



Interim Report  
for the six months ended 31 March 2007

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**DIRECTORS AND OFFICERS**

**Directors**

Philip Smiley, Chairman  
Dinh Thi Hoa  
Antony Jordan  
Christopher Vale  
Markus Winkler

**Secretary and Registered Office**

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**Investment Manager**

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**Auditors**

Ernst & Young Vietnam Limited  
Chartered Accountants  
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**Administrator and Registrar**

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## **CHAIRMAN'S STATEMENT**

The Company's net asset value per share increased by 117.51% during the six months ended 31 March 2007, against a 102.33% increase in the Viet Nam Index (VNI) in US\$ terms.

The extremely strong performance of the market over the reporting period was in large part due to the government's decision to withdraw the two-year 50% corporate tax reduction on listing with effect from 1 January 2007. This inspired over 50 companies to list in the last two months of the calendar year which in turn pushed total market capitalisation to levels worthy of note and, more importantly, action by more and larger foreign institutions for whom access was made far easier than previously by the award of trading codes to international investment banks. The Company's outperformance of its benchmark during the period under review reflects the investment manager's stock selection and the timing of investment decisions.

We continue to feel optimistic that the development of the stock market is progressing in accordance with the Vietnamese Government's previously announced targets for the end of the current calendar year, and the economic backdrop remains strong.

Further details on the portfolio's performance are given in the Investment Manager's report on pages 6 - 9.

**Philip Smiley**  
**Chairman**

26 July 2007

## REPORT OF THE INVESTMENT MANAGER

During the period under review the Company's net asset value per share increased by 117.51%, from US\$ 5.036 to US\$ 10.954. This compares to a rise in the benchmark VNI of 102.33% in US\$ terms. Longer term the comparatives are equally favourable from the Company's perspective, with the net asset value per share up 139.4% against an index gain of 110.1% in dollar terms over one year, up 352.5% versus 326.1% over 2 years and up 318.9% compared to a VNI increase of 276.2% over three years.

During the first month of the period under review the VNI retreated 2.88% after a 24.7% gain during the preceding two months. Thereafter, the advance resumed and the VNI rose 122.40% between November 2006 and February 2007. (*November 2006 +23.75%, December 2006 +18.75%, January 2007 +38.52% and February 2007 +9.25%*) setting new records at the Ho Chi Minh City Securities Trading Centre (*HoSTC*) almost every day. During December 2006 50 companies were listed at the HoSTC, by far the largest number of listings in a single month. The main reason behind this was the anticipated removal of tax exemptions on listing effective 1<sup>st</sup> January 2007. This led to a significantly broader and larger market thus providing more opportunities for both offshore and onshore investors alike. The charge was led, but not dominated, by foreign investors - the volume of shares traded by foreign investors was never more than 35.6% (*November 2006*) of the daily total. Several global investment banks played a strong part in this process through the creation of participation notes on baskets of listed Vietnamese equities and on individual stocks. Without any reliable research, either internal or external, these banks selected only large, liquid listed companies where the foreign ownership limits had yet to be reached for inclusion in baskets. This, in turn, encouraged domestic investors to add fuel to the fire, helped by the increasing availability of margin financing. As a result, on 19<sup>th</sup> January 2007 the VNI broke through the 1,000 level for the first time. In the same month the VNI rose 38.52%, the highest monthly performance since inception, and the HoSTC achieved a market capitalisation in excess of US\$ 10 billion. The traditional pre-Tet rise in the VNI, driven by domestic investors, helped continue this rise into February 2007. Average daily turnover rose significantly over the period from US\$ 8.3 million in October 2006 to a record US\$ 62.5 million in February 2007. This exuberance spilled over into the auctions of shares in privatising State-owned enterprises (*SOEs*) where during the first two months of 2007 successful bids for shares at such auctions were often, bizarrely, at significantly higher multiples than that of similar listed stocks. The VNI closed at an all time high of 1,170.67 on the 12<sup>th</sup>

March 2007.

In early March rumours began circulating that the Government was considering introducing capital controls. Apparently, these were to be aimed at stemming the significant foreign indirect investment capital entering Vietnam and thus the rapidly rising market. Although widely reported, these rumours proved unfounded but were enough to spook investors, both offshore and onshore. As a result, the VNI fell 5.83% in March 2007 to end the period under review at 1,071.33. At the reference date there were 107 companies listed at the HoSTC with a combined market capitalisation of US\$ 14.9 billion.

The Hanoi Securities Trading Centre (*HnSTC*) followed a similar pattern, rising 106.68% in US\$ terms over the period under review. It continues to post negotiated transactions only and remains relatively illiquid - average daily turnover for the period under review was US\$ 8.9 million compared with US\$ 36.7 million for the HoSTC. Although we remain largely on the sidelines for the moment with only one Hanoi-listed holding in the portfolio at the time of writing, we continue to follow the HnSTC's development closely, waiting for the time when it begins to attract more interesting listings and significant investor participation.

Strong indications that several of the larger SOEs will equitise during 2007 continue to appear and we believe that the number is likely to increase from 2008 to 2010. It seems probable that during 2007 SOEs from the banking sector (*Vietcombank, Mekong Housing Bank*), insurance sector (*Bao Viet*), brewing sector (*SABECO, HABECO*), telecoms sector (*Mobifone, Vinaphone*) amongst others will complete the equitisation process and consider listing thereafter. The authorities, having delivered on the promise of raising stock market capitalisation to US\$ 1 billion, have recently raised the market capitalisation target to between US\$ 30 billion and US\$ 40 billion by the end of 2010. With the pipeline of equitisations mooted over the next 4 years we believe that this target is achievable.

The Vietnamese economy continued to grow during the period under review. Gross Domestic Product (*GDP*) growth in 2006 reached 8.2% (*Q1 2007, + 7.7%*). Much of this was due to the continuing strength of the key economic drivers; rising exports, domestic demand and foreign direct investment (*FDI*). Trade continued to expand as exports increased by 22.1% for FY 2006 (*Q1 2007, + 17.9%*). Once again, the strength of crude oil prices played a major role as

Vietnam remains one of Asia's few net exporters of oil. In addition, Vietnam's increasing global integration led to healthy rises in the exports of garments, footwear, furniture, electronics, rice, rubber, electric cables and coal. Import growth of 20.1% (*Q1 2007*, + 33.6%) was a little above that of FY 2005 as imports of machinery, the largest amongst the inward categories, saw increased growth, as did the import of export components. The trade deficit increased by a modest 2.2% versus FY 2005 to US\$ 4.81 billion (*Q1 2007*, US\$ 1.32 billion). Once again, this was more than covered by non-trade flows such as remittances from Overseas Vietnamese, which stood at USD 4.8 billion through official channels, up 20% on FY 2005. Domestic demand continued to rise, stimulated by sensible Government spending and an increasing number of private companies which, in turn, led to private sector industrial production achieving a growth rate of 23.9% (*Q1 2007*, + 16.5%). In addition, retail sales grew by 20.9% (*Q1 2007*, + 22.3%), slightly higher than FY 2005. FDI rose to record levels. New FDI commitments were up by 30.5% (*Q1 2007*, + 28.0%). This, combined with existing FDI projects applying to increase their capex, achieved a record US\$ 10.0 billion in new commitments. FDI disbursement rose by 24.2% to US\$ 4.1 billion. Inflation continued to be the main cause for concern during 2006, albeit less so than in 2005. The Government managed to continue to reduce the rate of inflation to 6.6% (*Q1 2007*, + 3.1%) versus FY 2005's 8.4%.

Vietnam was given the green light to become the World Trade Organisation's (WTO) 150th member on 7 November 2006. Vietnam's National Assembly ratified the country's admission on 28 November 2006 and the country officially joined the WTO on 11 January 2007. This is expected to have many positive benefits for Vietnam and will help Vietnam refine its reform process and create opportunities for trade expansion. However, WTO membership will allow increasingly greater competition from foreign entities which will undoubtedly impact many Vietnamese businesses, some for the worse but some for the better.

We remain confident that the macroeconomic environment will continue to advance. GDP growth for 2007 is estimated to be at least 8%, although inflation continues to erode the benefits to a mild extent. This growth will be achieved through the continued rise in trade, especially so now that WTO membership is in place, and mounting FDI, attracted by continuing reform, an attractive working environment and political stability. Both of these drivers will compliment the already vibrant domestic demand.

In summary, the expansion of the stock market is set to continue and we are likely to see support for the VNI at around the 900 level mostly from foreign investors who have recently raised money and remain heavily weighted in cash.

**PXP Vietnam Asset Management Limited**  
**Ho Chi Minh City**

26 July 2007

STATEMENT OF TOTAL RETURN* for the six month period to 31 March 2007	(Unaudited) Six months to 31-Mar-07			(Unaudited) Six months to 31-Mar-06
	Revenue US\$	Capital US\$	Total US\$	Total US\$
Realised gains/(losses) on investments	-	9,662,089	9,662,089	1,443,328
Unrealised gains on investments	-	61,579,671	61,579,671	16,761,416
Gains (losses) on foreign exchange	-	(1,433)	(1,433)	(7,773)
Income	862,998	-	862,998	530,483
Investment management fee	(897,744)	-	(897,744)	(256,026)
Other expenses	(184,240)	-	(184,240)	(126,107)
Net return before interest payable and taxation	(218,986)	71,240,327	71,021,341	18,345,321
Interest payable	-	-	-	-
Return on ordinary activities before taxation	(218,986)	71,240,327	71,021,341	18,345,321
Taxation	(14,330)	-	(14,330)	(6,428)
Return attributable to ordinary shareholders	(233,316)	71,240,327	71,007,011	18,338,893
Transfers to reserves	(233,316)	71,240,327	71,007,011	18,338,893
	<b>Revenue</b>	<b>Capital</b>	<b>Total</b>	<b>Total</b>
Return per ordinary share **	(0.019)	5.937	5.917	2.091

\* The revenue column of this statement is the profit and loss account of the Company

\*\* Using the weighted average number of shares for each period (see note 1 on page 13)

No dividend has been declared for the current period.

<b>BALANCE SHEET</b> as at 31 March 2007	<b>(Unaudited)</b> <b>31-Mar-07</b> US\$	<b>(Unaudited)</b> <b>31-Mar-06</b> US\$
<b>Fixed assets</b>		
Investments	123,485,648	37,098,195
<b>Current assets</b>		
Preliminary Expenses	-	0
Cash at bank and in hand	7,590,875	16,457,440
Other receivable	470,315	4,262,632
	8,061,190	20,720,072
<b>Creditors</b>	<b>(104,395)</b>	<b>(2,902,818)</b>
<b>Net current assets</b>	<b>7,956,795</b>	<b>17,817,254</b>
<b>Total assets less current liabilities</b>	<b>131,442,443</b>	<b>54,915,449</b>
<b>Capital and reserves</b>		
Balance brought forward	59,845,669	22,686,524
Called-up share capital	589,763	171,499
Share premium account	0	13,694,173
Special reserve		-
Capital reserve - realised	9,658,435	1,435,555
Capital reserve - unrealised	61,574,584	16,761,416
Revenue reserve	<b>(233,316)</b>	141,922
Cumulative translation reserve	7,308	24,360
<b>Total equity shareholders' funds</b>	<b>131,442,443</b>	<b>54,915,449</b>
<b>Net asset value per share</b>	<b>10.954</b>	<b>4.576</b>

<b>CASHFLOW STATEMENT</b> for the six month period to 31 March 2007	<b>(Unaudited)</b> <b>Six months to</b> <b>31-Mar-07</b> US\$	<b>(Unaudited)</b> <b>Six months to</b> <b>31-Mar-06</b> US\$
<b>Cash flows from operating activities</b>		
Cash flows from operating activities		
Dividends received	825,003	498,013
Interest received	37,995	32,470
Other income received	40,091	3,447
Payments to investment manager, administrator & suppliers	(1,081,983)	(382,133)
Other cash payments	(770,405)	(269,650)
<b>Net cash flows from operating activities</b>	<b>(949,299)</b>	<b>(117,853)</b>
<b>Taxation</b>		
Tax paid	(14,330)	(6,428)
<b>Net cash flows from taxation</b>	<b>(14,330)</b>	<b>(6,428)</b>
<b>Cash flows from investing activities</b>		
Purchases of financial investments at fair value	(11,184,240)	(6,481,252)
Increase in other investment receivables	(279,900)	(19,780)
Proceeds from sale of financial investments at fair value	12,825,299	3,604,949
<b>Net cash flows used in investing activities</b>	<b>1,361,159</b>	<b>(2,896,083)</b>
<b>Cash flows from financing activity</b>		
Net proceeds from issuance of ordinary shares	-	12,689,562
<b>Net cash inflow from financing activity</b>	<b>-</b>	<b>12,689,562</b>
<b>Net increase in cash &amp; cash equivalents</b>	<b>397,530</b>	<b>9,669,198</b>
<b>Cash &amp; cash equivalents at beginning of period</b>	<b>7,193,345</b>	<b>6,788,241</b>
<b>Cash &amp; cash equivalents at end of period</b>	<b>7,590,875</b>	<b>16,457,439</b>

## INVESTMENT PORTFOLIO AS AT 31 MARCH 2007

Company	Valuation 31-Mar-07 US\$	% of Net Assets
REFRIGERATION ELECTRICAL ENGINEERING	17,691,986	13.46%
CABLE AND TELECOM MATERIALS	15,437,258	11.74%
VINAMILK	14,202,693	10.81%
SAIGON THUONG TIN COMMERCIAL BANK	12,062,560	9.18%
GENERAL FORWARDING & AGENCY CORPORATION	11,208,359	8.53%
BINH MINH PLASTICS	6,552,762	4.99%
AN GIANG FISHERIES	5,488,767	4.18%
KINH DO CORPORATION	4,282,149	3.26%
HOA BINH RUBBER	3,698,504	2.81%
BAO VIET SECURITIES	3,392,846	2.58%
CHAU THOI CONCRETE CORPORATION No.620	3,357,376	2.55%
SOUTHERN SEED	3,357,166	2.55%
FIMEX	2,769,664	2.11%
NAVICO	2,496,880	1.90%
SAVIMEX	2,407,180	1.83%
GILIMEX	2,357,367	1.79%
NORTH KINDO FOOD	2,112,585	1.61%
TRANSIMEX	1,964,878	1.49%
BIEN HOA CONFECTIONERY	1,631,087	1.24%
HOA AN	1,538,908	1.17%
IMEXPHARM PHARMACEUTICAL	1,338,952	1.02%
HANOI MARITIME HOLDING	1,011,489	0.77%
SMC INVESTMENT TRADING	873,908	0.66%
BIMICO	766,977	0.58%
NUI NHO	504,058	0.38%
PHA LAI THERMAL POWER	465,044	0.35%
MEKOPHAR	425,718	0.32%
INTERFOOD	68,013	0.05%
TAN TIEN PLASTIC PACKAGING	14,262	0.01%
KHANH HOI	6,252	0.00%
<b>Total</b>	<b>123,485,648</b>	<b>93.95%</b>

## **NOTES TO THE INTERIM ACCOUNTS**

### **1. SHARES IN ISSUE**

As at 31 March 2007 there were 12,000,000 ordinary shares of US\$ 0.05 each in issue (31<sup>st</sup> December 2003: 2,040,000; 30 June 2004: 4,282,000; 23 March 2005: 8,564,000, 21 March 2006: 12,000,000 ).

The financial statements for the six month period ended 31 March 2007 and for the period ended 31 March 2006 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have neither been audited nor reviewed by the auditors.