes are employed. It is expected that this pilot effort will permit 1) the more rapid recording of title transfers; 2) the adoption of a similar nationwide system; and 3) improved tax collection. Already we have evidence that it will spawn entrepreneurship by attracting businesses into this area of activity. Another effort, of potentially equal significance, is the development of procedures and systems to record liens on tangible property. The new commercial code now facilitates such assignments, but an efficient system to record such claims, readily accessible to commercial lenders, is not yet in place. Still another discrete technical assistance project is directed toward the development of generally accepted legal documentation for simple debt instruments. We are developing this documentation with the Prague Bar Association. It will have special application for small business loans through simplification and lower costs.

In general, we see these Republics experiencing the development of a wide array of small and medium-sized firms. This is being done in all segments of the economy. Large investments such as the automobile or truck industries bring with them a search for local suppliers of quality and stability. Some of our investments are already serving such larger enterprises. One agricultural investment, for example, contracts to supply specialty cheeses to an expanding pizza franchise. We helped finance a small manufacturer of hospital supplies who in turn has attracted a U.S. direct investor to assist with technology and management.

Our experience is symptomatic of small businesses everywhere: these are the engines of growth and job creation. A business of only thirty people today is capable of substantial employment increases as it achieves sustainability. What is more significant than the employment figures of the enterprises we finance is their achievement of profitability. There is increased recognition that successful small businesses are pushed by their owners to grow and in the process they expand employment both in that company and, significantly, in the businesses from which they buy and to whom they sell.

INVESTMENT POLICIES

This Enterprise Fund concentrates upon small and medium businesses, and today investments and commitments to invest total 47 companies employing, on average, 40 staff. The average investment is $472,000. Anticipated exports represent about 65% of total sales.

Our investment policies require that every transaction include a prominent position for a local entrepreneur. Characteristically, this means the top manager and a team of his colleagues. In addition, 11% of our investments have U.S. direct investors and 4% have non-U.S. direct investors. We actively seek U.S. direct investors and we accept third country investors who approach us with viable projects.

While the CSAEF prefers not to have majority ownership, on occasion we have accepted it when a promising entrepreneur has little capital to offer and other sources are not available. In order to avoid excessive dilution, a majority position may be taken. In several cases a large ownership position has proven helpful to move the company in a necessary direction. Nevertheless, the CSAEF always provides for a reduction of its majority position, most notably by granting ownership rights exercisable upon achieving performance targets.

INVESTMENT GOALS

In general, in pursuing its legislative assignment to foster entrepreneurship, it is the goal of this Enterprise Fund to benefit the level of jobs through aiding commercially viable enterprises intent upon growth. Export sales is a preferred component of the sales program of most of our investments. We seek enhancement of the environment though the operations of the business, guided by a manager sensitive to this priority. Increasing energy efficiency is another goal of most of our investments, not just for the environmental benefit, but also as a part of cost efficiency. Agricultural sector investments are oriented to food processing as this important segment needs to benefit from up-to-date technology. We actively encourage participation of U.S. investors who facilitate these goals by contributing their management, technology, and capital.

Closely following investments is an increasingly time consuming and resource demanding activity. This "monitoring" role is essential to sustain and even improve the quality of our portfolio. Further, such attentiveness to a small going business maximizes the transfer of know how experience.

THE OUTLOOK OF YOUNG PEOPLE

What must be most heartening to all interested in the democratization of these countries is the attitude we encounter among young people in both Republics. Ask those in their late twenties "what is the biggest contrast between today and before the Velvet Revolution?" and they say that "now I am free to choose a life for myself; now, I am able to determine my field of study, my employment and the type of life I want to lead".

Bringing the right and the ability of individuals to choose was a goal of the Velvet Revolution. The mission of the government's economic transformation has been to expand the choices and opportunities people have available, while providing the good macro economic management necessary to help them, through their own endeavors, sustain these choices.

CONCLUSION

The Enterprise Fund is unique. The return the U.S. taxpayers expect is not just measured in financial terms. The CSAEF was created because the national interest of the U.S. is served specifically by the establishment of strong democracies in these two Republics. Although this Central European area is not a traditional trading partner of the U.S., economic ties are now increasing, direct investment is flowing, exports are growing and new business ties are being established. Cultural ties, too, are being magnified beyond those already well founded through the large U.S. citizenry of Czech and Slovak origin, by activities such as those of the hundreds of young Americans active in teaching English in Bohemia, Moravia and Slovakia.

The U.S. Government created the CSAEF to help bring pluralism—economic and political—to Czechoslovakia by fostering viable business enterprises which create jobs and exports while actively meeting the needs of a growing society for goods and services. By multiplying the growth of small and medium-sized businesses, economic decision making becomes decentralized through an active market-oriented process. Such development is fundamental to a broadly based and open democratic political system. It is a critical ingredient if such a system is to be sustained.

We are satisfied that this critical ingredient has been strengthened by the activity and by the example of the CSAEF. Our investments, our technical assistance activities, our training, and our countless visits have effectively conveyed the message of free enterprise and personal choice within the discipline of a market economy.

Contributing to this "freedom of choice" is a sustaining force to the directors.

The employees of the CSAEF are effectively participating in this crusade with their hard work, long hours and a dedicated sense of mission. Czech and Slovak nationals make up a high percentage of our work force and the experience they gain is still another "know how" transfer of the CSAEF.

In February, 1993, Paul Gibian succeeded Stephen Wald as President of the CSAEF. In March, Karel Kosman became President of the Czech American Enterprise Fund. Leighton Klevana, in Bratisiava since June, 1991, was named President of the Slovak American Enterprise Fund.

CSAEF Directors
John R. Petty
Charles A. Vanik
David O. Maxwell
Milan Ondrus
Julia M. Walsh
Jan Tauber
Milan Tomašovič

CZECH REPUBLIC

COMPANY	CITY
ALP	Písnice
AmeriBif	Prague and Větrušice
CES Uniweb	Letohrad
Chirana	Prague
Elfra	Chrudim
EMU	Brno
EVE-V Vyskočil	Jesenný

Hanžl	Vimperk
Heli Services	Mladá Boleslav
Holtztherm	Plzeň
Jami	Vsetín
Kovo Topič	Kojetín
KPCM	Batňovice
Kříž	Letovice
Marbrot	Prague- Nebušice
Mykointegra	Jeneč
Pekiton	Štiřín
Rollpa	Pítkovice and Přerov
Švanda	Liberec

Czech American Enterprise Fund

SLOVAK REPUBLIC

COMPANY	*CITY*
AgManagement	Skalica
Ameta	Poprad
Bryndza	Ružomberok
BSK	Banská Bystrica
Bujakovo MVE	Brezno
Dekoplast	Svidník
Ferex	Nitra
Finsat	Bratislava
Gamma	Banská Bystrica
Helas	Bratislava
Istrocera	Svätý Peter
IVV	Komárno
Kveta	Nová Baňa
Leader Gasket	Bytča
Matuška	Štúrovo
Milka	Dolný Kubín
Oligo	Bratislava
Penta	Kysucké Nové Mesto
Peško	Liptovský Mikuláš
PoMa	Povazska Bystrica
Pyrokontrol	Pobedím
Rotor	Kosíce
Safrema	Bratislava
Schramko	Senec
Staškov	Čadca
TLC Europe	Nové Mesto nad Váhom
Včelárstvo Dedinský	Bratislava
Vega	Malženice

Slovak American Enterprise Fund

President's Report

During the second year of operations, the CSAEF evolved from a start-up phase, learning and building systems, to a professional investment business manager and advisor to small business. For the year ended September 30, 1993, the Fund's commitments increased by $13.9 million in 12 direct investments, an increase of 85% in dollars and 40% in number of transactions, including the Joint Lending programs with the Komerční Banka in the Czech Republic and the Slovenská Poĺnohospodárska Banka in Slovakia.

As the data below indicates, the investment results for the full year continued to lag in the Czech Republic. During the year, broad changes have been made in the organization and personnel of the CAEF in Prague. These changes have already started to produce results in the increased number and quality of investment opportunities identified by the new team.

MISSION OF THE FUNDS

The mission of the Funds to foster entrepreneurship and support small and medium enterprises (SMEs) is well known. The priorities guiding our investment decisions in both countries continue:

- Enhance and upgrade the level of employment
- Promote exports
- Contribute to environmental betterment
- Encourage and develop energy efficiency
- Assist in agricultural sector development and especially in food processing

We work diligently to fulfill our mandate to promote and strengthen the private sector in both Republics. We insist that significant local ownership be present in each investment, that the money we invest remains in the country, that we focus on the small and medium-sized companies and not become tempted by the attractions of the large companies, and that we provide training and technical assistance to our investments as value added beyond the capital invested.

INVESTMENT STRATEGY EVOLUTION

While the fundamentals of our mission remain unaltered, we continue to adjust our investment criteria to reflect the existing economic conditions in each Republic.

We are now putting primary interest in a somewhat different type of company than we did in our first two years. We are focusing on growth companies with management teams in place, but with few sources of equity capital available to support significant growth potential. Many of these businesses are spin-offs from large privatized enterprises or start-up businesses which have matured into the growth phase.

This shift in the capital marketplace and in our investment strategy is reflected in the increasing average size of our investments and the decrease in the debt/equity ratio of our new investments. The new investments in fiscal 1993 averaged $556,000 up from $465,000 in 1992, with the debt/equity ratio decreasing from 1.9 in 1992 to 1.7 in 1993. The CSAEF target range is from $300,000 to $1,500,000 in any single transaction.

INVESTMENT SUMMARY

(In millions of U.S. Dollars)	CZECH REPUBLIC 9/30/92	CZECH REPUBLIC 9/30/93	SLOVAK REPUBLIC 9/30/92	SLOVAK REPUBLIC 9/30/93	TOTAL 9/30/92	TOTAL 9/30/93
Number of Investments	16	19	19	28	35	47
Debt	$ 4.2	$ 4.8	$ 7.4	$ 8.1	$ 11.6	$ 12.9
Equity	$ 1.7	$ 2.8	$ 3.0	$ 6.5	$ 4.7	$ 9.3
Joint Lending	0	$ 5.0	0	$ 3.0	0	$ 8.0
Total	$ 5.9	$ 12.6	$ 10.4	$ 17.6	$ 16.3	$ 30.2

We continue to support start-ups and small companies since this is the sector that ultimately is the fuel for economic growth and job creation. But we are now doing this more through intermediaries and partners in programs such as Joint Lending with local commercial banks. The Joint Lending programs are further described in the Year in Review section of the Annual Report.

We also have begun programs and cooperation with the Regional Business Advisory Centers (RPICs) which support, advise, and train local small business enterprises in the start-up and early stages of their growth. These Centers are excellent sources for investment opportunities of the future and we look on part of our mission as the training of personnel in these centers to become effective advisors to small business.

OUR ROLE AS INVESTOR, PARTNER, & TEACHER

The Enterprise Funds are unique among all the investment funds in their ability and interest in helping their investments with management assistance, both directly with Fund staff and with outside assistance. We are rapidly increasing our monitoring and nurturing activities so that our interface with local partners takes place as often as weekly, and Western business techniques are imparted through direct. personal, problem solving sessions. It is a lot of work for all, but our staff is repeatedly thanked for this hands-on help.

Training and technical assistance for all sectors of our operations are of growing importance. We see a great need for training for our bank intermediaries in the joint lending programs, as well as for the applicants for funding through the bank programs and for those who apply to the Funds directly. This training covers all business fundamentals with emphasis on marketing and financial controls for the small business. Not the least is the introduction to how a small independent businessman needs to relate and communicate with his new partner, the local and Western businessman or investor.

The Technical Assistance program was expanded in 1993 to include more projects dealing directly with our investments. Nineteen new Technical Assistance projects were initiated with funding of $1,089,000 to help twenty-four of our direct investments and the joint lending programs.

PROACTIVE ROLE OF FUND

Another area in which the Funds differ from many other capital investors is in their reach into the many regions of the Republics through our marketing programs. More than two-thirds of our staff in both Republics are bilingual and much of their time is spent in the outlying regions presenting the Fund to local government, chambers of commerce, entrepreneurs associations, banks and other groups that represent the important small and medium-sized enterprise sector. Our mission is not just to invest our capital anywhere; it is to invest where the multiplier effect can be the greatest. This must be in the regions with greatest need and in SMEs that represent the greatest potential for growth and job creation. By example to the community we demonstrate that free enterprise and a market economy works. The increasing deal flow from outlying regions of the Republics is testimony that our outreach programs work.

Increasing emphasis is being placed on gaining and supporting the participation of U.S. companies as our investment partners in the Republics. The greatest need for industry in both Republics is the transfer of world class technology, world class management skills, and capital to modernize industrial plants. Our greatest successes have been our joint venture investments with American companies, and especially those where the U.S. partner committed a seasoned manager as resident on site for an extended period. Capital and technology are vital, but ultimately it will be the quality of the management team and their skills that will make the difference.

LOOKING AHEAD

Our change in focus to businesses in a growth mode has already been reflected. Since the close of the fiscal year, the four new investments authorized by the Board average more than $1 million. This compares with an average of $556,000 per approved transaction in this past year. Additionally, five Joint Lending transactions were authorized which averaged $52,000.

There is great interest in the Czech and Slovak Republics by those pursuing investment in Eastern Europe. We are establishing close links with these investors and expect to establish partnerships with many of them. Our original capital resources, appropriated under the SEED Act, are fixed and are now being invested at an increasing pace. We are among the first venture capital firms in the two Republics and we intend to leverage our record and our experienced investment teams to attract other venture capital. Since the end of the fiscal year, we have signed two coinvesting agreements with JAIDO, the Japan Industrial Development Organization: one with the SAEF in Oligo, an existing investment, and the other with the CAEF in an investment approved since the fiscal year end. Further leveraging of our resources will be given high priority.

We will continue our internal evolution with a more experienced staff. Special emphasis is going to be placed on recruiting, training and developing even more local professionals to become the Fund investment officers and senior managers of tomorrow. One of the most exciting and stimulating experiences for all of the Americans in the two Republics has been this growth on the job of very talented, young, well motivated, hard working local colleagues.

Though our exit strategy has a timetable of three to five years as the earliest optimum time for sale of our equity investments, we will sell at an earlier date. In each Republic an interested local buyer has offered to buy us out of an investment at a price that represents a satisfactory return and we expect to close these transactions during the coming year. We believe that our role will have been fulfilled by having helped the start-up of businesses that are now mature and attractive to local investors.

ORGANIZATIONAL DEVELOPMENT

Over the past two and a half years, we have developed an effective team of investment professionals and support personnel in Bratislava, Prague, and Washington. During fiscal 1993, we reinforced our management and investment group in Prague by recruiting new professionals with special emphasis on increasing the number of Czechs and bilinguals. Two-thirds of the staff in Bratislava is bilingual. This team has been further enlarged to address a greater number of investments and the increasing demands of monitoring. Our staff in all three offices is extraordinarily dedicated, hard working and accustomed to long hours of intense concentration. I want to express my appreciation for the efforts of each of them and the excellent progress achieved. We have also been fortunate to have had the support of dedicated Czech, Slovak, and American directors who have been an important source of assistance and counsel.

We have received a tremendous of amount of help and support from many groups and many people during this past year. These include agencies of the U.S., Czech, and Slovak governments including many Ministries and the National Banks, the U.S. Embassies, the U.S. Agency for International Development, the U.S. Department of State, and other institutions. This support is much appreciated.

We have also worked closely with many nongovernmental organizations that are actively involved in the Czech and Slovak Republics and several have been our partners in providing technical assistance to many of our investments. Some of these include: the MBA Enterprise Corps, the International Executive Service Corps, the Citizens for Democracy Corps, Volunteers in Cooperative Assistance, and American Cooperative Enterprise Center, and other business associations. Their help and cooperation has been invaluable.

Their separation was the dominant event for the Czech and Slovak Republics in the past year. The transition was peaceful and was accomplished without significantly slowing the continued development of their free market economies.

The Republics' highly skilled labor forces and industrial heritage make them excellent places for manufacture to demanding Western standards. Their relative stability and prosperity can make them important centers for companies pursuing opportunities in the emerging areas of the former Soviet Union. The map clearly shows how well situated both Republics are as springboards for penetration of both the West and East European markets.

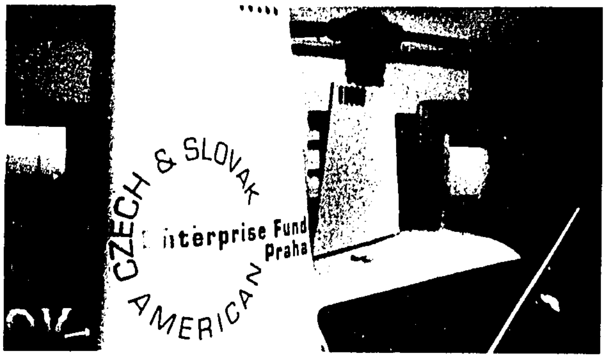
The Table below outlines several indices that describe the economies of the two countries:

	CZECH REPUBLIC	SLOVAK REPUBLIC
Population	10,300,000	5,300,000
GDP per capita - USD	$2,956	$1,962
GDP change - 3Q93 vs 3Q92	(1.0%)	(4.8%)
Unemployment	3.2%	13.7%
Inflation	20.9%	21.2%
Foreign Currency Reserves - USD	$3,100,000,000	$522,000,000
Budget Surplus/(Deficit) - USD	$108,000,000	($495,000,000)

Data is based on September 30, 1993 or as stated
Sources: Statistical offices and national banks

CZECH REPUBLIC

The economic statistics of the Czech Republic are the envy of most of the Central and Eastern European countries. The economic policy has been consistent, with an aggressive approach to privatization, dedication to market economy principles, and the perception that politically the Republic is very stable. These measures mask continuing underlying problems of little industrial growth, over employment and low productivity in many industries, pockets of high unemployment in regions of heavy steel and mining, high interest rates charged by banks with the high collateral requirements on top, continuing bureaucratic rules that make the registration of a business a major project which can last for several months, and an overall lack of venture capital to support the many outstanding, small, growth companies that could be the engine to fuel an economic expansion. We intend that the Czech American Enterprise Fund fill not only the role of providing direct venture capital, but also, because the Fund



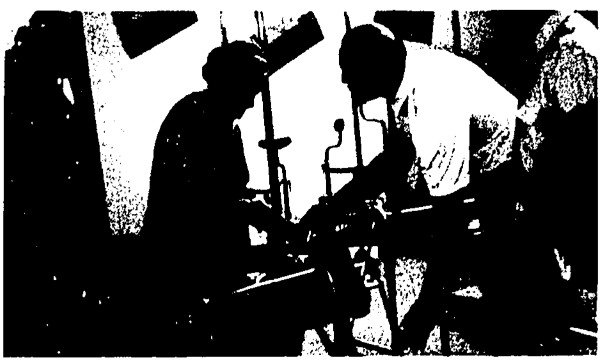
A helicopter service company, HELI SERVICES patrols the Russia/Germany transnational pipeline, operates a pilot school, provides transportation and distributes U.S.-made Robinson helicopters.

has shown the way, attract other Western capital sources to invest in the Czech Republic.

SLOVAK REPUBLIC

Slovakia's economic statistics do not read as well, but they compare favorably with some of their neighbors. The underlying factors that favor investing in Slovakia are perhaps too well hidden. The eager, motivated, educated, experienced and skilled work force is there whether on the factory floor, research department, office, or university. The technology base is there with a diversity of industries using state-of-the-art technology in many "pockets of excellence". The plants that used to produce military equipment utilized the most up-to-date machinery and a work force trained to operate it. The ability to apply this machinery is still there and much of this expertise has been converted to civilian production. To name but a few, consider industries such as manufacturers of ball and roller bearings, machine tools, producers making washing machines (now with Whirlpool investment), televisions, pharmaceuticals, hydraulic equipment for deep well oil extraction (now with an American oil well equipment partner), aircraft engines, oil refineries, and earth moving equipment such as bulldozers.

The SAEF will continue to broaden its investment activity throughout the Republic, and it will continue to encourage the Government to be hospitable to foreign investment. We anticipate that the promising activity we have experienced in Slovakia will stimulate others to join us in this growing market.



With its primary production focused on mobility aids for the health care industry, HELAS has now expanded to produce tables and environmental monitoring trailers as well.

THE CSAEF

As of September 30, 1993 the Board had authorized management to commit a total of $32 million in the three key areas of the Fund's program: loans and investments ($22 million), technical assistance ($2 million) and joint lending ($8 million).

LOANS AND INVESTMENTS

At September 30, 1993, forty-seven investments totalling $22 million had been authorized by the Board, of which funding had been initiated on forty-two investments ($15.0 million, with an additional $3.4 million remaining to fund on those investments). The increase from thirty-six investments at September 30, 1992 to forty-seven investments is net of six investments previously made by the Board that were cancelled prior to funding (two in the Czech Republic, four in Slovakia).

A total of fourteen investments approved by the Board since the Fund's inception have been subsequently cancelled. The six cancellations of investments during FY93 were due to (a) loss of the commitments to the remaining privatization transaction in the Czech Republic (totalling $3 million), and the two remaining privatizations in Slovakia ($700,000), (b) results of subsequent due diligence on the part of the Fund that led to a less favorable view of one transaction, and (c) two entrepreneurs locating an alternative source of financing.

In this last regard, the Fund continues to find some companies that prefer to take on an excessive amount of leverage rather than give up ownership via an equity investment. In the Fund's view, however, such over-leveraging will limit the growth potential and ultimate success of many ventures. It is critical to the success of small and medium-sized businesses to make more equity financing available in the Republics. It is equally important to educate entrepreneurs, bankers, and government officials on the importance of equity financing. This ongoing education is integral to the Fund's mission.

Geographic Diversification

The Fund is committed to investing in promising companies throughout the two Republics, notwithstanding the increased cost in terms of travel and communications. The Fund seeks to invest where the multiplier effect can be the greatest. In the Czech Republic, the Fund is increasing its activity in regions away from Prague that have benefitted less from the overall economic improvement. In Slovakia, the Fund seeks investment in areas of high unemployment. The location of the investment is particularly important since, in the aftermath of the Communist housing policies, labor mobility remains difficult in the Republics (this is less a problem in the Czech Republic where unemployment generally remains low). The geographic spread of the Fund's activities is evident on the maps within this report.

Industry

The Fund remains diversified by industry as shown below:

CZECH REPUBLIC

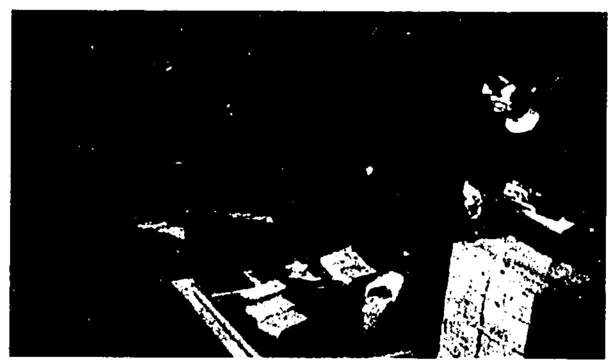
AREA	NUMBER OF INVESTMENTS	AMOUNT	PERCENT OF INVESTMENT
Manufacturing	9	$ 5,251,000	69
Food Related	6	1,587,000	21
Energy Related	3	419,000	6
Services	1	328,000	4
Total	19	$ 7,585,000	100

SLOVAK REPUBLIC

AREA	NUMBER OF INVESTMENTS	AMOUNT	PERCENT OF INVESTMENT
Manufacturing	13	$ 8,190,000	57
Food Related	11	5,316,000	36
Energy Related	3	774,000	5
Services	1	350,000	2
Total	28	$ 14,630,000	100

Manufacturing includes a wide range of companies, such as metal products (gaskets, gasoline cans), plastics and fire extinguishers. Food related investments include the introduction of new cattle breeds as well as bakeries and other food processors. Investments related to energy include several low-head hydro electric power transactions. These entrepreneurs are rebuilding sites that were operating before the facilities were nationalized and closed down by the Communists.

The Fund finds that the most attractive businesses are



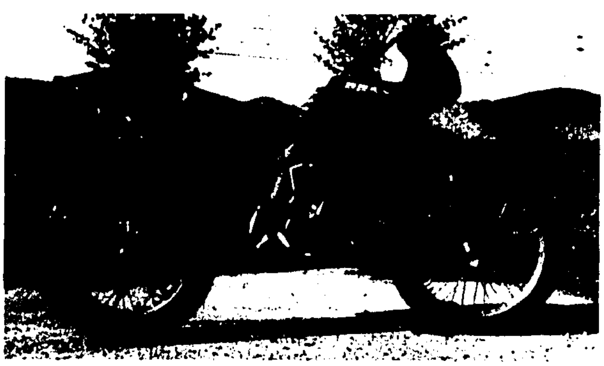
Converting wood waste to briquettes for residential heating, HOLZTHERM's product is a cleaner burning, environmentally friendly fuel source.

in industries in which the Czechs and Slovaks have traditionally excelled—machinery, metal bending, fabrication, food processing—where there is a high-skilled labor content relative to capital or technology required. The average Fund investment is approximately $12,000 for every job supported by the business. Approximately 1,900 employees work or manage the forty-seven companies where the Board has authorized investment. The Fund's contribution to the Republics is reflected not only in the number of people employed directly in companies where the Fund has an investment, but also in the jobs of the suppliers, distributors, and services to these companies. The Fund's investees often display an energy and an enthusiasm that helps set an example to other businesses.

Size

In fulfilling its mandate to meet the needs of small and medium-sized businesses, the average number of employees in each of the companies where the Fund has authorized an investment is 40 (similar for each Republic), with only three authorized investments exceeding 100 employees.

Excluding cancelled transactions, the average size of Fund investments increased in FY93 (in terms of Board authorized commitments) from $408,000 to $472,000.



PENTA's owner-managers know first-hand what a motorcycle should be from their own experience on the motorcycle racing circuit.

The Fund focused its investment actions during its first two years of operation on the type of transaction most readily available—start-ups or expansion of very young enterprises. Now that much of the economy is in private hands and many businesses started after the Velvet Revolution are ready to expand, the Fund's average investment can be expected to increase.

The trend to larger investments is more noteworthy when FY93 is considered on a stand-alone basis. The average transaction authorized by the Board increased this year from $553,000 in the first quarter to $705,000 in the fourth quarter for an average for the year as a whole of $565,000. For the first quarter of FY94, the Board authorized a total of four investments averaging $1,086,000 per investment.

TECHNICAL ASSISTANCE

In FY93 the Fund focused its Technical Assistance in the areas of joint lending and hands-on assistance to funded investments. The newly emerging entrepreneurs of the Czech and Slovak Republics are enthusiastic and highly skilled but they lack the marketing and financial skills which were not important under the Communist regime. Given the success and popularity of the applicant training for the joint lending program, the Fund expects to offer more such training for its own applicants.

Technical Assistance draws on many resources to help local business, including: (a) the MBA Enterprise Corps, a program supported in part by a grant from the Fund, (b) the International Executive Service Corps (IESC), which places retired executives with foreign companies for several weeks (with travel and certain other costs funded by a grant from AID), (c) the Central Europe Entrepreneurship Center (CEEP), which in the past had received a grant from the Fund in support of its overall program, (d) the Citizens for Democracy Corps (CDC) which places volunteers with companies, often for several months at a time, and (e) Volunteers in Cooperative Assistance (VOCA) and American Cooperative Enterprise Center (ACE), two U.S. organizations which provide advisory services to agriculture projects. A separate listing of all authorized Technical Assistance programs is provided at right.

INVESTMENT	CEEP	CONSULTANTS	IESC/CDC/ MBA	VOCA/ACE	ENVIRONMENTAL AUDIT	ACCOUNTING SUPPORT
AgManagement				•		
ALP						•
Bryna					•	
BSK			•		•	•
Elfra		•				•
Ferex					•	
Finsat		•	•			•
Gamma	•				•	•
Hanžl						•
Helas					•	
Heli Services						•
Istrocera	•			•		
IVV		•				
Jami	•					•
Kovo Topič			•			
KPCM			•			
Kveta			•			
Leader Gasket		•	•		•	
Marbrot						•
Matuška						•
Oligo			•			
Peklton	•	•				•
Penta			•		•	•
Peško	•		•		•	
PoMa	•				•	
Pyrokontrol			•		•	•
Schramko	•					•
TLC Europe	•		•			•
VčelárstvoDedinský						
Vega		•			•	•

JOINT LENDING

During FY93, the CSAEF initiated joint programs with two banks, one in each Republic, to make loans available to small businesses.

As noted in last year's Annual Report, development of such a program has been a top priority of the Fund. Finding a cost-effective mechanism to get capital to smaller companies is a difficult challenge. By using the existing branch network of local banks, the CSAEF hopes to reach the small-business entrepreneur in a cost-effective manner. The CSAEF also gains a partner with which to share the risk equally. Training is provided both to the lenders and to the entrepreneurs in this program.

For the Czech Republic, the CAEF has initiated the joint lending program with Komerční Banka ("KB"), the Republic's largest bank. The CAEF and KB have each earmarked $5 million for loans under this program. For Slovakia, SAEF's program is with the Slovenská Poľnohospodárska Banka ("SPB"). With fifteen branches, SPB is Slovakia's third largest bank. SAEF and SPB have each earmarked $3 million for this program. Loans under the program can range in size from about $25,000 to $125,000 (with half of each loan provided by CAEF or SAEF and half by the respective bank).

In both Republics, local banks have historically provided loans to entrepreneurs who have substantial assets (especially real estate) that can be pledged as collateral. However, in this transition to a market economy, many promising entrepreneurs do not have the outside assets, mattress money, and other resources traditionally available

AGMANAGEMENT, a joint venture between a Kansas City livestock genetics company and Skalica Farm cooperative, has its sights set on breeding world class quality beef herds.

in the U.S. to start or grow small businesses.

Under the joint lending programs, the decision to extend credit is made on the basis of a sound business plan, the capability of the entrepreneur, and the due diligence typical for such lending. The assets of the business venture are taken as collateral, and market rates of interest are charged, but no additional collateral is required. By shifting the focus from collateral-based lending to cash-flow lending, an important segment of the business community now has better access to loans.

Training is also a critical ingredient to the program, and the CSAEF has allocated up to $500,000 of its Technical Assistance funds for training. The five-day training sessions for the bankers focus on the analysis necessary for cash-flow lending where collateral is a smaller part of the lending decision. Just as important, two-day seminars are provided to applicants to the program so they understand how to prepare a business plan, and to understand key considerations (marketing, finance, etc.) to making their business a success in the new market environment.

Training was initiated for the bankers in March and April (1993) and for the applicants in May and June. During FY93, a total of over 1700 entrepreneurs and 250 bankers have gone through the training programs. The bankers and entrepreneurs attending these programs have given them high marks, and the CSAEF is considering ways to make these programs more generally available. The U.S. Agency for International Development provided for a portion of the banker training via a contract they have for training of bankers in small-business lending around the world.

Given the time necessary for the applicants to develop bankable business plans, lending under the program is just getting underway. At November 30, 1993, five loans totalling $452,000 have been approved for the Slovak program. For the Czech Republic at November 30, 1993, four loans totalling $198,000 have been approved. More deals are in the pipeline, and funding should increase substantially during FY94.

Also during FY94, the CSAEF will be considering providing similar programs through other institutions. We have initiated discussions with other banks and assistance programs regarding cooperative efforts to make more funds available for start-up and smaller businesses.

SUMMARY OF CAEF COMMITMENTS
AMOUNTS AUTHORIZED BY THE BOARD AS OF SEPTEMBER 30, 1993

INVESTMENTS

Alp - Martin Hanuš, *Písnice*

ALP is a 100% Czech-owned and managed firm. Started in 1988 in the entrepreneur's home, the company produces backpacks for sale primarily in the Czech Republic (90%) and Western Europe (10%). 40 employees.

Date of Approval:	04/08/92
Loan	$ 69,000
Total	$ 69,000

AmeriBif, *Prague and Větrušice*

A Czech-American joint venture, AmeriBif uses a patented U.S. bio-fermenting technology to produce fertilizer (called BioGanic) and cattle feed. The company also has a pilot operation raising cattle using the company's cattle feed product. 15 employees.

Date of Approval:	02/09/92
Loan	$ 415,000
Equity (33%)	66,000
Total	$ 481,000

CES Uniweb, *Letohrad*

Uniweb is a joint venture between a Swiss textile conglomerate and a Czech textile firm. The venture will weave cotton fabric to Swiss standards and is in the process of re-employing approximately 200 laid-off textile workers in the region. CAEF is an equity co-investor with Flemings (CZIC Fund), Česká Spořitelna and SIS Fund. Debt will be provided by EBRD through ING Bank. 68 employees.

Date of Approval:	12/10/92
Equity (18%)	$ 1,250,000
Total	$ 1,250,000

Chirana, *Prague*

Chirana is a recently privatized company specializing in the production of dental equipment, including dental chairs and instruments, as well as X-ray equipment. Chirana is marketing its dental equipment to Eastern Europe and other developing countries. 275 employees.

Date of Approval:	01/28/92
Loan	$ 862,000
Total	$ 862,000

Elfra, *Chrudim*

Elfra is a start-up, 100% Czech-managed assembler of electronic circuit boards. It is now starting to produce high-tech circuit boards using U.S. surface mounting technology. 25 employees.

Date of Approval:	10/14/92
Loan	$ 345,000
Equity (55%)	124,000
Total	$ 469,000

EMU, *Brno*

Owned and managed since mid 1992 by a Czech entrepreneur and engineer, EMU operates a small 727,000 KWh per year hydroelectric plant on the banks of the Svitava River, and sells to the local municipal net. 1 employee.

Date of Approval:	10/31/91
Loan	$ 21,000
Total	$ 21,000

EVE-V Vyskočil, *Jesenný*

Vyskočil operates a small 940,000 KWh per year hydroelectric plant on the banks of the Kamenice River. 2 employees.

Date of Approval:	02/19/92
Loan	$ 69,000
Total	$ 69,000

Hanžl, *Vimperk*

Hanžl bakery started operation in November 1992. Hanžl markets its products to the local community and to the large tourist market destined for the Šumava National Park. 6 employees.

Date of Approval:	10/17/91
Loan	$ 150,000
Equity (30%)	5,000
Total	$ 155,000

Heli Services - Vladimír Hájek, *Mladá Boleslav*

Heli is a helicopter service company. It patrols the transnational pipeline that connects Russia with Germany. It also operates a helicopter pilot school, provides transportation and is a distributor for the U.S.-made Robinson helicopters. 4 employees.

Date of Approval:	02/16/92
Loan	$ 328,000
Total	$ 328,000

Holztherm, *Plzeň*

Holztherm converts wood waste, principally sawdust, into briquettes for residential heating. The compressed briquette product is a cleaner burning, more convenient and more environmentally friendly fuel source than coal. Holztherm was awarded the contract for disposing of the old Czech currency notes. 30 employees.

Date of Approval:	10/14/92
Equity (16%)	$328,000
Total	$328,000

SUMMARY OF CAEF COMMITMENTS
AMOUNTS AUTHORIZED BY THE BOARD AS OF SEPTEMBER 30, 1993

JAMI - Jaromír Misař, *Vsetín*

JAMI manufactures and markets a small, multi-purpose agricultural machine. With attachments, the machine can be utilized as a brush cutter, plough, and cultivator. 10 employees.

Date of Approval: 04/08/92	
Loan	$ 116,000
Total	$ 116,000

Kovopodnikatel Topič, *Kojetín*

Kovo Topič primarily produces gas cans and car roof racks for export to Western Europe. The company is 100% owned by the Czech entrepreneur. 43 employees.

Date of Approval: 02/19/92	
Loan	$ 276,000
Total	$ 276,000

KPCM, *Batňovice*

KPCM is a start-up, 100% Czech-managed slaughtering and meat production facility, which began operation in the beginning of 1993. The company produces raw and processed meat for restaurants, hotels, and butchers. 25 employees.

Date of Approval: 04/21/93	
Loan	$ 570,000
Equity (40%)	260,000
Total	$ 830,000

Kříž, *Letovice*

CAEF financed the early 1992 start-up of this 100% family-owned and managed company. Kříž, produces of a wide variety of embroidered products to the domestic market. 10 employees.

Date of Approval: 02/19/92	
Loan	$ 193,000
Total	$ 193,000

Marbrot, *Prague - Nebušice*

The Fund's first financing, Marbrot bakery provides baked goods to establishments in the Prague area, including the Prague airport and selected hotels and grocery stores. Marbrot Pekařství started operation in May 1991. 4 employees.

Date of Approval: 09/09/91	
Loan	$ 69,000
Total	$ 69,000

Mykointegra, *Jeneč*

Mykointegra is a 100% Czech-owned and managed firm that produces mushroom compost from straw and other forms of bio-waste. Compost is packaged in 10 kilo bags and sold to domestic commercial mushroom growers. 20 employees.

Date of Approval: 08/06/92	
Loan	$ 107,000
Total	$ 107,000

Peklton, *Štiřín*

Peklton Bakery produces a wide variety of traditional Czech products, including sweet breads, rolls and sweets. 30 employees.

Date of Approval: 01/28/92	
Loan	$ 569,000
Equity (30%)	103,000
Total	$ 672,000

Rollpa International, *Pítkovice and Přerov*

Rollpa produces and markets modular furniture made primarily from pressed, rolled (recycled) paper tubes. The company headquarters, architectural studio and store/showroom are located in Prague. 210 employees.

Date of Approval: 07/27/93	
Loan	$ 593,000
Equity (30%)	593,000
Total	$ 1,186,000

Švanda, *Liberec*

The Švanda bakery has closed due to difficulties penetrating the market, and the Fund is liquidating its position.

Date of Approval: 08/06/92	
Loan	$ 80,000
Equity (30%)	23,000
Total	$ 103,000

TOTALS

Debt	$ 4,832,000
Equity	$ 2,752,000

Note: Authorized amounts may differ from funded amounts shown in the Financial Statements due to exchange rate changes, repayments, and capitalized interest and fees.

SUMMARY OF SAEF COMMITMENTS
AMOUNTS AUTHORIZED BY THE BOARD AS OF SEPTEMBER 30, 1993

INVESTMENTS

AgManagement, *Skalica*

AgManagement, Skalica, is a start-up beef cattle breeding farm. It is a joint-venture between AgManagement of Kansas City, a livestock genetics company, and Skalica (Slovakia) Farm cooperative. The goal is to breed charolais and simmental beef herds in Slovakia of world class quality. 5 employees.

Date of Approval: 09/09/91	
Loan	$ 550,000
Total	$ 550,000

Ameta, *Poprad*

Ameta is a start-up to manufacture corrugated plastic hoses for automatic washing machines, initially for the American/Slovak joint-venture Whirlpool Tatramat. The company has a potential to become the premier supplier of such hoses in Central and Eastern Europe. 6 employees.

Date of Approval: 10/14/92	
Loan	$ 384,000
Equity (60%)	148,000
Total	$ 532,000

Bryndziareň - P.Makovický, *Ružomberok*

The entrepreneur successfully continues a family tradition of producing "bryndza," a delicacy sheep cheese typical of Slovakia. 8 employees.

Date of Approval: 05/06/92	
Loan	$ 10,000
Total	$ 10,000

BSK, *Banská Bystrica*

BSK is a start-up manufacturer of concrete roof tiles that began production in March 1993. Cement roof tiles are a popular substitute for clay and asbestos roof tiles. BSK is the only producer of cement tiles in Slovakia, its major market. 25 employees.

Date of Approval: 09/09/91	
Loan	$ 483,000
Equity (61%)	552,000
Total	$ 1,035,000

Bujakovo MVE, *Brezno*

Bujakovo is a small scale hydroelectric power generation facility on the Hron River near Brezno. Construction began in August 1993 and involves modifications to an existing dam. 1 employee.

Date of Approval: 12/10/92	
Loan	$ 221,000
Equity (23%)	48,000
Total	$ 269,000

Dekoplast, *Svidník*

Dekoplast was an ongoing thermoplastics injection molding business owned by Svidník entrepreneur Jozef Surmánek. The company's principal product is a plastic box used by the German automotive industry for first aid kits. 35 employees.

Date of Approval: 12/04/91	
Loan	$ 238,000
Equity (31%)	95,000
Total	$ 333,000

Ferex, *Nitra*

Ferex manufactures 1100 liter metal trash dumpsters and 110 liter metal trash cans. Currently the only producer of these products in Slovakia, Ferex sells them in both the Czech and Slovak Republics. Equity contribution authorized but not made. 55 employees.

Date of Approval: 01/27/93	
Loan	$ 207,000
Equity (35%)	69,000
Total	$ 276,000

Finsat, *Bratislava*

Finsat is a start-up information service provider of real time financial news and market data for the Czech and Slovak Republics. Information will be distributed via satellite to guarantee quality transmission. 5 employees.

Date of Approval: 03/30/93	
Equity (70%)	$ 350,000
Total	$ 350,000

Gamma, *Banská Bystrica*

Gamma is a start-up assembler and distributor of push-pull cables. They have a licensing agreement with Cablecraft, a subsidiary of the American company Tuthill. Gamma is the exclusive Cablecraft assembler in the Czech and Slovak Republics. 5 employees.

Date of Approval: 01/27/93	
Loan	$ 52,000
Equity (45%)	34,000
Total	$ 86,000

Helas, *Bratislava*

Helas is a metalworking company specializing in mobility aids such as crutches, walkers, and handgrips. In its two and a half years of existence, the company has expanded to produce tables and environmental monitoring trailers. 28 employees.

Date of Approval: 10/17/91	
Loan	$ 138,000
Total	$ 138,000

SUMMARY OF SAEF COMMITMENTS
AMOUNTS AUTHORIZED BY THE BOARD AS OF SEPTEMBER 30, 1993

Istrocera, *Svätý Peter*

Istrocera processes beeswax for use in cosmetics, polishes, creams, and pharmaceutical applications. The primary market is Western Europe. 18 employees.

Date of Approval:	12/04/91
Loan	$ 308,000
Equity (31%)	9,000
Total	$ 317,000

IVV, *Komárno*

IVV is a winery going through privatization. It specializes in grapes of the Komárno region, considered Slovakia's best wine-making area, with good export potential. Funding is subject to final negotiations. 19 employees.

Date of Approval:	07/27/93
Equity (70%)	$ 483,000
Total	$ 483,000

Kveta, *Nová Baňa*

Kveta, a manufacturing cooperative for the disabled, started as a producer of decorative paper flowers. The injection molding division produces kitchen products, toys, plastic components, and Christmas trees. Fund investment was for addition of larger capacity molding machines to serve the appliance and auto markets. 375 employees.

Date of Approval:	10/14/92
Loan	$ 552,000
Total	$ 552,000

Leader Gasket of Slovakia, *Bytča*

Leader Gasket is a U.S.-Slovak joint venture to produce specialized gaskets for the petroleum and chemical industries. Leader Gasket of Slovakia is now entering the broader market of industrial gasket and sealing product distribution. 50 employees.

Date of Approval:	02/19/92
Loan	$ 500,000
Equity (33%)	400,000
Total	$ 900,000

Matuška, *Štúrovo*

Matuška has a modern, automated wooden EUROPOOL pallet manufacturing line with capacity of 60-80,000 pieces per month. The company is located on the Danube river enabling materials and pallets to be shipped along Europe's river network. 30 employees.

Date of Approval:	02/19/92
Loan	$ 621,000
Equity (40%)	345,000
Total	$ 966,000

Milka, *Dolný Kubín*

Milka is a small hydroelectric project to produce 780,000 KWh per year of electricity using the site of a former water-powered mill. Funding is subject to final negotiation.

Date of Approval:	10/14/92
Loan	$ 57,000
Total	$ 57,000

Oligo, *Bratislava*

Oligo Dvory is a start-up company that will extract xylose, a low-calorie sugar, from corncobs and sell it on the international market. 24 employees.

Date of Approval:	04/08/92
Loan	$ 440,000
Equity (30%)	742,000
Total	$ 1,182,000

Penta, *Kysucké Nové Mesto*

Penta is a start-up manufacturer of 50cc and 125cc motorcycles whose Slovak owner-managers garnered extensive experience on motorcycle racing circuit. Serial production began in August 1993 after 18 months of product development and construction of production facilities. 60 employees.

Date of Approval:	02/19/92
Loan	$ 414,000
Equity (32%)	414,000
Total	$ 828,000

Peško, Liptovský Mikuláš

Peško operates a small retail bakery in Liptovský Mikuláš.
18 employees.

Date of Approval:	01/28/92
Loan	$ 85,000
Equity (31%)	17,000
Total	$ 102,000

SUMMARY OF SAEF COMMITMENTS
AMOUNTS AUTHORIZED BY THE BOARD AS OF SEPTEMBER 30, 1993

PoMa, *Považská Bystrica*

Marian Podolák is a Slovak entrepreneur who constructed and began a start-up bakery and sweet shop. The business is located within a 5,000 unit apartment complex and is the only bakery within a kilometer. 19 employees.

Date of Approval: 01/28/92	
Loan	$ 310,000
Equity (31%)	76,000
Total	$ 386,000

Pyrokontrol, *Pobedím*

Pyrokontrol is a joint venture between Slovak entrepreneurs and a U.S. company to manufacture and sell halon-free fire extinguishers. The joint venture is using U.S fire extinguisher technology to produce several sizes and types of extinguishers. 21 employees.

Date of Approval: 01/28/92	
Loan	$ 956,000
Equity (18%)	354,000
Total	$ 1,310,000

Rotor, *Košice*

Rotor is a small scale hydroelectric power generation facility on the Hornád River in Košice. It is anticipated 3.5 million KWh per year of electricity will be produced. 1 employee.

Date of Approval: 12/04/91	
Loan	$ 448,000
Total	$ 448,000

Safrema

Safrema is to produce high quality fertilizer using a special process developed by a Swedish company and utilizing U.S. made equipment. The final location for the project is still being determined and funding is subject to final negotiation.

Date of Approval: 06/24/92	
Loan	$ 302,000
Equity (45%)	138,000
Total	$ 440,000

Schramko, *Senec*

Schramko is a manufacturer of load levelers (to facilitate loading of trucks and containers), industrial tables (to adjust the height of machines and heavy objects), and agricultural trailers, with unique 3-way unloading capability. 68 employees.

Date of Approval: 04/21/93	
Loan	$ 206,000
Equity (40%)	621,000
Total	$ 827,000

Staškov, *Čadca*

Staškov is a planned operation that is to provide meat and meat products to the Čadca county in northwestern Slovakia. Čadca is considered to be lacking in good sources of fresh meat, which Staškov will provide. Funding is subject to final negotiations.

Date of Approval: 10/14/92	
Loan	$ 345,000
Equity (80%)	414,000
Total	$ 759,000

Thermal Laminates Corp - Europe, *Nové Mesto nad Váhom*

This venture is a start-up joint venture among the Fund, Thermal Laminates Corporation of Stevenson, Washington (USA) and three Slovak partners. TLC is the largest manufacturer of sailboards (for windsurfing) in the U. S. The joint venture will supply the Western European markets. 20 employees.

Date of Approval: 01/27/93	
Loan	$ 207,000
Equity (50%)	200,000
Total	$ 407,000

Včelárstvo Dedinský, *Bratislava*

Dušan Dedinský, a private beekeeper with a long family tradition of beekeeping, produces honey and other bee products. Mr. Dedinský also acts as a broker, buying honey from other Slovak beekeepers, for export to Germany. 3 employees.

Date of Approval: 04/08/92	
Loan	$ 87,000
Total	$ 87,000

Vega, *Malženice*

VEGA is a modern, state of the art hydroponic greenhouse with heat supplied by effluent from an electric generating plant. Primary vegetable crops are cucumbers, peppers and tomatoes; the major potted plant crop is poinsettias. 20 employees.

Date of Approval: 01/27/93	
Equity (60%)	$ 1,000,000
Total	$ 1,000,000

TOTALS

Debt	$ 8,121,000
Equity	$ 6,509,000

TOTAL CSAEF TECHNICAL ASSISTANCE FUNDS AUTHORIZED THROUGH SEPTEMBER 30, 1993

CZECH REPUBLIC	
Training for both the lenders and entrepreneurs in the Small-Business Lending Program with Komerční Banka, plus development costs for the program.	$ 430,000
To develop model loan (and related) documentation for small business transactions, in conjunction with the Czech Bar Association.	70,000
To develop a center in Plzeň to work with entrepreneurs and U.S. companies interested in doing business in the West Bohemian region.	35,000
To provide training for new CAEF staff on developing business proposals.	35,000
Consultant to review operations of Peklton Bakery and recommend operating and marketing improvements.	10,000
East European Foundation for Entrepreneurship Research, to expose East European faculty to Western business practice.	4,000
Consultant to review operations and marketing strategy of Elfra and recommend improvements.	4,000
Czech Republic TOTAL	$ 588,000

SLOVAK REPUBLIC	
To train both the lenders and entrepreneurs in the Small-Business Lending Program with Slovenská Poĺnohospodárska Banka.	$ 250,000
To develop an automated land-record system for Brezno, Slovakia by Stewart Title, which can serve as a model for other towns. A proper land record system benefits municipalities and assists lending to small business by better enabling banks to secure liens.	239,000
To develop a waste-management program for Púchov, Slovakia. A portion of the total cost of the study will be shared with the U.S. Trade and Development Agency.	118,000
To train likely candidates for SAEF financing in business planning and how to present financing requests to Western firms.	30,000
Consultant to review Vega's operation and assist in improving product mix for export sales.	30,000
Evaluation and ongoing consulting service to Finsat.	30,000
Evaluation for two investment proposals.	19,000
To provide several of SAEF's investees with accounting software, enhancing their reporting to SAEF and providing the entrepreneur with better information.	10,000
Consultants to review BSK's production and marketing programs and undertake improvements.	10,000
Consultant to review Kveta's operations.	10,000
To review environment and worker safety practices at SAEF investments.	10,000
Slovak Republic TOTAL	$ 756,000

BOTH REPUBLICS	
MBA Enterprise Corps, to support the work of an organization that trains graduates of top U.S. business schools to live in Central and Eastern Europe while working for companies there (and receive local salary and benefits). The CSAEF is a longstanding beneficiary of the Corps, with several Corps members having worked in (and working in) both the Prague and Bratislava offices, and with several more working for the companies where the CSAEF has an investment.	$ 500,000
To develop a program to train Czech and Slovak accountants on Western accounting practices.	100,000
Central Europe Entrepreneurship Center, to support two small-business advisory centers.	85,000
To develop video-based training programs.	10,000
Czech and Slovak Republics - TOTAL	$ 695,000

All Projects - GRAND TOTAL	$ 2,039,000

CZECH AND SLOVAK AMERICAN ENTERPRISE FUND

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

For the Years Ended
September 30, 1993 and 1992

Coopers
&Lybrand

certified public accountants

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Czech and Slovak American Enterprise Fund

We have audited the accompanying consolidated balance sheets of the Czech and Slovak American Enterprise Fund and subsidiaries (the "Fund") as of September 30, 1993 and 1992, and the related consolidated statements of revenues, expenses and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification of investments owned as of September 30, 1993 and 1992, by examination and by confirmation by correspondence with the investees. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Czech and Slovak American Enterprise Fund and subsidiaries as of September 30, 1993 and 1992, and the consolidated results of their operations, changes in fund balance, and their cash flows for the years then ended in conformity with generally accepted accounting principles.

As explained in Note 2, the consolidated financial statements include investments valued at $13,524,683 (60% of total assets), and $6,938,636 (73% of total assets) at September 30, 1993 and 1992, respectively, whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors in arriving at its estimate of the value of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Coopers & Lybrand

Washington, D.C.
November 23, 1993

CZECH AND SLOVAK AMERICAN ENTERPRISE FUND

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 1993 AND 1992

ASSETS	1993	1992
Investments:		
Investments at fair value, gross	$ 15,124,683	$ 7,138,636
Reserve for potential losses	(1,600,000)	(200,000)
Investments, net	13,524,683	6,938,636
Cash and cash equivalents	1,365,275	1,833,192
Central Bank deposit facility	7,000,000	—
Restricted cash	—	310,000
Accrued interest receivable	256,663	105,144
Prepaid expenses and other assets	75,436	81,636
Fixed assets, net	322,648	229,788
Total assets	$ 22,544,705	$ 9,498,396
LIABILITIES AND FUND BALANCE		
Liabilities:		
Revolving credit facility	$ 1,249,609	$ —
Accounts payable and accrued expenses	337,921	187,816
Deferred origination fees	146,883	98,933
Deferred grant revenue	5,327,387	1,545,589
Total liabilities	7,061,800	1,832,338
Commitments and contingencies		
Fund balance:		
Cumulative translation adjustment	(30,861)	323,120
Fund balance	15,513,766	7,342,938
Total fund balance	15,482,905	7,666,058
Total liabilities and fund balance	$ 22,544,705	$ 9,498,396

The accompanying notes are an integral part of these financial statements.

CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED SEPTEMBER 30, 1993 AND 1992

	1993			
	Loan Investment Program	Technical Cooperation Program	Total	1992
INVESTMENT INCOME				
Investment interest and fees	$ 579,882	—	$ 579,882	$ 193,375
Investment interest on bank deposits	227,623	—	227,623	111,699
Investment income	807,505	—	807,505	305,074
Interest expense	40,777	—	40,777	—
Net investment income	766,728	—	766,728	305,074
Provision for losses on investments	1,400,000	—	1,400,000	200,000
Net investment (loss) income after provision for investment losses	(633,272)	—	(633,272)	105,074
EXPENSES				
Employee compensation & benefits	1,291,995	—	1,291,995	933,084
Program development	159,325	—	159,325	166,663
Legal and professional fees	277,637	—	277,637	242,943
Depreciation and amortization	72,211	—	72,211	67,046
Occupancy	183,375	—	183,375	140,320
Other operating expenses	317,546	—	317,546	187,872
Total expenses	2,302,089	—	2,302,089	1,737,928
Technical cooperation grants	—	972,011	972,011	185,134
U.S. Federal grant revenue	11,106,189	972,011	12,078,200	8,834,411
Excess of revenues over expenses	8,170,828	—	8,170,828	7,016,423
Fund balance, beginning of period	7,342,938	—	7,342,938	326,515
Fund balance, end of period	$ 15,513,766	—	$ 15,513,766	$ 7,342,938

The accompanying notes are an integral part of these financial statements.

CZECH AND SLOVAK AMERICAN ENTERPRISE FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1993 AND 1992

	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 8,170,828	$ 7,016,423
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Technical assistance included in investing activities	972,011	185,134
Increase in reserve for loss on investment portfolio	1,400,000	200,000
Depreciation and amortization	72,211	67,046
Changes in operating assets & liabilities:		
Restricted cash	310,000	(310,000)
Accrued interest receivable	(383,578)	(105,144)
Prepaid expenses and other assets	6,200	(59,849)
Accounts payable and accrued expenses	150,105	152,555
Deferred origination fees	47,950	98,933
Deferred grant revenue	3,781,798	(2,694,411)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,527,525	4,550,687
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments and loans	(8,711,242)	(6,898,821)
Central Bank deposit facility	(7,000,000)	—
Technical assistance	(972,011)	(185,134)
Purchases of fixed assets	(165,071)	(72,622)
Loan repayments	494,256	83,305
NET CASH USED IN INVESTING ACTIVITIES	(16,354,068)	(7,073,272)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in revolving credit facility	1,357,239	—
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,357,239	—
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,387	—
Net decrease in cash and cash equivalents	(467,917)	(2,522,585)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,833,192	4,355,777
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,365,275	$ 1,833,192

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION OF FUND

The Czech and Slovak American Enterprise Fund and Subsidiaries (the "Fund" or "CSAEF") is a not-for-profit corporation formed pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") for the primary purpose of promoting the development of the Czech Republic ("CR") and the Slovak Republic ("SR") private sectors and policies and practices conducive to such development. It is similar to funds now operating in Poland, Hungary, and Bulgaria. As part of the SEED Act, the United States Congress authorized appropriations of $360 million over a three year period to be granted to these enterprise funds by the United States Agency for International Development ("AID") to be used for program purposes and administrative expenditures of the enterprise funds. Grants received from AID are conditioned on the Fund's compliance with the requirements of the SEED Act, which imposes certain U.S. policy objectives and reporting obligations. Under the terms of the grant agreement with AID, the Fund may hold funds in interest bearing accounts and may retain interest, investment income and investment profits for program purposes. Effective October 1, 1993, the U.S. Congress has appropriated a total of $65 million to the Fund.

On October 22, 1991, the Fund was granted incorporation of a wholly-owned subsidiary in what is now the CR, CSAEF Enterprise Finance, spol. s r.o. It is capitalized at 300,000 Kčs (approximately $10,000 at the exchange rate on the day of incorporation). On March 13, 1993, the Fund was granted incorporation of a wholly owned subsidiary in the SR, the Slovak American Enterprise Fund, spol. s.r.o. ("SAEF"). It is capitalized at 100,000 Slovak crowns (approximately $3,500 at the exchange rate on the day of incorporation).

The Fund is engaged in a broad private investment program in the CR and SR which, through equity investments, loans, grants, technical cooperation and other measures, emphasizes a commitment to small-to-medium sized businesses. The Fund provides technical cooperation to businesses in the CR and SR private sectors, including those in which the Fund has invested, and to the CR and SR governments to assist them in developing the private sectors and market economies in the CR and SR. Through its direct role in investments in the CR and SR private sectors, the Fund seeks to generate profits that will further support its activities and attract investments by others. As part of its investment operations, the Fund may obtain representation on management and supervisory boards of investee companies. Entities in which the Fund invests may enter into business transactions with each other in the normal course of business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are as follows:

Basis of Presentation

The consolidated financial statements include the financial position and the results of operations of all majority-owned subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. Investments in portfolio companies are carried on the balance sheet as investments and are not consolidated.

Investment valuation

The Fund's investments, as set forth in Note 3, are not readily marketable and are not listed on an exchange or quoted in an open market. These investments are stated at fair value as determined by management. In determining fair value, management considers relevant qualitative and quantitative information available. In general, the Fund's policy is to carry investments at cost except where a change in the investee company's circumstances warrants a lower or higher valuation. No unrealized gains have been reflected in the portfolio valuation. The values assigned to investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future developments inherent in long-term investments. Investment valuation is recommended by management and adopted by the Board of Directors (the "Board") annually, and more often if deemed necessary by management or the Board.

The reserve for losses on investments is maintained at a level to allow for the diminution of value of the investment portfolio. This determination is made after evaluating the portfolio, current economic conditions, information about specific investment situations, including its payment history, collateral value, cash flows, earnings, and other factors considered relevant by management. These factors are subject to change over time and are reviewed periodically. As adjustments become necessary, they are reported in the period in which they become known. There is limited precedent for valuing such investments in the CR or SR. Therefore, there is little experience upon which to base the estimate of risk and amount of possible losses. There have been no specific charge offs of any investment.

The Fund obtains collateral in investee company assets where possible.

Cash equivalents

For purposes of the statement of cash flows, the Fund considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. Cash held in banking accounts in excess of FDIC insurance limits is collateralized by US Government and Agency securities.

Fixed assets

Fixed assets and leasehold improvements are stated at cost net of accumulated depreciation and amortization. Computer hardware, furniture and equipment are depreciated on a straight-line basis over their estimated useful lives, principally five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Revenue recognition

Grants from AID are recognized as revenue when funds are invested or expended consistently with the purpose of the Fund set forth in the SEED Act. Amounts received but not yet recognized as revenue are reported as Deferred Grant Revenue. Loan fees charged to borrowers are recognized as an adjustment of yield over the life of the loan. Fees charged for business advisory services are recognized to income as services are rendered.

Translation of foreign currency

The Subsidiaries use the local currency as the functional currency and translate all assets and liabilities at year end exchange rates, and income and expense accounts at average exchange rates. Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in a separate section of fund balance titled "Cumulative Translation Adjustment". Gains and losses resulting from investment transactions of the Fund which are made in currencies other than the U.S. dollar are included in investment income as they occur, and were not material for either period presented.

Program development

Expenses directly attributable to the Fund's operating activities, such as consulting and travel, are recorded as program development expenses. Included herein are directors' travel of $43,500 and CR and SR director's fees of $10,000 for the year ended September 30, 1993.

Donated services

Members of the Fund's Board of Directors donate significant amounts of their time to the Fund's program. No amounts have been reflected in the accompanying financial statements for such donated services inasmuch as no objective basis is available to measure the value of such services.

3. INVESTMENTS

The following summarizes the U.S. dollar equivalent value of investments of the Fund as of September 30, 1993:

Investment	Description	Cost	Type	% Owned	Republic
AgManagement	Cattle Breeding, j.v.	$ 451,510	Loan		Slovak
ALP - Martin Hanuš	Backpacks	58,016	Loan		Czech
AmeriBif	Biofermentation, j.v.	422,199	Loan		Czech
		66,766	Equity	33%	
Ameta	Plastic molding	2,499	Loan		Slovak
		135,960	Equity	60%	
Bryndziareň - P.Makovický	Cheese manufacturer	7,965	Loan		Slovak
BSK	Cement roof tile	387,435	Loan		Slovak
		554,939	Equity	61%	
Bujakovo MVE	Low head hydro	48,557	Equity	23%	Slovak
CES Uniweb	Textile, j.v.	1,225,490	Equity	18%	Czech
Chirana	Dental instruments	303,482	Loan		Czech
Dekoplast	Plastics molder	239,317	Loan		Slovak
		95,380	Equity	31%	
Elfra	Electronic assembly - surface mount	149,364	Loan		Czech
		124,861	Equity	55%	
EMU	Low-head hydro	19,163	Loan		Czech
EVE-V Vyskočil	Low-head hydro	11,599	Loan		Czech
Ferex	Waste disposal containers	131,209	Loan		Slovak
Finsat	Financial information	6,335	Loan		Slovak
		123,294	Equity	70%	
Gamma	Push-pull cable	47,936	Loan		Slovak
		34,684	Equity	45%	
Hanžl	Bakery	156,463	Loan		Czech
		5,203	Equity	30%	
Helas	Walking aids	133,371	Loan		Slovak
Heli Services	Helicopter patrolling	256,675	Loan		Czech
Holtztherm	Wood briquette manufacturer	331,349	Equity	16%	Czech
Istrocera	Beeswax processor	311,707	Loan		Slovak
		6,105	Equity	31%	
JAMI - Jaromír Misař	Small agricultural equipment	32,429	Loan		Czech
Kovopodnikatel Topič	Metal products	282,714	Loan		Czech
KPCM	Meat production	548,674	Loan		Czech
		242,786	Equity	40%	

Investment	Description	Cost	Type	% Owned	Republic
Kříž	Embroidery production	$ 148,181	Loan		Czech
Kveta	Plastics molding	499,844	Loan		Slovak
Leader Gasket of Slovakia	Gasket manufacture, j.v.	501,767	Loan		Slovak
		400,000	Equity	33.3%	
Marbrot	Bakery	50,959	Loan		Czech
Matuška	Wooden pallets	423,868	Loan		Slovak
		346,837	Equity	40%	
Mykointegra	Biofermentation	63,954	Loan		Czech
Oligo	Natural sugar	396,045	Loan		Slovak
		244,084	Equity	30%	
Peklton	Bakery	583,173	Loan		Czech
		104,051	Equity	30%	
Penta	Motorcycle manufacturer	298,995	Loan		Slovak
		416,190	Equity	32%	
Peško	Bakery	85,219	Loan		Slovak
		17,342	Equity	31%	
PoMa	Bakery	271,071	Loan		Slovak
		83,241	Equity	31%	
Pyrokontrol	Fire extinguishers, j.v.	630,400	Loan		Slovak
		359,946	Equity	18%	
Rotor	Low-head hydro	463,327	Loan		Slovak
Schramko	Hydraulic equipment, trailers	378,438	Equity	40%	Slovak
Švanda	Bakery	67,521	Loan		Czech
		1,041	Equity	30%	
Thermal Laminates Corp. - Europe	Surfboards, j.v.	188,071	Equity	50%	Slovak
Včelárstvo Dedinský	Bee products	93,523	Loan		Slovak
Vega	Greenhouse	959,337	Equity	60%	Slovak
Subtotal		15,031,861			
Joint lending program		38,152			Czech
		54,670			Slovak
Less reserve for losses on investments		(1,600,000)			
Net investment balance		$ 13,524,683			

4. COMMITMENTS AND CONTINGENCIES

Investments

In addition to the investments included in the consolidated schedule of investments at September 30, 1993, the Board has authorized management to commit to investments and technical cooperation of up to $3.4 million that were subject to fully funding existing investments. The Board has also authorized management to commit up to an additional $15.8 million to investments and technical cooperation which are dependent upon the completion of investment negotiations and the signing of closing documents, to the satisfaction of all parties.

Contingency

The Fund has guaranteed a lease obligation through December 31, 1996 on behalf of one of its investees in the cumulative amount of $ 500,000 based on September 30, 1993 exchange rates.

Leases

The Fund is obligated under noncancelable operating leases for its Washington, Prague and Bratislava offices. The Prague lease is payable in German Deutsche marks, the Bratislava lease is payable in US dollars. Future minimum payments under noncancellable leases are as follows:

Fiscal Year	
1994	$ 225,838
1995	225,828
1996	86,002
Total	$ 537,668

The leases are subject to annual escalation based on increases to the consumer price index.

5. CENTRAL BANK DEPOSIT FACILITY

The Fund has a five year revolving credit facility (the "Facility") with a commercial bank in Slovakia which expires May 1, 1998. The total amount available under the Facility is $7 million. Interest on the Facility is at the Slovak Central Bank discount rate plus a premium (10% at September 30, 1993), and is payable quarterly in arrears. Total interest paid for the year ended September 30, 1993 was $40,777. The Facility is collateralized by a $7 million deposit with the Slovak Central Bank which will revert to the Fund upon the expiration and liquidation of the Facility.

6. FIXED ASSETS

At September 30, 1993 and 1992, fixed assets consist of:

	1993	1992
Computer hardware/software	$ 208,247	$ 157,815
Furniture and equipment	187,123	125,342
Leasehold improvements	61,211	8,353
	456,581	291,510
Less: accumulated depreciation and amortization	(133,933)	(61,722)
	$ 322,648	$ 229,788

7. TAX STATUS

United States

The Fund is exempt from federal income tax under Internal Revenue Code section 501(c)(3) and from District of Columbia franchise and income taxes.

Czech Republic and Slovak Republic

The Fund was exempt from income taxes in the CSFR, retroactively from the date of incorporation until December 31, 1992. The Fund expects to retain the exemptions under the new CR and SR tax laws which took effect January 1, 1993.

8. CONCENTRATION OF CREDIT RISK

By statute, all of the Fund's investments are in business activities conducted in the CR and/or the SR. As such, these investments are subject to the political and economic uncertainties associated with doing business in the Czech Republic and the Slovak Republic at this time.

Board of Directors

JOHN R. PETTY, Chairman
retired Chairman and CEO of the Marine Midland Bank

CHARLES A. VANIK, Vice Chairman
former member of Congress
Attorney with the law firm of Squire, Sanders and Dempsey

DAVID O. MAXWELL,
former Chairman and CEO of
Federal National Mortgage Association

MILAN ONDRUS,
International Business Advisor

JULIA M. WALSH,
Managing Director of Tucker/Anthony, Inc.

MR. JAN TAUBER,
former advisor to the Federal Minister of Finance

MR. MILAN TOMAŠOVIČ

WASHINGTON, D.C.

1620 Eye Street, NW, Suite 703 Washington, DC 20006
Tel: 202/467-5480 Fax: 202/467-5466
Paul Gibian, President and CEO
Alexandra Ossipoff, Director of Operations
Bradley T. Miller, Chief Financial Officer
Richard Dine, Senior Investment Officer

PRAGUE

Blanická 28 120 00 Praha 2
Tel. 011-42-2-2424-7046 Fax: 011-42-2-2424-6048
Karel Kosman, President
Jeanne Hilsinger, Senior Investment Officer

BRATISLAVA

Radlinského 27 P.O. Box 66
810 05 Bratislava 15
Tel: 011-42-7-32-65-44 Fax: 011-42-7-36-25-30
Leighton Q. J. Klevana, President
Douglas Swaim, Senior Investment Officer