DWS Vietnam Fund Limited

Investment Manager's Report

For the year ended 31 December 2008

DWS
COMPLEX ASSETS

Investment Manager's Report

For the year ended 31 December 2008

The Net Asset Value (NAV) of the DWS Vietnam Fund ("Fund") at the end of December 2008 was 0.462, down from 0.99 at the end of December 2007. Year to date, the fund's NAV has decreased by 53% on a USD basis. The Fund Manager (FM) is acutely aware that 2008 was a particularly difficult year for many of our investors. While the performance of the Vietnamese market and that of the DWS Vietnam Fund has offered little consolation to our investors, the FM would like to point out that the DWS Vietnam Fund was the third best performing Fund (on an NAV basis) amongst its peer group in 2008[1].

In the following report, the FM will provide a detailed commentary and analysis on the Fund's performance in 2008, the FM's outlook for the coming year, and a breakdown of the Fund's portfolio components. The FM will also address investor concerns on the Fund's share price as traded on the secondary market.

[1] Rothschild County Fund's Analysis, 31 December 2008

EXECUTIVE SUMMARY

During 2008, Ho Chi Minh City's Stock Exchange ("VNINDEX") plummeted by 66% (VND terms) and 69% (USD terms), consigning Vietnam to Asia's worst performing stock market for the year[2]. While the weak performance of the Vietnamese equity markets during the first half of the year was attributed to deteriorating macro-economic fundamentals afflicting the Vietnamese economy, the poor performance of the equity markets during the second half of the year was mostly due to exogenous shocks, mainly the paralysis of the global financial system and the subsequent contagion that devastated worldwide equity markets. The fund's revival in July and August on the back of improving macro-economic fundamentals was dealt a cruel blow by the sudden collapse of the global financial system, in a year that will likely be remembered as the global financial markets' *annus horribilis*.

Investors should thus remember that the Vietnam chapter is part of the broader story of turmoil in the global financial markets, in particular the emerging markets. The difficult situation experienced by investors in the emerging-markets in 2008 is of immediate concern to the FM, in particular the situation with emerging market funds, from which investors withdrew a record USD $48.3 billion[3]. The MSCI emerging markets index, which tracks 746 companies in developing nations worldwide, collapsed by 54% in 2008, posting its worst annual performance since its 1987 inception[4].

The pervasive negative investor sentiment towards emerging markets and subsequent sell off of listed equities had two consequences for our Fund. It translated into heavy domestic and international sell-off of Vietnamese listed stocks, putting considerable downward pressure on the Vietnamese listed market which lost over 69% (in USD terms) of its value during the year. As a significant part of the Fund's exposure in 2008 was to Vietnamese listed equities, the Net Asset Value of the Fund (the price of its underlying investments) was adversely impacted by the falling share prices, thus impacting the overall performance of the Fund. Additionally, our Fund's pricing in the secondary market suffered as risk-averse investors fled emerging markets, creating an imbalance between the large number of sellers and a few buyers. In the opinion of the FM, this asymmetry in the market created downward pressure on the Fund's traded price as quoted by the market makers. One must also bear in mind that historically, many closed-end illiquid emerging market funds trade at a slight discount to their NAV. For the aforementioned reasons; and in light of the current global financial crisis, this discount became considerably larger. The significant discounts to NAV seen across a broad range of country funds were a sign of the lack of investor risk appetite for this type of asset class during 2008. As such, an analysis of the DWS Fund's traded share price performance in 2008 ought to be evaluated in the wider context of recent market dislocations.

While 2008 was a very difficult year on all fronts in Vietnam, investors should take heart from the country's fast improving macro-economic fundamentals, which underpin much of its growth and which have since put Vietnam on the path towards sustainable development. Credit should be given to the authorities for showing considerable prudence in the management of their economy against the backdrop of the global economic turmoil. The FM therefore continues to re-iterate his belief that Vietnam remains an attractive destination for foreign investment. The fundamental theses of Vietnam: i) favourable demographics, ii) low cost production base, iii) privatisation of SOE's and iv) government's commitment to promoting private sector enterprise, remain fully intact.

The FM would like to take this opportunity to provide a commentary on the Fund, across asset classes and to explain how the Fund is positioned to take advantage of market trends going forward.

ECONOMIC REVIEW

Year in review

The Vietnamese economy experienced contrasting fates in 2008. During the first half of the year, runaway inflation, a deteriorating trade balance, a weakening currency, and rising global commodity prices eroded investor confidence in the country's long-term growth prospects. However, during the second half of the year, quick and decisive measures by the authorities coupled with the worldwide decline in commodities prices led to a marked improvement in the country's macro-economic fundamentals, restoring investor confidence and spurring a market revival.

[2] Bloomberg, January 2009. The VNINDEX lost 66% on a VND (dong) basis and 69% on a USD (dollar) basis
[3] Cambridge, Massachusetts-based EPFR Global
[4] Bloomberg, January 2009

Unfortunately, while Vietnam's economic recovery was sustained, its market recovery was short-lived. A once-in-a-lifetime financial tsunami swept through the world in mid-September, devastating virtually every market in its wake, even the traditionally uncorrelated equity markets of Vietnam. The crisis intensified with the collapse of investment bank Lehman Brothers, one of the biggest prime brokerages in the world, sending shockwaves from Seattle to Singapore and creating a financial contagion of unfathomable proportions. The authorities, in deciding to choose an appropriate policy response to manage the macro-economy in 2008, have been caught in a fierce tug-of-war, between the opposing forces of inflation (contractionary policies to tackle the problem during the first half of the year) and the threat of a global economic meltdown (expansionary policies to stimulate the domestic economy and boost exports).

In the first half of the year, policy makers faced a difficult choice between dampening inflation and halting the domestic equity markets' decline. The authorities viewed inflation as the economy's primary threat and announced policies as early as February to tackle the problem, subsequently raising interest rates by 525 points from 8.75% in April to 14% in June[5]. Policies aimed at fighting inflation included putting a 30% limit on growth and raising the country's reserve ratios, as well as implementing new margin limits for banks to lend to financial institutions. The authorities announced that it would take as much as six months for their actions to filter through the economy.

Meanwhile, a surge in the price of global commodities (soft and hard) continued to put more upward pressure on inflation and widened the trade deficit (Vietnam is a net importer of oil). Consequently, the authorities had to depreciate the dong (VND) against the USD to relieve the pressure on the current account. Compounding the situation was the adverse reaction of the Vietnamese equity markets in response to the authorities' contractionary stance, which caused a domestic credit crunch, hampering businesses' ability to borrow and expand, creating a bleak outlook for their long-term growth prospects.

Despite the authorities' contractionary stance, they announced a number of policy initiatives to help support the domestic equity markets. Measures included using the country's State Capital Investment Corporation ("SCIC") to purchase USD 300 million of "blue chip" stocks in the market, narrowing the trading band from 5% to 1% in the Ho Chi Minh Stock Exchange, and from 10% to 2% in the Hanoi Stock Exchange[6].

The authorities' prediction that it would take a six-month lag for their policies to filter through the economy proved credible as contractionary policies enacted earlier started to impact the economy in the second half of the year, coinciding with a sharp plunge in worldwide commodities prices, helping to substantially reduce the trade deficit and choke off inflation. On the back of improving macro-economic data, the listed equity markets started to recover from their downward mid-year slump.

[5] Bloomberg, January 2008
[6] Bloomberg, March 2008

Investors cheered the market's recovery in July and August as positive macro-economic news surrounding trade deficit, inflation and the currency indicated that Vietnam was slowly beginning to turn the corner. The bleak scenario that some investors and many market commentators had predicted for the economy had failed to materialise. The authorities had acted decisively in engineering a recovery, reflected in the market's performance and the Fund's subsequent recovery during July and August.

However, the global financial crisis that erupted in mid-September complicated the authorities' policy response. With the specter of a deep global recession looming large, and the country's major trading partners (USA, Japan and EU) greatly affected, Vietnam's export-oriented economy suffered (demonstrated by a steep decline in GDP growth rate in Q3 to 6.5% and Q4 to 6.2%, quarters of usually high growth rates) and is expected to contract further in 2009[7]. As a result, the authorities have had to shift their policy stance from one of inflation-targeting to monetary-easing (from contractionary to expansionary), cutting interest rates by 550 basis points since October, with the State Bank of Vietnam's prime rate moving to 8.5% in December[8]. The authorities have initiated a controlled depreciation of the Vietnamese dong (VND) against the USD from September, reversing an earlier policy goal to maintain the level.

Decisive and quick actions by the authorities have enabled Vietnam to weather this turbulent period. Ironically, while the macro-economic landscape of the global economy has deteriorated in 2008, Vietnam's economy has improved considerably.

Below is a summary of how the key macro-economic variables (inflation, currency and trade deficit) changed over the course of the year.

[7] BVSC Annual Report 2008
[8] Bloomberg, January 2008

Trade Deficit

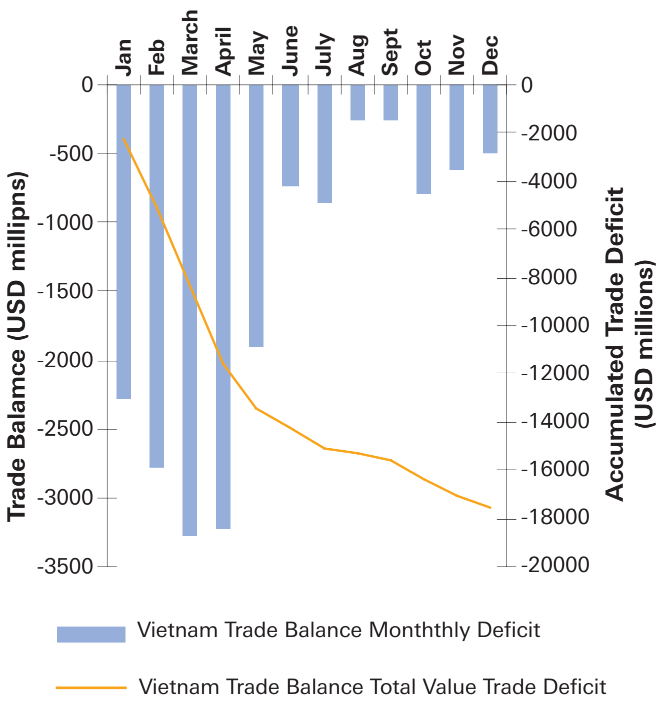
The twin threats of an expanding trade deficit and rising inflation had been a major source of investor concern during the first half of the year, stirring much debate in the financial press about Vietnam's macro-economic health and the ability of the authorities to ably manage the country's red-hot economic growth.

As Figure 1 illustrates, those earlier fears have since been assuaged, as trade deficit held below USD 1 billion for seven straight months since June, ending at USD 17.5 billion at the end of the year. The bulk of this deficit was accumulated in the first five months of the year (app. USD 14.2 billion), caused mostly by the import of capital goods, which constitutes most of the country's deficit (approximately 40% in 2007). As an emerging market currently experiencing high growth, infrastructure expansion and construction boom has been largely financed by FDI (foreign direct investment). While this has caused a short-term widening of the current account, it augurs well for the country's long-term future, as the completion of new enterprises will contribute positively to the economy and exports in the coming years, a scenario consistent with the Fund Manager's long-term outlook on Vietnam[9].

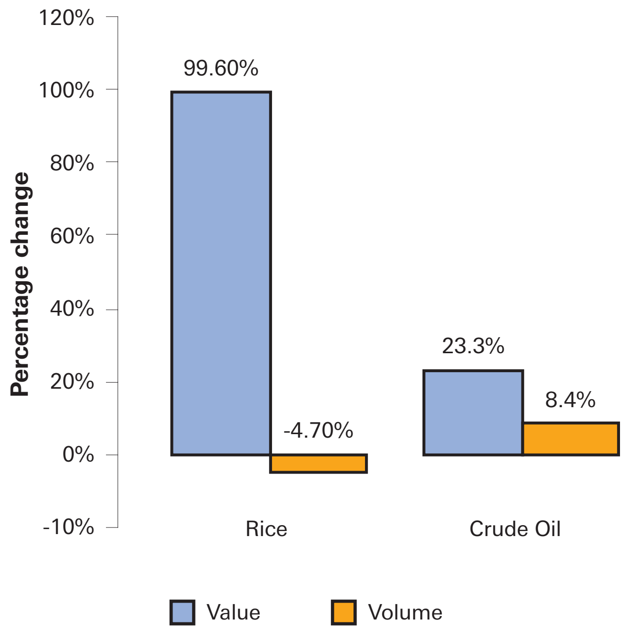
Trade deficit earlier in the year was also exacerbated by the increase in worldwide commodities prices, in particular fuel prices, which was Vietnam's largest import good by volume. (Investors should note that even though Vietnam has significant oil and gas reserves, it is a net importer of oil, mainly due to its lack of a refining capability). However, this reliance on imported oil is expected to decrease when the country's latest oil refinery at Dong Quat comes fully on line in 2009.

As Figure 2 illustrates, the export values of both rice and crude oil (Vietnam's first and fifth major export good in 2008 by value) were disproportionately larger (99.6% & 23.3% respectively) compared to their export volumes (-4.7% & 8.4% respectively), indicating a build-up of inflationary pressures on the broader economy[10].

Trade Deficit 2008
(Figure 1)



Rice & Crude Oil Export 2008
(Volume & Value Comparison)
(Figure 2)



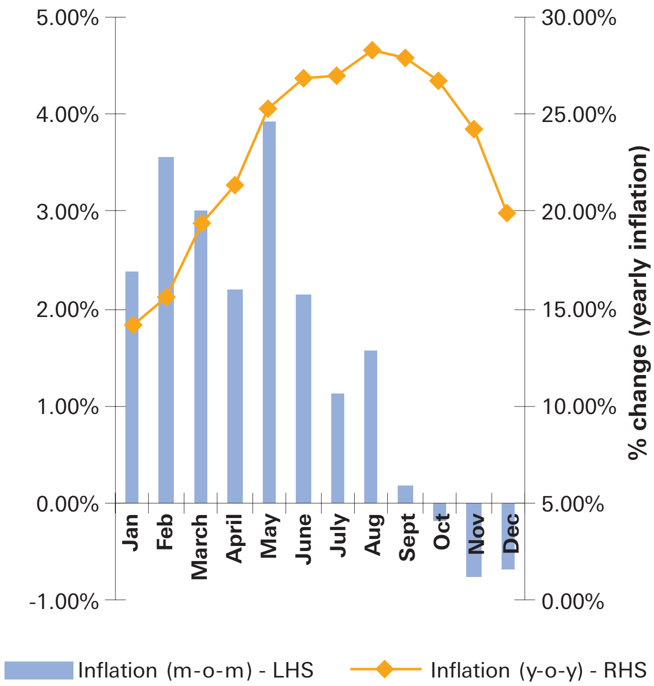
[9] Figure 1 & Figure 2 data from Bloomberg, January 2009
[10] Bloomberg, January 2009

Inflation

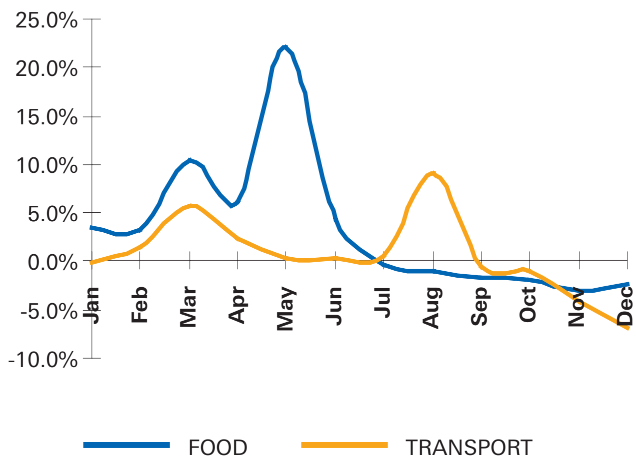
The Vietnamese CPI, which still hangs like a pernicious cloud over the country's future, peaked in August, before it decelerated sharply in September, with October, November and December figures registering a -0.19%, -0.76% & -0.68% (month-over-month) decline in inflation, respectively (Figure 3)[11]. As a result, headline inflation, which recorded a high of 28.32% in August (year-over-year), also declined sharply, ending the year at 19.9%.

Food, which accounts for 42.9% of the Vietnamese CPI basket, was the main culprit for the earlier rise in CPI[12]. As illustrated in Figure 4, food prices over the year was very volatile, increasing sharply in May (22.2% m-o-m). The surge in food prices in May was mainly due to concerns surrounding domestic food supply issues as unseasonably cold winter weather reduced June's rice crop, compounded further by fears of an increase in the instances of livestock disease in both the pig herd and chicken flock. Fears concerning decreased food stocks led to a cycle of hoarding and increasing prices. However, a sharp drop in worldwide commodities prices in the latter half of the year, along with the authorities' use of prudent contractionary monetary policies helped rein in the inflationary pressures on food and crude oil prices.

Inflation 2008 (Figure 3)



CPI of Food & Transport 2008 (Figure 4)



[11] Figure 3 & Figure 4 data from Bloomberg, January 2009
[12] General Statistics Office (GSO), January 2009

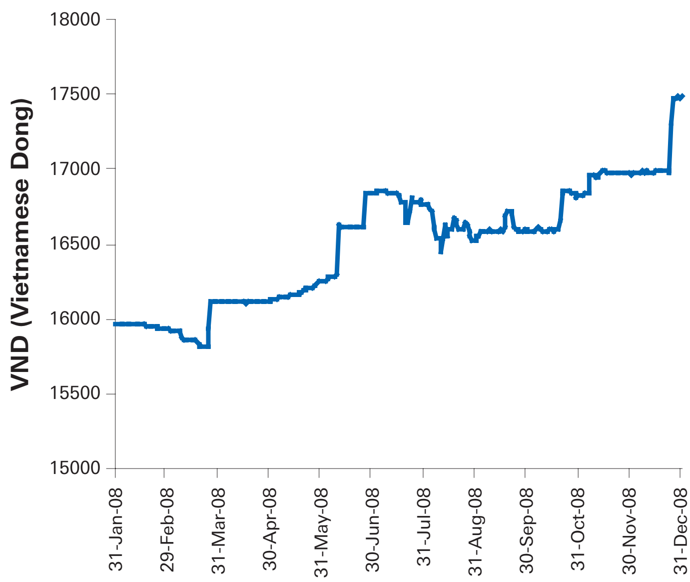
Currency

In the first two months of the year, the authorities favored a slight appreciation policy for the VND against the USD. However, from mid-February, the authorities changed their policy to one of controlled depreciation of the currency in order to combat the widening trade deficit and expanding inflation. The VND's slight depreciation earlier in the year raised investor concerns about the currency's resilience in being able to withstand a massive VND sell-off, evidenced by the currency's offshore future's market non-deliverable forward ("NDF") contract pricing. The NDF contracts in the first few months of the year were priced in a significant devaluation of the VND against the USD by over 30% within 6 months. Fortunately, this scenario did not materialise as the dong depreciated against the dollar by a slight 5.72% between March and June (Figure 5)[13].

An improvement in the country's macro-economic fundamentals at the end of June heralded a period of stability in the VND-USD exchange rate. The VND maintained its levels against the dollar from June through to September. These positive developments helped boost investor sentiment, increasing average monthly trading volume in the Ho Chi Minh Index to USD 62 million in August, and USD 91 million during the first two weeks of September, up from under USD 10 million in earlier months[14].

However, in recent months, the central bank has had little choice but to slightly depreciate the VND. The authorities have done this in an effort to stimulate exports in light of the global economic recession, depreciating the VND by a further 3% on Christmas day[15]. Overall, the VND depreciated 9% against the USD during the year, highlighting the central bank's policy objective of stabilising the competitiveness of the country's exports relative to its major trading partners. Investors should note that the VND is a controlled currency and the authorities have substantial reserves (approx. USD 26 billion excluding gold) to intervene in the market to support their policies)[16].

VND/USD Currency Price List 2008
(Figure 5)



[13] Figure 5 data from Bloomberg, January 2009
[14] Bloomberg, CLSA, August 2008
[15] Sacombank Securities (31/12/09)
[16] Bloomberg, March 2008, General Statistics Office (GSO)

FUND ANALYSIS AND PERFORMANCE

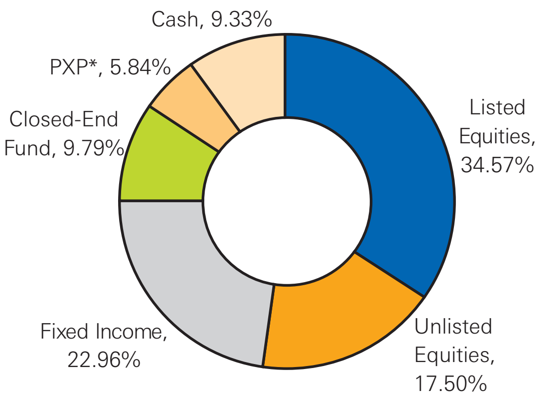
i. Asset Class Breakdown

The FM is comfortable with the current asset allocation and portfolio exposure, given current market conditions. The primary objective of the FM is to seek out long-term capital appreciation for investors. The fund is well-positioned to take advantage of any potential market corrections in 2009 and to take positions in the expected listings of major state-owned enterprises. ("SOE's")

Figure 6
Asset Class Breakdown (As at 31/12/2008)

No.	Asset Class	Sector Allocation (%)
1	Listed Equities	34.57
2	Unlisted	17.50
3	Fixed Income	22.97
4	Closed End	9.79
5	PXP*	5.84
6	Cash	9.33
	Total	100.00

Figure 7
Asset Class Breakdown (As at 31/12/08)



Note: PXP is one of our segregated mandates and the above asset class breakdown excludes the securities in which PXP has invested.

ii Equity Exposure

The Fund has a broad diversification across both listed on-shore companies and a small exposure of listed off-shore companies with significant Vietnam exposure. The Fund also has significant exposure to private and OTC traded companies.

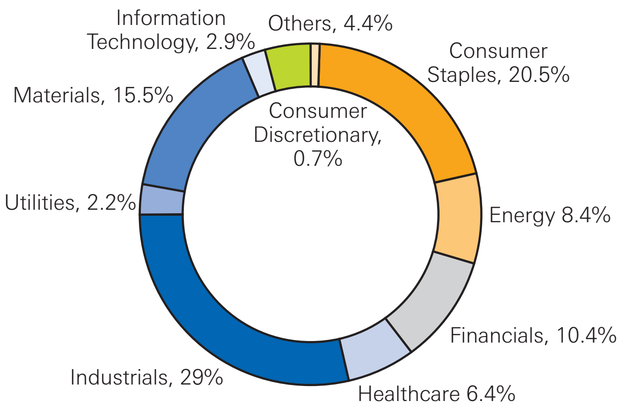
Figure 8

Equity Exposure Breakdown as at 31/12/08	
1 Onshore Equity	33 stocks
2 Offshore Equity	4 stocks
3 Direct Investments	9 companies
4 OTC and Traded Vietnam Funds	7 stocks

iii. GICS Industry Exposure

The Fund is well diversified across the major industry classes. The Global Industry Classification Standard ("GICS") sectors breakdown for the fund as at 31 December 2008 is as follows:

Figure 9
GICS Sector Breakdown of Listed & Unlisted Equities
(As at 31/12/08)



iv. Equity Asset Class Performance since Inception

Year to date, the DWS Vietnam Fund was down 53% (USD terms). A breakdown of the Fund's asset class in Figure 6 shows that the Fund's biggest exposure was in listed equities (34.57% in USD terms). As the listed equities market in Vietnam ("VNINDEX") declined sharply by 66% (VND terms) and 69% (USD terms) in 2008, the Fund's performance suffered as a result. Figure 10 shows the asset class returns of our portfolio. A detailed explanation of how each asset class performed relative to the market is provided below:

Figure 10

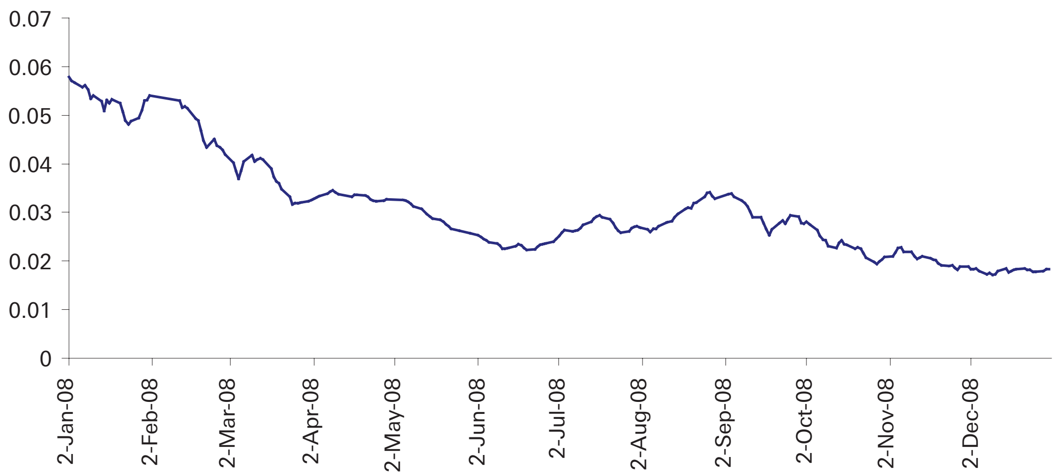
Asset Class Return as at 31/12/08 (USD)	
1. Listed	-65.35%
2. Fixed Income	-14.01%
3. PXP	-63.43%
4. Unlisted	-65.88%
5. Closed-End	-74.86%

VIETNAM LISTED EQUITY MARKET & PORTFOLIO REVIEW

Listed Equities Market Review

The main listed equities market in Vietnam is the Ho Chi Minh Stock Exchange (VNINDEX), which lost 69% of its value (USD terms) for the year[17]. While its weak performance during the first half of the year should be analysed against the backdrop of the country's deteriorating macro-economic fundamentals at that time, its weak performance during the second half of the year can be attributed mainly to the global financial crisis and impending global recession.

VNINDEX converted into USD
Figure 11



The VNINDEX's precipitous decline began in February as the State Bank of Vietnam (SBV) announced a series of contractionary policy (as mentioned above) initiatives to tackle the threat of surging inflation, which had reached a high of 15.7% in February. These contractionary policies led to a sharp reduction of credit in the economy, hampering businesses' ability to borrow, thereby negatively impacting their long-term business outlook. Investor confidence in the government's ability to support the domestic equity markets diminished as the implementation of new margin lending limits during February forced commercial banks to recall a large number of margin lending contracts, forcing debtors to re-finance the re-payments through the sale of their equity portfolios, putting further downward pressure on the equity markets. During this period (March-May), selling pressure for many of the blue chips increased, as they were used as collateral for loans[18]. Consequently, liquidity (monthly) fell to its lowest point of USD 205 million in May[19].

However, the government demonstrated its commitment to support the equity markets by using other tools to help stimulate them. The authorities announced that the government's investment arm, the State Investment Corporation ("SCIC") would purchase USD 300 million of "good quality, highly liquid shares[20]". The government also reduced the trading bands in both the Ho Chi Minh Exchange and the Hanoi Exchange from 5% to 1% and 10% to 2% respectively, in an attempt to reduce trading volatility and stabilise the markets[21]. While these temporary measures reduced market liquidity, it helped to put a floor on the free-falling stock market, signaling the authorities' strong commitment to support the capital markets.

Despite the negative pessimism surrounding the markets, foreign investors were net buyers of Vietnamese stocks, comprising between 30-40% of the market's total trading volume up until September[22]. This could perhaps be attributed to the attractive valuations at which many of these stocks were trading. (Investors should note that if the VNINDEX trades between 300-350, average P/E of market will be between 7x-8x range based on December year-end earnings per share)[23].

This optimistic investor sentiment towards the Vietnamese economy was well-founded, as the positive macro-

[17] Figure 11 data from Bloomberg, January 2009
[18] Source: BVSC Annual Report 2008. Blue chips stocks refer to SSI (Saigon Securities), STB (Sacombank), REE (Refrigeration Electric Engineering, DPM (PetroVietnam Fertiliser)
[19] Source: BVSC Annual Report 2008
[20] General Statistics Office (GSO)
[21] General Statistics Office (GSO)
[22] Source: BVSC Annual Report 2008
[23] Source: Sacombank Annual Report 2008

economic news surrounding trade deficit, inflation and the currency showed a marked improvement in July. The markets' recovery of 13% (m-o-m) and 19% (m-o-m) in July and August respectively suggested that Vietnam had turned the corner on the back of its improving macro-economic fundamentals and the country was now firmly set on a sustainable growth path. The stage was set for strong market revival, and Vietnam, it appeared, would end 2008 on a positive note.

However, the recovery momentum that was slowly gathering force was cruelly crushed by the global financial crisis that intensified with the collapse of Lehman Brothers. The VNINDEX suffered badly, decreasing 15% (m-o-m) in September and 23% (m-o-m) in October after a resurgent 19% (m-o-m) increase in August. Fear took precedence over fundamentals as foreign investors, who just until a few weeks ago were net buyers of Vietnamese stocks, began selling aggressively to minimise equity and country exposure. This sudden sell-off resulted in diminished liquidity, and a reduced value of trading stocks.

Investors should note that the silver lining in the listed equities market turmoil of 2008 is the attractive valuation at which many of the stocks are now trading (the VNINDEX is trading at a P/E ratio of 7.7x compared to its regional peers at 11.3x as at end December)[24]. As the country's macro-economy improves and valuations remain attractive, the markets appear poised to mount a recovery during the latter stages of 2009.

Listed Equities Portfolio Review

Against the backdrop of a weak economic environment, trading volumes dwindled to record lows as foreign investors fled the market. The historical valuation premium against regional markets dissipated, as Vietnam's growth momentum began contracting sharply.

Our listed equity portfolio fell approximately 65% (USD) for the year, compared to the Vietnam index's decline of 69% (USD). The out-performance is largely due to an overweight position in consumer, energy and healthcare sectors. A short commentary on the Fund's top 5 holdings is provided below:

Vietnam Dairy (Vinamilk)

Vinamilk, the Fund's top holding, contributed positively to the performance. Despite the challenging economic climate, Vinamilk continues to deliver robust earnings growth, testament to its strong market position and successful branding strategy.

Petrovietnam Drilling (PVD)

Our holdings in PVD also added value as the stock outperformed. The company is a beneficiary of increased exploration and production activities in Vietnam. PVD has secured charters for its jack-up rig for 2009 at favourable rates. Going forward, the key issue for the company is to obtain attractive financing and contracts for its upcoming rigs.

Pha Lai Thermal Power

The Fund is overweight in Pha Lai Thermal Power, which is one of Vietnam's largest power generators. We expect electricity off-take to remain high due to the country's limited supply of power plants. The company is likely to generate steady annual free cash flows, underpinned by progressive improvements in operating efficiency and rising power consumption. The stock held up relatively well till the last quarter of the year, when the Japanese Yen appreciated sharply against the Vietnam Dong. As the majority of the company's foreign currency debt is Yen-denominated, it led to higher borrowing costs for the company.

Petrovietnam Fertiliser (DPM)

We have added Petrovietnam Fertiliser on weakness as we believe the collapse in fertiliser prices have been largely priced in. Current urea prices have fallen close to the industry average production costs, and hence should see some price support. Being the leading local fertiliser brand, DPM's market share is likely to expand.

Fraser & Neave

Lastly, Fraser and Neave is a company with an excellent food and beverage franchise in Asia. In Vietnam, the company has a dominant market share in beer and holds a 10% stake in Vinamilk.

[24] Source: Sacombank Annual Report 2008

VIETNAM UNLISTED EQUITIES PORTFOLIO REVIEW

At the end of 2008, the Fund had an exposure of 18.8% to unlisted equities. This exposure includes positions in private companies, OTC traded shares in unlisted companies and private investments in public companies. Many of the investments in private companies have been structured as investments with appropriate downside protection and other capital-protections clauses.

The FM would like to make it very clear to our investors that when a transparent liquid market exists for shares in the underlying assets, we mark those assets to market on a monthly basis. In our current portfolio, the majority of the assets are marked-to-market with the remainder held on our books at cost.

A brief commentary on the main private investments is provided below.

Prime Group Joint Stock Company

On 10 October 2008, the Fund completed a USD 20 million investment for a 10.4% position in Prime Group JSC. Prime Group is one of the largest ceramic tile manufacturers globally with a total annual capacity of 90 million square metres[25]. Considering Prime's growth potential and the downside protection clauses in the investment structure, the FM was able to negotiate a relatively attractive entry valuation for the investment[26]. In terms of capacity, Prime Group is among the top five ceramic tile manufacturers in the world[27]. Prime Group is headquartered in Vinh Phuc Province in Hanoi and has recently expanded into Danang, central Vietnam, with the completion of its plant in Q4 2008. The Danang plant is one of Asia's largest on a single location. This investment by the Fund in one of the leading manufacturers of ceramic tiles, focused on the domestic market, is an indication of the available opportunities in Vietnam.

With the global economy expected to experience a significant slow-down in 2009, one must remember that Prime Group is a domestic consumption player, with over 80% of their products sold on the domestic market. Prime has the biggest market share (30%) in the ceramic tile industry in Vietnam, with its nearest competitor having a market share of less than 10%. With many of its competitors expected to shut down in light of the global economic recession, the FM believes that Prime is well-positioned to increase its market share.

Vietcombank

The Fund made a USD 26.75 million investment in Vietcombank (VCB) at the end of 2007. Since the Fund's investment, the equity markets in Vietnam have experienced a downturn. Although VCB is not yet listed, shares in the company are trading on the OTC market. The share price of VCB as quoted on the unregulated OTC market has been significantly impacted by the domestic and global financial crisis during 2008, along with all financial stocks. Nevertheless, the FM maintains the perspective that the medium-to-long-term prospects of VCB are very positive. VCB is the second largest bank in Vietnam by assets and it was the most profitable bank in Vietnam in 2007[28].

The FM expects VCB to participate fully in the development of the Vietnamese economy, with strong growth potential over the coming years. VCB is one of the market leaders in the credit card and payment card business, capturing 33% and 40% market share in debit card issuances and international credit card issuances respectively. As such, the FM believes that going forward, VCB will potentially reap the benefits from the increased demand for payment cards facilities.

VCB is strongly positioned due to its ubiquitous network of branches in the country. Capitalising on its strong branding campaign, the firm expects to further extend its reach into the retail banking and consumer finance space. The FM believes that this is an unexploited market in Vietnam with considerable growth potential, in which VCB is well-positioned to be a market leader.

Additionally, higher international trade upon Vietnam's accession to the Word Trade Organisation (WTO) is expected to accelerate VCB's expansion into trade financing. Given that trade financing has been the Group's core business since inception, the accelerated growth of trade financing is expected to benefit the Group tremendously. VCB has yet to release full year results for 2008. However,

[25] Ceramic world review report 77/2008 (www.ceramicreview.com)
[26] Relative to peer groups i.e. global basic industry players
[27] Ceramic world review report 77/2008 (www.ceramicreview.com)
[28] Habubank Securities Report May 2008

initial management forecasts are for a 10% growth in bottom-line profit, a 16% growth in credit activities and an increase in deposits by 12% in 2007. The company is expected to list on the domestic exchange in the first half of 2009.

Vinaconex Advanced Compound Stone Joint Stock Company (Vicostone)

On 22 May 2008, the Fund completed a USD 8.3 million negotiated investment in the listed Vinaconex Advanced Compound Stone Company (Vicostone). The investment was structured in two parts, with the fund investing in both direct equity and a convertible debt instrument with appropriate downside protection mechanisms. The Fund has a 15.3% stake in Vicostone on a fully diluted basis.

Vicostone is a market leader for natural composite stones, with strong global demand for its products. Vicostone is one of the only two manufacturers in Asia (the other being in South Korea) with a patented manufacturing technology for composite stones. There are only 40 companies globally with licenses to manufacture composite stones with the Breton technology. Breton SpA, the licensing company, is a world-renowned equipment manufacturer for composite stones.

Vicostone is a high tech/high quality manufacturer with a strong regional brand name. The company operates in a market with high barriers to entry and a diversified global customer base. Vicostone is operating at full capacity with a strong order book for the end of the first half of 2009. By focusing on cost reduction initiatives and increasing average selling prices over the last two years, Vicostone has been able to significantly increase its Gross and EBIT Margins. The company has a number of new projects in the pipeline to ensure the consistency of quality and price of key raw materials. The company is in the process of expanding capacity by building a new manufacturing line for a new product range. Currently, this manufacturing line is being tested and should be in full production by mid-2009[29].

Vicostone's products are mainly targeted at the export market with over 80% of current production being exported. While we expect the company to be impacted by the global slowdown, we have to remember that Vicostone is one of the lowest cost producers of high quality manufactured stones globally and thus, is in a much stronger position than many of its competitors.

Ha Tien 2 Corporation

In late October 2007, the Fund invested USD 3.8 million in the public auction of shares in Ha Tien 2 Corporation (HT2). HT2 is one of the leading producers of cement and clinker in South Vietnam, with a 24% market share[30]. Over the first half of 2008, the FM has continued to increase the Fund's position in this company via the purchase of equity on the OTC market.

HT2 is an excellent infrastructure play that provides the Fund with an indirect exposure to the construction sector in Vietnam. HT2 has an established distribution network, mainly covering Ho Chi Minh City and the Mekong river delta provinces. The grinding plant is located in the south of the country which is in close proximity to its raw material sources, such as clay and limestone.

HT2 has a significant cost advantage over many of its competitors in the south of the country, as it produces enough clinker (clinker being the main raw material used in the production of cement) to meet its internal demand. Many of HT2 competitors do not have the ability to produce clinker and are forced to import or buy it at the spot price in the local market. Prices of raw materials have increased significantly over the past year, and in some cases, exceeded by 15%. This has caused margin contractions for companies that do not have control over access to their raw materials.

In order to further increase competitiveness and reduce costs, HT2 is looking to expand its capacity and upgrade its technology. HT2 plans to invest in three major projects over the next two years[31]:

1) A new cement grinding line with a capacity of 500,000 ton/year. Construction work started in 2007 and the station is expected to be completed in 2008/2009.

2) HT2 is investing in a new production line for clinker and cement with a capacity of 4,000 ton clinker/day and 600,000 ton cement/year which is expected to commence production at the beginning of the 4Q 2010.

[29] Vicostone Management
[30] Prospectus for IPO
[31] Prospectus for IPO

3) HT2 is currently changing production from diesel to coal in order to reduce energy cost.

While the domestic slowdown has impacted the property sector, the FM believes that the recently announced government stimulus packages targeted at infrastructure projects, many of which are already underway, will keep the demand for cement high, especially in South Vietnam where HT2 is strongly positioned. Although HT2 has yet to release full year results for 2008, the numbers for the first three months of the year are positive with sales slowing down slightly but net profit for the year increasing due to increased selling prices and reduced overhead expenses[32]. HT2 is expected to list on one of the domestic exchanges in the first half of 2009[33].

An-Phat Plastics & Packaging Company

At the end of December 2007, the Fund completed a USD 2 million investment in a leading plastic recycling company in Vietnam. An-Phat is the largest plastic recycler in North Vietnam, recycling a significant amount of the discarded plastic from the northern part of the country. The recycled plastic is manufactured into bio-degradable plastic bags and re-usable plastic bags for both the domestic and international markets. An-Phat has a significant cost advantage over its domestic competitors that use imported plastic pellets. Recycled plastics pellets produced by An-Phat are manufactured using proprietary technology at a substantial discount to the imported pellets used by their competitors.

An Phat continues to perform strongly despite the recent capital market turmoil in Vietnam and globally for a number of reasons;

1) A diversified customer base from a wide range of geographical locations;

2) A strong balance sheet with a relatively low level of debt;

3) A capable management team that has a tight control over costs;

4) A product range that is very competitively priced in the market place with an expanding global demand that should not be significantly impacted by the global slowdown.

Management has been able to meet and exceed both revenue and profit targets for 2008 and in 2009. They have a number of new products coming on line that will increase capacity and expand margins.

Saigon Paper Company

In March 2007, the Fund invested USD 1.8 million in Saigon Paper Corporation (SGP), a leading manufacturer of both household and commercial paper products. SGP has one of the strongest domestic brands in the toilet paper and tissue markets. SGP is also one of the leading manufacturers of industrial paper in Vietnam, i.e. cardboard boxes for packaging. Industrial paper accounts for approximately 50% of SGP's revenues[34].

2008 was an extremely tough year for the domestic industrial paper industry. During the year, Chinese manufacturers started dumping excess capacity industrial paper into the Vietnamese market. Due to their lower cost of production, the Chinese products were priced much lower than their Vietnamese peers. For this reason, the domestic industrial paper industry faced a very tough year, with many manufacturers shutting down. SGP, too, has had to scale back some of its plans to expand its industrial paper business. SGP started to focus more closely on the toilet and tissue paper markets during the year. However, this transition has been very difficult and SGP is currently restructuring its business plan to focus on this sector. Full year results for 2008 have yet to be announced but the FM expects the numbers to be much lower than management projections and we are currently working with management to see how we can best position the company for 2009.

[32] Bao Viet Securities report, October 2008
[33] No guarantee that the listing will take place

Closed-end Funds of Funds Investments

At the end of 2008, the Fund of Funds portfolio represents 9.3% of the total portfolio value. The Fund has exposure to Funds managed by PXP Asset Management and Dragon Capital.

PXP Asset Management:

1) PXP Vietnam Fund
2) Vietnam Emerging Equity Fund
3) Lotus Fund

Dragon Capital:

1) Vietnam Growth Fund
2) Vietnam Enterprise Investment Ltd
3) Vietnam Resources Investments

The FM gained exposure to many of these Funds at a significant discount to their respective NAVs, giving the Fund beta exposure to the market at a significant discount to the listed equity valuations. Over the past year, the FM has slightly reduced the Fund's position in a number of the Funds. The FM has been able to deliver outperformance to investors by selling out many of these positions at a premium to their respective NAV's.

While the closed-end Fund's portfolio has underperformed the market during 2008, the FM believes that this under performance was mainly driven by a reduced appetite for both emerging markets and in particular emerging market funds. The FM believes that this performance is not reflective of the quality of the underlying assets in these Funds. The FM is confident that in the medium-to-long-term, these Funds will deliver strong returns and that we should see a significant narrowing of the discount between the price and the NAV.

PXP Asset Management Segregated Mandate

The Fund also has a segregated mandate with PXP Asset Management. At the end of December 2008, the segregated mandate represented 5.84% of the total portfolio value (Figure 6). PXP Asset Management is a boutique investment manager that concentrates solely on equity investment in Vietnam[35]. The Fund's segregated mandate with PXP involves investing mainly in small and mid-cap Vietnamese listed onshore stocks. The mandate was down 63.4% (USD terms) for the year. The mandate has outperformed the listed equities index in Vietnam by 5.6%.

[34] Management Forecast
[35] PXP Asset Management Website

VIETNAM FIXED INCOME MARKET & PORTFOLIO REVIEW

Fixed Income Market Review

2008 was a volatile period for bonds, with the government raising interest rates sharply during the first half of the year, on the back of high inflationary pressures, resulting in a sharp increase in government bond yields across all maturities. During the second half of the year, as inflationary expectations eased and growth forecasts were revised downwards, the authorities started to lower interest rates to stimulate the economy. During this period towards the end of the year, yields on Government bonds trended back down towards the level at which they started the year. The five-year government bond yield stood at 19.7% as at end June 2008, and back down to 10% at 31 December 2008[36].

In line with increasing risk premium in emerging markets, the Vietnam sovereign credit default spreads widened by 372bp, from 126bp in December 2007 to 498bp in December 2008, on the back of increased risk aversion. The external debt papers have also been negatively impacted, as sovereign credit spreads widened, i.e. higher risk premium on the Vietnam sovereign papers. Vietnam sovereigns have out-performed the general non-investment grade Asian sovereigns during this period of spread widening.

The Vietnamese Dong declined by 9.2% over the year based on the officially quoted exchange rates[37]. The Vietnamese officials devalued the VND by 3% against the USD in December 2008 to boost growth by supporting the export sector. We look for the VND to be on a gradual weakening trend in the next 6 to 12 months.

Fixed Income Portfolio Review

For the Fund, the contribution to return from bonds for 2008 was -1.0%. The Fund's exposure to the Vietnam fixed income market is primarily through government bonds, external sovereign bonds and a credit-linked note on the underlying domestic government bonds.

The Fund has a small exposure to corporate bonds, which comprises about 3% of the Fund, through the Vietnam Electricity bonds. Established in 1995, Electricity of Vietnam (EVN) is a state-owned corporation that operates in the areas of generation, transmission, distribution and sale of electric power. It is the largest generator and distributor of electricity in Vietnam, and accounts for 80% of the total electricity output. EVN is the dominant player in the electricity industry in Vietnam, and operates essentially as a monopoly over the distribution network. Even at the current reformative stage of the Vietnam economy towards a market economy, EVN is still largely supported by the government, as electricity supply remains an important necessity for an emerging and growing market.

In the second quarter, we reduced the leverage on the structured note (a note that is linked to the domestic interest rate) by taking the domestic cash bonds onto the portfolio. For the year, we have maintained bond exposure at an average weighting of about 20% of the overall Fund NAV. The FM takes a conservative approach by marking the fixed income securities to market on a monthly basis.

Operational Issues

Fund Pricing and Liquidity

The FM is conscious of investors' concerns over the pricing of the Fund on the secondary market and is exploring a range of options to increase the fund's liquidity. As of 9 February, BGC partners will provide agency trading capabilities for the fund's shares on the secondary market. Agency prices will be available on Bloomberg page BCEF. Additionally, Jefferies International has recently started making a market for the Fund on Bloomberg page JCEF. For additional information, please call Mark Mulholland at +44 2076183623. The FM hopes that these measures will make trading of the Fund's shares more transparent, help the Fund's liquidity and reduce the significant bid-offer spread that currently exists in the markets.

Annual General Meeting (AGM) 2008

The AGM was held on 19 December 2008 at 8am. For more information on the minutes of the meeting, please refer to the Fund's website at www.dwsvietnamfund.com.

[36] Source: Bloomberg 2009
[37] Source: Bloomberg 2009

Share Buy-Back

In 2008, the FM purchased a total of 3.5 million shares in line with the company's share buy-back policy outlined in the Prospectus dated 20 February 2007. The FM bought these shares at a significant discount to the NAV. The shares are marked-to-market on a monthly basis and are held as treasury stock.

GENERAL OUTLOOK & FUND STRATEGY

The FM remains optimistic on the medium and long-term structural story of Vietnam. Over the coming months, the FM will be looking to increase the Fund's exposure to direct investments and to increase the Fund's exposure to the domestic listed equity market when value opportunities arise.

The FM will be looking to increase the Fund's exposure to direct investments by concentrating on investing in sectors of the economy that are driven by the demographics and fundamental strengths of the country. The FM has identified a number of potential opportunities in the following sectors of the economy that should continue to grow despite the global economic slowdown: healthcare, logistics and domestic consumption plays. Even despite the global economic turmoil, Vietnam continues to perform strongly, with the country's GDP growth in 2009 estimated to be 6%[38].

The FM's strategy of i) taking a cautious and prudent approach to gaining exposure to the domestic listed equities markets & ii) building a diversified portfolio of asset classes and securities, has been crucial in protecting investors' interests during the current market volatility.

The FM would also like to re-iterate his earlier assertion that despite the global economic turmoil, the strong fundamentals of the country remain intact. Vietnam has a very young, well-educated and highly motivated workforce, a fast urbanising population, which is quickly embracing a market-driven economy. The fundamental theses of Vietnam: i) favorable demographics, ii) low cost production base, iii) privatisation of SOE's and iv) government's commitment to promoting private sector enterprise, remain fully intact.

[38] JP Morgan Asia Pacific Economic Research, 23 January 2009

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