2018 ANNUAL REPORT

Vietnam Debt Fund SPC

DRAGON CAPITAL

25 years in Vietnam and beyond

Contents

Portfolio Manager's Report

Summary

2018 was a volatile year. Fuelled by ample banking sector liquidity and good macro fundamentals, the shorter end of the curve in the first two months fell more than 140 bps with for instance the 5-year VGB touching 2.97% and only 20 bps above the 5-year US Treasury. The shorter end of the curve then bounced back some 180 bps in Q2 and Q3 and finished 20-40 bps above the levels of end-2017. The 15-year VGB was more resilient and finished 2018 30 bps below the end-2017 levels. The VND depreciated 2.2% against the US$ in 2018, mostly in June and July. The reason was not a weak VND but emerging market turmoil and a globally strong US$. During the same period as the dong depreciated, for instance the CNY and KRW lost some 8% and 5% against the US$.

For Vietnam Debt Fund SPC ("VDEF") B Class Segregated Portfolio ("VDeF-B"), the year 2018 especially in relative terms was a good year. With a US$ net return of 6.5% after taxes/fees/expenses/performance fee, VDeF-B was ahead of all reference indices by more than 4%. Among the reference indices "DC Liquid Bond Index[1]" was the best performer at 2.4%.
In 2011, VDeF started to pay dividends. The general guideline was to pay a maximum of US$ performance minus one percent, taking into account the certainty and nature of the performance. In July for the financial year 2017, VDeF-B paid a dividend of US$65.03 per share.

Table 1: Screen yields and US$VND for year-ends 2013, 2014, 2015, 2016, 2017 and 2018

	1yr	2yr	3yr	5yr	7yr	10yr	15yr	FX
31-Dec-13	6.550	7.050	7.510	8.450	8.875	9.050	9.100	21105
31-Dec-14	4.760	5.040	5.220	6.230	6.800	7.230	7.800	21387
31-Dec-15	4.974	5.312	5.820	6.625	6.950	7.175	7.750	22485
30-Dec-16	4.350	4.825	5.213	5.600	5.813	6.375	7.343	22771
29-Dec-17	3.682	3.923	4.030	4.367	4.633	5.224	5.692	22709
28-Dec-18	4.098	4.224	4.313	4.567	4.772	5.156	5.406	23195

Source: Bloomberg

Table 2: VDeF-B audited results December 2018

			VND Returns			US$ Returns		
	Net Assets	NAV/Share	Month	YTD	Launch	Month	YTD	Launch
VDeF-B	US$52.72m	US$1823.3	0.40%	8.80%	283.50%	0.91%	6.50%	165.20%
DC bond index	-	-	0.60%	4.60%	166.50%	1.15%	2.40%	84.30%

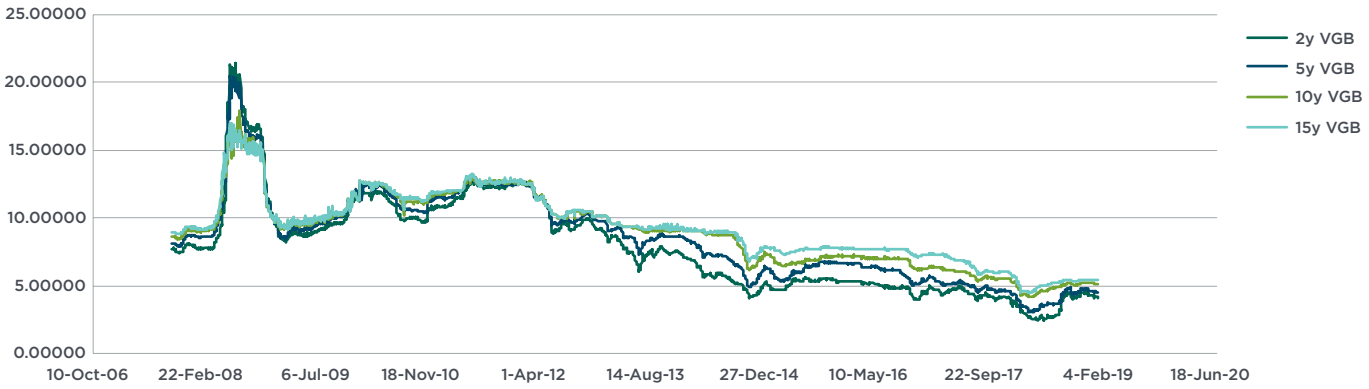
1 The DC Liquid Bond Index was developed in 2006 and consists of 15 generic government bonds with maturities 1, 2, 3,.., 15 years and with quarterly reset. Its weighting is a function of the government bonds outstanding in one-year buckets. It implicitly therefore assumes that liquidity improves with the amount outstanding. One may also say that this represents the market portfolio since the pooled market as a whole by default must own this composition.

Portfolio Manager's Report (Continued)

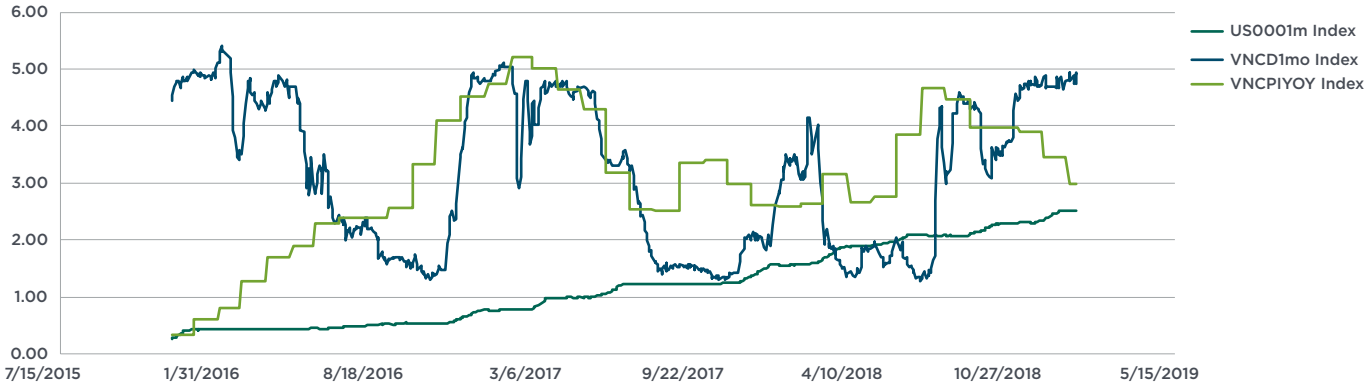
Macro and market development

Market yields ended 2017 in unchartered territory and at record low levels (see Graph 1) and it was difficult to see them falling very much further in 2018. However, extreme cash piling in the banking sector with 1-month interbank below 2% triggered high demand for VGB's. This combined with curbed State Treasury bond issuance, caused an unhealthy misbalance between supply and demand, pushing for instance the 5-year VGB to 2.97%, only some 20 bps above US Treasury. The longer yields >5yr hit bottom in February while the shorter ones continued falling into March. A combination of rising inflation, volatile currency markets and sheer market-fatigue then caused rates to rise May through September. The 5-year peaked at 4.9% in early September and then drifted down to 4.57% towards year-end. In very short time in July, interbank rates rose from 1.5% to 4.5-5% (see Graph 2). Although this happened in conjunction with rising inflation, it was mostly caused by a liquidity drought in the interbank market linked to the summer currency turmoil. The primary markets and secondary markets were totally out of synch and the gap for the 5-year VGB was at times >50 bps. From July and onwards till year-end, essentially 100% of the 5-year auctions failed. In the longer tenures, liquidity totally dried up, reminding that piling big positions in 15, 20 and 30-year VGB's can be very risky.

Graph 1: VGB yields since 2007



Graph 2: Inflation and interest rates in 2018



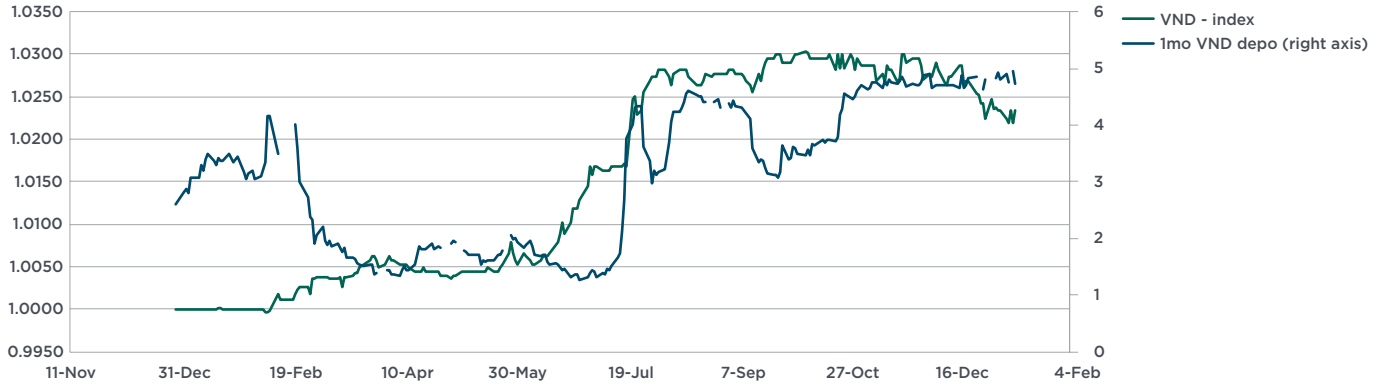
The issuance rates for corporates were mixed. While consumer finance companies continued to reduce rates to 7-8% for less than one year, other quite decent issuers, mostly in the property sector, for 2-3-year were willing to pay around 9.5-11% if unsecured. This represented a spread of more than 6% to Government. But this spread contained not only credit risk but also significant premiums for limited transparency, illiquidity and small investor basis. The secondary market for corporate bonds continued to be feeble and essentially all of VDeF-B's holdings were sourced in the primary market.

Portfolio Manager's Report (Continued)

Macro and market development (Continued)

During two months in June till August the VND lost some 2.3% against the US$ (see Graph 3). All-in all, after a year-end recovery, the VND lost roughly 2.2% against the US$. However, this was not a weak VND but instead the result of the emerging markets sell-off and globally surging dollar(see Graph 4). The CNY started to depreciate against the US$ late April and in mid-June the fall accelerated. What was initially a CNY issue had in early June spread to emerging markets. At its low the CNY had lost more than 8% against the US$. During 1.5 months till late July the KRW lost more than 5%. September till year-end was volatile but trendless. The VND gained back some 30 bps. Generally, the VND had fairly sound fundamentals with good external balances, soft inflation and decent fiscal prudence but the market was very (probably overly) focused on the CNY depreciation. If the CNY loses out more than 3-4% it is difficult for the VND to hold back.

Graph 3: US$VND index and 1 month interbank 2018



Graph 4: Nominal currency indices 2018

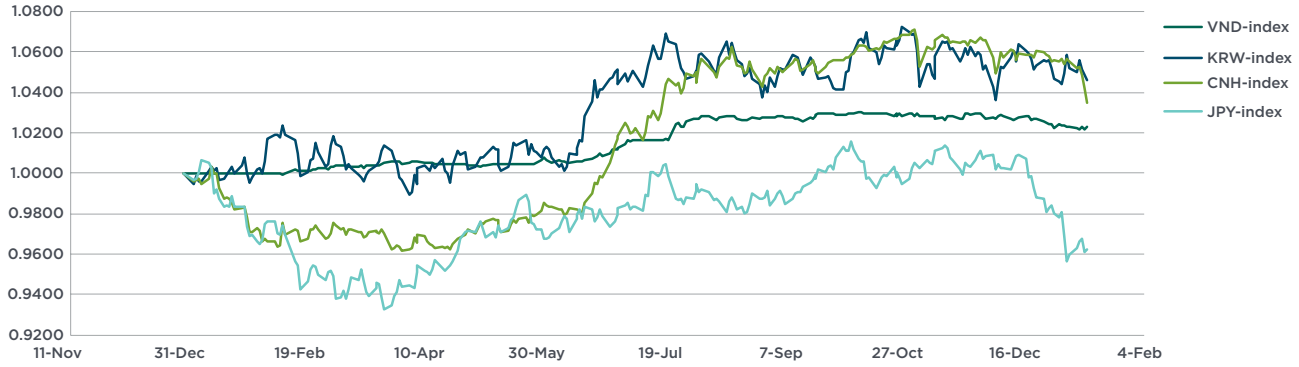


Table 3 shows CPI indices with June 2015 as base. Vietnam's CPI increase, 10.496% since June 2015, has broadly speaking been under control. The largest differences are against the SGD, JPY, THB and EUR.

Table 3: Cumulative CPI indices since June 2015

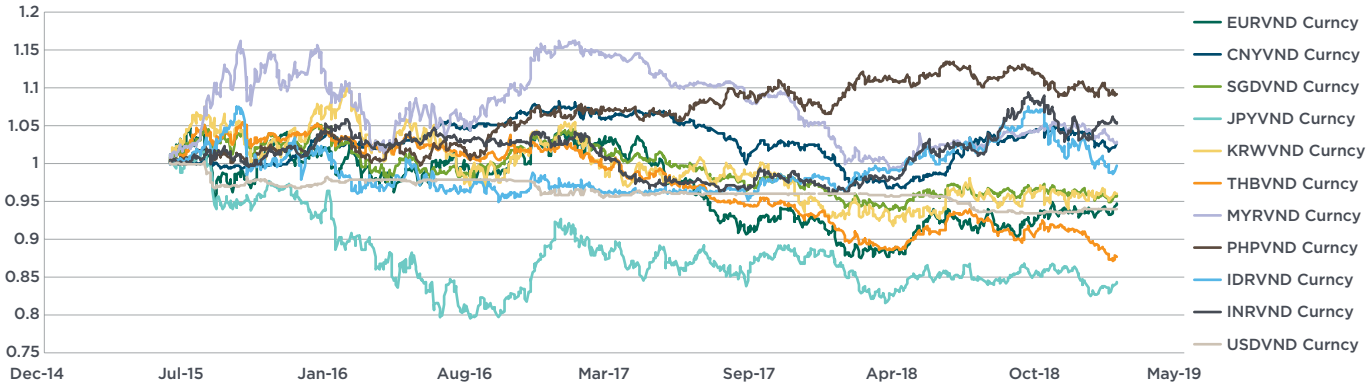
VND	EUR	CNY	SGD	JPY	KRW	THB	MYR	PHP	IDR	INR
1.10496	1.03677	1.06871	1.00151	1.01489	1.04968	1.01309	1.08851	1.0988	1.15136	1.1682

Portfolio Manager's Report (Continued)

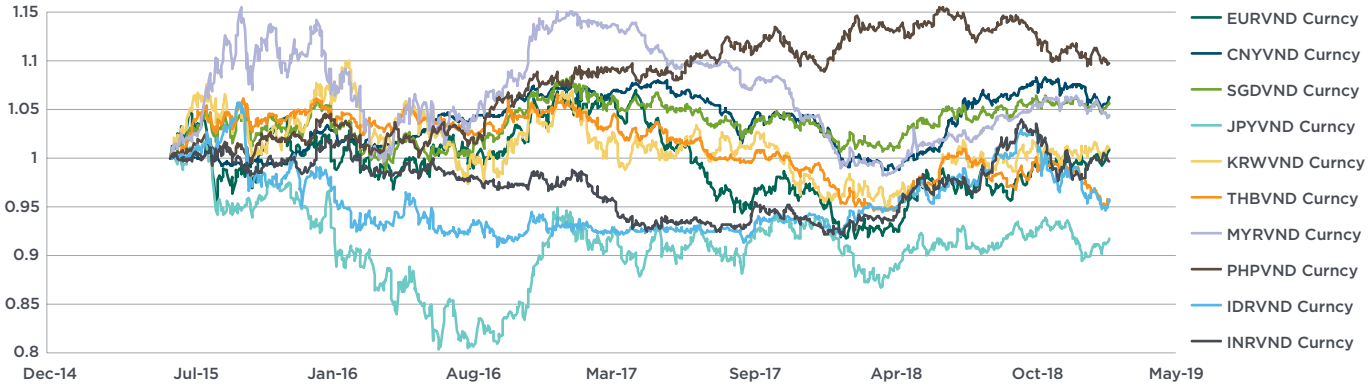
Macro and market development (Continued)

Graph 5 shows nominal VND indices against peers and some key currencies. The VND has in nominal terms since June 2015 gained 10% against the PHP and 5% against the INR. It has also gained slightly against the MYR and CNY. Graph 6 shows the same currencies adjusted for inflation. While the VND has lost more than 15% against the JPY, nominally it has depreciated some 9% in real terms. It has in real-terms gained some 5% against the CNY, MYR and SGD, and close to 10% against the PHP which has been a troubled currency the last two years. Else it is broadly speaking neutral. All-in all, there are no compelling signals that the VND is over-valued.

Graph 5: Nominal currency indices



Graph 6: Inflation adjusted currency indices



Portfolio Manager's Report (Continued)

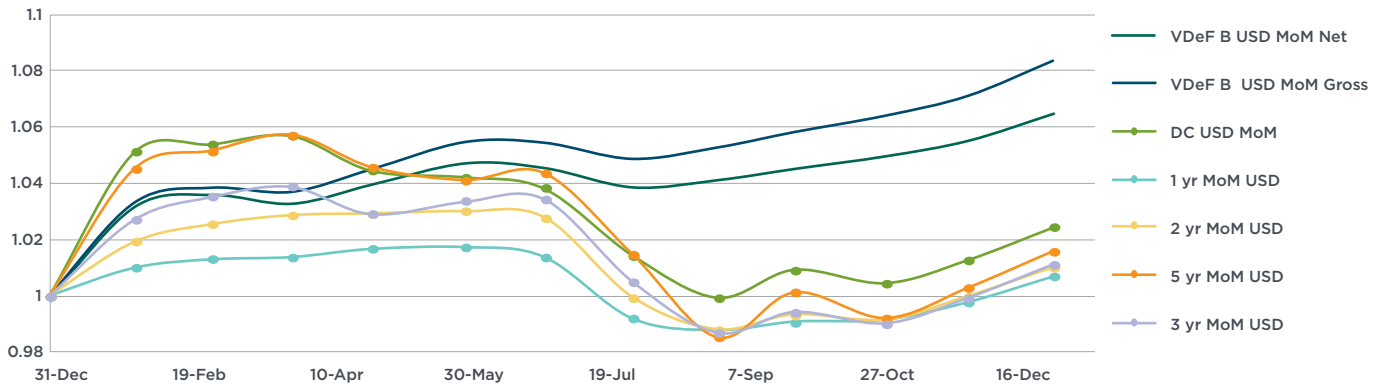
2018 performance

Table 4 shows the monthly US$ returns for VDeF-B and five reference indices for 2018. Graph 7 shows their compounded returns. To assess the performance, VDe- B primarily compares itself with five indices: the DC Liquid Bond Index, and the 1, 2, 3 and 5year VND Government bond indices. These indices carry no bid-ask spreads, fees, expenses nor taxes and represent different levels of risk appetite. Over the years, VDeF-B has paid close to 2.4% per annum in taxes/fees/expenses, but over time that figure has come down, and in 2018 it was 1.61% of the average amount outstanding. The internal objective for VDeF-B, is to be ahead of four of the five indices in gross terms[1]. After a weak Q1 performance where VDeF-B only was ahead of the 1 and 2-year indices it started to catch up in April when yields started to rise. By end of June, VDeF-B had even in net-terms passed all reference indices. VDeF-B had a negative month in March when it took a bad hit from the NBB[2] equity holdings. Despite being only 2-3% of the NAV, the heavy NBB price fall had an impact of 80 bps. June and July were also negative when the VND lost some 2% against the US$. VDeF-B generally has problems to keep up with the aggressive indices in bull markets. VDeF-B in the very beginning of January piled up ca 350 billion of 15, 20 and 30-year VGBs and then sold most holdings in January/February. Loading up large amounts in longer tenures can be very risky as the liquidity in these may suddenly dry up.

Table 4: Monthly returns for VDeF B and reference indices

	VDeF B US$ MoM Net	VDeF B US$ MoM Gross	DC US$ MoM	1 yr MoM US$	2 yr MoM US$	5 yr MoM US$	3 yr MoM US$
31-Dec-18	0.908%	1.168%	1.146%	0.921%	1.023%	1.296%	1.199%
30-Nov-18	0.527%	0.658%	0.817%	0.634%	0.847%	1.083%	0.918%
31-Oct-18	0.427%	0.551%	-0.473%	0.070%	-0.193%	-0.911%	-0.411%
28-Sep-18	0.383%	0.520%	0.999%	0.308%	0.542%	1.621%	0.759%
31-Aug-18	0.251%	0.386%	-1.493%	-0.419%	-1.152%	-2.917%	-1.830%
31-Jul-18	-0.654%	-0.544%	-2.287%	-2.179%	-2.757%	-2.751%	-2.840%
29-Jun-18	-0.163%	-0.022%	-0.389%	-0.348%	-0.209%	0.235%	0.091%
31-May-18	0.727%	0.929%	-0.224%	0.065%	0.075%	-0.444%	0.429%
27-Apr-18	0.657%	0.771%	-1.171%	0.288%	0.057%	-1.085%	-0.940%
29-Mar-18	-0.301%	-0.140%	0.280%	0.079%	0.317%	0.537%	0.349%
28-Feb-18	0.399%	0.506%	0.262%	0.299%	0.612%	0.609%	0.786%
31-Jan-18	3.201%	3.321%	5.127%	1.002%	1.912%	4.522%	2.727%

Graph 7: Cumulative performance indices for VDeF B and reference indices



1 The MoM gross returns are calculated as (SharePrice_End + Month_Costs)/SharePrice_Start-1 where Month_Costs are all expense/tax/fee items in the custodian report. Trading taxes and trading fees for bonds are counted as capital losses.

2 NBB holdings were from exercising a convertible bond. The stock is extremely illiquid and in March 2018 one of NBB's properties had a bad fire which caused the stock price to fall from 26k to 17.5k. Towards year-end NBB recovered slightly to around 20k.

Portfolio Manager's Report (Continued)

2018 performance (Continued)

Table 5 shows the annual performances for VDeF-B and the reference indices since inception. The objective for VDeF-B is to have a gross return which is higher than 4 out of 5 reference indices. This has been achieved all years except for 2010 and 2012.

Table 5: Annual returns for VDeF B and reference indices since 2018

	VDeF B US$ Net	VDeF B US$ Gross	DC US$	1yr VGB	2yr VGB	3yr VGB	5yr VGB	
2008	18.13%	22.90%	-3.01%	2.30%	-0.35%	-1.81%	-4.05%	X
2009	6.00%	8.91%	-0.35%	2.59%	1.93%	0.26%	-1.97%	X
2010	3.83%	6.11%	6.26%	4.99%	6.68%	7.40%	6.88%	
2011	0.79%	3.01%	0.63%	1.72%	0.83%	0.36%	0.26%	X
2012	17.86%	20.35%	19.69%	15.01%	18.45%	20.54%	23.93%	
2013	13.72%	15.95%	10.90%	7.26%	11.07%	11.92%	14.15%	X
2014	15.42%	17.67%	8.78%	5.13%	8.71%	11.74%	16.74%	X
2015	2.25%	3.88%	0.11%	-0.35%	0.18%	-0.09%	0.57%	X
2016	7.70%	9.82%	7.63%	3.63%	5.28%	6.66%	10.36%	X
2017	11.22%	13.55%	11.76%	4.82%	7.10%	8.71%	11.56%	X
2018	6.50%	8.36%	2.43%	0.68%	1.00%	1.13%	1.58%	X
5 year return	50.56%	65.17%	34.18%	14.58%	24.04%	30.89%	46.83%	
2 year return	18.45%	23.04%	14.48%	5.54%	8.17%	9.93%	13.32%	
3 year return	27.57%	35.12%	23.22%	9.37%	13.89%	17.25%	25.07%	

X = objective achieved

VDeF-B's performance will also be compared with a corporate bond index. Making a corporate bond index in Vietnam is challenging as corporate bonds are traded very infrequently and have no time series on Bloomberg and Reuters. A large share of the corporate bonds today are floaters using something called 12-month retail deposit rate as reference. This rate also lacks proper timeseries and suffer from limited transparency. However, it has a fairly stable spread to the 12-month interbank rate, 1.5-2.5%, which is quoted on both Bloomberg and Reuters. Thus, one may first calculate VDeF-B's spread to the 12-month interbank rate and then estimate a spread range to 12-month retail deposit. The two right-hand columns in Table 6 shows an upper/lower range spread. A decent company issues at a spread of around 3-3.5%, a bank at 1-2%, a weak corporate at >4%. A good diversified portfolio with acceptable liquidity would in the base scenario be expected to generate a spread of around 3-3.25%. This was clearly not achieved in 2010 and 2011. 2015 is a borderline case. That particular year the difference between 12-month interbank and 12-month retail deposit was only 1.1-1.4%. Thus, VDeF-B's spread to the 12-month retail deposit rate was slightly more than 3% rather than 1.83-2.83% in the table.

Table 6: VDeF-B versus 12month retail deposit rate

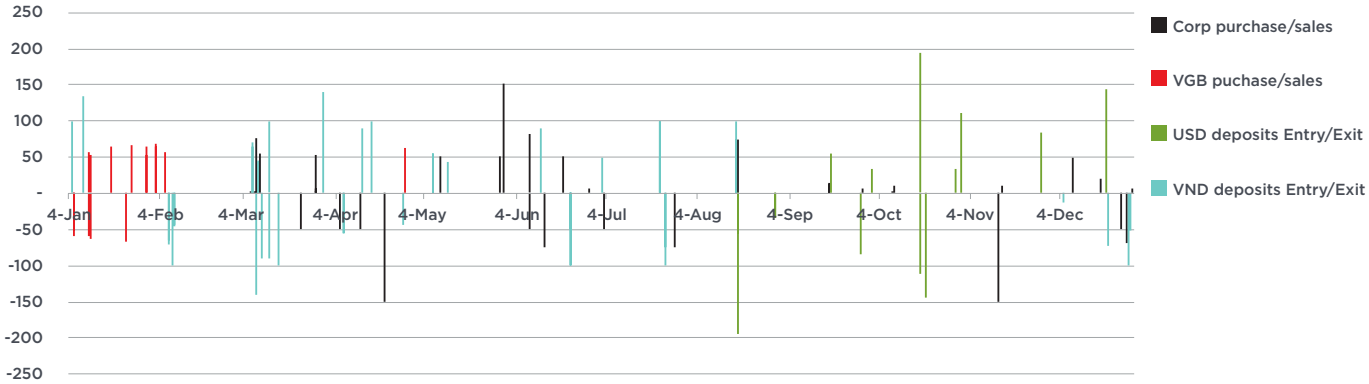
	VDeF-B index Gross VND	12m Interbank rate	12m Interbank index	YoY Gross VDEF-B	YoY 12m Interbank	Spr to 12m Interbank	Spread to 12m Retail Deposit low range	Spread to 12m Retail Deposit upper range
28-Dec-18	4.8937	4.94%	2.422102466	10.747%	4.510%	6.24%	3.738%	4.738%
29-Dec-17	4.4188	4.73%	2.317586743	13.241%	4.841%	8.40%	5.899%	6.899%
30-Dec-16	3.9022	5.04%	2.210564303	11.215%	4.908%	6.31%	3.808%	4.808%
31-Dec-15	3.5087	4.94%	2.107151546	9.211%	4.876%	4.33%	1.835%	2.835%
31-Dec-14	3.2127	4.49%	2.00917928	19.246%	5.551%	13.69%	11.195%	12.195%
31-Dec-13	2.6942	6.42%	1.903512996	17.448%	7.637%	9.81%	7.311%	8.311%
28-Dec-12	2.2940	9.72%	1.768447868	19.130%	11.141%	7.99%	5.489%	6.489%
30-Dec-11	1.9256	13.35%	1.591176778	11.205%	14.168%	-2.96%	-5.464%	-4.464%
31-Dec-10	1.7316	12.85%	1.393712059	11.959%	11.848%	0.11%	-2.389%	-1.389%
28-Dec-09	1.5466	10.32%	1.24607568	15.097%	8.851%	6.25%	3.746%	4.746%
31-Dec-08	1.3438	9.76%	1.144749768	33.980%	14.137%	19.84%	17.343%	18.343%

Portfolio Manager's Report (Continued)

VDeF-B trading and allocation 2018

Graph 8 shows VDeF-B's cash flows in 2018. A positive number means cash in, i.e. the asset was sold or terminated. In early 2018 all VGB's (red) were sold and replaced with VND deposits. Cash flows from corporate bonds (black) were evenly distributed over the year. The limited liquidity in corporate bonds means they are generally sold not on a need-basis but when a good opportunity appears. In the second half of the year, during the turbulence in the currency markets, US$ deposits replaced VND deposits.

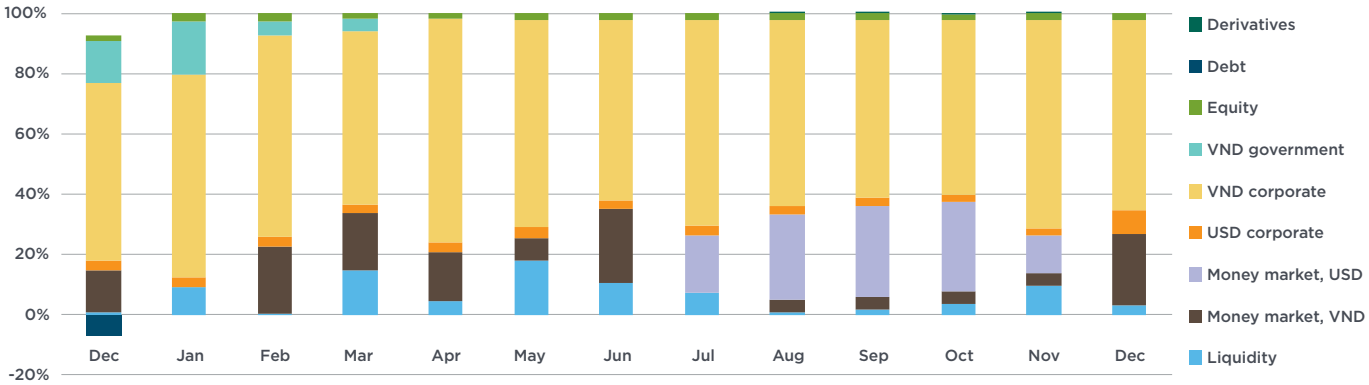
Graph 8: VDeF-B cash flows 2018



Total transaction volume in bonds was 190.7% of NAV and which is the lowest number since inception. This can be explained by the decision to stay away from the VGB market. The VGB holdings peaked at close to US$ 17 million (VND 350 billion) in late January. The holdings were mostly 15, 20 and 30-year bonds. By end of February, they were 2 million before being reduced to zero in March. But the total transaction value in corporate bonds was record high with 120% of NAV. Of the close to 970 billion of corporate bonds in the book end-2017, some 180 billion were left on 31 December 2018. Close to 700 billion was bought during the year and kept in the books end-2018 keeping the amount virtually unchanged compared with end-2017. Most of the sold bonds were to mature in 2018.

Graph 9 shows the portfolio composition month-by-month in 2018. From March and onwards, there were no VGB holdings. The large liquidity holdings in May were meant to meet a large redemption. In August till November, the mix was in the light of the currency turmoil quite defensive with more than 20% in US$ money markets. In December, as the view on the VND turned more positive, VDeF-B switched back into VND money market and also corporate bonds. The equity exposure of 2% came from exercising a convertible bond in December.

Graph 9: VDeF B portfolio composition



The US$-VND currency transactions had primarily four purposes:

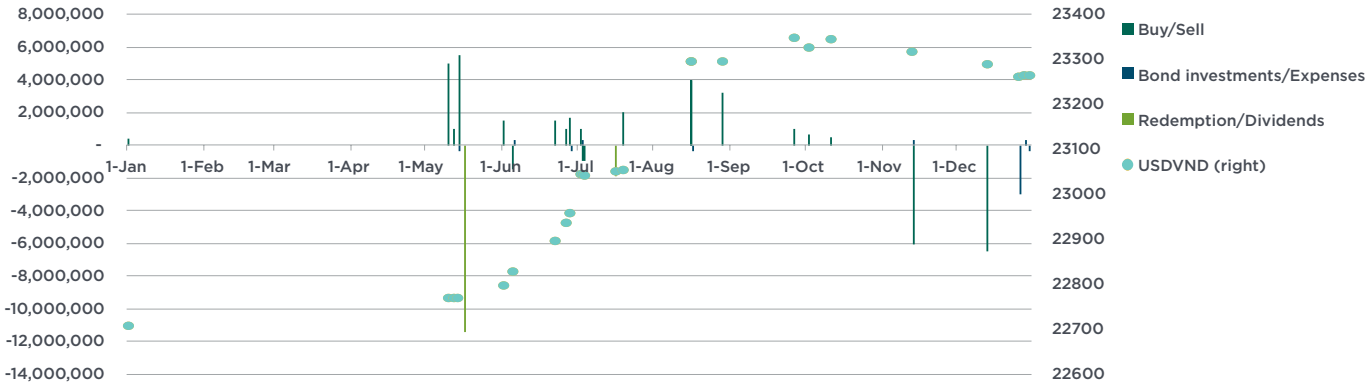
- Meet corporate events like redemptions (US$ 11.4 million) and dividends (US$ 1.9 million)
- Meet expenses/fees, circa US$ 75k per month
- To fund US$ investments (Home Credit bond in December, US$ 3 millions)
- Short-term trading

Portfolio Manager's Report (Continued)

VDeF-B trading and allocation 2018 (Continued)

In total, US$ 35.2 million was bought and US$ 16.3 million was sold. The difference was used for corporate events, fees/expenses and investments. Graph 10 shows the US$ cash flows along with the realised exchange rate over time during 2018. The US$ purchases in April/May were almost exclusively used for the redemption in mid-May and dividend in July.

Graph 10: VDeF-B US$ transactions and the US$VND exchange rate



The weighted average of the US$VND exchange rate when purchasing the US$, excluding the amount used for the redemption, was 23,154. The average selling rate was at 23,224 slightly higher.

Portfolio Manager's Report (Continued)

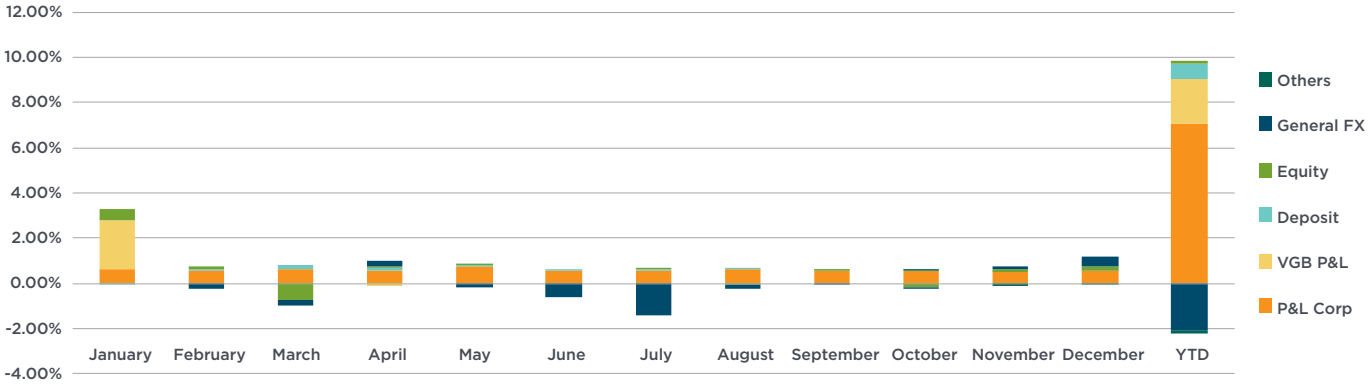
2018 Attribution Analysis

The objective with the attribution analysis, which was done in the VND, was to explain the nature of the portfolio performance as regards to asset class and type of income (carry, capital gain/loss, realised/unrealised). These can be measured month-by-month to get a sense for the time dynamics. The attribution analysis is done by calculating the P&L for every single position. One of the purposes with the underperforming money market transactions in the VND was to meet a large redemption in May and a dividend payment in July, US$ 11 million and US$ 2 million. The US$ deposits were an insurance in case the VND got under further pressure during the July-October currency market turmoil. The average holding period for the VGB's was 22 days and the profit, 28.7 billion, represented a 4.45% return on the outlay. The most important tenure was 15-year, at 7.7% it generated by far the highest period return. Right after Christmas holidays it was decided that this maturity segment had the best potential. At the same time however, history has shown that the liquidity in the longer tenures may suddenly be wiped out. Thus, VDeF-B was reluctant to take very large positions. While the capital gains for the VGB came from a parallel shift of the curve, the capital gains in the corporate papers came mostly from sliding down the curve. Corporate yield curves in the shorter end are generally very steep.

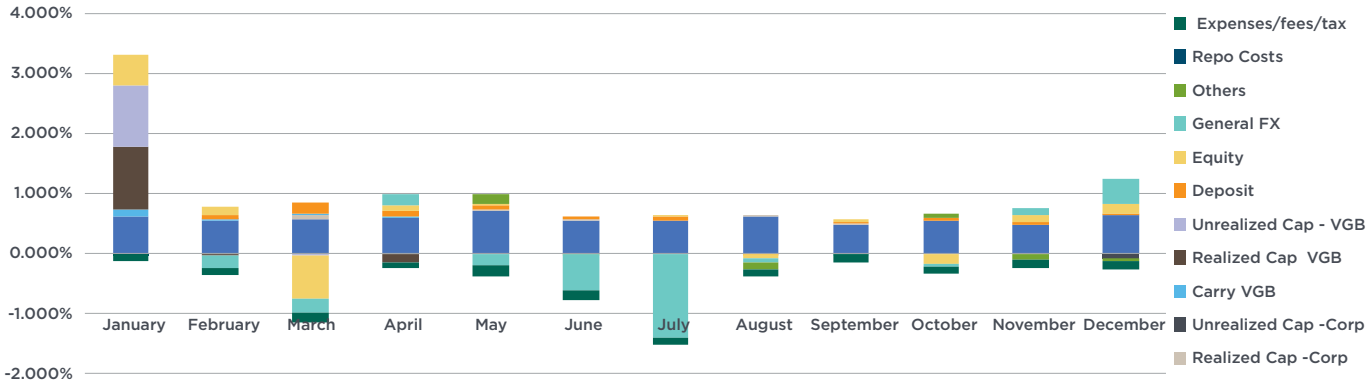
The average holding time of the VND denominated corporate bonds was 182 days with a return on the outlay of 5.13% and an IRR of 10.8%. Realised capital gains contributed with a modest 30 bps to the 8.797% net return in VND.

Graph 12 shows the P&L split up into asset types, carry and capital gains/losses month-by-month. In January, 60% of the 3.2% performance were capital gains in VGB's. The corporate papers have made a steady high contribution, for many months as much as 85%. The large dip in March was caused by a big fall in NBB's stock price. The second large dip in July came from a 2% US$VND depreciation.

Graph 11: Monthly returns by asset class



Graph 12: Monthly returns by asset class and type of income



Corporate Governance

Compliance

Vietnam Debt Fund SPC (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 semi-annually 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 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 two Independent Non-Executive Directors, and two Non-Executive Directors as well as one Alternate Non-Executive Director who are delegated by the Investment Manager. The Board of Directors has 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 48. The current Board is deemed to comply with the guidelines determined, and reflecting the skills and requirements considered necessary to carry the Company forward.

During the reporting period, James Riedel resigned from the Board on 27 November 2018 and Anne-France Marmot was appointed as the Independent Non-Executive Director on 28 November 2018.

Tenure

The Independent Non-Executive Directors are initially appointed until the following annual general meeting ("AGM") when, under the Company's Memorandum and Articles of Association (the "Articles"), it is required that they be elected by shareholders. Thereafter, they will stand for re-election on an annual basis, same as the Non-Executive Directors, even though the Articles do not explicitly require this.

The Board does not believe that length of service 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.

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 results 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 7 to the financial statements. These risks are monitored as part of the normal oversight process. Risk management and the operation of the internal control systems within the Company are primarily the responsibility of the Investment Manager, who operates under commercial independence with 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 in achieving its objectives, and will only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance (Continued)

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 once a year by way of the annual report. This is supplemented by monthly report 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 47.

Voting Policy

Proxy voting is an important part of the corporate governance process, and the Investment Manager views its obligation to manage the voting rights of the shares in investee companies seriously as it would manage any other asset. Consequently, votes are cast both diligently and prudently, based on its reasonable judgment of what will best serve the financial considerations of the Company. So far, as is practicable, the Investment Manager votes at all of the meetings called by companies in which the Company is invested. In order to do this, the Investment Manager agrees its 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 its proxy voting decisions, although they are equally cast on a case-by-case basis, taking into account the individual circumstances of each vote.

Responsible Investment

Our Mission

'To be a top-class intermediary of capital by providing attractive returns to investors, value to investee companies and a desirable workplace for employees. To perform with absolute professionalism and integrity, driven by a long-term commitment to the sustainable development of the environment, society and economy of the countries in which we operate.'

Our Core Values

Everything we do is underpinned by our core values of 'integrity', 'commitment' and 'creativity'. Our three core values direct our behaviour and ensure our mission statement is achieved in a consistent manner.

Our Beliefs

The mission statement and core values of Dragon Capital Group Limited and its subsidiaries and affiliates (together referred to as the "Group") clearly reflect our corporate stance and commitment to sustainable development. We recognise that environmental, social and governance ("ESG") issues can influence investment risk and thus portfolio performance. We, therefore, seek to optimise risk-adjusted performance by integrating ESG factors throughout the investment process and across all asset classes. We believe that taking a strategic, long-term approach to Responsible Investment will create sustainable value for our group, our stakeholders and the wider community, not just in an economic sense but also in the ESG context.

Responsible Investment Policy and ESGM

The purpose of the Group's Responsible Investment policy is to ensure that the assets managed by the Group are not placed in companies that violate locally and internationally-recognised norms for labour practices, health and safety standards, pollution avoidance, large-scale physical resettlement, commercial logging in primary moist forests, harvesting of wild fish populations, or impact on indigenous peoples and cultural heritages.

The ESG Management System Procedure ("ESGM") approach of the Group engages investee companies on identified risks and allows them to address their ESG issues and improve performance to meet the Group's standards and ESG commitments. Investee companies must meet the Group's requirements, as outlined in its ESG policy. All potential investee companies are first pre-screened on their suitability against the IFC Exclusion List extended by additional 'no-go' activities, the national E&S laws and regulations, and the objectives of the IFC Performance Standards ("Performance Standards").

If the proposed investment is deemed eligible, the Group's ESGM will screen it to establish the environmental and social performance of the investee companies using a checklist aligned to the Performance Standards. An inherent E&S risk category, and managed risk ratings, will be assigned to each investee company, reflecting the evidence available to establish the extent to which the requirements of the national laws and Performance Standards requirements are met. The purpose of assessing the managed risk is to enable the Group to make informed decisions about investing in new projects, and management of the portfolio. For corporate governance, the Group has adopted the Vietnam Corporate Governance Scorecard to assess the investee companies' governance practices and to identify opportunities for systematic improvement.

Corporate Governance (Continued)

Responsible Investment (Continued)

Monitoring is an integral part of the Group's ESG risk management process. The purpose of monitoring an investee company's ESG performance is to assess existing and emerging ESG risks associated with the investee company's operations, and to identify opportunities to reduce risk and improve ESG performance during the duration of investment transactions.

Fully Integrated Approach

At the core of the Group's ESGM lies the systematic management of ESG risks throughout the investment appraisal and management processes. The ESG risk management framework is integrated into the Group's overall organisational structure, planning activities, responsibilities, practices, procedures, processes and resources. Responsibility for incorporating ESG risks into investment decisions is embedded across the research platform.

The Responsible Investment strategy and activities are overseen by the ESG core team, which comprises a cross-section of the Group's senior management members. The Group's dedicated ESG core team will support the Research and Intelligence team through access to additional ESG-related information, analysis and training, and enhancements to processes and documentation, as appropriate. External consultants may be retained.

Greenhouse Gas Emission

The Group is conscious of the effects it has on the environment and the positive difference it can make to its communities. It is of paramount importance to the Group to take action to do all it can to make a positive contribution. To help combat global warming, the Group has been Carbon Neutral since 2005, and currently supports the Biogas Program initiated by SNV and the Government of Vietnam. The project converts animal waste to energy via biogas digesters to produce clean and affordable energy for cooking. 745,000 persons in 53 provinces in Vietnam benefit from the project and 519,949 tonnes of CO_2 are reduced annually. Emission reductions from the project are verified and certified to the Gold Standard of Voluntary Carbon Emissions Reductions and the project was awarded The Energy Globe Award (2006), The Ashden Award (2010) and The World Energy Award (2012).

Report of the Board Of Directors

The Directors of Vietnam Debt Fund SPC (the "Company") present their report and the audited financial statements of B Class Segregated Portfolio ("B Class") for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 29 November 2007 under the Company Act 2008 of the Cayman Islands. The investment objective of B Class is to seek long-term capital appreciation of its assets through the portfolio of debt securities for its participating shareholders. The shares of B Class are listed on the Irish Stock Exchange.

SHARE CAPITAL

Details of movements in B Class's share capital during the year are set out in the statement of changes in net assets attributable to the holders of participating shares and in Note 10 to the financial statements.

RESULTS AND DIVIDENDS

During the year ended 31 December 2018, the Company declared and paid interim dividend in cash to the B Class shareholders, equivalent to US$65.026 per share or approximately 4% of the Net Asset Value ("NAV") per B Class participating share as at 31 December 2016.

During the year ended 31 December 2017, the Company declared and paid interim dividend in cash to the B Class shareholders, equivalent to US$31.46 per share or approximately 2% of the NAV per B Class participating share as at 31 December 2015.

B CLASS			
Registered shareholders	Participating shares before paying dividend (shares)	Per participating share (US$)	Total dividend (US$)
Citivic Nominees Limited	25,531	65.026	1,660,179
Clearstream Banking S.A.	3,075	65.026	199,955
Clearstream Banking S.A. AFS 102900	307	65.026	19,953
Total			1,880,087

DIRECTORS

The Directors of the Company during the year were:

Non-executive directors:	Independent non-executive director:
Dominic Scriven	Erik Valtonen
Dan Svensson	Anne-France Marmot (from 28 November 2018)
Le Anh Tuan (Alternative Director to Dan Svensson)	James Riedel (until 28 November 2018)

In accordance with article 30 of the Company's Articles of Association, the independent non-executive directors are required to submit themselves for re-election at the next occurring Annual General Meeting.

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 B Class or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

Dominic Scriven has indirect interests in the share capital of B Class as he is also a shareholder of Dragon Capital Group Limited, which holds participating shares of B Class. Dragon Capital Group Limited is the parent company of Dragon Capital Debt Management Limited, the Investment Manager of B Class. As at 31 December 2018, Dominic Scriven beneficially held 3,075 (31 December 2017: 3,075) B Class participating shares of the Company for proprietary trading purposes.

As at 31 December 2018, Dragon Capital Group Limited beneficially held 25,531 (31 December 2017: 31,672) B Class participating shares of the Company for proprietary trading purposes.

Report of the Board Of Directors (Continued)

DIRECTORS' INTERESTS IN CONTRACTS

Dan Svensson has indirect interests in the investment management agreement between B Class and Dragon Capital Debt Management Limited as he is the director of Dragon Capital Debt Management Limited. There were no 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

The Company's register of shareholders showed that the following shareholders held more than 5% interest in the issued share capital of B Class.

	31 December 2018		31 December 2017	
B CLASS	Number of participating shares held	% of total participating shares in issue	Number of participating shares held	% of total participating shares in issue
Citivic Nominees Limited	25,531	88.30	25,531	72.65
Clearstream Banking S.A.	3,075	10.64	9,306	26.48

AUDITORS

KPMG Limited, Vietnam

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the financial statements are properly drawn up so as to give a true and fair view of the financial position of B Class as at 31 December 2018 and of its financial performance and its cash flows for the year ended 31 December 2018. When preparing the financial statements, the Directors are 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 financial statements;
- Maintain adequate accounting records and an effective system of internal controls;
- Prepare the financial statements on a going concern basis unless it is inappropriate to assume that B Class will continue its operations in the foreseeable future; and
- Control and direct effectively B Class in all material decisions affecting its operations and performance and ascertain that such decisions and/or instructions have been properly reflected in the financial statements

The Directors are also responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of B Class. They are also responsible for safeguarding the assets of B Class and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of B Class as of 31 December 2018, and of its financial performance, its changes in equity and its cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards.

By Order of the Board of Directors

Dan Svensson
Director
Vietnam Debt Fund SPC
28 May 2019

Independent Auditors' Report

KPMG Limited Branch
10th Floor, Sun Wah Tower
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Vietnam Debt Fund SPC – B Class Segregated Portfolio

Opinion

We have audited the financial statements of Vietnam Debt Fund – B Class Segregated Portfolio ("B Class"), which comprise the statement of financial position as at 31 December 2018, the 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 19 to 46.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of B Class as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of B Class in accordance with the ethical requirements that are relevant to our audit of the financial statements issued by International Ethical Standard Board for Accountants ("IESBA") and other local ethical requirements, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter on which we had the greatest focus in respect of effort and resources comprises valuation of unlisted investments.

Independent Auditors' Report (Continued)

Valuation of unlisted investments	
See Note 7 to the financial statements	
The key audit matter	**How the matter was addressed in our audit**
B Class's investment portfolio includes debt securities, which are measured at fair value through profit or loss. Estimating the fair value is a complex process involving a number of judgments and estimation regarding various inputs. Due to the nature of these debt securities, the valuation techniques include: - Discounted cash flow analysis, using net cash flows forecasted over the life of the investment and discounted at a risk-adjusted opportunity cost of capital to arrive at present value; - Clean prices calculated based on market evidence available to B Class; and - Specific credit spreads of bond issuers based on market transactions in similar or comparable corporate bonds as observed by B Class. Due to the inherent complexity of debt securities valuation, the values reflected in the financial statements may differ from the values that would be determined by negotiation between parties in a sale transaction.	Our audit procedures in this area included among others: - Understanding and evaluating the design and implementation of the processes and controls in place over unlisted debt securities valuation, including the review, challenge and subsequent approval of the valuation of unlisted debt securities; - Involving our own valuation specialists to support our assessment of the valuation of the unlisted debt securities. In particular, we assessed the appropriateness of the inputs including the discounts rates used in valuation model. - Where a recent transaction had been used to value an unlisted debt securities, we considered whether it was transacted on an arm-length basis and suitable as an input into a valuation; and - Evaluating the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgments and sensitivities. - Our work included consideration of events which occurred subsequent to the year end up until the date of this report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal controls as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing B Class's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate B Class or to cease operations, or has no realistic alternative but to do so.

Independent Auditors' Report (Continued)

Those charged with governance are responsible for overseeing B Class's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 B Class's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on B Class's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause B Class to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditors' Report (Continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure or when, in extremely rare circumstances, we determine that a matter should not be communicated to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Tran Dinh Vinh.

On behalf of KPMG Limited's Branch in Ho Chi Minh City
Vietnam
Audit Report No.: 19-01-00679-19-2

Tran Dinh Vinh
Audit Partner
Ho Chi Minh City, Vietnam

28 May 2019

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Statement of Financial Position

As at 31 December 2018

	Note	31/12/2018	31/12/2017
		US$	US$
CURRENT ASSETS			
Cash and cash equivalents	6	7,698,256	765,238
Financial assets at fair value through profit or loss	7	45,133,790	67,116,064
Other receivables		12,670	115,553
		52,844,716	67,996,855
CURRENT LIABILITIES			
Payables under sale and repurchase agreements	8	-	5,188,420
Accounts payable and accruals	9	128,328	441,418
		128,328	5,629,838
NET ASSETS		52,716,388	62,367,017
EQUITY			
Issued share capital	10	289	352
Share premium	10	34,180,225	45,677,791
Retained profits		18,535,874	16,688,874
		52,716,388	62,367,017
NUMBER OF PARTICIPATING SHARES IN ISSUE	10	28,913	35,144
NET ASSET VALUE PER PARTICIPATING SHARE	11	1,823.28	1,774.61

Approved by the Board of Directors on 28 May 2019.

Dan Svensson
Director
Vietnam Debt Fund SPC
28 May 2019

The accompanying notes are an integral part of these financial statements

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018	2017
		US$	US$
INCOME			
Net interest income from financial instruments at fair value through profit or loss		3,829,077	2,860,225
Net changes in fair value of financial assets at fair value through profit or loss		(1,194,094)	1,343,414
Gains on disposals of financial assets at fair value through profit or loss		1,859,598	4,099,594
Net foreign exchange losses		(284,034)	(28,202)
		4,210,547	8,275,031
Bank interest income		398,344	455,949
Other income		94,170	337,500
TOTAL INCOME		4,703,061	9,068,480
EXPENSES			
Administration fees	12	(43,800)	(48,000)
Custodian fees	12	(23,707)	(36,022)
Incentive fees	12	(61,118)	(357,273)
Management fees	12	(572,099)	(698,330)
Directors' fees	12	(30,052)	(30,000)
Withholding taxes	13	(173,188)	(166,714)
Interest expenses		(4,083)	(223,954)
Legal and professional fees		(30,397)	(33,558)
Other operating expenses		(37,530)	(19,908)
TOTAL EXPENSES		(975,974)	(1,613,759)
PROFIT BEFORE TAX		3,727,087	7,454,721
Income tax	13	-	-
NET PROFIT FOR THE YEAR		3,727,087	7,454,721
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,727,087	7,454,721
BASIC EARNINGS PER PARTICIPATING SHARE	14	119.92	219.96

The accompanying notes are an integral part of these financial statements

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Issued share capital	Share premium	Retained profits	Total
		US$	US$	US$	US$
At 1 January 2017		289	36,020,261	10,981,630	47,002,180
Total comprehensive income for the year:					
Net profit for the year		-	-	7,454,721	7,454,721
Transaction with participating shareholders of B Class, recognised directly in equity					
Share issuance during the year		329	54,999,671	-	55,000,000
Share redemption during the year		(266)	(45,342,141)	-	(45,342,407)
Distributions of cash dividends		-	-	(1,747,477)	(1,747,477)
At 1 January 2018		352	45,677,791	16,688,874	62,367,017
Total comprehensive income for the year:					
Net profit for the year		-	-	3,727,087	3,727,087
Transaction with participating shareholders of B Class, recognised directly in equity					
Share redemption during the year	10	(63)	(11,497,566)	-	(11,497,629)
Distributions of cash dividends		-	-	(1,880,087)	(1,880,087)
At 31 December 2018		289	34,180,225	18,535,874	52,716,388

The accompanying notes are an integral part of these financial statements

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Statement of Cash Flows

For the year ended 31 December 2018

	2018	2017
	US$	US$
OPERATING ACTIVITIES		
Net profit for the year	3,727,087	7,454,721
Adjustments for:		
Bank interest income	(398,344)	(455,949)
Net interest income from financial instruments at fair value through profit or loss	(3,829,077)	(2,860,225)
Other income	(94,170)	(337,500)
Net changes in fair value of financial assets at fair value through profit or loss	1,194,094	(1,343,414)
Gains on disposals of financial assets at fair value through profit or loss	(1,859,598)	(4,099,594)
	(1,260,008)	(1,641,961)
Change in payables under sale and repurchase agreements	(5,188,420)	2,938,672
Change in accounts payable and accruals	(313,090)	157,569
	(6,761,518)	1,454,280
Proceeds from sale of financial assets at fair value through profit or loss	83,215,233	117,978,900
Acquisitions of financial assets at fair value through profit or loss	(60,567,455)	(152,419,420)
Bank interest income received	398,344	455,949
Bond interest income received	3,931,960	2,745,146
Other income received	94,170	337,500
Net cash generated from/(used in) operating activities	20,310,734	(29,447,645)
FINANCING ACTIVITIES		
Proceeds from shares issuance	-	55,000,000
Payments for shares redemption	(11,497,629)	(45,342,407)
Payments of cash dividends	(1,880,087)	(1,747,477)
Net cash (used in)/generated from financing activities	(13,377,716)	7,910,116
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	6,933,018	(21,537,529)
Cash and cash equivalents at the beginning of the year	765,238	22,302,767
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 6)	7,698,256	765,238

The accompanying notes are an integral p art of these financial statements

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements

For the year ended 31 December 2018

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

1. THE COMPANY

Vietnam Debt Fund SPC ("the Company") is an investment holding company incorporated as an exempted company with limited liability in the Cayman Islands on 29 November 2007. It commenced operations on 19 December 2007, and had no employees as at 31 December 2018 (31 December 2017: nil).

The investment objective of the Company is to seek long-term capital appreciation of its assets by investing in two segregated portfolios of debt securities for its two classes of participating shareholders (A Class and B Class). The shares of B Class are listed on the Irish Stock Exchange.

(a) Investment Manager

The investment activities of the Company are managed by Dragon Capital Debt Management Limited, (the "Investment Manager"). The Investment Manager is a company incorporated with limited liability under the laws of the Cayman Islands and wholly owned by Dragon Capital Group Limited.

(b) Administrator

B Class's administrator is Standard Chartered Bank, Singapore Branch (the "Administrator").

(c) Custodian

B Class's custodian is Standard Chartered Bank (Vietnam) Limited.

(d) Investment objective

Achieve income and capital gains primarily from investments in VND denominated debt owed or guaranteed by Permitted Businesses operating in Vietnam as well as the Government, Vietnamese provincial governments and municipal authorities.

2. BASIS OF PREPARATION

(a) Statement of compliance

B Class's financial statements as at and for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Board of Directors on 28 May 2019.

(b) Basis of preparation

The financial statements have been prepared on the amortised cost basis, except for investments in debt securities classified as financial assets at fair value through profit or loss ("FVTPL") which are measured at fair value. The methods used to measure fair values are described in Note 4(b).

Each Participating Shareholder's interest is determined solely by the Net Asset Value per Participating Share held by such Participating Shareholder.

(c) Annual accounting period

B Class's annual accounting period is from 1 January to 31 December.

(d) Functional and presentation currency

These financial statements are presented in United States Dollars ("US$"), which is B Class's functional currency.

Functional currency is the currency of the primary economic environment in which B Class operates. If indicators of the primary economic environment are mixed, then management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. B Class's investments and transactions are denominated in US$ and VND. Share subscriptions and any redemptions are made and paid in US$. The expenses (including any management fees, custodian fees and administration fees) are denominated and paid in US$. Accordingly, the directors have determined that the functional currency of B Class is US$.

(e) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires the Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in circumstances, the result of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

2. BASIS OF PREPARATION (CONTINUED)

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

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

3. CHANGES IN ACCOUNTING POLICIES

The Company has initially applied IFRS 9 – Financial Instruments from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the A Class's financial statements.

As permitted by the transition provisions of IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect the requirements of the new standard.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, B Class has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. Under IAS 39, impairment was recognised when losses were incurred. A Class did not previously report any incurred losses.

Additionally, B Class has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures, which are applied to disclosures about 2018 information but have not generally been applied to comparative information.

The adoption of IFRS 9 had no material impact on the B Class's equity.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had any effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 4(b)(ii).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of The Company's financial assets and financial liabilities as at 1 January 2018.

There is no material effect of adopting IFRS 9 on the carrying amounts of financial assets and financial liabilities as at 1 January 2018.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGE IN ACCOUNTING POLICIES (CONTINUED)

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				US$	US$
Financial assets					
Debt securities (*)	7	Designated as at FVTPL	Mandatorily at FVTPL	65,654,551	65,654,551
Equity investments, listed (*)	7	Designated as at FVTPL	Mandatorily at FVTPL	1,461,513	1,461,513
Cash and cash equivalents	6	Loans and receivables	Amortised cost	765,238	765,238
Other receivables		Loans and receivables	Amortised cost	115,553	115,553
				67,996,855	67,996,855

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				US$	US$
Financial liabilities					
Payables under sale and repurchase contracts	8	Amortised cost	Amortised cost	5,188,420	5,188,420
Accounts payable and accruals	9	Amortised cost	Amortised cost	441,418	441,418
				5,629,838	5,629,838

(*) Under IAS 39, these financial assets were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

The adoption of IFRS 9 has not had a material impact on the classification of financial assets and financial liabilities of B Class.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 - see Note 4(b)(v).

The application of IFRS 9's impairment requirements at 1 January 2018 does not have material impact on B Class's financial statements.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Comparative periods have not generally been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in equity as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9, but rather those of IAS 39.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The revocation of previous designations of certain financial assets as measured at FVTPL.

This change in accounting policy does not have any material impact on B Class's financial statements for the year ended 31 December 2018.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 3, the following significant accounting policies have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of B Class 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 rates 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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

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 FVTPL, which are recognised as a component of a net changes in fair value of financial instruments at FVTPL.

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

B Class initial recognises financial assets and financial liabilities at FVTPL on the trade date, which is the date on which B Class becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognises on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that they are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Classification of financial assets - Policy applicable from 1 January 2018

On initial recognition, B Class classifies financial assets as measured at amortised cost or FVTPL

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest.

All other financial assets of the B Class are measured at FVTPL.

Business model assessment

B Class makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to B Class's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the B Class's continuing recognition of the assets.

B Class has determined that it has two business models.

- *Held-to-collect business model:* this includes cash and cash equivalents and other receivables. These financial assets are held to collect contractual cash flow.
- *Other business model:* this includes debt securities and equity investments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit B Class's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

For a reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IFRS 9, see Note 3.

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition unless B Class were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

Classification of financial assets - Policy applicable before 1 January 2018
B Class classifies financial assets into the following categories:

Financial assets at FVTPL:

- Designated at FVTPL: debt securities and equity investments

Financial assets at amortised cost:

- Loans and receivables: cash and cash equivalents and other receivables.

B CLass designed all debt and equity investments as at FVTPL on initial recognition because it managed these securities on a fair value basis in accordance with its documented investment strategy. Internal reporting and performance measurement of these securities were on a fair value basis.

For a reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IAS 39, see Note 3.

Subsequent measurement of financial assets

- *Financial assets at FVTPL*

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income and expense and foreign exchange gains and losses, are recognised in profit or loss in "net income from instruments at FVTPL" in statement of comprehensive income.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Financial assets at amortised cost (2017: loans and receivables)*

These assets are subsequently measured at amortised cost using the effective interest method. Interest income is recognised in "interest income calculated by using the effective interest method", foreign exchange gains and losses are recognised in "net foreign exchange loss" and impairment is recognised in "impairment losses on financial instruments" in the statement of comprehensive income. Any gain or loss on derecognition is also recognised in profit or loss.

Cash and cash equivalents and other receivables are included in this category.

Financial liabilities – Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at amortised cost: This includes balances due to brokers, payables under sale and repurchase agreements and accounts payable and accruals.

(iii) Fair value measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which B Class has access at that date. The fair value of a liability reflects its non-performance risk.

When available, B Class measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. B Class measures instruments quoted in an active market at a mid price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then B Class uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

B CLass recognises transfer between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

(iv) Amortised cost measurement
The 'amortised cost' of a financial asset or liability is the amount at which the financial asset or financial liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

(v) Impairment
Policy applicable from 1 January 2018
B Class recognises loss allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost.

B Class measures loss allowances at an amount equal to lifetime ECLs, except for following, which are measured at 12-month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, B Class considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on B Class's historical experience and informed credit assessment and including forward-looking information.

B Class assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

B Class considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to B Class in full, without recourse by B Class to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which B Class is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that B Class expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, B Class assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of a debtor;
- a breach of contract such as a default or being more than 90 days past due; or
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when B Class has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Policy applicable before 1 January 2018

Financial assets not classified at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment. A financial asset or a group of financial assets was 'impaired' if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of the amount due on terms that B Class would not otherwise consider, indications that a borrower or issuer would enter bankruptcy, disappearance of an active market for a security or adverse changes in the payment status of the borrower.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An impairment loss in respect of a financial asset measured at amortised cost was calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continued to be recognised. If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

(vi) Derecognition

B Class derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which B Class neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial assets, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit and loss. Any interest in such transferred financial assets that is created or created or retained by B Class is recognised as a separate asset or liability.

B Class enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all substantially all if the risks and the rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all of the risks and rewards include sale and purchase transactions.

B Class derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(Vii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, B Class has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at FVTPL and foreign exchange gains and losses.

(c) Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by B Class in the management of short-term commitments, other than cash collateral provided in respect of derivatives and securities borrowing transactions.

(d) Share capital

Issuance of share capital

Issuance of share capital

Participating Shares and Ordinary Shares in B Class 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 the 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.

Redemption of share capital

B Class may from time to time redeem all or any portion of the Participating Shares held by the shareholders at the redemption price determined by reference to the NAV per Participating Share as at the applicable NAV determination date. All redeemed shares are cancelled. The accounting policies for share redemption are similar to those applied for share repurchases.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Segment reporting

An operating segment is a component of B Class that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of other components of B Class. All operating segments' operating results are reviewed regularly by the Investment Committee of the Investment Manager to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(f) Provisions

Provisions are recognised when it is probable that present obligations for B Class will lead to an outflow of economic resources from B Class and the amount 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.

(g) Net changes in fair value of financial assets at FVTPL

Net changes in fair value of financial assets at FVTPL includes all realised and unrealised fair value changes and foreign exchanges differences, but excludes interest and dividend income.

Net realised gain/loss from financial assets at FVTPL is calculated using the weighted average cost method.

(h) Revenue recognition

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

a) Dividend income is recognised when B Class'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.

(i) Expenses

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

(j) Earnings per participating share and Net Asset Value per participating share

B Class presents basic earnings per share ("EPS") of participating shares. Basic EPS is calculated by dividing net profit or loss attributable to the participating shareholders of B Class by the weighted average number of participating shares of B Class outstanding during the year. B Class did not have potentially dilutive shares as at 31 December 2018 and 31 December 2017.

Net Asset Value per participating share is calculated by dividing the NAV attributable to participating shareholders of B Class by the number of outstanding participating shares of B Class as at the reporting date. NAV is determined as total assets less total liabilities. When treasury shares exist, NAV per share is calculated based on the assumption that those treasury shares have been cancelled.

(k) Related parties

A party is considered to be related to B Class if:

a) The party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, B Class; (ii) has an interest in B Class that gives it significant influence over B Class, or (iii) has joint control over B Class;

b) The party is an associate;

c) The party is a joint venture in which B Class is a venturer;

d) The party is a member of the key management personnel of B Class or its parent;

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 B Class, or of any entity that is related party of B Class.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other investment companies/funds under the management of Dragon Capital Management Limited, the parent company of the Investment Manager, or entities of Dragon Capital Group Limited (including Ho Chi Minh City Securities Cooperation ("HSC") and Vietnam Investment Fund Management Joint Stock Company ("VFM") and its funds under management) are also considered related parties to B Class.

5. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The table below sets out the classifications of the carrying amounts of the B Class's financial assets and financial liabilities into categories of financial instruments.

31 December 2018	Mandatory at FVTPL	Financial assets at amortised cost	Financial liabilities at amortised cost
	US$	US$	US$
Cash and cash equivalents	-	7,698,256	-
Financial assets at FVTPL	45,133,790	-	-
	45,133,790	7,698,256	
Accounts payable and accruals	-	-	(128,328)
	-	7,698,256	(128,328)
	45,133,790	7,698,256	(128,328)

6. CASH AND CASH EQUIVALENTS

	31/12/2018	31/12/2017
	US$	US$
Cash and cash equivalents	7,698,256	765,238

Cash and cash equivalents earned no interest (2017: nil) for amounts denominated in US$ and 0.00% to 5.50% (2017: 0.00% to 0.05%) per annum for amounts denominated in VND.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31/12/2018	31/12/2017
	US$	US$
Listed investments:		
Investments, at cost	17,067,896	19,760,842
Unrealised gains	302,928	1,040,297
At fair value	17,370,824	20,801,139
Unlisted investments:		
Investments, at cost	27,506,712	45,601,947
Unrealised gains	256,254	712,978
At fair value	27,762,966	46,314,925
Total investments at fair value	45,133,790	67,116,064

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

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

Listed investments	Sector	Fair value	NAV
31 December 2018		US$	%
Vietnam listed bonds – Corporate bonds			
KINH BAC CITY DEVELOPMENT SHARE HOLDING CORP KBC 8 NOV 2018	Infrastructure	6,554,347	12.43
HO CHI MINH INFRASTRUCTURE CII BOND 10.5% 15 AUG 2019	Infrastructure	3,139,362	5.96
VINGROUP JOINT STOCK COMPANY 10.2% 27 DEC 2022	Real estate	4,319,708	8.19
VINGROUP JOINT STOCK COMPANY 10% 25 DEC 2020	Real estate	2,159,181	4.10
Listed equity			
NAM BAY BAY INVESTMENT CORPORATION NBB	Real estate	1,198,226	2.27
		17,370,824	32.95

Listed investments	Sector	Fair value	NAV
31 December 2017		US$	%
Vietnam listed bonds – Government of Vietnam			
VIETNAM GOVERNMENT BOND VIET GB 6.3% 10 MAR 2021		2,458,485	3.94
SOCIALIST REPUBLIC OF VIETNAM 7.2% 15 MAR 2030		2,668,580	4.28
SOCIALIST REPUBLIC OF VIETNAM 6.3% 05 MAY 2021		2,441,688	3.92
SOCIALIST REPUBLIC OF VIETNAM 7.6% 02 JUN 2031		2,718,478	4.36
Vietnam listed bonds – Corporate bonds			
HO CHI MINH INFRASTRUCTURE CII BOND 10.5% 15 AUG 2019	Infrastructure	4,580,783	7.34
KINH BAC CITY DEVELOPMENT SHARE HOLDING CORP KBC 8 NOV 2018	Infrastructure	4,471,612	7.17
Listed equity			
NAM BAY BAY INVESTMENT CORPORATION NBB	Real estate	1,461,513	2.34
		20,801,139	33.35

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

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

Unlisted investments	Sector	Fair value	NAV
31 December 2018		US$	%
Vietnam unlisted bonds			
KHANG DIEN HOUSE TRADING AND INVESTMENT KDH BOND 12% 8 SEP 2019	Real estate	3,354,644	6.36
SAI GON THUONG TIN REAL ESTATE SCRB1 11% 7 JUN 2018	Real estate	3,209,788	6.09
BECAMEX IDC BECAMEX B2 10.5% 12 MAY 2022	Infrastructure	3,497,868	6.64
HA NOI WATER MANUFACTURING JSC NO 3 11% 27 JULY 2021	Manufacturing	3,386,447	6.42
VIETNAM ELECTRICAL EQUIPMENT JOINT STOCK CORPORATION 9.5% 12 April 2020	Manufacturing	2,200,521	4.17
THANH THANH CONG BOND 10%+3.25% 14 NOV 2021	Manufacturing	1,310,187	2.49
VIET DRAGON SECURITIES CORPORATION 9.5% 8 JUN 2019	Securities	2,168,541	4.11
VIETNAM PROSPERITY JOIN STOCK COMMERCIAL BANK_FC_ 10.25% 7 DEC 2019	Finance	2,318,406	4.40
Vietnam certificate of deposits			
HOME CREDIT FINANCE CERTIFICATE DEPOSIT-CD HCVN1YR LIBOR +3.5 25 DEC 2019	Finance	3,002,701	5.70
HOME CREDIT FINANCE CERTIFICATE DEPOSIT-CD1- 7.9% 03 APRIL 2019	Finance	2,239,721	4.25
VP BANK FINANCE CERTIFICATE DEPOSIT 3M LIBOR + 475 28 DEC 2019	Finance	1,074,142	2.04
		27,762,966	52.66

Unlisted investments	Sector	Fair value	NAV
31 December 2017		US$	%
Vietnam unlisted bonds			
KHANG DIEN HOUSE TRADING AND INVESTMENT KDH BOND 12% 8 SEP 2019	Real estate	6,852,874	10.99
SAI GON THUONG TIN REAL ESTATE SCRB1 11% 7 JUN 2018	Real estate	4,445,252	7.13
TIEN PHUOC REAL ESTATE TIENPHUOC BOND 11% 20 DEC 2018	Real estate	2,209,069	3.54
THANH THANH CONG BOND 10%+3.25% 14 NOV 2021	Manufacturing	2,230,213	3.58
BECAMEX IDC BECAMEX B2 10.5% 12 MAY 2022	Infrastructure	4,465,612	7.16
ACB SECURITIES ACBS 9.0% 29 JUN 2018	Securities	3,524,569	5.65
VIET DRAGON SECURITIES VDS_BOND1 9.5% 18 DEC 2018	Securities	2,215,134	3.55
ORIENT COMMERCIAL JOINT STOCK BANK OCB 8.2% 27 APR 2020	Bank	2,326,145	3.73
Vietnam certificate of deposits			
VP BANK FINANCE CERTIFICATE DEPOSIT 3M LIBOR + 475 28 DEC 2019	Finance	2,148,079	3.44
HOME CREDIT FINANCE CERTIFICATE DEPOSIT FLOATING 11% 19 SEP 2019	Finance	3,255,446	5.22
VP BANK FINANCE CERTIFICATE DEPOSIT 10.25% 26 NOV 2018	Finance	2,291,050	3.67
VP BANK CERTIFICATE DEPOSIT 5.5% 29 JAN 2018	Finance	5,946,596	9.53
HD BANK CERTIFICATE DEPOSIT 5.5% 29 JAN 2018	Finance	4,404,886	7.06
		46,314,925	74.25

8. PAYABLES UNDER SALE AND REPURCHASE AGREEMENTS

	31/12/2018	31/12/2017
	US$	US$
Payables under sale and repurchase agreements	-	5,188,420

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

9. ACCOUNTS PAYABLE AND ACCRUALS

	31/12/2018	31/12/2017
	US$	US$
Administration fees	5,200	32,000
Management fees	44,370	43,348
Incentive fees	61,118	357,273
Other payables	17,640	8,797
	128,328	441,418

10. SHARE CAPITAL

The authorised share capital of the Company is US$50,000, divided into 100 ordinary shares of par value US$0.01 each and 49,999,900 participating shares of par value US$0.01 each.

(a) Authorised, issued and fully paid ordinary voting shares

The Investment Manager holds all the management shares of the Company, being non-redeemable, non-participating, voting shares. As at 31 December 2018, one (1) management share was held by the Investment Manager. The ordinary share was issued at par value, fully paid.

The holders of ordinary shares have no right to participate in the dividends and other distributions of the profits or assets of B Class. Ordinary shareholder has the right to a return of the nominal or par value of the Ordinary shares in the winding-up of B Class and to attend and vote at general meetings of B Class. The ordinary share is owned by B Class's Investment Manager, Dragon Capital Debt Management Limited, a company incorporated in the Cayman Islands.

(b) Participating shares

	31/12/2018	31/12/2017
	US$	US$
Authorised of participating shares (unclassified)		
4,999,900 Participating shares at par value of US$0.01 each	49,999	49,999
Issued and fully paid (Class B)		
28,913 (31/12/2017: 35,144) B Class participating shares of US$0.01 each	289	352

The holders of participating shares have no right to require their participating shares to be redeemed by B Class, and such participating shares will only be redeemable at the option of the Company. The holders of participating shares have no voting rights. The holders of participating shares have the right to participate in the surplus assets attributable to the segregated portfolio, after payments of all segregated portfolio creditors, and to all dividends, if any, attributable to each segregated portfolio as declared by the Directors.

The following shareholders held more than 5% of the issued participating share capital of B Class:

	December 2018		31 December 2017	
	Number of participating shares held	% of total participating shares in issue	Number of participating shares held	% of total participating shares in issue
Citivic Nominees Limited	25,531	88.30	25,531	72.65
Clearstream Banking S.A	3,075	10.64	9,306	26.48

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

10. SHARE CAPITAL (CONTINUED)

Movements in participating shares during the year were as follows:

	2018		2017	
	Shares	US$	Shares	US$
Balance at the beginning of the year	35,144	351.44	28,913	289.13
Share issuance	-	-	32,864	328.64
Share redemption	(6,231)	(62.31)	(26,633)	(266.33)
Balance at the end of the year	28,913	289.13	35,144	351.44

Movements in share premium during the year were as follows:

	2018	2017
	US$	US$
Balance at the beginning of the year	45,677,791	36,020,261
Share issuance	-	54,999,671
Share redemption	(11,497,566)	(45,342,141)
Balance at the end of the year	34,180,225	45,677,791

11. NET ASSET VALUE PER PARTICIPATING SHARE

The calculation of the net asset value per participating share is based on the net assets as at 31 December 2018 of US$52,716,388 (31 December 2017: US$62,367,017) and 28,913 (31 December 2017: 35,144) participating shares in issue as at that date.

12. RELATED PARTIES AND OTHER KEY CONTRACTS

(a) Related parties

Investment manager

Management fees

B Class appointed Dragon Capital Debt Management Limited, an investment management company incorporated in the Cayman Islands, to implement the investment strategy as specified in the prospectus. The Investment Manager will be entitled to a management fee, calculated and payable by B Class to the Investment Manager monthly in arrears. The management fees shall be accrued daily based on the prevailing Net Asset Value at the rate of 1.0% per annum.

For the year ended 31 December 2018, management fees amounted to US$572,099 (2017: US$698,330). As at 31 December 2018, management fees of US$44,370 were payable (31 December 2017: US$43,348).

Incentive fees

The Investment Manager is entitled to an incentive fee, in accordance with certain conditions set out below, payable by B Class in arrears as soon as practicable after the Directors approve B Class's audited financial statements in respect of the relevant financial year. The Incentive Fee is calculated in accordance with the following formula:

Incentive fee amount = 10%*max [(Return B Class – Hurdle Rate),0] * Reference Amount

Where:

Reference Amount is the NAV at the beginning of the financial year minus redemptions during the financial year.

Hurdle Rate is calculated as Average 3 months Libor + 3%, where Average 3-month Libor is the calculated daily average of 3 months USD Libor on Reuters page LIBO for the financial year.

Return B Class is the annual net return for the financial year adjusted for dividends.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

12. RELATED PARTIES AND OTHER KEY CONTRACTS (CONTINUED)

The Incentive Fee will only be paid if the cumulative compounded net return adjusted for dividends since inception of B Class is higher than the high watermark level. Also the incentive fee will not be higher such that the cumulative compounded net return after paying the Incentive Fee is not lower than the high watermark. The high watermark is the compounded return calculated from Average 3 months Libor + 3% on annual basis as defined above.

In order for the incentive fee to be payable in respect of the year ended 31 December 2018, the cumulative compounded net return adjusted for dividends needed to exceed the high watermark at 2.302 and the hurdle rate at 5.307 (31 December 2017: the high watermark at 2.27 and the hurdle rate at 4.26). As at 31 December 2018, the cumulative compounded net return adjusted for dividends was 6.5%.

For the year ended 31 December 2018, an amount of US$61,118 incentive fee was incurred (2017: US$357,273) and remained payable as at 31 December 2018 (31 December 2017: US$357,273).

Transactions with key management personnel

Dominic Scriven has indirect interests in the share capital of B Class as he is also a shareholder of Dragon Capital Group Limited, which holds participating shares of B Class. Dragon Capital Group Limited is the parent company of Dragon Capital Debt Management Limited, the Investment Manager of B Class. As at 31 December 2018, Dominic Scriven beneficially held 3,075 (31 December 2017: 3,075) B Class participating shares of the Company for proprietary trading purposes. As at 31 December 2018, Dragon Capital Group Limited beneficially held 25,531 (31 December 2017: 31,672) participating shares of B Class for proprietary trading purposes.

Directors' fees

The Board of Directors will determine the fees payable to each Director, subject to a maximum aggregate amount of US$100,000 per annum being paid to the Board of Directors as a whole. Dominic Scriven, Dan Svensson and Le Anh Tuan have waived their rights to receive any Directors' fees. B Class will also pay reasonable expenses incurred by the Directors in the conduct of B Class's business including travelling and other expenses. For the year ended 31 December 2018, Directors' fees amounted to US$30,052 was incurred (2017: US$30,000). As at 31 December 2018 and 2017, no Directors' fees were payable for B Class.

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

(b) Other key contracts

Administration fees

The Administrator is entitled to receive a fee of 0.05% of B Class's gross assets per annum, payable monthly in arrears, and subject to a minimum monthly fee of US$2,500. For the year ended 31 December 2018, administration fees amounted to US$43,800 was incurred (2017: US$48,000), of which US$5,200 remained payable to the Administrator as at 31 December 2018 (31 December 2017: US$32,000).

Custodian fees

Standard Chartered Bank (Vietnam) Limited and branches of Standard Chartered Bank in Singapore as regulated by the State Bank of Vietnam and the Monetary Authority of Singapore respectively (the "Custodian"), have been appointed by B Class to act as the Custodian of the assets of B Class. Such assets will either be held directly by the Custodian or through its agent, sub-custodians or delegates pursuant to the Custody Agreements. For the year ended 31 December 2018, total custodian fees amounted to US$23,707 was incurred (2017: US$36,022). As at 31 December 2018 and 2017, no custodian fees were payable to the Custodian.

Broker fees

During the year, there were no broker fees paid to HSC – an associate of Dragon Capital Group Limited and one of the securities brokers of B Class and its subsidiaries (2017: nil). As at 31 December 2018, there were no broker fees payable to this broker (31 December 2017: nil).

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

13. INCOME TAX

Under the current law of the Cayman Islands, B Class is not required to pay any taxes in the Cayman Islands on either income or capital gains and no withholding taxes will be imposed on distributions by B Class to its shareholders or on the winding-up of B Class.

In accordance with Circular 103/2014/TT-BTC issued by the Ministry of Finance of Vietnam providing guideline in details of withholding tax on Viet Nam-sourced income generated by non-residents (i.e. offshore entities or individuals without a legal presence in Vietnam), B Class is subject to pay 0.1% withholding tax on proceeds of transferring securities, certificates of deposits and 5% withholding tax on the interest received from any Vietnamese entities. Dividends remitted by Vietnamese investee companies to foreign corporate investors are not subject to withholding taxes. Withholding tax consists of Value Added Tax ("VAT") and Corporate Income Tax ("CIT") components.

Foreign Account Tax Compliance Act

On 18 March 2010, the Hiring Incentives to Restore Employment Act of 2010 added chapter 4 to Subtitle A ("Chapter 4") of the US Internal Revenue Code (the "Code"). The provisions in Chapter 4 are commonly referred to as the Foreign Account Tax Compliance Act ("FATCA"). US Treasury regulations providing guidance on the due diligence, reporting, and withholding obligations under FATCA were passed and came into effect in January 2013 (the "Regulations").

The Regulations require foreign financial institution ("FFI") to provide the Internal Revenue Service ("IRS") with information on certain US persons invested in accounts outside of the US and for certain non US entities to provide information about any US owners. The obligations of an FFI under FATCA may be modified by an Intergovernmental Agreement ("IGA") between the US and the FFI's country of organisation. The Cayman Islands entered into a Model 1 IGA on 29 November 2013, which provides for reporting and enforcement by FFIs to be facilitated by local authorities. The Cayman Islands also entered into a similar IGA with the United Kingdom ("UK"). Therefore, all Cayman Islands domiciled "financial institutions" are subject to domestic legislation and regulations that implement both the US Foreign Account Tax Compliance Act ("US FATCA") and its UK equivalent ("UK FATCA" and together, "FATCA"). The due diligence and reporting regimes introduced by the domestic legislation and regulations apply to all such financial institutions irrespective of whether they have US or UK based account holders and/or have US or UK assets or source income.

The Company is a Reporting FFI and has registered for a Global Intermediary Identification Number ("GIIN") as required under US FATCA. The Company's registered GIIN is WYDP76.00000.SP.136.

14. BASIC EARNINGS PER PARTICIPATING SHARE

The calculation of basic earnings per participating share of B Class for the year ended 31 December 2018 is based on the net profit for the year attributable to B Class participating shares of US$3,727,087 (2017: US$7,454,721) and weighted average of 31,081 participating shares of B Class in issue during the year (2017: 33,892 participating shares).

(i) Net profit attributable to participating shareholders

	2018	2017
	US$	US$
Net profit attributable to participating shareholders	3,727,087	7,454,721

(ii) Weighted average number of participating shares

	2018	2017
	Shares	Shares
Issued participating shares at the beginning of the year	35,144	28,913
Effect of shares (redemption)/issuance	(4,063)	4,979
Weighted average number of participating shares during the year	31,081	33,892

(iii) Basic earnings per participating share

	2018	2017
	US$	US$
Basic earnings per participating share	119.92	219.96

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. FINANCIAL RISK MANAGEMENT

B Class invests in listed and unlisted debt securities in Vietnam, and is exposed to credit risk, liquidity risk, and market risk including price risk, interest rate risk and currency risk arising from the financial instruments it holds. B Class 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, B Class and its Investment Manager practise portfolio diversification and have adopted a range of appropriate restrictions and policies, including limiting B Class's cash investment in each investment to not more than 20% of B Class's Net Asset Value ("NAV") at the time of investment although the Investment Manager will endeavour to limit such exposure to 10 per cent. Nevertheless, the markets in which B Class operates and the investments that B Class makes are often inherently risky, and there can be no assurance that B Class 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 that an issuer or counterparty will be unable to meet a commitment that it has entered into with B Class.

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

As at 31 December 2018 and 2017, B Class's credit risk arose principally from its cash and cash equivalents, financial assets at FVTPL of debt securities and other receivables.

(i) Analysis of credit quality

The maximum exposure to credit risk faced by B Class is equal to the carrying amounts of cash and cash equivalents, financial assets at FVTPL of debt securities and other receivables shown in the statement of financial position. The table below summarises the exposure to credit risk of B Class.

	31/12/2018	31/12/2017
	US$	US$
Cash and cash equivalents	7,698,256	765,238
Financial assets at FVTPL - debt securities	43,935,564	65,654,551
Other receivables	12,670	115,553
	51,646,490	66,535,342

There was no impairment loss recognised on receivables as at and for the years ended 31 December 2018 and 2017.

Cash and cash equivalents and certificate of deposits

Cash and cash equivalents and certificate of deposits of B Class are mainly held with well-known financial institutions. Management does not foresee any significant credit risks from these deposits and does not expect that these financial institutions may default and cause losses to B Class.

Financial assets at FVTPL - debt securities

B Class limits its exposure to credit risk by only investing in liquid securities quoted on a recognised stock exchange and corporate bonds having high credit quality as assessed by the Directors. The management does not expect any counterparty to fail to meet its obligations.

Other receivables

Other receivables mainly included interest receivables from deposits at financial institutions. Management does not foresee any significant credit risks from these receivables and does not expect that these financial institutions may default and cause losses to B Class.

(ii) Concentration of credit risk

The investment manager reviews the credit concentration of debt securities held based on counterparties and industries.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

As at the reporting date, B Class's debt securities exposures were concentrated in the following industries:

	31/12/2018		31/12/2017	
	US$	%	US$	%
Infrastructure	13,191,577	30.02	13,518,007	20.59
Real estate	13,043,321	29.69	13,507,195	20.57
Finance	8,634,970	19.65	18,046,057	27.49
Manufacturing	6,897,155	15.70	2,230,213	3.40
Government bond	-	-	10,287,231	15.67
Bank	-	-	2,326,145	3.54
Others	2,168,541	4.94	5,739,703	8.74
	43,935,564	100	65,654,551	100

There were no significant concentrations in the debt securities portfolio of credit risk to any individual issuer or group of issuers as at 31 December 2018 and 31 December 2017. No individual investment exceeded 20% of the net assets attributable to the holders of participating shares either at 31 December 2018 or 31 December 2017.

(b) Liquidity risk

Liquidity risk is defined as the risk that B Class may not be able to settle or meet its obligations on time or at a reasonable price. B Class manages its liquidity risk by investing primarily in marketable securities and maintains an appropriate level of cash and cash equivalents.

(c) Market risk

All investments present a risk of loss of capital. B Class is exposed to market risks on all of its listed investments and certain unlisted investments for which an active over-the-counter market exists.

These market risks relate to the Vietnam stock exchange where B Class's investments are listed, and in the case of unlisted investments, the over-the-counter market. B Class's overall market positions are monitored on a daily basis by the Investment Manager.

As at 31 December 2018 and 2017, B Class's market risk is deemed to be affected by three main components: changes in market prices, changes in interest rates and foreign currency movements.

Price risk

Price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

Price risk arises from equity securities held by B Class. B Class's market price risk is managed by the Investment Manager who seeks to moderate risk through a careful selection of securities within specified limits, for example, limiting B Class's investment in each investment to not more than 20% of B Class's NAV.

As at 31 December 2018 and 2017, B Class's market risk is minimal because B Class mainly held debt securities.

Interest rate risk

B Class 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. B Class may 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 B Class can borrow will affect the operating results of B Class.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) Exposure to interest rate risk

The interest rate profile of B Class's interest-bearing financial instruments is as follows:

	31/12/2018	31/12/2017
	US$	US$
Fixed-rate instruments		
Cash and cash equivalents	7,698,256	765,238
Financial assets at FVTPL	29,689,464	38,586,525
	37,387,720	39,351,763
Variable-rate instruments		
Financial assets at FVTPL	14,246,100	27,068,026

The table below summarises the exposure to interest rate risk of B Class. Included in the tables are assets and liabilities categorised by the earlier of contractual repricing date or maturity date at the reporting date. The net interest sensitivity gap represents the net notional amounts of all interest sensitive financial instruments.

	Up to 1 year	From 1 - 5 years	From 5 years and above	Non-interest bearing	Total
31 December 2018	US$	US$	US$	US$	US$
ASSETS					
Cash and cash equivalents	7,698,256	-	-	-	7,698,256
Financial assets at FVTPL	28,728,029	15,207,535		1,198,226	45,133,790
Other receivables	-	-	-	12,670	12,670
TOTAL ASSETS	36,426,285	15,207,535	-	1,210,896	52,844,716
LIABILITIES					
Accounts payable and accruals	-	-	-	128,328	128,328
TOTAL LIABILITIES	-	-	-	128,328	128,328
NET INTEREST SENSITIVITY GAP	36,426,285	15,207,535	-	1,082,568	52,716,388

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Up to 1 year	From 1 - 5 years	From 5 years and above	Non-interest bearing	Total
31 December 2017	US$	US$	US$	US$	US$
ASSETS					
Cash and cash equivalents	765,238	-	-	-	765,238
Financial assets at FVTPL	43,933,663	16,333,830	5,387,058	1,461,513	67,116,064
Other receivables	-	-	-	115,553	115,553
TOTAL ASSETS	44,698,901	16,333,830	5,387,058	1,577,066	67,996,855
LIABILITIES					
Payables under sale and repurchase agreements	5,188,420	-	-	-	5,188,420
Accounts payable and accruals	-	-	-	441,418	441,418
TOTAL LIABILITIES	5,188,420	-	-	441,418	5,629,838
NET INTEREST SENSITIVITY GAP	39,510,481	16,333,830	5,387,058	1,135,648	62,367,017

(ii) Sensitivity analysis of interest rate risk

The sensitivity analysis reflects how net assets attributable to holders of participating shares would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

Management has determined that a fluctuation in interest rates of 100 basis points is reasonably possible, considering the economic environment in which B Class operates. The table below sets out the effect on B Class's equity of a reasonably possible increase of 100 basis points in interest rates at 31 December. The impact of such an increase or reduction has been estimated by calculating the fair value changes of the fixed-interest debt securities. The impact is primarily from the decrease in the fair value of fixed-income securities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	31/12/2018	31/12/2017
Equity (US$)	(548,250)	(1,299,876)
Equity (% NAV)	(1.04)	(2.10)

A reduction in interest rates of the same amount would have resulted in an equal but opposite effect to the amounts shown above.

Currency risk

B Class's participating shares are denominated in US$, and shares are issued in this currency. The assets of B Class may, however, be invested in securities and other investments which are denominated in currencies other than the currency in which the participating shares are denominated. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency exchange rates and, therefore, B Class will necessarily be subject to foreign exchange risks. The Investment Manager monitors B Class's currency position on a monthly basis.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

The tables below summarise the exposures to various currencies of B Class.

	31/12/2018
	Denominated in VND
	US$
ASSETS	
Cash and cash equivalents	5,942,731
Financial assets at FVTPL	41,056,947
Other receivables	12,670
TOTAL ASSETS	47,012,348
LIABILITIES	
Payables under sale and repurchase agreements	-
TOTAL LIABILITIES	-
NET ASSETS	47,012,348

As at 31 December 2018, had the US$ strengthened or weakened against VND by 2% with all other variables held constant, the net assets attributable to holders of B Class participating shares would have decreased or increased by US921,811 respectively.

	31/12/2017
	Denominated in VND
	US$
ASSETS	
Cash and cash equivalents	336,764
Financial assets at FVTPL	64,967,985
Other receivables	115,553
TOTAL ASSETS	65,420,302
LIABILITIES	
Payables under sale and repurchase agreements	5,188,420
TOTAL LIABILITIES	5,188,420
NET ASSETS	60,231,882

As at 31 December 2017, had the US$ strengthened or weakened against VND by 1% with all other variables held constant, the net assets attributable to holders of B Class participating shares would have decreased or increased by US596,355 respectively.

(d) Fair value of financial assets and liabilities

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted prices or broker price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value hierarchy – Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

31 December 2018	Level 1	Level 2	Level 3	Total
	US$	US$	US$	US$
Financial assets at FVTPL				
Manufacturing	-	-	6,897,155	6,897,155
Real estate	1,198,226	-	13,043,321	14,241,547
Finance	-	-	8,634,970	8,634,970
Infrastructure	-	-	13,191,577	13,191,577
Others	-	-	2,168,541	2,168,541
TOTAL	1,198,226	-	43,935,564	45,133,790

31 December 2017	Level 1	Level 2	Level 3	Total
	US$	US$	US$	US$
Financial assets at FVTPL				
Government	10,287,231	-	-	10,287,231
Manufacturing	-	-	2,230,213	2,230,213
Real estate	1,461,513	-	13,507,195	14,968,708
Finance	-	-	18,046,057	18,046,057
Banking	-	-	2,326,145	2,326,145
Infrastructure	-	-	13,518,007	13,518,007
Others	-	-	5,739,703	5,739,703
TOTAL	11,748,744	-	55,367,320	67,116,064

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below sets out information about significant unobservable inputs used at 31 December 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of bond	Valuation technique	Significant unobservable inputs
Floating interest rate corporate bonds, certificate of deposits	Clean price derived from historical cost or market comparison approach as of purchase date plus accrued interest as of the reporting date	Clean prices are calculated based on market evidence available to B Class
Fixed interest rate corporate bonds	Discounted cash flows: discounting the interest and principal repayments after the reporting date with risk-adjusted discount rate as of the reporting date (government bonds' yield plus credit spread)	Specific credit spreads of bond issuers based on market transactions in similar or comparable corporate bonds as observed by B Class

The following table presents the movements in level 3 instruments for the years ended 31 December 2018 and 2017:

	2018	2017
	US$	US$
Opening balance	55,252,241	17,394,260
Purchases	45,134,318	54,249,720
Sales	(56,041,385)	(15,637,570)
Transfer to level 1	(1,524,270)	(1,576,592)
Accrued interest	472	(115,079)
Gain recognised in profit or loss	1,114,188	937,502
Closing balance	43,935,564	55,252,241
Total gain for the year included in the net changes in fair value of financial assets at FVTPL	1,114,188	937,502

The annual discount rates used in the discounted cash flow analysis as at 31 December 2018 were from 9.50% to 12.00% for corporate bonds (31 December 2017: from 8.00% to 12.00%), from 6.08% to 6.57% for certificate of deposits denominated in US$ (31 December 2017: 6.08%) and 7.9% for certificate of deposits denominated in VND (31 December 2017: from 10.25% to 11.20%).

Fair value hierarchy – Financial instruments not measured at fair value

The financial instruments not measured at FVTPL include cash and cash equivalents, other receivables, accounts payable and accruals. The fair value hierarchy of these financial instruments is categorised as level 2. These are short-term financial assets and financial liabilities whose carrying amount approximate fair value, because of their short-term nature and the high credit quality of counterparties.

(e) Capital management

B Class considers the capital to be managed as equal to net assets attributable to holders of participating shares. B Class has engaged the Investment Manager to allocate the net assets in a way to generate investment returns that are commensurate with the investment objectives outlined in B Class's offering documents.

16. CONTINGENCIES

Under the current law of the Cayman Islands, B Class is not required to pay any taxes in the Cayman Island on either income or capital gains and no withholding taxes will be imposed on distributions by B Class to its shareholders or on the winding-up of B Class. B Class is subject to 5% withholding tax on the interest received from any Vietnamese companies.

Although B Class is 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:

Vietnam Debt Fund SPC – B Class Segregated Portfolio

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

16. CONTINGENCIES (CONTINUED)

- Whether B Class and/or its portfolios is/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 B Class and/or its portfolios will be exposed to tax liabilities in Vietnam, and as a result, provision for tax liabilities have not been made in the financial statements.

17. SEGMENT REPORTING

The Investment Committee of the Investment Manager makes strategic resource allocations on behalf of B Class. B Class has determined the operating segments based on the reports reviewed by this committee which are used to make strategic decisions. The portfolio is managed by a specialist team at the Investment Manager.

The reportable operating segments derive their income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within the portfolio. These returns consist of interest, and gains on the appreciation in the value of investments.

There were no changes in the reportable segments during the year.

2018	Vietnam		Others	Total
	Listed	Unlisted		
	US$	US$	US$	US$
Interest income	843,834	2,985,243	398,344	4,227,421
Net changes in fair value of financial assets at FVTPL	(737,368)	(456,726)	-	(1,194,094)
Gains on disposals of financial assets at FVTPL	1,735,265	124,333	-	1,859,598
Other income	-	-	94,170	94,170
Total segment income (excluding net foreign exchange losses)	1,841,731	2,652,850	492,514	4,987,095
Total segment assets	17,370,824	27,762,966	7,710,926	52,844,716
Total segment liabilities	-	-	128,328	128,328

2017	Vietnam		Others	Total
	Listed	Unlisted		
	US$	US$	US$	US$
Interest income	692,126	2,164,810	459,238	3,316,174
Net changes in fair value of financial assets at FVTPL	572,685	770,729	-	1,343,414
Gains on disposals of financial assets at FVTPL	3,895,892	203,702	-	4,099,594
Other income	-	-	337,500	337,500
Total segment income (excluding net foreign exchange losses)	5,160,703	3,139,241	796,738	9,096,682
Total segment assets	19,339,626	37,539,909	11,117,320	67,996,855
Total segment liabilities	-	-	5,629,838	5,629,838

18. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 May 2019.

Administration

THE COMPANY & REGISTERED OFFICE

Vietnam Debt Fund SPC

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VIETNAM CUSTODIAN

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COMPANY SECRETARY & REGISTRAR

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Board of Directors

DR. ERIK JUHANI VALTONEN

Independent non-executive director (Appointed August 2016)

Dr. Valtonen holds a PhD in mathematics from the University of Stockholm. He worked with Postipankki, a Finnish Commercial Bank, in Helsinki, as a senior analyst from 1992 to 1995. From 1995 to 2000, he worked with Handelsbanken Markets in various roles in London, Helsinki and Stockholm, latterly with responsibility for a pan-Nordic team of analysts in the fields of fixed income and foreign exchange. From 2000 until 2010, he worked in various roles for AP3 (the Third National Pension Fund of Sweden), including at various times as Head of Quantitative Analysis, Head of Risk Management, and Chief Investment Officer. He is now CEO and Chief Strategy Advisor for Erik Valtonen Consulting, based in Stockholm.

ANNE-FRANCE MARMOT

Independent non-executive director (Appointed Novermber 2018)

Anne-France Marmot is a French-qualified lawyer with over twenty years' experience in Europe and Asia, and a background in finance. She began her career working for international law firms in Paris before moving to Hanoi, Vietnam to establish the representative office of an international law firm. In 2001 she returned to France, joining the investment banking division of Société Générale, to work on structured financial products. She then joined BNP Paribas' Global Structuring Group in Hong Kong, focusing on equities and commodities derivatives. She returned to Vietnam in 2011, establishing her own consultancy.

DAN SVENSSON

Chairman and non-executive director (Appointed November 2007)

Dan Svensson is a Swedish Fulbright Fellow. He graduated from the Swedish University of Agricultural Sciences with an MSc in forestry in 1984 and subsequently gained an MBA majoring in finance from the University of California, Berkeley. In 1987, he joined AB Svensk Export Kredit as an assistant director in capital markets. In 1989, he joined the Swedish National Debt Office as an assistant director. From 1992 to 1995, he worked for the European Bank for Reconstruction and Development as a financial policy officer responsible for the bank's financial projections. In 1995, he returned to the Swedish National Debt Office where he worked on procurement and implementation of their financial management systems. In 1998, he joined Handelsbanken as a derivative trading structurer. For his last two years he worked on the bank's credit risk and capital requirement modelling for Basle II. Whilst working full time, he also pursued graduate and postgraduate studies in Economics and Finance and holds separate degrees in both. He joined Dragon Capital Group in July 2006, where he is head of fixed income responsible for debt products and financial structuring.

DOMINIC SCRIVEN, OBE

Non-executive director (Appointed November 2007)

Dominic Scriven is British, was educated at Winchester, and graduated from Exeter University in Law and Sociology. His 30 years of investing have ranged from London to Hong Kong, but have been concentrated in Vietnam. He studied at Hanoi General University for two years before founding Dragon Capital in 1994. Dragon Capital is active in investment management, capital markets, and microfinance, and runs capital in the region of US$1.5bn. A Vietnamese speaker, he is an active advocate of financial market development and governance, and is a director of various Vietnamese public companies. He was appointed OBE by the British Queen in 2006, and awarded the Labour Medal by the Vietnamese President in 2014. His external interests range from Vietnamese art, propaganda, for which he was made an Honorary Member of the Vietnamese Heritage Association; to biodiversity and reduction of the illegal wildlife trade.

LE ANH TUAN, PH.D.

Alternate non-executive director to Dan Svensson (Appointed November 2012)

Le Anh Tuan, Ph.D. graduated from the University of Economics, Ho Chi Minh City with a degree in finance and banking. He obtained an MBA from the Atkinson School of Management, Willamette University, Oregon in 2003, and an MA in economics from Pennsylvania State University, University Park in 2005. He was awarded his doctorate in economics, concentrating on macroeconomics, industrial organisation and trade, by Pennsylvania State University in May 2008. He joined Dragon Capital Group in April 2008 as a senior economist and has since been promoted to Head of Research / Economics. Dr. Tuan has also undertaken numerous technical assistance projects with State Bank of Vietnam, Ministry of Finance, and State Treasury on macro economics, and fixed income.

Dragon Capital

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