

**Vietnam Emerging Equity Fund Limited**

**Annual Report**

For the period from 25 July 2005 to 31 December 2006

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# Vietnam Emerging Equity Fund Limited

MANAGEMENT AND ADMINISTRATION  
as at 31 December 2006

## **DIRECTORS**

Philip Smiley  
Christopher Vale  
Antony Jordan  
Stanley Chou  
Gregory Hazlett

## **REGISTERED OFFICE**

Vietnam Emerging Equity Fund Limited  
CARD Corporate Services Ltd.  
Fourth Floor, Zephyr House, Mary Street  
PO Box 709 GT, George Town  
Grand Cayman, Cayman Islands  
British West Indies

## **INVESTMENT MANAGER**

PXP Vietnam Asset Management Limited  
PO Box 957, Offshore Incorporations Centre  
Road Town, Tortola  
British Virgin Islands

## **CUSTODIAN**

HSBC Institutional Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

## **VIETNAM SUB-CUSTODIAN**

The Hong Kong and Shanghai Banking Corporation Limited  
The Metropolitan, 235 Dong Khoi Street  
District 1, Ho Chi Minh City  
Vietnam

## **ADMINISTRATOR AND REGISTRAR**

HSBC Trustee (Cayman) Limited  
2<sup>nd</sup> Floor, Strathvale House  
North Church Street  
George Town, Grand Cayman  
Cayman Islands, British West Indies

## **ADMINISTRATOR'S AND REGISTRAR'S SERVICE PROVIDER**

HSBC Institutional Trust Services (Asia) Limited  
1 Queen's Road Central  
Hong Kong

# PXP Vietnam Fund Limited

MANAGEMENT AND ADMINISTRATION (continued)  
as at 31 December 2006

## **LEGAL ADVISORS**

Freshfields Bruchkhaus Deringer  
Unit 1, 5/F  
17 Ngo Quyen Street  
Hanoi  
Vietnam

Charles Adams, Ritchie & Duckworth  
Attorneys-at-law  
PO Box 709 GT  
Grand Cayman  
Cayman Islands  
British West Indies

## **AUDITORS**

PricewaterhouseCoopers (Vietnam) Limited  
4<sup>th</sup> Floor, Saigon Tower  
29 Le Duan Street, District 1  
Ho Chi Minh City  
Vietnam

# Vietnam Emerging Equity Fund Limited

## FINANCIAL HIGHLIGHTS

as at and for the period ended 31 December 2006

### FINANCIAL HIGHLIGHTS

	<b>Since inception to 31 December 2006</b>
	<i>USD</i>
Net asset value per ordinary share ("NAV") as at 31 December 2006	9.404
Net gain (loss) per ordinary share	4.637
Dividends per ordinary share	Nil
Expense ratio not including performance fee (based on average monthly NAV)	3.06%
Expense ratio (based on average monthly NAV)	16.61%

### PERFORMANCE

	<b>% change in USD terms</b>
Net asset value per ordinary share since inception	88.08%

### INVESTMENT OBJECTIVE

The primary investment objective of the Company is to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of Vietnamese companies, whether established with domestic or foreign ownership, which are either Listed Companies or Pre-Listing Companies. The Company may also invest up to 30 per cent of its assets at the time of investment in the shares of Overseas-Listed Companies.

### THE INVESTMENT MANAGER

The Investment Manager is 100 per cent owned by Phan Xi Pang Asset Management Limited, the holding company of the directors of the Investment Manager. The Investment Manager will provide a continuous investment program for the Company's assets, including seeking suitable investments for the Company, advising and supporting in relation to the development of investments held by the Company, determining the appropriate time for the disposal of its investments, and the provision of investment research and advice with respect to all securities and investments and cash equivalents comprised in the Company's assets.

### SPECIAL CONSIDERATIONS AND RISK FACTORS

Shareholders should be aware that the value of the Company's Shares and the income from them may fluctuate. In addition, there is no guarantee that the market prices of shares in closed-end funds will fully reflect their underlying Net Asset Value.

The risks inherent in the investments of the Company in Vietnam are of a nature and degree not typically encountered in investing in securities of companies listed on the major securities markets. Such risks include, but are not limited to, political and economic risks in addition to the normal risks inherent in any equity investment. A full description of the risks involved in investment in the Company can be found in the Placing Memorandum.

Investment in the Company should be regarded as long-term in nature. There can be no guarantee that the Company's investment objectives will be achieved.

# Vietnam Emerging Equity Fund Limited

## CHAIRMAN'S STATEMENT

as at and for the period ended 31 December 2006

### CHAIRMAN'S STATEMENT

The Company was incorporated on 25 July 2005 and launched on 3 November 2005 as a closed-end investment company primarily intended to seek long-term capital appreciation from investment in the equity securities of Vietnam-listed and pre-listed companies, whether established with domestic or foreign ownership. The Company issued 2,763,400 ordinary shares of US\$0.05 each at US\$5.00 per share on the launch date.

### COMPANY PERFORMANCE

The Company's net asset value ("NAV") per share increased by 88.08% net of performance fees from inception to 31 December 2006. The return compares to a rise of 133% in the Viet Nam Index ("VNI") over the same period, and is a reasonable first period showing given that up to 30% of the Company's assets may be invested in the so-called "regional plays"; companies listed outside Vietnam with a market capitalisation greater than US\$ 100 million which derive in excess of 35% per cent of their revenues or profits from activities in Vietnam. The Company's deliberate move to a high cash weighting in April 2006 through the proceeds of a rights issue (as described below) created a solid base for the remainder of the year, as the Company's Net Asset Value per share outperformed the index 38.6% to 26.2% for the May to December 2006 period, but was unable to regain ground conceded in the initial investment phase. Further details of the portfolio's performance are given in the Investment Manager's report on pages 5 to 7.

### RIGHTS ISSUE

An issue of 4,900,350 additional ordinary shares of US\$ 0.05 each at US\$ 6.486 for existing shareholders and US\$ 6.8103 for new shareholders was made on the 28 April 2006 pursuant to the Prospectus ultimately dated 3 July 2006. As at 31 December 2006 the Company had issued a total of 7,663,750 authorised shares.

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Monday 30 July 2007 at the offices of Freshfields Bruckhaus Deringer, 11th floor, 29 Le Duan Boulevard, Ho Chi Minh City, Vietnam commencing at 5.30 p.m. The formal business will be followed by a presentation by the Investment Manager, after which there will be an opportunity for shareholders to raise any specific issues with the Investment Manager or any member of the Board.

### OUTLOOK

The prospects for the long-term development of the Vietnam economy remain positive and we expect the capital markets, and the stock exchange in particular, to continue to develop in a manner which reflects this optimistic scenario although we anticipate further volatility along the way. The Company, with its increasingly strong focus on Vietnam-listed stocks, remains well placed to continue to benefit from the dramatically increased size of and interest in the stock market from both international and domestic investors, and we remain confident that the Vietnamese Government is fully committed to the path that led to such memorable results in 2006.

**Philip Smiley**  
Chairman

20 June 2007

# Vietnam Emerging Equity Fund Limited

INVESTMENT MANAGER'S REPORT  
as at and for the period ended 31 December 2006

## INVESTMENT MANAGER'S REPORT

### REVIEW OF THE PERIOD

During the period under review the Company's NAV per share increased by 88.08% from the issue price of US\$ 5.00 on 3 November 2005 to US\$ 9.404 on 31 December 2006. The Company's NAV per share rose by 87.37% during calendar 2007 net of performance fees.

The Company began its investment programme in the first week of December 2005 on receipt of its Securities Trading Code from the Vietnamese authorities. At that time, the Ho Chi Minh City stock market's average daily turnover was still well under US\$ 1 million and accumulation was of necessity somewhat cautious, although this did not prevent the Company's Net Asset Value rising by 2.1 percentage points from inception to the end of January 2006 whilst the Viet Nam Index fell by 3.16 per cent over the same period. Unfortunately, this initially impressive relative track record was derailed by the release of the hyper-bullish Merrill Lynch report into a responsive market at the end of January 2006, catalysing a 90.7% surge in the Viet Nam Index over the subsequent 3 months and leaving a less than fully invested portfolio trailing distantly in its wake. Undeterred by lagging short-term performance in an over-exuberant environment, the Investment Manager recommended that Directors allow the Company to take advantage of the much-improved interest in Vietnam on the part of foreign investors and launch a capital-raising exercise in order for the Company to attain something closer to the optimal size than the US\$ 14 million initially raised. The offer of additional shares closed on 28 April 2006, three days after the index peaked at 632.69 points (having begun the year at 307.50), raising US\$ 32 million and moving the Company to a 60% cash weighting effectively at the top of the market.

The coincidental realisation that the foreign flows expected to follow the Merrill Lynch report had no ready means of access to the market and a gradually dawning sense that the index had run too far too fast provided sound justification for a pause followed by consolidation over the following three months. During the early part of this correction the Investment Manager concentrated on building positions in several offshore listed companies with strong exposure to Vietnam and with attractive valuations relative to the local market. The listing of Sacom Bank in July 2006 provided the impetus for the Company to return to the local market in order to obtain, inter alia, a stake in the first such financial institution to join the bourse, and the Investment Manager was able to build that exposure into the single largest holding of the Company. Foreigners are restricted to owning only 30% of a bank, as opposed to the current 49% in all other sectors, and less than 4% of the issued shares were available at the time of listing. The Company was 73% invested at the end of July 2006 (two days before the index bottomed at 388 points) but underperformed the index for the remainder of the year owing to its policy of diversification outside of the Vietnam market, with the Net Asset Value up only 50% compared to a 78% rise in the index over the August to December period.

### STOCK MARKET

The strong rally from August to December 2006 was instigated by unfounded rumours of the removal of the foreign ownership limit in non-sensitive sectors; further international investment bank coverage (combined, finally, with the means of access on receipt of trading codes) underpinned the advance. The confirmation of Vietnam's accession to the World Trade Organisation and the hosting of the APEC Conference in Hanoi in November 2006 stimulated further international exposure and a wave of new capital flows and vastly improved foreign participation propelled the index to a December close of 751.77 points, up 144.5% for the year.

Many of the highlights of the Vietnam stock exchange's most impressive highlights in its banner year of 2006 are woven into the review of the Company's performance above, but mention should also be made of the following:

- The listing of Vinamilk on 19 January 2006, which took market capitalisation above US\$ 1 billion for the first time, was perhaps (as anticipated in our commentary elsewhere) the catalyst for international focus and also the inspiration behind the Merrill Lynch report;
- average daily turnover soared from US\$ 700,000 in January 2006 to US\$ 30 million in December 2006;

# Vietnam Emerging Equity Fund Limited

INVESTMENT MANAGER'S REPORT (continued)  
as at and for the period ended 31 December 2006

- the withdrawal of the two-year 50% corporate tax reduction on listing with effect from 1 January 2007 inspired a “last minute rush” to market with 50 new additions in December;
- the 106 listed stocks which comprised the Viet Nam Index on 29 December 2006 together with the two listed funds were valued at in excess of US\$ 9 billion, up from a little over US\$ 500 million a year earlier.

The Hanoi Securities Trading Centre (HnSTC) posts negotiated transactions only and has informally taken on the role of a bridge between the unregulated over-the-counter (OTC) and the formal markets. Two of its larger stocks, Vinh Son Song Hinh Hydropower (VSH) and Pha Lai Thermal Power (PPC), made the “final crossing” in July 2006 and January 2007 respectively. By the end of 2006 eighty-six companies were “registered for trading” in Hanoi with market capitalisation totalling US\$ 4.3 billion and average daily turnover of around US\$ 900,000. Foreign participation is very limited, with the Company, for example, still having only one Hanoi-traded holding - Bao Viet Securities - in the portfolio at the time of writing. Asia Commercial Bank, the largest Hanoi quoted stock, has been at the foreign ownership limit since well before its debut in December 2006 and no foreign trades have been posted to date.

The outlook for 2007 will see a focus shift to the equitisation and subsequent listing of large State-owned Enterprises (SOEs) from the banking (Vietcombank, Mekong Housing Bank), insurance (Bao Viet), brewing (SABECO, HABECO) and telecommunications sectors (Mobifone, Vinaphone) amongst others. The authorities, having more than delivered on the promise of raising stock market capitalisation to US\$ 3 billion by the end of 2006, 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 4 years in question we believe that this target is achievable.

## **ECONOMY**

The Vietnamese economy continued to grow during the period under review. Gross Domestic Product (GDP) growth in 2006 reached 8.2%. 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. 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% 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\$ 4.805 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 the 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%. In addition, retail sales grew by 20.9%, slightly higher than FY 2005. FDI rose to record levels. New FDI commitments were up by 30.5%. 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 has managed to continue to reduce the rate of inflation to 6.6% versus FY 2005's 8.4%.

Vietnam was given the green light to become the WTO's 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 will allow increasingly greater competition from foreign entities which will undoubtedly impact many Vietnamese businesses, some for the worse but some for the better.

# Vietnam Emerging Equity Fund Limited

INVESTMENT MANAGER'S REPORT (continued)  
as at and for the period ended 31 December 2006

## STRATEGY

Our strategy remains much the same as for last year. When we see good value in the market we will continue to build on the Company's existing core holdings whilst actively seeking opportunities to invest in pre-listing companies that meet the Company's investment criteria.

## OUTLOOK

We expect that the macroeconomic environment will continue to improve. The 2007 GDP growth Government target is between 8.3% - 8.5%. This will be achieved through the continued growth in trade, accelerating as WTO accession has now been achieved and rising FDI, which continues to be attracted by the on-going reforms, an attractive working environment and political stability. Both of these economic drivers will only compound the already vibrant domestic demand. We continue to see increasing opportunities for the Company to invest in the growing number of relatively larger SOEs and private companies that are either preparing to equitise and / or list over the next four years.

## PORTFOLIO REVIEW

Portfolio as at 31 December 2006 - Top Ten Holdings

Company Code	Portfolio Holding	Value USD	% of NAV	VNI Weighting
1 SAM	936,920	8,643,214	11.99%	3.84%
2 STB	1,541,230	6,916,892	9.60%	10.41%
3 GMD	747,616	6,384,255	8.86%	3.30%
4 REE	706,510	5,857,078	8.13%	3.11%
5 VNM	676,490	5,270,872	7.31%	13.76%
6 Sanyang	6,000,000	4,289,593	5.95%	n/a
7 AGF	598,001	4,174,755	5.79%	0.61%
8 BMP	408,150	3,714,358	5.15%	1.41%
9 Tiberon	1,196,200	3,699,960	5.13%	n/a
10 Ellipsiz	6,058,000	3,036,591	4.21%	n/a

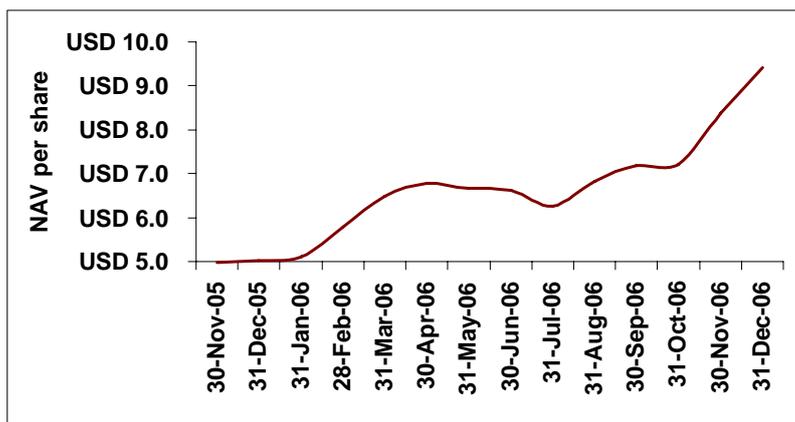
# Vietnam Emerging Equity Fund Limited

INVESTMENT MANAGER'S REPORT (continued)  
as at and for the period ended 31 December 2006

## PERFORMANCE

The performance of the Company since inception to the end of December 2006 is shown in the following graph:

### NAV per share Since Inception



On behalf of the Investment Manager:

**Kevin Snowball and Jonathon Waugh**  
Investment Managers  
25 May 2007

# Vietnam Emerging Equity Fund Limited

REPORT OF THE BOARD OF DIRECTORS  
as at and for the period ended 31 December 2006

The Board of Directors of Vietnam Emerging Equity Fund Limited (“the Company”) presents its report together with the audited financial statements for the period from 25 July 2005 to 31 December 2006.

## OVERVIEW

The Company is a closed-end investment company with limited liability, incorporated in the Cayman Islands on 25 July 2005 under the provisions of the Companies Law, Cap. 22 (Revised) of the Cayman Islands. The number of the Company’s Certificate of Incorporation is CD-152440.

## PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding with an objective to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of listed or pre-listing Vietnamese companies, whether established with domestic or foreign ownership. The Company may also invest up to 30% of its assets at the time of investment in the shares of overseas listed companies.

## THE BOARD OF DIRECTORS

The Board of Directors currently has five directors who are non-executive directors. No director is an employee of the Company. The members of the Board of Directors during the period and to the date of this report were:

Philip Smiley  
Christopher Vale  
Antony Jordan  
Gregory Hazlett  
Stanley Chou

## DIRECTORS’ INTERESTS

Stanley Chou also serves as the Managing Director of Luserve Asia Pacific Limited. This is a financial advisory company which represents investors who own 1,800,000 shares in the Company as at 31 December 2006.

Except for the above, at no time during the period and to the date of this report did any director have a direct or indirect interest in the shares of the Company, and the Company has not been a party to any arrangement to enable the directors of the Company to acquire any direct or indirect interest in the shares of the Company.

## STATEMENT OF THE BOARD OF DIRECTORS’ RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible for the financial statements which present fairly the financial position of the Company as at 31 December 2006 and its financial performance, cash flows and changes in shareholders’ equity for the period from 25 July 2005 to 31 December 2006. In preparing these financial statements, the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

We, the Board of Directors, are responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and which enable financial statements to be prepared which comply with International Financial Reporting Standards. We are also responsible for safeguarding the assets of the Company and thus for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Vietnam Emerging Equity Fund Limited

REPORT OF THE BOARD OF DIRECTORS (continued)  
as at and for the period ended 31 December 2006

## **APPROVAL OF THE FINANCIAL STATEMENTS**

We hereby approve the accompanying financial statements as set out on pages 11 to 29 which present fairly the financial position of the Company as at 31 December 2006 and its financial performance, cash flows and changes in shareholders' equity for the period from 25 July 2005 to 31 December 2006 in accordance with International Financial Reporting Standards.

On behalf of the Board of Directors

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Philip Smiley  
Director

Ho Chi Minh City, SR Vietnam  
25 May 2007

# Vietnam Emerging Equity Fund Limited

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE VIETNAM EMERGING EQUITY FUND LIMITED

as at and for the period ended 31 December 2006

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Vietnam Emerging Equity Fund Limited ("the Company") which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the period from 25 July 2005 to 31 December 2006 and a summary of significant accounting policies and other explanatory notes.

### **BOARD OF DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. 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.

### **AUDITOR'S RESPONSIBILITY**

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. 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 auditor's judgment, 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 auditor 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, 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 accompanying financial statements present fairly, in all material respects, the financial position of Vietnam Emerging Equity Fund Limited as of 31 December 2006, and its financial performance and its cash flows for the period from 25 July 2005 to 31 December 2006 in accordance with International Financial Reporting Standards.

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Ian S. Lydall  
General Director

PricewaterhouseCoopers (Vietnam) Limited  
Ho Chi Minh City, SR Vietnam  
Audit report number HCM1399  
25 May 2007

# Vietnam Emerging Equity Fund Limited

## BALANCE SHEET

As at 31 December 2006

	Note	2006 US\$
<b>ASSETS</b>		
Financial assets at fair value through profit or loss	6	74,985,409
Receivables	5	191,767
Cash and cash equivalents	4	3,165,729
<b>Total assets</b>		<u>78,342,905</u>
<b>LIABILITIES</b>		
Accrued fees and other payables	7	6,271,231
<b>Total liabilities</b>		<u>6,271,231</u>
<b>NET ASSETS</b>		<u>72,071,674</u>
<b>EQUITY</b>		
<b>Capital and reserves attributable to equity holders of the Company</b>		
Ordinary shares	8	383,188
Share premium	8	45,649,918
Retained earnings		26,070,577
Cumulative translation reserve		(32,009)
<b>Total equity</b>		<u>72,071,674</u>
<b>Net asset value per share</b>	9	<u>9.404</u>

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Philip Smiley  
Director  
25 May 2007

The notes on pages **16 to 30** are an integral part of these financial statements.

# Vietnam Emerging Equity Fund Limited

## INCOME STATEMENT

For the period from 25 July 2005 to 31 December 2006

		<b>Period from 25 July 2005 to 31 December 2006</b>
	<b>Note</b>	<b>US\$</b>
<b>Income</b>		
Interest income		521,811
Dividend income		636,078
Net gains on financial assets at fair value through profit or loss	6	31,746,544
<b>Total net income</b>		<u>32,904,433</u>
<b>Expenses</b>		
Management fee	10	861,423
Performance fee	10	5,574,584
Custodian fee	11	64,497
Secretarial and administration fees	12	33,121
Securities expenses		131,673
Directors' fees	10	57,808
Other operating expenses	13	110,750
<b>Total operating expenses</b>		<u>6,833,856</u>
<b>Profit before tax</b>		26,070,577
Income tax expenses		-
<b>Net profit</b>		<u><u>26,070,577</u></u>
<b>Earnings per share for profit attributable to the shareholders of the Company during the period</b>		
- basic	9	<u><u>4.637</u></u>

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Philip Smiley  
Director  
25 May 2007

The notes on pages **16 to 30** are an integral part of these financial statements.

# Vietnam Emerging Equity Fund Limited

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY For the period from 25 July 2005 to 31 December 2006

	<b>Ordinary shares US\$</b>	<b>Share premium US\$</b>	<b>Retained earnings US\$</b>	<b>Cumulative translation reserves US\$</b>	<b>Total US\$</b>
<b>Balance at 25 July 2005</b>	-	-	-	-	-
Net profit for the period	-	-	26,070,577	-	26,070,577
Issue of share capital (Note 8)	383,188	45,649,918	-	-	46,033,106
Currency translation differences	-	-	-	(32,009)	(32,009)
<b>Balance at 31 December 2006</b>	<u>383,188</u>	<u>45,649,918</u>	<u>26,070,577</u>	<u>(32,009)</u>	<u>72,071,674</u>

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Philip Smiley  
Director  
25 May 2007

The notes on pages **16 to 30** are an integral part of these financial statements.

# Vietnam Emerging Equity Fund Limited

## CASH FLOW STATEMENT

For the period from 25 July 2005 to 31 December 2006

	<b>Period from 25 July 2005 to 31</b>
	<b>Note</b>
	<b>December 2006</b>
	<b>US\$</b>
<b>Cash flows from operating activities</b>	
Purchase of financial assets at fair value through profit or loss	(48,492,342)
Proceeds from sale of financial assets at fair value through profit or loss	5,648,015
Dividends received	491,393
Interest received	521,322
Deposits for purchases of securities	(46,593)
Operating expenses paid	(957,163)
	<hr/>
Net cash outflow from operating activities	(42,835,368)
	<hr/>
<b>Cash flows from financing activities</b>	
Net proceeds from issuance of ordinary shares	46,033,106
	<hr/>
Net cash generated from financing activities	46,033,106
	<hr/>
<b>Increase in cash and cash equivalents</b>	
	3,197,738
Cash and cash equivalents at beginning of period	-
Currency translation differences	(32,009)
	<hr/>
<b>Cash and cash equivalents at end of period</b>	4 3,165,729
	<hr/> <hr/>

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Philip Smiley  
Director  
25 May 2007

The notes on pages **16 to 30** are an integral part of these financial statements.

# Vietnam Emerging Equity Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 25 July 2005 to 31 December 2006

### 1 General information

Vietnam Emerging Equity Fund Limited (“the Company”) is a closed-end investment company incorporated in the Cayman Islands on 25 July 2005 under the Companies Law, Cap. 22 (Revised) as an exempted company with limited liability. Its Certificate of Incorporation number is CD-152440.

The Company’s shares are listed on the Irish Stock Exchange. The address of the Company’s registered office is as follows:

CARD Corporate Services Ltd.  
4th Floor, Zephyr House, 122 Mary Street  
PO Box 709 GT, George Town  
Grand Cayman, Cayman Islands  
British West Indies

The Company has no employees.

The principal activity of the Company is investment holding with an objective to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of listed or pre-listing Vietnamese companies, whether established with domestic or foreign ownership. The Company may also invest up to 30% of its assets at the time of investment in the shares of overseas listed companies.

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These financial statements relate to the period from incorporation on 25 July 2005 to the fiscal year-end of 31 December 2006.

#### 2.1 Basis of preparation

The financial statements of Vietnam Emerging Equity Fund have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The balance sheet presents assets and liabilities in increasing order of liquidity and does not distinguish between current and non-current items

##### *(a) Amendment to published standards effective in 2006*

IAS 39 (Amendment), *The Fair Value Option* is mandatory for the Company’s accounting period beginning on 1 January 2006. It allows entities to designate financial assets and financial liabilities at fair value through profit or loss when not held for trading if doing so eliminates or significantly reduces a measurement or recognition inconsistency (‘an accounting mismatch’) or if a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis.

Adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 2.1 Basis of preparation (continued)

### *(b) Standards, amendments and interpretations effective in 2006 but not relevant*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Company's operations:

- IAS 19 (Amendment), Employee Benefits;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

### *(c) Standard and amendment that have not been early adopted by the Company*

IFRS 7, *Financial Instruments: Disclosures*, and a complementary Amendment to IAS 1, *Presentation of Financial Statements - Capital Disclosures* are mandatory for the Company's accounting periods beginning on or after 1 January 2007 and have not been early adopted. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and disclosure requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is in the process of assessing the impact of IFRS 7 and the amendment to IAS 1 and currently expects there to be additional disclosures, including the sensitivity analysis to market risk and the capital disclosures required by the amendment to IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

### *(d) Interpretations to existing standards that are not yet effective and not relevant for the Company's operations*

The following interpretations are mandatory for the Company's accounting periods beginning on or after 1 March 2006 or later periods but are not relevant for the Company's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006);
- IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective from 1 March 2007);
- IFRIC 12, Service Concession Agreements (effective from 1 January 2008).

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 2.2 Foreign currency translation

### *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). This is Vietnamese Dong (“VND”), which reflects the Company’s primary activity of investing in equity securities of listed or pre-listing Vietnamese companies. Majority of the Company’s investments are originally made in VND denominated securities and will be liquidated and realised in VND.

The Company has adopted the United States dollar (“US\$”) as its presentation currency, as its shareholders are mostly based outside SR Vietnam and the US\$ is a more widely used and recognised currency than the VND. The shareholders’ investments in the Company are made in US\$ and the Company’s net income will be distributed to the shareholders in US\$. The Company’s results and financial position are translated from its functional currency to its presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at the balance sheet date.
- (ii) Income and expenses are translated using the exchange rate at the transaction date.
- (iii) All exchange differences arising on translation are recognised as a separate component of equity.

### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities such as equities at fair value through profit or loss are recognised in the income statement within the fair value net gain or loss.

## 2.3 Financial assets at fair value through profit or loss

### *(a) Classification*

The Company classifies its investments in equity securities as financial assets at fair value through profit or loss. These financial assets are classified as held for trading or designated by the Board of Directors at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company’s documented investment strategy. The Company’s policy is for the Investment Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 2.3 Financial assets at fair value through profit or loss (continued)

### (b) *Recognition/derecognition*

Regular-way purchases and sales of investments are recognised on the trade date - the date on which the Company commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

### (c) *Measurement*

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the income statement. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement in the period in which they arise. Interest income from financial assets at fair value through profit or loss is recognised in the income statement within interest income using the effective interest method. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement within dividend income when the Company's right to receive payments is established.

### (d) *Fair value estimation*

Fair value of listed equity securities is based on their last traded prices at the last official close of the Vietnamese Stock Exchange or other relevant stock exchange on the relevant valuation day.

Investments in pre-listing securities are substantially measured at cost rather than at their fair values since the Company considers the fair value information on these pre-listing securities available in the market in which these financial assets are being traded as presently not reliable. Accordingly, the Company only measures these financial assets at their fair value upon availability of reliable comparable transactions.

## 2.4 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term investments with original maturities of three months or less, and bank overdraft.

## 2.5 Interest income and dividend income

Interest income is recognised on a time-proportionate basis using the effective interest method.

Dividend income is recognised when the Company's right to receive payment is established.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## **2.6 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are ratified by the Annual General Meeting.

## **2.7 Taxation**

Under current Cayman Islands law, no tax will be charged in the Cayman Islands on profits or gains of the Company, and dividends of the Company will be payable to the shareholders resident in or outside the Cayman Islands without deduction of tax. No stamp duty is levied in the Cayman Islands on the transfer or redemption of shares in the Company. An annual registration fee will be payable by the Company in the Cayman Islands which will be calculated by reference to the nominal amount of the Company's authorised share capital. On the basis of the current rate that fee will be approximately US\$805 per annum.

Under Vietnamese law, Circular 100/2004/TT-BTC dated 20 October 2004, the Company is subject to tax at 0.1% of the sales price when it sells all or part of its investments in listed and unlisted Vietnamese joint stock companies. Net gains from transfer of direct investment in other Vietnamese companies are subject to income tax at a rate of 28%. The Company is exempt from any taxes when remitting dividends abroad. The Company is subject to withholding tax of 10% on the interest received from cash deposits at banks operating in the SR Vietnam.

The Company is not liable for Vietnamese taxes on its income derived from outside the SR Vietnam and capital gains derived from sale or other disposal of its non-Vietnamese investments.

## **2.8 Related parties**

Related parties include any entities and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them control or significant influence over the Company. The Company's Investment Manager, key management personnel of the Company and its Investment Manager, including directors and officers and close members of the family of these individuals and companies associated with these individuals, also constitute related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

## **3 Financial risk management**

The Company is exposed to certain special risks as well as normal investment risks. All securities investments present a risk of loss of capital. The Board of Directors believes that the Company's investment policy will moderate this risk through a careful selection of securities. The Company is exposed to market price risk, interest rate risk, credit risk, liquidity and emerging market risk, and currency risk. The risk management policies employed by the Company to manage these risks are discussed below.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 3.1 Market price risk

Market price risk is the risk that the value of a financial asset will fluctuate as a result of changes in market prices, whether or not those changes are caused by factors specific to the individual asset or factors affecting all assets in the market. The Company will be exposed to market price risk on all of its investments. In the case of its investments in listed companies, such market price risk relates to the Vietnamese Stock Exchange and to other exchanges, if any, where such investments are listed. Furthermore, there is no certainty that the market price of the shares will fully reflect their underlying net asset value. Shares of closed-end investment companies frequently trade at a discount to net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the net asset value may decrease.

The Company's Investment Manager, PXP Vietnam Asset Management Limited, provides a continuous investment programme for the Company's assets, including seeking suitable investments for the Company, advises and supports in relation to the development of investments held by the Company, determining the appropriate time for the disposal of its investments, and the provision of investment research and advice with respect to all securities and investments and cash equivalents comprised in the Company's assets. The performance of investments held by the Company is monitored closely by the Company's Investment Manager.

In monitoring the investments, the Investment Manager reviews all relevant financial statements and maintains contact to the extent possible with the Board and Management of the investee companies.

Investments in pre-listing companies are restricted to no more than 60 per cent of the Company's assets at the time of investment. The Company may invest up to 30 per cent of its assets in overseas listed companies which have capitalisation or net asset value in excess of US\$100 million at the time of the investment.

The Company invests across a range of industries. The current intention is to invest no more than 40 per cent of the Company's assets at the time of investment in any one sector.

## 3.2 Interest rate risk

Interest rate risk is the risk that the value of interest-bearing assets will fluctuate in value as a result of changes in interest rates.

The majority of the Company's financial assets are non-interest bearing. As a result, the Company is not subject to a significant amount of risk due to fluctuations in the prevailing level of market interest rates.

## 3.3 Credit risk

To the extent that the Company is exposed to the credit of a counterparty on an unsecured basis, it generally will not have a priority claim to any of the counterparty's assets upon a default. If the counterparty has secured creditors, the secured creditors will be entitled to repayment from the counterparty's assets in priority to the Company. Moreover, the Company may have to share the residual value of a defaulting counterparty's assets with other unsecured creditors. Consequently, there can be no assurance that the Company would recover any of the amounts owed to the Company by a defaulting counterparty.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 3.3 Credit risk (continued)

All transactions in listed securities are settled for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet their obligation.

## 3.4 Liquidity risk and emerging market risk

The Company is permitted to borrow money and to grant security over its assets. However, the Articles limit such borrowings to 25% of the latest available net asset value of the Company at the time of the borrowing, unless the shareholders in general meeting otherwise determine by ordinary resolution. No such borrowings have arisen during the period.

It may be considerably more difficult for the Company to exit its investments than it is for investors in more developed geographical regions. The Vietnamese Stock Exchange only commenced operations in July 2000 and may be more regulated than other regional stock exchanges, and may continue to exhibit limited liquidity.

The Company may also invest in overseas listed companies in stock markets in countries outside Vietnam where there is equally lack of liquidity.

In addition, the Company will endeavour to realise investments in pre-listing companies through listings on the Vietnamese Stock Exchange. However, few companies have listed shares on the Vietnamese Stock Exchange and there is no guarantee that the Vietnamese Stock Exchange will provide liquidity for the Company's investments in pre-listing companies.

The value of the Company's assets and of an investment in the Company may be adversely affected by changes in government, government personnel or government policies, which may include, among other things, changes in economic policy, taxation, investment regulations, securities regulations and foreign currency conversion or repatriation. While Vietnam has implemented many reforms which have improved the overall framework for investors and companies in which they invest, there is no guarantee that reform will continue or that it will continue at any particular pace.

Vietnamese accounting, auditing and financial reporting standards, practices and disclosure requirements differ from those in more developed countries. Less information may therefore be available to the Company than in respect of investments in more developed countries. However, the Company intends to make investments in pre-listing companies and overseas listed companies on the basis of financial statements audited by a major international firm of accountants, and listed companies are all required to have audited financial statements. In addition, the Investment Manager intends to encourage the management of investee companies to adopt international accounting standards and practices in order to improve the standing of their companies in the view of international investors.

The Company is not exposed to daily cash redemption as shareholders have no right to require their shares to be redeemed by the Company.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 3.5 Currency risk

The net asset value per share is expressed in US\$ and will fluctuate in accordance with, among other things, changes in the foreign exchange rate between the US\$, and the VND. Shareholders' investments in the Company are made in US\$, and the Company converts such US\$ into VND or other currencies prior to making investments. It will have to convert VND or such other currencies back to US\$ prior to distribution of any income and realisation proceeds from such investments. There can be no assurance that fluctuations in exchange rates will not have an adverse effect on (a) the net asset value, or (b) the distributions received by shareholders in US\$ after conversion of the income and realisation proceeds from the Company's non-dollar-denominated investments.

The Company may seek to hedge against a decline in the value of the Company's investments resulting from currency depreciation but only if and when suitable hedging instruments are available on a timely basis and on acceptable terms. There is no assurance that any hedging transactions engaged in by the Company will be successful in protecting against currency depreciation. The Company has no outstanding hedging instrument as at 31 December 2006.

A majority of the Company's investments are denominated in VND and pay dividends in VND. The Company will need to convert VND to US\$ to make distributions to shareholders, but the VND currently is not a freely convertible currency. The Vietnamese Government does not guarantee that hard currency will be made available to the Company or that the Company will receive any priority if there is any shortage of hard currency.

With respect to sales of investments in pre-listing companies, the Prime Minister's Decision No. 36/2003/QĐ-TTg provides that foreign investors can convert income and realisation proceeds into hard currency and remit them overseas upon the fulfilment of all tax obligations in accordance with Vietnamese law. However, in the absence of any regulations implementing the provisions of Decision No. 36, especially regulations in respect of the requirements to demonstrate the fulfilment of all tax obligations, the mechanics of conversion will depend on the State Bank of Vietnam's regulations. For investments in pre-listing companies, relevant regulations are either not yet in existence or are currently not clear. Until the State Bank of Vietnam issues clear procedures for conversion of VND into foreign currencies by an offshore investment fund, it is possible that the Company may have difficulty accomplishing such conversion. This may include the need to obtain special approval, and such approval may not be received quickly or at all. Any delay in conversion increases the Company's exposure to depreciation of the VND against other currencies. If conversion is not effected at all, some of the Company's assets may be denominated in a non-convertible currency.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 3.5 Currency risk (continued)

The table below summarises the Company's exposure to currency risk as at 31 December 2006.

### *Concentration of assets and liabilities*

	Amounts denominated in VND US\$	Amounts denominated in US\$ US\$	Amounts denominated in other currencies US\$	Total US\$
<b>Assets</b>				
Financial assets at fair value through profit or loss	60,029,624	4,289,581	10,666,204	74,985,409
Receivables	191,278	489	-	191,767
Cash and cash equivalents	2,170,272	995,457	-	3,165,729
<b>Total assets</b>	<u>62,391,174</u>	<u>5,285,527</u>	<u>10,666,204</u>	<u>78,342,905</u>
<b>Liabilities</b>				
Accrued fees and other payables	454,133	5,813,814	3,284	6,271,231
<b>Total liabilities</b>	<u>454,133</u>	<u>5,813,814</u>	<u>3,284</u>	<u>6,271,231</u>
<b>Net assets</b>	<u>61,937,041</u>	<u>(528,287)</u>	<u>10,662,920</u>	<u>72,071,674</u>

The exchange rates as at 31 December 2006 were:

US\$/Canadian Dollar	1.16
US\$/Hong Kong Dollar	7.77
US\$/Singapore Dollar	1.54
US\$/Thailand Baht	35.35
US\$/Vietnamese Dong	16,043

## 4 Cash and cash equivalents

	<b>2006 US\$</b>
Current account in VND	2,170,272
Current account in US\$	7,187
Short-term fixed deposits in US\$	988,270
	<u>3,165,729</u>

Short-term fixed deposits in US\$ earn interest at a rate of 4.3% per annum.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 5 Receivables

	<b>2006</b> <b>US\$</b>
Deposit for acquisition of securities	46,593
Accrued dividend income	144,685
Accrued interest income on deposits at banks	489
	<hr/>
	191,767
	<hr/> <hr/>

## 6 Financial assets at fair value through profit or loss

	<b>2006</b> <b>US\$</b>
Listed equity securities	72,043,453
Pre-listing equity securities	2,941,956
	<hr/>
Total financial assets at fair value through profit or loss	74,985,409
	<hr/> <hr/>

	<b>2006</b> <b>US\$</b>
Net gains on value on financial assets at fair value through profit or loss:	
- Realised gains	2,818,886
- Unrealised gains	28,927,658
	<hr/>
	31,746,544
	<hr/> <hr/>

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 6 Financial assets at fair value through profit or loss (continued)

The details of equity securities by industrial sector as at 31 December 2006 are set out as follows:

Company	Number of shares held	Fair market value	% each investment by industry	% NAV
<b>Agricultural</b>				
Thong Nhat rubber (*)	400,000	387,393	0.52%	0.54%
Southern Seed Corp	330,490	1,483,207	1.98%	2.06%
<b>Subtotal</b>	<b>730,490</b>	<b>1,870,600</b>	<b>2.5%</b>	<b>2.6%</b>
<b>Materials</b>				
Binh Dinh Minerals Joint Stock (*)	470,750	765,847	1.02%	1.06%
Hoa An Joint Stock Company	408,455	1,731,268	2.31%	2.40%
Nui Nho (*)	250,000	503,331	0.67%	0.70%
Binh Minh Plastics Joint Stock	408,150	3,714,358	4.95%	5.15%
<b>Subtotal</b>	<b>1,537,355</b>	<b>6,714,804</b>	<b>8.95%</b>	<b>9.31%</b>
<b>Finance</b>				
Bao Viet Securities	161,766	2,167,888	2.89%	3.01%
Sai Gon Thuong Tin Commercial Joint Stock Bank	1,541,230	6,916,892	9.22%	9.60%
<b>Subtotal</b>	<b>1,702,996</b>	<b>9,084,780</b>	<b>12.11%</b>	<b>12.61%</b>
<b>Food &amp; Beverage</b>				
Vedan International Holdings Ltd	2,836,000	357,558	0.48%	0.50%
An Giang Fisheries Import & Export	598,001	4,174,755	5.57%	5.79%
Bien Hoa Confectionery Corporation	792,000	2,073,412	2.77%	2.88%
Fimex	550,000	3,034,010	4.05%	4.21%
Interfood	55,273	148,147	0.20%	0.21%
North Kinhdo Food Joint Stock Co	278,350	2,255,190	3.01%	3.13%
Vinamilk	676,490	5,270,872	7.03%	7.31%
<b>Subtotal</b>	<b>5,786,114</b>	<b>17,313,944</b>	<b>23.11%</b>	<b>24.03%</b>
<b>Furniture</b>				
Savimex Corporation	121,970	357,324	0.48%	0.50%
<b>Subtotal</b>	<b>121,970</b>	<b>357,324</b>	<b>0.48%</b>	<b>0.50%</b>
<b>Garments</b>				
Yue Yuen Industrial Holdings Limited	875,000	2,780,476	3.71%	3.86%
Binh Thanh Import Export Production & Trading Joint Stock Company	292,640	939,403	1.25%	1.30%
<b>Subtotal</b>	<b>1,167,640</b>	<b>3,719,879</b>	<b>4.96%</b>	<b>5.16%</b>
<b>Logistics</b>				
General Forwarding & Agency corp	747,616	6,384,255	8.51%	8.86%
Transforwarding Warehouse JS	217,880	923,501	1.23%	1.28%
<b>Subtotal</b>	<b>965,496</b>	<b>7,307,756</b>	<b>9.74%</b>	<b>10.14%</b>

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 6 Financial assets at fair value through profit or loss (continued)

Company	Number of shares held	Fair market value	% each investment by industry	% NAV
<b>Telecommunication</b>				
Cables & telecommunication material	936,920	8,643,214	11.53%	11.99%
<b>Subtotal</b>	<b>936,920</b>	<b>8,643,214</b>	<b>11.53%</b>	<b>11.99%</b>
<b>Mining</b>				
Tiberon Minerals Ltd	1,196,200	3,699,960	4.93%	5.13%
Cocsau Coal Co (*)	267,000	579,164	0.77%	0.80%
<b>Subtotal</b>	<b>1,463,200</b>	<b>4,279,124</b>	<b>5.7%</b>	<b>5.93%</b>
<b>Pharmaceuticals</b>				
Imexpharm IMP	162,500	1,012,895	1.35%	1.41%
Mekophar (*)	100,000	425,104	0.57%	0.59%
Vidipha (*)	100,000	281,117	0.37%	0.39%
<b>Subtotal</b>	<b>362,500</b>	<b>1,719,116</b>	<b>2.29%</b>	<b>2.39%</b>
<b>Property</b>				
Amata Corporation Plc	2,275,100	791,619	1.06%	1.10%
Refrigeration Electrical Engineering Corp	706,510	5,857,078	7.81%	8.13%
<b>Subtotal</b>	<b>2,981,610</b>	<b>6,648,697</b>	<b>8.87%</b>	<b>9.23%</b>
<b>Technology</b>				
Ellipsiz Ltd	6,058,000	3,036,591	4.05%	4.21%
<b>Subtotal</b>	<b>6,058,000</b>	<b>3,036,591</b>	<b>4.05%</b>	<b>4.21%</b>
<b>Automobiles</b>				
CitiGP-Sanyang Industrial CWTS	6,000,000	4,289,580	5.72%	5.95%
<b>Subtotal</b>	<b>6,000,000</b>	<b>4,289,580</b>	<b>5.72%</b>	<b>5.95%</b>
<b>Total</b>	<b>29,814,291</b>	<b>74,985,409</b>	<b>100%</b>	<b>104%</b>

(\*) These are pre-listing equity securities.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 7 Accrued fees and other payables

	<b>2006</b>
	<b>US\$</b>
Accrued performance fees (Note 10)	5,574,584
Accrued directors' fees (Note 10)	57,808
Accrued management fee (Note 10)	106,977
Setting-up fees payable	5,295
Trustee and administration fees payable	29,904
Secretarial service fees payable	1,156
Unsettled investment purchase	449,772
Other payables	45,735
	<hr/>
	6,271,231
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## 8 Share capital

	<b>Number of shares</b>	<b>Ordinary shares US\$</b>	<b>Share premium US\$</b>	<b>Total US\$</b>
Balance at 25 July 2005	-	-	-	-
Issue of share capital	7,663,750	383,188	45,649,918	46,033,106
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2006	7,663,750	383,188	45,649,918	46,033,106
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Company's authorised share capital is 10,000,000 ordinary shares with a par value of US\$0.05 per share. As at 31 December 2006, 7,663,750 ordinary shares have been issued and are fully paid of which 2,763,400 shares were issued at \$5/share, 3,566,924 shares were issued at \$6.486/share and 1,333,426 shares were issued at \$6.8103/share.

The shares constitute the only class of shares in the Company. All shares have the same rights, whether in regard to voting, dividend, return of share capital and otherwise.

Each issued and fully paid ordinary share is entitled to dividend when declared and carries one voting right.

In a winding up of the Company, the shares carry a right to a return of the nominal capital paid-up in respect of such shares, and the right to share in the surplus assets.

As at 31 December 2006, Citivic Nominees Limited holds interest in 74.55% of the Company's ordinary shares.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 9 Net asset value per share and earnings per share

	<b>2006</b>
	<b>US\$</b>
Net asset value	72,071,674
Number of shares in issue	7,663,750
Net asset value per share	9.404
<hr/>	
Net profit for the period	26,070,577
Weighted average number of ordinary shares in issue	5,622,898
Basic earnings per share	4.637
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The net asset value per share is determined by the Administrator in accordance with the Articles at the close of business in the last relevant market to close on each valuation day. The net asset value per share is determined by dividing the net asset value by the number of shares issued and outstanding at the time and rounding up to three decimal places.

The basic earnings per share is calculated by dividing net income for the period attributable to the Company's shareholders by the weighted average number of ordinary shares in issue during the period. During the period, the Company did not have dilutive ordinary shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 10 Related party transactions

### *Investment management agreement*

The Company is managed by the Investment Manager, PXP Vietnam Asset Management Limited, a company incorporated with limited liability under the laws of the British Virgin Islands. The Company pays to the Investment Manager a monthly management fee which is equal to one-twelfth of two per cent of the net asset value of the Company, is payable monthly in advance and is calculated by reference to the valuation day at the end of the preceding month. Total management fee for the period amounted to US\$861,423 with US\$106,977 in outstanding accrued fee to PXP Vietnam Asset Management Limited as at 31 December 2006.

The Company pays to the Investment Manager a performance fee in relation to any financial year if the Company's total return at the end of such year exceeds (i) the benchmark and (ii) the high water mark. Where a performance fee is payable, it will be an amount equal to 20 per cent of the amount by which the Company's total return exceeds the higher of the benchmark and the high water mark. An accrual of US\$5,574,584 has been made for performance fee for the period from 25 July 2005 to 31 December 2006.

# Vietnam Emerging Equity Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)  
For the period from 25 July 2005 to 31 December 2006

## 10 Related party transactions (continued)

### *Directors' remuneration*

The Board of Directors determines the fees payable to each director, subject to a maximum aggregate amount of US\$50,000 per annum being paid to the members of the Board. An accrual of US\$57,808 has been made for directors' fees for the period from 25 July 2005 to 31 December 2006.

Stanley Chou also serves as the Managing Director of Luserve Asia Pacific Limited. This is a financial advisory company which represents investors who own 1,800,000 shares in the Company as at 31 December 2006.

PXP Vietnam Asset Management Limited, the Investment Manager of the Company holds 25,000 Shares in the Company as at 31 December 2006.

## 11 Custodian fee

The Custodian receives a safe-keeping fee of 0.04 per cent per annum of the net asset value calculated as at each valuation day and payable monthly in arrears. In addition, the Vietnam sub-custodian receives 0.09 per cent per annum for listed securities. The Custodian and Vietnam sub-custodian also charge certain fees for actual transactions. Total custodian fees charged for the period from 25 July 2005 to 31 December 2006 were US\$64,497.

## 12 Secretarial and administration fees

In consideration for the services performed under the Administration Agreement, the Administrator receives a fee of 0.04 per cent of the net asset value per annum subject to a minimum amount of US\$1,600 per month which is calculated as at each valuation day and is payable monthly in arrears. The Registrar receives a fee of US\$2,000 per annum. The Secretary receives an annual fee of US\$1,000 for providing certain secretarial services to the Company. Total secretarial and administration fees charged for the period from 25 July 2005 to 31 December 2006 were US\$33,121.

## 13 Other operating expenses

	<b>2006</b>
	<b>US\$</b>
Legal and professional fees	55,397
Setting up expenses	50,000
Government duties, tax	2,704
Other expenses	2,649
	<hr/>
	110,750
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## 14 Approval of financial statements

The financial statements were approved by the Board of Directors on 25 May 2007.

# Vietnam Emerging Equity Fund Limited

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Vietnam Emerging Equity Fund Limited (the *Company*) will be held at the offices of Freshfields Bruckhaus Deringer, 11<sup>th</sup> floor, 29 Le Duan Boulevard, Ho Chi Minh City, Vietnam on 30 July 2007 at 5.30 p.m. to consider and, if thought fit, pass the following resolutions:

### ORDINARY RESOLUTIONS

- (1) **THAT** the annual report and accounts of the Company for the period ended 31 December 2006 be received and considered.
- (2) **THAT** the decision of the Directors of the Company not to declare and pay a dividend be and is hereby sanctioned.
- (3) **THAT** Philip Smiley be re-elected as a Director of the Company.
- (4) **THAT** Christopher Vale be re-elected as a Director of the Company.
- (5) **THAT** Antony Jordan be re-elected as a Director of the Company.
- (6) **THAT** Stanley Chou be re-elected as a Director of the Company.
- (7) **THAT** Gregory Hazlett be re-elected as a Director of the Company.
- (8) **THAT** PricewaterhouseCoopers (Vietnam) Limited be re-appointed as auditors of the Company and that the Board be authorised to fix the remuneration of the auditors.
- (9) **THAT** in accordance with the Prospectus dated 3 July 2006 the aggregate remuneration of the Board will be fixed at US\$ 50,000 per annum.

By Order of the Board  
HSBC Institutional Trust Services (Asia) Limited  
*Administrator's Agent*

**29 June 2007**

#### *Registered Office:*

Fourth Floor, Zephyr House, Mary Street  
PO Box 709 GT, George Town  
Grand Cayman, Cayman Islands  
British West Indies

#### Notes:

1. A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company. A form of proxy in respect of the above Meeting has been despatched to the shareholders of the Company on 29 June 2007 with this Circular.
2. Proxy forms must be deposited at HSBC Institutional Trust Services (Asia) Limited, 39<sup>th</sup> Floor, Dorset House, Taikoo Place, 979 King's Road, Hong Kong (Fax No. +852 3409 2690) no later than 48 hours prior to the time specified above for the holding of the Annual General Meeting.