

VIETNAM ENTERPRISE INVESTMENTS LIMITED

Annual Report 2011

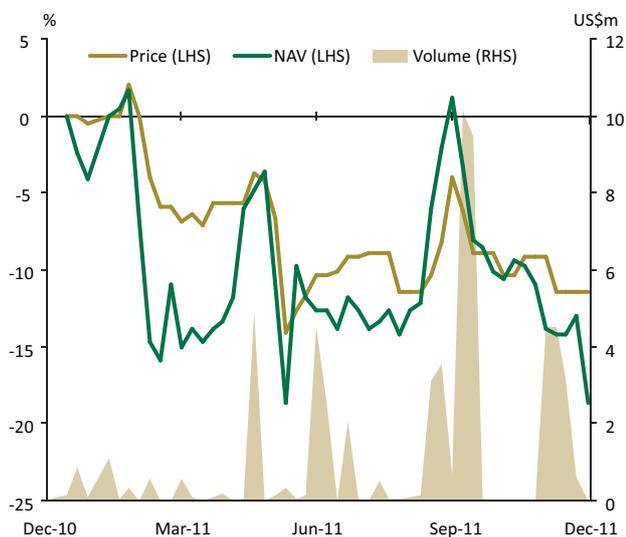


CONTENTS

1	SUMMARY OF KEY FINANCIAL INFORMATION
2	CHAIRMAN'S STATEMENT
3	INVESTMENT MANAGER'S REPORT
13	TOP FIVE HOLDINGS
18	GOVERNANCE
20	REPORT OF THE BOARD OF DIRECTORS
22	INDEPENDENT AUDITORS' REPORT
23	CONSOLIDATED STATEMENT OF FINANCIAL POSITION
24	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
25	CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
26	CONSOLIDATED STATEMENT OF CASH FLOWS
27	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
44	ADMINISTRATION
45	BOARD OF DIRECTORS
46	NAME ABBREVIATIONS

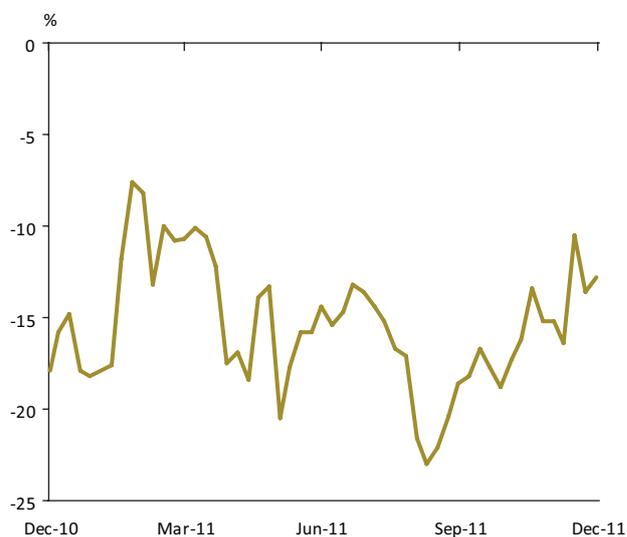
SUMMARY OF KEY FINANCIAL INFORMATION

Share Price & NAV



Source: Dragon Capital

Discount to NAV



Source: Dragon Capital

Performance

	31 December 2011	31 December 2010	% Change
Total net assets	US\$330,132,365	US\$419,016,120	-21.21%
Number of outstanding shares	168,110,672	170,107,498	-1.17%
NAV per share	US\$1.96	US\$2.46	-20.33%
Share price (mid-price)	US\$1.71	US\$2.02	-15.35%
Discount	-12.76%	-17.89%	-28.69%
US\$/VND exchange rate	21,049	19,500	7.94%
VN Index (price return - VND terms)	351.55	484.66	-27.46%
VN Index (total return - US\$ terms) Source: Bloomberg	n/a	n/a	-29.94%

Period's High and Low (US\$)	Year to 31 December 2011		Year to 31 December 2010	
	High	Low	High	Low
NAV per share	2.50	1.96	2.87	2.10
Share price (mid-price)	2.06	1.71	2.07	1.82

	31 December 2011	31 December 2010	% Change
Source of Income (US\$)			
Dividend income	7,354,714	14,610,858	-49.66%
Bond and loan interest income	829,173	422,979	96.03%
Bank interest income	288,278	18,336	1472.20%
Other income	327,074	135,000	142.28%
Total	8,799,239	15,187,173	-42.06%

Vietnam's relentless pursuit of economic growth, reflected by high capital investments, credit growth and stimulus after the global financial crisis in 2008, was the root cause for the runaway inflation, high trade deficit and weak local currency experienced in 2010/2011. The Government came to the realisation that their growth model was causing hardship for the general population and as such needed to be replaced by the pursuit of macroeconomic stability and inflation control. As a result Resolution 11 was promulgated beginning of 2011 focusing on a) tightening monetary policies, b) tightening fiscal policies, cutting public investment and reducing the budget deficit and c) promoting productive activities, supporting exports and curbing the trade deficit.

As a first step, the Government adjusted the official exchange rate, effectively devaluing Vietnam's local currency, Vietnam Dong ("VND"), by 7.2% in February 2011. This was then followed by various administrative measures to control both the local currency and the gold market. Monetary policy was aggressively tightened which pushed deposit rates up to 18% to 20% while lending rates reached as high as 20% to 27%, effectively suffocating corporate access to financing and banks' liquidity. In addition, fiscal policy was tightened by withdrawing subsidies which led to an increase of the electricity price by 15% in March 2011. The fight to get inflation under control was difficult due to soaring pork prices caused by demand from China and rising rice prices due to the Thai government purchasing stock to satisfy their farmers. These price pressures translated into a temporary acceleration of inflation that reached, at its peak, 23% in August before cooling down to 18.6% by the year end as the newly tightened monetary and fiscal policies started to gain traction.

Against this backdrop it is not surprising that Vietnam's stock markets suffered a bad year losing some 30% in United States Dollars ("US\$") terms. Enterprise Investment Management Limited (the "Investment Manager"), in anticipation of these difficulties, sought ways to adjust the portfolio structure of Vietnam Enterprise Investments Limited ("VEIL" or the "Fund" or the "Company") to mitigate the negative impact of a falling market. The Board was pleased that the Investment Manager's efforts succeeded in keeping portfolio losses in check in what was a very challenging year. The Fund lost 20.3% or almost 900 basis points less than the Vietnam Index ("VN Index"). This was one of the best fund performances compared to its peers. The board remained committed throughout 2011 to managing the Fund's discount to net asset value ("NAV") and extended the share buy-back programme that commenced in June 2010. The Fund share price fell less than the NAV, i.e. by 15.3%, over the course of the year, thereby narrowing the discount to NAV to 12.8% at the year end.

Despite the substantial loss of value for investors during 2011 there is a silver lining. The Government not only implemented an aggressive tightening of monetary and fiscal policy but, more importantly, maintained their policy course throughout 2011. In addition, the Government showed renewed vigour in pursuing economic reform, a focus not seen since the days of Doi Moi. The new reforms are based on three key pillars, namely a) the restructuring of financial markets with a focus on strengthening the banking system and financial institutions, b) the restructuring of state owned enterprises ("SOEs") and c) the restructuring of public investments to improve efficiency and reduce capital needs. These policies and efforts started to yield positive results towards the end of 2011 in the form of a gradually reduced trade deficit, declining inflation, a surprisingly stable local currency and increasing foreign exchange ("FX") reserves.

It will certainly take longer for the various reforms to be completely implemented and to take full effect, but it is encouraging to note that the general consensus points to inflation falling to single digit levels around June or July 2012. If inflation stays indeed on target, and it looks as if it will, then the Government will have a room to loosen monetary policy. If so, this will allow injecting liquidity back into the system which in turn will help revive the economy on various fronts. What gives rise to further optimism is that after two consecutive years of dismal stock market performance Vietnamese equities are now amongst the cheapest assets in the region with decent earnings growth prospects. This all bodes well for Vietnam's stock markets in 2012 and your Investment Manager is therefore in the process of rebalancing the portfolio with the aim of reducing concentration and increasing exposure to cyclical stocks and stocks with available foreign room - to benefit from the expected recovery. While there remains many challenges to overcome, the Investment Manager is optimistic that the coming year, the Year of the Dragon, will be a much better year for its investors.

Finally, I am truly very sorry to announce that Richard Mckegney, my predecessor as your Chairman, passed away on 6 April 2012. Dick began his career in Vietnam in the 1960's and reengaged in 1995 to represent National Bank of Kuwait, one of VEIL's first institutional investors, on the board of VEIL. Throughout seventeen years on the Board, as Chairman for five, he applied wisdom, balance and humour throughout volatile and challenging circumstances. Dick will be much missed both by his fellow directors, and by all at Dragon Capital.



Hartmut Giesecke
Chairman
Vietnam Enterprise Investments Limited
24 April 2012

Reform Delivers

The Government has vigorously pursued its reform agenda since late 2010 and achieved impressive results. Loan and money supply growth as well as the fiscal deficit have slowed. FX reserves increased and the currency has stabilised, with mounting indication that the devaluation cycle may well have been broken. Inflation however remained high and is proving a tough hurdle - but one that can be overcome as the Government has remained disciplined over the past year. As a result of the get-tough program and economic restructuring which inevitably prompted a macroeconomic slow-down, stocks are now trading at exceptionally low levels and offer one of Asia's best value/growth propositions. Moreover, there is a rising wave of M&A and private placements at premiums which showcase the bargains that exist in Vietnamese companies.

The consumer price index ("CPI") year-on-year ("YoY") peaked at 23.1% in August 2011, and has been on a downtrend ever since. The March 2012 CPI came out at 0.16% MoM which is the lowest MoM inflation in the past 20 months, resulting in inflation of 14.2% YoY and 2.5% year-to-date ("YTD"). Given the weak aggregate demand, prolonged monetary and fiscal policy tightening, and improved agri-commodity supply, inflation is expected to reach single digits in June and stay below 10% in the second half of 2012.

Vietnam is a net agriculture exporter. Nonetheless, Vietnam's food & foodstuff inflation is two to three times higher than that of other emerging markets. This is largely due to structural issues such as an inefficient inventory and distribution system, lack of scale in cattle farming, as well as the absence of agricultural insurance, supervisory and inspection mechanisms. This can be illustrated for example by the pork retail price that, until the end of August 2011, increased 100% whilst wholesale prices only increased 50%. Another example is that farmers have to pay even higher borrowing rates than other sectors as they do not have collateral. We therefore expect the formulation of a better credit policy to support the agriculture sector and more investment to improve the efficiency of the distribution and inventory systems.

Total credit growth has been slowing sharply for some months. At the end of February 2012, credit and money supply growth turned negative, -2.5% YTD and -0.1% YTD respectively. When a central bank's independence is limited, monetary policy is no longer the only tool in managing inflation. Instead fiscal policy and state sector investment efficiency become equally important tools. The Government therefore imposed stricter limits on non-core businesses of SOEs, reducing the capital used for non-core business to 30% of paid-in capital in late 2010 and proposed a further reduction to 15% in 2011. That explains a wave of divestments recently made by SOEs despite cheap valuations. Vietnam Post & Telecommunication was forced to divest its large holding in Maritime Bank and state owned commercial banks are offering to sell their stakes in other local banks. Investment as a percentage of GDP has reduced significantly from 45% in 2010 to below 38% in 2011 whilst the share of SOEs investment in total investment dropped to 34% in 2011 from 43% in 2010. The newly elected Minister of Finance reconfirmed that SOEs need to cut down their investment programme and sell their non-core businesses.

Despite high inflation and high lending rates Vietnam recorded an improvement in its trade deficit to US\$9.8 billion in 2011, down from US\$12.4 billion in 2010. The core trade deficit (defined as trade balance excluding oil and gold) improved from US\$14.1 billion in 2010 to US\$8.8 billion in 2011. Export growth reached 34% whilst import growth was only 25% in 2011. That is quite impressive given the global emerging market export slowdown. Meanwhile, core import growth accelerated from 20% in January to 27% in April and decelerated to 15% at the end of 2011. As a result, the 12-month rolling core trade deficit, after peaking at US\$18 billion in June 2010, improved to US\$6.8 billion in March 2012. As a percentage of GDP, the trade deficit peaked in 2008 at 22% and has since fallen to 7.8% in 2011. As a result of credit tightening, we expect the trade deficit to continue narrowing to less than US\$7.5 billion, or 5.5% of GDP, in 2012.

The local currency will be the acid test of reform success. As a result of high inflation and lack of confidence in the system, VND has depreciated 30% against the US\$ since 2008. The latest depreciation occurred in February 2011 as the State Bank of Vietnam ("SBV") cut the US\$ reference rate from 18,932 to 20,693 and narrowed the trading band from $\pm 3\%$ to $\pm 1\%$. In practice this meant that the commercial rate, at the top of the band where corporate deals actually take place, went from VND19,500 to 20,900. This was equivalent to a 7.2% devaluation, and the country's biggest devaluation since 1998. The Government's programme has been a success. Since the devaluation and follow-up measures, the US\$/VND unofficial market rate has come down sharply from VND22,500 to 20,860, a 7.2% appreciation. The interbank rate moved from VND21,700 to 20,860 and is trading inside the trading band. After years of disparity we are starting to see the US\$/VND unofficial market rate trading in line with the interbank market. This is one of the most important indicators showing the improvement of local confidence in the VND.

According to the SBV Governor, the SBV has bought US\$5.1 billion YTD to increase its national FX reserves. We estimate that FX reserves should now be close to US\$20 billion at the end of March 2012. This is a significant increase compared to 2010 when FX reserves dropped below US\$10 billion. The aggressive build-up of FX reserves will provide more liquidity in the banking system and help with the process of lowering interest rates. SBV has learned a hard lesson from failing to sterilise strong foreign inflows in 2007 and has initiated the issuance of a T-bill programme to absorb excess liquidity from the banking system.

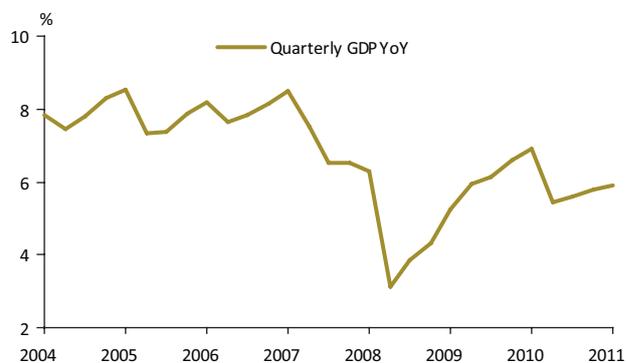
GDP growth marginally accelerated and reached 5.9% at the end of 2011 compared to 5.6% at the end of the first half of 2011, which was substantially lower than 6.78% in 2010. The Industrial & Construction sector was the main driver for this slow down as prolonged credit tightening played havoc in the real estate market causing a sharp reduction in growth from 7.7% in 2010 to only 5.5% in 2011. Services were a smaller factor, declining from 7.5% in 2010 to 7% in 2011. Agriculture however benefitted from rising commodity prices and strong export demand, accelerating from 2.8% in 2010 to 4% in 2011. GDP growth is expected to continue slowing down as the economy deleverages and should reach its bottom in the third and fourth quarter of 2012.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Economy

Real GDP Growth

Economic growth slowed down from 6.8% in 2010 to 5.9% in 2011. The Industrial & Construction sector was the main driver for this slow down as prolonged credit tightening played havoc in the real estate market causing a sharp reduction in growth from 7.7% in 2010 to only 5.5% in 2011. Services were a smaller factor, declining from 7.5% in 2010 to 7% in 2011. Agriculture however benefitted from rising commodity prices and strong export demand, accelerating from 2.8% in 2010 to 4% in 2011. GDP growth is expected to continue slowing down as the economy deleverages and should reach its bottom in the third and fourth quarter of 2012.



Source: General Statistics Office ("GSO")

Retail Sales

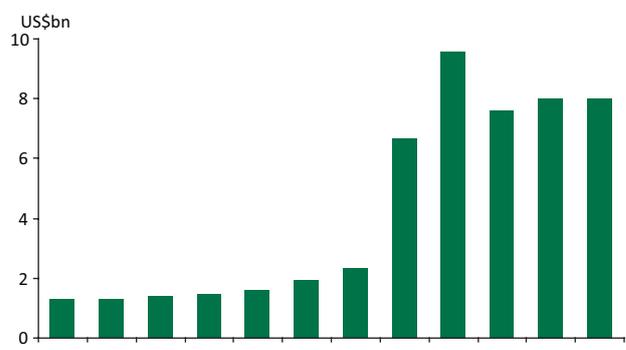
Nominal retail sales growth decelerated from 30% in 2010 to 24.2% in 2011. Real retail sales growth however dropped even more from 14% in 2010 to 4.7% in 2011 due to high inflation during 2011 and a very weak second half of 2011. Large retailers in Vietnam like Metro and Big C experienced a very uncharacteristic drop in revenue prior to the Vietnamese New Year which is traditionally the peak season and bank lending rates for personal consumption increased to as high as 22% to 26%.



Source: GSO

Foreign Direct Investment

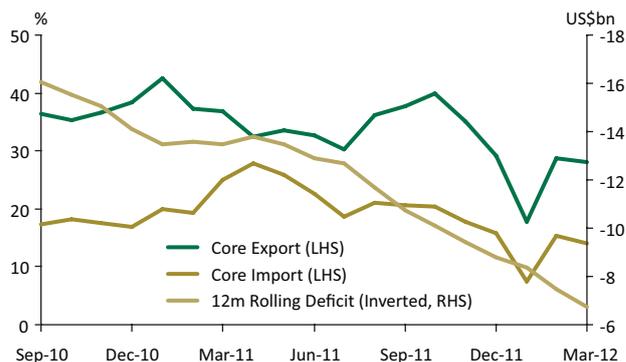
Despite the uncertain global economic outlook, Vietnam continued to enjoy a healthy inflow of foreign direct investment ("FDI") with US\$8 billion disbursed capital in 2011, a similar level to 2010. Real estate used to be the biggest component of disbursed FDI capital in previous years. However, in 2011 Manufacturing and Utilities were the two largest contributors to FDI. Vietnam's labour cost and favourable demographics continue to be attractive even in the face of high and volatile inflation and the country has therefore successfully captured FDI inflows from competitors like China, India and Thailand. We remain optimistic on FDI inflows in the coming years.



Source: Ministry of Planning and Investment ("MPI"), International Financial Statistics ("IFS"), Dragon Capital

Export and import

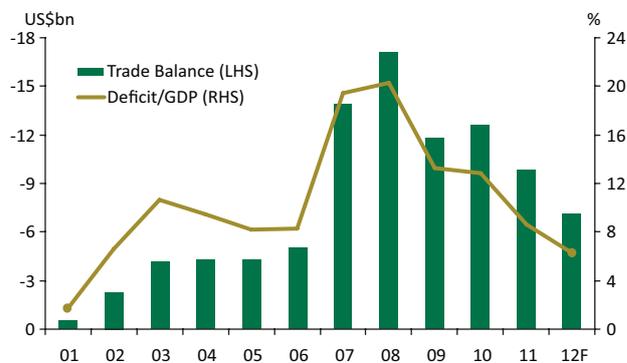
Vietnam's exports benefitted from high global demand and grew 34% in 2011, outperforming big competitors like China (20.3%), India (25.8%) and Thailand (17.2%). Export growth was led by manufacturing which increased by 39% followed by commodities with 30%. Import growth accelerated from 21% in 2010 to 25% in 2011 as import prices and material imports for manufacturing increased significantly in the first half of 2011. However import growth has slowed considerably since April due to tightened monetary and fiscal policies as well as a gloomy real estate market.



Source: GSO, Dragon Capital

Trade Balance

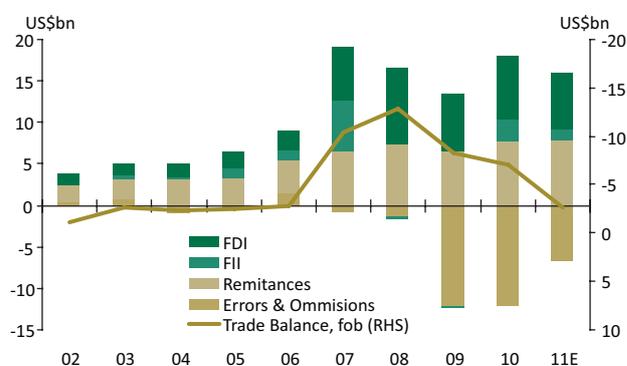
The trade deficit dropped from US\$12.6 billion in 2010 to US\$9.8 billion in 2011 as export growth outpaced import growth by 34% versus 25%. In 2012, export growth is expected to slow due to the weak global recovery, but the future is bright as Vietnam's role as a manufacturing base is expanding. Import growth is expected to slow as tight fiscal and monetary policies will reduce investment demand significantly. We therefore estimate the trade deficit in 2012 to fall further to below US\$7 billion.



Source: Customs, IFS, Dragon Capital

General Balance of Payments

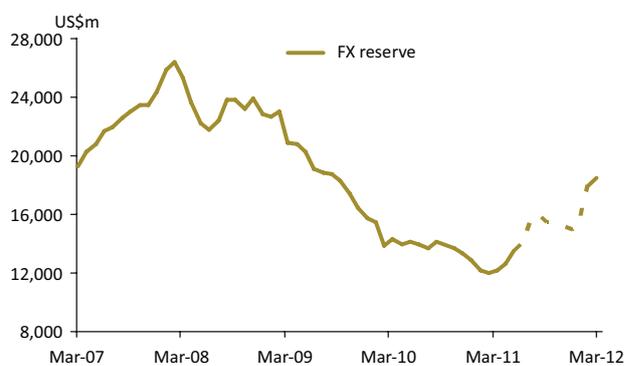
The general balance of payments ("BoP") is estimated to record a surplus of US\$2.5 billion to US\$3.0 billion in 2011 thanks to a falling trade deficit, strong net inflows and a much improved confidence in the local currency. The latter in turn allowed reducing errors & omissions significantly. Despite the uncertainties in the global economy, Vietnam continued receiving large remittances in 2011 of US\$8 billion in 2011 versus US\$7.8 billion in 2010. Foreign indirect investment ("FII") declined to less than US\$1.5 billion.



Source: GSO, IFS, Dragon Capital

Foreign Currency Reserve

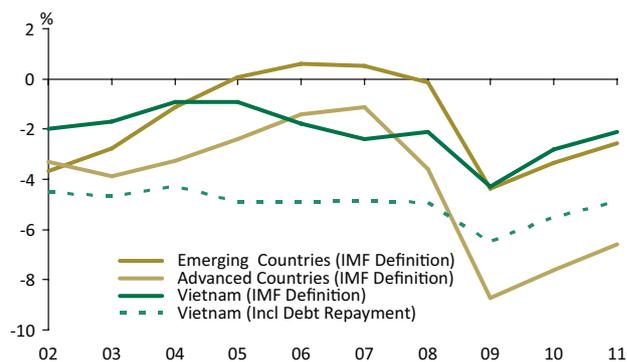
Reversing the downward trend since 2008, FX reserves finally started increasing from the second quarter of 2011 as the trade deficit came down and the US\$/VND exchange rate stabilised. The Government has not issued any official FX reserves number since the second quarter of 2011 but, according to the SBV Governor, FX reserves increased by 50% in 2011 and by 30% in the first three months of 2012. This implies that FX reserves could be above US\$15 billion at the end of 2011 and higher than US\$19.5 billion at the end of March 2012. Given the improving confidence in the VND, a falling trade deficit and strong net inflows, we expect FX reserves to increase to above US\$21 billion, more than a US\$6 billion surplus for BoP.



Source: IFS, Dragon Capital

Fiscal Balance

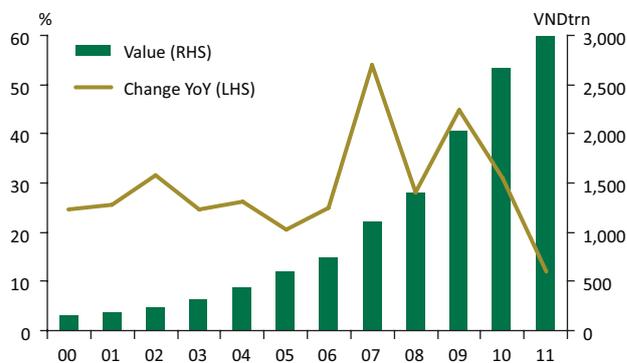
By implementing Resolution 11, a package of fiscal and monetary policies to balance the economy, the Government showed determination to reduce the fiscal imbalance. The fiscal deficit reduced from 6.5% in 2009 and 5.5% in 2010 to 4.9% in 2011. Total revenue rose by 21% mainly thanks to personal income tax which increased by 42%. Meanwhile total expenditure grew only 12% as 'Expenditure on investment development' declined 11% compared to 2010. In 2012, given the need to invest in infrastructure for future development, the Government is working to a fiscal deficit target of 4.8%.



Source: Ministry of Finance ("MOF"), International Monetary Fund ("IMF"), Dragon Capital

Credit Growth

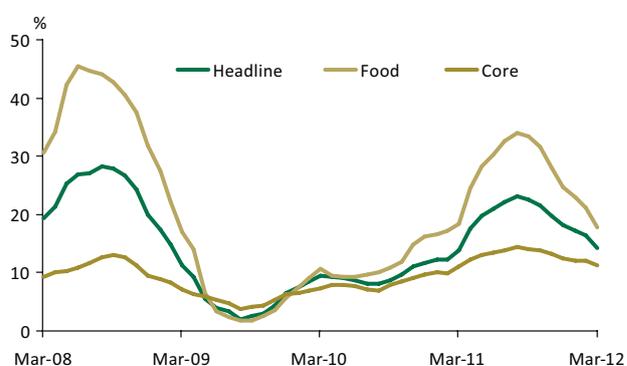
Average credit growth from 2006 to 2010 was 35%, almost double the nominal GDP growth. Immediately after the issuance of Resolution 11 and the Government's decision to move the focus from promoting growth to controlling inflation, monetary and fiscal policies were aggressively tightened. As a result, lending rates surged to 22% to 26% in third quarter of 2011 before falling slowly to 20% to 22% in December, reducing the credit growth in 2011 to only 12% compared to SBV's target of 20%. The Government's target for the coming five years is 15% to 17%.



Source: SBV, IFS, Dragon Capital

Inflation

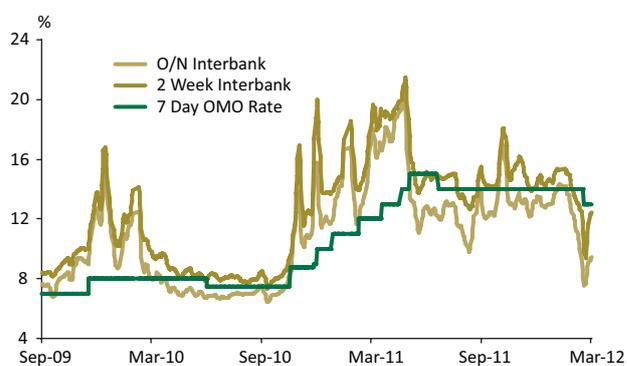
Inflation reached its peak in August at 23% before declining to 18.1% in December. This soaring rate of inflation was not only caused by loose policy in previous years but also because of a lack of supply of agricultural products, especially pork. Difficult access to credit, epidemic diseases and strong demand from China all negatively affected the local supply and thus the price of pork. However, we expect inflation to fall to single digits in 2012 on the back of sluggish aggregate demand, prudent monetary policy and more stable global commodity prices.



Source: GSO, Dragon Capital

Monetary Policy

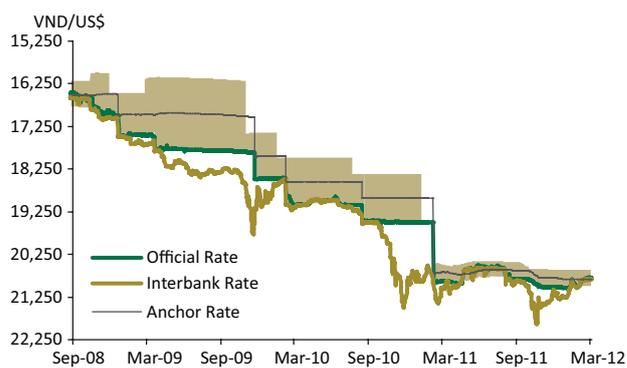
To fight soaring inflation, SBV implemented a tight monetary policy at the beginning of 2011. This included limiting credit growth of all banks to below 20% and reducing money supply via open market operations ("OMO") and refinancing channels. SBV also raised the OMO rate by 500 basis points to 15% but lowered it to 14% in July, marginally early given that inflation then was still increasing. However, since then policy rates remained unchanged until 2012. In 2011, M2 and credit growth recorded merely 10% and 12% respectively. We expect the SBV to gradually relax monetary policies in line with falling inflation throughout 2012. However the M2 and credit growth targets for 2012 remain tight at 12% and 15% respectively.



Source: SBV, Dragon Capital

The Local Currency

The US\$/VND exchange rate surged to 1:21,450 after the 7.2% devaluation in February but then traded within the trading band for five months before surging again to 1:21,840 in October due to demand for imported gold and hoarding of US\$. However, despite the high inflation, the FX market has been relatively stable since the devaluation, thanks to the declining trade deficit and increasing confidence in the local currency. This trend is expected to continue which bodes well for the US\$/VND exchange rate to remain stable throughout 2012, especially in the face of a less bullish gold price. Since February 2012 both official and unofficial exchange rates have been trading at the mid-point of the trading band which is a new phenomenon.



Source: SBV, Dragon Capital

Dragon Capital Group is an integrated investment group centred around the emerging financial markets of Vietnam.



The End of the Reflation Period

The VN Index dropped from 485 at the end of 2010 to 351 at the end of 2011, or 30% in US\$ terms, when including the devaluation of the US\$/VND exchange rate. The average daily trading volume declined significantly from US\$130 million in 2010 to US\$50 million in 2011 and 262 shares fell while only 20 shares advanced. In fact, the Hanoi stock exchange was for a change a better reflection of the overall market in 2011 plunging -49%.

At the beginning of the year, the market showed support at the 450 to 480 range despite rapidly increasing inflation and a very large devaluation of the US\$/VND exchange rate by 7.2% in February. In May, however, concerns over the real estate/banks nexus started emerging and drove the market lower. The concerns were stoked by media stories about developers in trouble and a simultaneous move by the SBV to reduce 'non-productive' lending to 22% of the loan book by the end of June and to 16% by the end of December. This combination proved fatal for real estate related companies which went into free fall and booked losses of 15% to 55%. Brokers were affected, too, with declines of 15% to 35%. Margin calls aggravated the market fall and the VN Index, which had been cruising in the range of 450 to 480, dropped to a low of 386 over two weeks in May.

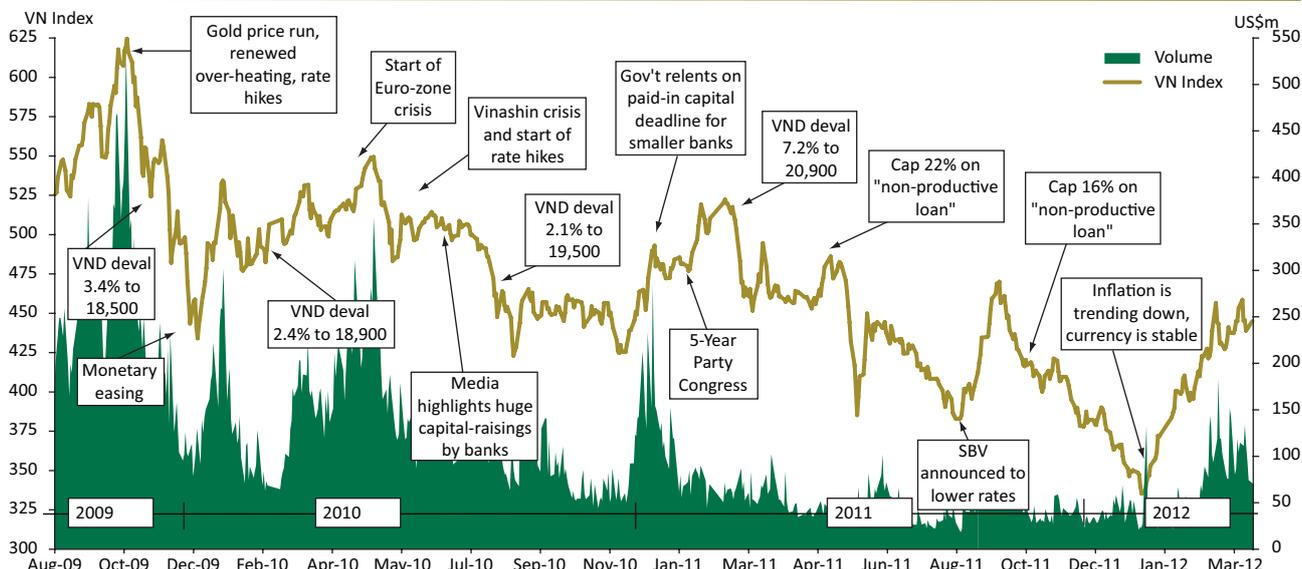
In June the shortening of the settlement time from T+3 to T+2 and the abolition of one exclusive broker per trading code created a wave of positive expectations which led to a short-lived recovery of the VN Index to the 440 level. However, as YoY inflation accelerated to above 20% in June and with MoM inflation in July coming in at 1.17%, or YoY 22.16%, the market sentiment changed to a sense of hopelessness causing the market to bleed little by little and the market fell to a new low of 384 in August.

Late in August, economists reached a consensus that inflation had peaked at 23%. Around the same time, the SBV announced its intention to lower lending rates from 19% to 17% in an attempt to balance stability and growth, a development that was very much welcomed by investors after the prolonged sluggish state of the market. The SBV also removed the loan-to-deposit ratio requirement of 80% whilst maintaining the credit growth cap at 20%. This, together with stricter controls on VND deposit rates at 14%, was designed to allow the intended lowering of lending rates which investors interpreted as a signal that the SBV was loosening its tight monetary policy and the market, as a consequence, rallied to 470 in September.

As realisation grew that the banks would not be able to reach the credit growth cap of 20% and that lending rates would drop to 18% to 21% the market showed its disappointment with a steady decline of the VN Index throughout the fourth quarter of 2011. It did not help that the real estate market, after effectively being frozen for almost all of 2011, turned even gloomier after drastic price cuts by two projects, i.e. 30% at the Petro Landmark project and 20% at the Hoang Anh An Tien project, and fueled investor concern about bad debts and the stability of the banking system.

Looking forward to 2012, the biggest challenge will be to identify when the economy turns and as a result which investments will benefit most. To do so its necessary to determine which phase of the economic cycle the economy is presently in, whether in Reflation, Recovery, Overheating or slower growth and high inflation period. Each is uniquely defined by the direction of GDP growth relative to its trend, and the direction of inflation. And each of these phases is linked to the outperformance of a specific asset class. In Reflation, bonds are expected to be the best asset class whilst in Recovery stocks are the winners.

Stock Market Performance



Source: Ho Chi Minh Stock Exchange, Hanoi Stock Exchange and Dragon Capital

From the second quarter of 2010 to the second quarter of 2011, Vietnam was in the slower growth and high inflation period reflected by rapidly rising inflation and GDP growth slowing down to below its trend. In the third quarter of 2011, Vietnam entered the Reflation phase where growth is sluggish, profits are weak and real yields drop as inflation decelerates. The key question now is when Vietnam will move into the Recovery phase which will necessitate a clear view on inflation and when GDP growth will bottom out.

The YoY CPI peaked at 23.1% in August 2011, and has been on a downtrend ever since. The March 2012 CPI came out at 0.16% MoM which is the lowest MoM inflation in the past 20 months, resulting in inflation of 14.2% YoY and 2.5% YTD. Given the weak aggregate demand, prolonged monetary and fiscal policy tightening, and improved agri-commodity supply, inflation is expected to reach single digits in June and stay below 10% in the second half of 2012.

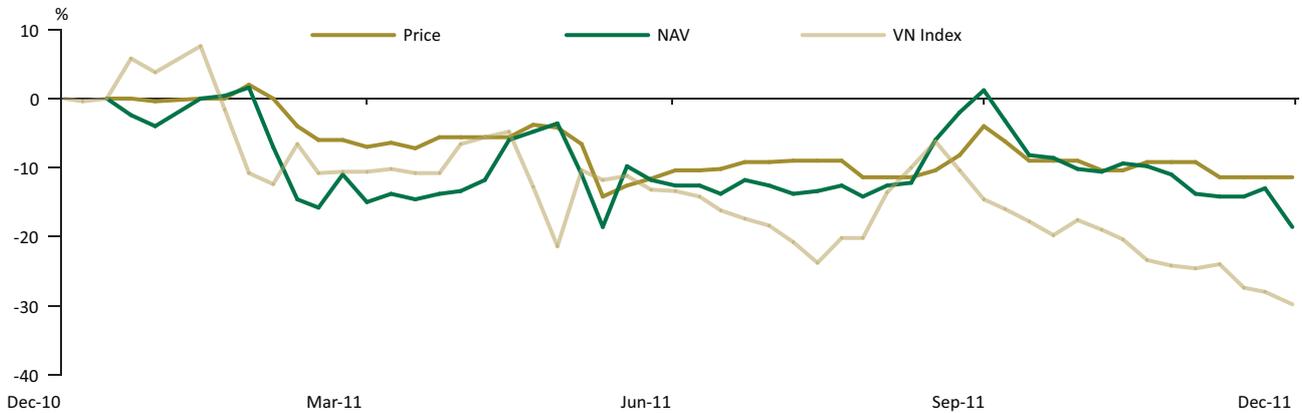
Similar to the West, the real estate sector is a pocket of leverage within the corporate sector. However, Vietnam's household leverage is a very different story from the West. Credit cards and mortgages of Vietnamese households relative to GDP account for only around 12% of GDP. Nonetheless total credit as a percentage of GDP reached as high as 136% in 2010. Vietnam has since entered into a deleveraging process and the total credit/GDP ratio dropped as a result to 117% as at the end of 2011.

McKinsey has undertaken an extensive study on the impact of deleveraging on GDP growth. Traditionally, recessions occur before countries decide to deleverage their economy and when deleveraging takes place GDP growth typically bottoms out after two to three years. Vietnam started its deleveraging process in 2011 and GDP growth may therefore be expected to bottom out in early 2013 or 2014. However, given the low debt in the household sector we believe that Vietnam's economy may bottom out sooner and reach its GDP growth bottom in the third and fourth quarter of 2012 or early 2013.

Given the path of inflation and our forecasted bottom of GDP growth, we estimate that Vietnam will enter its Recovery phase in the third and fourth quarter of 2012. This is definitely the 'sweet spot' for equity investors, a view that is supported also by estimates of stronger 2012 corporate earnings. Based on our meetings with many companies, we are optimistic that companies have more upside than downside to their 2012 corporate earnings forecasts with current forecasts being at 2012 price to earnings ratio ("PER") of 8.x and earnings per share ("EPS") growth of 16% versus -8.5% in 2011.

Last but not least, during a crisis or a period of economic restructuring, the price to book ratio ("PBR") is one of the best indicators to look at in terms of valuation. In the past ten years, the PBR of Asia ex-Japan markets dropped to 1.2x twice during very brief periods. Our study on the relationship between the equity performance and PBR during recessions in 25 equity markets covering both emerging and developed economies, shows that, except in the case of Korea, investing in equity with PBR smaller than 1.2x typically delivers a return between 40% to 160% for a holding period of one year. To put Vietnam into perspective, the VN Index increased by 26% from 351 at the beginning of the year to 440 in April and is now, at the 440 level, trading at 1.4x PBR.

Fund Performance



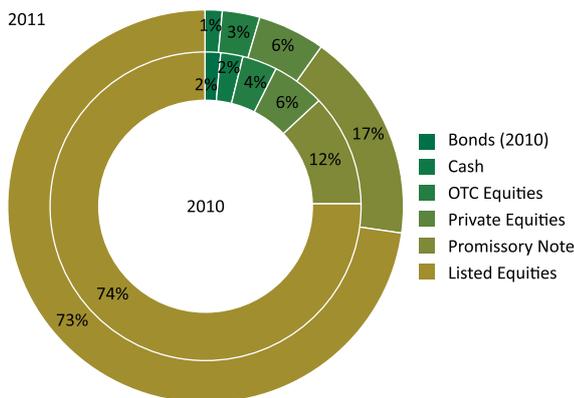
Source: Bloomberg, Dragon Capital

Masan and Vinamilk were the key contributors to the performance of the fund during the bearish market

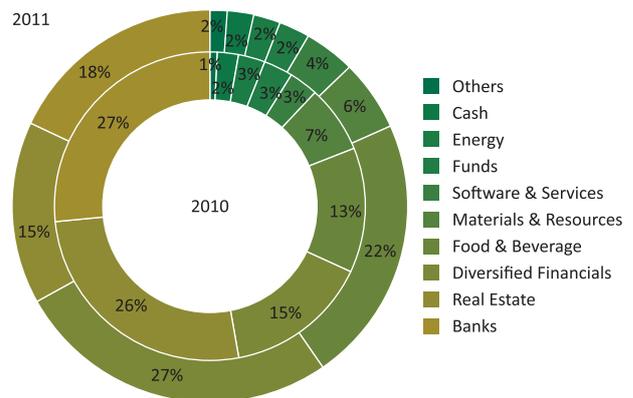
Amid the dual concerns of high inflation and instability in the banking system the Government tightened monetary and fiscal policies to stabilise the macroeconomy. This dried up liquidity in the banking system and pushed lending rates up which negatively affected all businesses relying on leverage and as a result economic growth suffered. Vietnam's stock market, as a consequence, suffered alongside and lost some 30% in US\$ terms.

The Fund was not immune to the market performance and dropped 20.3% in 2011. However, on a more positive note, the Fund delivered an active return over the VN Index of 9.2%. Vinamilk and Masan Group, both heavily weighted, were the key contributors gaining 42.1% and 11.9% respectively as their core businesses relied on robust and growing domestic consumption. The other key contributors were the bank holdings which started their recovery and increased by 15.7% outperforming the VN Index after substantially lagging in 2010 and during the first half of 2011.

Asset Allocation by Asset Class¹



Asset Allocation by Sector²



Cash includes other receivables and liabilities

¹ For a full portfolio listing, please see Note 5 to the Consolidated Financial Statements.

² Hoang Anh Gia Lai accounted for 10.5% of NAV in 2010 and 4.5% in 2011.

³ Cash includes other receivables and liabilities

Attribution Analysis¹

Food & beverage accounts for 16.99% of the Fund's NAV. Most of this is attributable to Vinamilk which produced an excellent performance and gained 42.11% in spite of very difficult economic circumstances. Vinamilk's sound business strategy that focuses on domestic consumption, good corporate governance, and solid financial health continued to deliver sustainable growth. Food & beverage was the star performer in 2011 and contributed 6.21% to the Fund's positive return.

Diversified financials comprises of conglomerates Masan Group and Hoang Anh Gia Lai² as well as brokerage firm SSI. Masan Group, heavily weighted in the Fund, performed well and increased by 14.12% accounting for 2.91% of the Fund's positive return. The other two holdings however ran in the opposite direction. Hoang Anh Gia Lai plunged 66.50% and returned -7.23% due to a frozen real estate market and concerns over its high leverage while other new businesses such as hydropower and rubber are not yet generating cash flows. SSI felt the brunt of the bearish stock market and lost 58.39% delivering a negative return of 1.22%. Diversified financials overall dropped 22.08% in 2011 and were responsible for a negative contribution of 6.52%.

Real estate sector as a whole was mired in gloom as a result of tight monetary policy, oversupply and housing prices which are generally beyond the majority of residents. In view of this the Fund moved to reduce the weight of the sector lowering it from 23.46% in 2010 to 13.92% in 2011. This helped minimise losses but the drop of 42.01% by real estate still contributed a negative return of 7.19% to the Fund's performance.

Materials & resources covers a wide range of sectors. The Fund has holdings in steel, mining and fertiliser. Hoa Phat Group, a steel maker, was heavily affected by the stagnant real estate and construction sectors and plunged by 57.89% resulting in a negative contribution of 2.21%. Phu My Fertilizer, a fertiliser producer, in fact operated 39.4% and 82.3% in revenues and earnings respectively. However Phu My Fertilizer's share price performed poorly and dropped by 38.07%; partly due to concerns over the input price of natural gas and the challenging acquisition of Ca Mau Fertilizer. Olympus Pacific, a gold miner, lost 58% on very limited trading volumes.

Banks are heavily weighted in the Fund. ACB delivered a good result and maintained its top position among joint stock banks. Despite this, ACB's share price fell by 20.44% and contributed a negative return of 3.55% partly due a pessimistic outlook on banking in general and partly due to full foreign ownership. During 2011 the Fund divested Sacombank at a significant premium to the prevailing share price at the time of closing the transaction. Sacombank's share price however later rallied as the market speculated on the potential for M&A. The divestment reduced the Fund's bank concentration somewhat and allowed the divestment proceeds of US\$33 million to top up other holdings at reasonable levels.

Other small holdings performed more or less in line with the VN Index and therefore had no significant effect on the Fund's performance.

¹ Fund holdings are calculated upon average beginning weights. Securities performance are total returns in the Fund.

² Hoang Anh Gia Lai has been reclassified to real estate effective from 1 January 2012.

Sector Return and Contribution

Sector	Portfolio Return (%)	VN Index Return (%)	Portfolio Contribution (%)
Food & beverage	40.38	12.27	6.21
Consumer durables	16.88	-30.26	0.12
Utilities	3.23	-37.80	0.01
Pharmaceuticals	-14.00	-18.41	-0.10
Energy	-25.60	-36.43	-0.67
Software & services	-21.78	-29.07	-0.68
Funds	-38.02	0.00	-1.18
Banks	-15.65	-10.72	-3.89
Materials & resources	-54.10	-48.07	-4.46
Diversified financials	-22.08	-34.42	-6.52
Real estate	-42.01	-39.77	-7.19

Outlook

The Government's main focus remains to stabilise the macroeconomy, control inflation and restructure the banking sector. The latter has already resulted in a first wave of consolidation of the banks at the beginning of 2012 and the permission, depending on the financial health of the institution concerned, to grow their credit book by up to 17% in 2012. With tight monetary and fiscal policies gaining traction and inflation trending down to single digit levels around mid-2012 there will soon be room for a loosening of monetary policy. It is therefore expected that lending rates will be cut by 200 to 300 basis points by the end of 2012 to inject much needed liquidity into the system and stimulate economic production. In addition, the Government is getting more serious about the restructuring of SOEs and forcing them to focus on their core businesses which should make them more efficient. Trade deficit, while still high, is gradually being reduced and unlikely to put pressure on FX in 2012.

After two consecutive years of decline Vietnam's stock market is now at compelling valuations in terms of PER and PBV ratios. Furthermore, EPS growth is expected at well over 20% and dividend yield at nearly 5% in 2012. The tight monetary and fiscal policies have been relatively successful and key macroeconomic indicators are now pointing in the right direction. With macroeconomic stability increasingly likely investors' confidence is slowly, but surely, returning with a positive impact on inflows of foreign indirect investments. To ensure that this positive trend continues the Government is in the process of implementing various new regulations to improve the stock market's transparency and liquidity as well as to allow open-ended and pension funds. At the same time, it is attempting to speed up the equitisation process of large SOEs to increase the number of listed stocks and market capitalization and to restructure the securities sector in order to get rid of unhealthy and badly managed firms.

The Fund will continue to focus on its core sectors: food & beverage, banks, consumer goods, software & services and energy. These sectors are based on domestic consumption and enjoy competitive advantages. In 2012 the Fund plans to reduce the concentration of its top holdings and to redirect divestment proceeds towards small-mid cap stocks with high growth potential. Given the positive outlook and improving macroeconomic indicators we expect Vietnam's stock markets to do well in 2012. The Fund therefore will build up positions in a few large cap stocks with available foreign room and sound fundamentals and add some cyclical stocks to play on the expected market rally.



Vu Huu Dien
Investment Manager
Vietnam Enterprise Investments Limited
24 April 2012

TOP FIVE HOLDINGS

Vinamilk



VINAMILK

Market Valuation

US\$72,595,523

2011 Total Return*

42.10%

* Source: Bloomberg (total return in US\$ terms in respective index)

% of Net Assets

21.99%

Initial Acquisition

22 October 2003

Vinamilk is the leading producer of dairy products in Vietnam based on revenue with a market share of 38%. Their products vary from core dairy products such as liquid and powdered milk, to condensed milk, drinking and spoon yoghurt, ice cream, and cheese.

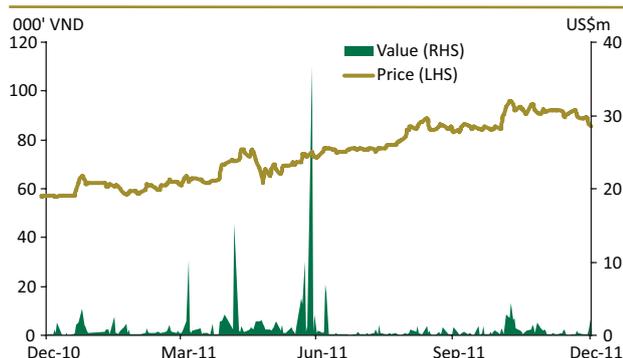
2011 was a successful year for Vinamilk with revenue at a record high of US\$1 billion, or +38.5%. Excluding the extra-ordinary income from the sale of its coffee factory in the third quarter of 2010 of VND350 billion, net profit grew by 15.2% in 2011, which was in line with our forecast.

The growth in sales was driven by both volumes and price. Volume grew at around 18%, above the industry average of 15%, and sale prices increased on average by about 17%, in line with CPI. In 2011 Vinamilk was also successful in gaining market share from competitors such as in the powdered milk segment where it overtook Dutch Lady. At the end of 2011, Vinamilk was not only ranked number one in the liquid and powdered milk, but also commanded a market share of 51.6% and 29.5% respectively in terms of volume. Volume growth was primarily driven by the expansion in the rural market where Vinamilk added 22,000 new outlets on top of 9,000 new outlets in urban areas. The contribution from the rural areas is now 67% of the total revenue.

Gross margins came under pressure and dropped from 32.8% in 2010 to 30% in 2011 as the price of raw materials such as powdered milk, sugar, and feeding stuff increased. However, Vinamilk was able to control its selling, general and administrative ("SGA") expense ratio well at 10% which is lower than the ratio of 11% in 2010. This allowed increasing earnings before interest and taxes ("EBIT") by 28.7% for the whole year. Combined with the strong cash balance, at around VND3,500 billion at year end and favorable deposit rates at 17%, interest income in 2011 was exceptionally high, growing at 43%. As a result, operating profit grew in 2011 by 27.8%. In order to support continued growth and expansion Vinamilk is investing into three new factories, namely Mega, Dielac 2 and Danang. However, all of these projects are behind schedule due to delays in finalising designs. Project completion at present stands at 57% of the whole plan of VND2,230 billion. Vinamilk therefore will need to make up for lost time in 2012 to meet the operation schedule.

2012 won't be an easy year for Vinamilk. Even though the macroeconomic indicators are moving in the right direction it will take the real economy longer to recover from the recent economic difficulties. This will be particularly hard in the rural areas where consumption growth for milk will be difficult. Nonetheless we project that volume growth in 2012 will reach around 18%. Together with the recent selling price increase of 7% in January 2012 this will translate into an expected total revenue growth of 25%. The gross margin will be safe in 2012 thanks to the downtrend in raw material prices. However, large capital expenditure to complete the new factories in 2012 will reduce the cash balance of Vinamilk which will lead, aggravated by declining deposit rates, to substantially lower interest income. As a consequence, the bottom line will grow slower than the top line. We forecast net profit to reach VND4,979 billion, or +19.5%, and hence an EPS (after deduction of bonus and welfare funds) of VND8,058. At the current price of VND88,000 Vinamilk is trading at a 2012 PER of 10.9x. This is a reasonable valuation and we therefore maintain our recommendation of overweight Vinamilk.

Stock Price



Source: Dragon Capital, Bloomberg

Price Relative



Source: Dragon Capital, Bloomberg

TOP FIVE HOLDINGS

Masan Group



Market Valuation¹ **2011 Total Return²**
US\$64,947,782 **14.68%**

¹ Including Masan Group's Equity and PN Holdings

² Blended return in US\$ terms combining Masan Group's Equity (Source: Bloomberg) and PN Holdings (please refer to Note 5 to the financial statements) in the Fund.

% of Net Assets **Initial Acquisition**
19.67% **1 April 2010**

Masan Group is a diversified conglomerate with two historic core businesses: Masan Consumer, a major sauce and noodles manufacturer, and Techcombank, a leading private sector commercial bank. Masan Group holds 86.6% of Masan Food and 30.84% of Techcombank. It also owns Nui Phao Mining Joint Venture Company Limited ("Nui Phao"), a highly strategic project in natural resources which will account for half of the world's tungsten supply ex-China when production begins in 2013 to 2014, and which will also be globally significant in bismuth and fluor spar. In the fourth quarter of 2011, Masan Group expanded its consumer business by acquiring 50.25% of Vinacafe, a leading coffee producer in Vietnam. The goal of Masan Group is to build a conglomerate based on five inter-related pillars, namely consumer products, banking, financial services, resources and a fifth pillar yet to be decided. To reach this goal Masan Group is targeting selective acquisition of companies that stay true to the discipline of the ones it already owns - to be highly cash-generative with minimum cash investment.

In 2011 Masan Group delivered a commendable performance. When excluding the negative goodwill of VND1,600 billion in 2010 of Nui Phao, Masan Group recorded net profit growth of 89% and a net profit of VND1,973 billion. However, the revenue of Masan Group was somewhat disappointing as it reached only 88% of the base case target of VND8,000 billion. Gross margin slightly improved and selling expense/sales reduced from 17% to 14.3%. As a result, EBIT increased by 40%.

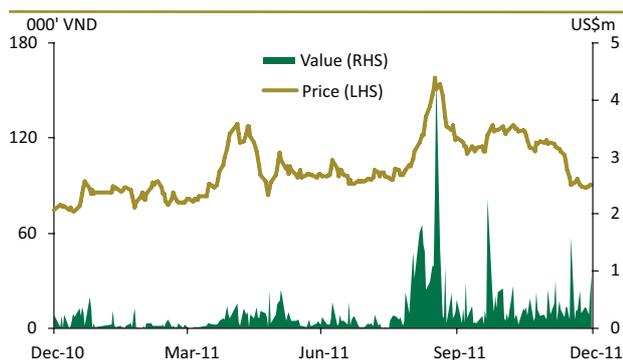
It is noteworthy that Masan Group decided, in view of very tough competition in the instant noodle market, to sacrifice sale growth by cutting some low-margin products in return for a better bottom line. This is a signal that Masan Group is shifting its focus to quality of growth. Fish sauce and instant noodles are presently two key products of the consumer sector accounting for 64% and 26% of sales respectively. However this will change in 2012 when the acquisition of Vinacafe contributes a full year to the performance. In 2011 Vinacafe reported strong results with revenue at VND1,586 billion (+21.8%) and a net profit of VND211 billion (+30.7%).

During 2011 Masan Group increased its cash holdings by VND6,179 billion, thanks to the sale of 10% of Masan Consumer to KKR at VND3,300 billion and the loan from JP Morgan for VND2,200 billion while the remainder stemmed from operation. At year end, the cash balance amounted to VND9,573 billion allowing Masan Group to earn VND1,181 billion from bank deposits.

We expect that Masan Group will continue to perform well in 2012, especially as Vinacafe will be able to contribute for the whole year. Vinacafe will undoubtedly benefit from the acquisition by Masan Group as it will galvanise Vinacafe to transform from a slow, passive SOE into a dynamic, market-oriented fast moving consumer goods (FMCG) company. With the support from Masan Group to expand distribution, re-arrange current product portfolio, launch new products and in financing Vinacafe is expected double revenue growth and achieve a net profit growth of 70%, contributing around VND140 billion to the bottom line. Meanwhile the traditional Masan Consumer products are expected to deliver revenue growth of 20% and, thanks to improved gross margins, a net profit growth of 38% (VND2,050 billion). The other key business, Techcombank, is forecasted to earn around VND3,675 billion after tax (+17%). In total, when adding interest income from bank deposits, we estimate Masan Group's net profit to reach VND2,536 billion or +28.7% in 2012, which translates into an EPS of VND4,169 or +27.5%. With its cash holding off VND9,000 billion Masan Group has a massive war chest that can be put to good use for additional M&A activities in 2012.

At the current price of VND118,000, Masan Group is expensive at a PER of 28.3x. However, given the positive views about company view of its future: strong food business, stable banking and the commencement of operation of Nui Phao in 2013, new possible M&A activities in food & beverage, the premium to the market valuation can be justified.

Stock Price



Source: Dragon Capital, Bloomberg

Price Relative



Source: Dragon Capital, Bloomberg

TOP FIVE HOLDINGS

ACB



Market Valuation	2011 Total Return
US\$59,288,310	-20.51%

* Source: Bloomberg (total return in US\$ terms in respective index)

% of Net Assets	Initial Acquisition
17.96%	1 December 1996

ACB is Vietnam's largest private bank, a position that it has held for the past five years. ACB is ranked fifth by total assets and has a market share of 4.0% and 6.5% in total loans and deposits respectively. ACB operates on strong conservative principles with a low loan-to-deposit ratio, a stringent credit policy, and strong diversification into non-lending activities. It was the first bank to set up a formal gold trading exchange to take advantage of the enormous domestic appetite for gold trading as well as to exploit arbitrage opportunities of gold price discrepancies between home and abroad. Profitability since 2006 has been greatly enhanced by these strategic yet opportunistic moves in respect of stock and bond trading as well as gold related activities. From 2010 onwards income however reverted back to the traditional sources of lending and fee based income as the SBV imposed various regulations to discourage non-core activities.

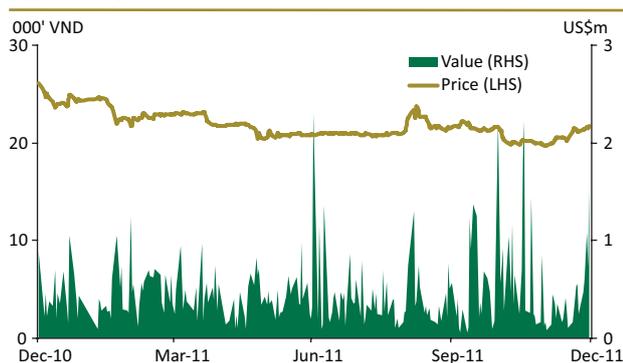
Since partnering with Standard Chartered Bank in 2005, ACB has proven itself to be a profitable lender with a prudent growth strategy, as evidenced by a non-performing loan ratio of less than 1% (compared to the sector average of above 3%). ACB successfully expanded its lending activities by focusing on two core segments that are the driving force for the economy and the banks sector, namely small and medium enterprises (SMEs) and retail which account for 55% and 37% respectively of its total loan book. With limited exposure to real estate and SOEs, ACB has been able to maintain its asset quality during the recent economic difficulties. Due to its policy of high liquidity and its low proportion of high-risk assets, ACB's net interest margin ("NIM") remained well below that of its peers, which allowed ACB to improve its bottom line without being affected by various adversary developments that hit ACB simultaneously.

In 2011, ACB regained, after a slowdown in 2009 and 2010 caused by the closure of gold trading activities, its growth momentum with a 38% increase in net profit after tax ("NPAT") surpassing ACB's target by 3% and our expectation by 18%. This was largely driven by a strong performance in the fourth quarter of 2011 which delivered 42% of the total income in 2011 versus 36% in the fourth quarter of 2010. Profits were driven by a recovery in NIM by 68 basis points, rapid loan growth of 18% versus a sector growth of 11% and interest income from interbank lending which accounted for 27% of total interest income versus 15% in 2010. The improvement in NIM indicates that ACB finally has moved to relax its conservative credit policy in order to improve profitability.

In anticipation of a difficult 2011, ACB actively restructured its investment portfolio by reducing both securities that were available for sale and those being held to maturity to realise some profits. By year end, ACB reduced its investment in securities by 46% from VND48,202 billion to VND26,089 billion which resulted in a profit of VND172 billion, thereby offsetting the underperformance of its subsidiaries.

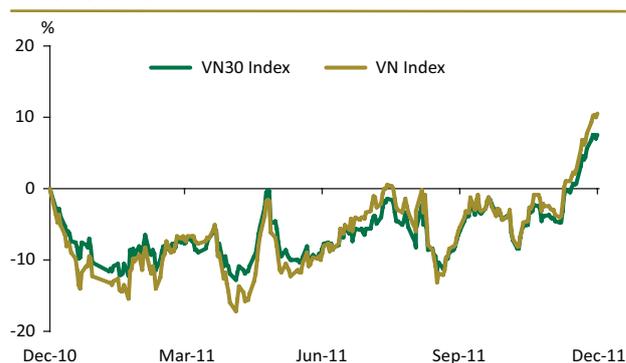
2012 should be a less challenging year as regulatory changes will be in favor of large banks and ACB, with its strong brand name, stands to benefit from the restructuring of the banking sector. However, ACB will need to continue loosening its credit policy. This will be a key to its growth as competition for lending will be fierce in light of the credit growth cap imposed by the SBV. Even though NIM might be squeezed throughout the market ACB is well positioned to grow its NIM. Therefore, given the macroeconomic and regulatory prospects, ACB is targeting a 30% profit growth on the back of a 25% asset increase and, in a worst case scenario, of a 17% loan growth. Yet, a dilution risk might arise as ACB still needs to increase its capital to ensure capital adequacy ratio (CAR) above 9%.

Stock Price



Source: Dragon Capital, Bloomberg

Price Relative



Source: Dragon Capital, Bloomberg

TOP FIVE HOLDINGS REE



Market Valuation **2011 Total Return**
US\$15,650,308 **-34.86%**

* Source: Bloomberg (total return in US\$ terms in respective index)

% of Net Assets **Initial Acquisition**
4.74% **1 July 1996**

One of REE's original core businesses was Mechanical & Engineering ("M&E") where it claimed, at its peak, a leading 30% market share. When its M&E business started contracting and its other original core business - white goods - began stagnating, REE used its available and cheap land bank to move into the real estate sector creating the highly successful grade B 'E-Town' office rental park. Despite the recent real estate market downturn, E-Town continues to have an occupancy rate of above 90%. With its cheap land bank now exhausted REE however has been unable to grow its real estate business any further. REE therefore is presently seeking new businesses with the focus on infrastructure, particularly in the areas of power and water.

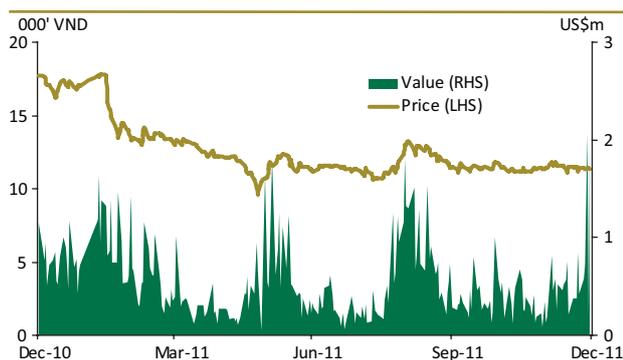
In 2011, REE's total revenue was flat while net profit increased significantly by 41.7% thanks to the liquidation of several investments. The M&E division reported healthy growth of 12.6% in revenue and 6.6% in NPAT. Meanwhile Reetech, the white goods manufacturing division, suffered a decline in revenue by -17.3% but NPAT by -11.1%. Property leasing, despite the gloomy real estate market, recorded stable growth of 8.5% in both revenue and NPAT. Last but not least, REE's financial business exerted its considerable influence on the bottom line with a growth of 217.6%. In 2012, REE targets a modest growth of around 10% in revenue and earnings for established operations but it is expected that financial income will boost the bottom line and allow for a robust jump of 30%. REE successfully divested its holding in Sacombank gaining about US\$14.2 million which is equivalent to two thirds of REE's annual operating profit in the first quarter of 2012.

REE is cash rich but has a high exposure to financial investments which represent 51% of assets and 71% of shareholder's equity. The combined book is carried at US\$131.1 million which is fully provisioned. The portfolio's present sector allocation comprises 55.9% in infrastructure, 27.9% in banks, 12.1% in real estate and construction, and 4.1% other small holdings. Bank holdings are booked at a deep discount to market price. REE continues its strategy of liquidating non-core and short-term investments, promising some additional financial profit, in order to focus on infrastructure investments where REE's stakes are over 20%.

Over the past three years the stock market declined allowing REE to pursue its focus on infrastructure by buying into listed utilities firms at very low valuations especially when compared to the replacement costs of its assets. REE's strategy is to acquire ownerships of at least 20% in two to four listed power firms and to increase the stake to above 50% where possible. Today REE has holdings of 23.8% and 35.2% respectively in two hydropower plants with total capacity of 270MW. In the water sector, REE just increased its holding to 42.1% in BOO Thu Duc, a 300,000 cubic metres per day water plant in Ho Chi Minh City, and has entered partnerships with Saigon Water Corporation (Sawaco) in two other joint ventures.

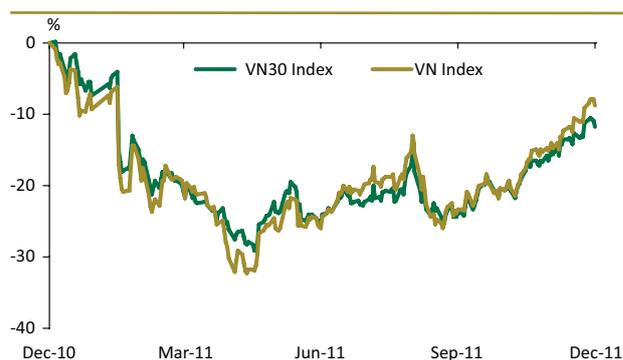
REE might not excite short-term investors with its infrastructure strategy, which is obviously long-term and focused on yields but it is no doubt a valuable holding for any portfolio with a long focus. First, REE currently offers an attractive valuation at 5.2x PER on 2012's earning, a PBR of 0.51x and an attractive cash dividend yield of 11.6%. Second, its core businesses M&E, Reetech and office lease in E-town continue providing, despite harsh competition, steady cash flows and earnings thanks to cost advantages and efficient management. Third, the management adheres to one of the highest standards of corporate governance in Vietnam which is well perceived by investors. Fourth and finally, REE's infrastructure focus stands to benefit from the Governments' roadmap to introduce a free market for output prices in future.

Stock Price



Source: Dragon Capital, Bloomberg

Price Relative



Source: Dragon Capital, Bloomberg

TOP FIVE HOLDINGS

Hoang Anh Gia Lai



Market Valuation **2011 Total Return**
US\$14,776,054 **-66.52%**

* Source: Bloomberg (total return in US\$ terms in respective index)

% of Net Assets **Initial Acquisition**
4.48% **19 June 2009**

Hoang Anh Gia Lai is a holding company with five subsidiaries focusing on real estate, rubber, hydropower, furniture and granite production. The group's real estate subsidiary is one of Vietnam's leading residential developers which boasts a large land bank with sites located mainly in Ho Chi Minh City. These have been purchased at a very low cost and their development benefits from the group's complementary businesses. In order to strengthen the group's sustainable and long-term growth the group established other non-real estate businesses that are presently all at different stages of development.

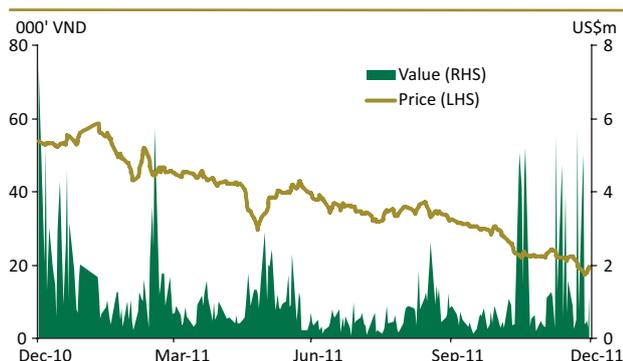
In 2011, the group reported a negative NPAT growth of -42.3% YoY due to their heavy dependence on the real estate division, which suffered in the gloomy market. Facing the prospect of negative cash flows due to an increase in receivables from the real estate division; Hoang Anh Gia Lai prioritised risk management over earnings growth. The group successfully raised US\$162.9 million from selling a 4.5% stake in its real estate subsidiary for US\$21.5 million, issuing US\$86.4 million in straight bonds and US\$55.0 million in exchangeable bonds. These funds will be sufficient to cover the projected financial needs for the group's growth plans over the next two years regardless of the cash flows generated from its real estate business. However, relying on new debt to finance capital expenditure increased the group's net debt to equity ratio (DER) to 0.9x at 2011 year end from 0.3x in 2010. Hence, the management decided to cut back half of their capital expenditure in hydropower plants, which consume the most capital expenditures but have the longest pay-back period.

In 2012, Hoang Anh Gia Lai will continue focusing on reducing its dependence on real estate, aiming to increase the profit contribution of non-real estate businesses from 40% to 60% most of which will come from four hydropower projects in full operation, harvestable rubber plantation and domestic mining activities. The mining division has not turned out as previously expected. The group had to delay the operation of mines in Cambodia as the Cambodian government required them to deeply process iron ore before exporting it abroad. The group finally got a license for exploiting iron ore in Laos but it has taken time to install production lines. Due to a profit shortfall from its mining division, management has targeted a modest or even flat growth in 2012. However, 2012 is the first year Hoang Anh Gia Lai has all their divisions generating profits, which put the group's business performance on a more stable stage. Furthermore, operation cash flows are expected to improve thanks to collection of receivables in Hoang Anh Riverview, a project completed in 2010, and amounts due from two wholesalers of one project still under construction, An Tien, who have recently successfully resold to end-users on a discount price.

It is expected that 2013 will be a turnaround year for Hoang Anh Gia Lai thanks to the rubber division entering a robust growth period and the mining operations in full swing. Since 2007, when Vietnamese real estate market peaked, management has changed its focus from real estate development to its rubber plantation business. Thanks to this foresight, the group has already planted 36,000 hectares out of 51,000 hectares area in hand, the balance will be completed in 2012. Hoang Anh Gia Lai's cost of rubber production is expected to be less than US\$800 per tonne. The rubber division is going to have their first harvestable plot of 1,500 hectares in 2012 and become its key growth driver enabling the group's net profit to increase sustainably by at least 30% annually from 2013 onwards until fully exploited in 2020.

Hoang Anh Gia Lai is a fundamentally sound company that was prepared for difficult times in 2011 and anticipating those in 2012 but offers promising prospects of robust growth from 2013 onwards.

Stock Price



Source: Dragon Capital, Bloomberg

Price Relative



Source: Dragon Capital, Bloomberg

Compliance

The Company is committed to 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 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 semiannually 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, ATC Asia Corporate Services 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 independent of the Company's Investment Manager, including the Chairman, and one non-independent Director appointed by the Investment Manager. The independent non-executive 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 page 45. 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 ("AGM") 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 non-independent Director may stand for re-election on an annual basis, too, even though the Articles do not explicitly require this. 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, the Board 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 non-executive Director appointments, the Nomination 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 Valuation and Conflicts Committee for this purpose. 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.

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 Investment 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 and Custodian.

Risk Management and Internal Control

The key risks facing the Company are disclosed in Note 15 to the consolidated 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 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 AGM. Shareholders wishing to raise questions in advance of the meeting are encouraged to write to the Company Administrator at the address shown on page 44.

Corporate Governance and Socially Responsible Investment

The Company 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.

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.

Annual General Meeting Summary

20 October 2011

Ordinary resolutions

- Adoption of financial statements;
- Re-appointment of auditors;
- Re-election of Hartmut Giesecke as a Director of the Company;
- Re-election of Wolfgang Bertelsmeier as a Director of the Company;
- Re-election of Derek Eu-Tse Loh as a Director of the Company;
- Re-election of Dominic Scriven as a Director of the Company;
- Approval to issue up to 10% of the aggregate nominal value of the Redeemable Shares in issue as of 20 October 2011.

All ordinary resolutions were passed by the required majority on a poll vote.

REPORT OF THE BOARD OF DIRECTORS

The Directors of the Company present their report and the audited consolidated financial statements of the Company and its subsidiaries and jointly controlled entities (together referred to as the "Group") for the year ended 31 December 2011.

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 securities in Vietnam.

Results and Dividends

The Group's consolidated loss for the year ended 31 December 2011 and its consolidated financial position at that date are set out in the attached consolidated financial statements. The Directors have taken the decision not to pay a dividend in respect of the year ended 31 December 2011 (2010: 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 9 to the consolidated financial statements. The Company had 168,110,672 Redeemable Shares and 1,000 Management Shares outstanding as at 31 December 2011 (31 December 2010: 170,107,498 Redeemable Shares and 1,000 Management Shares).

Directors

The Directors of the Company during the year were:

Non-executive Directors:

Dominic Scriven

Independent non-executive Directors:

Richard McKegney (until 2 September 2011)

Wolfgang Bertelsmeier

Hartmut Giesecke

Derek Eu-Tse Loh (from 3 March 2011)

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 AGM. Wolfgang Bertelsmeier, Hartmut Giesecke and Derek Eu-Tse Loh were duly re-appointed at the AGM held on 20 October 2011 following the expiry of their respective term.

Dominic Scriven also submitted himself for re-election and was duly re-appointed.

Derek Eu-Tse Loh was appointed as an independent non-executive Director on 3 March 2011 and Richard McKegney tendered his resignation as a director of the Company effective 2 September 2011.

Subsequent to the year end, on 18 April 2012, Farida Khambata was appointed as a non-executive Director.

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 has indirect interests in the share capital of the Company as he is a shareholder of Dragon Capital Group Limited, which holds the Management Shares of the Company. Dragon Capital Group Limited is also the ultimate parent company of Dragon Capital Markets Limited and Enterprise Investment Management Limited, the Investment Manager of the Company. As at 31 December 2011, Dragon Capital Markets Limited beneficially held 643,202 Redeemable Shares of the Company for investment and proprietary trading purposes (2010: 1,446,000 Redeemable Shares).

Richard McKegney, a Director of the Company until 2 September 2011, was also 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 of the Company as at 31 December 2011 (2010: 1,026,770 Redeemable Shares).

Apart from the above, no other Directors 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 has an indirect interest in the investment management agreement between the Company and Enterprise Investment Management Limited where he is a Director. There were no further 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 2011, 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
Citiciv Nominees Limited	126,532,423	72.79%
Clearstream Banking SA (POA Fortis Banque Luxembourg)	41,516,248	23.88%

Subsequent Events

Details of the significant subsequent events of the Group are set out in Note 17 to the consolidated financial statements.

Auditors

KPMG Limited, Vietnam

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 2011 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.

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 2011, and of its consolidated financial performance, consolidated changes in equity and consolidated cash flows for the year ended 31 December 2011 in accordance with International Financial Reporting Standards.

By Order of the Board



Dominic Scriven, OBE
Director
Vietnam Enterprise Investments Limited
24 April 2012



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The Socialist Republic of Vietnam

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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 statement of financial position as of 31 December 2011, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 23 to 43.

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 and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 judgment, 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 controls 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 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 2011, 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
Ho Chi Minh City, Vietnam
24 April 2012

22

KPMG Limited, a Vietnamese limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Note	2011 US\$	2010 US\$	% Change
CURRENT ASSETS				
Financial assets at fair value through profit or loss	5	325,295,762	409,815,661	
Other receivables		595,187	270,735	
Balances due from brokers	6	341,355	18,896	
Cash and cash equivalents	7	8,639,283	14,057,188	
		<u>334,871,587</u>	<u>424,162,480</u>	(21.05)%
CURRENT LIABILITIES				
Accounts payable and accruals	8	4,396,169	755,504	
Balances due to brokers	6	343,053	4,390,856	
		<u>4,739,222</u>	<u>5,146,360</u>	(7.91)%
NET ASSETS		<u>330,132,365</u>	<u>419,016,120</u>	(21.21)%
EQUITY				
Issued capital	9	1,681,117	1,701,085	
Share premium	9	345,762,725	349,446,892	
Retained earnings		(17,311,477)	67,868,143	
TOTAL EQUITY		<u>330,132,365</u>	<u>419,016,120</u>	(21.21)%
NUMBER OF REDEEMABLE SHARES IN ISSUE	9	<u>168,110,672</u>	<u>170,107,498</u>	
NET ASSET VALUE PER REDEEMABLE SHARE	10	<u>1.96</u>	<u>2.46</u>	(20.33)%

Approved by the Board of Directors on 24 April 2012.



Dominic Scriven, OBE
Director
Vietnam Enterprise Investments Limited
24 April 2012

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011 US\$	2010 US\$
INCOME			
Bank interest income		288,278	18,336
Bond and loan interest income		829,173	422,979
Dividends income		7,354,714	14,610,858
Net changes in fair value of financial assets at fair value through profit or loss		(88,403,065)	45,238,112
Gains/(losses) on disposals of investments		3,808,320	(59,592,652)
Other income		327,074	135,000
TOTAL INCOME		(75,795,506)	832,633
EXPENSES			
Administration fees	11	(349,828)	(413,652)
Custodian fees	11	(186,857)	(124,096)
Directors' fees	11	(86,505)	(75,744)
Management fees	11	(7,495,536)	(8,135,632)
Withholding taxes		(92,904)	(69,312)
Legal and professional fee expenses		(66,910)	(283,576)
Other operating expenses		(257,182)	(403,585)
TOTAL EXPENSES		(8,535,722)	(9,505,597)
NET LOSS BEFORE EXCHANGE LOSSES		(84,331,228)	(8,672,964)
EXCHANGE LOSSES			
Net foreign exchange losses		(848,392)	(414,632)
LOSS BEFORE TAX		(85,179,620)	(9,087,596)
Income tax	12	-	-
NET LOSS		(85,179,620)	(9,087,596)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(85,179,620)	(9,087,596)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO REDEEMABLE SHAREHOLDERS		(85,179,620)	(9,087,596)
BASIC LOSSES PER REDEEMABLE SHARE	13	(0.51)	(0.05)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Issued capital US\$	Share premium US\$	Retained earnings US\$	Total US\$
Balance at 1 January 2010	1,738,240	356,666,449	76,955,739	435,360,428
Total comprehensive loss for the year:				
Net loss for the year	-	-	(9,087,596)	(9,087,596)
Transactions with shareholders, recognised directly in equity:				
Repurchase of Redeemable Shares	(37,155)	(7,219,557)	-	(7,256,712)
Balance at 1 January 2011	1,701,085	349,446,892	67,868,143	419,016,120
Total comprehensive loss for the year:				
Net loss for the year	-	-	(85,179,620)	(85,179,620)
Transactions with shareholders, recognised directly in equity:				
Repurchase of Redeemable Shares	(19,968)	(3,684,167)	-	(3,704,135)
Balance at 31 December 2011	1,681,117	345,762,725	(17,311,477)	330,132,365

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Note	2011 US\$	2010 US\$
OPERATING ACTIVITIES			
Loss for the year		(85,179,620)	(9,087,596)
Adjustments for:			
Bank interest income		(288,278)	(18,336)
Bond and loan interest income		(829,173)	(422,979)
Dividends income		(7,354,714)	(14,610,858)
Net changes in fair value of financial assets at fair value through profit or loss		88,403,065	(45,238,112)
(Gains)/losses on disposals of investments		(3,808,320)	59,592,652
		(9,057,040)	(9,785,229)
Change in other receivables and balances due from brokers		(421,398)	1,227,081
Change in balances due to brokers and accounts payable and accruals		(407,138)	3,840,761
		(9,885,576)	(4,717,387)
Proceeds from disposals of investments		62,905,932	150,841,419
Purchases of investments		(62,980,778)	(143,668,580)
Bank interest income received		288,278	26,988
Bond and loan interest income received		1,018,164	299,358
Dividends received		6,940,210	14,593,222
Net cash (used in)/generated from operating activities		(1,713,770)	17,375,020
FINANCING ACTIVITIES			
Repurchase of Redeemable Shares		(3,704,135)	(7,256,712)
Net cash used in financing activities		(3,704,135)	(7,256,712)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,417,905)	10,118,308
Cash and cash equivalents at the beginning of the year		14,057,188	3,938,880
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	8,639,283	14,057,188

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

1. The Company

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 2011 (2010: 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 annual general shareholders' meeting held on 12 July 2010, a special resolution to wind up the Company on 31 December 2012 was put to the meeting but did not pass. 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 AGM.

As at 31 December 2011, the Company had the following investments in subsidiaries and jointly controlled entities, for the purpose of investment holding:

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

2. Basis of Preparation

(a) Statement of compliance

The Group's consolidated financial statements as at and for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

The financial statements were authorised for issue by the Board of Directors on 24 April 2012.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis 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 value are described in Note 3(c).

(c) Functional and presentation currency

The consolidated financial statements are presented in US\$, the Company's functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

2. Basis of Preparation (Continued)

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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 judgments to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date.

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.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the Group.

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.

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 into the respective functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss as net foreign exchange gain or loss, except for those arising on financial instruments at fair value through profit and loss, which are recognised as a component of net gain from financial instruments at fair value through profit and loss.

(c) 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.

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 assets expires or are transferred and substantially all of the risks and rewards of ownership of the financial assets have been transferred. At each reporting 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, other receivables and balances due from brokers.

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 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 reputable brokers/counterparties in the case of non-exchange traded instruments at the reporting date without any deduction for 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.

Where no quotes or insufficient quotes are available, the Board will decide the appropriate method(s) for the estimation of fair value of the relevant asset(s). The Board will take into account all factors they consider relevant, which may include valuation methodologies or guidelines, such as the European Venture Capital Association guidelines for the valuation of private equity and venture capital investments, where appropriate.

Cash and cash equivalents

Cash and cash equivalents comprise demand deposits with banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and form an integral part of the Group's cash management.

Other receivables and balances due from brokers

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.

Other receivables and balances due from brokers are reviewed for impairment on a case-by-case basis when they are overdue at the reporting date or when objective evidence is received that a specific counterparty may default.

3. Summary of Significant Accounting Policies (Continued)

(d) Financial liabilities

The Group's financial liabilities include accounts payable and accruals and balances due to brokers.

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 profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

(e) 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, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Par value of repurchased shares are presented as deductions from share capital and the excess over par value of repurchased shares are presented as deductions from share premium. When repurchased shares are sold or reissued subsequently, the amount received is recognised as an increase in share capital and share premium similar with issuance of share capital.

(f) 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.

(g) Segment reporting

The Group is organised and operates as one operating segment. Consequently, no segment reporting is provided in the Group's consolidated financial statements.

(h) Provisions

Provisions are recognised when it is probable that present obligations will lead to an outflow of economic resources from the Group and they 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 reporting 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 reporting date and adjusted to reflect the current best estimate of the Directors.

(i) 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

(j) Expenses

All expenses, including management fees and incentive fees, are recognised in profit or loss on an accrual basis.

(k) Earnings per share and Net Asset Value per share

The Group presents basic EPS for its Redeemable Shares. Basic EPS is calculated by dividing net profit/(loss) attributable to the redeemable shareholders of the Company by the weighted average number of Redeemable Shares outstanding during the year. The Company did not have potentially dilutive shares as of 31 December 2011 (2010: Nil).

NAV per share is calculated by dividing the NAV attributable to redeemable shareholders of the Company by the number of outstanding Redeemable Shares as at the reporting date. NAV is determined as total assets less total liabilities. Where Redeemable Shares have been repurchased, NAV per share is calculated based on the assumption that those repurchased Redeemable Shares have been cancelled.

(l) 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 Dragon Capital Management Limited, the parent company of the Investment Manager, are also considered related parties to the Group.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the measurement of the amounts recognised in the consolidated financial statements of the Group. However, IFRS 9 will change the classification of financial assets.

The standard is not expected to have an impact on the measurement basis of the financial assets since the majority of the Fund's financial assets are measured at fair value through profit or loss.

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss. However, dividends on such investment are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivative embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instruments is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The requirements of IFRS 9 relating to derecognition are unchanged from IAS 39.

The standard is effective for annual periods beginning on or after 1 January 2015. Earlier application is permitted. The Group does not plan to adopt this standard early.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

4. Transactions with Related Parties

Dominic Scriven has indirect interests in the share capital of the Company as he is a shareholder of Dragon Capital Group Limited, which holds the Management Shares of the Company. Dragon Capital Group Limited is also the ultimate parent company of Dragon Capital Markets Limited and Enterprise Investment Management Limited, the Investment Manager of the Company. As at 31 December 2011, Dragon Capital Markets Limited beneficially held 643,202 Redeemable Shares of the Company for investment and proprietary trading purposes (2010: 1,446,000 Redeemable Shares).

Richard McKegney, a Director of the Company until 2 September 2011, was also 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 of the Company as at 31 December 2011 (2010: 1,026,770 Redeemable Shares).

During the year, the Directors, with the exception of Dominic Scriven, earned US\$86,505 (2010: US\$75,744) for their participation on the Board of Directors of the Company.

Apart from the above, no other 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.

5. Financial Assets at Fair Value through Profit or Loss

	2011	2010
	US\$	US\$
Listed investments:		
Investments, at cost	215,141,677	199,893,107
Unrealised gains	23,770,656	113,184,805
At fair value	238,912,333	313,077,912
Unlisted investments:		
Investments, at cost	65,205,983	76,571,387
Unrealised gains	21,177,446	20,166,362
At fair value	86,383,429	96,737,749
Total investments at fair value	325,295,762	409,815,661

As at 31 December 2011, the Group held the following listed and unlisted investments:

<u>Listed investments</u>	Sector	Fair value US\$	% NAV
Overseas listed equities			
Olympus Pacific	Materials & Resources	5,023,243	1.52
Asian Minerals	Materials & Resources	527,705	0.16
		5,550,948	1.68
Vietnam listed equities			
Vinamilk	Food & Beverage	72,595,523	21.99
ACB	Banks	59,288,310	17.96
REE	Real Estate	15,650,308	4.74
Hoang Anh Gia Lai	Diversified Financials	14,776,054	4.48
FPT	Software & Services	12,394,666	3.75
Sudico	Real Estate	11,583,676	3.51
Masan Group	Diversified Financials	8,881,185	2.69
Hoa Phat Group	Materials & Resources	7,978,758	2.42
SSI	Diversified Financials	7,889,323	2.39
Phu My Fertilizer	Materials & Resources	5,298,030	1.60
VFMVF1	Funds	3,056,796	0.93
PV Drilling	Energy	2,687,875	0.81
BCI	Real Estate	2,657,889	0.81
Vinh Son Song Hinh	Utilities	2,649,328	0.80
Hau Giang Pharma	Pharmaceuticals	2,279,165	0.69
Phu Nhuan Jewelry	Consumer Durables	2,186,277	0.66
SacomReal	Real Estate	1,464,727	0.44
DIC Corp	Real Estate	43,495	0.01
		233,361,385	70.68
Total listed investments at fair value		238,912,333	72.36
Unlisted investments			
Vietnam OTC equities			
PV Gas	Energy	4,874,341	1.48
Hoang Anh Housing	Real Estate	4,557,936	1.38
		9,432,277	2.86
Private equities			
PN Holdings	Diversified Financials	56,066,597	16.98
Danao	Real Estate	13,069,218	3.96
VFMVF2	Funds	4,558,482	1.38
Global Cybersoft	Software & Services	1,374,744	0.42
		75,069,041	22.74
Warrants			
FPT Warrant	Software & Services	401,445	0.12
Loans			
Danao - Loan 8.5% 3/8/2013	Real Estate	1,192,199	0.36
Glass Egg - Promissory notes 9% 31/12/2008	Software & Services	288,467	0.09
		1,480,666	0.45
Total unlisted investments at fair value		86,383,429	26.17

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

5. Financial Assets at Fair Value through Profit or Loss (Continued)

On 23 September 2010, the Group exchanged its entire indirect equity interest of 32.01% in Nui Phao, a company engaged in the exploration and extraction of tungsten, with 47.54% of the Promissory Notes ("PNs") issued by Masan Horizon Corporation ("MHC"), a wholly owned subsidiary of Masan Group. As of 31 December 2011, Masan Group has an indirect equity interest of 85% in Nui Phao.

The PNs are held by Vietnam Resource Investments (Cayman) Limited which is fully owned by PN Holdings Limited. PN Holdings Limited was formerly known as Vietnam Resource Investments Limited, an investment holding company incorporated as an exempted company with limited liability in the Cayman Islands on 7 November 2006 and which changed its name to PN Holdings Limited on 6 December 2010.

The total PNs issued by MHC comprise of four exchangeable promissory notes with face value of US\$25,000,000 each (fixed at exchange rate of VND19,000 per US\$). The key terms of the promissory notes are as follows:

- a) The holders of PNs have the right to exchange the PNs into 28,825,005 shares of Masan Group on 23 September 2013, 23 September 2014 and 23 September 2015. The conversion of PNs is subject to a minimum of one exchangeable promissory note for each request of conversion and no more than one request for conversion may be made in any given calendar year.
- b) If the holders of PNs do not exercise their right to convert, they will be entitled to the following payments from MHC:
 - VND230,422,500,000 on 23 September 2016; and
 - VND2,534,647,500,000 on 23 September 2017

As at 31 December 2011, the Company holds 11,194,839 shares of PN Holdings which is equivalent to an equity interest of 47.54% in PN Holdings with a fair value of US\$56,066,597.20 (31/12/2010: Nil).

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

Issuers:	Held by:	Issuers:	Held by:
ACB	Dragon Financial Holdings Limited	PV Drilling	Grinling International Limited
BCI	Wareham Group Limited	PV Gas	Wareham Group Limited
DIC Corp	Grinling International Limited	REE	Venner Group Limited
FPT	Wareham Group Limited		VEIL Holdings Limited
Hau Giang Pharma	Grinling International Limited		Wareham Group Limited
Hoa Phat Group	Grinling International Limited	SacomReal	Venner Group Limited
	Wareham Group Limited		Wareham Group Limited
Hoang Anh Gia Lai	Grinling International Limited	SSI	Venner Group Limited
	VEIL Holdings Limited		VEIL Holdings Limited
	Wareham Group Limited		Wareham Group Limited
Hoang Anh Housing	Grinling International Limited	Sudico	VEIL Holdings Limited
	Wareham Group Limited		Wareham Group Limited
Phu My Fertilizer	Venner Group Limited	VFMVF1	Wareham Group Limited
	Grinling International Limited	VFMVF2	Grinling International Limited
	Wareham Group Limited	Vinamilk	Grinling International Limited
Phu Nhuan Jewelry	Venner Group Limited	Vinh Son Song Hinh	VEIL Holdings Limited
	Wareham Group Limited		

6. Balances Due from/to Brokers

	2011	2010
	US\$	US\$
Sales transactions awaiting settlement	341,355	18,896
Purchase transactions awaiting settlement	343,053	4,390,856

In accordance with the Company's policy of trade date accounting for regular sales and purchase transactions, sales/purchase transactions awaiting settlement represent amounts receivable/payable for securities sold/purchased, but not yet settled as at the reporting date.

7. Cash and Cash Equivalents

	2011	2010
	US\$	US\$
Cash on demand	8,639,283	13,057,188
Cash in transit	-	1,000,000
	8,639,283	14,057,188

8. Accounts Payables and Accruals

	2011	2010
	US\$	US\$
Management fees	703,211	649,878
Directors' fees	17,250	20,375
Administration fees	30,792	32,494
Custodian fees	18,609	9,749
Other payables	3,626,307	43,008
	4,396,169	755,504

9. Issued Capital

	2011	2010
	US\$	US\$
<u>Authorised:</u>		
500,000,000 Redeemable Shares at par value of US\$0.01 each ("Redeemable Shares")	5,000,000	5,000,000
300,000,000 conversion shares at par value of US\$0.01 each ("C Shares")	3,000,000	3,000,000
1,000 Management Shares at par value of US\$0.01 each ("Management Shares")	10	10
	8,000,010	8,000,010
<u>Issued and fully paid:</u>		
173,823,000 Redeemable Shares at par value of US\$0.01 each	1,738,230	1,738,230
1,000 Management Shares at par value of US\$0.01 each	10	10
	1,738,240	1,738,240
Repurchased shares	(57,123)	(37,155)
	1,681,117	1,701,085

Holders of Redeemable Shares present in person or by proxy or by authorised representative shall have one vote and, on a poll, every holder of Redeemable Shares present in person or by proxy or by authorised representative shall have one vote for every Redeemable Share of which he is the registered holder. The Redeemable Shares carry rights to dividends as set out in Articles 106 to 114 of the Company's Memorandum and Articles of Association (the "Articles"). In a winding up, the Redeemable Shares carry a right to a return of the nominal capital paid up in respect of such Redeemable Shares, and the right to share in the manner set out in the Articles in surplus assets remaining after the return of the nominal capital paid up on the Redeemable Shares and Management Shares, provided that in a winding up the assets available for distribution among the members are more than sufficient to repay the whole of the nominal capital paid up at the commencement of the winding up. No holder of Redeemable Shares has the right to require the redemption of any of his Redeemable Shares at his option.

The C shares carry the exclusive right to dividends in respect of assets attributable to the C share, in accordance with the provisions of Articles 106 to 114. 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 as set out in the Article. The new Redeemable Shares to be issued on conversion shall rank in full pari passu with the existing Redeemable Shares for all dividends and other distributions with a record date falling after the conversion date. In order for the holder of the C Shares to participate in the winding up of the Company, the C Shares, if any, which are in existence at the date of the winding up of the Company will for all purposes be deemed to have been automatically converted into Redeemable Shares and Deferred 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 resolution or the court to wind up the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

9. Issued Capital (Continued)

Until conversion, the consent of the holders of the C Shares voting as a separate class and the holders of the Redeemable Shares voting as a separate class shall be required in accordance with the provisions of Article 14 to effect any variation or abrogation in their respective class rights.

During the year, no C Shares were in issue, and no C Shares are in issue at present.

The Management Shares shall not be redeemed by the Company, 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 nominal capital paid up on Redeemable Shares. The Management Shares each carry one vote on a poll. The holders of the Management Shares have the exclusive right to appoint two individuals to the Board. The holders of the Management Shares also have the exclusive right to nominate the individuals it has appointed to the Board as executive Directors of the Company at any time the Company does not have an investment manager or at any time that such investment manager is unrelated to the holders of the Management Shares.

Following the Company's announcement on 11 June 2010 regarding repurchase of shares, during the year the Company purchased through Rickmansworth Limited, a wholly owned subsidiary of the Company, 1,996,826 Redeemable Shares issued and outstanding of the Company at an average price of US\$1.855 (in 2010: 3,715,502 Redeemable Shares at an average price of US\$1.953). Shares purchased will, for as long as they are held by Rickmansworth Limited, be held for the benefit of the Company.

Movements in Redeemable Share capital during the year were as follows:

		2011		2010	
	Shares	US\$	Shares	US\$	US\$
Balance at the beginning of the year	170,107,498	1,701,075	173,823,000	1,738,230	
Redeemable Shares repurchased during the year	(1,996,826)	(19,968)	(3,715,502)	(37,155)	
Balance at the end of the year	168,110,672	1,681,107	170,107,498	1,701,075	

Movements in share premium during the year were as follows:

		2011		2010	
		US\$		US\$	US\$
Balance at the beginning of the year		349,446,892		356,666,449	
Share premium from Redeemable Shares repurchased during the year		(3,684,167)		(7,219,557)	
Balance at the end of the year		345,762,725		349,446,892	

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 Company as at 31 December 2011 of US\$330,132,365 (2010: US\$419,016,120) and the number of Redeemable Shares in issue as at that date of 168,110,672 shares (2010: 170,107,498 shares).

11. Fees

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

Management fees

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 fees amounted to US\$7,495,536 (2010: US\$8,135,632). As at 31 December 2011, a management fee of US\$703,211 (2010: US\$649,878) remained payable to the Investment Manager.

Incentive fees

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 ("R"), provided that R is a positive figure and that the value of S in the calculation exceeds the highest value of S by reference to the incentive fee paid in any previous year:

$$R = S - U,$$

where:

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

S is the NAV of the Redeemable Shares on the last Valuation Day in that Accounting Period (adjusted upward by any accruals of incentive fees payable that are reflected in the NAV) plus the net assets value of all distribution made in respect of such shares in all prior years (by way of dividend, or return of capital or otherwise);

U is an amount equal to the sum of:

- a) The NAV of the Redeemable Shares as at the end of the Accounting Period in respect of which the most recent incentive fee was actually paid compounded at the rate of 8% per annum with effect from the Valuation Day by reference to which that incentive fee was calculated; and
- b) Either (i) the NAV of the C Shares as at the end of the Accounting Period in respect of which the most recent incentive fee was actually paid, compounded at the rate of 8% per annum with effect from the Valuation Day by reference to which that incentive fee was calculated; or (ii) if no incentive fee has previously been due and payable in respect of the C Shares, an amount equal to any amounts of capital raised by the issue of C Shares, exclusive of placing fees, compounded at the rate of 8% per annum with effect from the date of issue of those C Shares until the last Valuation Day in that Accounting Period; and
- c) Any amount of capital raised by the issue of new Redeemable Shares during the period since the Valuation Day referred to at (a) above, exclusive of placing fees, compounded at the rate of 8% per annum with effect from the date of issue of those 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 2011, the NAV per Redeemable Share of the Group needed to exceed US\$7.38 (2010: US\$6.87). As at 31 December 2011, the NAV per Redeemable Share of the Group was US\$1.96 (2010: US\$2.46).

No incentive fee was incurred during the year ended 31 December 2011 (2010: Nil) as the conditions were not met.

Directors' fees

The fees payable to the Board of Directors of the Group as a whole are subject to a maximum aggregate amount of US\$100,000 per annum. During the year, directors' fees amounted to US\$86,505 (2010: US\$75,744). Directors' fees of US\$17,250 were payable as at 31 December 2011 (2010: US\$20,375). Dominic Scriven has permanently waived his rights to receive directors' fees for his services as Director of the Group.

Administration fees

Standard Chartered Bank (Singapore) (the "Administrator") replaced ABN AMRO Fund Services (Cayman) Limited as Administrator of the Group with effect from 1 July 2011. ABN AMRO Fund Services (Cayman) Limited received from 1 January until 30 June 2011 a fee of the gross assets per annum, payable monthly in arrears and subject to a minimum monthly fee. The Administrator is entitled to receive a fee of 0.06% (2010: 0.1%) of the gross assets per annum, payable monthly in arrears and subject to a minimum monthly fee. During the year total administration fees amounted to US\$349,828 (2010: US\$413,652). As at 31 December 2011, an administration fee of US\$30,792 (2010: US\$32,494) was payable to the Administrator.

Custodian fees

Standard Chartered Bank (Vietnam) Limited (the "Custodian") replaced ABN AMRO Fund Services (Cayman) Limited as Custodian of the Group with effect from 1 July 2011. ABN AMRO Fund Services (Cayman) Limited received from 1 January until 30 June 2011 a fee of 0.03% of the NAV per annum, payable monthly in arrears and subject to a minimum monthly fee. The Custodian is entitled to receive a fee of 0.05% of the asset under custody per month (2010: 0.03% of the NAV per annum), payable monthly in arrears and subject to a minimum monthly fee. During the year total custodian fees amounted to US\$186,857 (2010: US\$124,096). As at 31 December 2011 a custodian fee of US\$18,609 (2010: US\$9,749) was payable to the Custodian.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

12. Income Tax

Under the current law of the Cayman Islands and the British Virgin Islands, the Company, its subsidiaries and jointly controlled entity are not required to pay any taxes in the Cayman Islands and the British Virgin 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 loss per Redeemable Share for the year is based on the net loss for the year attributable to the Redeemable Shares of US\$85,179,620 (2010: US\$9,087,596) and the weighted average of Redeemable Shares outstanding of 169,244,160 shares (2010: 171,921,972 shares) in issue during the year.

a) Loss attributable to Redeemable Shareholders

	2011	2010
	US\$	US\$
Loss for the year	(85,179,620)	(9,087,596)
Net loss attributable to Redeemable Shareholders	(85,179,620)	(9,087,596)

b) Weighted average number of Redeemable Shares

	2011	2010
	US\$	US\$
Issued Redeemable Shares at the beginning of the year	170,107,498	173,823,000
Effect of Redeemable Shares repurchased during the year	(863,338)	(1,901,028)
Weighted average number of Redeemable Shares	169,244,160	171,921,972

c) Basic losses per Redeemable Share

	2011	2010
	US\$	US\$
Basic losses per Redeemable Share	(0.51)	(0.05)

14. Jointly Controlled Entity

The Company has a 90% interest and applies the proportionate consolidation method to recognise their interests in Dragon Financial Holdings Limited.

Included in the consolidated financial statements are the following amounts related to jointly controlled entity:

	2011	2010
	US\$	US\$
Statement of financial position		
Financial assets at fair value through profit or loss	59,288,310	112,087,084
Statement of comprehensive income		
Net changes in fair value of financial assets at fair value through profit or loss	31,123,096	62,497,463

15. Financial Risk Management

The Group invested in listed and unlisted investments in Vietnam, the Cayman Islands, Canada and may invest elsewhere 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 the 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 been approved based on a set of defined criteria by the Investment Manager. 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 2011 and 2010, the Group's credit risk arose principally from its other receivables, investments in promissory notes, balances due from brokers and cash and cash equivalents. The maximum exposure to credit risk faced by the Group is equal to the carrying amounts of these balances as shown on the consolidated statement of financial position.

(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 2011 and 2010, all the contractual maturities of non-derivative financial liabilities of the Group were payable within a year.

(c) Market risk

Market risk is the risk that changes in market prices, such as equity prices, interest rates and FX rates will affect the income of the Group 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 Group's equity price risk 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 investments principally relates to investments listed on Vietnam Stock Exchange where a substantial majority of the Group's investments are listed. Management's best estimate of the effect on net assets and losses 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
	2011	2011	2010	2010
	%	US\$m	%	US\$m
Market indices				
VN Index	50	127.56	50	136.35
VN Index	(50)	(127.56)	(50)	(136.35)

Valuation of the Group's unlisted investments is made using established valuation methodologies. The methodologies of valuation of these investments take into consideration a variety of factors, which means that the unlisted investments are also exposed to equity price risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

15. Financial Risk Management (Continued)

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.

31 December 2011	Up to 1 year US\$	1 - 5 years US\$	Non-interest bearing US\$	Total US\$
ASSETS				
Financial assets at fair value through profit or loss	288,467	1,192,199	401,445	1,882,111
Other receivables	-	-	595,187	595,187
Balances due from brokers	-	-	341,355	341,355
Cash and cash equivalents	8,639,283	-	-	8,639,283
TOTAL ASSETS	8,927,750	1,192,199	1,337,987	11,457,936
LIABILITIES				
Accounts payable and accruals	-	-	(4,396,169)	(4,396,169)
Balances due to brokers	-	-	(343,053)	(343,053)
TOTAL LIABILITIES	-	-	(4,739,222)	(4,739,222)
NET INTEREST SENSITIVITY GAP	8,927,750	1,192,199	(3,401,235)	6,718,714

At 31 December 2011, had interest rates lowered by 100 basis points with all other variables remaining constant, the decrease in net assets attributable to the holders of Redeemable Shares for the year would have amounted to approximately US\$14,807. If interest rates had risen by 100 basis points, the increase in net assets attributable to the holders of Redeemable Shares would have amounted to approximately US\$101,199.

31 December 2010	Up to 1 year US\$	1 - 5 years US\$	Non-interest bearing US\$	Total US\$
ASSETS				
Financial assets at fair value through profit or loss	7,996,529	-	49,902,236	57,898,765
Other receivables	-	-	270,735	270,735
Balances due from brokers	-	-	18,896	18,896
Cash and cash equivalents	14,057,188	-	-	14,057,188
TOTAL ASSETS	22,053,717	-	50,191,867	72,245,584
LIABILITIES				
Accounts payable and accruals	-	-	(755,504)	(755,504)
Balances due to brokers	-	-	(4,390,856)	(4,390,856)
TOTAL LIABILITIES	-	-	(5,146,360)	(5,146,360)
NET INTEREST SENSITIVITY GAP	22,053,717	-	45,045,507	67,099,224

At 31 December 2010, had interest rates lowered by 100 basis points with all other variables remaining constant, the decrease in net assets attributable to the holders of Redeemable Shares for the year would have amounted to approximately US\$79,965. If interest rates had risen by 100 basis points, the increase in net assets attributable to the holders of Redeemable Shares would have amounted to approximately US\$220,537.

Foreign 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 VND and Canadian Dollar ("CA\$").

The table below summarises the Group's exposure to various currencies. All amounts are stated in US\$.

31 December 2011	CA\$	VND
ASSETS		
Financial assets at fair value through profit or loss	5,550,948	247,753,590
Other receivables	-	55,459
Balances due from brokers	-	341,355
Cash and cash equivalents	-	5,516,822
TOTAL ASSETS	5,550,948	253,667,226
LIABILITIES		
	-	3,942,856
TOTAL ASSETS, LESS LIABILITIES	5,550,948	249,724,370
31 December 2010	CA\$	VND
ASSETS		
Financial assets at fair value through profit or loss	11,614,579	331,949,897
Other receivables	-	18,718
Balances due from brokers	-	18,896
Cash and cash equivalents	-	11,776,291
TOTAL ASSETS	11,614,579	343,763,802
LIABILITIES		
	-	4,390,856
TOTAL ASSETS, LESS LIABILITIES	11,614,579	339,372,946

At 31 December 2011, if the US\$ had strengthened or weakened by 10% (2010: 10%) against the CA\$ and VND with all other variables held constant, the net assets attributable to redeemable shareholders would have been decreased or decreased by the amounts shown below. This analysis was performed on the same basis as in 2010.

	CA\$	VND
2011	555,095	24,972,437
2010	1,161,458	33,937,295

(d) Fair values of financial assets and liabilities

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at year end. The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

Cash and cash equivalents, balances due from/to brokers, other receivables and accounts payable and accruals

The carrying amounts approximate their respective fair values due to the short-term maturity of these instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2011

15. Financial Risk Management (Continued)

Financial assets at fair value through profit or loss - Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
 Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
 Level 3: Inputs for the assets or liability that are not based on observable market data (unobservable inputs)

31 December 2011	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
Financial assets at fair value through profit or loss	238,912,333	9,432,277	76,951,152	325,295,762
31 December 2010				
Financial assets at fair value through profit or loss	313,077,912	15,544,733	81,193,016	409,815,661

The following table presents the movements in Level 3 instruments for the year ended 31 December 2011 and 2010:

	2011 US\$	2010 US\$
Opening balance	81,193,016	61,719,716
Sales	(14,667,240)	(41,368,603)
Purchases	14,528,918	32,927,520
Transfer to Level 1	(6,076,530)	-
Gains recognised in profit and loss	1,972,988	27,914,383
Closing balance	76,951,152	81,193,016
Total gains for the year included in net changes in fair value of financial assets at fair value through profit or loss	1,972,988	27,914,383

(e) 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.

16. Contingencies

Under the current law of the Cayman Islands and the British Virgin Islands, the Company, its subsidiaries and jointly controlled entity are not required to pay any taxes in the Cayman Islands and the British Virgin 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.

17. Subsequent Events

Value of asset

As of the date of this report, the aggregate fair value of the Group's financial assets at fair value through profit and loss has risen by US\$61,993,782 to US\$310,338,392 from the aggregate fair value as of 31 December 2011 due to a general increase in listed/unlisted bond prices and listed share prices in Vietnam. The Directors believe that the increase is temporary and consequently no adjustment has been made in the consolidated financial statements as at 31 December 2011. The details are as follows:

	31 December 2011	Fair value 24 April 2012	Movement
	US\$	US\$	US\$
Financial assets at fair value through profit or loss			
Oversea listed equities	5,550,948	6,412,556	861,608
Vietnam listed equities	233,361,385	294,388,137	61,026,752
OTC equities	9,432,277	9,537,699	105,422
	248,344,610	310,338,392	61,993,782

Classification of holdings

Hoang Anh Gia Lai was classified to real estate sector effective from 1 January 2012.

Appointment of Director

The Board of Directors resolved on 18 April 2012 during the board meeting to appoint Mrs. Farida Khambata as non-executive Director of the Company. The appointment will be effective until the next AGM of the Company when Mrs. Khambata will stand for election. The Company has made an announcement about the appointment on the Irish Stock Exchange.

Repurchase of Company's shares

Subsequent to the year end, the Company has sold, through Rickmansworth Limited, 4,669,420 Redeemable Shares of the Company that have been purchased by and held for the benefit of the Company.

19. Approval of the Consolidated Financial Statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 24 April 2012.

ADMINISTRATION

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British West Indies

Administrator & Offshore Custodian

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Standard Chartered @ Changi
No 7, Changi Business Park
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Singapore 486028

Company Secretary & Registrar

ATC Asia Corporate Services Limited
ATC Trustees (Singapore) Pte. Ltd
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Vietnam

Auditors

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Ho Chi Minh City
Vietnam

Listing Sponsor

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

BOARD OF DIRECTORS

Hartmut Giesecke

**Chairman and independent non-executive director
(Appointed January 2006)**

Hartmut Giesecke has a Master of economics degree from Freiburg University, Germany and an MBA from Columbia University Graduate School of Business. Mr. Giesecke joined the Capital Group organisation as a financial analyst in Geneva, Switzerland in 1972 and then moved to Los Angeles to work for Capital Research Company as an analyst covering non-US markets and later on 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. He resides in Singapore and Munich, Germany.

Derek Eu-Tse Loh

**Independent non-executive director
(Appointed March 2011)**

Derek Eu-Tse Loh graduated from Cambridge University with Honours in 1990. He then obtained his barrister-at-law in England before proceeding to his call as an advocate and solicitor in Singapore in 1993. He has spent the past 18 years in active practice in the area of construction and engineering law. He joined TSMP Law Corporation in 2001. He is currently a director of both TSMP and Allens Arthur Robinson TSMP, a Joint Law Venture firm between TSMP and Messrs Allens Arthur Robinson of Australia. He sits on the Boards of listed companies in Singapore including Freight Links Express Holdings where he Chairs the Remuneration and Nomination Committees. Mr. Loh is a member of the Board of Governors of Saint Joseph Institution, a leading independent school in Singapore and is on the Board of Trustees of Saint Joseph's Institution Foundation (Singapore), a charitable organisation. He resides in Singapore.

Wolfgang Bertelsmeier

**Independent non-executive director
(Appointed July 2009)**

Wolfgang Bertelsmeier holds a Master's degree in business administration from the University of Frankfurt. He also studied at the Université de Poitiers, France, Harvard Business School and Stanford University. Mr. Bertelsmeier worked for several financial institutions and joined the International Finance Corporation ("IFC") in 1990, working primarily in Africa, Southeast Asia, Latin America and Europe until his retirement. He sits on the boards of several companies in Africa and Europe. He resides in Washington D.C. and Bangkok, Thailand.

Dominic Scriven, OBE

**Non-executive director
(Appointed May 1995)**

Dominic Scriven is British and graduated in 1985 from Exeter University, in law and sociology. In twenty five years of investing, more than twenty have been spent in Asia, principally Hong Kong and Vietnam. He has worked for M&G Investment Management (publicly listed in London), Sun Hung Kai and Co (publicly listed in Hong Kong), and Citicorp Investment Bank. Throughout these years, he has been actively involved in fund management, corporate finance, and securities trading in most of Asia's developing capital markets. In 1991 he moved to Vietnam, spending two years enrolled at Hanoi University, before, in 1994, co-founding Dragon Capital. A Vietnamese speaker, Mr. Scriven sits on the boards of number of Vietnamese public companies. He was awarded an OBE in 2006 and received Recognition Awards from Ho Chi Minh City People's Committee in 2008 and 2010 for his contribution to the development of the financial markets of Vietnam. His external interests range from sustainable tourism, through art and propaganda, to the illegal wildlife trade. He resides in Ho Chi Minh City, Vietnam.

On 18 April 2012, Farida Khambata was appointed as non-executive Director of the Company (See subsequent events on page 43). Mrs. Khambata is a global strategist at Cartica Management LP, an asset management company with a focus on emerging markets since January 2009. Prior to joining Cartica, she was a Regional Vice President of IFC. She is also a non-executive director of Dragon Capital Group, the parent company of the Investment Manager of the Company. She has no executive role with Dragon Capital or any of its affiliates.

NAME ABBREVIATIONS

In this report, including the notes to the accounts, entities or securities are referred to by their short names as follows:

Full Name by Sector	Short Name
Banks	
Asia Commercial Joint Stock Bank	ACB
Consumer Durables	
Phu Nhuan Jewelry Joint Stock Company	Phu Nhuan Jewelry
Diversified Financials	
Hoang Anh Gia Lai Joint Stock Company	Hoang Anh Gia Lai
Masan Group Corporation	Masan Group
PN Holdings Limited	PN Holdings
Saigon Securities Incorporation	SSI
Energy	
PetroVietnam Drilling and Well Services Joint Stock Company	PV Drilling
PetroVietnam Gas Corporation	PV Gas
Food & Beverage	
Vietnam Dairy Products Joint Stock Company	Vinamilk
Funds	
Vietnam Securities Investment Fund - VF1	VFMVF1
Vietnam Securities Investment Fund - VF2	VFMVF2
Materials & Resources	
Asian Mineral Resources Limited	Asian Minerals
Hoa Phat Group Joint Stock Company	Hoa Phat Group
Olympus Pacific Minerals Incorporated	Olympus Pacific
PetroVietnam Fertilizer and Chemicals Corporation	Phu My Fertilizer
Pharmaceuticals	
DHG Pharmaceutical Joint Stock Company	Hau Giang Pharma

Full Name by Sector**Short Name****Real Estate**

Binh Chanh Construction & Investment Joint Stock Company	BCI
Danao International Holdings Limited	Danao
Danao Limited - Loan 8.5% 3/8/2013	Danao Loan 8.5% 3/8/2013
Development Investment Construction Joint Stock Company	DIC Corp
Hoang Anh Construction and Development House Joint Stock Company	Hoang Anh Housing
Refrigeration Electrical Engineering Corporation	REE
Saigon Thuong Tin Real Estate Joint Stock Company	SacomReal
Song Da Urban & Industrial Zone Investment and Development Joint Stock Company	Sudico

Software & Services

FPT Corporation	FPT
FPT Corporation Warrant 9/10/2012	FPT Warrant
Glass Egg Digital Media Limited - Promissory notes 9% 31/12/2008	Glass Egg - Promissory notes 9% 31/12/2008
Global Cybersoft, Inc.	Global Cybersoft

Utilities

Vinh Son Song Hinh Hydropower Joint Stock Company	Vinh Son Song Hinh
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