



Interim Report
for the period from inception to 30 June 2006

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DIRECTORS AND OFFICERS

Directors

Philip Smiley, Chairman
Stanley Chou
Gregory Hazlett
Antony Jordan
Christopher Vale

Secretary and Registered Office

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Investment Manager

PXP Vietnam Asset Management Limited
Vietnam Representative Office
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Auditors

PricewaterhouseCoopers (Vietnam) Ltd.
Chartered Accountants
4th Floor, Saigon Tower,
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Administrator and Registrar

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Custodian

HSBC Institutional Trust Services (Asia) Limited
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Legal Adviser to the Company

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Placing Agent and Dealing Enquiries

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CHAIRMAN'S STATEMENT

It gives me great pleasure to present this first interim report of the Vietnam Emerging Equity Fund Limited and to take the opportunity to welcome all shareholders.

The Company was incorporated on 25 July 2005 and launched on 3 November 2005 as a closed-end investment company seeking long-term capital appreciation from investment in a portfolio of the equity securities of companies with a significant presence in Vietnam.

The Company issued 2,763,400 ordinary shares of US\$0.05 each at US\$5.000 per share on the launch date. An issue of 4,900,350 additional shares was made on 28 April 2006, at a price equivalent to the Net Asset Value per Share on 28 March 2006 plus a premium of 5 per cent for new investors. As at 30 June 2006 the Company had a total of 7,663,750 issued shares from a total authorised capital of 10 million shares.

On 1 April 2006 we appointed Mr. Stanley Chou as a Director of the Company. Mr. Chou has extensive experience in Asian emerging markets and is expected to play an active role in the Board's deliberations.

Between the launch date and 30 June 2006, the period under review, the Company's net asset value per share increased by 32.26%, from US\$ 5.000 to US\$ 6.613.

We feel optimistic that the development of the stock market and the equitisation process in Vietnam will continue to progress well, and that the economic fundamentals will remain positive.

Further details on the portfolio's performance are given in the Investment Manager's report on pages 6 - 8.

Philip Smiley
Chairman

18 October 2006

REPORT OF THE INVESTMENT MANAGER

During the period under review the Company's net asset value per share increased by 32.26%, from US\$ 5.000 to US\$ 6.613.

The Company made initial acquisitions in December 2005 of blocks of Vinamilk (Vietnam's largest dairy products producer, which was unlisted at the time) and Sacom Cable (a telecommunications cable manufacturer) and began to construct its portfolio in listed stocks in a market which was then seeing turnover of around US\$ 500,000 per day. The listing of Vinamilk the following month, which took total market capitalisation beyond US\$1 billion for the first time, combined with the publication of an unequivocally bullish research report by Merrill Lynch and a well attended foreign investor conference in Hanoi during February 2006, catalysed a significant surge in both the Viet Nam Index (VNI) and in market participation, particularly from domestic investors anticipating the arrival of significant foreign flows. As the VNI rose a large number of local retail investors activated new trading accounts and obtained margin financing which, in turn, pushed the market higher. The VNI continued to rise through April 2006, and reached a closing high of 632.69 on 25th April 2006, up almost 106% from the close on 30 December 2005.

The Investment Manager considered the market to have reached unsustainable valuation levels during March 2006 and Directors agreed to launch a secondary issue of shares during April, raising over US\$ 32 million in cash three days after the peak of the market. This provided a most effective cushion as the market retreated 38% from the high over the next three months, bottoming on 2 August 2006.

After conclusion of the offer of additional Shares, the Company initially focused its investment activities offshore, finding more value in the so-called "regional plays" with a significant Vietnam presence including Sanyang (a Taiwan-listed motorcycle manufacturer), Tiberon (a Toronto-listed tungsten mine) and Ellipsis (a Singapore-listed probe card manufacturer). Vietnam-listed stocks were added as the market declined during the latter months of the period under review.

The Company also bought shares in five unlisted companies during the period under review. Bimico (quarrying), Thong Nhat (a rubber plantation), Interfood (a foreign-owned soft drink manufacturer) and Fimex (a shrimp processor) were all

acquired at public auctions, whereas Imexpharm (a pharmaceutical manufacturer) was initially bought in a private placement.

ECONOMY

The Vietnamese economy continued to perform well during the period under review. Once again, rising exports, domestic demand and foreign direct investment (“FDI”) were the key drivers of FY2005 Gross Domestic Product (GDP) growth of 8.4%, the highest rate recorded since 1996 (1H2006, + 7.4%).

The expansion of trade remains strong. Exports increased by 21.6% for the full year 2005 (1H2006, + 25.7%). Once again, the continuing strength of crude oil prices played a major role as Vietnam remains one of Asia’s few net exporters of oil. In addition, Vietnam’s increasing global integration led to healthy rises in exports of furniture, electronics, rice, rubber, electric cables and coal. Garment and footwear exports also increased but at a slower rate than in FY2004 due largely to the removal of quotas for World Trade Organisation members at the beginning of 2005. Import growth of 15.4% (1H2006, + 14.1%) was also slower than in FY2004 as imports of machinery, the largest amongst the inward categories, levelled off. The trade deficit declined by 17.0% versus FY2004 to US\$ 4.7 billion (1H2006, trade deficit US\$ 1.98 billion, -44.5%) . This was more than covered by non-trade flows such as remittances from Overseas Vietnamese, which stood at USD 4.00 billion through official channels, up 25% on FY2004. Domestic demand continued to rise, stimulated by sensible Government spending and the increasing number of private companies, up an estimated 24.0% on the previous year. This helped private sector industrial production achieve a growth rate of 24.1%, a new record (1H2006, +20.8%). In addition, retail sales grew by 20.5% (1H2006, +19.7%), slightly higher than FY2004. FDI continues to escalate with new FDI commitments up by 63.0% (5M2006, +19.5%) whilst FDI disbursement rose by 15.3% (5M2006, +22.0%).

Inflation continued to be the main cause for concern during 2005. However, the Government managed to reduce the rate of inflation to 8.4% (1H2006, +4.0%) versus FY2004’s 9.5%. Much of this was due to the reduction in the effect of avian flu and also to the decline in the rate at which global commodity prices continued to rise, most importantly those of refined oil products and steel. The Government’s aim of WTO membership by the end of 2005 was not achieved but

we believe that accession in November 2006 is likely around the time of the APEC summit in Hanoi.

STRATEGY

Our strategy is to continue to build on the Company's existing core holdings whilst actively seeking opportunities to invest in pre-listing companies and foreign listed companies that meet the Company's investment criteria.

OUTLOOK

We expect that the macroeconomic environment will continue to advance. GDP growth for 2006 is estimated to be at least 8%. This will be achieved accelerating trade as WTO entry draws near, and rising FDI which is supported by continuing reform, an attractive business environment, and political stability. Both of these drivers will complement already vibrant domestic demand. We continue to see increasing opportunities for the Company to invest in both foreign listed companies with a strong Vietnam focus and a growing number of relatively larger SOEs and private companies that are preparing to list over the next few years.

PXP Vietnam Asset Management Limited
Ho Chi Minh City

24 October 2006

Vietnam Emerging Equity Fund Limited

INCOME STATEMENT FOR THE PERIOD FROM INCEPTION TO 30 JUNE 2006	(Unaudited) Period from inception to 30-Jun-06 US\$
Revenue	
Interest income	359,599
Dividend income	342,751
Realised gains on investments	-
Unrealised gains on investments	5,229,371
Total investment income	5,931,722
Expenses	
Management fees	319,306
Performance fees	736,988
Directors' fees	32,877
Custodian fees	20,871
Secretarial and administration fees	4,138
Professional and consultant fees	7,143
Legal and professional fees	42,122
Transaction costs	18,385
Other operating expenses	81,826
Total operating expenses	1,263,655
Profit before tax	4,668,067
Income tax expenses	-
Net income	4,668,067
*Earnings per share for profit attributable to the shareholders of the Fund during the period (expressed in US\$ per share)	1.148

* Using the weighted average number of shares for each period (see note 1 on page 14)

No dividend has been declared for the current period.

Vietnam Emerging Equity Fund Limited

BALANCE SHEET	(Unaudited)
AS AT 30 JUNE 2006	30-Jun-06
	US\$
ASSETS	
Cash and cash equivalents	22,912,485
Receivables	229,307
Financial assets at fair value through profit or loss	29,948,533
Total assets	53,090,325
LIABILITIES	
Accounts payable and accruals	2,409,946
Total liabilities	2,409,946
Net assets	50,680,379
EQUITY	
Ordinary shares	383,188
Share premium	45,649,919
Retained earnings	4,668,067
Cumulative translation reserves	(20,794)
Total shareholders' equity	50,680,379
Net asset value per share	6.613

CASH FLOW STATEMENT FOR THE PERIOD FROM INCEPTION TO 30 JUNE 2006	(Unaudited) Period from inception to 30-Jun-06 US\$
Cash flows from operating activities	
Purchase of financial assets at fair value through profit or loss	(23,238,872)
Dividends received	121,394
Interest received	356,550
Amount paid to brokers	(20,886)
Operating expenses paid	(318,012)
Net cash outflow from operating activities	(23,099,827)
Cash flows from financing activities	
Net proceeds generated from financing activities	46,033,106
Net cash generated from financing activities	46,033,106
Increase in cash and cash equivalents	22,933,279
Cash and cash equivalents at beginning of period	-
Currency translation differences	(20,794)
Cash & cash equivalents at end of period	22,912,485

INVESTMENT PORTFOLIO AS AT 30 JUNE 2006

Company	Valuation 30-Jun-06 US\$	% of Net Assets
CABLE & TELECOM	4,330,979	8.55
YUE YUEN INDUSTRIES	3,161,110	6.24
SANYANG	2,993,100	5.91
VINAMILK	2,737,188	5.40
TIBERON	2,172,865	4.29
FIMEX	2,037,761	4.02
ELLIPSIZ	1,846,035	3.64
REFRIGERATION ELECTRICAL ENGINEERING	1,719,709	3.39
BIBICA	1,534,696	3.03
AGIFISH	1,132,642	2.23
AMATA	998,564	1.97
HOA AN COMPANY	946,280	1.87
SOUTHERN SEED	775,115	1.53
BIMICO	768,009	1.52
NORTH KINHDO FOOD	625,591	1.23
TRANSIMEX	399,843	0.79
THONG NHAT RUBBER	388,487	0.77
VEDAN INTL HOLDINGS	321,316	0.63
GILMEX	235,016	0.46
IMEXPHARM	228,154	0.45
SAVIMEX	189,295	0.37
GEMADEPT	164,066	0.32
INTERFOOD	139,928	0.28
ASIA PACIFIC BREWERIES	102,782	0.20
	29,948,533	59.09

NOTES TO THE INTERIM ACCOUNTS

1. SHARES IN ISSUE

As at 30 June 2006 there were 7,663,750 ordinary shares of US\$ 0.05 each in issue (3 November 2005: 2,763,400; 28 April 2006: 7,663,750).

The financial statements from inception 25 July 2005 to 30 June 2006, have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have neither been audited nor reviewed by the auditors.