





**Head Office:**

184 - 186 - 188 Nguyen Dinh Chieu St,  
Ward 06, Dist. 03, HCMC, Vietnam

Tel: (84.8) 930 0358

Fax: (84.8) 930 5206

[www.vinamilk.com.vn](http://www.vinamilk.com.vn)

Annual Report 2007

**VINAMILK®**



**Vfresh**

**Ông Thọ**

**Café®  
MOMENT**

**dielac**

**VINAMILK**

Cuộc sống tươi đẹp

**Ngôi Sao  
Phạm Ngọc**

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**VINAMILK®**

# this is WHO WE ARE

## VISION

Vinamilk will be the fastest and sustainable growing healthy dairy and food company by building a long-term competitive advantaged product portfolio across the scale.

## MISSION

Vinamilk continues to expand its existing geographical coverage and product portfolios to maintain its sustainably dominant position in the local market and maximizing its shareholder value.



## CHAIRWOMAN'S MESSAGE

**V**inamilk is the leading dairy & beverage company and also one of the 5 largest companies in term of market capital listed in Vietnam. The brand “Vinamilk”, with its extensive market share and position, has gone into consumers’ mind. Vinamilk’s quality products are designed to offer the community a “healthy and beautiful life”.

Despite the difficult year of 2007 such as two-digit inflation, inputs like milk powder and sugar rapidly increased in price, and severe competition with imported products, Vinamilk still kept its strong growth, ensuring shareholders’ profits. Earning per share (EPS) of the year was VND5,607/share, increased by 35% as compared to that of 2006 (VND4,150/share).

The Company has been firmly revising its business strategies and marketing activities with its sales team being supported by modern tools and trained with higher professionalism for its sustainable long-term development.

The company continues building new dairy factories and expanding the existing ones in Can Tho, Da Nang and Hanoi, as well as proceeding with the dairy farm projects. In addition to the key business, Vinamilk keep seeking opportunities for external investment to maximize profits and increase Company’s shareholder value.

### Financial results

The Company’s turnover and profit have been steadily increasing during the four successive years since its equitization in 2003. The followings are the basic figures of 2007 and 2006:

In VND billion	2007	2006	% increase/ (decrease)
- Net revenue	6,649	6,246	6.5%
- Profit after tax	963	660	46%

Besides the major export market of Iraq, the Company focuses on strengthening the presence of its products in other countries like Cambodia, the U.S, Philippines etc.

### Dividends

Given the good results for 2007, the Board recommends for shareholders’ approval a total dividend for the year of VND 2.900 per VND 10.000 par-value share (equivalent to 29% on share par-value). This is a 52.6% increase over last year’s normal after-tax dividend of VND1,900 per share.

This marks the fourth year on increase in the payment of the normal dividends to shareholders: 2004: 15%; 2005: 17%; 2006: 19% and 2007: 29% as proposed – and highlights the Company’s sustainable growth.



Vinamilk has the financial, human resource strengths and over 30 years of experience to achieve the substantial growth in line with its vision and mission. Vinamilk commits to provide healthy products to achieve a beautiful lifestyle for our community. Vinamilk also strongly believes in increasing our shareholder value through growth.

Barring unforeseen circumstances, it is the Board's intention to maintain the after-tax dividend at not less than the normal after-tax dividend of the previous year. However, in any given year, the actual payout will need to take into account the Company's consolidated earnings outlook and plans for new investments to ensure Company's sustainable growth.

#### **Overseas listing Plan**

Vinamilk is under consultancy and working with relevant agencies to be listed in Singapore Stock Exchange (SGX) in 2008 with a new issue of 5% of its existing share capital. This overseas listing shall land Vinamilk into international market, aligning with the top food & beverage groups in the region. This is considered an initial step to raise capital from international financial market for the Company's expanding strategies.

With this listing event in international market, Vinamilk has been, step-by-step, applying standards, corporate governance as requested SGX and other international generally accepted principles and practices, which provide strong assurance of its good financial management and transparency.

#### **Acknowledgements**

On behalf of Vinamilk, I would like to express my sincere gratitude to our customers, our business partners and government agencies for their trust and support, which give significant contribution to Vinamilk's strong and sustainable success. I wish you all success in work and in business, and hope to expand our cooperation.

I would like to thank to more than 4,000 Vinamilk employees for your effective contribution, and I hope that you will strengthen your ability to lead Vinamilk to more success in the future.

With good performance from previous years, I strongly believe that Vinamilk will continue its strong and sustainable growth in the following years. The Company has been putting newly completed and expanded projects in use and diversifying our product portfolios to meet all reasonable customer's needs and simultaneously to increase more and more for Vinamilk shareholder value.

Ho Chi Minh City, 15<sup>th</sup> March 2008

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke.

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**MAI KIEU LIEN**  
Chairwoman





# ENJOY LIFE



# Corporate Profile





# CORPORATE PROFILE



**Significant events in our business are set out below:**

**1976** .....Our Company was founded under the name of Southern Coffee-Dairy Company, a subsidiary of the General Food Directorate and had six factories in operation, namely Thong Nhat Dairy Factory, Truong Tho Dairy Factory, Dielac Factory, Bien Hoa Coffee Factory, Bich Chi Powder Factory and Lubico.

**1978** .....The management of our Company was transferred to the Ministry of Food Industry and our Company was renamed United Enterprises of Milk Coffee Cookies and Candies I.

**1988** .....Introduced powdered milk and cereal with milk powder at the first time in Vietnam.

**1991** .....Launched UHT milk and spoon yoghurt to Vietnam market.

**1992** .....The United Enterprises of Milk Coffee Cookies and Candies I was formally renamed Vietnam Dairy Company and came under the direct management of the Ministry of Light Industry. We started focusing on the manufacturing and processing of dairy products.

**1994** .....Hanoi Dairy Factory was built in Hanoi as part of our Company's expansion and market development strategy to cater to the market in the northern region of Vietnam.

- 1996** ..... Binh Dinh Dairy Joint Venture Enterprise was founded as the result of our joint venture with Dong Lanh Quy Nhon Joint Stock Company. This joint venture enabled our Company to successfully gain access to the market in the middle region of Vietnam.
- 2000** ..... Can Tho Dairy Factory, which is located in Tra Noc Industrial Zone, Can Tho City was built to better meet the demands of consumers in the Mekong Delta. In the same year, we set up the Logistics and Warehouse Enterprise located in 32 Dang Van Bi St., Ho Chi Minh City.
- 2003** ..... Was formally converted into a joint stock company in December 2003 and changed its name to Vietnam Dairy Products Joint Stock Company to reflect its change in status.
- 2004** ..... Acquired Saigon Milk Joint Stock Company. Increased share capital to VND 1,590 billion
- 2005** ..... Bought over our joint venture partner's remaining shareholdings in Binh Dinh Dairy Products Company Ltd (as Binh Dinh Dairy Factory was then known) and inaugurated Nghe An Dairy Factory, located in Cua Lo Industrial Zone, Nghe An province, on 30 June 2005.
- 2005** ..... Entered into a joint venture agreement with SABMiller Asia B.V. and established SABMiller Vietnam Joint Venture Company Ltd. in August 2005. Our first joint venture product, Zorok, was also launched in the first half of 2007.
- 2006** ..... Vinamilk was listed on the HOSE on 19 January 2006 with the SCIC holding approximately 50.01% of our Company's shareholdings.
- Opened An Khang Clinic in Ho Chi Minh City in June 2006. This is the first clinic in Vietnam managed by a sophisticated electronic management system. The clinic offers a diverse range of services such as nutritional consulting, gynecology testing, pediatrics consulting and health screening.
- Commenced our dairy cow farms program with the acquisition of Tuyen Quang dairy farm, a small scale farm with 1,400 heads of cows in November 2006. The Tuyen Quang dairy farm was operational at the time of acquisition.
- 2007** ..... Acquired a 55% interest in Lam Son Milk Company Ltd. in September 2007, located in Le Mon Industrial Zone, Thanh Hoa province.

# CORPORATE PROFILE

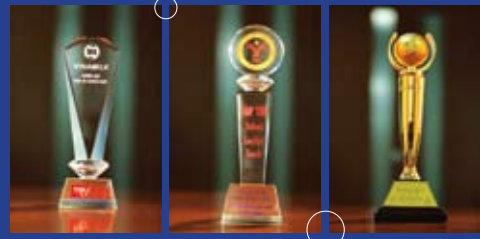
## AWARDS AND ACCOLADES

**Our Company, our factories, our products and the “Vinamilk” brand, as the case may be, have received a lot of awards, some of which are:**

Date/Period	Award	Awarding Authority
1985	Labour Medal of Third Ranking	President of Vietnam
1991	Labour Medal of Second Ranking	President of Vietnam
1996	Labour Medal of First Ranking	President of Vietnam
2000	Hero of Labour	President of Vietnam
2001	Labour Medal of Third Ranking	President of Vietnam
2005	Independence Medal of Third Ranking	President of Vietnam
2005	Labour Medal of Third Ranking	President of Vietnam
2006	“Supreme Cup” for Vietnamese goods of high quality and prestige	Intellectual Property Association and Association of Small & Medium Enterprises, Vietnam
Each year from 1995 - 2007	Top brand in the “Top Ten High-quality Vietnamese Goods”	Saigon Marketing Newspaper readers’ choice

**In recognition of her long term contributions to the development of the Vietnamese dairy industry and the development of Vietnam, our Chairwoman, Madam Mai Kieu Lien, was awarded the following prestigious awards and titles:**

Date/Period	Award	Awarding Authority
2001	Labour medal of Second ranking	President of Vietnam
2005	First Prize for Creativity Year 2004	World Intellectual Property Organisation
2005	Hero of Labour	President of Vietnam
2006	Labour medal of First ranking	President of Vietnam



## CORPORATE STRUCTURE

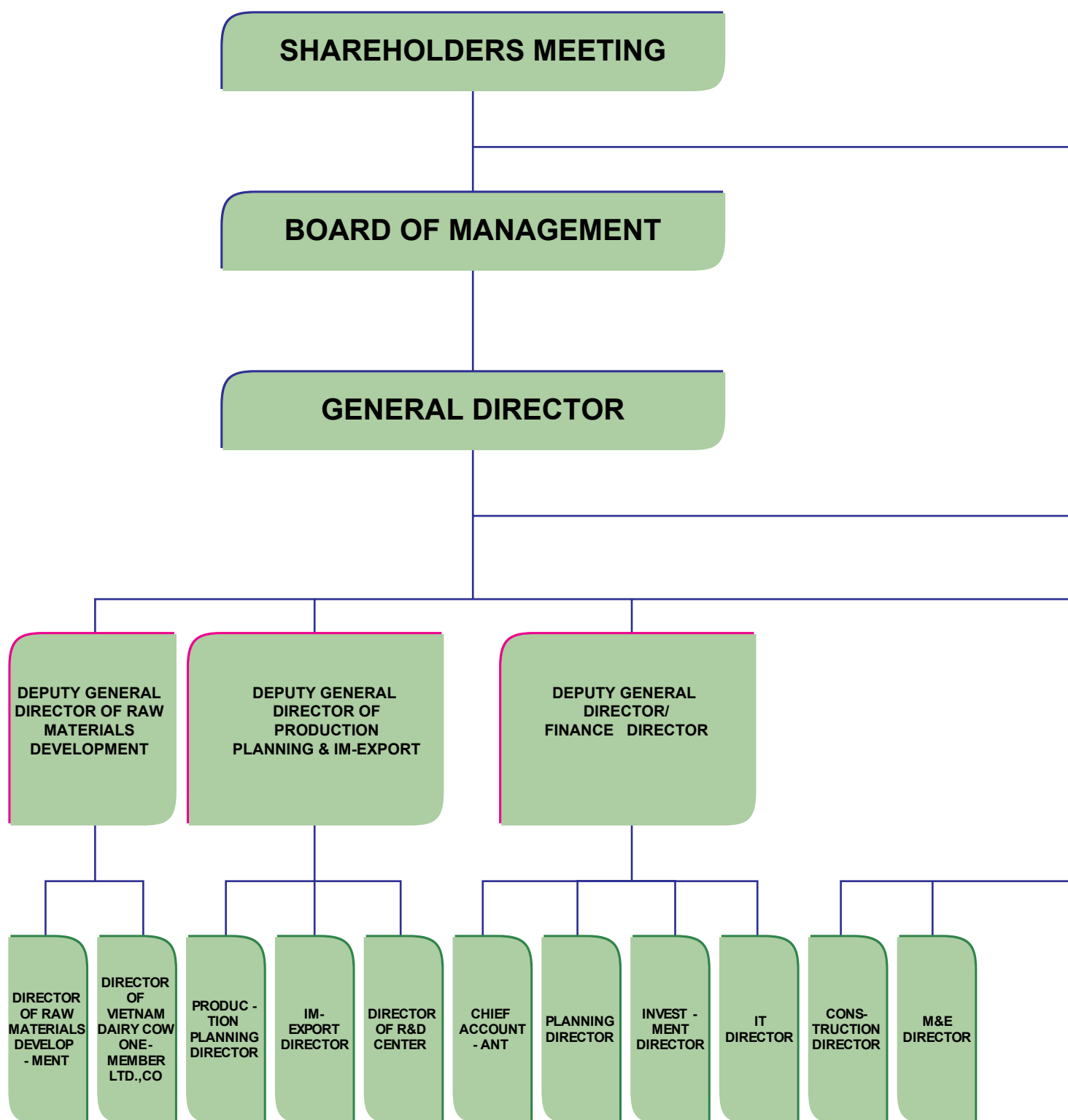
### VIETNAM DAIRY PRODUCTS JOINT STOCK COMPANY



**Details of our subsidiaries and joint venture as at 31 December 2007 are as follows:**

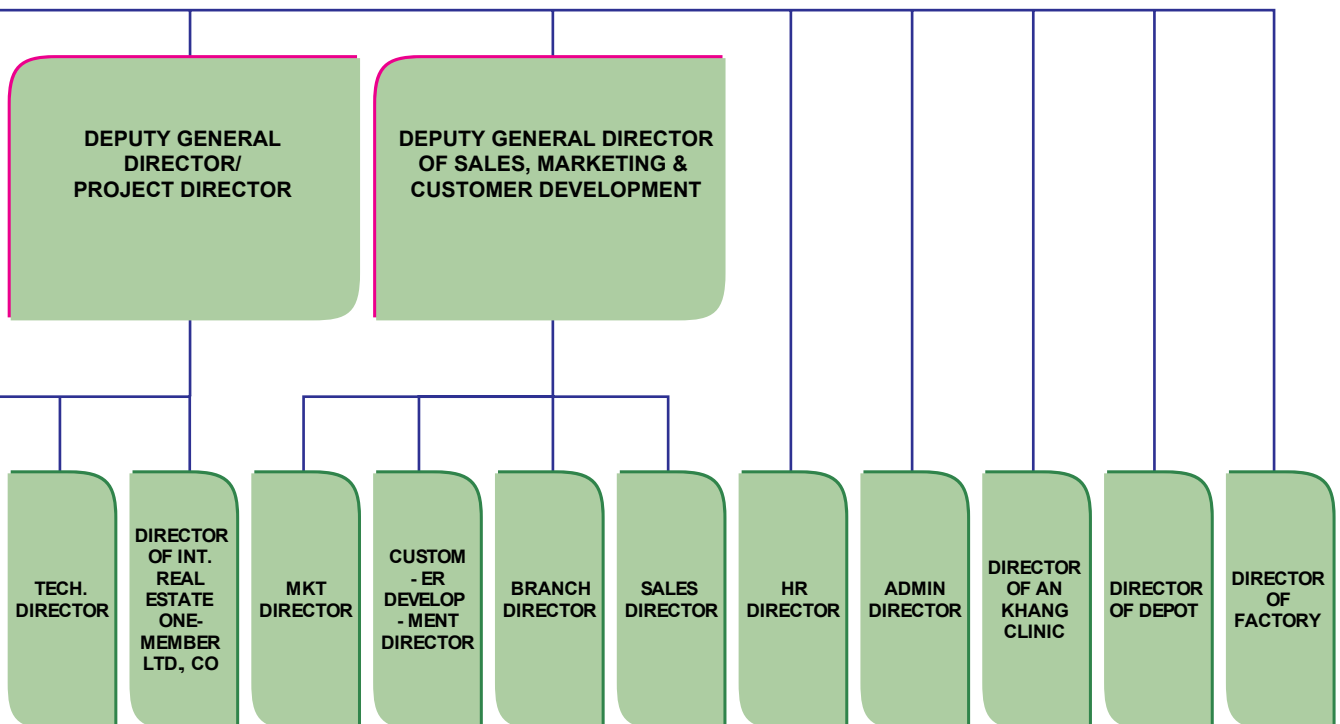
<b>Name</b>	<b>Date / country of incorporation</b>	<b>Principal Business</b>	<b>Share capital</b>	<b>% owned</b>
International Real Estate	12 December 2006 / Vietnam	Housing business, real estate brokerage and leasing, warehouse and dock leasing	VND160 billion	100%
Vietnam Dairy Cow	14 December 2006 / Vietnam	Breeding of dairy cow, mixed cultivation and breeding, sale and purchase of alive animals	VND100 billion	100%
Lam Son Dairy	26 February 2007 / Vietnam	Production and trade of canned milk, powdered milk and other dairy products, baby food, cake, soy milk, beverages, dairy cow breeding, trade of technology and equipment, raw materials	VND80 billion	55%
SABMiller JV	30 June 2006 / Vietnam	Production and trade of beer and other fruit flavoured beverages with low alcoholic ratio	US\$13.5million (approximately VND217 billion)	50%

# MANAGEMENT REPORTING STRUCTURE



## INSPECTION COMMITTEE

## INTERNAL AUDIT DIRECTOR





# TASTY



## BOARD OF MANAGEMENT



*from top to bottom*

Ms Mai Kieu Lien

Ms Ngo Thi Thu Trang

Mr Dominic Scriven

Mr Hoang Nguyen Hoc

Mr Wang Eng Chin



## **MS MAI KIEU LIEN**

Chairwoman, General Director

**H**as been the Chairwoman of our Board of Management since 14 November 2003. From August 1976 to August 1980, she was an engineer in charge of the condensed milk production at Truong Tho Dairy Factory. Between September 1980 and February 1982, she was a technology engineer in the Technical department of the United Enterprises of Milk Coffee Cookies and Candies I. She served as a vice technical director in charge of production at Thong Nhat Dairy Factory from February 1982 to June 1983. After finishing her training at Economic University of Leningrad in the former Soviet Union (currently Russia), in July 1984

Ms Lien was appointed deputy general director of the United Enterprises of Milk Coffee Cookies and Candies I. In December 1992, she was promoted to general director of Vietnam Dairy Products Company. On 14 November 2003, she was elected chairwoman of the Board of Management and thereafter appointed as General Director of our Company. Ms Lien graduated from Moscow University of Meat and Milk Processing, Russia with a bachelor of science degree in 1976. She holds a Certificate of Economic Management from University of Economy, Russia, and a Certificate of Government Management from National Political Institute, Vietnam.

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## **MS NGO THI THU TRANG**

Member, Deputy General Director, CFO

Has been a member of our Board of Management since 14 November 2003, and Deputy General Director and Finance Director of our Company since March 2005. Ms Trang joined our Company in 1985 as a financial analyst, and in January 1995 she became a Vice Manager in the Accounting-Statistics department of the Vietnam Dairy Products Company. She held this position until December 1997 and served for a brief time between January 1998 and February 1998 as the Head of the Accounting-Statistic department. Between February 1998 and March 2005, Ms Trang held the position of the Chief Accountant in charge of the Accounting department of the Vietnam Dairy Products Company. In March 2005, she was appointed deputy general director and finance director. Ms Trang graduated from the Finance-Accounting University, Ho Chi Minh City, with a Bachelor of Arts degree majoring in accounting and finance in 1984. She also holds a Master of Business Administration degree from the Open University, Ho Chi Minh City.

## **MR DOMINIC SCRIVEN**

Member

Has been a member of our Board of Management since 31 March 2005. From 1985 to 1986, Mr Scriven was an assistant to the board of directors at M&G Investment Management where he assisted the board in matters relating to investments in the European and Asia regions. Between 1986 and 1988, he was a consultant at the investment banking arm of Citigroup where he assisted in the setting up and consulting for three investment funds, namely Thailand Fund, Seoul International Trust and Korea International Trust. Mr Scriven held the position of director in charge of investment at Sun Hung Kai Investment Fund between 1989 and 1991. He later joined Peregrine Corporation where he oversaw the capital market development. He co-founded Dragon Capital Group Limited in 1994 and currently holds the position of [managing director]. Mr Scriven graduated from the University of Exeter in 1985 with a Combined Honour degree in Laws and Sociology. He was awarded the Order Of The British Empire (**OBE**) in the Queen Elizabeth II's 2006 New Year's Honours List.

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## **MR HOANG NGUYEN HOC**

Member

Has been a member of our Board of Management since 4 November 2006. Prior to being appointed to our Board of Management, Mr Hoc had extensive experience within the Ministry of Finance of Vietnam. From October 1999 to June 2003, Mr Hoc was a deputy director in the department for state-owned enterprises' financial management. He was appointed as Deputy General Director of the State Capital Investment Corporation in January 2008. Mr Hoc holds a Master of Business Administration degree from Ha Noi National University.

## **MR WANG ENG CHIN**

Member

Has been a member of our Board of Management since 31 March 2007. Between 1987 and 1988, Mr Wang worked as a corporate development executive with Cold Storage (S) Pte Ltd. He was a manager, Plain Heaven Cold Storage (S) Pte Ltd from 1988 to 1991. Mr Wang joined F&N Foods Pte Ltd as a general sales manager in 1991 and held this position until 1997. Between 1997 and 2003, he served as a deputy general manager at F&N Foods Pte Ltd and F&N Dairies (M) Sdn Bhd. In 2003, he became a general manager responsible for general management of F&N Foods Pte Ltd and F&N Vietnam Foods and held this position until September 2006. On 1 October 2006, he was appointed acting chief executive officer in charge of general management of the Food & Beverage Division, Fraser & Neave Group. He graduated from University of Mississippi, USA, in 1984 with a Bachelor of Business Administration and in 1987 with a Master of Business Administration.

# BOARD OF DIRECTORS

*from left to right*

Ms Nguyen Thi Thanh Hoa

Ms Mai Kieu Lien

Mr Tran Minh Van

Ms Nguyen Thi Nhu Hang

Mr Tran Bao Minh

Ms Ngo Thi Thu Trang



## MS MAI KIEU LIEN

General Director

*(See "Board of Management" for information about Ms Mai Kieu Lien)*

## MS NGO THI THU TRANG

Deputy General Director, CFO

*(See "Board of Management" for information about Ms Ngo Thi Thu Trang)*

## MS NGUYEN THI THANH HOA

Deputy General Director

Has been a Deputy General Director of our Company since 2000. Between September 1978 and June 1983, Ms Hoa was a lecturer at the Foodstuff and Process & Equipment departments at the Ho Chi Minh Polytechnic University. She later joined our Company in July 1983 as a process engineer at Truong Tho Dairy Factory. Ms Hoa held the positions of deputy director and then director in charge of overall operation of Truong Tho Dairy Factory from July 1991 to 1999. From January 2005, Ms Hoa is a deputy general director of Vietnam Dairy Products Company. She is currently in charge of planning, import, export and research and development of our Company. Ms Hoa graduated from Milk Processing Technology University, Moscow, in 1978 with a Bachelor degree in Milk Processing Technology.

## MR TRAN BAO MINH

Deputy General Director

Mr Minh joined PepsiCo Vietnam in September 1997 as a marketing manager and was promoted to marketing director in August 2001 where he was in charge of the formulation, management and execution of marketing strategies for PepsiCo's six leading brands in Vietnam, namely Pepsi, 7-Up, Mirinda, Aquafina, Twister and Sting. He was later transferred to PepsiCo's headquarters in New York in February 2004 where he held the position of global Pepsi innovation director and led Pepsi's global product and packaging innovation agenda. Between April 2005 and August 2005, Mr Minh was seconded to PepsiCo Thailand as marketing director in charge of formulating Pepsi's marketing strategy in Thailand for non-carbonated beverages. From August 2005 to September 2006,



#### **MR TRAN MINH VAN**

Deputy General Director

he served as marketing director of PepsiCo's Asia Pacific business unit where he managed PepsiCo's Mountain Dew, 7-Up and Mirinda brands of beverages for the Asia Pacific region. Mr Minh joined Vinamilk in October 2006 as Deputy General Director in charge of Sales, Marketing and Customer Development. Mr Minh graduated from the Ho Chi Minh City University of Economics in 1991 with a Bachelor of Arts majoring in business planning and obtained a Masters in Commerce degree from the University of Western Sydney in 1996. As a testament to his contribution to PepsiCo, he was awarded the Asia Pacific Region Marketer of the Year award in 2002 and Top Performance Marketer in the Asia Pacific Region award in 2003 by PepsiCo.

Has been a Deputy General Director of our Company since July 2006. Between 1990 and July 1994, Mr Van was a [deputy director] assisting the director of Thong Nhat Dairy Factory. In August 1994, he was appointed director of the Thong Nhat Dairy Factory and continued to hold this position until June 2006. He was appointed Deputy General Director in charge of the Project department of our Company in July 2006. Mr Van graduated from Ho Chi Minh City Polytechnic University in 1981 with an engineering degree. He obtained a Bachelor in Business Administration from Ho Chi Minh City University of Economics in 1994, a LLB degree (with major in commercial laws) from Ha Noi University of Laws in 2001, and a Master in Business Administration from Ho Chi Minh City University of Economics in 2003.

#### **MS NGUYEN THI NHU HANG**

Deputy General Director

Ms Hang first joined our Company in 1981 where she held the position of deputy manager in the consumption department until 2001. She was later promoted to the position of director in August 2001 where she was in charge of managing the Warehouse Enterprise until December 2002. Ms Hang was promoted to deputy general director in January 2003 where she was and still is in charge of the technical project department. She is also in charge of managing and developing dairy farms that supply raw milk to the Company. In July 2007, Ms Hang was appointed director of Vietnam Dairy Cow Limited Company with One Member, a subsidiary of our Company. Ms Hang graduated from the Ho Chi Minh City University of Economics in 1994 with a bachelor degree in business administration.

## INSPECTION COMMITTEE



### **MS LE THI KIM ANH**

Member

Between August 2001 and December 2004, she worked as a senior auditor at PricewaterhouseCoopers Vietnam Limited. She joined VietFund Management in December 2004 as a portfolio manager for Vietnam Growth Investment Fund (VF2). Ms Kim Anh graduated from the University of Economics, Ho Chi Minh City, with a bachelor degree majoring in accounting and auditing.

### **MR NGUYEN VIET CUONG**

Head of Inspection Committee

Mr Cuong began his career at KPMG Vietnam in 1998 until 2002 as a senior auditor. Between 2003 and 2004, he was a management accountant at Unilever Bestfoods Vietnam where he was responsible for internal management reporting for food business of Unilever Vietnam. In 2004, he joined VinaCapital Group and now being a deputy managing director in charge of managing the portfolio for Vietnam Opportunity Fund. Mr Cuong was elected head of our Company's Inspection Committee in December 2003. He graduated from the University of Economics, Ho Chi Minh City, with a bachelor degree in economics majoring in banking in 1994. Mr Cuong is holding an ACCA certificate issued by the Association of Chartered Certified Accountant, United Kingdom.

### **MS NGUYEN THI TUYET MAI**

Member

From 1993 to 1997, Ms Mai held the position of manager at ANZ Bank, Ha Noi Branch where she was responsible for trade finance and corporate banking relationship management. Between 1999 and 2003, she was a manager at ANZ Bank, Singapore Branch where her experience covered relationship management for the corporate banking division, international banking strategy, structure commodity, trade finance and Asian region credit management. From 2004 to May 2007, she served as senior manager at the representative office of Openasia Consulting Ltd in Ho Chi Minh City. In June 2007, she was promoted to the position of director of corporate finance in charge of consulting services at Openasia Consulting Vietnam Ltd. Ms Mai graduated from the Ha Noi University for Foreign Language Studies in 1991 with a bachelor degree majoring in English and obtained a master degree in business administration from the University of Melbourne in 1999.





# HEALTHY



# COPORATE GOVERNANCE

Our Directors recognize the importance of corporate governance and the offering of high standards of accountability to our Shareholders.

## A. Board of Management Matters

### The Board's Conduct and its Affairs

The Company should be led by an effective Board to lead and control the Company. The Board is collectively responsible for the success of the Company.

To facilitate effective management, certain functions have been delegated by the Board to various Board Committees. The Board Committees operate under clearly defined terms and reference.

The Board conducts meeting on a quarterly basis during the year. Ad-hoc meetings are convened when circumstances required. The meetings can be conducted by means of telephone conference or other methods of simultaneous communication by electronic or telegraphic means. Every member of the Board should be able to obtain independent advice and use independent judgement when making decisions. Inspection Committee is also informed and invited to attend the Board's meetings.

A record of the Director's attendances at the Board level meetings during the financial year ended 31 December 2007 is disclosed as follows:

Seq.	Name of Director	No. of meetings	Attendance
1	Ms Mai Kieu Lien	5	5
2	Ms Ngo Thi Thu Trang	5	5
3	Mr Hoang Nguyen Hoc	5	5
4	Mr Dominic Scriven	5	5
5	Mr Wang Eng Chin	5	5

### Board Composition and Balance

There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board has maintained a strong and independent element, with three out of five directors being independent. The Board comprises of the following members:

#### Executive Directors

Ms Mai Kieu Lien                      Chairwoman  
Ms Ngo Thi Thu Trang

#### Non – Executive Directors

Mr Hoang Nguyen Hoc  
Mr Dominic Scriven  
Mr Wang Eng Chin

The profiles of the directors are set out on page 22 of this annual report.

Vinamilk has a good balance of directors who have extensive business, financial, accounting and management experience. The objective judgement of the independent and non-executive directors on corporate affairs and their experience and contributions are valuable to Vinamilk.

**Board Membership**

There should be a formal and transparent process for the appointment of new directors to the Board.

Any nomination of new directors should go through a formal selection process: the Board should appoint the new director and then he should be officially nominated by the Annual General Meeting ("AGM").

**Board Performance**

There should be a formal assessment of the effective of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

**Access of Information**

Board members are provided with adequate and timely information prior to Board meetings and on an on-going basis to enable them to carry their duties.

The Board of Directors provides with adequate and timely information as well as a review of Vinamilk's performance prior to the Board meetings. The Board has separate and independent access to Vinamilk 's senior management and secretary, should they have any queries on the affairs of Vinamilk .

A notice of meeting, which contains agenda, is issued to the Board prior each Board meeting. Vinamilk's secretaries attend all the Board meetings and are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Company's secretaries are:

Mr Nguyen Thanh Tu	(Administration Director)
Ms Le Quang Thanh Truc	(Financial Investment Manager)

**B. Remuneration Matters****Remuneration Policy**

The Remuneration Committee reviews and recommends to the Board an appropriate and competitive framework of remuneration for the Board. A formal and transparent procedure is used when setting the remuneration packages of individual directors. No director is involved in deciding his own remuneration.

The composition of the Remuneration Committee is as follows:

Mr Dominic Scriven	(Chairman, Non-Executive Director)
Mr Wang Eng Chin	(Member, Non-Executive Director)
Ms Vu Bich Nghia	(Member, Human Resources Director)

The Remuneration Committee recommends to the Board for endorsement a framework of remuneration for key executives, specific remuneration packages for each member of the Board of Management, Chairwoman and General Director.

# COPORATE GOVERNANCE

## Level and Mix of Remuneration

The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run Vinamilk successfully but Vinamilk should avoid paying more than is necessary for this purpose. A proportion of remuneration should be based on corporate and individual performance.

In setting remuneration packages, the Remuneration Committee takes into consideration pay and employment conditions within industry and in comparable companies, the relative performance of Vinamilk as a whole, as well as individual Directors and key executives. An annual performance incentive plan has been implemented for all employees.

Directors' fees, Inspection Committee's fees were approved by shareholders at Vinamilk's Annual General Meeting for the financial ended 31 December 2007 as follows:

	Fee/month (VND million)
Board Chairwoman	13
Board Members	7
Inspection Committee Chairman	8
Inspection Committee Members	6

Performance bonus framework for the Board of Management and Board of Directors was approved by shareholders at Vinamilk's Annual General Meeting for the financial ended 31 December 2007 as follows:

- If achieving the targeted profit after tax : 0.1% on profit after tax.
- Exceeding the targeted profit after tax : additional 20% of the exceeding targeted profit after tax.

## Disclosure of Remuneration

The remuneration of directors is set out below:

	FY 2007	FY2006
<b>Board of Management</b>		
Ms Mai Kieu Lien	A	A
Ms Ngo Thi Thu Trang	A	A
Mr Hoang Nguyen Hoc	A	A
Mr Dominic Scriven	A	A
Mr Wang Eng Chin	A	A
<b>Board of Directors</b>		
Mai Kieu Lien	B	A
Ngo Thi Thu Trang	A	A
Nguyen Thi Thanh Hoa	A	A
Nguyen Thi Nhu Hang	A	A
Tran Minh Van	A	A
Tran Bao Minh	B	A

### Notes:

- A : Below VND3 billion
- B : From and above VND3 billion.

The amounts paid to the members of the Board of Management and the Board of Directors include the bonus determined in the manner described under “Labour Contracts – Performance Bonus for members of the Board of Management and the Board of Directors”

## **C. Accountability and Audit**

### **Financial Reporting**

The Board is accountable to the shareholders while the Management is accountable to the Board. The Board should present a balanced and understandable assessment of Vinamilk’s position and prospects in the annual accounts and other reports such as interim reports to regulators.

The Board meeting is held on a quarterly basis to review Vinamilk’s performance and quarterly summarised financial report is submitted to Ho Chi Minh City Stock Exchange (“HOSE”). Annual General Meetings are held every year to obtain shareholders’ approval of routine business.

### **Internal Controls**

The Board should ensure that the Management maintains a sound system of internal controls to safeguard Vinamilk’s assets and shareholders’ investments.

With the assistance of the Internal Auditors, the Board and the Inspection Committee reviews the effectiveness of the key internal controls and ensures that the necessary corrective actions are taken on a timely basis. There are formal procedures in place for both internal and external auditors to report independently conclusions and recommendations to Management and Inspection Committee.

### **Internal Audit**

Vinamilk should establish an internal audit function that is independent of the activities it audits.

Vinamilk appointed Internal Audit Director and established its internal audit function in September 2005. The key scope of internal audit is:

- Review the effectiveness of Vinamilk’s internal controls;
- Provide assurance that key business and operational risks are identified and managed;
- Internal controls are in place and functioning as intended and
- Operations are conducted in an effective and efficient manner.

The Internal Audit Director reports directly to General Director.

### **Communication with Shareholders**

Vinamilk regularly communicates with its shareholders, striving for timeliness and transparency in its disclosure to shareholders and the public. Regular meetings and dialogues are held with investors, analysts, fund managers, and press. When material information is disseminated to HOSE, such information is simultaneously posted on the Company’s website at [www.vinamilk.com.vn](http://www.vinamilk.com.vn)

Vinamilk encourages shareholder participation at its annual general meetings and gives shareholders the opportunity to communicate their views on matters affecting Vinamilk.

# RISK MANAGEMENT

## Foreign Currency Risk

Foreign currency risk arises when there is a mismatch of funding foreign currency dominated assets with liabilities of the same currency. The exposure to foreign currency risk in this aspect was not significant in 2007, but may have a significant impact on Vinamilk's performance in the coming years. Vinamilk always consider using appropriate financial instruments, as and when necessary, to mitigate this risk.

## Liquidity Risk

Vinamilk's exposure to liquidity risk arises in general funding of Vinamilk's business activities. It includes the risks of being able to fund business activities in a timely manner.

Vinamilk adopts a prudent approach to managing its liquidity risk by maintaining sufficient cash and marketable securities, and has available funding through a diverse source of committed and uncommitted credit facilities from various banks.

As at 31 December 2007, Vinamilk's net borrowings are as follows:

	2007	2006
Cash and cash equivalent	114	157
Borrowings	42	60
Net borrowings	-	-

## Credit Risk

Vinamilk's maximum exposure to credit risk in the event that the customers fail to perform their obligations as at 31 December 2007 in relation to accounts receivable is its carrying amount as indicated in the balance sheet. Vinamilk has policies in place to ensure that sales of products are made to customers with an appropriate credit history.



## Reliance on Key Management Personnel

Although we are not dependent on any one person in our Board of Management or our Board of Directors, our success depends to a significant extent on the skills, capabilities and efforts of our Board of Management and our Board of Directors, as well as our ability to recruit and retain appropriately skilled personnel to take up positions on these Boards. Our ability to continue to attract, retain and motivate key personnel and senior members of our Board of Management and Board of Directors will have an impact upon our operations. The competition for skilled and highly-capable personnel is intense, and the loss of the services of one or more of these individuals, without adequate replacements or the inability to attract new qualified personnel at a reasonable cost, would have a material

adverse effect upon our financial performance and operations. To mitigate this risk, Vinamilk has been employing remuneration policy to maintain and attract the talents.

## Export Market Risk

We currently export our products to Iraq, Thailand and other countries in Asia and Europe. Demand for our products depends on the political and economic stability of these countries. As Iraq is one of our major export countries, any social, political or economic upheaval in the country may materially adversely affect our operation results. Vinamilk has been focusing on its local market which is considered as its main market. Simultaneously, Vinamilk is also looking for other potential export markets to mitigate the risk.



## BUSINESS OVERVIEW

Since we commenced operations in 1976, we have built strong brand name recognition for our dairy products in Vietnam. Our “Vinamilk” brand is currently a widely recognised dairy brand in Vietnam.



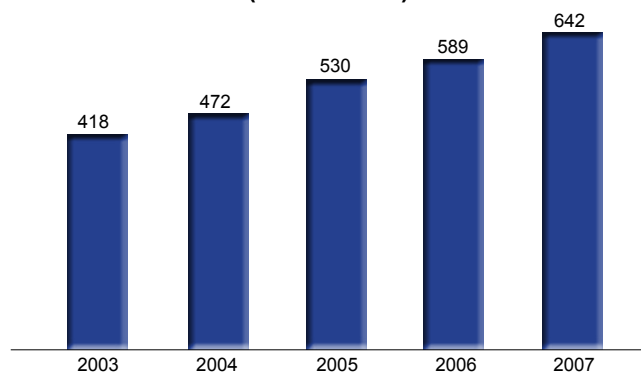
## Vietnam Dairy Industry Overview

Fuelled by the impressive economic growth in the past decade, the dairy industry in Vietnam has experienced rapid growth in recent years. Coinciding with improvements in living standards in Vietnam, the more widespread availability and affordability of production technologies, and vast improvements in infrastructure have led to an overall increase in the variety, quality and volume of dairy products produced in Vietnam. The market has also experienced an influx of foreign multinational companies.

Total dairy product sales in Vietnam have grown by 53.6% from approximately US\$418 million in 2003 to reach approximately US\$642 million in 2007. The following chart sets forth total dairy product sales in Vietnam between 2003 and 2007.

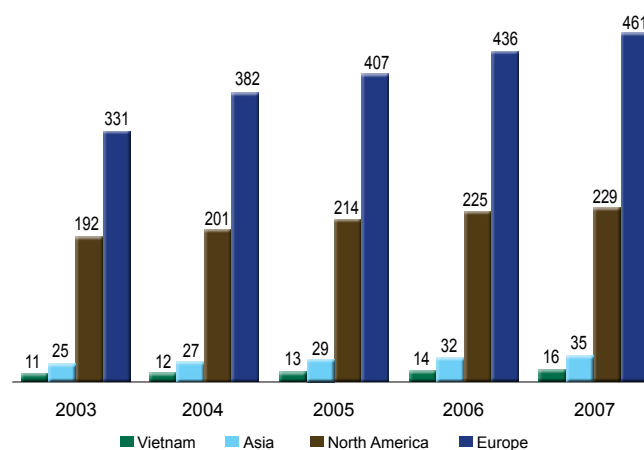


**2003 – 2007 Total dairy product sales in Vietnam (US\$ million)**



Source: Euromonitor International

This strong growth in demand for dairy products is expected to continue on the back of strong GDP growth, a growing urban population with heightened disposable income and an increased awareness about the health benefits of dairy products. Euromonitor International estimates that total annual consumption of dairy products in Vietnam to grow from approximately US\$1,332 million in 2007 to reach approximately US\$1,902 million by 2011. These factors should contribute to a significant increase in Vietnam's very low per capita consumption of dairy products compared to Western countries. The below chart compares Vietnam's per capita consumption of dairy products to Asia, Europe and North America between 2003 and 2007.



Source: Euromonitor International



## VINAMILK

We are the leading producer of dairy products in Vietnam based on sales volume and revenue. Our products range from core dairy products such as liquid and powdered milk, to value-added dairy products such as condensed milk, drinking and spoon yoghurt, ice cream, and cheese. We offer one of the largest dairy portfolios in Vietnam, across a wide selection of products, flavours, and packaging sizes. According to Euromonitor, Vinamilk has been the number [1] dairy player in Vietnam for the three years ending 31 December 2007.

Since commencing operation in 1976 we have built the largest distribution network in Vietnam and have leveraged our network to introduce new products to the market, such as juices, soya milk, bottled drinking water and coffee.

We market the majority of our products under our “Vinamilk” brand, which has been designated as both a Famous Brand and one of the Top 100 Strongest Brands by the Vietnamese Ministry of Industry and Trade in 2006. We have also been voted the top brand in the “Top Ten High-quality Vietnamese Goods” for each year between 1995 to 2007.

We currently focus on business activities in the fast growing Vietnamese dairy market, which according to Euromonitor has grown at a CAGR of [7.85]% from 1997 to 2007, and produce the majority of our products at our [nine] operational production facilities with a combined capacity of [570,406] tonnes per annum. We have the leading distribution network in Vietnam, giving us broad access to consumers. We generate a substantial majority of our revenues from sales of our products in Vietnam comprising both dairy and non-dairy products and export to countries such as Australia, Cambodia, Iraq, the Philippines and the United States.

## OUR COMPETITIVE STRENGTHS

We believe that our success to date and potential for future growth can be attributed to a combination of our strengths, including the following:

- Leading market position supported by well-established brand name;
- Strong, diversified product portfolio;
- Extensive sales and distribution network;
- Strong market-oriented research and development capabilities

- Strong supplier relationships to ensure a dependable milk supply;
- Highly experienced management with a proven track record of delivering strong overall business performance;
- World class production facilities.

### Leading market position supported by well-established brand name

Since we commenced operations in 1976, we have built strong brand name recognition for our dairy products in Vietnam. Our “Vinamilk” brand has been in use since our establishment and is currently a widely recognised dairy brand in Vietnam.

We believe we have achieved our dominant market position through our focus on advertising, marketing and continuous improvement in product innovation and quality assurance. Based on our long-standing presence in Vietnam, we believe we are better able to identify and understand consumer trends and preferences, that allows us to focus our development efforts on identifying product attributes that are most valued by our customers. For example, our deep understanding and efforts have helped our Vinamilk Milk Kid range of products become one of the best selling milk product marketed at children aged between six and 12 years in Vietnam in 2007.

### Strong and diversified product portfolio

We offer a wide range of dairy products targeting a wide spectrum of consumers. We have product lines that are targeted at individual consumers including young children, young adults and also the [elderly] as well as products targeted at general households and commercial outfits such as cafes. In addition, by offering consumers a diverse range of products in different package sizes, we are able to offer our customers a measure of portability and convenience unique to dairy products being sold in Vietnam.

### **Extensive sales and distribution network**

We believe our extensive sales and distribution network is critical to the success of our operations, enabling us to reach a wide range of customers and ensure an efficient and effective rollout of new products and marketing campaigns nationwide. As of 31 December 2007, we sell our products across all 64 provinces including five centrally-controlled municipalities in Vietnam. Our experienced sales team, assists our distributors to service the end retailers and consumers, and promote our products. Our sales team is also responsible for servicing and supporting the distribution activities and development of new relationships with distributors and retailers. In addition, we organise various marketing and promotional activities with local distributors aimed at promoting our products and building our brand image across the nation.

In addition to our domestic distribution networks, we are currently in the process of negotiating the terms of supply contracts with potential business partners in countries such as Thailand, Australia and the United States.

We are also one of the few food and beverage companies that have a readily available network of refrigerated coolers. The availability of coolers poses a high barrier of entry for competitors who may wish to enter the food and beverage market as the establishment of a refrigerated cooler network requires a substantial amount of capital expenditure.

### **Strong supplier relationships to ensure steady milk supply**

A consistent supply of high quality raw milk is crucial to our business. Accordingly, we have established strong relationships with our suppliers through our favourable pricing policies, provision of financial support to farmers to purchase dairy cows and price incentives for milk of higher quality. We have entered into annual contracts with our milk suppliers and currently purchase over approximately 40% of all domestically produced raw milk. Our production facilities are strategically

located close to dairy farmers in Vietnam to enable us to maintain and strengthen our relationships with them and we carefully select the location of our milk collection centres to maintain its freshness and quality. We also source raw milk powder from Australia and New Zealand to meet our production demands in terms of quantity and quality. We believe that our ability to obtain a steady supply of raw milk is crucial to our business and allows us to maintain and increase our production output.

### **Strong market-oriented research and development capabilities**

We have a sales and marketing team that is experienced in analysing and identifying consumer preferences and trends, and support ground staff who have a thorough understanding of consumer preferences through constant contact with our customers at our various points of sale. For example, our understanding of the preferences of young consumers aged between six and 12 has helped us successfully launch our Vinamilk Milk Kid marketing campaign in May 2007. As a result of our successful marketing campaign, Vinamilk Milk Kid was the best selling milk marketed at children aged between six and 12 in 2007.

We also have strong capabilities in product research and development with a view to improve product quality and increase product variety for consumers. We have a research and development team comprising 10 engineers and one technical staff. Our researchers work closely with our marketing department who in turn collaborate with several market research agencies to identify the trends in consumer preferences. We believe our ability to develop new products based on consumer's evolving preferences has been a key factor in our success and will continue to play a key role in our future growth and development. In an effort to ensure that our products are in line with the latest consumption trends, we actively conduct research and work with market research companies to study trends in

sales performance, customer feedback, food and beverage-related media.

### **Highly experienced management with a proven track record of delivering strong overall business performance**

We are managed by an experienced and dedicated management team with extensive industry experience. Our Chairwoman, Mdm Mai Kieu Lien, has over 30 years of experience in the dairy industry with the Company and has played a critical role in the growth and development of the Company to where it stands today. Our marketing team is led by Mr Tran Bao Minh, who has over 10 years of branding and marketing experience in the beverage industry and has been instrumental in reviving our brand image and product innovation. Other members of our senior management team have an average of 25 years experience in the manufacturing, distribution and sale of dairy products. We also have a strong middle management team that is well-equipped to support our senior management and stay abreast of changes in the market place.

### **World class production facilities**

We use modern production and packaging technologies in all of our manufacturing facilities. We employ technologies imported from European countries such as Germany, Italy and Switzerland in

our production lines. To the best of our knowledge, we are the only company in Vietnam who has the machinery utilising the spray dry technology produced by Niro Inc, Denmark, a world leader in industrial drying technologies. We also employ world class production lines provided by Tetra Pak for our dairy and value-added dairy products.

## **OUR BUSINESS STRATEGIES**

We aim to maximise shareholder value and pursue a business growth strategy based on the following principal components:

- Expansion of market share in existing and new markets;
- Develop a comprehensive portfolio of dairy products to target a broader consumer base and expand into higher margin value-added dairy products;
- Development of new product lines to satisfy different consumer preferences;
- Brand cultivation;
- Continuously enhancing supply chain management;
- Development of raw material sources to ensure a reliable and consistent fresh milk supply base.



## BRAND PORTFOLIO

We currently have 4 mega brands as follows:



Beautiful Life



Mum's Love





Passion to Win

Natural Freshness





**PRODUCT**

## Overview

We produce a broad range of dairy products with different types and flavours of powdered milk, infant cereals, UHT liquid milk, UHT drinking yoghurts, spoon yoghurt, sweet condensed milk and cheese. We have established different teams to be responsible for the research and development, raw materials procurement, supervision of outsourced manufacturing, marketing, sales and distribution of products under our core brands and other brands.

Our core dairy products such as liquid milk and powdered milk represent two of our largest product segments, and accounted for approximately 25.4% and 23.0%, respectively, of our revenue in 2007. Within the liquid milk segment, Vinamilk Milk Kid range constituted the largest single item and accounted for approximately 7.0% of the liquid milk revenue of Vinamilk and approximately 2.1% of our overall revenue in 2007.

Other dairy products such as our condensed milk and yoghurt products have been experiencing steady growth over the past two years and accounted for approximately 34.0% and 10.0% of our revenue in 2007. Our condensed milk product is showing promising growth where our revenue for our condensed milk products in FY2007 has experienced an approximate 38.0% increase from FY2006.

## Dairy Products

### Liquid Milk

We produce, distribute and sell liquid milk in Vietnam under the Vinamilk Brand. Our revenue from sales of liquid milk grew from approximately VND1,469 billion in 2006 to approximately VND1,736 billion in 2007, representing a compound annual growth rate of approximately 18%. As of 31 December 2007, we account for approximately 35% of the liquid milk market in Vietnam based on a combination of data from internal tracking systems and statistics and externally commissioned reports by AC Nielsen, tracking consumption patterns in 36 of the 64 provinces (including five centrally controlled municipalities). Our liquid milk segment includes the following three product categories:

- Plain milk
- Flavoured milk
- “Special needs” milk such as Calcium and DHA fortified milk and skim milk



Our “Vinamilk” brand is one of our core brands for liquid milk, drinking yoghurt, spoon yoghurt, ice cream, probiotic and cheese. We have focused on building up our product image to be one that is easily associated with a healthy, beautiful and balanced lifestyle.



Vinamilk UHT milk has consistently dominated the Vietnamese liquid milk market. It is targeted at consumers aged six years and above. Our Fino Pack range of UHT milk offers flavours such as sweetened, sugar-free, strawberry and chocolate and comes in packages of 250ml.



Our Vinamilk UHT fresh milk range was officially launched in April 2007 and is targeted at the premium market in Vietnam. Our Vinamilk UHT fresh milk products are manufactured using 100% raw fresh milk. We believe our competitive edge in this market segment lies in our ability to ensure consistent supply from local dairy farmers and our wide network of milk collection centres. Our Vinamilk UHT fresh milk products are available in 180ml and one litre cartons.



Officially launched in September 2007, Vinamilk Milk Kid range is targeted at consumers aged between six and 12 years old. Our Vinamilk Milk Kid products are available in a range of flavours such as Strawberry, Chocolate, Sweetened and DHA-fortified and are available in 180ml packs.

## Powdered Milk

We first introduced our range of powdered milk products in 1988. As at 31 December 2007, our revenue from powdered milk products account for approximately 13.8% of the market value in Vietnam based on a combination of data from internal tracking systems and statistics and externally commissioned reports by AC Nielsen tracking consumption patterns in six key cities such as Ha Noi, Ho Chi Minh City, Can Tho, Da Nang, Hai Phong and Nha Trang. However, our revenue from sales of powdered milk decreased from approximately VND2,191 billion in 2006 to approximately VND1,584 billion in 2007, primarily due to the decrease in export sales.



Our Dielac powdered milk range is targeted at consumers with children aged six years and below. Our powdered milk products can be categorised into two main segments: Two formulas priced within two different price ranges. Dielac Star is priced at the lower range of the two and is marketed as an affordable and quality product. It is manufactured with Pro5S formulation containing DHA, Choline, Inuline, Canxi and MCT Oil. Dielac Alpha is produced with a unique formulation containing colostrums, DHA, Omega 3 and Omega 6 fatty acids. It is priced at a premium over Dielac Star given its higher Colostrum content. Our Dielac line of powdered milk products has experienced an annual growth rate of approximately 16% over the past four years.



Our traditional Ridielac infant and follow-on formula is manufactured using MAX-4D (with 4D representing Development, Digestion, Deliciousness and Dependability) technology, combining nutrient-rich milk, natural foods such as meat, shrimp, vegetables, vitamins and minerals. Our formula is designed to optimise nutrient absorption in children during their growing years and enhance appetites.

Ridielac infant cereal is targeted at consumers with children aged between four and 24 months. Ridielac is produced with a unique formulation containing colostrums and is marketed as a value-for-money product.

## Condensed Milk

Condensed milk is one of our most successful products and largest revenue contributors, representing approximately 34.0% of our total revenue in 2007. Our revenue from sales of our condensed milk products grew from approximately VND1,690 billion in 2006 to approximately VND2,332 billion in 2007, representing a compound annual growth rate of approximately 38%. As at 31 December 2007, we hold a market share of approximately 79% in the condensed milk market in Vietnam based on a combination of data and statistics from internal tracking systems tracking the sales volume of our competitors' products.



Southern Star (Ngoi Sao Phuong Nam) is part of our commercial line under our condensed milk segment, and is primarily marketed to commercial outfits and cafes and is commonly consumed with coffee or mixed fruits. It is priced economically to offer enhanced profit margins to proprietors.



Ong Tho is part of our household line of quality products and is primarily targeted at Vietnamese households. It can be consumed either hot or cold and is commonly used as a cooking or baking ingredient. Our Ong Tho brand of condensed milk is priced at a premium over our Southern Star brand of condensed milk due to its higher calcium and protein content.

### ***Yoghurt Products***

We produce, distribute and sell our drinking yoghurt and spoon yoghurt in Vietnam under the Vinamilk brand. Our yoghurt products represent one of our key focus growth areas, and our revenue from sales of yoghurt products grew from approximately VND634 billion in 2006 to approximately VND698 billion in 2007, representing a compound annual growth rate of approximately 10%. As at 31 December 2007, we hold a market share of approximately 26% in the drinking yoghurt market and approximately 97% in the spoon yoghurt market in Vietnam based on a combination of data from internal tracking systems and statistics and externally commissioned reports by AC Nielsen, tracking consumption patterns in 36 out of the 64 cities (including five centrally controlled municipalities) in Vietnam.



Vinamilk Drinking Yoghurt is available in three flavours: Fruit, Orange and Strawberry in 180ml packs.



Vinamilk Spoon Yoghurt is targeted at the average Vietnamese household. Marketed as a fresh tasting, delicious and high quality health product, our Vinamilk Spoon Yoghurt product line has dominated the spoon yoghurt market in Vietnam with a market share of approximately 97%. It is available in a variety of flavours such as Strawberry, Fruit, Sugar-Free with Kefir and Sweetened in 110g carton packs.

In addition to the abovementioned dairy products, we also manufacture other dairy products such as ice-cream and cheese.

### ***Ice-cream***

We introduced our brand of ice-cream products in 1976 and produce, distribute and sell our ice-cream in Vietnam under the Vinamilk Brand.



Vinamilk Ice-cream is targeted at the mid-end ice-cream market in Vietnam. It comes in a variety of flavours such as Chocolate, Coconut, Durian, Green Bean, Strawberry, Vanilla and Taro. Our ice-cream products are available in 450ml or one-litre tubs and also available in pre-packed ice-cream cups, popsicles and cones.

### ***Cheese***



Vinamilk Cheese was launched in 2000 under our anticipation of the potential of the cheese market in Vietnam. The product is currently targeted at the average Vietnamese household and is manufactured using French technology and is available in 140g packs.

## **Non-Dairy Products**

### ***Other Food and Beverages***

In addition to our dairy products, we also manufacture and distribute other F&B products such as our V-Fresh line of juices and soya bean milk, Café Moment coffee and ICY bottled water. The revenue for this product segment accounted for approximately 2% of the total revenue of the Company.

## V-Fresh

The product range was introduced in 1990.



V-Fresh Juice is designed to target young adults, offering them healthy refreshments that promote a image that is energetic and full of vitality. V-Fresh Juice is manufactured using natural fruit juices. It is available in one litre packs and in a variety of flavours such as Apple, Carrot, Custard-apple, Grape, Grapefruit, Guava, Orange, Peach and Pineapple. Packaged in Tetra Pak packaging, V-Fresh Juice is predominantly distributed in off-premise channels.



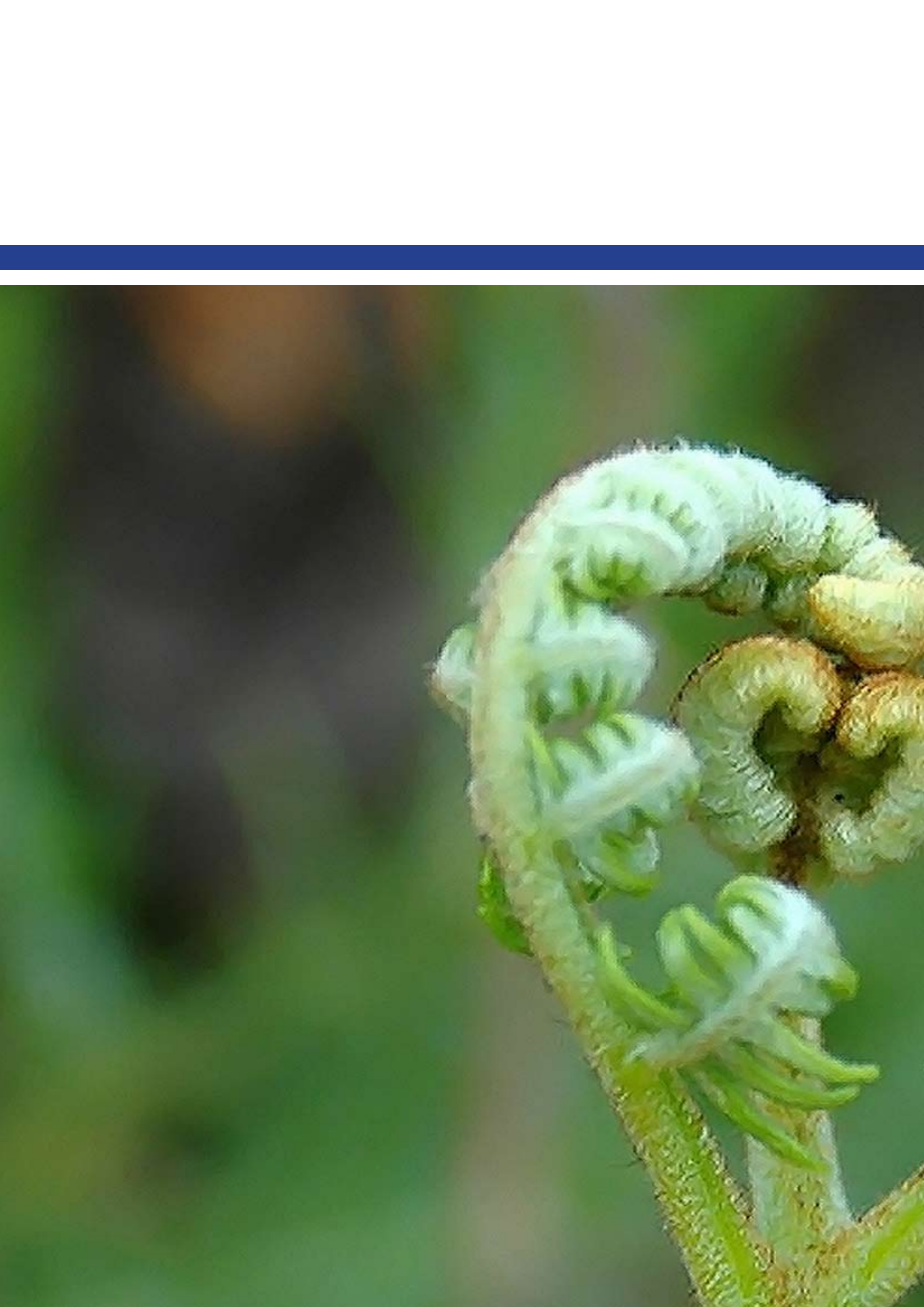
V-Fresh Soya Milk is one of the most popular drinks among our newly launched products. V-Fresh Soya Milk is targeted at the mid-end market and is marketed as a value-for-money product. Extracted from selected natural soybeans, our V-Fresh Soya Milk line of products offers consumers a healthy and non-dairy alternative to consumers. It is available in flavours such as plain and sweetened in 180ml and one-litre packs.

## Coffee

We produce, distribute and sell our coffee products in Vietnam under the Café Moment brand name.



We launched our coffee line of products in 2005. Manufactured from the finest coffee beans, our coffee products offer consumers with a unique tasting experience. Our coffee products offer consumers great value for money. Café Moment is distributed through our nationwide distribution network and through our direct sale channels located primarily in urban areas.



# SAFETY



## INVESTOR RELATIONS



Vinamilk maintains an effective communication channel with investors through its annual general meeting held on a yearly basis and through Vinamilk's investor relations function.

Financial performance and other important information relating to Vinamilk's operations are adequately disclosed on its website at [www.vinamilk.com.vn](http://www.vinamilk.com.vn) and other means of public communications such as HOSE's website, securities companies' website, newspapers and securities bulletins,....



During the year, Vinamilk has welcomed more than 100 individual and institutional investors, banks, fund managers to visit us, some of our visitors are:

- HSBC, Hong Kong;
- CIMB –GK Securities Pte. Ltd;
- Merrill Lynch (Asia Pacific) Ltd;
- JP Morgan Securities (Thailand) Ltd;
- Morgan Stanley Asia Singapore;
- Saigon Securities Inc. (SSI);
- BaoViet Securities Company (BVSC);
- Dragon Capital;
- Tokio Marine Asset Management;
- Providential Holdings, Inc.;
- York Capital Management, NY;
- Bridger Capital LLC, NY;
- Polunin Capital Partners Ltd, London;
- Metropol, Nga;
- MFC Global Investment Management;
- ABN-AMRO Asia Securities (Singapore) Pte Ltd;
- Moody' s Singapore Pte. Ltd;
- Mitani Sangyo Co., Ltd;
- Central Bank of Japan;
- Naissance Capital Ltd;
- Deutsche Asset Management, a member of the Deutsche Bank Group;
- Deutsche Bank Securities Asia Ltd;
- Credit Suisse (Singapore) Ltd;
- Nomura Malaysia Sdn Bhd;
- Nomura Securities Singapore Pte. Ltd;
- Citigroup Global Markets Limited;
- Kim Eng Securities Pte. Ltd;
- Daiwa Securities SMBC Hong Kong Ltd;
- BankInvest Group;
- YUKI Management & Research Co., Ltd;
- UOB Asset Management , a member of the United Overseas Bank Group;

Our contact details in relation to Investor Relations are as follows:

**Mr. Trần Chí Sơn : Investment Director**  
**Tel : (84-8) 9300 358 (ext. 252)**  
**Email : [tcson@vinamilk.com.vn](mailto:tcson@vinamilk.com.vn)**  
**Website : [www.vinamilk..com.vn](http://www.vinamilk..com.vn)**

## COMMUNITY ACTIVITIES



In line with our operation philosophy, Vinamilk always harmonizes between benefits and value for its shareholders and contribute to community activities for local people where we are operating our business. Vinamilk has been contributing by tens of VND billions per annum for these activities, which may be increasing on a yearly basis.

Some of our typical community activities for the year 2006 and 2007 are as follows:

	In VND billion
Donations for poor people and poor/street children	10.7
Sponsors for scholarship fund namely “Cultivation for Vietnamese Young Talents”, “Vũ A Dính” and other activities for children	9.6
Donations for flooded provinces in the central of Vietnam	2

Our annual traditional sponsorship for two scholarship funds is “Cultivation for Vietnamese Young Talents” and “Vũ A Dính”. The first was started since 2003 with the average annual sponsored amount between 1.5 - 3 billion dong and the later was started since 2004 with the average annual sponsored amount between 0.14 – 0.20 billion dong.

In addition, Vinamilk has been the sponsor to take care all the life for 20 Vietnamese hero mothers in Ben Tre and Quang Nam provinces since 1997 and now there are 13 mothers to be sponsored by Vinamilk to take care all their lives.



# Financial Contents

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Cashflow Statements

Notes to the Financial Statements





**PricewaterhouseCoopers (Vietnam) Ltd.**

**4th Floor, Saigon Tower, 29 Le Duan Street, District 1**

**Ho Chi Minh City, Vietnam**

**Telephone: (84-8) 823 0796**

**Facsimile: (84-8) 825 1947**

# CORPORATE INFORMATION

<b>Registration Certificate</b>	Registration Certificate No. 4103001932 dated 20 November 2003 issued by the Planning and Investment Department of Ho Chi Minh City.	
<b>Board of Management</b>	Ms Mai Kieu Lien	Chairwoman
	Mr Hoang Nguyen Hoc	Member
	Ms Ngo Thi Thu Trang	Member
	Mr Dominic Scriven	Member
	Mr Huang Hong Peng	Member (until 31 March 2007)
	Mr Wang Eng Chin	Member (from 31 March 2007)
<b>Board of Directors</b>	Ms Mai Kieu Lien	General Director
	Ms Nguyen Thi Thanh Hoa	Deputy General Director
	Ms Ngo Thi Thu Trang	Deputy General Director
	Mr Tran Bao Minh	Deputy General Director
	Mr Tran Minh Van	Deputy General Director
	Ms Nguyen Thi Nhu Hang	Deputy General Director
<b>Registered Office</b>	184-186-188 Nguyen Dinh Chieu, Ward 6, District 3, Ho Chi Minh City.	
<b>Auditors</b>	PricewaterhouseCoopers (Vietnam) Limited	

# STATEMENT OF THE RESPONSIBILITY

## OF THE BOARD OF DIRECTORS IN RESPECT OF THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

The Board of Directors is responsible for the financial statements of Vietnam Dairy Products Joint Stock Company ("the Company") and its subsidiaries (together "the Group") which give a true and fair view of the consolidated and company financial positions as at 31 December 2007 and of the consolidated and company results of operations and cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the consolidated and company financial statements on a going concern basis unless it is inappropriate to presume that the Company and its subsidiaries will continue in business.

We, the Board of Directors are responsible for ensuring that proper accounting records are maintained which disclose, with reasonable accuracy at any time, the consolidated and company financial positions and which enable the consolidated and company financial statements to be prepared which comply with the basis of accounting set out in Note 2 to the financial statements. We are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### APPROVAL OF THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

We hereby approve the accompanying consolidated and company financial statements set out on pages 5 to 43 which give a true and fair view of the consolidated and company financial positions as at 31 December 2007 and of the consolidated and company results of operations and cash flows for the year then ended in accordance with Vietnamese Accounting Standards, the Vietnamese Accounting System and prevailing regulations in SR Vietnam.

On behalf of the Board of Directors



Mai Kieu Lien  
General Director

Ho Chi Minh City, SR Vietnam  
10 March 2008

# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF VIETNAM DAIRY PRODUCTS JOINT STOCK COMPANY

We have audited the accompanying consolidated and company financial statements of Vietnam Dairy Products Joint Stock Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated and company income statements and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's Responsibility for the Consolidated and Company Financial Statements**

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with Vietnamese Accounting Standards, the Vietnamese Accounting System and prevailing regulations in SR Vietnam. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

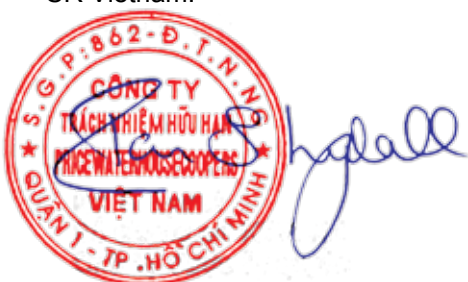
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF VIETNAM DAIRY PRODUCTS JOINT STOCK COMPANY

### Opinion

In our opinion, the consolidated and company financial statements give a true and fair view, in all material respects, of the financial positions of the Group and of the Company as at 31 December 2007, and of the consolidated and company financial performance and cash flows for the year then ended in accordance with Vietnamese Accounting Standards, the Vietnamese Accounting System and prevailing regulations in SR Vietnam.



Ian S. Lydall  
AC No. N.0559/KTV  
Authorised signatory

A blue ink handwritten signature of Quach Thanh Chau.

Quach Thanh Chau  
AC No. N.0875/KTV

PricewaterhouseCoopers (Vietnam) Limited  
Ho Chi Minh City, SR Vietnam  
Audit report number HCM1980  
10 March 2008

As indicated in Note 2.1 to the financial statements, the accompanying consolidated and company financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than SR Vietnam, and furthermore their utilisation is not designed for those who are not informed about SR Vietnam's accounting principles, procedures and practices.

# BALANCE SHEETS

AS AT 31 DECEMBER 2007 AND 2006

Code	ASSETS	Note	<u>Consolidated</u>		<u>Company</u>	
			2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
<b>100</b>	<b>CURRENT ASSETS</b>		<b>3,172,434</b>	<b>1,996,391</b>	<b>3,191,888</b>	<b>1,996,391</b>
<b>110</b>	<b>Cash and cash equivalents</b>	3	<b>117,819</b>	<b>156,895</b>	<b>113,527</b>	<b>156,895</b>
111	Cash		117,519	156,195	113,227	156,195
112	Cash equivalents		300	700	300	700
<b>120</b>	<b>Short-term investments</b>	4(a)	<b>654,485</b>	<b>306,730</b>	<b>654,485</b>	<b>306,730</b>
121	Short-term investments		654,660	308,430	654,660	308,430
129	Provision for diminution in value of short-term investments		(175)	(1,700)	(175)	(1,700)
<b>130</b>	<b>Accounts receivable</b>		<b>654,720</b>	<b>511,623</b>	<b>689,339</b>	<b>511,623</b>
131	Trade accounts receivable		505,234	393,898	511,772	393,898
132	Prepayments to suppliers		79,847	83,172	79,804	83,172
135	Other receivables	5	70,390	37,218	98,514	37,218
139	Provision for doubtful debts		(751)	(2,665)	(751)	(2,665)
<b>140</b>	<b>Inventories</b>	6	<b>1,669,871</b>	<b>965,826</b>	<b>1,659,390</b>	<b>965,826</b>
141	Inventories		1,681,500	980,367	1,671,019	980,367
149	Provision for decline in value of inventories		(11,629)	(14,541)	(11,629)	(14,541)
<b>150</b>	<b>Other current assets</b>		<b>75,539</b>	<b>55,317</b>	<b>75,147</b>	<b>55,317</b>
151	Short-term prepayments		14,282	22,673	13,943	22,673
152	VAT to be reclaimed		33,401	7,253	33,401	7,253
154	Other taxes receivable	7	23,808	24,403	23,808	24,403
158	Other current assets		4,048	988	3,995	988

The notes on pages 12 to 43 are an integral part of these financial statements.

# BALANCE SHEETS

AS AT 31 DECEMBER 2007 AND 2006 (continued)

Code	ASSETS (continued)	Note	<u>Consolidated</u>		<u>Company</u>	
			2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
<b>200</b>	<b>LONG-TERM ASSETS</b>		<b>2,252,683</b>	<b>1,604,142</b>	<b>2,169,156</b>	<b>1,604,142</b>
<b>210</b>	<b>Long-term receivables</b>		<b>762</b>	<b>860</b>	<b>762</b>	<b>860</b>
218	Other long-term receivables		762	860	762	860
<b>220</b>	<b>Fixed assets</b>		<b>1,646,962</b>	<b>1,071,980</b>	<b>1,518,899</b>	<b>1,071,980</b>
221	Tangible fixed assets	8(a)	1,022,646	746,661	899,877	746,661
222	Cost		1,963,835	1,573,283	1,831,384	1,573,283
223	Accumulated depreciation		(941,189)	(826,622)	(931,507)	(826,622)
227	Intangible fixed assets	8(b)	20,715	9,141	20,715	9,141
228	Cost		38,771	21,504	38,771	21,504
229	Accumulated amortisation		(18,056)	(12,363)	(18,056)	(12,363)
230	Construction in progress	8(c)	603,601	316,178	598,307	316,178
<b>250</b>	<b>Long-term investments</b>		<b>401,018</b>	<b>413,901</b>	<b>445,554</b>	<b>413,901</b>
251	Investments in subsidiaries	4(b)	-	-	99,894	-
252	Investments in joint ventures and associates	4(c)	76,132	122,701	115,540	131,571
258	Other long-term investments	4(d)	324,886	291,200	273,738	291,200
259	Provision for diminution in value of long-term investments		-	-	(43,618)	(8,870)
<b>260</b>	<b>Other long-term assets</b>		<b>203,941</b>	<b>117,401</b>	<b>203,941</b>	<b>117,401</b>
261	Long-term prepayments	9	195,613	117,296	195,613	117,296
262	Deferred income tax assets	14	8,017	-	8,017	-
268	Other long-term assets		311	105	311	105
<b>270</b>	<b>TOTAL ASSETS</b>		<b>5,425,117</b>	<b>3,600,533</b>	<b>5,361,044</b>	<b>3,600,533</b>

The notes on pages 12 to 43 are an integral part of these financial statements.

# BALANCE SHEETS

AS AT 31 DECEMBER 2007 AND 2006 (continued)

Code	RESOURCES	Note	<u>Consolidated</u>		<u>Company</u>	
			2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
<b>300</b>	<b>LIABILITIES</b>		<b>1,073,230</b>	<b>862,150</b>	<b>1,045,107</b>	<b>862,150</b>
<b>310</b>	<b>Current liabilities</b>		<b>933,357</b>	<b>754,356</b>	<b>905,234</b>	<b>754,356</b>
311	Current portion of long term loans	10	9,963	17,883	9,963	17,883
312	Trade accounts payable		621,376	436,869	617,302	436,869
313	Advances from customers		5,717	2,350	5,708	2,350
314	Taxes and other payables to the State Budget	11	35,331	33,589	35,228	33,589
315	Payable to employees		426	-	52	-
316	Accrued expenses	12	132,466	85,821	131,473	85,821
319	Other payables	13	128,078	177,844	105,508	177,844
<b>330</b>	<b>Long-term liabilities</b>		<b>139,873</b>	<b>107,794</b>	<b>139,873</b>	<b>107,794</b>
331	Long-term trade payables		81,002	41,235	81,002	41,235
333	Other long-term liabilities		-	2,700	-	2,700
334	Long-term borrowings	10	32,381	42,345	32,381	42,345
336	Provision for severance allowances		26,490	21,514	26,490	21,514
<b>400</b>	<b>OWNERS' EQUITY</b>		<b>4,351,887</b>	<b>2,738,383</b>	<b>4,315,937</b>	<b>2,738,383</b>
<b>410</b>	<b>Capital and reserves</b>		<b>4,224,315</b>	<b>2,683,699</b>	<b>4,224,315</b>	<b>2,683,699</b>
411	Paid-in capital	15	1,752,757	1,590,000	1,752,757	1,590,000
412	Share premium	16	1,064,948	54,217	1,064,948	54,217
417	Investment and development fund	16,17	744,540	580,103	744,540	580,103
418	Financial reserve fund	16,17	136,313	88,141	136,313	88,141
420	Undistributed earnings	16	525,757	371,238	525,757	371,238
<b>430</b>	<b>Budget sources and other funds</b>		<b>91,622</b>	<b>54,684</b>	<b>91,622</b>	<b>54,684</b>
431	Bonus and welfare fund	16,17	91,622	54,684	91,622	54,684
<b>500</b>	<b>Minority interest</b>	2.4	<b>35,950</b>	-	-	-
<b>440</b>	<b>TOTAL RESOURCES</b>		<b>5,425,117</b>	<b>3,600,533</b>	<b>5,361,044</b>	<b>3,600,533</b>

The notes on pages 12 to 43 are an integral part of these financial statements.

# OFF BALANCE SHEET ITEMS

AS AT 31 DECEMBER 2007 AND 2006

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
Goods held under trust or for processing (Million VND)	4,851	4,602	4,581	4,602
Bad debts written-off (Million VND)	18,508	239	18,508	239
Foreign currencies:				
US\$	315,236	3,239,052	315,236	3,239,052
EUR	33,257	4,771	33,257	4,771



Le Thanh Liem  
Chief Accountant

Mai Kieu Lien  
General Director  
10 March 2008

The notes on pages 12 to 43 are an integral part of these financial statements.

# INCOME STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

Code		Note	<u>Consolidated</u>		<u>Company</u>	
			2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
01	Sales		6,675,031	6,289,440	6,676,264	6,289,440
02	Less deductions		(26,838)	(43,821)	(26,838)	(43,821)
10	Net sales	20(a)	6,648,193	6,245,619	6,649,426	6,245,619
11	Cost of sales	21	(4,835,772)	(4,678,114)	(4,837,262)	(4,678,114)
20	Gross profit		1,812,421	1,567,505	1,812,164	1,567,505
21	Financial income	20(b)	257,865	74,253	257,669	74,253
22	Financial expenses	22	(25,862)	(49,227)	(60,606)	(58,097)
24	Selling expenses		(974,805)	(859,396)	(974,230)	(859,396)
25	General and administration expenses	23	(204,192)	(112,888)	(201,339)	(112,888)
30	Operating profit		865,427	620,247	833,658	611,377
40	Net other income	24	120,492	51,397	121,773	51,397
50	Share of loss of joint ventures	4(c)	(30,538)	(8,870)	-	-
60	Net accounting profit before tax		955,381	662,774	955,431	662,774
61	Business income tax - current	25	-	-	-	-
62	Business income tax - deferred	14	8,017	(2,884)	8,017	(2,884)
63	Minority interest	2.4	50	-	-	-
70	Net profit after tax		963,448	659,890	963,448	659,890

		VND	VND	VND	VND (Restated)
80	Earnings per share	19	5,607	4,150	5,607
					4,150



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Le Thanh Liem  
Chief Accountant

Mai Kieu Lien  
General Director  
10 March 2008

The notes on pages 12 to 43 are an integral part of these financial statements.

# CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Indirect method)

Code		<u>Consolidated</u>		<u>Company</u>	
		2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
	<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>01</b>	<b>Net profit before tax</b>	<b>955,381</b>	<b>662,774</b>	<b>955,431</b>	<b>662,774</b>
	Adjustments for:				
02	Depreciation and amortisation	130,772	101,222	120,918	101,222
03	Provisions	42,696	14,707	46,907	14,707
04	Unrealised foreign exchange (gains)/losses	(17)	2,250	(17)	2,250
05	Profits from investing activities	(101,361)	(54,835)	(102,144)	(54,835)
06	Interest expense	11,667	43,591	11,667	43,591
<b>08</b>	<b>Operating profit before changes in working capital</b>	<b>1,039,138</b>	<b>769,709</b>	<b>1,032,762</b>	<b>769,709</b>
09	(Increase)/Decrease in receivables	(216,909)	203,081	(216,777)	203,081
10	(Increase)/Decrease in inventories	(725,346)	125,446	(714,964)	125,446
11	Increase/(Decrease) in payables	411,751	(526,918)	377,195	(526,918)
12	(Increase)/Decrease in prepaid expenses	(69,830)	4,019	(69,588)	4,019
13	Interest paid	(50,571)	(21,192)	(50,571)	(21,192)
15	Other receipts from operating activities	78,502	51,140	81,924	51,140
16	Other payments on operating activities	(153,257)	(105,814)	(153,194)	(105,814)
<b>20</b>	<b>Net cash inflows from operating activities</b>	<b>313,478</b>	<b>499,471</b>	<b>286,787</b>	<b>499,471</b>
	<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
21	Purchases of fixed assets	(743,965)	(609,510)	(662,142)	(609,510)
22	Proceeds from disposals of fixed assets	2,305	-	1,364	-
23	Purchases of equity securities	(487,475)	(278,503)	(435,877)	(278,503)
24	Proceeds from sales of equity securities	77,964	72,500	77,964	72,500
25	Loan granted to joint venture/subsidiary	(80,926)	(138,267)	(109,057)	(138,267)
26	Decrease in deposits at banks	115,443	404,882	114,993	404,882
27	Investments in other entities	(4,650)	(129,440)	(50,150)	(129,440)
28	Proceeds from divestments in other entities	-	22,460	-	22,460
29	Dividends received	105,326	66,475	105,326	66,475
<b>30</b>	<b>Net cash outflows from investing activities</b>	<b>(1,015,978)</b>	<b>(589,403)</b>	<b>(957,579)</b>	<b>(589,403)</b>

The notes on pages 12 to 43 are an integral part of these financial statements.

# CASH FLOW STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Indirect method) (continued)

Code	Note	<u>Consolidated</u>		<u>Company</u>	
		2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
31	Proceeds from issuance of shares	1,219,477	-	1,183,477	-
33	Proceeds from borrowings	360,000	1,051,565	360,000	1,051,565
34	Repayments of borrowings	(377,883)	(1,014,011)	(377,883)	(1,014,011)
36	Dividends paid	(538,181)	(290,974)	(538,181)	(290,974)
40	<b>Net cash inflows/(outflows) from financing activities</b>	<b>663,413</b>	<b>(253,420)</b>	<b>627,413</b>	<b>(253,420)</b>
50	<b>Net decrease in cash and cash equivalents</b>	<b>(39,087)</b>	<b>(343,352)</b>	<b>(43,379)</b>	<b>(343,352)</b>
60	<b>Cash and cash equivalents at beginning of year</b>	3 <b>156,895</b>	<b>500,312</b>	<b>156,895</b>	<b>500,312</b>
61	Foreign exchange gain/(loss) on cash and cash equivalents	11	(65)	11	(65)
70	<b>Cash and cash equivalents at end of year</b>	3 <b>117,819</b>	<b>156,895</b>	<b>113,527</b>	<b>156,895</b>

Le Thanh Liem  
Chief Accountant

Mai Kieu Lien  
General Director  
10 March 2008



# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 1 GENERAL INFORMATION

Vietnam Dairy Products Joint Stock Company (“the Company”, or “Vinamilk”) was initially established as a State Owned Enterprise under the control of the Ministry of Industry in accordance with Decision No. 420/CNN/TCLD dated 29 April 1993. On 1 October 2003, it was equitised following Decision No. 155/2003/QĐ-BCN issued by the Ministry of Industry. On 20 November 2003, the Company was incorporated as a joint stock company under the Law on Enterprises of SR Vietnam according to Registration Certificate No. 4103001932 issued by the Planning and Investment Department of Ho Chi Minh City. The Company was subsequently listed on the Ho Chi Minh City Stock Exchange on 19 January 2006 according to the Listing Licence No. 42/UBCK-GPNY dated 28 December 2005 issued by the State Securities Commission.

As at 31 December 2007, the Company has 3 subsidiaries.

The principal activities of the Company and its subsidiaries are:

- Manufacture and distribute bottled milk, powdered milk, nutritious powder, milk cake, fresh milk, soya milk, refreshment drinks and other products from milk;
- Trading in food technology, spare parts, equipment, materials and chemicals;
- Real estate investment business, real estate management;
- Warehousing and transportation services;
- Manufacture, sell and distribute beverages, grocery and processing foods, roasted-ground-filtered and instant coffee;
- Manufacture and sell plastic packages and label printing;
- Manufacture and sell plastic products;
- Health care clinic operations; and
- Cattle raising and agricultural operations.

As at 31 December 2007, the total number of employees of the Company and the Group are 3,868 and 4,106, respectively (2006: 3,981 employees).

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES

#### 2.1 Basis of preparation of consolidated and company financial statements

The consolidated and company financial statements have been prepared in accordance with Vietnamese Accounting Standards, the Vietnamese Accounting System and prevailing regulations in SR Vietnam. The consolidated and company financial statements have been prepared under the historical cost convention.

The accompanying consolidated and company financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than SR Vietnam. The accounting principles and practices utilised in SR Vietnam may differ from those generally accepted in countries and jurisdictions other than SR Vietnam.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.2 Use of estimates

The preparation of consolidated and company financial statements in conformity with Vietnamese Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of financial statements and the amounts of revenues and expenses in the reported periods. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

#### 2.3 Fiscal year

The fiscal year of the Company and its subsidiaries is from 1 January to 31 December.

#### 2.4 Consolidation

In 2007, the Company prepared its consolidated financial statements for the first time in accordance with Vietnamese Accounting Standard 25 – *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*.

##### **Subsidiaries**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### **Transactions and minority interests**

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

## 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

### 2.4 Consolidation (continued)

#### ***Joint ventures and associates***

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity which is subject to joint control. Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in joint ventures and associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in joint ventures and associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its joint ventures' and associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture or associate equals or exceeds its interest in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associate.

Unrealised gains and losses on transactions between the Group and its joint ventures and associates are eliminated to the extent of the Group's interest in the joint ventures and associates. Accounting policies of joint ventures and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.5 Currency

The consolidated and company financial statements are measured and presented in millions of Vietnamese Dong.

Transactions arising in foreign currencies are translated at exchange rates ruling at the transaction dates. Foreign exchange differences arising from these transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the Vietnam inter-bank rates of exchange ruling at the balance sheet date. Foreign exchange differences arising from these translations are recognised in the income statement.

### 2.6 Form of records applied

The Company and its subsidiaries use voucher ledgers to record their transactions.

### 2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, cash in transit, demand deposits and other short-term investments with an original maturity of three months or less.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.8 Share capital and treasury shares

Ordinary shares in issue are classified as equity. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from the proceeds.

Where the Company or its subsidiaries purchase the Company's equity share capital (treasury shares), the consideration paid, including directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received less any directly attributable incremental transaction costs is included in equity attributable to the Company's equity holders.

The Company is required to hold certain shares as decreed by the State for the purpose of allocating them to employees of the Company. These shares are held in custody by the Company on behalf of the employees until final allocation to and receipt of payment from the employees. The Company does not have jurisdiction to own and cancel these shares. These shares have been recorded as part of issued share capital.

#### 2.9 Trade receivables

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review by management of all outstanding amounts at the year end. Bad debts are written off when identified.

#### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured products, cost includes all direct expenditure and production overheads based on normal levels of operating activity. Net realisable value is the estimated selling price in the normal course of business, less the estimated costs of completion and selling expenses. Provision is made, where necessary, for obsolete, slow-moving and defective inventory items.

#### 2.11 Investments

##### (a) *Short-term investments*

Short-term investments are investments with maturities less than 12 months from the balance sheet date and investments that are held with the intention to dispose within 12 months of the balance sheet date. Short-term investments are accounted for at cost.

##### (b) *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the parent entity financial statements.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.11 Investments (continued)

##### (c) *Investments in joint ventures and associates*

Investments in joint ventures and associates are accounted for at cost in the parent entity financial statements, and under equity method of accounting in the consolidated financial statements.

##### (d) *Long-term investments*

- (i) Long-term bank deposits are those maturing after 12 months from the balance sheet date and are accounted for at cost.
- (ii) Investments in bonds are classified as long-term when they are held with no intention to dispose within 12 months of the balance sheet date. Investments in bonds are accounted for at cost.
- (iii) Other long-term investments comprise holdings in listed and unlisted entities, and are classified as long-term when they are held with no intention to dispose within 12 months of the balance sheet date. Other long-term investments are accounted for at cost.

#### 2.12 Fixed assets

##### *Tangible and intangible fixed assets*

Fixed assets are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the fixed assets.

##### *Depreciation*

Fixed assets are depreciated on the straight-line method, to write off the cost of the assets to their residual value over their estimated useful lives, as follows:

	<b>Years</b>
Buildings and structures	10 - 50
Machinery and equipment	10
Livestock	6
Motor vehicles	10
Office equipment	3 - 8
Software	2 - 3

Land use rights are amortised, using the straight-line method over the terms indicated in the land use rights certificate. Land use rights which are granted for an indefinite term are carried at cost and not amortised.

Livestock development costs are capitalised until the livestock reaches maturity, and then transferred to tangible fixed assets and depreciated using the aforementioned useful life.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.12 Fixed assets (continued)

##### *Disposals*

Gains and losses on disposals are determined by comparing net disposal proceeds with the carrying amount and are recognised as income or expense in the income statement.

#### 2.13 Leased assets

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

#### 2.14 Borrowing costs

Borrowing costs that are directly attributable to the construction or production of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised in the income statement when incurred.

#### 2.15 Revenue recognition

##### (a) *Sales of goods*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or the likely return of goods.

##### (b) *Processing services*

Revenue from processing services is recognised in the income statement when the goods have been processed and accepted. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due.

##### (c) *Sales of services*

Revenue from the sales of services is recognised in the income statement when the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

##### (d) *Interest income*

Interest income is recognised on an earned basis.

##### (e) *Dividend income*

Dividend income is recognised in the period in which the dividends are declared by the investee entities.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of occurrence affects neither accounting nor taxable profit or loss. Deferred income tax is determined at the tax rates that are expected to apply to the financial year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets relating to tax loss carry-forwards are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

#### 2.17 Dividend distribution

The Company's net profit after tax is available for appropriation to shareholders as dividends after approval by shareholders at the Company's Annual General Meeting and after making appropriation to reserve funds in accordance with the Company's Charter.

Interim dividends are declared and paid based on the estimated earnings of the year. Final dividends are declared and paid in the following year from undistributed earnings based on the approval of shareholders at the Company's Annual General Meeting.

Dividends payable on shares held in custody by the Company are allocated to the bonus and welfare fund.

#### 2.18 Method of reserve appropriation

Appropriation to reserve funds in accordance with the Company's Charter is as follows:

Investment and development fund	10% of profit after tax
Bonus and welfare fund	10% of profit after tax
Financial reserve fund	5% of profit after tax

Utilisation of the above reserve funds requires approval of either the General Director, the Board of Management or the shareholders depending on the nature and magnitude of the transactions involved as stated in the Company's Charter and financial regulations.

#### 2.19 Related parties

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.19 Related parties (continued)

The State Capital Investment Corporation holds the largest shareholding in the Company and accordingly is regarded as a related party. However, enterprises which are controlled or significantly influenced by the State Capital Investment Corporation are not considered as related parties of the Company for the purposes of disclosure since they do not influence, or are not influenced by, the Company.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### 2.20 Provisions

Provisions are recognised when: the Company or its subsidiaries have a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the expenditures expected to be required to settle the obligation. If the time value of money is material, provisions will be measured at their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expenses.

#### 2.21 Provision for severance allowances

In accordance with Vietnamese labour laws, employees of the Group are entitled to a severance allowance based on their years of service. This will be paid as a lump sum when the employee leaves the Group. A provision for severance allowances is made for the estimated liability for employment termination as a result of services rendered by employees up to the balance sheet date.

Prior to 2007, the Company's provision for severance allowance was calculated by application of Decree No. 39/2003/ND-CP dated 18 April 2003 and Circular 82/2003/TT-BTC dated 14 August 2003, following which provision was made at 3% of the total basic salary used in social insurance calculation for the year. In 2007, the Group has estimated the provision on the basis of a half-month's salary for each employee for each year of service with the Group, based on salary levels at the balance sheet date.

#### 2.22 Segmental reporting

The Group identifies its operating segments based on geographical locations where the risks and returns are different in each of the economic environments. For all periods presented, the Group operated in two segments: domestic market and export market.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.23 Restatements and reclassifications

During the preparation of the consolidated financial statements for the year ended 31 December 2007, the Company implemented certain changes to its accounting policies relating to the preparation of consolidated financial statements. The Company has retrospectively adopted these policy changes by restating previously issued financial statements.

##### (a) *Equity accounting for interest in joint ventures*

Prior to 2007, the Company was not required to prepare consolidated financial statements and therefore investments in joint-ventures were carried at cost. Beginning 1 January 2007, the Company is required to prepare consolidated financial statements and therefore to account for its investments in joint-ventures using the equity method as required by VAS 08 – Financial Reporting of Interests in Joint Ventures. For comparability purposes, investments in joint-ventures as at 31 December 2006 have been restated to reflect the same basis adopted in 2007.

The effect of adopting these accounting policies on the balance sheet as at 31 December 2006 is:

	<b>2006</b> <b>Million VND</b>
Decrease in investments in joint ventures and associates	(8,870)
Decrease in retained earnings	(8,870)

The effect of adopting these accounting policies on the income statement for the year ended 31 December 2006 is:

	<b>2006</b> <b>Million VND</b>
Decrease in financial expenses	(13,174)
Increase in share of loss of joint ventures	8,870

##### (b) *Change in accounting policy on accruals and provisions*

Prior to 2007, the Company followed the State's accounting regulations and practices in recognising certain liabilities. In 2007, the Company took a comprehensive review of its accounting policies in these areas and decided to amend those policies to be more in line with VAS 18 – Provisions, Contingent Assets and Liabilities in respect of recognising liabilities for employee salaries and distributors' bonus and certain other provisions. The retrospective application of this change in policy reduces payable to employees and increases retained earnings as at 1 January 2006 by VND123,718 million.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.23 Restatements and reclassifications (continued)

##### (b) *Change in accounting policy on accruals and provisions (continued)*

The effect of adopting these accounting policies on the balance sheet as at 31 December 2006 is:

	<b>2006</b> <b>Million VND</b>
Decrease in payable to employees – short-term	(30,118)
Decrease in accrued expenses – short-term	(40,000)
Increase in retained earnings	70,118

The effect of adopting these accounting policies on the income statement for the year ended 31 December 2006 is:

	<b>2006</b> <b>Million VND</b>
Decrease in selling expenses	(40,000)
Decrease in other income	(93,600)

##### (c) *Change in accounting policy on provision for severance allowances*

The Company's provision for severance allowances was historically calculated by application of Decree No. 39/2003/ND-CP dated 18 April 2003 and Circular 82/2003/TT-BTC dated 14 August 2003, following which provision was made at 3% of the total basic salary used in social insurance calculation for the year. In 2007, the Company made a decision to amend its accounting policy to better reflect severance liabilities to employees in accordance with the Vietnamese Labour Law, which requires that severance allowances are paid, as a lump sum when the employee leaves the Company, on the basis of a half-month's salary for each employee for each year of service with the Company. The retrospective application of this change in policy increases provision for severance allowances and decreases retained earnings as at 1 January 2006 by VND18,654 million.

The effect of adopting these accounting policies on the balance sheet as at 31 December 2006 is:

	<b>2006</b> <b>Million VND</b>
Increase in provision for severance allowances – long-term	18,654
Decrease in retained earnings	(18,654)

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.23 Restatements and reclassifications (continued)

##### (d) *Interest payable to the State*

In 2007, pursuant to Decision No. 866/TTCP issued by the Government, the Company was required to pay to the State an interest charge of VND38,949 million (VND16,550 million for 2005 and VND22,399 million for 2006) relating to the remittance of the proceeds from initial public offerings and dividends attributable to the State prior to 2007. The Company has restated the 2005 and 2006 balance of Payable to the State to reflect the above interest payable. The restatement had the effect of reducing the opening retained earnings at 1 January 2006 and increasing other payables by VND16,550 million.

The effect on the balance sheet as at 31 December 2006 is:

	<b>2006</b> <b>Million VND</b>
Increase in other payables	38,949
Decrease in retained earnings	(38,949)

The effect on the income statement for the year ended 31 December 2006 is:

	<b>2006</b> <b>Million VND</b>
Increase in financial expenses	22,399

##### (e) *Reclassifications*

Certain items in the previous year's income statement have been reclassified to be consistent with the corresponding amounts shown in the 2007 financial statements. These reclassifications do not result in any change to the net income for the year ended 31 December 2006.

The effect on the income statement for the year ended 31 December 2006 is:

- (i) a reclassification of sales of assets and the related cost of sales to net other income:

	<b>2006</b> <b>Million VND</b>
Decrease in net sales	(334,518)
Decrease in cost of sales	(334,518)
Net other income	-

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

#### 2.23 Restatements and reclassifications (continued)

##### (e) Reclassifications (continued)

- (ii) a reclassification of sales of scraps as other income:

	2006 Million VND
Decrease in net sales	(38,965)
Increase in net other income	38,965

The restatements and reclassifications noted above did not result in any significant change of the tax provision. The impact of these restatements and reclassifications on selected line items of the prior year financial statements is presented below.

Selected company income statement data:

	Year ended 31 December 2006		
	As previously reported Million VND	Adjustment Million VND	Restated Million VND
<b>Net sales</b>	<b>6,619,102</b>	<b>(373,483)</b>	<b>6,245,619</b>
Cost of sales	(5,012,632)	334,518	(4,678,114)
<b>Gross profit</b>	<b>1,606,470</b>	<b>(38,965)</b>	<b>1,567,505</b>
Financial income	74,253	-	74,253
Financial expenses	(40,002)	(18,095)	(58,097)
Selling expenses	(899,396)	40,000	(859,396)
General and administration expenses	(112,888)	-	(112,888)
<b>Operating profit</b>	<b>628,437</b>	<b>(17,060)</b>	<b>611,377</b>
Net other income	106,032	(54,635)	51,397
<b>Net accounting profit before tax</b>	<b>734,469</b>	<b>(71,695)</b>	<b>662,774</b>
Business income tax	(2,884)	-	(2,884)
<b>Net profit after tax</b>	<b>731,585</b>	<b>(71,695)</b>	<b>659,890</b>
	<b>VND</b>	<b>VND</b>	<b>VND</b>
<b>Earnings per share</b>	<b>4,601</b>	<b>(451)</b>	<b>4,150</b>

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 2 ACCOUNTING SYSTEM AND ACCOUNTING POLICIES (continued)

### 2.23 Restatements and reclassifications (continued)

#### (e) Reclassifications (continued)

Selected company balance sheet data

	As at 31 December 2006		
	As previously reported Million VND	Adjustment Million VND	Restated Million VND
Provisions for long-term investments	-	(8,870)	(8,870)
<b>Long term assets</b>	<b>1,613,012</b>	<b>(8,870)</b>	<b>1,604,142</b>
<b>Total assets</b>	<b>3,609,403</b>	<b>(8,870)</b>	<b>3,600,533</b>
Payable to employees	30,118	(30,118)	-
Accrued expenses	125,821	(40,000)	85,821
Other payables	138,895	38,949	177,844
<b>Current liabilities</b>	<b>785,525</b>	<b>(31,169)</b>	<b>754,356</b>
Provision for severance allowances	2,860	18,654	21,514
<b>Long term liabilities</b>	<b>89,140</b>	<b>18,654</b>	<b>107,794</b>
Investment and development fund	590,245	(10,142)	580,103
Financial reserve fund	93,211	(5,070)	88,141
Bonus and welfare fund	64,826	(10,142)	54,684
Undistributed earnings	342,239	28,999	371,238
<b>Total shareholders' equity</b>	<b>2,734,738</b>	<b>3,645</b>	<b>2,738,383</b>

## 3 CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND
Cash on hand	1,065	1,456	1,050	1,456
Cash at bank	109,560	143,870	105,283	143,870
Cash in transit	6,894	10,869	6,894	10,869
Short-term bank deposits	300	700	300	700
	<u>117,819</u>	<u>156,895</u>	<u>113,527</u>	<u>156,895</u>

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 4 INVESTMENTS

#### (a) Short-term investments

		<u>Consolidated</u>		<u>Company</u>	
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>Million</b>	<b>Million</b>	<b>Million</b>	<b>Million</b>
		<b>VND</b>	<b>VND</b>	<b>VND</b>	<b>VND</b>
Short-term deposits		5,400	-	5,400	-
Investments in equity securities	(i)	436,453	191,959	436,453	191,959
Bonds		15,410	-	15,410	-
Loans to a joint venture	(ii)	197,397	116,471	197,397	116,471
Provision for diminution in value of short-term investments	(iii)	(175)	(1,700)	(175)	(1,700)
		<b>654,485</b>	<b>306,730</b>	<b>654,485</b>	<b>306,730</b>

- (i) Investments in equity securities comprise shares of listed and unlisted companies and investment funds. Included in the balance as at 31 December 2007 and 31 December 2006 is VND60,184 million relating to the value of shares in a listed company that the Company had agreed to transfer to a third party. However, the transfer procedures had not been completed as at 31 December 2007 and, therefore, the legal ownership remained with the Company as at that date. The Company had received, in advance, a payment of VND60,786 million from the third party as purchase consideration for the shares and the Company had recorded this amount as a payable until the legal ownership has been transferred (see Note13(b)).

Movements in short-term investments in equity securities:

	<u>Consolidated</u>		<u>Company</u>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>Million</b>	<b>Million</b>	<b>Million</b>	<b>Million</b>
	<b>VND</b>	<b>VND</b>	<b>VND</b>	<b>VND</b>
Opening balance	191,959	-	191,959	-
Purchases	319,985	107,684	319,985	107,684
Share dividends	1,075	-	1,075	-
Reclassification from long-term investments	-	84,275	-	84,275
Disposal	(76,566)	-	(76,566)	-
	<b>436,453</b>	<b>191,959</b>	<b>436,453</b>	<b>191,959</b>

- (ii) As per the joint venture contract signed with SABMiller Asia, the Company has a commitment to provide an interest free loan of US\$15.75 million to SABMiller Vietnam Joint Venture Company ("SABMiller"). In 2006, the Company granted SABMiller an interest free loan of US\$7.25 million (equivalent to VND116,471 million) repayable within 12 months. The loan was extended by the Company until 21 December 2008. In 2007, an additional loan of US\$5 million (equivalent to VND80,926 million) was granted to SABMiller with the same terms as above.
- (iii) Provision for diminution in value of short term investments is made to reflect the reduction in market prices of the related shares as at the balance sheet dates.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 4 INVESTMENTS (continued)

### (b) Investments in subsidiaries

	<u>Cost of investment recorded in parent entity</u>		<u>Equity held by parent entity</u>	
	2007 Million VND	2006 Million VND	2007 %	2006 %
Vietnam Cow Milk One Member Limited Company	55,894	-	100	100
Lam Son Milk Joint Stock Company	44,000	-	55	-
International Real Estate One Member Limited Company	-	-	100	100
	99,894	-		
Provision for diminution in value of investments in subsidiaries	(4,210)	-		
	95,684	-		

### (c) Investments in joint ventures and associates

	<u>Consolidated</u>	
	2007 Million VND	2006 Million VND
Opening balance	122,701	4,900
Additions in investments	2,593	126,671
Shares of losses of joint ventures	(30,538)	(8,870)
Disposal of interest in a joint venture	(18,624)	-
Closing balance	76,132	122,701

The joint ventures, all of which are unlisted, are as follows:

		<u>Consolidated</u>		<u>Company</u>	
		2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND
					(Restated)
SABMiller Vietnam Joint Venture Company	(i)	68,639	99,177	108,047	108,047
Campina Joint Venture Company	(ii)	-	18,624	-	18,624
Horizon Apartment – Business Cooperation Contract	(iii)	7,493	4,900	7,493	4,900
		76,132	122,701	115,540	131,571
Provision for diminution in value of investments in joint ventures		-	-	(39,408)	(8,870)
		76,132	122,701	76,132	122,701

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 4 INVESTMENTS (continued)

#### (c) Investments in joint ventures and associates (continued)

##### (i) SABMiller Vietnam Joint Venture Company ("SABMiller")

The Company has a 50% interest in SABMiller, which produces beer products. SABMiller has registered legal capital of US\$13.5 million. As at 31 December 2007, the Company has invested US\$6.75 million, equivalent to VND108,047 million.

##### (ii) Campina Joint Venture Company ("Campina")

The Company had a 50% interest in Campina, a producer of dairy products. The total investment in Campina amounted to VND31,798 million during 2005 and 2006 with the conversion of VND13,124 million loan to legal capital contribution in Campina plus an additional capital contribution of VND7,969 million made by the Company to Campina in 2006.

In January 2007, the Company agreed with its joint venture partner in Campina whereby the Company would sell its 50% shareholding for an amount of VND18,624 million. As at 31 December 2007, the amount has been reclassified to other receivables (see Note 5).

##### (iii) Horizon Apartment – Business Cooperation Contract

On 7 June 2004, the Company entered into a Business Cooperation Contract with FICO Real Estate Company and Real Estate Finance Joint-Stock Company for the construction, management, marketing and operation of the Horizon Apartment Project with an estimated investment capital of VND285,000 million. The Company has a 24.5% financial interest in this project.

#### (d) Other long-term investments

		<u>Consolidated</u>		<u>Company</u>	
		<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
		<b>Million</b>	<b>Million</b>	<b>Million</b>	<b>Million</b>
		<b>VND</b>	<b>VND</b>	<b>VND</b>	<b>VND</b>
Long-term bank deposits	(i)	50,000	170,000	50,000	170,000
Bonds	(ii)	5,645	11,050	5,645	11,050
Other long-term investments	(iii)	269,241	110,150	218,093	110,150
		<b>324,886</b>	<b>291,200</b>	<b>273,738</b>	<b>291,200</b>

(i) Long-term bank deposits represent bank deposits with original maturity of over three months and maturing after one year from the balance sheet date.

(ii) Bonds represent purchases of Government bonds and listed company bonds maturing within 3 to 5 years from the balance sheet date. Coupon rates range from 8% to 9.5% per annum.

(iii) Other long-term investments comprise shareholdings in listed and unlisted companies and investment funds. These investments are held not for sale in the near future.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 4 INVESTMENTS (continued)

### (d) Other long-term investments (continued)

Movements in other long-term investments:

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
Opening balance	110,150	49,300	110,150	49,300
Purchases	159,091	167,585	107,943	167,585
Reclassification to short-term investments	-	(84,275)	-	(84,275)
Disposals	-	(22,460)	-	(22,460)
	269,241	110,150	218,093	110,150

## 5 OTHER RECEIVABLES

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
Advance for purchase of Company's shares	24,322	21,354	15,585	12,617
Receivable from disposal of interest in a joint venture (Note 4(c)(ii))	18,624	-	18,624	-
Loan to a subsidiary (*)	-	-	28,131	-
Interest income	8,577	1,267	8,577	1,267
Other receivables	18,867	14,597	27,597	23,334
	70,390	37,218	98,514	37,218

(\*) Loan to Lam Son Milk Joint Stock Company, one of the Company's subsidiaries, is interest free and repayable within 12 months from 10 October 2007.

## 6 INVENTORIES

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
Goods in transit	357,960	75,331	357,960	75,331
Raw materials	1,013,210	720,496	1,006,596	720,496
Tools	2,174	12,946	1,411	12,946
Merchandise	7,967	4,418	7,967	4,418
Work-in-progress	81,530	-	80,275	-
Finished goods	218,659	167,176	216,810	167,176
Provision for decline in value of inventories	(11,629)	(14,541)	(11,629)	(14,541)
	1,669,871	965,826	1,659,390	965,826

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 7 OTHER TAXES RECEIVABLE

	<u>Consolidated</u>		<u>Company</u>	
	2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND
Business income tax to be reclaimed (Note 13(a))	23,808	23,808	23,808	23,808
Others	-	595	-	595
	<u>23,808</u>	<u>24,403</u>	<u>23,808</u>	<u>24,403</u>

## 8 FIXED ASSETS

### (a) Tangible fixed assets

Consolidated	Buildings and structures Million VND	Machinery and equipment Million VND	Livestock Million VND	Motor vehicles Million VND	Office equipment Million VND	Total Million VND
<b>Historical cost</b>						
At 1 January 2007	247,406	1,111,132	-	120,132	94,613	1,573,283
New purchases	23,969	55,866	8,451	36,645	5,644	130,575
Transfers in (Note 8(c))	73,950	204,303	10,515	2,674	335	291,777
Reclassifications	(6)	20,425	-	1,179	(21,598)	-
Transferred to intangible fixed assets	-	-	-	-	(4,631)	(4,631)
Disposals	-	(23,256)	(1,819)	(1,273)	(821)	(27,169)
At 31 December 2007	<u>345,319</u>	<u>1,368,470</u>	<u>17,147</u>	<u>159,357</u>	<u>73,542</u>	<u>1,963,835</u>
<b>Accumulated depreciation</b>						
At 1 January 2007	105,232	621,212	-	71,722	28,456	826,622
Charge for the year	24,422	73,588	2,728	9,026	15,849	125,613
Reclassifications	28	(138)	-	37	73	-
Disposals	-	(9,655)	(173)	(678)	(7)	(10,513)
Transferred to intangible fixed assets	-	-	-	-	(533)	(533)
At 31 December 2007	<u>129,682</u>	<u>685,007</u>	<u>2,555</u>	<u>80,107</u>	<u>43,838</u>	<u>941,189</u>
<b>Net book value</b>						
At 1 January 2007	<u>142,174</u>	<u>489,920</u>	<u>-</u>	<u>48,410</u>	<u>66,157</u>	<u>746,661</u>
At 31 December 2007	<u>215,637</u>	<u>683,463</u>	<u>14,592</u>	<u>79,250</u>	<u>29,703</u>	<u>1,022,646</u>

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 8 FIXED ASSETS (continued)

### (a) Tangible fixed assets (continued)

Company	Buildings and structures Million VND	Machinery and equipment Million VND	Motor vehicles Million VND	Office equipment Million VND	Total Million VND
<b>Historical cost</b>					
At 1 January 2007	247,406	1,111,132	120,132	94,613	1,573,283
New purchases	-	9,602	32,885	4,910	47,397
Transfers in (Note 8(c))	49,720	190,629	-	319	240,668
Reclassifications	(6)	20,425	1,179	(21,598)	-
Disposals	-	(23,257)	(1,273)	(803)	(25,333)
Transferred to intangible fixed assets	-	-	-	(4,631)	(4,631)
At 31 December 2007	297,120	1,308,531	152,923	72,810	1,831,384
<b>Accumulated depreciation</b>					
At 1 January 2007	105,232	621,212	71,722	28,456	826,622
Charge for the year	21,290	70,179	8,525	15,764	115,758
Reclassifications	28	(138)	37	73	-
Disposals	-	(9,655)	(678)	(540)	(10,873)
At 31 December 2007	126,550	681,598	79,606	43,573	931,507
<b>Net book value</b>					
At 1 January 2007	142,174	489,920	48,410	66,157	746,661
At 31 December 2007	170,570	626,933	73,317	29,057	899,877

As at 31 December 2007, fixed assets with a carrying value of VND86,722 million (2006: VND43,970 million) have been pledged as security for long-term borrowings granted to the Company (Note 10).

Historical costs of fully depreciated fixed assets as at 31 December 2007 were VND592,159 million (2006: VND528,080 million).

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 8 FIXED ASSETS (continued)

### (b) Intangible fixed assets

Consolidated and Company	Land use rights Million VND	Software Million VND	Total Million VND
<b>Historical cost</b>			
At 1 January 2007	19,900	1,604	21,504
New purchases	-	2,002	2,002
Transferred from tangible fixed assets	-	4,631	4,631
Transfers in (Note 8(c))	-	10,634	10,634
At 31 December 2007	19,900	18,871	38,771
<b>Accumulated amortisation</b>			
At 1 January 2007	11,608	755	12,363
Charge for the year	-	5,160	5,160
Transferred from tangible fixed assets	-	533	533
At 31 December 2007	11,608	6,448	18,056
<b>Net book value</b>			
At 1 January 2007	8,292	849	9,141
At 31 December 2007	8,292	12,423	20,715

The amortisation of land use rights ceased from 1 January 2004 following the Decision No. 206/2003/QĐ-BTC issued by the Ministry of Finance dated 12 December 2003 which regulated that land use rights granted for indefinite term are carried at cost and not amortised.

### (c) Construction in progress and livestock development

	<u>Consolidated</u>		<u>Company</u>	
	2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND
Opening balance	316,178	189,319	316,178	189,319
Additions	656,276	659,396	650,982	659,396
Transferred to tangible fixed assets	(291,777)	(212,693)	(240,668)	(212,693)
Transferred to intangible fixed assets	(10,634)	-	(10,634)	-
Transferred to investment in subsidiaries (*)	-	-	(51,109)	-
Transferred to inventory	(2,908)	-	(2,908)	-
Disposals	(57,182)	(310,817)	(57,182)	(310,817)
Write-offs	(6,352)	(9,027)	(6,352)	(9,027)
Closing balance	603,601	316,178	598,307	316,178

(\*) During the year, the Company made capital contribution to Vietnam Cow Milk One Member Limited Company in form of fixed assets.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 8 FIXED ASSETS (continued)

#### (c) Construction in progress and livestock development (continued)

Included in the balance at 31 December 2007 are livestock developments of VND4,236 million. These costs are depreciated after the livestock reaches production maturity (usually 18 months).

As at 31 December 2007, included in construction in progress are the following major projects:

- (i) A coffee production line – VND153,453 million;
- (ii) A milk production line for Tien Son Factory – VND67,543 million;
- (iii) A yogurt production line for Tien Son Factory – VND55,403 million;
- (iv) A milk pouring machine for Flex – VND31,584 million;
- (v) A packing line for Slim – VND22,490 million;
- (vi) Second ERP system – VND21,896 million; and
- (vii) A condensed milk production line – VND20,424 million.

### 9 LONG-TERM PREPAYMENTS

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
Opening balance	117,296	117,224	117,296	117,224
Additions	81,594	25,781	81,594	25,781
Amortisation for the year	-	(1,468)	-	(1,468)
Sale of assets to a joint venture	-	(21,934)	-	(21,934)
	198,890	119,603	198,890	119,603
Less: Current portion	(3,277)	(2,307)	(3,277)	(2,307)
Closing balance	195,613	117,296	195,613	117,296

Included in the balance is a land compensation cost of VND64,294 million relating to the land lease in My Phuoc Industrial Zone. The land compensation cost is amortised on a straight-line basis over the period of the lease which is from January 2005 to June 2052. Other long term prepayments are mainly related to prepaid land rentals.

### 10 LONG-TERM BORROWINGS

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
Syndicated loans	42,344	59,817	42,344	59,817
Binh Dinh Investment and Development Fund	-	411	-	411
	42,344	60,228	42,344	60,228
Less: Current portion	(9,963)	(17,883)	(9,963)	(17,883)
Closing balance	32,381	42,345	32,381	42,345

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 10 LONG-TERM BORROWINGS (continued)

The syndicated long-term loan was signed with Ho Chi Minh City Investment and Development Fund (40%) and Vietcombank Ho Chi Minh branch (60%) to finance the condensed milk packing production line at Thong Nhat factory. The loan is repayable on quarterly instalments and within 5 years commencing on 1 April 2007. The loan bears interest at the average interest rate of 12 month time deposit plus 2.4% per annum. Insurance contract for the assets purchased using this loan during the construction phase is used as security for the loan until the completion of the construction whereby the fixed assets themselves are to be used as security for the loan.

### 11 TAXES AND OTHER PAYABLES TO THE STATE BUDGET

	<u>Consolidated</u>		<u>Company</u>	
	2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND
VAT on domestic sales	4,350	11,694	4,247	11,694
VAT on importation	17,299	7,204	17,299	7,204
Import – Export duties	9,606	6,153	9,606	6,153
Personal income tax	3,876	6,859	3,876	6,859
Other taxes	200	1,679	200	1,679
	<u>35,331</u>	<u>33,589</u>	<u>35,228</u>	<u>33,589</u>

### 12 ACCRUED EXPENSES

	<u>Consolidated</u>		<u>Company</u>	
	2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
Sales bonus for distributors	86,309	48,035	86,309	48,035
Advertising expenses	28,292	23,315	28,292	23,315
Transportation expenses	6,206	5,644	6,206	5,644
Exporting fees	2,548	4,056	2,548	4,056
Repairs and maintenance expenses	3,436	1,955	3,436	1,955
Others	5,675	2,816	4,682	2,816
	<u>132,466</u>	<u>85,821</u>	<u>131,473</u>	<u>85,821</u>

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 13 OTHER PAYABLES

		<u>Consolidated</u>		<u>Company</u>	
		2007	2006	2007	2006
		Million	Million	Million	Million
		VND	VND	VND	VND
					(Restated)
Dividends payable		-	1,307	-	1,307
Payable to the State	(a)	24,205	102,916	24,205	102,916
Deposits received from customers		10,390	7,103	9,890	7,103
Other payables	(b)	93,483	66,518	71,413	66,518
		128,078	177,844	105,508	177,844

(a) Included in the balance is VND23,808 million related to an overpayment of business income tax for periods prior to equitisation (1 December 2003). The amount is to be refunded by the tax authority (see Note 7); however, the Company has an obligation to return this amount to the State once it receives the refund.

(b) Included in the balance as at 31 December 2007 and 31 December 2006 is an amount of VND60,786 million received from a third party for a sale of shares (see Note 4(a)(i)).

## 14 DEFERRED INCOME TAX

Deferred income tax asset:

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
Opening balance	-	2,884	-	2,884
Income statement credit/(charge)	8,017	(2,884)	8,017	(2,884)
Closing balance	8,017	-	8,017	-

Deferred income tax asset arises from accruals and is to be recovered within 12 months.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 15 STRUCTURE OF SHAREHOLDING

The following details the Company's shareholding structure:

	State		Local investors		Foreign investors		Total
	Number of shares (thousand)	Share- holding %	Number of shares (thousand)	Share- holding %	Number of shares (thousand)	Share- holding %	Number of shares (thousand)
At 1 January 2006	79,520	50.01	33,776	21.25	45,704	28.74	159,000
Net movement in the year	-		(17,040)		17,040		-
At 31 December 2006	79,520	50.01	16,736	10.53	62,744	39.46	159,000
Net movement in the year	3,911		(3,117)		15,481		16,275
At 31 December 2007	83,431	47.60	13,619	7.77	78,225	44.63	175,275

Nominal value per share is VND10,000.

In 2007, the Company approved and issued 16,725,670 shares. Of the total amount issued, 7,950,000 shares were issued to a branch of a foreign bank in Vietnam at the price of VND140,500 per share and the remaining 8,325,670 shares were issued to existing shareholders at par value. The new share issues were approved by the Company's Board of Management and the State Securities Commission.

Included in total shares held by local investors are 1,425,500 shares that the Company purchased from the State upon equitisation and planned to distribute them to the employees. These shares have not yet been allocated as at 31 December 2007.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 16 MOVEMENTS IN OWNERS' EQUITY

Consolidated and Company	Paid-in capital Million VND	Share premium Million VND	Investment and development fund Million VND		Financial reserve fund Million VND	Bonus and welfare fund Million VND	Budget sources Million VND	Undistributed earnings Million VND	Total Million VND
			Million VND	Million VND					
As at 1 January 2006	1,590,000	54,217	110,291		55,146	89,234	126	423,244	2,322,258
Profit for the year	-	-	-	-	-	-	-	659,890	659,890
Appropriations to reserves	-	-	469,812		32,995	65,989	-	(568,796)	-
Dividends declared	-	-	-	-	-	1,217	-	(143,100)	(141,883)
Movement of reserve funds in the year (Note 17)	-	-	-	-	-	(101,756)	(126)	-	(101,882)
As at 31 December 2006	1,590,000	54,217	580,103		88,141	54,684	-	371,238	2,738,383
Capital increase during the year	162,757	1,010,731	-	-	-	-	-	-	1,173,488
Profit for the year	-	-	-	-	-	-	-	963,448	963,448
Appropriations to reserves	-	-	164,437		48,172	96,345	-	(308,954)	-
Dividends declared	-	-	-	-	-	1,364	-	(499,975)	(498,611)
Movement of reserve funds in the year (Note 17)	-	-	-	-	-	(60,771)	-	-	(60,771)
As at 31 December 2007	1,752,757	1,064,948	744,540		136,313	91,622	-	525,757	4,315,937

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 17 MOVEMENTS IN RESERVE FUNDS

Consolidated and company	Investment and development fund Million VND	Financial reserve fund Million VND	Bonus and welfare fund Million VND
As at 1 December 2006	110,291	55,146	89,234
Appropriation of net profit after tax	469,812	32,995	65,989
Dividends related to unallocated shares for employees	-	-	1,217
Bonus paid to employees	-	-	(83,341)
Payments for employee welfare expenses	-	-	(8,017)
Others	-	-	(2,717)
Write-off of loans to employees	-	-	(7,681)
As at 31 December 2006	580,103	88,141	54,684
Appropriation of net profit after tax (*)	164,437	48,172	96,345
Dividends related to unallocated shares for employees (Note 18)	-	-	1,364
Bonus paid to employees	-	-	(60,771)
As at 31 December 2007	744,540	136,313	91,622

(\*) Included in the amount appropriated to investment and development fund is VND120,828 million relating to estimated business income tax savings for the year 2007 as a result of tax exemption given to the Company upon equitisation. The estimated amount appropriated each year is subject to possible adjustment upon tax audits which confirm the final tax savings. According to Circular 499/TC/TCDN issued by the Ministry of Finance, the savings have to be used for the investment and the development of the Company. Accordingly, the amount is appropriated to the investment and development fund.

### 18 DIVIDENDS

During 2007, the Company declared and paid final dividends of year 2006 and interim dividends of year 2007 amounting to VND166,950 million and VND333,023 million (VND1,900 per share), respectively, of which VND1,364 million is related to dividends of the shares that the Company purchased on behalf of employees (Note 15). This amount is recorded as an increase in the bonus and welfare fund (see Note 17).

Dividends in respect of the year ended 31 December 2007 are to be proposed at the Company's Annual General Meeting in 2008.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 19 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006 (Restated)
Net profit attributable to shareholders (Million VND)	963,448	659,890	963,448	659,890
Weighted average number of ordinary shares in issue (in thousand)	171,838	159,000	171,838	159,000
Basic earnings per share (VND)	5,607	4,150	5,607	4,150

## 20 REVENUE

### (a) Net sales

	<u>Consolidated</u>		<u>Company</u>	
	2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND (Restated)
<b>Sales</b>				
Sales of goods	6,486,342	6,168,666	6,481,799	6,168,666
Sales of merchandise and materials	173,315	110,198	180,696	110,198
Sales of services	15,374	10,576	13,769	10,576
	6,675,031	6,289,440	6,676,264	6,289,440
<b>Sales deductions</b>				
Trade discounts	(21,679)	(9,426)	(21,679)	(9,426)
Sales returns	(5,159)	(34,395)	(5,159)	(34,395)
	(26,838)	(43,821)	(26,838)	(43,821)
	6,648,193	6,245,619	6,649,426	6,245,619

### (b) Financial income

	<u>Consolidated</u>		<u>Company</u>	
	2007 Million VND	2006 Million VND	2007 Million VND	2006 Million VND
Interest income from deposits	86,251	34,268	86,055	34,268
Gains from sales of equity securities	150,901	17,968	150,901	17,968
Interest income from bonds	1,398	7,740	1,398	7,740
Dividend income	9,650	5,230	9,650	5,230
Realised foreign exchange gains	8,838	5,170	8,838	5,170
Other income from financing activities	827	3,877	827	3,877
	257,865	74,253	257,669	74,253

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 21 COST OF SALES

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
				(Restated)
Cost of finished goods sold	4,747,453	4,237,955	4,742,749	4,237,955
Cost of merchandise sold	89,981	423,421	97,425	423,421
Cost of services provided	1,250	2,197	-	2,197
Movement in provision for inventories	(2,912)	14,541	(2,912)	14,541
	<u>4,835,772</u>	<u>4,678,114</u>	<u>4,837,262</u>	<u>4,678,114</u>

## 22 FINANCIAL EXPENSES

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
				(Restated)
Interest expense	11,667	43,591	11,667	43,591
Foreign exchange losses	14,747	3,896	14,759	3,896
Loss from sales of equity securities	690	-	690	-
Movement in provision for investments	(1,524)	1,700	33,224	10,570
Other financial expenses	282	40	266	40
	<u>25,862</u>	<u>49,227</u>	<u>60,606</u>	<u>58,097</u>

## 23 GENERAL AND ADMINISTRATION EXPENSES

The following items have been included in general and administration expenses:

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
				(Restated)
Depreciation and amortisation	26,041	16,354	25,340	16,354
Staff costs	58,812	22,890	58,029	22,890
Rental expenses	11,729	9,511	11,654	9,511
Doubtful debt charge in the year	16,594	510	16,594	510

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 24 NET OTHER INCOME

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
				(Restated)
<b>Other income</b>				
Proceeds from sale/disposal of fixed assets	69,467	334,518	68,489	334,518
Proceeds from sale of scraps	54,022	38,965	54,022	38,965
Rebate income from suppliers	43,230	7,728	43,230	7,728
Sundry income	17,347	5,914	17,190	5,914
Reversal of prior year accruals	13,637	-	13,637	-
	197,703	387,125	196,568	387,125
<b>Other expenses</b>				
Net book value of fixed assets sold/disposed	(74,443)	(334,518)	(72,180)	(334,518)
Sundry expenses	(2,768)	(1,210)	(2,615)	(1,210)
	(77,211)	(335,728)	(74,795)	(335,728)
Net other income	120,492	51,397	121,773	51,397

## 25 TAXATION

The Group is required to pay business income tax ("BIT") at rates ranged from 15% to 28%, depending on locations of the factories, on taxable profits.

The Company was entitled to two years BIT exemption after equitisation in December 2003 and a 50% reduction in the following three years in accordance to Circular 98/2002/TT-BTC dated 24 October 2002 issued by the Ministry of Finance. The Company was also entitled to a further 50% reduction during two years after the listing of its shares in Ho Chi Minh City Stock Exchange (on 19 January 2006) in accordance to Letter No. 11924/TC-CST dated 20 October 2004 issued by the Ministry of Finance. The General Department of Taxation had approved for the Company to combine the above tax incentives, in Letter No. 1591/TCT-CST dated 4 May 2006, which resulted in a year of full tax exemption for 2007.

## 26 RELATED PARTY TRANSACTIONS

The largest shareholder of the Company is the State Capital Investment Corporation ("SCIC") which owns 47.6% of the Company's share capital. The SCIC is controlled by the Government of SR Vietnam.

### (a) Transactions and balances with SCIC

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
<b>Transactions</b>				
Payment of dividends	158,642	71,568	158,542	71,568

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

## 26 RELATED PARTY TRANSACTIONS (continued)

### (b) Transactions and balances with SABMiller – a joint venture

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
<b>Transactions</b>				
Sales of assets to SABMiller	57,182	334,518	57,182	334,518
Investment in SABMiller (Note 4(b)(i))	-	108,047	-	108,047
Loan granted to SABMiller (Note 4(a)(ii))	80,926	116,471	80,926	116,471

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
<b>Balances</b>				
Loan granted to SABMiller (Note 4(a)(ii))	197,397	116,471	197,397	116,471

### (c) Transactions and balances with Vegetable Oil Joint Stock Company – an investee company

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
<b>Transactions</b>				
Purchases of goods	18,865	48,480	18,865	48,480

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
<b>Balances</b>				
Payable	11,724	5,775	11,724	5,775

### (d) Compensation of key management:

	<u>Consolidated</u>		<u>Company</u>	
	2007	2006	2007	2006
	Million	Million	Million	Million
	VND	VND	VND	VND
Gross salaries and other benefits	13,918	10,599	13,918	10,599

For the purpose of related party disclosure, key management are defined as members of the Board of Management and Board of Directors.

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 27 SEGMENTAL INFORMATION

At 31 December 2007, management has determined reportable segments; namely domestic market and export market. The Company analyses segment revenue and cost of revenue.

The consolidated segment results for the year ended 31 December 2007 are as follows:

	<b>Domestic Million VND</b>	<b>Export Million VND</b>	<b>Total Million VND</b>
Sales revenue	5,971,473	676,720	<b>6,648,193</b>
Cost of sales	(4,271,025)	(564,747)	<b>(4,835,772)</b>
Gross profit	1,700,448	111,973	<b>1,812,421</b>

The segment results for the year ended 31 December 2006 are as follows:

	<b>Domestic Million VND (Restated)</b>	<b>Export Million VND</b>	<b>Total Million VND (Restated)</b>
Sales revenue	4,965,816	1,279,803	<b>6,245,619</b>
Cost of sales	(3,697,978)	(980,136)	<b>(4,678,114)</b>
Gross profit	1,267,838	299,667	<b>1,567,505</b>

### 28 COMMITMENTS UNDER OPERATING LEASES

The future minimum lease payments under non-cancellable operating leases are as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>Million VND</b>	<b>Million VND</b>	<b>Million VND</b>	<b>Million VND</b>
Within 1 year	1,722	3,825	1,403	3,825
Between 1 and 5 years	6,915	5,648	5,614	5,648
Over 5 years	58,838	47,002	47,603	47,002
Total minimum payments	67,475	56,475	54,620	56,475

Operating lease commitments represent land and office rentals for the Group's factories and branches.

### 29 CAPITAL COMMITMENTS

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	<b>Consolidated</b>		<b>Company</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>Million VND</b>	<b>Million VND</b>	<b>Million VND</b>	<b>Million VND</b>
Property, plant and equipment	80,730	121,309	80,730	121,309

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2007

### 30 OTHER COMMITMENTS

(a) Joint venture contract with SABMiller Asia

As stated in the joint venture contract signed with SABMiller Asia, the Company has a commitment to provide an interest free loan of US\$15.75 million to SABMiller. As at 31 December 2007, the Company had remitted to SABMiller US\$12.25 million (equivalent to VND197,397 million) (see Note 4(a)(ii)). The remaining US\$3.5 million is to be granted as and when required.


(b) Horizon Apartment project

As stated in the contract the Company entered into with FICO Real Estate Company and Real Estate Finance Joint-Stock Company, the Company is committed to contribute 24.5% of the estimated investment capital of VND285,000 million, which is VND69,825 million. The contribution of the investment capital is requested as and when required based on the progress of the project. As at 31 December 2007, the Company had contributed VND7,493million (see Note 4(b)(iii)).

### 31 CONTINGENT ASSETS

Pursuant to the Land Lease Contract No.10/2005/CTHT/HĐKT date 19 May 2005 signed between the Infrastructure Development Investment Company of Bac Ninh Province and the Company, and the Letter No. 550/KTTH-CT, dated 18 May 2005 issued by the People's Committee of Bac Ninh Province, it was agreed that Bac Ninh Province would undertake to support the Company with land rental cost provided that the Company fulfilled certain commitments. The support amounts are estimated by the Company at VND4,830 million for 2007 and VND10,370 million for 2008. However, the support amounts have not been confirmed by the People's Committee of Bac Ninh Province as they are still assessing the Company's fulfilment of commitments.

The consolidated and company financial statements were approved by the Board of Directors on 10 March 2008.

  
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Le Thanh Liem  
Chief Accountant



  
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Mai Kieu Lien  
General Director

