Margin of Safety Fund

Société d'Investissement à Capital Variable

Audited annual report

at 31/12/07

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Board of Directors

Chairman of the Board

M. John MILLS, Managing Director, Maitland Luxembourg S.A.

Members of the Board

M. David PASTEL, CEO of Pastel & Associés S.A.

M. Yves-Pascal PELCENER, Managing Director, Pastel & Associés S.A.

M. Antoine GILSON DE ROUVREUX, Managing Director, Luxcellence Management Company S.A.

M. Philip BOYLAN, Director, BDO Fund Administration Services

Information to the Shareholders

Supplementary information to Shareholders on Savings Directive 2003/48/EC

The Board of Directors resolves that the following Sub-Fund is out the scope of the Law for the realised and distribution income:

MARGIN OF SAFETY FUND – Fund 1 with 2.06% of its assets invested in debt-claims.

This update has been effective from May 1, 2007 and will remain in force until April 30, 2008 date at which the status will be updated again.

Manager's Report

Investment performance Margin of Safety Fund – Fund 1

(cumulative figures after all fees and expenses)

Class P shares

In 2007, the Fund's NAV decreased by 4.0%*, resulting in a cumulative performance since inception on February 2nd, 1998, of 234.0%. As a result, while USD 1,000 invested at inception in Margin of Safety Fund Class P (USD) would now be worth USD 3,340*, the same USD 1,000 invested in the MSCI World index in USD (with dividends reinvested) would now equal USD 2,003.

Class I shares

In 2007, the Fund's NAV decreased by 3.8%*, resulting in a cumulative performance since inception on February 2nd, 1998, of 212.6%. As a result, while USD 1,000 invested at inception in Margin of Safety Fund Class I (USD) would now be worth USD 3,125.8* the same USD 1,000 invested in the MSCI World index in USD (with dividends reinvested) would now equal USD 2,003.

The top ten portfolio holdings in 2007

Carnival Plc (United Kingdom / United States)

Portfolio weight: 4.8% - Market capitalization: GBP 18,577M - Revenues: GBP 6,527M - Net Income: GBP 1,206M - Stock performance, excluding dividends, since inception of the position in 2007: -6.7%.

Despite a combination of negative factors (spike in oil prices, wage inflation, etc.), the world's largest cruise line company continued to invest in its business by launching new ships and new cruise lines. Carnival's management team has finely tuned its strategy to the current difficult environment through improved control of operating expenses, the redeployment of capacities to more profitable destinations and the introduction of a fuel surcharge. Although the company posted a decline in its gross and operating margins in 2007, its net profit surged over the period. Furthermore, Carnival's sound financial fundamentals give it ample maneuvering room to pursue its capital expenditure program. Micky Arison, the son of Carnival's founder and the company's leading shareholder, still serves as its chief executive and has surrounded himself with experienced and knowledgeable industry veterans. Taken together, these elements reinforce our continued confidence in this investment's potential for long-term returns.

* All figures are based on the December 28, 2007 NAV (last official NAV of the year).

Manager's Report

Carpetright (United Kingdom)

Portfolio weight: 4.6% - Market capitalization: GBP 578M - Revenues: GBP 499M - Net Income: GBP 47M - 2007 stock performance excluding dividends: -35.2% - Position in portfolio since 2002.

This retailer of carpets and other floor coverings continues to strengthen its competitive position year after year, thanks to its unrivaled buying power (No. 1 in Great Britain), a network of strategically situated stores that are continually optimized with a view to lowering rental costs, and a brand recognized for its wide selection, services, and low prices. With the purchase of Storey Carpets in May, Carpetright had 546 stores in Great Britain at the end of October 2007. For the last four years, the company has been building its foothold in Continental Europe, notably through the acquisition and successful integration of the sector's top retailer in the Benelux countries, and is now developing its business in Poland. Our analyses lead us to conclude that this growth driver could eventually result in the creation of substantial additional value for shareholders. In 2007, Carpetright also launched the construction of a new head office, carpet-cutting and warehouse facility at its main site in Rainham. This will allow the company to increase its distribution capacity while reducing both its costs and its delivery times. Additionally, we expect the group to take advantage of the current consumer spending slowdown in the United Kingdom to take market share away from its weaker rivals as it successfully did during the 1998 retail slump.
We also like the fact that the co-founder of the group, Lord Harris, whilst also its main shareholder, is still at the helm and intends to remain in charge for the foreseeable future. We are confident that Lord Harris, given his proven track record, must have, also, provided for a succession plan as he has reached, in 2007, the not-yet so ripe age of 66. More importantly the failed takeover attempt by Lord Harris, which was announced over the summer, is of concern to us and we will keep a close eye on any development in this respect. Nevertheless, we remain quite sanguine about the expected return of this investment, especially at current share price levels.

Charles Schwab (United States)

Portfolio weight: 4.8% - Market capitalization: USD 29,547M - Revenues: USD 4,745M - Net Income: USD 1,150M - 2007 stock performance excluding dividends: +32.1% - Position in portfolio since 2004.

This North American financial services group, specializing in asset management, retail brokerage, and administration and accounting services to independent investment advisors, generated record earnings in 2007. Its revenue, profit margins and return on equity all increased, driven by strong growth in assets under management as well as tight cost control. We also point out the completion, in 2007, of the sale, announced in November 2006, of the group's private wealth management business (U.S. Trust) to Bank of America.
As a result of this very profitable disposal; Charles Schwab engaged during the summer in a recapitalization aimed at optimizing its financial structure, whereby it repurchased a significant portion of its common stock and paid a special dividend resulting in a total cash distribution to shareholders of more than USD 3 bm (exceptional dividend and share buyback).
This position continues to offer a satisfactory potential for long-term returns, despite the significant rise in its share price over the last two years.

Manager's Report

Countrywide (United States)

Portfolio weight: 8.9% - Market capitalization: USD 5,174M - Revenues: USD 7,663M - Net Income: USD 340M - Stock performance, excluding dividends, since inception of the position in 2007: -35.7%.

For Countrywide, the leading residential mortgage lender in the United States, with a market share in terms of underwriting volume of about 16%, 2007 was one of the most difficult years since the company's founding in 1969. Beginning in April 2007, the so-called "subprime crisis" resulted in a near-complete freezing of its traditional funding sources. At the same time, its portfolio of loans and securities went through a significant decline in value thanks to increasing loan default rates.
In its response to these particularly worrisome circumstances troublesome situation, Countrywide's management team displayed its competence by refocusing its business on the issuance, administrative processing and book-keeping (known as "servicing") of loans that may be securitized as bonds guaranteed by Fannie Mae or Freddie Mac, which although less profitable are more liquid, and by accepting major capital inflows, notably from Bank of America and the Atlanta branch of the Federal Home Loan Bank system. By so doing, Countrywide was decidedly, albeit belatedly, moving away from the private label mortgage business, that is, loans deemed unfit for a Freddie Mac or a Fannie Mae guarantee. The trade-off of this move will translate in the future into a more liquid balance sheet but with thinner margins. This strategic shift, whose implementation started in May 2007 has enabled Countrywide to stabilize its financing sources and avoid seeing its credit rating cut to "non-investment grade" or "junk" by agencies such as Standard & Poor's and Moody's. It was only after these different measures had been implemented and made public that our decision to invest in this stock was made. Three main reasons lay behind our investment decision: the embedded value of Countrywide's servicing contracts, its key role within the financing and mortgage lending system of the United States, making it unlikely that the company would ever be let go bankrupt for economic as well as political reasons, and finally a stock trading well below its net asset value.
However, the recent developments affecting the company in early 2008 (a series of scathing articles in the press, recurring rumors of financial difficulties, etc.) might negatively impact the risk profile of this investment, through a self-fulfiling prophecy mechanism and this despite the quality of the fundamentals mentioned above. This, in turn, could lead us to reconsider our conclusions and if deemed necessary to downsize or totally dispose of the position in portfolio.

Ebay (United States)

Portfolio weight: 4.7% - Market capitalization: USD 44,924M - Revenues: USD 7,212M - Net Income: USD 1,033M - Stock performance, excluding dividends, since inception of the position in 2007: +8.4%.

Ebay, the largest online marketplace for individuals and small businesses in the United States and Europe, continued to benefit in 2007 from the synergies generated between its Web auction activities (mainly Ebay.com), online payment services (PayPal) and Internet telephony business (Skype). In addition to reinforcing the group's competitive advantages and strengthening barriers to entry, the integration of the various businesses acquired over the last few years has created additional growth opportunities. A good example of which being the successful development of PayPal among third-party e-commerce sites, some of theme direct competitors of Ebay's own sites.
Although each of its three main businesses is the leader in its own sub-segment, Ebay must currently address a major issue, which is the revitalization of its core business, the auction marketplaces. As the growth in the number of listings has significantly slowed over the last three quarters, this phenomenon has been offsetby a

rise in their average selling price. Meanwhile, Ebay's management has not remained still, revamping the auction websites to improve customer interface and at the same time tinkering with price policies (listing fees in particular). While the auction business conditions remain challenging, and after a quite large impairment provision recorded during the year with regard to the group's acquisition of Skype, one must keep in mind that Paypal, the payment processing arm of the group fires on all its cylinders, growing its top and bottom lines at double-digit rates. Overall, we remain confident in the intrinsic qualities of the group's business model and in its management team's ability to spur growth further and maintain the company's excellent record of financial performance.

Electrocomponents (United Kingdom)

Portfolio weight: 4.9% - Market capitalization: GBP 908M - Revenues: GBP 899M - Net Income: GBP 59M - 2007 stock performance excluding dividends: -28.9% - Position in portfolio since 2002.

This leading worldwide distributor of electronic, electrical and industrial components to development and maintenance engineers in a wide range of businesses has successfully pursued its international expansion in Europe, North America and Asia (7% growth in revenue in these regions compared to 2006). As announced in 2005, it has revamped its offerings in order to better respond to the changing needs of its client base and in particular to the offshoring trend affecting a certain number of industries, especially in the United Kingdom (which accounts for 40% of sales). The group completed its European implementation of the SAP enterprise resource planning solution in May 2007 with no disruption to report for the year, despite having faced major installation challenges in 2004-2005 and following a successful integration in the Asia-Pacific region. This IT solution is due to be implemented for the group's North American operations in 2008.
The reasons behind our decision to invest in Electrocomponents have not changed: its international expansion strategy, with a presence in Japan and China, which should ultimately more than offset the impact of the offshoring trend affecting the group's traditional markets; profitability levels that remain, on the whole, very satisfactory (operating margins of nearly 11% during the last four quarters); and a financial structure allowing for the distribution of high levels of dividends (annual rate of 8.8% on the basis of the share price on December 31, 2007).

Lowe's (United States)

Portfolio weight: 8.9% - Market capitalization: USD 33,084M - Revenues: USD 48,309M - Net Income: USD 3,014M - 2007 stock performance excluding dividends: -27.4% - Position in portfolio since 2006.

Lowe's is the second largest home improvement chain in North America. In our view, its main competitive advantages include the wide range of products offered (about 40,000 different items in stock at the chain's stores, with hundreds of thousands more available through its "Special Order Sales" system), its buying power and extensive geographical coverage, its network of well-located and well-maintained stores staffed with friendly and courteous associates, together with its established reputation for excellent customer service. Furthermore, building on the strength of its network of 1,464 stores in the United States (as of early November 2007), Lowe's has begun to expand internationally with the opening of several stores in Canada at the end of 2007 and plans to open several stores in Mexico by 2009. At the same time, the company continues to add between 100 and 150 new stores to its network in the United States each year. In spite of these various factors, all positive over the long term, Lowe's has been hurt by the slowdown in building activity in the United States. However, its sound financial structure, the quality of its management team, and the its time-tested growth strategy should allow the company to gain market shares thanks to the current crisis and come out of it even stronger and more profitable. As a result of which, we are quite confident in this investment's long term expected performance.

MDC Holdings (United States)

Portfolio weight: 4.7% - Market capitalization: USD 1,702M - Revenues: USD 3,492M - Net Income: -USD 362M - Stock performance, excluding dividends, since inception of the position in 2007: -19.0%.

MDC Holdings is one of the leading single-family homebuilders in the United States. Hit hard by the current residential real estate slump, the group has seen its business decline quite significantly over the last 18 months. As a result, its profit margins went down over the year while it had to record significant asset impairment charges, as land values kept losing value. Our decision to invest in this company, made only after we had become aware of these various adverse developments, is the result of a combination of several positive factors.
First of all, thanks to its entry-level to mid-range product positioning, through the Richmond American Homes brand, MDC is well placed to capitalize on the strong demographic trends affecting the three states (California, Arizona, Nevada) in which the company's business has been largely focused. In addition, MDC's seasoned management team, who have a strong ownership interest in the company, have demonstrated their ability to weather real estate crises as severe , if not more so, than the current one, such as the 1989-1992 savings and loan debacle. The skills and experience of its senior managers combined with strong market shares in its key states (7% and 13% in Arizona and Nevada respectively, according to our estimates) have resulted in strong financial ratios (land options, inventory of unsold homes to average selling prices, inventory to tangible net worth, debt to capital, etc.) and a robust profitability position relative to its competitors. On the basis of the stock's current share price, we anticipate a superior long-term rate of return for this investment.

Premier Farnell (United Kingdom)

Portfolio weight: 8.2% - Market capitalization: GBP 535M - Revenues: GBP 718M - Net Income: GBP 31M - 2007 stock performance excluding dividends: -25.7% - Position in portfolio since 2001.

Although similar to Electrocomponents both in size and specialization-the distribution of electronic components-Premier Farnell is a more diversified company, with about 9% of its revenue generated from activities other than distribution. The group faces the same challenges, in particular the intensification of the offshoring trend, as its rival. Lackluster, yet positive, financial performance and the failed integration of BuckHickman acquired in 2001 prompted the board of directors to oust chief executive John Hirst in July 2005, who was replaced in April 2006 by Harriet Green, an industrial distribution veteran. Since her arrival, the group's financial performance and business growth have improved significantly, particularly in 2007. Having met with Green on several occasions, we have observed that the new CEO is clearly determined to instill a high-performance culture focusing on the customers and appreciates the urgent need to anticipate and meet their expectations. This approach has translated, among other things, into a renewed focus on online sales, which increased by 31% during the year, representing 28% of distribution revenue at December

31st, 2007. The group has also targeted accelerated international expansion as one of its key goals, examplified by strong business growth in China, which posted a profit for the first time in the last quarter of the year, the launch of operations in Eastern Europe, with plans to establish a presence in India as well.
Last, despite a difficult business environment in 2007, the group has been able to improve its operating and net margins.Under these circumstances, we feel quite sanguine about the long term return on investment that this position should eventually yield.
It is also worth noting that on the basis of its share price on December 31st, 2007, Premier Farnell is offering a dividend yield of 6.1%.

USG Corp. (United States)

Portfolio weight: 9.4% - Market capitalization: USD 3,545M - Revenues: USD 5,296M - Net Income: USD 204M - Stock performance, excluding dividends, since inception of the position in 2007: -36.3%.

At the end of 2007, USG Corporation, the largest manufacturer of gypsum products in North America with a market share of more than 30%, closed its first year since emerging from Chapter 11 bankruptcy protection following the definitive settlement in 2006 of all claims related to asbestos, most of which dated back to the 1970s. Reflecting sharply lower home construction activity in the United States, USG posted a decline of more than 11% in net sales (for the first 9 months of the year), driven by both lower product volumes and selling prices. Profit margins have also been adversely affected by a reduction in the capacity utilization rate, compounded by higher manufacturing costs related to surging energy prices, but nevertheless remained in positive territory for the year and the last quarter. The group expects the current difficult environment to last well into 2008. Whatever its short term prospects might be, we believe that the group's competitive advantages have become even more relevant as a result of the current macro-economic difficulties: local economies of scale in connection with a product that is difficult and expensive to ship, secured access to gypsum resources (natural gypsum from mines and recaptured gypsum from coal-fired electricity generation plants), control over a portion of its distribution channels (through the L&W chain, which accounts for more than 30% of wallboard sales), among other factors.
On the basis of its current share price and given the group's fundamentals, we expect this position to generate a superior long term rate of return.

Management report

In 2007, the quality of your portfolio and its long-term return potential were significantly enhanced. We did so while the still unfolding subprime crisis was roiling the financial markets and as signs of weaker consumer spending and a general slowdown in the economies of both the United Kingdom and the United States were becoming more widespread.
These volatile circumstances allowed us to build new positions or reinforce existing ones at price levels likely to result in very satisfactory long term future returns. These investment actions were taken in keeping with our methodology, that is by selecting stocks one by one on their own specific merits, with no pre-established goals with respect to sector or geography allocation. However, by aggregating the individual stock choices that led to the current portfolio make-up, one would identify significant exposures to specific industries such as building materials and equipment (production and distribution) mainly in the United

Manager's Report

States, homebuilding also in the United States, mass market retailing on both sides of the Atlantic, etc. (for more details, please see, "Development of the portfolio structure in 2007", page 3 of this letter).
In our approach, what matters is the price paid in relation to the value acquired, with no attention paid to fine-tuning the timing of our investment actions. In 2007, these clear-cut methodological choices resulted in the stocks making up the portfolio trading more often than not below their average purchase prices, as market operators tended to remain wary of what we had found to be cheap and promising. The negative performance of your Fund in 2007 is, therefore, mainly the result of this phenomenon. We have already been through such difficult times and came out on top. We invite our readers to look at our track record back in 2002-2003 or even in 1998. These "bumps on the road" are a natural consequence of our investment management methodology. In this regard, during the coming months and depending on the changing mood of financial markets, the current phase of negative and/or counter-performance might very well, either continue and possibly worsen, or reverse itself.
To conclude this brief management report, please let me point out that your Fund's portfolio consists today primarily of high quality, well managed and well funded companies whose shares tend to trade much lower than their intrinsic values. This, in turn, reinforces our confidence in the potential of Margin of Safety Fund to provide its long term investors with a superior compound annual rate of return over the next five years-holding period*.

Development of the portfolio structure in 2007

In 2007, the structure of the portfolio underwent a certain number of changes.
During the year, new positions were built or reinforced in companies such as Carnival Plc, Countrywide, Ebay, Home Retail, Lowe's, MDC Holdings and USG Corp.
At the same time, several stakes were sold, including our investments in Amazon.com, Coca-Cola, Folli Follie, McDonald's, Walt Disney and Wm Morrison.

As a result of these transactions, the Fund's equity portion represented 96.1% of the net asset value. As was already mentioned in previous reports, Euro and Sterling-denominated portfolio assets are partially hedged back into the US Dollar through forward currency sales.

As of December 28th, 2007, the geographic breakdown of the Fund's portfolio, before currency hedging, was as follows (2006 figures are provided for comparison purposes):

	2007	2006
- Euro Zone:	4.6%	7.8%
- United Kingdom:	34.8%	32.9%
- United States:	58.2%	59.3%
- Others:	2.4%	0.0%

* This report does not contain any forecast of future rates of return. It only conveys the opinions of its author at the time of writing this report. These opinions may change at any time without any notice to be given. Moreover, they maybe proved wrong as circumstances change and as additional facts become publicly known. In addition, they are not meant to be used as elements in making a decision to buy or sell shares of the Fund or any other securities.

Manager's Report

As of December 28th, 2007, the breakdown by industry sector of the equity portion of the Fund's portfolio was as follows (2006 figures are provided for comparison purposes):

	2007	2006
- Business to business services:	15.3%	13.7%
- Conglomerates:	3.0%	1.5%
- Consumer goods manufacturing:	2.8%	11.5%
- Durable goods:	9.2%	9.1%
- E-commerce:	4.9%	6.5%
- Financial services:	17.7%	6.5%
- Food retailing:	0.0%	9.2%
- Lodging / Restaurants:	0.0%	6.2%
- Luxury goods:	2,9%	5.5%
- Media:	5.0%	2.9%
- Non-food retailing:	27.0%	20.9%
- Industrials:	12.2%	0.0%
- Transportation:	0,0%	6.5%

Regards,

David Pastel,
Pastel&Associés S.A.

To the Shareholders of
MARGIN OF SAFETY FUND
5, Allée Scheffer
L-2520 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES

Following our appointment by the annual general meeting of the shareholders of May 9, 2007, we have audited the accompanying financial statements of MARGIN OF SAFETY FUND which comprise the statement of net assets and the securities portfolio as at December 31, 2007, and the statement of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

Responsibility of the board of directors of the SICAV for the financial statements

The board of directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors of the SICAV, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of MARGIN OF SAFETY FUND as of December 31, 2007, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

Other matter

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the financial statements taken as a whole.

Luxembourg, April 16, 2008

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

Nathalie Dogniez
Partner

Patrice Perichon
Director

Margin of Safety Fund - Fund 1

Financial Statements at 31/12/07

Statement of net assets at 31/12/07

Expressed in USD

Assets		**29,993,254.36**
Securities portfolio at market value	Note 2	28,686,875.06
Cost price		*30,376,317.44*
Unrealised loss on the securities portfolio		*-1,689,442.38*
Cash at banks and liquidities		15,000.65
Time deposits		909,000.00
Interest receivable		329.25
Brokers receivable		183,641.06
Unrealised profit on forward foreign exchange contracts	Note 6	84,183.35
Other assets		114,224.99
Liabilities		**163,280.38**
Brokers payable		24,205.20
Accrued management fees		75,998.87
Other liabilities		63,076.31
Net asset value		**29,829,973.98**

Changes in number of shares outstanding from 01/01/07 to 31/12/07

	Shares outstanding at 01/01/07	**Shares issued**	**Shares redeemed**	**Shares outstanding at 31/12/07**
Class I (previously Class A)				
Capitalisation shares	11,406.45	604.77	3,555.89	8,455.33
Class P (previously Class B)				
Capitalisation shares	1,985.91	25.00	1,011.10	999.81
Class HI				
Capitalisation shares	-	6.82	-	6.82
Class HP				
Capitalisation shares	-	0.64	-	0.64

The accompanying notes form an integral part of these financial statements

Margin of Safety Fund - Fund 1

Key figures relating to the last 3 years

	Year ending at:	**31/12/07**	**31/12/06**	**31/12/05**
Total Net Assets	USD	29,829,973.98	43,969,459.48	52,153,700.50
Class HI		EUR	EUR	EUR
Capitalisation shares				
Number of shares		6.82	-	-
Net asset value per share		2,107.85	-	-
Class HP		EUR	EUR	EUR
Capitalisation shares				
Number of shares		0.64	-	-
Net asset value per share		2,250.42	-	-
Class I (previously Class A)		USD	USD	USD
Capitalisation shares				
Number of shares		8,455.33	11,406.45	16,231.33
Net asset value per share		3,129.76	3,248.86	2,691.01
Class P (previously Class B)		USD	USD	USD
Capitalisation shares				
Number of shares		999.81	1,985.91	2,943.66
Net asset value per share		3,344.14	3,480.26	2,879.09

Margin of Safety Fund - Fund 1

Securities portfolio at 31/12/07

Expressed in USD

Quantity	Denomination	Quotation currency	Market value	% of net assets
	Transferable securities admitted to an official stock exchange listing		28,686,875.06	96.17%
	Shares		**28,686,875.06**	**96.17%**
	Canada		*682,913.88*	*2.29%*
84,208	NORBORD INC	CAD	682,913.88	2.29%
	France		*850,163.66*	*2.85%*
6,424	CHRISTIAN DIOR SA	EUR	850,163.66	2.85%
	The Netherlands		*477,313.70*	*1.60%*
12,000	RANDSTAD HOLDING	EUR	477,313.70	1.60%
	United Kingdom		*10,051,956.59*	*33.70%*
32,529	CARNIVAL PLC	GBP	1,448,952.11	4.86%
80,114	CARPETRIGHT PLC	GBP	1,366,952.29	4.58%
36,784	DIAGEO PLC	GBP	797,459.66	2.67%
351,173	ELECTROCOMPONENTS PLC	GBP	1,469,782.92	4.93%
198,000	HOME RETAIL GROUP	GBP	1,303,662.13	4.37%
37,068	NEXT PLC	GBP	1,208,401.33	4.05%
833,981	PREMIER FARNELL PLC	GBP	2,456,746.15	8.24%
	United States of America		*16,624,527.23*	*55.73%*
57,120	CHARLES SCHWAB CORP	USD	1,459,416.00	4.89%
304,200	COUNTRYWIDE FINANCIAL CORP	USD	2,719,548.00	9.12%
41,700	EBAY	USD	1,384,023.00	4.64%
25,760	HARLEY DAVIDSON INC	USD	1,203,249.60	4.03%
17,424	LEUCADIA NATIONAL CORP	USD	820,670.40	2.75%
117,536	LOWE'S COMPANIES INC	USD	2,658,664.32	8.91%
38,148	MDC HOLDINGS INC	USD	1,416,435.24	4.75%
176,000	OCWEN FINANCIAL	USD	975,040.00	3.27%
43,190	TJX COS INC	USD	1,240,848.70	4.16%
76,743	USG CORP	USD	2,746,631.97	9.21%
	Fractions		0.00	0.00%
	Total securities portfolio		**28,686,875.06**	**96.17%**

The accompanying notes form an integral part of these financial statements

Margin of Safety Fund - Fund 1

Statement of Operations and Changes in Net Assets from 01/01/07 to 31/12/07

Expressed in USD

Income		**813,886.98**
Net dividends		747,975.76
Bank interest on cash account		168.92
Bank interest on time deposits		58,382.92
Income on securities lending		7,359.38
Expenses		**732,769.76**
Management & management company fees	Note 4	394,638.82
Custodian & sub-custodian fees		29,099.90
Taxe d'abonnement	Note 3	16,668.39
Administrative expenses		34,046.78
Performance fees	Note 5	55,917.02
Domiciliation fees		8,600.00
Professional fees		22,999.30
Bank interest on overdrafts		62.67
Legal fees		6,708.67
Brokers fees		147,336.48
Other expenses		16,691.73
Net income from investments		**81,117.22**
Net realised profit on sales of investment securities		8,825,006.99
Net realised profit on foreign exchange		683,408.97
Net realised loss on forward foreign exchange contracts		-780,709.23
Net realised profit		**8,808,823.95**
Movement in net unrealised appreciation / depreciation on forward foreign exchange contracts		671,948.89
Movement in net unrealised appreciation / depreciation on investments		-10,220,723.85
Decrease in net assets as a result of operations		**-739,951.01**
Subscription capitalisation shares		2,017,292.06
Class I (previously Class A)		*1,899,170.86*
Class P (previously Class B)		*93,831.25*
Class HI		*22,081.62*
Class HP		*2,208.33*
Redemption capitalisation shares		-15,416,826.55
Class I (previously Class A)		*-11,936,735.80*
Class P (previously Class B)		*-3,480,090.75*
Decrease in net assets		**-14,139,485.50**
Net assets at the beginning of the year		**43,969,459.48**
Net assets at the end of the year		**29,829,973.98**

The accompanying notes form an integral part of these financial statements

Margin of Safety Fund

Notes to the financial statements

Notes to the financial statements at December 31, 2007

1. General

MARGIN OF SAFETY FUND is a "société anonyme" with the status of a "Société d'Investissement à Capital Variable" under the Luxembourg law of December 20, 2002 on Collective Investment Undertakings and under the law of August 10, 1915 on Commercial Companies. The Fund is incorporated with limited liability for an unlimited duration. The Fund is submitted to Part I of the Law.

The Fund was incorporated under the name "Margin of Safety Fund Limited" with limited liability on January 19, 1998 in the British Virgin Islands as an open-ended investment company. The decision to transfer the Fund's head office to the Grand Duchy of Luxembourg was taken by way of a resolution of the Board of Directors dated May 15, 2002, and the Fund was transformed into a Luxembourg SICAV by way of an extraordinary General Meeting held on August 14, 2002. At the same time, preference shares of the Fund were converted into Class B shares of the SICAV.

The Fund is registered under the number B 88649. Its registered office is in Luxembourg, 5, Allée Scheffer, L-2520 Luxembourg.

As from April 28, 2006, the Fund has designated Luxcellence Management Company S.A. as management company in the meaning of article 13 of the Luxembourg law dated December 20, 2002.

As at December 31, 2007 only the sub-fund MARGIN OF SAFETY FUND – Fund 1 is open. This sub-fund has issued four Classes of Shares: Class I (in USD), Class P (in USD), Class HI (in EUR) and Class HP (in EUR). All Classes may be issued as accumulation shares or distribution shares at the investor's discretion. Class I and Class P shares are also expressed in EUR for the purpose of subscriptions and redemptions.

On 30 November 2007, the denomination of Class A shares and Class B shares have been changed in Class I shares and Class P shares, respectively.

On 30 November 2007, Class HI and HP were launched.

The sub-fund is expressed in USD, consequently, the financial statements of the SICAV consist in the financial statements of the Fund 1 sub-fund.

2. Summary of significant accounting principles

The financial statements have been prepared using accounting principles generally accepted for funds in Luxembourg including the following significant accounting policies :

1. Valuation of investments

The value of any transferable securities which are listed on a Stock Exchange or dealt on a regulated market shall be determined according to their last available price. If such prices are not representative of the fair value, securities will be valued at a fair value at which it is expected that they may be resold, as determined in good faith by and under the direction of the Board of Directors.

In the event that any transferable securities held by the Fund at the valuation day are neither quoted on a Stock Exchange nor dealt in on another regulated market, they are valued at their probable realisation value on the relevant Valuation Date, determined prudently and in good faith.

Forward foreign exchange contracts are valued at the previous day closing price.

2. Realised profit and loss on investments

The profits and losses on sales of investments are determined on the basis of average cost.

Notes to the financial statements at December 31, 2007

2. Summary of significant accounting principles (continued)

3. Foreign exchange

The combined financial statements of the Company are established in USD. The combined financial statements are the sum of the sub-funds' financial statements converted in USD at the rate of exchange ruling at the year end.

The market value of the investments and other assets and liabilities expressed in currencies other than the base currency of each sub-fund have been converted at the exchange rates as at the year end date.

The costs of investments in currencies other than the base currency have been converted at the exchange rates as at the purchase date. Gains and losses arising on foreign exchange transactions are included in the result of operations.

As at December 31, 2007, the following significant exchange rates were used:

1 EUR	=	1.4721 USD	1 CAD	=	1.0188 USD
1 GBP	=	2.0074 USD			

4. Income from investments

Dividends are recognised as income on the date securities are first quoted ex-dividend, to the extent that information thereon is available to the Company. Interest is accrued on a weekly basis.

3. Tax Considerations

Under legislation and regulations currently prevailing in Luxembourg, the Fund is subject to a capital tax on its net assets at an annual rate of 0.05 % ("Taxe d'abonnement"), calculated and payable quarterly on the basis of the value of the net assets of the Fund at the end of the relevant quarter.

4. Management and Management company fees

For its services the Investment Manager receives a management fee payable quarterly, at an annual rate calculated on each Class's quarterly average Net Asset Value. The annual management fees are as follows:

Class I: maximum 0.90%
Class HI: maximum 0.90%
Class P: maximum 2%
Class HP: maximum 2%

In addition to the management fees, the Fund shall pay a management company fee to the Management Company, payable monthly, at an annual rate of 0.05% per annum with a minimum of EUR 40,000.00 per a annum wich shall be calculated on the Fund's average Net Asset Value.

5. Performance fees

The Fund shall pay to the Investment Manager an annual performance fee of up to 20% of the annual increase in the aggregate net assets of the Class I shares, Class P shares, Class HI shares and Class HP shares over a 12% annual benchmark as defined in the prospectus. For the year ended December 31, 2007 an incentive fee amounting to **55,917.02** USD was charged for the Class A and Class B shares, corresponding to crystallisation of performance subsequent to redemptions.

Notes to the financial statements at December 31, 2007

6. Open positions on forward exchange rate contracts

At December 31, 2007, MARGIN OF SAFETY FUND - Fund 1 had the following open positions:

Purchase	Sale	Maturity date	Unrealised Appreciation/ Depreciation in USD
361.92 EUR	520.00 CAD	07/01/2008	3.00
5,288.14 EUR	3,900.00 GBP	07/01/2008	(42.63)
514,916.69 EUR	736,028.22 USD	07/01/2008	22,034.81
276,100.00 GBP	550,384.62 USD	07/01/2008	3,787.34
462,083.28 USD	452,753.00 CAD	07/01/2008	783.92
1,665,802.20 USD	1,168,500.00 EUR	07/01/2008	(54,469.55)
8,149,687.15 USD	4,004,500.00 GBP	07/01/2008	112,086.36
		TOTAL	**84,183.35**

7. Securities lending

The value of securities on loan as at December 31, 2007 was USD 449,470 (December 31, 2006: nil).

8. Statement of changes in Portfolio

The statement of changes in portfolio is available free of charge at the Fund's head office.