



VIETNAM ENTERPRISE
INVESTMENTS LIMITED
ANNUAL REPORT

2008





CELEBRATING 15 YEARS

In 2009, Dragon Capital celebrates 15 years of growth. Formed at the time of the Mexican 'Tequila Crisis', and being the only Vietnam-dedicated fund manager to survive the Asian Crisis, we are no stranger to adversity and challenge.

At our formation, Vietnam's GDP per capita was US\$227, and a stockmarket was six years in the future. GDP per capita has now breached US\$1,000, ports and airports teem with evidence of the country's role in international trade and investment, and Vietnam is now a recognised global citizen. Dragon Capital was established to be part of this growth. Our mission has always been to seek out investment strategies that provide long term returns, exceeding the national growth rate; and to do so with high regard for sustainable alignment of the interests of the country, and of our investors.

From an initial base of US\$16m and eight staff, at the end of 2008 Dragon Capital managed US\$1.2bn with a headcount in excess of 100. We have offices in Ho Chi Minh City, Hanoi (regulated by Vietnam's SEC), and in the United Kingdom (regulated by the FSA). Foreign and Vietnamese professionals cover all significant markets and sectors (public and private equity, fixed income, resources, property, renewables, and infrastructure); and all required skill sets (client service, economics, investment modeling, origination, legal, mid-office, valuation and governance). The Company is owned 85% by management and staff, with the balance held by the World Bank's IFC, and the French Government's development finance entity, Proparco.

Analysis and thought, engagement and commitment, integrity, execution and performance remain the core standards by which Dragon Capital judges itself. We have invested in nearly 100 companies, most of which were self-originated, and retain seats on 25 boards. We have become a leading governance proponent, are a trusted government partner in capital market development, and retain strong institutional links at all levels of government. Partly as a result of this, in 2003, Dragon Capital was entrusted with Vietnam's first domestic asset management licence, in partnership with domestic giant, Sacombank.

In keeping with our founding principles, Dragon Capital's view of the future remains based on our fundamental values, and geared towards playing a continued role in the development of a great nation. The very foundation of this vision rests firmly on continuing to provide service and value to our clients and we thank you deeply for your support, patience and perseverance.



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NAME ABBREVIATIONS

FULL NAME BY SECTOR

SHORT NAME

BANKS

Agribank Bond 10.2% 10/10/21
 Asia Commercial Joint Stock Bank
 Asia Commercial Joint Stock Bank - Convertible Bond
 Phuong Nam Commercial Joint Stock Bank
 Saigon Thuong Tin Commercial Joint Stock Bank
 Vietnam Commercial Joint Stock Bank for Private Enterprises
 Vietnam Development Bank 8.4% 23/01/2012
 Vietnam Development Bank 9.1% 16/08/2012
 Vietnam Development Bank 9.4% 27/02/2019
 Vietnam Development Bank 9.7% 30/09/2018
 Vietnam Development Bank 9.4% 26/12/2018
 Vietnam Development Bank 9.4% 19/03/2019

Agri - Bond 10.2% 10/10/2021
 ACB
 ACB - Conv Bond
 Phuong Nam Bank
 Sacombank
 VP Bank
 VDBGB 8.4% 23/01/2012
 VDBGB 9.1% 16/08/2012
 VDBGB 9.4% 27/02/2019
 VDBGB 9.7% 30/09/2018
 VDBGB 9.4% 26/12/2018
 VDBGB 9.4% 19/03/2019

CONSUMER SERVICES

Danao Limited
 Danao Limited - Loan 8.5% 02/08/2009
 Danao Limited - Loan 8.5% 27/06/2010

Danao
 Danao - Loan 8.5% 02/08/2009
 Danao - Loan 8.5% 27/06/2010

DIVERSIFIED FINANCIALS

Bao Viet Securities Joint Stock Company
 Vietnam Investment Fund Singapore Limited
 Vietnam Securities Investment Fund - VF1
 Vietnam Securities Investment Fund - VF2

Bao Viet Securities
 VIFS
 VF1
 VF2

ENERGY

PetroVietnam Drilling and Well Services Joint Stock Company

PV Drilling

FOOD/BEVERAGE

Saigon Beer Alcohol and Beverage Company
 Vedan International (Holdings) Limited
 Vietnam Dairy Products Joint Stock Company

Sabeco
 Vedan
 Vinamilk

MATERIALS/RESOURCES

620-Chau Thoi Concrete Corporation
 Asian Mineral Resources Limited
 Binh Minh Plastics Joint Stock Company
 Olympus Pacific Minerals Incorporated
 PetroVietnam Fertilizer & Chemical Joint Stock Company
 Vietnam Resource Investments Cayman Limited (Tiberon Investment)

Concrete 620
 Asian Minerals
 Binh Minh Plastics
 Olympus Pacific
 Phu My Fertilizer
 VRICL/Tiberon

REAL ESTATE

Project Design and Development Joint Venture Company Limited
 Refrigeration Electrical Engineering Corporation
 Saigon Telecommunication and Technologies Corporation
 Thu Duc House Development Joint Stock Company
 Vietnam Construction and Import-Export Corporation

PDD
 REE
 Saigon Tel
 Thu Duc House
 Vinaconex

SOFTWARE/SERVICES

Corporation for Financing and Promoting Technology

FPT

TECHNOLOGY HARDWARE

Cables and Telecommunications Material Joint Stock Company

Sacom Cable

TRANSPORTATION

General Forwarding and Agency Corporation
 HCMC Infrastructure Investment Joint Stock Company
 HCMC Infrastructure Investment Joint Stock Company - Convertible 8% 15/09/09
 Pacific Ocean Shipping Joint Venture Company

Gemadep
 CII
 CII - Bond 8% 15/09/2009
 Pacific Ocean

UTILITIES

Pha Lai Thermo Power Joint Stock Company
 Vinh Son-Song Hinh Hydropower Joint Stock Company

Pha Lai Power
 Vinh Son-Song Hinh

ADMINISTRATION

The shares of Vietnam Enterprise Investments Limited (VEIL or the Company), are listed on the Irish Stock Exchange. Price updates are available on Bloomberg (VIETENI KY EQUITY) and Reuters (DRAGON1).

THE COMPANY

Vietnam Enterprise Investments Limited
Grand Pavilion Commercial Centre, PO Box 2003
802 West Bay Road
Grand Cayman, KY1-1104 Cayman Islands
British West Indies

INVESTMENT MANAGER

Enterprise Investment Management Limited
c/o 1901 Me Linh Point
2 Ngo Duc Ke, District 1
Ho Chi Minh City, Vietnam
Tel: + 84 8 3823 9355 Fax: + 84 8 3823 9366

ADMINISTRATOR, REGISTRAR AND SECRETARY

Fortis Prime Fund Solutions (Cayman) Limited
Grand Pavilion Commercial Centre, PO Box 2003
802 West Bay Road
Grand Cayman, KY1-1104 Cayman Islands
British West Indies

SUB-ADMINISTRATOR AND ASSISTANT SECRETARY

Fortis Prime Fund Solutions (Asia) Limited
28/F Fortis Tower
77-79 Gloucester Road
Hong Kong

CUSTODIAN

Fortis Prime Fund Solutions Bank (Ireland) Limited
Fortis House
Park Lane
Spencer Dock
Dublin 1, Ireland

SUB CUSTODIAN

HSBC
The Metropolitan
235 Dong Khoi, District 1
Ho Chi Minh City, Vietnam

LEGAL ADVISER TO THE COMPANY

(as to Vietnamese law)

Freshfields Bruckhaus Deringer
Unit 1, 5/F International Centre
17 Ngo Quyen
Hanoi, Vietnam

LEGAL ADVISER TO THE COMPANY

(as to Cayman Islands law)

Charles Adams, Ritchie & Duckworth
PO Box 709 GT
Zephyr House, Mary Street
Grand Cayman, Cayman Islands
British West Indies

DEALING ENQUIRIES

Dragon Capital Markets Limited
Tel: +84 8 3823 9355
Fax: +84 8 3823 9366
Email: dealing@dragoncapital.com

AUDITORS

KPMG Limited
10/F Sun Wah Tower
115 Nguyen Hue, District 1
Ho Chi Minh City, Vietnam

PAYING AGENT

Custom House Administration and Corporate Service Limited
25 Eden Quay
Dublin 1, Ireland

LISTING SPONSOR

McCann FitzGerald Listing Services Limited
Riverside One
Sir John Rogerson's Quay
Dublin 2, Ireland



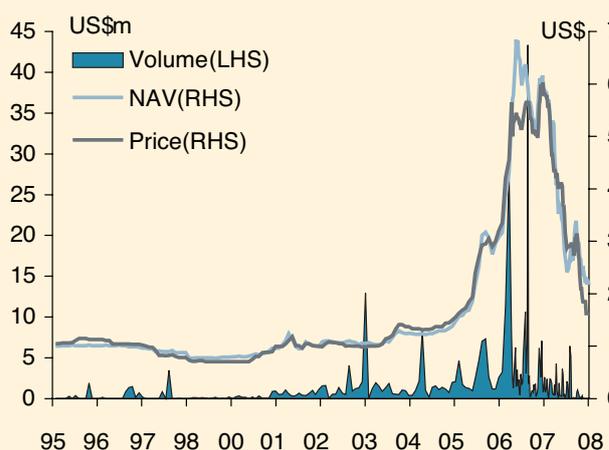
SUMMARY OF AUDITED RESULTS

	31 December 2008	31 December 2007	% Change
Total Net Assets	US\$365,009,819	US\$901,231,025	(59.5)%
Number of Outstanding Shares	173,823,000	158,021,000	10.0%
Net Asset Value per Share	US\$2.10	US\$5.70	(63.2)%
Share Price (Mid-Price)	US\$1.63	US\$5.60	(70.9)%
(Discount)/Premium	(22.38)%	(1.75)%	1178.9%
US\$/VND Exchange Rate	17,485	16,003	(8.5)%
VN Index	315.62	927.02	(66.0)%
VN Index Adjusted US\$ Rate	254.41	815.59	(68.8)%

Period's High and Low	Year to 31 December 2008		Year to 31 December 2007	
	High	Low	High	Low
Net Asset Value per Share	US\$5.34	US\$2.10	US\$6.84	US\$5.16
Share Price (Mid-Price)	US\$5.35	US\$1.63	US\$6.00	US\$4.55

Source of Income (US\$)	2008	2007	% Change
Dividend Income	12,851,138	26,336,196	(51.2)%
Interest Income	2,628,381	3,218,844	(18.3)%
Other Income	1,094	1,078,075	(99.9)%
Total	15,480,613	30,633,115	(49.5)%

SHARE PRICE & NAV



Source: Dragon Capital

PREMIUM/DISCOUNT OF PRICE TO NAV



Source: Dragon Capital

VN INDEX

315.62

NAV PER SHARE

US\$2.10

SHARE PRICE

US\$1.63

BOARD OF DIRECTORS



RICHARD MCKEGNEY

(BORN 1945, APPOINTED TO THE BOARD 1995)

CHAIRMAN AND INDEPENDENT NON-EXECUTIVE DIRECTOR

Richard McKegney is a graduate of the University of Puget Sound in Washington State and the American Graduate School in Arizona. Mr. McKegney began his career with American Express Bank and has held numerous positions throughout Asia. He is currently the head of the Asia Pacific region for the National Bank of Kuwait, based in Singapore, where he has responsibility for the Asia Pacific region including the bank's representative offices in Ho Chi Minh City, Vietnam, and Shanghai, China. Mr. McKegney is also a director of NIG Asian Investments Ltd., a wholly-owned investment vehicle of the bank, which has been an investor in VEIL since its inception. He resides in Singapore.

SIN FOONG WONG

(BORN 1960, APPOINTED TO THE BOARD 2005, RESIGNED FROM THE BOARD APRIL 2009)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Sin Foong Wong holds a Bachelors of Science degree in engineering from Princeton University and a Masters in Finance degree from the London Business School. Mr. Wong joined IFC in 2001 and has led transactions in the chemicals sector in India and China, and was responsible for the sector's first investments in Russia and Ukraine. He also led the IFC's chemicals strategy and business development in East Asia. Prior to joining IFC, he worked for 16 years in an oil major covering assignments at its affiliates in Malaysia, Australia, the U.S.A. and Singapore. Throughout his tenure on the Board, Sin Foong Wong was the IFC's country manager for Vietnam, Laos and Cambodia, until reassigned in 2009, to a new regional and business role within the IFC. This prompted his resignation from the Board on 7 April, 2009.



HARTMUT GIESECKE

(BORN 1937, APPOINTED TO THE BOARD 2006)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Hartmut Giesecke has a Masters of Economics degree from Freiburg University, Germany and an MBA from Columbia University Graduate School of Business. Mr. Giesecke joined the Capital Group organisation in Geneva, Switzerland and then moved to Los Angeles to work for Capital Research Company as an analyst covering non-U.S. markets and later as an international portfolio manager. In 1982 he moved to Japan where he headed Capital's Japanese business, starting as Representative and Director of Capital Research Company and then as General Manager and President of Capital International K.K. In the fall of 1992, he transferred to Singapore to assume responsibility as Managing Director, Asia Pacific of Capital Group International, Inc., the holding company of Capital's global institutional investment business. He retired from active portfolio management in July 2005 but continues to serve as a senior consultant to Capital International, Inc. in Singapore. He resides in Germany.



DOMINIC SCRIVEN O.B.E.
(BORN 1963, APPOINTED TO THE BOARD 1995)
NON-EXECUTIVE DIRECTOR

Dominic Scriven graduated in 1985 from Exeter University with a combined honours degree in law and sociology and was awarded an O.B.E. in 2006. In 1985 he started working with M&G Investment Management London before moving to Hong Kong to work for Sun Hung Kai and Co in 1986, and then Citicorp Investment Bank. In 1991 he moved to Vietnam, spending two years enrolled at Hanoi University, before, in 1994, co-founding Dragon Capital Group. A Vietnamese speaker, Mr. Scriven sits on the boards of numerous Vietnamese and non-Vietnamese companies, including five companies listed on the Vietnam Stock Exchange. He resides in Ho Chi Minh City, Vietnam.

JOHN SHRIMPTON
(BORN 1962, APPOINTED TO THE BOARD 1997)
NON-EXECUTIVE DIRECTOR

John Shrimpton graduated from Newcastle University in 1984 with an honours degree in law. After working as a financial advisor in London and, from 1986, in Asia, he worked from 1988 as one of the first institutional salesmen specialising in the Asian emerging markets at W.I. Carr (Far East) in Hong Kong. In 1991, he moved to Bangkok, Thailand and joined Dynamic Eastern Finance Thailand, a securities and finance company listed on the Stock Exchange of Thailand, as institutional sales director. In 1994, he returned to Hong Kong where he worked as a Thai specialist institutional salesman at HSBC James Capel Asia. Having co-founded Dragon Capital in 1994, he moved to Ho Chi Minh City in November 1996 to work full time with the Group. In addition to serving on the boards of all the publicly listed equity funds managed by Dragon Capital and a number of their investee companies, Mr. Shrimpton has been active in the origination of investment opportunities for investment management clients of Dragon Capital. He resides in Ho Chi Minh City, Vietnam.



CHAIRMAN'S STATEMENT



...the Government, faced with its first big challenge on macro-financial management, ultimately rose to the occasion.

“ ”

I am delighted to present VEIL's annual report and financial statements for the year ended 2008. Vietnam had an exceptionally difficult 2008. Throughout the first half it had to deal with its over-heating crisis, which put the trade deficit on track to exceed US\$20bn, or about one quarter of GDP, while inflation looked as if it were headed for 25-30%, more than doubling over the previous year. These problems did not really lie in economic mismanagement. Rather they came from Government's inexperience in dealing with its first full exposure to globalisation and resulting capital inflows. For too long it allowed SOEs and banks to collude in a lending-and-spending binge that dangerously distorted the macro-economy.

But officials began to get a grip on the situation toward mid-year, after imposing emergency measures such as loan curbs, higher interest rates and compulsory bond sales. These were crude, but quite effective in curbing debt-fuelled conglomerate formation and asset speculation. In June and August, respectively, the trade deficit and inflation both peaked and in following months they decelerated markedly, ultimately finishing 2008 at much less than early indications had threatened. Restraining credit flows dampened growth but also prepared the way to stabilise it.

So the Government, faced with its first big challenge on macro-financial management, ultimately rose to the occasion. This reflected well on the authorities. But no sooner had they won the battle on domestic over-heating than they were confronted by the global financial crisis. Correlation with this event could not be avoided. It has dragged the world into recession and greatly undermined Vietnam's near-term growth prospects, especially through the effect on exports and FDI. Even as the country's planners have scrambled to cut rates, lending has moved from a slowdown to a near-halt. This has raised concern about the weakened solvency of borrowers, and how this might rebound on the banking sector itself.

The stock market has mirrored these tribulations. After steadily falling from 927 in January, the Index reached a low of 366 in June, but rose sharply to 562 as policy improved and the macro numbers turned. Then the global crisis struck. Stocks moved down yet again to reach a new bottom of 289, though they ended a bit higher at 303, making for a 66% decline on the year.

VEIL did a little better, losing only 61.0%. This was despite its overweight in banks – some 36.0% of NAV at the start of the year versus just 3.6% for the Index. Heavy exposure to banks worked well in earlier times, but could have told against the Fund in 2008 since they were sold down even more than the market. However the managers built a modest cash and bond position, and other stocks outperformed. In particular the valuation of unlisted Tiberon – which owns most of the polymetallic tungsten mine development at Nui Phao, and was 9.6% of VEIL when 2008 began – fell by less than half of the benchmark.

The year ahead will not be easy and Vietnam will have to contend with much lower levels of growth. Its market is now hostage to global bourses and so far in 2009 has tracked them very closely. Where it heads in the foreseeable future is a question of historical forces. One thing we are confident of, however, is that the Vietnam growth story remains intact. Since the recession's onset Vietnam has shown greater economic resiliency than many Asian peers due to its more basic macro structure and its broader domestic sector. Its capital markets are insulated by low foreign debt, no toxic assets, the closed-end structure of offshore equity funds and the pull-out long ago of whatever foreign portfolio investments were going to leave. Vietnam will be quicker to turn than its peers when the financial industry comes out of its slump and resumes mobilisation of the country's huge undeclared savings as in 2006-07. VEIL represents an excellent investment in this trajectory.

RICHARD MCKEGNEY
CHAIRMAN
VIETNAM ENTERPRISE INVESTMENTS LIMITED
25 JUNE 2009

GOVERNANCE

COMPLIANCE

The Company recognises the need for high standards of corporate governance. The Board is responsible for ensuring the appropriate level of corporate governance and will continue to work towards complying with the provisions of appropriate codes that it views most appropriate to the Company and its unique operational environment.

ROLE OF THE BOARD

The management agreement between the Company and Enterprise Investment Management Limited (the Investment Manager) sets out the matters over which the Investment Manager has authority. This includes management of the Company's assets and the provision of accounting, company secretarial, administration and marketing services. All other matters are reserved for the approval of the Board, including the determination and monitoring of the Company's investment objectives and policy and its future strategic direction, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements. The Board meets at least biannually and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities. Directors may take independent professional advice if necessary and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, Fortis Prime Fund Solutions (Cayman) Limited, which is responsible to the Board for ensuring that applicable rules and regulations are complied with and that Board procedures are followed.

BOARD COMPOSITION

The Board consists of three independent non-executive Directors, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman, and two non-independent Directors appointed by the Investment Manager. Following the end of the financial year, one of the independent Director has resigned from the board due to his relocation and plans are in place for his replacement. The independent Directors have a breadth of investment, business and financial skills and experience relevant to the Company's business and brief biographical details on each Director are set out on pages 4 to 5. The current Board is deemed to comply with the guidelines determined, and reflecting the skills and requirements considered necessary to carry the Company forward.

TENURE

Independent non-executive Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be elected by shareholders. Thereafter they may stand for re-election on an annual basis. The Board does not believe that the length of service in itself necessarily disqualifies a Director from seeking re-election but, when making a recommendation, the Board will take into account the ongoing requirements of the Company, including the need to refresh the Board. To deal with the appointment of Directors, VEIL operates a Nomination Committee which is responsible for proposing candidates for appointment to the Board, having regard to the balance of skills, knowledge and experience of the Board. For independent Director appointments, the Committee also considers the time commitment involved in the appointment in arriving at its decision and this is reflected in all new letters of appointment. To deal with valuation and conflict issues, the Company has appointed a committee for this purpose, which is comprised of all independent Directors. The Investment Manager routinely reports to this Committee, all transactions and issues involving related parties. As at the year end there were no issues of substance, and a consensus of opinion relating to all investments was held.



The Company recognises the need for high standards of corporate governance.



GOVERNANCE

CONTINUED

MANAGEMENT

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. As part of this review, the Board considered the quality and continuity of the personnel assigned to handle the Company's affairs, the investment process and the result achieved to date. The Directors believe that the Manager has the resources and ability to deliver the results which they seek. In addition, the Directors have expressed their satisfaction with the quality of the administrative and other services provided by the Administrator.

RISK MANAGEMENT AND INTERNAL CONTROL

The key risks facing the Company are disclosed in Note 14 to the financial statements. These risks are monitored as part of the normal oversight process. Risk management and the operation of the internal control systems within the Company are primarily the responsibility of the Investment Manager, who operates under commercial independence and flexibility to ensure that risks are clearly owned and managed and that systems of control operate effectively. The Investment Manager monitors activities on a daily basis and ensures that the appropriate controls are exercised over the Company's assets. The systems of internal control operated by the Company are designed to manage rather than eliminate risk of failure to achieve its objectives, and will only provide reasonable and not absolute assurance against material misstatement or loss.

RELATIONS WITH SHAREHOLDERS

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Annual Report and the Interim Report. This is supplemented by weekly reports of the NAV of the Company's shares. During the year, the Investment Manager holds regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to address shareholder queries. The Company's Annual Report is published in time to give shareholders generous notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Administrator at the address shown on page 2.

CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

VEIL is committed to delivering superior investment performance to its investors. We understand that one of the drivers of investment performance is an assessment of the corporate governance principles and practices of the companies in which we invest our investors' assets and we expect and support those companies to demonstrate high standards of governance in the management of their business. We believe it is our primary duty to act in the best financial interests of our investors and to achieve good financial returns consistent with an acceptable level of risk in the management of our assets. An investee company run in the long term interests of its shareholders with the objective of enhancing shareholder value over time will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and to have regard to the environment and society as a whole. In our pursuit of good financial returns for our investors, the Investment Manager takes account of these and all other factors affecting the valuation of the companies in which the Company is currently invested or considering investment. Dragon Capital has incorporated an Environmental Management System into its investment process since 2002, and now operates a Governance Unit with a remit to ensure all areas of the business are meeting with governance best practice. A copy of the Annual Governance Report is available on request.

VEIL is committed to delivering superior investment performance to its investors.



VOTING POLICY

Proxy voting is an important part of the corporate governance process, and we view seriously our obligation to manage the voting rights of the shares in investee companies as we would manage any other asset. Consequently, votes are cast both diligently and prudently, based on our reasonable judgment of what will best serve the financial considerations of the Company. So far as is practicable, we vote at all of the meetings called by companies in which we are invested. In order to do this, we agree our stance on a variety of key corporate governance issues, including disclosure and transparency, board composition, committee structure, director independence, auditor rotation and social and environmental issues. These guidelines form the basis of our proxy voting decisions, although they are equally cast on a case-by-case basis, taking into account the individual circumstances of each vote.

The Board is responsible for ensuring that the Company has an appropriate and effective risk management framework and will be monitoring the ongoing process for identifying, evaluating, managing and reporting the significant risks faced by the Company.



VEIL AGM SUMMARY

30 December 2008

Ordinary resolutions

- ★ Adoption of the audited financial statements, auditors' report and the Directors' report;
- ★ The sanctioning of the Directors' decision not to pay a dividend;
- ★ The re-appointment of Richard McKegney as Director following the expiry of his respective terms at the AGM;
- ★ The approval to issue up to 10% new redeemable shares; and
- ★ Approval to appoint KPMG Limited as new auditors.

Special resolutions

- ★ To authorise the Directors to issue up to 200,000 conversion shares
- ★ Amending the articles of association of the Company to allow any repurchased shares to not be cancelled, but to be effectively kept as treasury shares, by allowing the Company to cause a third party, a potential subsidiary of the Company, to purchase shares in the Company without cancelling those shares.

All resolutions were passed.



INVESTMENT MANAGER'S REPORT

THE ECONOMY

THE YEAR OF INVESTING DANGEROUSLY

After a two year boom in financial investment, Vietnam's capital markets entered a period of dislocation and diminishing asset values. The year began with the domestic economy reeling from external price shocks in commodities as CPI surged from 12.5%, to a peak of 28%. In addition, the investment boom stemming from WTO accession in January 2007 culminated in uncontrolled credit growth that ended 2007 at 54%, peaking in the second quarter, at over 64%. However, with limited depth to the retail sector, the majority of credit was concentrated in capital investment, leading to a vast run-up in imported factory and industrial materials. The policy response was to treat the issues of commodity prices and credit growth as correlated rather than possibly coincidental, and faced with a policy choice of using interest rates or currency adjustments, the central bank decided on neither and confiscated bank liquidity. This culminated with the March compulsory bond. The result was a prolonged and steady deterioration in financial assets, whilst offshore, the global economy had taken a turn for deleveraging, deflation, and high-depression.

By the second quarter, the Government was confronted by a huge foreign bond sell-off that unhinged the tightly regulated foreign currency market. The central bank mediated the run on VND through moderate interventions, and managed the foreign hysteria through the timely release of balance of payments estimates (which were far healthier than off-shore investors suspected). Nonetheless, the sharp cuts in bank liquidity and the gummed-up foreign financial markets had already taken their toll on economic activity, leading to a sharp underperformance in second quarter GDP growth (6.5% vs. 7.8% in 2007). This set total economic expansion at 6.4% for the year; the lowest level since 1999.

Despite what some might view as initial policy gaffes and worsening external conditions, the second half of the year was a marked policy improvement in managing the financial system. Both the currency and interbank markets functioned more effectively from a revised central bank approach. The FX market was clearing and interest rates became much more stable. Domestic credit markets remained saturated from the excesses of 2007, but the bond market went into full rally. Off-shore investors remained net sellers, running down net holdings from a peak of US\$3bn in 2007, to near US\$500m by year's end. But the domestic banks began shifting assets into debt, sending dong yields down from the second quarter peak of 22%, to pre-crisis levels of 8% on 4-5 year Vietnam government bonds.

With the second half recovery in debt markets, the tremendous volatility in the sovereigns (the lowest risk class of investment within the country outside of cash) was enough to unhinge the investment-growth nexus. Projects that appeared viable in 2007 became unprofitable through opportunity costs, and the sudden increase in the cost of capital, both domestically and from the global financial situation, threw an additional wrench into project finance. The issue was most telling in FDI, where the previous focus in export manufacturing investment was distorted to projects, typical of late stage investment booms: frivolous



property developments and large scale industrials focused on import substitution. These late phase foreign investments (that remain on the books as pledges) are an acute reminder of the uncertainty during 2008: the constant hope for a bottom to asset prices, and how little one expected Vietnam to be dragged down by global recession.

Moving forward, 2009 looks to be a frosty period for capital markets. Vietnam lacks both the institutions and surpluses to motivate a strong counter-cyclical response to the downturn. While the investment boom has clearly left the country with slack capacity on the upper end, the economy's small business and agricultural orientation is an insulator to financial shocks, meaning the bulk of growth will fall on the shoulders of fundamentally strong domestic consumption. The slowing investment and drop in external demand will of course take a bite, pushing GDP growth forecasts to 5%; a level not seen for 10 years, but there are unique positives here, beyond consumption driving 65% of GDP. The population remains in the early stages of affluence, with the bulk of consumption in basic products and growth from access to new products. Also, the undeveloped consumer credit markets mean limited impact from the financial mess, most obviously verified by 2008's 33% retail sales growth.

Similar to the post 1997 crisis that coincided with the first expansion of VEIL, Dragon Capital's first fund, we are entering a period of tremendous opportunity for the deployment of long-term investment. Spare capacity means discounted prices, and we are once again in a relatively open market to deploy capital. Prized assets are becoming attractive after years of overvaluation and saturation of foreign interest. In the aftermath of a grim 2008 is the more obvious fact that opportunity is also at a level not seen for 10 years.

Furthermore, the tenor for reforms is at a high pitch, with particular emphasis on rectifying many of the institutional weaknesses in the financial system that resulted in excesses of cyclical activity. Whilst it is easy to be critical of certain policy errors in hindsight, it was easy to overlook the extent that the country's financial markets over the past two years had become genuine markets. The transition came with vast improvements in capital allocation, but at the cost of acute cyclical activity and general market-borne chaos, which against all other peaks and troughs, was most remarkably felt in the interest rates for VND. From depressed costs of capital during the boom times, to a domestic liquidity squeeze, to an offshore credit crunch, the shocks to financing and changes in opportunity costs created on-going difficulties to determine project feasibility or even current value. It was a dangerous year to invest.

However, none of these points are specific to Vietnam, and are part of a global financial market pandemic. What is unique to Vietnam is that fixing the system is a much simpler process. It is not a case of financial markets clogged up with toxic assets, but the simple need to develop a repo market. It is not a complex issue of redefining mark-to-market valuations, but rather stabilising interest rates. As most of the world experiments with radical, untested economic policy, Vietnam is importing the basic kit for governing financial markets. Policy makers in Vietnam are very quick thinkers, early adapters, and see global market integration as a cornerstone to economic development. Developed markets are tearing down established financial infrastructure, whilst Vietnam continues to build markets from scratch and the zeal to do so is unquestionable. In hindsight, the recent boom-and-bust was horribly timed, too quick, and consequently, poorly regulated. With lessons learned and experience gleaned, the next leveling-up will be a far different matter.

Policy makers in Vietnam are very quick thinkers, early adapters, and see global market integration as a cornerstone to economic development.

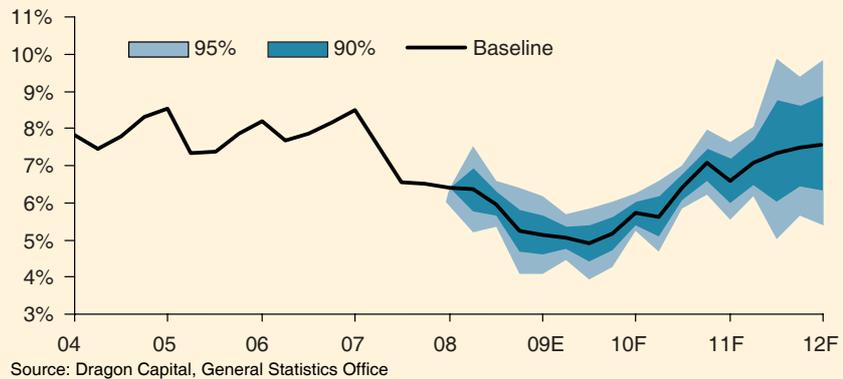


INVESTMENT MANAGER'S REPORT

PRODUCTION AND FDI

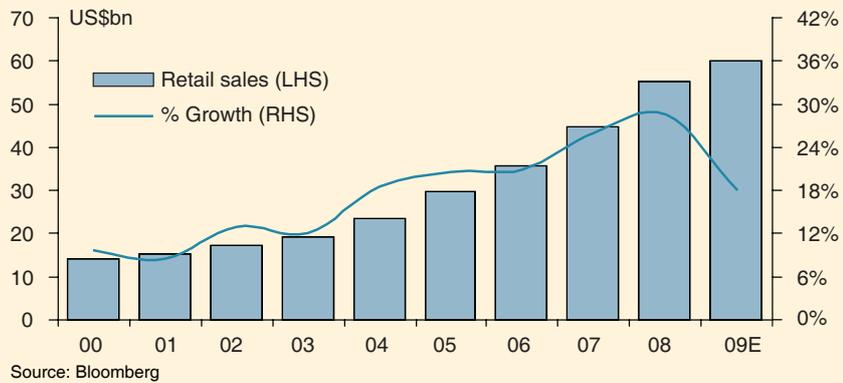
REAL GDP GROWTH

Real GDP growth reached 6.4%, the lowest in 10 years, largely due to a stem in investment flows, caused by stalled financial markets. We expect further slowing in 2009, and cautiously forecast 5.1%, with a rebound expected in mid-2010.



RETAIL SALES

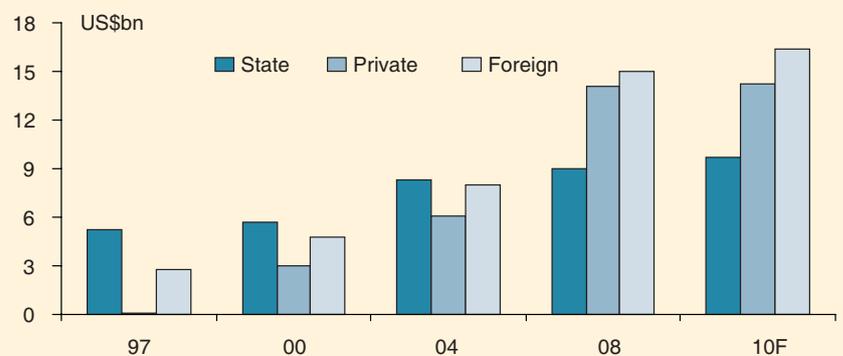
On the consumption side, after a spending boom in 2007-08, we anticipate the downturn in the general economy to result in slower sales growth. Cars, which were the lead items in 2007, have tailed off significantly, in response to higher taxes.





INDUSTRIAL PRODUCTION

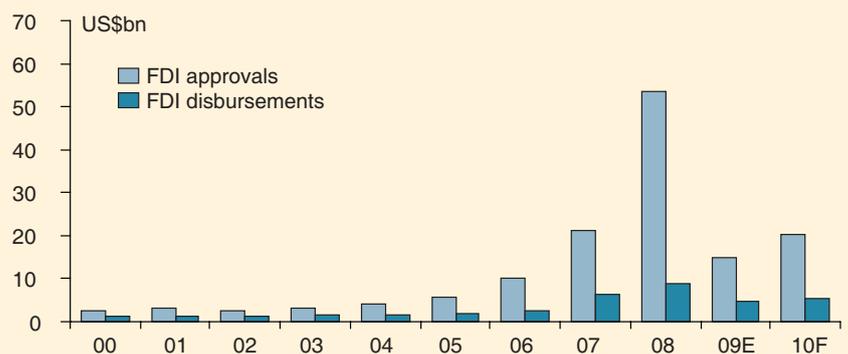
The investment surge, originating in 2006, has led to dramatic increases in foreign and private industrial production. The shift from state to private ownership should improve both the resilience and flexibility of the economy. In this era of downturn, we expect moderate growth until 2010 and inevitable recovery.



Source: Bloomberg

FOREIGN DIRECT INVESTMENT

FDI is thriving, with pledges of US\$60bn for 2008. While 2006-07 favoured investment in labour intensive, light manufacturing, 2008 was primarily supporting big ticket projects in heavy industry (steel mills and oil refineries) and hotel/resort development. Under prevailing global conditions, we maintain a level of scepticism whether many pledges will actually materialise.



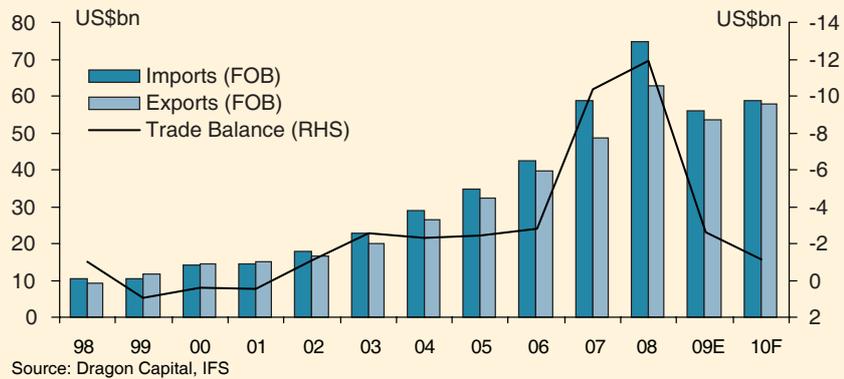
Source: Bloomberg, International Financial Statistics (IFS)

INVESTMENT MANAGER'S REPORT

TRADE

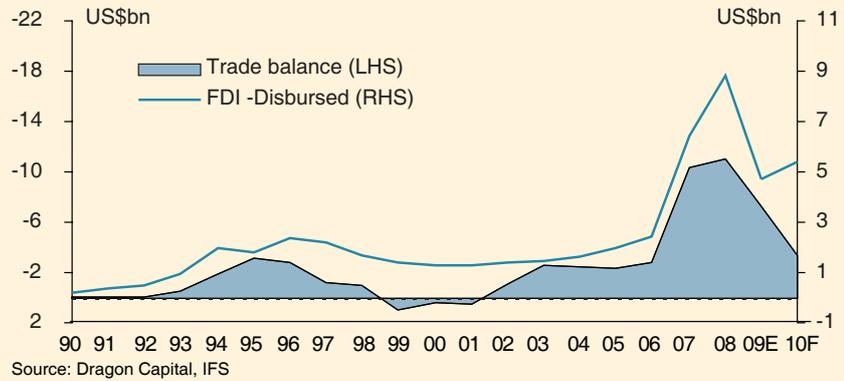
TRANSITION IN THE TRADE ACCOUNT

Following two decades of robust trade performance, 2008 should have marked a peak on several fronts. First, we are forecasting declines in general trade activity on both the export and import side, in tandem with a slowing world economy. Secondly, we should see a fall in the trade deficit.



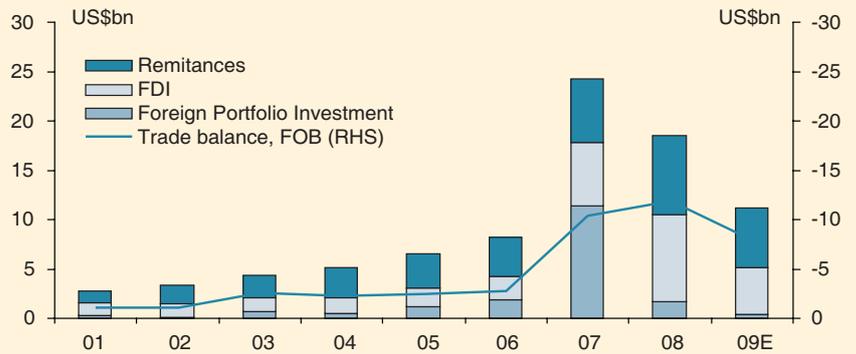
FDI AND THE TRADE DEFICIT

As we have argued in the past, the majority of the trade deficit stems from foreign capital investment. With declines in general capital flows, we anticipate a contraction in the goods deficit and a potential surplus over the next two years.



GENERAL BALANCE OF PAYMENTS

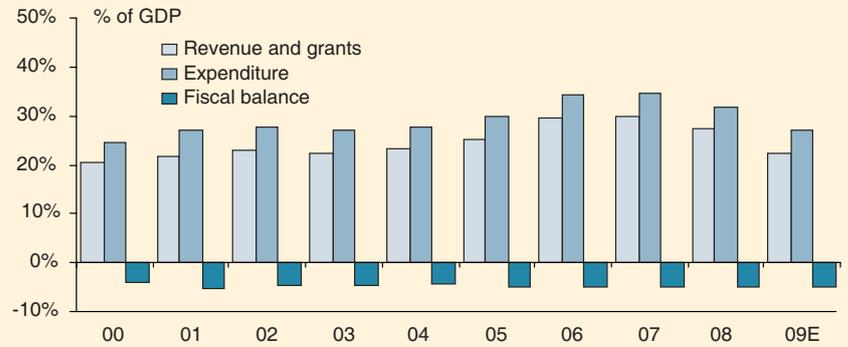
After a dramatic 2007 for the capital account, we should see the BoP cool over the next two years, based on a slow down in inflows, as well as in general trade activity. However, we expect capital inflows and remittances will continue to foot the bill for the trade deficit.



Source: Dragon Capital, IFS

FISCAL STANCE

The national assembly continues its strict 5% fiscal budget, with both expenditures and revenues, under reform. The Government tightened recurrent expenditures in Q1, whilst assessing major projects. The current focus remains on infrastructure, with subsidies for business loans a likely part of the stimulus plans. Revenues remain buoyant, increasingly from corporate income tax. We expect a decline in oil revenues in 2009.



Source: Dragon Capital, MOF



INVESTMENT MANAGER'S REPORT

NATIONAL ACCOUNTING

CREDIT GROWTH

The binge investment spree was manifested by extremely high credit growth (mostly concentrated in the last two months of 2007). The Government endured a full cycle of tightening before easing the reins on monetary policy in Q4. There is clearly intent to stimulate growth through monetary policy, but questions remain on its feasibility, given the already over-extended banking system.



Source: Dragon Capital, SBV

INTERBANK MARKET

With most of the world facing 50bps volatility LIBOR spikes, Vietnam's interbank market played merry with 1,500bp equivalents. In response to the first half CPI run, SBV drained bank deposit bases via mandatory reserves and a compulsory bond issue. In the later half of the year, deflation risk and concerns for growth led to a reversal of prior tightening, pushing rates back to prior year levels.



Source: Dragon Capital



BOND MARKET

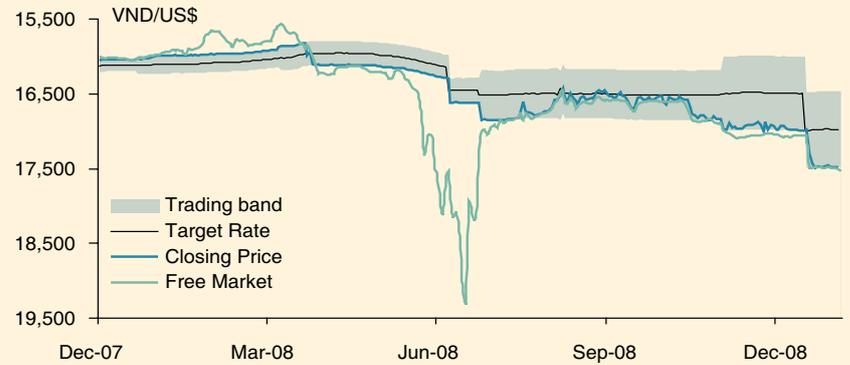
The bond market experienced high levels of volatility largely through foreign unwinding. As inflation levels climbed from mid-2007, the bond market held firm up until May. Concerns with the BoP caused an eventual jolt to 20% levels. As CPI started its decline, and SBV released its grasp on liquidity, the bond market resumed its inflation-trend, tracker status.



Source: Bloomberg

EXCHANGE RATE

An interim speculative attack caused by offshore analysts predicting a 1997 Thai-style blowout, sent the VND tumbling to 19,500. A foreign-led bond sell off ensued. However, Vietnam's minimal global exposure (US\$3bn foreign-held bonds) was easily absorbed by foreign reserves. Selling petered out, leaving net stock foreign bond positions near US\$500m. Rates returned to the official band. By year-end, additional pressure came from massive US\$ appreciation and general foreign exchange volatility.

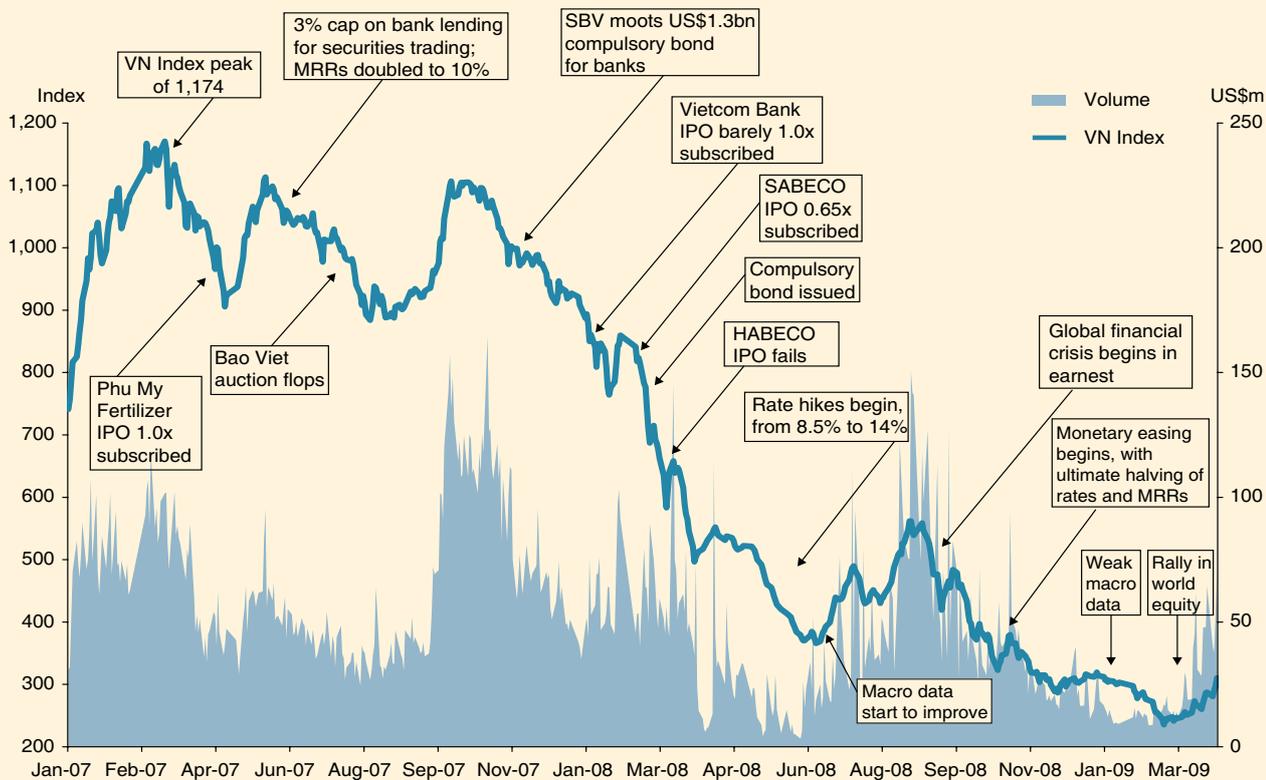


Source: Dragon Capital, SBV



INVESTMENT MANAGER'S REPORT

THE STOCK MARKET



Source: Dragon Capital, HOSE, HATSC

As world exchanges imploded, the VN Index went back to swoon mode, sinking past its previous low and closing 2008 at 316, for a final loss of 66%. This made it the worst-performing bourse in Asia, if not quite the world.

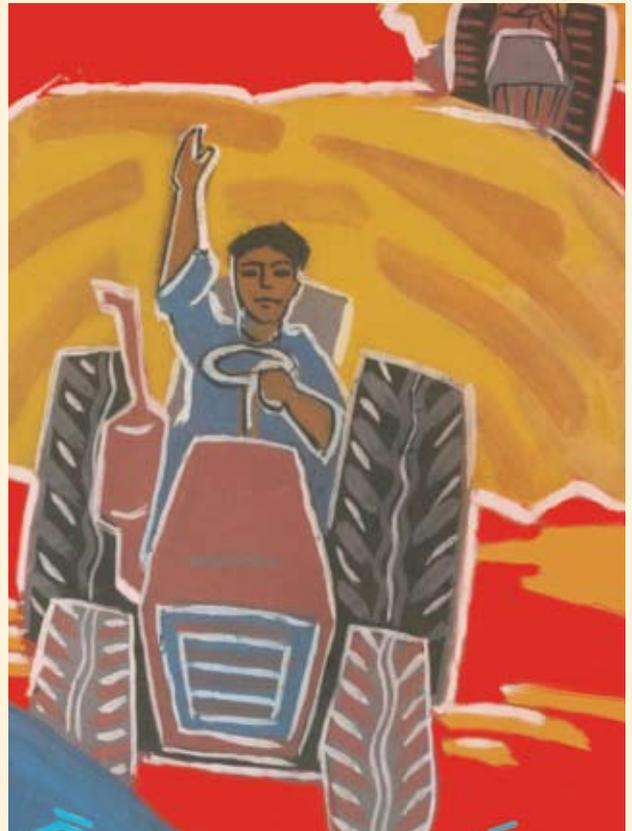
“ ”

Throughout most of 2008, stocks continued the descent they began in late 2007 on the back of the Government's monetary tightening measures. These had been launched in response to the domestic overheating crisis that developed as bull-market liquidity flooded capital markets, putting inflation and the trade deficit up to record levels. As the situation did nothing but intensify in early 2008, the authorities became ever more aggressive, following through on their threats of a US\$1.3bn compulsory bond to the banking system, and taking base rates up from 7% to an eventual 14%.

This was catastrophic for the market, which by June had fallen 61% to 366, from its end-2007 level of 927. But ultimately the monetary crackdown, however ham-fisted it seemed at the time, had the desired effect on the economy. The macro numbers came under better control and stocks began to rally, jumping 54% to 562 by the final week of August. That, however, was just in time for the global crisis kicked off by the Lehman Brothers bankruptcy. As world exchanges imploded, the VN Index went back to swoon mode, sinking past its previous low and closing 2008 at 316, for a final loss of 66%. This made it the worst-performing bourse in Asia, if not quite the world. Combined listed-market capitalisation of Ho Chi Minh City and Hanoi Exchanges fell from US\$44bn to US\$17bn and daily volumes from US\$50-100m to ca US\$10m.

One could take a view, however, that this outcome was not entirely of Vietnam's own making. More disappointing, perhaps, was sub-optimal progress on privatisation. The Government insisted on over-pricing a couple of big issues early in the year, despite the lesson that should have been learned from Vietcombank at the end of 2007. The criteria continued to be competitive multiples of par, not underlying value, and as a result these equitisations flopped. Saigon Brewing, valued at US\$2.8bn by the Government, was actually pegged by foreign analysts at a maximum of US\$1.7bn. Planned as a total 20% offering, it was 0.61x subscribed on its retail portion of 4%, with no foreign strategics bidding for their designated 10% and none of the rest sold either. Hanoi Brewing, planned as a 15% offering on a US\$648m value, was not subscribed by the public at all. Carlsberg, however, did come in as a 10% strategic shareholder and was then allowed to buy up the 5% that had been targeted for the public. This made the deal a success as a trade sale at least.

It was perhaps strange that these transactions went ahead in the first place, since officials had their draconian liquidity squeeze underway at the same time, which would have seemed to conflict with major IPO launches. In any event, the Government suspended privatisations after Habeco and there was nothing further until Vietin Bank in December. This issue - planned as 20% of shares on a US\$350m market cap - also proved anticlimactic. By the time it happened it had been repeatedly delayed and ultimately took place on Christmas Day. Valuations were not as wildly excessive as before, but were still unconvincing: a 2009 PER of 11x, with pedestrian earnings growth, plus a REP (rating of economic profit) of 1.8x and a clearly under-provisioned loan book. Some 10% was reserved for a foreign strategic shareholder but there was no interest. In the end, all that was sold was the 4% designated for domestic retail investors, and it remains uncertain how much of this may actually have gone to those buyers.

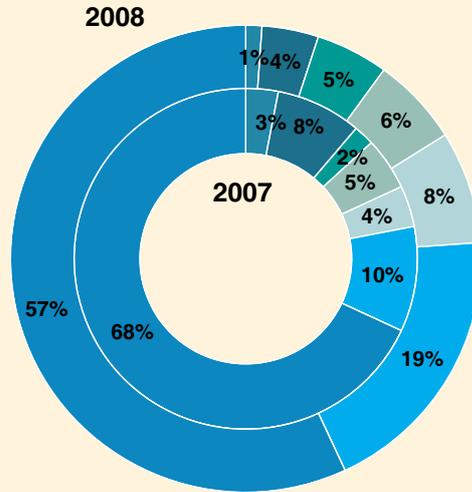




INVESTMENT MANAGER'S REPORT

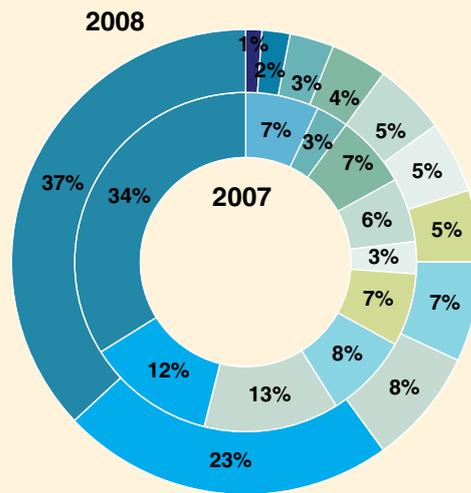
THE FUND

VEIL by ASSET CLASS



- ★ Overseas Listed Equities
- ★ Vietnam OTC Equities
- ★ Cash
- ★ Private Equities
- ★ Bonds
- ★ Overseas Unlisted Equities
- ★ Vietnam Listed Equities

VEIL by SECTOR



- ★ Technology Hardware
- ★ Software/Services
- ★ Utilities
- ★ Energy
- ★ Consumer Services
- ★ Transportation
- ★ Diversified Financials
- ★ Cash
- ★ Real Estate
- ★ Food/Beverage
- ★ Materials/Resources
- ★ Banks

For a full portfolio listing, please see pages 49 to 50 of the audited consolidated financial statements.



INVESTMENT MANAGER'S REPORT

THE FUND (CONTINUED)



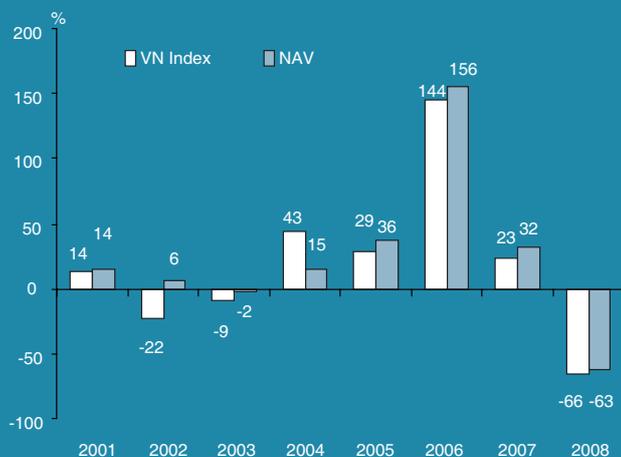
Source: Dragon Capital

2008 has been the worst year in terms of performance, since the inception of both VEIL, and the VN Index. The benchmark dropped 66% whilst VEIL slightly outperformed, down 63% vs. 2007.

In the early months of 2008, the VN Index was negatively impacted by record high-inflation and a widening of the trade deficit. This forced the State Bank of Vietnam to invoke a series of base rate increases and a credit limitation policy, which ultimately lead to an interest rate race amongst the banks. Their net interest margins shrank dramatically and a steep fall in property prices ensued. Indicators suggested that the economy was back on track, but then the global crisis washed onshore, bearing upon Vietnam's exports and FDI, which can be clearly evidenced in the disappointing performance of many companies in the last quarter of 2008.

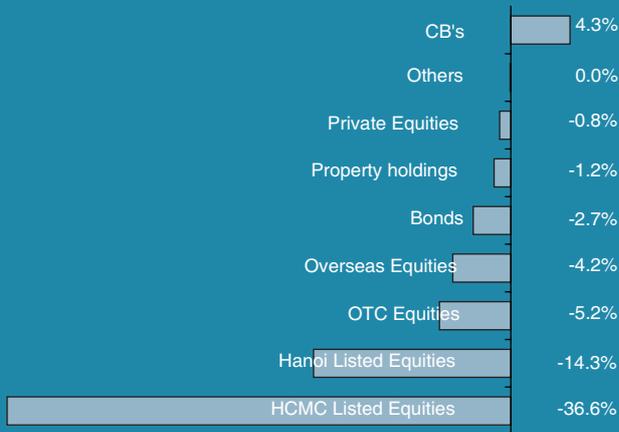
VEIL, with its strong weighting in cyclical stocks, was not immune to the macro woes. Banks, diversified financials and property, which composed 50% NAV by end of 2007 (and helped drive the fund's outperformance), were dragged into the mire. Materials and resources, the second largest sector after banks, were independently hit by downward revaluations. VEIL, as one of Vietnam's largest funds, found it less easy to manoeuvre quickly, particularly when trying to proactively react to the stock market's credit drought. Still, we took advantages of volatility to restructure the fund portfolio. During the year, we sold 10 securities, due to their small weighting and underperformance, and bought four new flagship securities in the fields of materials (Phu My Fertilizer), software (FPT), oil services (PV Drilling) and F&B (Saigon Brewery or Sabeco). We also increased our holding in a listed blue chip power generation company (Vinh Son-Song Hinh) and acted upon a rights and bonus issue by Vietnam's leading private sector bank (ACB). We were also active in treasury activities, including bond arbitrage, and government bond repo agreements. We made the call to cease stock-picking, concentrating instead on calling cash by selling under performers. Collectively, VEIL managed to over-perform the VN Index by a small margin whilst increasing our cash and bond position to 10% NAV at end of 2008.

Annual performance against VN Index



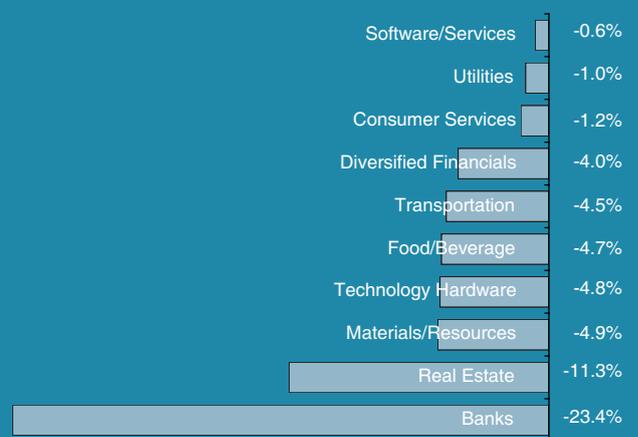
Source: Dragon Capital

Contribution by Asset class

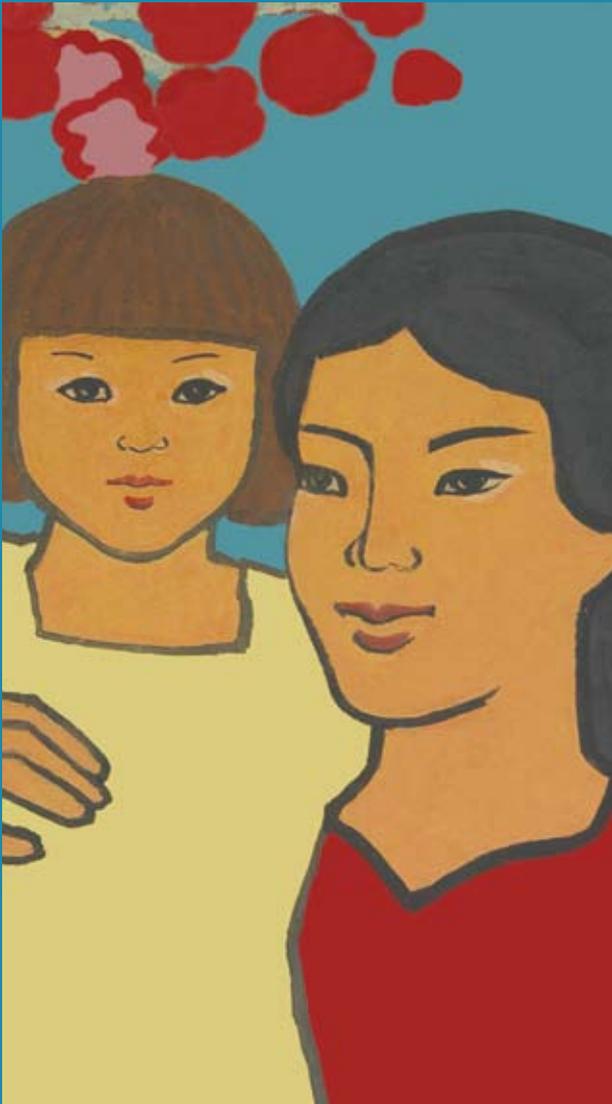


Source: Dragon Capital

Contribution by Sector



Source: Dragon Capital



We sense 2009 will be another difficult year, but an interesting one, at that. Vietnam has long addressed its fundamental internal issues, so now it is a case of observing how the country integrates and reacts to the global situation. The Government has been encouragingly proactive; eager to get it right – its sizeable stimulus package (including a US\$1bn interest rate subsidy programme) coupled with sharp interest rate cuts for starters, should be felt in the coming months. There lies the opportunity, when the domestic stock market eventually recovers. For this reason, we will continue to rebalance our portfolio, whilst being prepared to grab opportunity on sight of reliable signs of recovery. VEIL is sufficiently exposed to cyclical stocks, allowing a strong rebound on the upturn - our incentive to look for higher-risk stocks is low. Rather we will focus on large cap stocks (listed, OTC, or IPO) with a strong fundamental and solid growth story.

TOP FIVE HOLDINGS



1. VRICL/TIBERON

VRICL/Tiberon holds 70% of Nui Phao, the polymetallic mine project in northeast Vietnam. VEIL has an indirect 21.3% holding. This is a project of global strategic importance that will supply half of the world's non-Chinese tungsten when production commences. Nui Phao will also be the world's largest producer of bismuth and the second largest producer of acid-grade fluorspar. In addition it will turn out a notable amount of copper concentrates containing gold and silver credits.

The main minerals are on a world-wide declining supply trajectory due to Chinese output restrictions and lack of any project start-ups advancing elsewhere in the world. Moreover, new applications are continually increasing demand. Nui Phao will operate as a long-life open-pit mine with costs in the lowest decile of global peers. Ore reserves are proved and probable, supporting a 16.5-year mine life with the potential to add more.

Progress was made at Nui Phao in 2008, with detailed engineering well advanced and long-lead equipment deliveries arriving on site. The compensation and relocation programme also gained momentum through the year with land clearance now standing at 50% overall, and 85% in the priority areas. A banking mandate letter was signed in May 2008 with co-arrangers UniCredit and Fortis Bank for a syndicated loan facility of US\$250m or up to 70% of total project capital. The mandate terminated automatically on 31 December 2008.

In October 2008, an updated capital cost estimate for the project was issued by mine engineers Aker Solutions for US\$455m (including contingency), of which Nui Phao has expended some US\$120m to date. The gap would of course exceed the loan facility, but the estimate arrived at the peak point of the resource-sector inflation cycle and since then costs have fallen precipitously. This is likely to result in a substantial downward revision of the project's final cost projection.

Despite the recent global economic turmoil, the main suite of Nui Phao commodities held strong with tungsten, fluorspar and bismuth trending sideways and seeing only minor price declines so far. Given the non-LME trading of these products and China's production dominance, coupled with Beijing's tightening of export quotas, the market remains in relative balance and exhibits inelastic price/supply dependency. Combining this with a gentle increase in demand for the minerals provides support for a positive outcome.

The global financial crisis has temporarily affected access to equity and debt funding, and thus to the capital needed to maintain Nui Phao's development momentum. As a result, the Company took the decision towards year-end to reduce project activities and conserve existing cash, while waiting for market conditions to improve so that mine construction can commence as soon as possible.

COST:

US\$82,992,213

VALUE:

US\$68,712,086

% OF NET ASSETS:

18.82%

INITIAL ACQUISITION:

SEPTEMBER 2007



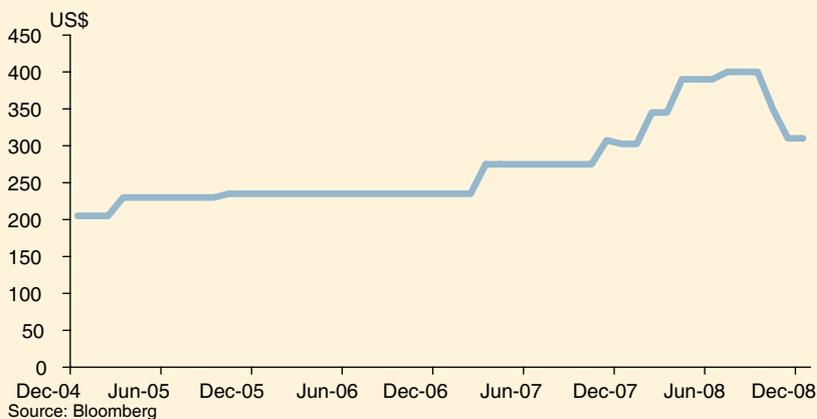
Reserves and Resources

Category	MT (000s)	WO ₃ (%)	CaF ₂ (%)	Cu (%)	Au (g/t)	Bi (%)
Proven	23,515	0.262	8.57	0.232	0.269	0.112
Probable	31,910	0.173	8.38	0.154	0.163	0.083
Total Reserves	55,425	0.211	8.46	0.187	0.208	0.095
Inferred Resources	27,420	0.16	7.1	0.17	0.15	0.078

Tungsten (APT) Price (US\$/mtu)



Acidspar Price (US\$/tonne)



Bismuth Price (US\$/lb)



TOP FIVE HOLDINGS

CONTINUED



2. ACB

ACB is the number-one private commercial bank. Its distinguishing trait is shrewd risk/reward management. Strategy has been two-fold. First, conservative lending to prime borrowers. This is based on deep credit analysis, and wholesale avoidance of tricky sectors (like property developers), which has kept NPLs to 2% - the lowest in the industry. Second, periodic switches to new income streams on top of the lending platform. This has been an opportunistic approach, but one so far pursued at substantial gain, since the commercial odds on profitability are always so carefully calculated. With this type of active diversification, the bank has confined its LDR to an average 52% in recent years, and given the circumstances, this has actually turned out to be quite a prudent policy.

Trends in 2008 were typical of the bank's modus operandi. During 1H08, the main drivers of earnings were from the core business. In 1Q08, net interest income predominated, and in 2Q08 FX gains were key, and both were overlaid by strong growth in fees. Thus, income was being derived from standard commercial bank lines. But in 2H, these activities dwindled as the Government's credit crunch moved into high gear, causing the sector's net interest margins to fall sharply and loan books to shrink.

ACB's lending division slipped straight into the red but the bank was able to salvage this. In 3Q it made huge profits from its gold trading floor, both on its own book as it deftly arbitrated between domestic and international prices, and on commissions, on volumes of up to US\$600m per day. In 4Q it tapped its bond portfolio for more earnings, having built up its fixed-income investments as the credit crunch intensified and yields moved to clearly overdone levels above 20%. Once the Government began cutting rates, immense capital gains presented themselves.

These maneuvers enabled ACB to record pre-tax profits of +30% not only despite the losses suffered on loans but also two other sizeable hits. One was the virtual disappearance of its windfall from equity investments in the previous year. The other was a major increase in operating expenses as ACB boldly expanded through the industry slump, opening more offices, hiring more staff and purchasing more IT. At the NPAT level, tax breaks put the bottom line up 38%, to VND 2,427bn.

The outlook for 2009 is less bullish. ACB is talking about a major new push into lending, one that would lift its LDR substantially by virtue of credit growth going as high as +90%, but we are not convinced there will be sufficient profitable new business to do this. Nonetheless there should be some loan growth, as well as better net interest margins once high-rate term deposits start to expire. Gold trading could also see better profits and fee/commission flows are likely increase. Pre-tax profit looks capable of rising 15-20%. The problem will come at the NPAT line, as the phase-out tax holidays bites. We could see flat or slightly lower earnings.

COST:

US\$18,583,828

VALUE:

US\$62,136,278

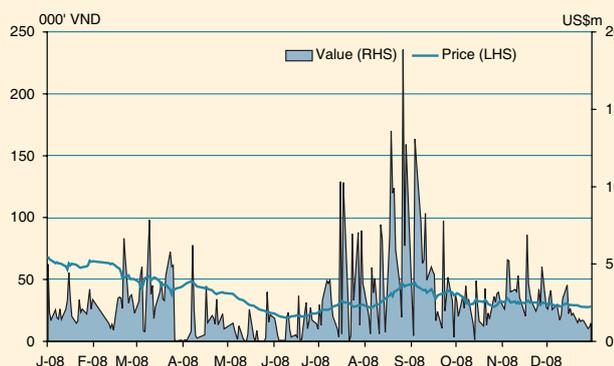
% OF NET ASSETS:

17.02%

INITIAL ACQUISITION:

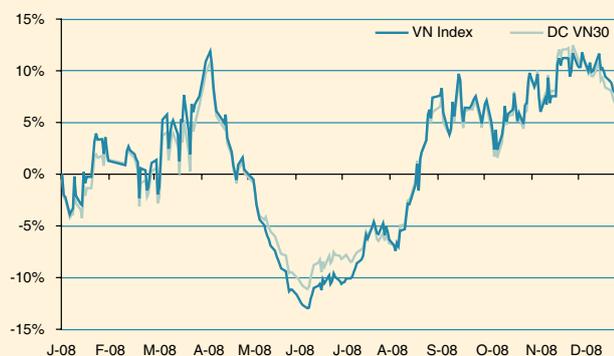
DECEMBER 1996

Stock Price



Source: Dragon Capital, Bloomberg

Price Relative



Source: Dragon Capital, Bloomberg

Banks will be the main beneficiary when the global recession lifts. ACB is without question the key blue-chip name in the sector, long since at its foreign limit. VEIL plans to maintain its overweight in the sector, with ACB at the core of this strategy.

3. SACOMBANK

Sacombank is the number-two private commercial bank. Its trademark has been rapid expansion of the branch network throughout Vietnam's cities and provinces, with a clear emphasis on retail business. This bid for size and market share distinguishes it from ACB, which is much more sharply focused on the bottom line and sticks to higher-income urban locations. Ahead of foreign entry, though, Sacombank's strategy has something to recommend it.

Nonetheless this approach probably contributed to weakening the bank's 2008 performance. The annual statements show that cost-control discipline was somewhat lacking. While Sacombank more than doubled gross interest income during the year, expenses nearly tripled. This was a much bigger mis-match than at its peers and so, alone in the top tier, it saw its net interest income actually fall, albeit by only -0.5%. Against this, Sacombank took fees, and gains on gold and FX trading, to much higher levels yoy. But even with a lot of miscellaneous assets also being liquidated, this was not enough to offset the deterioration in the main business.

Total operating income did rise 11%, but unfortunately operating expenses leapt 70%. Most of the high-street banks showed a trend like this, as part of their determination to keep expanding through the slump. But Sacombank suffered more than the rest. Final 2008 NPAT thus decreased by 32% to VND 955bn, which was the only negative showing among major banks. And even that result may have been an over-statement: NPL provisions are actually shown in the accounts as falling, by more than one-third, which seems counter-intuitive given all the travails of the banking sector last year.

The outlook for 2009 may be better. Loans are increasing slowly throughout the sector, and net interest margins have a good chance to start recovering as the Government moves to subsidise rates and high-interest term deposits mature. This could see Sacombank's net interest income turn back up. Non-loan proceeds will not be anything like last year's because the best of the bull market in bonds has already happened, though the bank may be able to get some mileage out of gold trading. It is a late-comer to the business of gold floors, which it has decided to plunge into, but it has a good track record on its own book. With luck NPAT might be 15-20% higher in 2009 – unless examiners decide to query provisioning policy.

The bank needs to bring greater discipline to its business as it dashes for growth. Management says it does not plan to slacken the pace of branch-network and loan expansion, and it even contemplates opening new operations in Cambodia and Laos. At the same time it is planning a complete upgrade of the core banking system, in terms of IT software that connects all the branches, increases automation of account transaction, improves credit analysis, facilitates more services like internet, mobile and ATM banking, etc. Coordinating all these aggressive moves with a robust bottom line is the bank's big challenge.

COST:

US\$19,942,989

VALUE:

US\$32,679,624

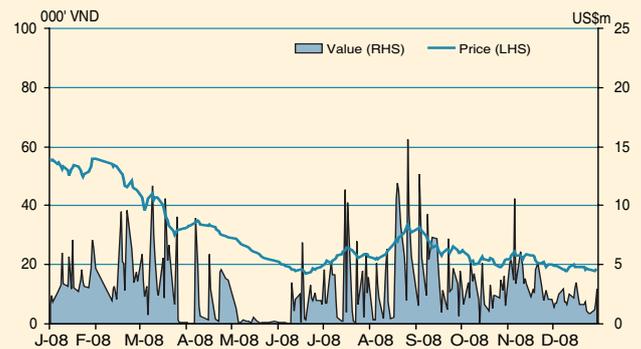
% OF NET ASSETS:

8.96%

INITIAL ACQUISITION:

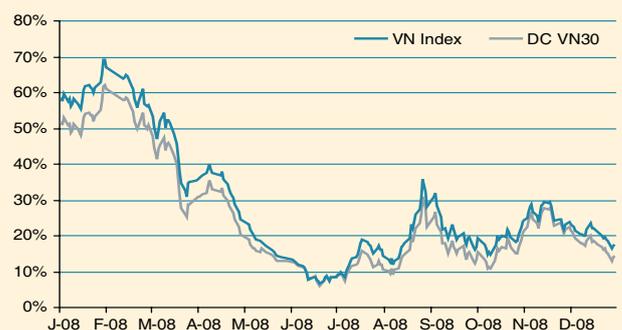
NOVEMBER 2000

Stock Price



Source: Dragon Capital, Bloomberg

Price Relative



Source: Dragon Capital, Bloomberg



TOP FIVE HOLDINGS

CONTINUED



VINAMILK

4. VINAMILK

Vinamilk is the biggest company on the HCMC exchange as well as the country's top dairy producer. As such, it is a classic emerging-market growth player. It holds the top domestic share in all its main products, which include fresh and reconstituted liquid milk, powdered milk, sweetened condensed milk, yoghurt and ice cream.

In 2008, the company performed exceptionally well, with sales +26% at VND 8,380bn and NPAT +28% at VND 1,230bn. The bottom line would have been even stronger, reflecting the impressive margin expansion which Vinamilk enjoyed, had it not been for the phase-out of tax holidays and provisions on the investment portfolio. These were major hits which would have crumpled a less robust P&L. The company's stellar showing was based on two key factors.

Revolutionised marketing: For many years, Vinamilk lagged on this front due to its origins as an SOE, and it suffered a substantial loss of market share to foreign multinationals simply because of their greater expertise in product promotion. But in mid-2007, the company recruited a top marketing executive from Pepsi, whose team has now turned the entire M&D effort around. Following a period of deep consumer research, the company's broad mass of products have been grouped into four megabrands, with customised pricing and advertisement strategies for each one. Particular emphasis has been placed on the youth market, where growth is strongest, and clever new tactics have seen Vinamilk regain its lead over foreign companies in the 6-11-year group, even as it raises prices faster. The company has also reinforced its strong position in the adult segment. Meanwhile distribution has restructured to stay in much closer daily touch with retail outlets, which have increased to 130,000 from 110,000 in 2007.

Raw materials procurement: Vinamilk was able to keep powder costs well below the level to which the commodity boom eventually drove them, averaging US\$3,000/MT vs world levels of up to US\$5,000/MT. This was achieved through early contract negotiations towards the end of 2007, hold-back of exports from that year, and leveraging of long-term relationships with suppliers. So Vinamilk benefited hugely as the industry put prices through, which it followed without needing them nearly as much as competitors did. This had a very salutary effect on margins. Meanwhile, Vinamilk was not affected by the melamine scare because it was known not to source anything from China. These factors allowed Vinamilk to book its impressive gains even as the falling stock and property markets necessitated big provisions on the investment portfolio, so that the company's normally robust financial income fell by almost three-quarters.

In 2009, management expects the company to do quite well on the back of an ongoing shift to higher-margin products and a continued edge in raw-material costs. It is predicting a 20% rise in NPAT, to VND 1,050m, on an 8% sales increase, to VND 9,020bn. Whether Vinamilk

COST:

US\$12,067,582

VALUE:

US\$27,951,427

% OF NET ASSETS:

7.66%

INITIAL ACQUISITION:

OCTOBER 2003



performs quite this dynamically remains to be seen, but what is clear is that the company has established itself as a major emerging-market blue chip.

Management showed its increasing professionalism with the policies and results of 2007-08, and it has put in place a capex program to secure stable growth at relatively high levels of 10-15%. Executives have further demonstrated clarity of vision by abandoning the beer JV with SABMiller and swearing off further non-core investments. Completing this steady improvement in its corporate profile, Vinamilk now awaits the opportunity to carry out its approved 5% listing in Singapore – though the offering is likely to be held back for better market conditions, perhaps in 2010.

5. REE

REE is known in Vietnam as a property group, but this is something of a misconception. It is actually an investment holding company that has become heavily concentrated in property and is now seeking broader diversification.

The company was Vietnam's first listed firm in 2000, starting out life in M&E and white goods, and then moving into real estate via the land-bank route. This saw it develop the hugely successful "E-Town" office rental park, which took over as the main event by the mid-2000s, while the legacy operations stagnated. Simultaneously, REE was plowing capital into the stock market and this led to establishment of an investment division too. At the same time as evolving dynamically from humble beginnings, REE has distinguished itself with strong corporate governance

REE nonetheless had a difficult year in 2008 – though not because of core operations. The flagship rental business performed very robustly with a 38% gain in revenues driving an even bigger 45% increase in gross profits. This was the result of a double bonus: leasing rates rising at the same time as more office space came on stream from E-Town 3 and 4 (some 14,380m²). Meanwhile Reetech produced much better results from its white-goods operation, with gross profits rising 16% thanks to improved marketing and distribution, albeit on lower margins. The M&E division fared less well, with flat revenues and a 65% plunge in gross profit, on surging material costs and poor cashflow control. But the division is only a fraction of earnings anyway.

The main problem was the investment portfolio. This contributed half of pre-tax profits in 2007 but became a source of disaster in 2008, with huge provisions of VND 467bn against listed and OTC stock holdings. To its credit, REE was the first major listed company to disclose the full extent of its non-core financial assets and mark them to market. That showed transparency. But it also meant the company incurred after-tax losses of (VND 139bn) even though revenues increased by 17.6% yoy.

The 2009 outlook is better. More income properties will come on stream so the already-strong cashflow from the rental division will keep growing. Also the likely absence of investment provisions will be a huge positive factor. The legacy businesses may also be perky: REE plans to restructure M&E via improved project management, higher capacity and better cash control, and with a strong order book in hand, it has high hopes for reviving this division. At Reetech, brand-name promotion and distribution channels will be strengthened to better cope with competition in the field.

Ultimately, though, REE has to face the fact that by 2011 it will exhaust its land bank. The company's last new buildings are being constructed now, and the supply of modern multi-use complexes is increasing throughout the market, which means that rents and occupancy rates could start to slip. At the same time the financial-investment model is clearly defunct, and only a modest boost to growth can be expected from the legacy businesses.

COST:

US\$11,328,581

VALUE:

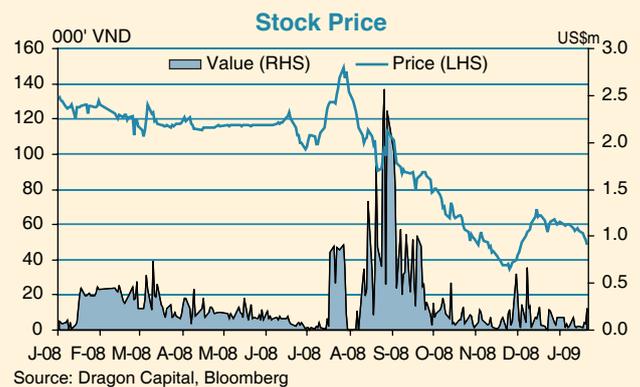
US\$16,488,548

% OF NET ASSETS:

4.52%

INITIAL ACQUISITION:

JULY 1996



So management is looking for new departures. These primarily take the form of infrastructure. REE has secured 10% in Thac Ba, a listed 105-MW hydropower company; it is completing a 300,000-m³/day water-treatment plant in Saigon; it has launched a pioneering 8-MW clean energy project that collects bio-gas from garbage sites in Saigon. And it is contemplating much bigger projects than these: participation in a 1,200-MW thermal plant in Vung Ang II plant, a 150-MW hydropower plant in Laos, a 450-ha industrial park / 50-ha residential township in Hai Phong – and more. Closing on those more ambitious ventures and turning them into profit-spinners will be REE's big test in coming years.

REPORT OF THE BOARD OF DIRECTORS

The Directors of Vietnam Enterprise Investments Limited (the “Company”) present their report and the audited consolidated financial statements of the Company and its subsidiaries (together referred to as the “Group”) for the year ended 31 December 2008.

Principal activity

The Company is an investment holding company incorporated as an exempted company with limited liability in the Cayman Islands on 20 April 1995. The Company’s shares are listed on the Irish Stock Exchange. The principal activity of the Company is to invest directly or indirectly in a diversified portfolio of listed and unlisted enterprises in Vietnam.

Results and dividends

The Group’s consolidated loss for the year ended 31 December 2008 and its consolidated financial position at that date are set out in the attached consolidated financial statements. The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2008 (2007: Nil).

Share capital

Details of movements in the Company’s share capital during the year are set out in the consolidated statement of changes in equity and in Note 8 of the consolidated financial statements. As at 31 December 2008, the Company had issued share capital comprising of 173,823,000 redeemable shares and 1,000 management shares (31 December 2007: 158,021,000 redeemable shares and 1,000 management shares).

Directors

The Directors of the Company during the year were:

<i>Non-executive Directors:</i>	<i>Independent non-executive Directors:</i>
Dominic Scriven	Richard McKegney
John Shrimpton	Sin Foong Wong (resigned 7 April 2009)
	Hartmut Giesecke

In accordance with article 91 of the Company’s Articles of Association, the Independent non-executive Directors are required to submit themselves for re-election at the next occurring Annual General Meeting. Richard McKegney was duly re-appointed at the Annual General Meeting held on 30 December 2008 following the expiry of his respective term.

Directors’ rights to acquire shares or debentures

At no time during the year was the Company a party to any arrangement to enable the Company’s Directors or their respective spouse or minor children to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors’ interests in shares

Dominic Scriven and John Shrimpton have indirect interests in the share capital of the Company as they are both shareholders of Dragon Capital Group Limited, which holds the management shares of the Company. Dragon Capital Group Limited is also the ultimate parent company of Enterprise Investment Management Limited, the Investment Manager, and Dragon Capital Markets Limited. As at 31 December 2008, Dragon Capital Markets Limited beneficially held 563,305 redeemable shares in the Company for investment and proprietary trading purposes. Richard McKegney is a director of NIG Asian Investments Ltd., a wholly-owned investment vehicle of the National Bank of Kuwait, which is a beneficial shareholder of the Company, holding 1,026,770 redeemable shares as at 31 December 2008. Sin Foong Wong is the Country Manager for the International Finance Corporation (the “IFC”), which is a beneficial shareholder of the Company, holding 8,983,808 redeemable shares in the Company as at 31 December 2008. Hartmut Giesecke is a director of Capital International which is a beneficial shareholder of the Company, holding 2,264,343 redeemable shares in the Company as at 31 December 2008.

Apart from the above, no Director had a direct or indirect interest in the share capital of the Company or its underlying investments at the end of the year or at any time during the year.

Directors' interests in contracts

Dominic Scriven and John Shrimpton have indirect interests in the investment management agreement between the Company and Enterprise Investment Management Limited as they are both Directors of the Investment Manager. Sin Foong Wong, in his capacity as Country Manager for the IFC, has an indirect interest in the Investment Management Agreement given the IFC's 9.11% shareholding in Dragon Capital Group Limited. There were no further interests or contracts of significance in relation to the Company's business in which a Director of the Company had a material interest, whether directly or indirectly, at the end of the year or at any time during the year.

Substantial shareholders

At 31 December 2008, the Company's register of shareholders showed that the following shareholders held more than a 10% interest in the issued redeemable share capital of the Company.

Registered shareholder	Number of redeemable shares held	% of total redeemable shares in issue
Citivic Nominees Limited	131,712,280	75.77%
Clearstream Banking SA (POA Fortis Banque Luxembourg)	42,065,719	24.20%

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 16 to the consolidated financial statements.

Auditors

KPMG Limited is required to submit themselves for re-election at the next occurring Annual General Meeting.

Directors' Responsibility in Respect of the Consolidated Financial Statements

The Board of Directors is responsible for ensuring that the consolidated financial statements of the Group are properly drawn up so as to give a true and fair view of the consolidated financial position of the Group as at 31 December 2008 and of its consolidated financial performance and cash flows for the year then ended. When preparing these consolidated financial statements, the Board of Directors is required to:

- ★ adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ★ comply with the requirements of International Financial Reporting Standards or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the consolidated financial statements;
- ★ maintain adequate accounting records and an effective system of internal controls;
- ★ prepare the consolidated financial statements on a going concern basis unless it is inappropriate to assume that the Group will continue its operations in the foreseeable future; and
- ★ control and direct effectively the Group in all material decisions affecting its operations and performance and ascertain that such decisions and/or instructions have been properly reflected in the consolidated financial statements.

The Board of Directors is also responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the consolidated financial position of the Group. It is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Board of Directors confirms that they have complied with the above requirements in preparing the consolidated financial statements.

The Board of Directors confirms that the Investment Manager's report includes a fair view of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

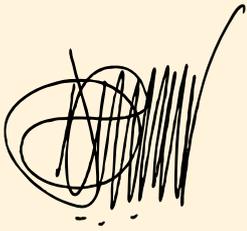
REPORT OF THE BOARD OF DIRECTORS

CONTINUED

Approval of the financial statements

We hereby approve the accompanying consolidated financial statements which give a true and fair view of the consolidated financial position of the Group as of 31 December 2008 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows for the year ended 31 December 2008 in accordance with International Financial Reporting Standards.

BY ORDER OF THE BOARD



DOMINIC SCRIVEN O.B.E.
DIRECTOR
25 JUNE 2009



JOHN SHRIMPTON
DIRECTOR
25 JUNE 2009

INDEPENDENT AUDITORS' REPORT



KPMG Limited
10th Floor, Sun Wah Tower
115 Nguyen Hue Street
District 1, Ho Chi Minh City
The Socialist Republic of Vietnam

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Fax +84 (8) 3821 9267
Internet www.kpmg.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Vietnam Enterprise Investments Limited

We have audited the accompanying consolidated financial statements of Vietnam Enterprise Investments Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprise the consolidated balance sheet as of 31 December 2008, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 34 to 62. The consolidated financial statements of the Group for the year ended 31 December 2007 were audited by another firm of auditors whose report dated 1 May 2008 expressed an unqualified opinion on those statements.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of these consolidated 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 consolidated 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 principles used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited

KPMG Limited
Ho Chi Minh City, Vietnam

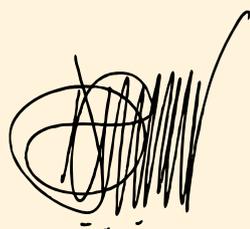
25 June 2009

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2008

	Note	2008 US\$	2007 US\$	Change in %
CURRENT ASSETS				
Financial assets at fair value through profit or loss	5	348,820,482	917,190,305	
Amounts due from brokers		22,090	1,081,287	
Receivables		400,824	2,010,668	
Cash and cash equivalents	6	16,517,685	17,764,151	
		365,761,081	938,046,411	
CURRENT LIABILITIES				
Accounts payable and accruals	7	751,262	36,815,386	
NET ASSETS		365,009,819	901,231,025	(59.5)%
EQUITY				
Issued capital	8	1,738,240	1,580,220	
Share premium	8	356,666,449	313,021,325	
Retained earnings		6,605,130	586,629,480	
TOTAL EQUITY		365,009,819	901,231,025	
NUMBER OF REDEEMABLE SHARES IN ISSUE	8	173,823,000	158,021,000	
NET ASSET VALUE PER REDEEMABLE SHARE	10	2.100	5.703	(63.2)%

Approved by the Board of Directors on 25 JUNE 2009



DOMINIC SCRIVEN O.B.E.
DIRECTOR



JOHN SHRIMPTON
DIRECTOR

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 US\$	2007 US\$	Change in %
INCOME				
Interest income	9	2,628,381	3,218,844	
Dividend income		12,851,138	26,336,196	
Other income		1,094	1,078,075	
Net changes in fair value of financial assets at fair value through profit or loss	5	(583,883,991)	120,298,961	
Gains on disposals of investments		2,641,944	79,838,432	
TOTAL (LOSS)/INCOME		(565,761,434)	230,770,508	(345.2)%
EXPENSES				
Administration fee	11	(546,815)	(944,194)	
Custodian fee	11	(164,047)	(282,598)	
Directors' fees	11	(57,500)	(47,597)	
Incentive fee	11	-	(30,483,461)	
Management fee	11	(10,865,236)	(18,620,904)	
Interest expense	4	(134,149)	(57,827)	
Withholding taxes		(465,626)	(392,319)	
Legal and professional fees		(243,474)	(378,374)	
Other operating expenses		(281,954)	(227,874)	
TOTAL EXPENSES		(12,758,801)	(51,435,148)	(75.2)%
(LOSS)/PROFIT BEFORE EXCHANGE (LOSSES)/GAINS		(578,520,235)	179,335,360	
EXCHANGE (LOSSES)/GAINS				
Net foreign exchange (losses)/gains		(1,504,115)	324,209	
(LOSS)/PROFIT BEFORE TAX		(580,024,350)	179,659,569	
Income tax	12	-	-	
(LOSS)/PROFIT AFTER TAX		(580,024,350)	179,659,569	(422.8)%
BASIC (LOSSES)/EARNINGS PER REDEEMABLE SHARE	13	(3.476)	0.884	(493.2)%
BASIC (LOSSES)/EARNINGS PER CONVERSION SHARE		-	0.329	

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Issued capital US\$	Share premium US\$	Retained earnings US\$	Total US\$
At 1 January 2007		2,699,910	311,901,635	406,969,911	721,571,456
Conversion of conversion shares		(1,119,690)	1,119,690	-	-
Profit for the year		-	-	179,659,569	179,659,569
At 1 January 2008		1,580,220	313,021,325	586,629,480	901,231,025
Issue of redeemable shares ★	8	158,020	43,645,124	-	43,803,144
Loss for the year		-	-	(580,024,350)	(580,024,350)
At 31 December 2008		1,738,240	356,666,449	6,605,130	365,009,819

★ The share premium is presented net of a placement fee incurred of US\$442,456 paid to Dragon Capital Markets Limited.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 US\$	2007 US\$
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(580,024,350)	179,659,569
Adjustments for:			
Dividend income		(12,851,138)	(26,336,196)
Interest income		(2,628,381)	(3,218,844)
Interest expense		134,149	57,827
Change in fair value of financial assets at fair value through profit or loss		583,883,991	(120,298,961)
Gains on disposals of investments		(2,641,944)	(79,838,432)
		(14,127,673)	(49,975,037)
Change in receivables		2,508,019	30,628,680
Change in accounts payable and accruals		(36,064,124)	(44,428,686)
		(47,683,778)	(63,775,043)
Proceeds from disposals of investments		41,862,228	105,807,327
Acquisitions of financial assets at fair value through profit or loss		(54,734,452)	(128,907,648)
Dividend received		12,848,584	27,012,619
Interest received		2,791,957	3,273,046
Interest paid		(134,149)	-
Net cash used in operating activities		(45,049,610)	(56,589,699)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issued		44,245,600	-
Payments for share issuance costs		(442,456)	-
Net cash generated from financing activities		43,803,144	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,246,466)	(56,589,699)
Cash and cash equivalents at the beginning of the year		17,764,151	74,353,850
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	6	16,517,685	17,764,151

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

These notes form an integral part of and should be read in conjunction with the accompanying consolidated financial statements.

1. THE COMPANY

Vietnam Enterprise Investments Limited (the "Company") is an investment holding company incorporated as an exempted company with limited liability in the Cayman Islands on 20 April 1995. It commenced operations on 11 August 1995 and had no employees as at 31 December 2008 (2007: Nil).

The investment objective of the Company is to invest directly or indirectly in publicly or privately issued securities of companies, projects and enterprises issued by Vietnamese entities, whether inside or outside Vietnam.

The Company's redeemable shares are listed on the Irish Stock Exchange. The Company is established for an unlimited duration. At an extraordinary shareholders' meeting held on 5 May 2006, a special resolution was passed pursuant to which a special resolution to wind up the Company on 31 December 2012 shall be put before the annual general meeting of the Company to be held in the year 2010. If that special resolution is not passed at the annual general meeting of 2010, the Company will put before the annual general meeting of every successive even numbered year a special resolution to wind up the Company on 31 December of the second year following the date of that annual general meeting.

As at 31 December 2008 and 2007 the Company had the following investments in subsidiaries and jointly controlled entity, for the purpose of investment holding:

Subsidiaries and jointly controlled entity	Country of incorporation	Principal activities	% ownership
Grinling International Limited	British Virgin Islands	Investment holding	100%
Wareham Group Limited	British Virgin Islands	Investment holding	100%
Goldchurch Limited	British Virgin Islands	Investment holding	100%
VEIL Holdings Limited	British Virgin Islands	Investment holding	100%
Venner Group Limited	British Virgin Islands	Investment holding	100%
Dragon Financial Holdings Limited	British Virgin Islands	Investment holding	90%
Rickmansworth Limited	British Virgin Islands	Investment holding	100%
Geffen Limited	British Virgin Islands	Investment holding	100%
VEIL Cement Limited	British Virgin Islands	Investment holding	100%
VEIL Estates Limited	British Virgin Islands	Investment holding	100%
VEIL Industries Limited	British Virgin Islands	Investment holding	100%
VEIL Infrastructure Limited	British Virgin Islands	Investment holding	100%
VEIL Paper Limited	British Virgin Islands	Investment holding	100%
Aralax Investments Limited	British Virgin Islands	Investment holding	100%

The consolidated financial statements as at and for the year ended 31 December 2008 represent the consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group").

2. BASIS OF PREPARATION

a) **Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

b) **Basis of preparation**

The consolidated financial statements have been prepared on the accruals basis using the historical cost concept, except for investments in securities classified as financial assets at fair value through profit or loss which are measured at fair value. The methods used to measure fair values are described in Note 3(c).

For the year ended 31 December 2008, the Company operated as one segment in terms of geography (i.e. mainly Vietnam). Accordingly, no reporting of financial information by geographical segment is presented in the Group’s consolidated financial statements.

c) **Functional and presentation currency**

The consolidated financial statements are presented in United States Dollars (“US\$”), the Company’s functional currency. The financial statements of each consolidated entity are presented in either US\$ or its functional currency.

d) **Use of estimates and judgments**

The preparation of consolidated financial statements in accordance with International Financial Reporting Standards requires judgments, estimates and assumptions that affect the application of policies and amounts reported in the consolidated financial statements and accompanying notes. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable in the circumstances, the result of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the consolidated financial statements are discussed as follows:

Impairment of receivables

The Directors determine the provision for impairment of receivables on a regular basis. This estimate is based on the Directors’ review of each individual account balance taking into account the credit history of the debtors and prevailing market conditions.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group appointed Behre Dolbear Australia Pty Limited (Behre Dolbear) to provide the Directors with quarterly independent valuations of one of its unlisted holdings in order to assess the fair value of its investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by entities in the Group.

a) **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries and jointly controlled entities as listed on the previous page.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Acquisition of a subsidiary is subject to application of the purchase method of accounting. This involves the measurement at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the basis for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Negative goodwill is immediately recognised in the consolidated statement of income as at the acquisition date.

Jointly controlled entities

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Jointly controlled entities are accounted for using proportionate consolidation method.

All intra-group balances and significant intra-group transactions and resulting unrealised profits or losses (unless losses provide evidence of impairment) are eliminated on consolidation.

b) **Foreign currency translation**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised as profit or loss.

c) **Financial instruments**

Financial assets

Financial assets, other than hedging instruments, are divided into the following categories: loans and receivables and financial assets at fair value through profit or loss.

The Board of Directors determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired. Financial assets are designated on the basis that their fair value can be reliably measured and their performance has been evaluated on a fair value basis in accordance with the risk management and/or investment strategy as set out in the Company's Offering documents.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognised initially at fair value, plus, in the case of investments not designated as at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expires or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised based on the classification of the financial assets.

Financial assets of the Group consist primarily of cash and cash equivalents, financial assets at fair value through profit or loss and receivables.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated to be carried at fair value through profit or loss upon initial recognition. By definition, all derivative financial instruments that do not qualify for hedge accounting fall into this category. Other financial assets at fair value through profit or loss held by the Group include listed and unlisted securities. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Any gain or loss arising from financial instruments is based on changes in fair value.

Regular-way purchases and sales of investments are recognised on the trade date – the date on which the Group commits to purchase or sell the investment.

The fair value of listed investments is determined based on quoted market prices on a recognised exchange or sourced from a reputable broker/counterparty in the case of non-exchange trade instruments at the balance sheet date without any deduction from estimated selling costs. Unlisted investments for which an active over-the-counter market exists are stated at fair value based upon the average price quotations received from two independent brokers. The fair value of a significant financial asset held by the Company that is not traded in an active market is determined by a process of quarterly independent valuation using both discounted cash flow methodology and market price of previous transaction methodology or by other valuation techniques. A discount rate of 10% was used in the discounted cash flow valuation by Behre Dolbear, the independent valuation expert in its latest report (2007: discounted cash flow methodology was not used).

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other receivables

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less allowance for impairment.

Receivables are reviewed for impairment on a case-by-case basis when they are overdue at the balance sheet date or when objective evidence is received that a specific counterparty may default.

Financial liabilities

The Group's financial liabilities include accounts payable and accruals.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the statement of income. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Accounts payable and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

Share capital

Issuance of share capital

Management shares and redeemable shares are classified as equity. The difference between the issue price and the par value of the shares less any incremental costs directly attributable to the issuance of shares is credited to share premium.

Repurchase of share capital

When share capital recognised as equity is repurchased (treasury shares), the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from share premium.

d) **Impairment**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

e) **Provisions**

Provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group that can be reliably estimated. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Long-term provisions are discounted to their present values, where the time value of money is material.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the Directors.

f) **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- a) Dividend income is recognised when the Group's right to receive the dividend has been established; and
- b) Interest income from banks and others is recognised when it accrues using the original effective interest rate of the instrument calculated at the origination date.

g) **Expenses**

All expenses, including management fee and incentive fee, are recognised in the consolidated statement of income on an accrual basis.

h) **Earnings per share and net asset value per share**

The Group presents basic earnings per share ("EPS") for its redeemable shares. Basic EPS is calculated by dividing the profit or loss attributable to the redeemable shareholders of the Group by the weighted average number of redeemable shares outstanding during the year. The Group did not have potentially dilutive shares as of 31 December 2008.

Net asset value ("NAV") per share is calculated by dividing the NAV attributable to redeemable shareholders of the Group by the number of outstanding redeemable shares as at the balance sheet date. NAV is determined as total assets less total liabilities. Where treasury shares exist, NAV per share is calculated based on the assumption that those treasury shares have been cancelled. During the years ended 31 December 2008 and 31 December 2007 no shares were repurchased by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Related parties

A party is considered to be related to the Company and the Group if:

- a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group, or (iii) has joint control over the Group;
- b) the party is an associate;
- c) the party is a joint venture in which the Group is a venturer;
- d) the party is a member of the key management personnel of the Group;
- e) the party is a close member of the family of any individual referred to in (a) or (d);
- f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is related party of the Group.

Other investment companies/funds under the management of Enterprise Investment Management Limited, the Investment Manager, its parents, subsidiaries or associates, are also considered related parties to the Group.

j) New standards, amendments and interpretations not yet adopted

The following new standards, amendments and interpretations to existing standards have been published, but are not yet effective for the year ended 31 December 2008 and the Group has not early-adopted them:

- ★ IFRS 8 *Operating Segments*, which is effective for consolidated financial statements for periods beginning on or after 1 January 2009, introduces the “management approach” to segment reporting. It is expected that the adoption of IFRS 8 may have a significant effect on the consolidated financial statements of the Group.
- ★ IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which is effective for consolidated financial statements for periods beginning on or after 1 July 2008, will not have any effect on the consolidated financial statements of the Group.
- ★ IFRIC 15 *Agreements for Construction of Real Estates*, which is effective for consolidated financial statements for periods beginning on or after 1 January 2009, clarifies whether IAS 18, *Revenue*, or IAS 11, *Construction Contracts*, should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. The adoption of IFRIC 15 will not have any effect on the consolidated financial statements of the Group.
- ★ IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*, which is effective for consolidated financial statements for periods beginning on or after 1 October 2008, clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, state that the effects of changes in foreign exchange rates, do apply to the hedged items. The adoption of IFRIC 16 is not expected to have a significant effect on the consolidated financial statements of the Group.
- ★ IFRIC 17 *Distributions of Non-cash Assets to Owners* requires liability for dividend payable to be measured at the fair value of the assets to be distributed. When the owners may elect to receive either non-cash asset or a cash alternative, the fair value of each alternative together with their associated probabilities is considered. IFRIC 17 also clarifies that liability for dividend distribution is recognised when dividend has been appropriately authorised and is no longer at the discretion of the Group. IFRIC 17 is effective for consolidated financial statements for periods beginning on or after 1 July 2009, with prospective application required.

- ★ IFRIC 18 *Transfers of Assets from Customers* provides guidance on how to account for transfers of property, plant and equipment by entities that receive such transfers from their customers to connect the customers to a network or to provide customers with ongoing access to a supply of goods or services. IFRIC 18 requires the entity that receives property, plant and equipment to recognise the asset at its fair value if asset recognition criteria are met, with the corresponding amount recognised as revenue in accordance with paragraph 13 of IAS 18 *Revenue*, which requires each separately identifiable component of service of the agreement that contains the transfer of asset to be identified and revenue to be recognised separately for each component. IFRIC 18 will be applied prospectively to transfers of assets from customers received on or after 1 July 2009.
- ★ Revised IAS 23 *Borrowing Costs*, which is effective for capitalisation of borrowing costs to qualifying assets commencing on or after 1 January 2009, removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The adoption of Revised IAS 23 will not have any effect on the consolidated financial statements of the Group.
- ★ Revised IAS 1 *Presentation of Financial Statements (2007)*, which is effective for consolidated financial statements for periods beginning on or after 1 January 2009, introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of income and all non-owner changes in equity in a single statement), or in a statement of income and a separate statement of comprehensive income. The adoption of Revised IAS 1 is expected to have a significant impact on the presentation of the consolidated financial statements of the Group.
- ★ Revised IFRS 3 *Business Combinations (2008)* has broadened the definition of a business which is likely to result in more acquisitions being treated as business combinations. Further, the Revised IFRS 3 will require contingent consideration to be measured at fair value, with subsequent changes therein recognised in profit or loss and transaction costs, other than share and debt issue costs, to be expensed as incurred. The revised IFRS 3 will also require any pre-existing interest in the acquiree to be measured at fair value with the gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. The Group is required to adopt Revised IFRS 3 for business combinations which the acquisition date is on or after 1 April 2010, with prospective application required.
- ★ Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which are effective for consolidated financial statements for periods beginning on or after 1 January 2009, with retrospective application required, are not expected to have a significant effect on the consolidated financial statements of the Group.
- ★ Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27 are effective for consolidated financial statements for periods beginning on or after 1 July 2009. The adoption of amended IAS 27 will not have any effect on the consolidated financial statements of the Group.
- ★ Amendments to IFRS 1 *First Time Adoption of IFRS*; and IAS 27 *Consolidated and Separate Financial Statements* are effective for financial years beginning on or after 1 January 2009. The amendments allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. These amendments are not relevant to the Group as it is not a first-time adopter of IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- ★ Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The Group is required to adopt amendments to IFRS 2 for consolidated financial statements for periods beginning on 1 April 2009. The adoption of amendments to IFRS 2 will not have any effect on the consolidated financial statements of the Group.
- ★ Amendment to IFRS 7 *Financial Instruments: Disclosures*, which is effective for consolidated financial statements for periods beginning on or after 1 January 2009. The amendments introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. The main impact on the consolidated financial statements of the Group will be additional disclosures required on the fair value measurements for any investments in prelisting companies that the Group is holding as at 31 December 2009 and onwards.
- ★ Amendment to IAS 1 *Presentation of Financial Statements*, which is effective for consolidated financial statements for periods beginning on or after 1 January 2009, clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are examples of current assets and liabilities respectively. This is not expected to have an impact on the Group's consolidated financial statements.
- ★ Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* amends the definition of a financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. This amendment will be applied from 1 January 2009 but is not expected to have an impact on the Group's consolidated financial statements.
- ★ Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives* clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment issued by the IASB in October 2008. The reclassification amendment allows entities to reclassify particular financial instruments out of the 'at fair value through profit or loss' category in specific circumstances. The amendments to IAS 39 and IFRIC 9 clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives have to be assessed and, if necessary, separately accounted for in consolidated financial statements. These amendments, which are effective for annual periods ending on or after 30 June 2009, are not expected to have an impact on the Group's consolidated financial statements.

There are other amendments to standards as part of the International Accounting Standards Board ("IASB")'s annual improvements project published in May 2008 that are not addressed above. These amendments to the following standards are all effective from 1 January 2009 and are unlikely to have an impact on the Group's consolidated financial statements: IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* (and consequential amendment to IFRS 1 *First Time Adoption*); IFRS 7 *Financial Instruments: Disclosures*; IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10 *Events after the Reporting Period*; IAS 16 *Property, Plant and Equipment* (and consequential amendment to IAS 7 *Statement of Cash Flows*); IAS 18 *Revenue*; IAS 19 *Employee Benefits*; IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*; IAS 23 *Borrowing Costs*; IAS 28 *Investments in Associates* (and consequential amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*); IAS 29 *Financial Reporting in Hyperinflationary Countries*; IAS 31 *Interests in Joint Ventures* (and consequential amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*); IAS 34 *Interim Financial Reporting*; IAS 36 *Impairment of Assets*; IAS 38 *Intangible Assets*; IAS 40 *Investment Property* (and consequential amendments to IAS 16 *Property, Plant and Equipment*); and IAS 41 *Agriculture*.

4. TRANSACTIONS WITH RELATED PARTIES

The Investment Manager, Enterprise Investment Management Limited, is responsible for identifying, making and monitoring investments on behalf of the Group. Dominic Scriven and John Shrimpton, Directors of the Company, are also the Directors of the Investment Manager. Dominic Scriven and John Shrimpton are also shareholders and Directors of Dragon Capital Group Limited ("Dragon Capital"), the holder of the management shares of the Company and the ultimate parent company of the Investment Manager.

As at 31 December 2008, Dragon Capital Markets Limited beneficially held 563,305 redeemable shares in the Company for investment and proprietary trading purposes.

Richard McKegney is a director of NIG Asian Investments Ltd., a wholly-owned investment vehicle of the National Bank of Kuwait, which is a beneficial shareholder of the Company, holding 1,026,770 redeemable shares as at 31 December 2008. Sin Foong Wong is the Country Manager for the International Finance Corporation (the "IFC"), which is a beneficial shareholder of the Company, holding 8,983,808 redeemable shares in the Company as at 31 December 2008. Harmut Giesecke is a director of Capital International which is a beneficial shareholder of the Company, holding 2,264,343 redeemable shares in the Company as at 31 December 2008.

During the year, the Directors, with the exception of Dominic Scriven and John Shrimpton, earned US\$57,500 (2007: US\$47,597) for their participation on the Board of Directors of the Company.

On 22 May 2008, Vietnam Resource Investments (Holdings) Ltd ("VRIHL"), a company managed by Dragon Capital Management Limited, acquired approximately 91.7% of the issued and outstanding shares of Keeper Resources Inc. ("Keeper"), a company formerly listed on the Toronto Stock Exchange – Venture Exchange, pursuant to an offer dated 16 April 2008 (the "Offer") to acquire all of the issued and outstanding common shares of Keeper at a price of CA\$1.50 (US\$1.52) per common share. In connection with the Offer, on 22 May 2008, all remaining outstanding options were exercised in accordance with their terms. VRIHL exercised its statutory rights of compulsory acquisition under the Business Corporations Act (Alberta) and, effective 23 May 2008, acquired the remaining shares of Keeper that were not deposited to the Offer at a price of CA\$1.50 per common share. As a result, the Group received CA\$3,600,000 under this Offer in exchange for 2,400,000 outstanding shares of Keeper previously held by the Group.

On 26 February 2008, after a considerable process involving the commissioning of two independent valuations from leading international real estate valuers, the independent Directors of the Company approved the sale of the entire issued and outstanding share capital of the company, UD Holdings Limited, which held a 70% interest in Hanoi Lake View to Dragon Capital Property Limited (the "Purchaser"), an affiliate company of the Investment Manager, for the sum of US\$8,750,000 (the "Purchase Price"). This price reflected a premium to the mid-price valuation of the two independent valuations and a premium to the carrying value of the holding for the Company as at the end of 2007 of US\$8,700,000 (2006: US\$7,850,000). The Purchase Price was paid by the Investment Manager on behalf of the Purchaser by reducing the incentive fee payable to the Investment Manager by an amount equivalent to the Purchase Price.

During the year, VEIL borrowed US\$4,376,081 from Vietnam Resource Investments Limited (VRIL), at an interest rate of 5.0075% p.a. (six month LIBID). Simultaneously, two Dragon Capital funds, Vietnam Growth Fund Limited (VGF) and Vietnam Dragon Fund Limited (VDF) lent US\$4,325,374 and US\$50,707 respectively, to VRIL, at the same interest rate. Total interest payments of US\$2,224.50 were made by the Company to VRIL on 27 May 2008 and 23 October 2008, with the principal fully paid on 23 October 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 US\$	2007 US\$
Listed investments:		
Investments, at cost	173,760,138	162,939,948
Unrealised gains	37,624,558	499,080,102
At fair value	211,384,696	662,020,050
Unlisted investments:		
Investments, at cost	161,541,077	156,847,099
Unrealised (losses)/gains	(24,105,291)	98,323,156
At fair value	137,435,786	255,170,255
Total investments at fair value	348,820,482	917,190,305

As at 31 December 2008, the Group held the following listed and unlisted investments:

Listed Investments	Sector	Fair value US\$	% NAV
Listed Bonds			
CII - Bond 8% 15/09/2009	Transportation	857,854	0.24
		857,854	0.24
Overseas Listed Equities			
Olympus Pacific	Materials/Resources	1,213,329	0.33
Vedan	Food/Beverage	1,056,764	0.29
Asian Minerals	Materials/Resources	321,332	0.09
		2,591,425	0.71
Vietnam Listed Equities			
ACB	Banks	62,136,278	17.02
Sacombank	Banks	32,697,624	8.96
Vinamilk	Food/Beverage	27,951,427	7.66
REE	Real Estate	16,488,548	4.52
PV Drilling	Energy	10,861,878	2.98
Concrete 620	Materials/Resources	9,266,242	2.54
Vinh Son-Song Hinh	Utilities	8,600,308	2.36
VF1	Diversified Financials	8,212,805	2.25
CII	Transportation	7,937,094	2.17
Gemadept	Transportation	6,989,050	1.91
Phu My Fertilizer	Materials/Resources	4,737,108	1.3
Vinaconex	Real Estate	4,040,492	1.11
FPT	Software/Services	3,904,392	1.07
Saigon Tel	Real Estate	2,066,855	0.57
Bao Viet Securities	Diversified Financials	1,701,192	0.47
Binh Minh Plastics	Materials/Resources	344,104	0.09
Sacom Cable	Technology Hardware	2	-
Thu Duc House	Real Estate	13	-
Pha Lai Power	Utilities	5	-
		207,935,417	56.97
TOTAL LISTED INVESTMENTS		211,384,696	57.91

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Unlisted Investments	Sector	Fair value US\$	% NAV
Vietnam OTC Equities			
VP Bank	Banks	7,699,716	2.11
Phuong Nam Bank	Banks	3,368,237	0.92
Sabeco	Food/Beverage	1,722,856	0.47
		12,790,809	3.50
Overseas Unlisted Equities			
VRICL/Tiberon	Materials/Resources	68,712,086	18.82
VIFS	Diversified Financials	1,792,450	0.49
		70,504,536	19.32
Private Equities			
Danao	Consumer Services	13,208,488	3.62
VF2	Diversified Financials	7,136,728	1.96
PDD	Real Estate	1,060,000	0.29
Pacific Ocean	Transportation	514,712	0.14
		21,919,928	6.01
Loans			
Danao - Loan 8.5% due 02/08/2009	Consumer Services	1,982,948	0.54
Danao - Loan 8.5% due 27/06/2010	Consumer Services	900,000	0.25
		2,882,948	0.79
Reverse repurchase agreements			
VDBGB 9.4% 27/02/2019	Banks	2,758,652	0.76
VDBGB 9.1% 16/08/2012	Banks	2,343,047	0.64
VDBGB 9.4% 26/12/2018	Banks	1,706,630	0.47
VDBGB 9.7% 30/09/2018	Banks	1,715,707	0.47
VDBGB 8.4% 23/01/2012	Banks	1,471,401	0.40
VDBGB 9.4% 19/03/2019	Banks	571,902	0.16
		10,567,339	2.90
Vietnam Unlisted Bonds			
ACB - Conv Bond	Banks	10,684,835	2.93
Agri - Bond 10.2% 10/10/2021	Banks	8,085,391	2.22
		18,770,226	5.14
TOTAL UNLISTED INVESTMENTS		137,435,786	37.65

The Group's interests in the following investments are wholly or partially held through the Company, 100% equity interests in Geffen Limited, VEIL Holdings Limited, Venner Group Limited, Grinling International Limited, Wareham Group Limited and Goldchurch Limited and a 90% equity interest in Dragon Financial Holdings Limited, all of which are investment holding companies incorporated in the British Virgin Islands.

Issuer:

ACB
 ACB - Conv Bond
 Agri - Bond 10.2% 10/10/2021
 Asian Minerals
 Bao Viet Securities

Binh Minh Plastics
 CII

CII - Bond 8% 15/09/2009
 Concrete 620

Danao
 Gemadep

Olympus Pacific
 Pacific Ocean
 PDD
 Pha Lai Power
 Phuong Nam Bank
 REE

Sacom Cable
 Sacombank
 Thu Duc House
 Vedan
 VF1

VP Bank
 Vinamilk

Vinaconex
 Vinh Son-Song Hinh

Phu My Fertilizer

FPT
 PV Drilling

Saigon Tel
 Sabeco

VDBGB

VF2
 VIFS
 VRICL/Tiberon

Held by:

Dragon Financial Holdings Limited
 Dragon Financial Holdings Limited
 Grinling International Limited
 Directly by the Company
 Directly by the Company
 Goldchurch Limited
 Wareham Group Limited
 Grinling International Limited
 Directly by the Company
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 Venner Group Limited
 VEIL Holdings Limited
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

6. CASH AND CASH EQUIVALENTS

	2008 US\$	2007 US\$
Cash on demand	11,279,432	2,372,806
Time deposits	5,238,253	15,391,345
	16,517,685	17,764,151

Included in cash and cash equivalents as at 31 December 2008 was US\$5,238,253 placed as time deposits at banks earning interest at rates ranging from 10% to 11.7% per annum (2007: US\$15,391,345 at rate of 4.8% per annum).

7. ACCOUNTS PAYABLE AND ACCRUALS

	2008 US\$	2007 US\$
Incentive fee	-	30,483,461
Management fee	656,330	1,545,095
Directors' fees	13,125	11,875
Other payables	81,807	4,774,955
	751,262	36,815,386

8. ISSUED CAPITAL

	2008 US\$	2007 US\$
Authorised:		
500,000,000 ordinary shares at par value of US\$0.01 each	5,000,000	5,000,000
300,000,000 conversion shares at par value of US\$0.01 each	3,000,000	3,000,000
1,000 management shares at par value of US\$0.01 each	10	10
	8,000,010	8,000,010
Issued and fully paid:		
173,823,000 (2007: 158,021,000) redeemable shares at par value of US\$0.01 each	1,738,230	1,580,210
1,000 management shares at par value of US\$0.01 each	10	10
	1,738,240	1,580,220

On 10 June 2008, the Company issued 15,802,000 new redeemable shares at a subscription price of US\$2.80 per share (excluding a placing fee of US\$0.028 per share). The newly issued redeemable shares were listed on the Irish Stock Exchange on 19 June 2008, ranking pari passu in all respects with the existing redeemable shares.

Redeemable shares carry rights to dividends as set out in the Company's Memorandum and Articles of Association. In a winding up, redeemable shares carry a right to a return of paid up nominal capital, and to share in any surplus assets after the return of paid up nominal capital on management shares. Registered holders carry one vote for every redeemable share. No redeemable shareholder has the option to require the redemption of their redeemable shares.

Conversion shares carry rights to dividends in respect of assets attributable to them, as set out in the Company's Memorandum and Articles of Association. No dividend or other distribution shall be declared, made or paid by the Company on any of its shares by reference to a record date falling between the Calculation Date and the Conversion Date. New redeemable shares issued on conversion rank in full pari passu with existing redeemable shares for all dividends and other distributions with a record date falling after the Conversion Date. In a winding up, conversion shares, if any, will be deemed to automatically convert into redeemable shares immediately prior to the winding up, on the same basis as if conversion had occurred 28 business days after the calculation date arising, as a result of the winding up of the Company.

Until conversion, conversion and redeemable shareholders will vote as separately to effect any variation or abrogation in their respective class rights.

Management shares are not redeemable, and do not carry any right to dividends. In a winding up, management shares are entitled to a return of paid up nominal capital out of the assets of the Company, but only after the return of paid up nominal capital on redeemable shares. Management shares each carry one vote on a poll. Management shareholders have the exclusive right to appoint two individuals to the Board and to nominate the individuals it has appointed to the Board as executive Directors of the Company, should the Company be without an investment manager.

Movements in redeemable share capital during the year were as follows:

	2008 US\$	2007 US\$
Balance at beginning of the year	1,580,210	1,199,900
Conversion of conversion shares ★	-	380,310
Redeemable shares issued during the year	158,020	-
Balance at end of the year	1,738,230	1,580,210

Movements in conversion shares during the year were as follows:

	2008 US\$	2007 US\$
Balance at beginning of the year	-	1,500,000
Conversion of conversion shares ★	-	(1,500,000)
Balance at end of the year	-	-

★ On 25 May 2007 the Company converted 150,000,000 conversion shares to 38,031,000 ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

8. ISSUED CAPITAL (CONTINUED)

Movements in share premium during the year were as follows:

	2008 US\$	2007 US\$
Balance at beginning of the year	313,021,325	311,901,635
Share premium from redeemable shares issued during the year, net of placement fee of US\$442,456	43,645,124	-
Share premium from conversion of conversion shares	-	1,119,690
Balance at end of the year	356,666,449	313,021,325

9. INTEREST INCOME

	2008 US\$	2007 US\$
Interest income on cash balances at banks	1,074,226	1,374,897
Interest income on bonds	1,554,155	1,808,422
Interest income on other investments	-	35,525
	2,628,381	3,218,844

10. NET ASSET VALUE PER REDEEMABLE SHARE

The calculation of the NAV per redeemable share is based on the net assets attributable to the redeemable shares of the Group as at 31 December 2008 of US\$365,009,819 (2007: US\$901,231,025) and the number of redeemable shares in issue as at that date of 173,823,000 shares (2007: 158,021,000 shares).

11. FEES

The management, incentive, administration and custodian fees are calculated based on the NAV of the Group.

Management fee

The Investment Manager is entitled to receive a management fee at 2% per annum of the NAV, payable monthly in arrears on the first business day of such month and calculated by reference to the NAV at the end of the preceding month. During the year total management fee amounted to US\$10,865,236 (2007: US\$18,620,904). As at 31 December 2008, a management fee of US\$656,330 (2007: US\$1,545,095) was payable to the Investment Manager.

Incentive fee

The Investment Manager, under certain circumstances, is entitled to an incentive fee, payable in arrears within 14 days after the Board has approved the annual audited consolidated financial statements of the Group in respect of the relevant accounting period. The incentive fee is calculated at a rate of 20% of the relevant amount against which the incentive fee will be calculated ("N"), provided that N is a positive figure and that the value of O in the calculation exceeds the highest value of O by reference to the incentive fee paid in any previous year:

$$N = O - P,$$

where:

N is the relevant amount against which the incentive fee will be calculated;

O is the NAV of all the redeemable shares of the Group on the last valuation day in that accounting period plus the NAV of all distributions made in respect of all the redeemable shares of the Group in all prior years by way of dividend, or return of capital, or otherwise; and

P is an amount equal to the amount of capital raised by the issue of the redeemable shares of the Group, exclusive of placing fee, compounded at the rate of 8% per annum with effect from the date of issue of those redeemable shares until the last valuation day in that accounting period.

In order for the incentive fee to have been payable in respect of the year ended 31 December 2008, the NAV of the redeemable shares of the Group needed to exceed US\$1,018,999,670 (2007: US\$779,297,173). As at 31 December 2008, the NAV per redeemable share of the Group was US\$2.100 (2007: US\$5.703).

No incentive fee was incurred during the year ended 31 December 2008 (2007: US\$30,483,461).

Directors' fees

The fees payable to the Board of Directors of the Company as a whole are subject to a maximum aggregate amount of US\$100,000 per annum. During the year total Directors' fees amounted to US\$57,500 (2007: US\$47,597). Directors' fees of US\$13,125 were payable as at 31 December 2008 (2007: US\$11,875). Dominic Scriven and John Shrimpton have permanently waived their rights to receive Directors' fees for their services as Directors of the Company.

Administration fee

Management International (Bermuda) Limited (the "Administrator") is entitled to receive a fee of 0.1% of the gross assets per annum, payable monthly in arrears, and subject to a minimum monthly fee. During the year total administration fee amounted to US\$546,815 (2007: US\$944,194). As at 31 December 2008, an administration fee of US\$32,817 (2007: US\$77,255) was payable to the Administrator.

Custodian fee

Fortis Prime Fund Solutions Bank (Ireland) Limited (the "Custodian") is entitled to receive a fee of 0.03% of the NAV per annum and subject to a minimum monthly fee. During the year total custodian fee amounted to US\$164,047 (2007: US\$282,598). Custodian fee of US\$9,845 were payable to the custodian as at 31 December 2008 (2007: US\$23,176).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

12. INCOME TAX

Under the current law of the Cayman Islands, the Company, its subsidiaries and jointly controlled entity are not required to pay any taxes in the Cayman Islands on either income or capital gains and no withholding taxes will be imposed on distributions by the Company to its shareholders or on the winding-up of the Company.

13. BASIC (LOSSES)/EARNINGS PER REDEEMABLE SHARE

The calculation of basic losses per redeemable share is based on the loss for the year attributable to the redeemable shares of US\$580,024,350 (2007: profit of US\$130,359,025) and the weighted average of 166,463,164 redeemable shares (2007: 147,393,159 redeemable shares) in issue during the year.

a) (Loss)/profit attributable to redeemable shareholders

	2008 US\$	2007 US\$
(Loss)/profit for the year	(580,024,350)	179,659,569
Less profit attributable to shareholders of conversion shares	-	(49,300,544)
(Loss)/profit attributable to redeemable shareholders	(580,024,350)	130,359,025

b) Weighted average number of redeemable shares

	2008 US\$	2007 US\$
Issued redeemable shares at the beginning of the year	158,021,000	119,990,000
Effect of redeemable shares issued during the year	8,850,847	27,403,159
Weighted average number of redeemable shares	166,871,847	147,393,159

c) Basic (losses)/earnings per redeemable share

	2008 US\$	2007 US\$
Basic (losses)/earnings per redeemable share	(3.476)	0.884

14. FINANCIAL RISK MANAGEMENT

The Group invests in listed and unlisted investments in Vietnam, Cayman Islands, Canada and Hong Kong, and is exposed to credit risk, liquidity risk and market risk arising from the financial instruments it holds. The Group has formulated risk management policies and guidelines which govern its overall business strategies, its balance for risk and its general risk management philosophy, and has established processes to monitor and control transactions in a timely and accurate manner. In essence, the Group and its Investment Manager practise portfolio diversification and have adopted a range of appropriate restrictions and policies. Nevertheless, the markets in which the Group operates can provide no assurance that the Group will not suffer a loss as a result of one or more of the risks described above, or as a result of other risks not currently identified by Investment Manager.

a) **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet a commitment that it has entered into with the Group.

The Group's listed and unlisted investments will only be traded on or subject to the rules of recognised stock exchanges or with counterparties which have, or whose parent company has, a specified credit rating. All transactions in listed and unlisted securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal since the delivery of securities sold is made only once the broker has received payment. A purchase payment is only made once the securities have been received by the broker. If either party fails to meet their obligations, the trade will fail.

As at 31 December 2008 and 2007, the Group's credit risk arose principally from its receivables, cash and cash equivalents and investments in loans and corporate bonds.

The maximum exposure to credit risk faced by the Group is equal to the carrying amounts of receivables, cash and cash equivalents and investments in loans and corporate bonds shown on the balance sheet.

b) **Liquidity risk**

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price. The Group manages its liquidity risk by investing primarily in marketable securities. The Company also regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

As at 31 December 2008 and 2007, all the contractual maturities of non-derivative financial liabilities of the Company were payable within a year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

Market risk is the risk that changes in market prices, such as equity prices, interest rates and foreign exchange rates will affect the income of the Company and the value of its holdings of financial instruments.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the values of individual stocks. The trading equity price risk exposure arises from the Group's investment portfolio. The Group is exposed to equity price risk on all of its listed and unlisted equity investments for which an active over-the-counter market exists. The equity price risk of the Group is managed by the Investment Manager who seeks to monitor the risk through a careful selection of securities within specified limits.

Equity price risk for the Group's listed equity investments principally relates to investments listed on Vietnam's Stock Exchange where a majority of the Group's investments are listed. The Investment Manager's best estimate of the effect on net assets and profits due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in index level	Effects on net assets	Change in index level	Effects on net assets
	2008	2008	2007	2007
Market Indices	%	US\$m	%	US\$m
VN Index	50	84.7	30	163.5
VN Index	(50)	(84.7)	(30)	(163.5)
Hanoi Index	50	44.1	30	80.8
Hanoi Index	(50)	(44.1)	(30)	(80.8)

Valuation of one of the Group's unlisted investments is made on the basis of independent quarterly valuations. The methodology of valuation of this investment takes into consideration a variety of factors, which means that the unlisted investment is also exposed to equity price risk.

Interest rate risk

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of floating market interest rates on its financial position and cash flows. The Group has the ability to borrow funds from banks and other financial institutions in order to increase the amount of capital available for investment. Consequently, the level of interest rates at which the Group can borrow will affect the operating results of the Group. The Investment Manager monitors the Group's overall interest sensitivity on a monthly basis.

The table below summarises the Group's exposure to interest rate risk. Included in the table are the Group's assets and liabilities at fair value, categorised by maturity date. The net interest sensitivity gap represents the net notional amounts of all interest sensitive financial instruments.

	Up to 1 year	1 -5 years	Over 5 years	Non interest bearing	Total
31 December 2008	US\$	US\$	US\$	US\$	US\$
ASSETS					
Financial assets at fair value through profit or loss	10,567,339	11,826,193	10,684,835	-	33,078,367
Amounts due from brokers	-	-	-	22,090	22,090
Receivables	-	-	-	400,824	400,824
Cash and cash equivalents	16,517,685	-	-	-	16,517,685
	27,085,024	11,826,193	10,684,835	422,914	50,018,966
LIABILITIES					
Accounts payable and accruals	-	-	-	(751,262)	(751,262)
	-	-	-	(751,262)	(751,262)
NET INTEREST SENSITIVITY GAP	27,085,024	11,826,193	10,684,835	(328,348)	49,267,704
	Up to 1 year	1 -5 years	Over 5 years	Non interest bearing	Total
31 December 2007	US\$	US\$	US\$	US\$	US\$
ASSETS					
Financial assets at fair value through profit or loss	-	19,469,316	21,137,322	-	40,606,638
Amounts due from brokers	-	-	-	1,081,287	1,081,287
Receivables	-	-	-	2,010,668	2,010,668
Cash and cash equivalents	17,764,151	-	-	-	17,764,151
	17,764,151	19,469,316	21,137,322	3,091,955	61,462,744
LIABILITIES					
Accounts payable and accruals	(4,376,081)	-	-	(32,439,305)	(36,815,386)
	(4,376,081)	-	-	(32,439,305)	(36,815,386)
NET INTEREST SENSITIVITY GAP	13,388,070	19,469,316	21,137,322	(29,347,350)	24,647,358

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2008

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2008, should interest rates have fallen by 100 basis points with all other variables remaining constant, the decrease in net assets attributable to holders of redeemable shares for the period would amount to approximately US\$495,961. If interest rates had risen by 100 basis points, the increase in net assets attributable to holders of redeemable shares would amount to approximately US\$495,961.

As at 31 December 2007, should interest rates have fallen by 100 basis points with all other variables remaining constant, the decrease in net assets attributable to holders of redeemable shares for the period would amount to approximately US\$539,947. If interest rates had risen by 100 basis points, the increase in net assets attributable to holders of redeemable shares would amount to approximately US\$539,947.

Cash and cash equivalents are subject to cash flow interest rate risk as they bear floating interest rates.

Currency risk

The Company's redeemable shares are denominated in US\$, and shares are issued in this currency. The assets of the Group may, however, be invested in securities and other investments which are denominated in currencies other than US\$. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency exchange rates. The Investment Manager monitors the Group's currency position on a monthly basis. The currencies giving rise to this risk are primarily Vietnam Dong ("VND"), Canadian Dollars ("CA\$"), Australian Dollars ("AU\$") and Hong Kong Dollars ("HK\$").

The table below summarises the Group's exposure to various currencies risk. The fair values of amounts due from brokers, accounts receivable and accrued income are included in 'Other assets'. The fair values of amounts due to brokers, accounts payable and accrued expenses, are included in 'Other liabilities'. All amounts are stated in US\$.

31 December 2008	AU\$	CA\$	HK\$	VND
ASSETS				
Financial assets at fair value through profit or loss	-	1,534,661	1,056,764	248,770,821
Cash and cash equivalents	2,478	-	117,130	11,066,563
	2,478	1,534,661	1,173,894	259,837,384
LIABILITIES				
	-	-	-	-
TOTAL ASSETS LESS LIABILITIES	2,478	1,534,661	1,173,894	259,837,384

31 December 2007	AU\$	CA\$	HK\$	VND
ASSETS				
Financial assets at fair value through profit or loss	-	21,596,831	2,025,772	768,481,541
Other assets	-	-	-	2,608,390
Cash and cash equivalents	2,953	2,022	201,083	15,491,747
	2,953	21,598,853	2,226,855	786,581,678
LIABILITIES				
	-	-	-	-
TOTAL ASSETS LESS LIABILITIES	2,953	21,598,853	2,226,855	786,581,678

As at 31 December 2008, if the US\$ had strengthened or weakened by 5% against the AU\$, CA\$, HK\$ and VND with all other variables held constant, the net assets attributable to redeemable shareholders would have been decreased by the amounts shown below. This analysis is performed on the same basis for 2007.

	AU\$	CA\$	HK\$	VND
2008	124	76,733	58,695	13,600,424
2007	148	1,079,943	111,343	39,329,084

d) **Capital management**

The Group considers the capital under management as equal to net assets attributable to holders of redeemable shares. The Group has engaged the Investment Manager to allocate the net assets in such a way to generate investment returns that are commensurate with the investment objectives outlined in the Group's offering documents.

15. CONTINGENCIES

Under the current law of the Cayman Islands, the Company, its subsidiaries and jointly controlled entity are not required to pay any taxes in the Cayman Islands on either income or capital gains and no withholding taxes will be imposed on distributions to its shareholders or on the winding-up of the Company. The Company is subject to 10% withholding tax on the interest received from any Vietnamese companies. Dividends remitted by Vietnamese investee companies to foreign investors are not subject to withholding taxes.

Although the Company, its subsidiaries and jointly controlled entity are not incorporated in Vietnam, its activities are primarily focused on Vietnam. In accordance with the prevailing tax regulations in Vietnam, if an entity was treated as having a permanent establishment, or as otherwise being engaged in a trade or business in Vietnam, income attributable to or effectively connected with such permanent establishment or trade or business may be subject to tax in Vietnam. As at the date of this report the following information is uncertain:

- ★ Whether the Company, its subsidiaries and jointly controlled entity are considered as having permanent establishments in Vietnam;
- ★ The amount of tax that may be payable, if the income is subject to tax; and
- ★ Whether tax liabilities (if any) will be applied retrospectively.

The implementation and enforcement of tax regulations in Vietnam can vary depending on numerous factors, including the identity of the tax authority involved. The administration of laws and regulations by government agencies may be subject to considerable discretion, and in many areas, the legal framework is vague, contradictory and subject to interpretation. The Directors believe that it is unlikely that the Group will be exposed to tax liabilities in Vietnam, and in the worst case, if tax is imposed on income which has arisen in Vietnam, it will not be applied retrospectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2008

16. POST BALANCE SHEET EVENTS

On 7 April, 2009, Sin Foong Wong tendered his resignation as a Director of the Company. Mr. Wong stated his resignation was prompted by an imminent relocation and assignment to a new regional and business role within the IFC. The IFC remains a beneficial shareholder of the Company with the right to appoint a non-executive Director. The Company is awaiting further developments and anticipates announcing the appointment of a new Director prior to its next scheduled board meeting.

17. CORRESPONDING FIGURES

Certain corresponding figures have been reclassified to conform with the current year's presentation as follows:

Consolidated statement of income

	2007 US\$ (As reclassified)	2007 US\$ (As previously stated)
Bond interest income	-	1,808,422
Bank interest income	-	1,374,897
Other interest income from investments	-	35,525
Interest income	3,218,844	-

Consolidated statement of cash flows

	2007 US\$ (As reclassified)	2007 US\$ (As previously stated)
Bond interest income	-	1,808,422
Bank interest income	-	1,374,897
Other interest income from investments	-	35,525
Interest income	3,183,319	-
Change in unrealised gains on unlisted investments	-	38,219,199
Change in unrealised gains on listed investments	-	82,079,762
Net changes in fair value of financial assets at fair value through profit or loss	120,298,961	-
Interest on bank deposits received	-	1,444,537
Interest on bond received	-	1,792,984
Other interest income from investments received	-	35,525
Interest received	3,273,046	-

18. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 June 2009.



All artwork has been selected from an original and unparalleled collection of Vietnamese propaganda art. <http://www.dogmacollection.com/index.php>

We are conscious of the effects we have on our environment and the positive difference we can make to our communities. It is of paramount importance to the company that we are not only conscious of this, but take action to do all we can to make a positive contribution. To help combat global warming, Dragon Capital has been Carbon Neutral since 2005, and currently supports the Kotmar Waste Heat Recovery Project in India. This energy efficiency project captures waste heat at a steel plant and uses it to produce electricity which is subsequently fed into the local grid. The project has generated emission reductions of 74,263t CO₂ equivalent between 2004 and 2008, verified and certified to the Voluntary Carbon Standard. We look forward to supporting future renewable energy projects within Vietnam as they arise.

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Support

John Marks
CarbonNeutral.com

CO₂ emissions reduced to net zero in accordance with The CarbonNeutral Protocol

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