

Market Update

Vietnam ended 2010 with a remarkable GDP growth of 7.34% in the last quarter, bringing the full year growth to 6.78% versus last year's number of 5.32%. The resilient economic recovery was driven by domestic factors such as industrial production and retail sales, both significantly up 14% and 24.5% on year, respectively. On the external front, exports had a good year with revenue reaching US\$71.6 billion, up 25.5% compared to 2009, whilst import turnover was up 20% in the same period, recorded at US\$84 billion. This brought the full year trade deficit to S\$12.4 billion, accounting for 17.3% of the total export revenue, well below the government target of 20%. The deficit in the current account would be sufficiently financed by stable capital inflows, namely (i) FDI and ODA disbursement of US\$11 billion and US\$3.5 billion, respectively; (ii) overseas remittances of US\$8 billion; and (iii) foreign indirect investments (FII) of US\$1 billion.

However, macroeconomic instability and the ratings downgrades by Fitch in June and by Moody and Standard & Poor in December cast gloom over the country's economic achievement. Reasons cited by the rating agencies such as accelerating inflation, worrying balance of payments (BoP), weakening currency,... are also major concerns to market participants as well as policy-makers. Inflation had been under well control from March to August, then suddenly picked up from September to December, finishing the year up 11.75% compared to end 2009. This number far exceeded the government target of 8% for 2010. The soaring inflation was mainly attributed to the government's loosening monetary policy in the second half of the year to support economic growth and raising global commodity prices. Inflation would likely continue through 1Q2011 due to high festive season con-

sumption, and we would expect it to gradually come down from 2Q2011 if the government's tightening monetary policies are to be effectively applied.

Despite that the trade deficit would be offset by the capital inflows, Vietnam's overall balance of payments still had a deficit of US\$4 billion in 2010. This was an improvement from the BoP deficit of US\$8.8 billion in 2009, but still put pressure on the Vietnam dong. It is noteworthy that the volatility in the FX market in the last months was additionally caused by other factors like strong local gold price hikes, high inflation leading to weakening confidence in the dong, people's hoarding dollars and gold as a way of storing their assets. But the downward pressure on the dong has been considerably taken off thanks to a number of measures implemented by the government in 2H2010 such as raising the interest rates in dong terms, injecting dollars into the market, committing not to devalue the dong until after Tet - Lunar New Year (February 2011). And the improving overseas remittances towards year end also helped cool down the FX market. Given the demand for dollars should be coming down after Tet, we would expect the FX market to get more stabilized from 2Q2011 as long as there will be no major event in the domestic and global economy.

The government has set major macroeconomic goals for 2011, specifically GDP growth of 7-7.5%; inflation of 7% or less; BoP to have a surplus of US\$500 million, credit growth of 23%. It seems that the government puts more emphasis on stability and less on growth in 2011 when slowing down the credit growth to 23% in 2011 from 38% and 28% in 2009 and 2010, respectively. Most observers agree that the immediate priority for Vietnam now is inflation control. But with GDP growth target set at 7-7.5%, we think inflation would unlikely be kept at 7% or less. Some fore-

casts are pointing to the level of 8.5-9% for Vietnam's inflation in 2011.

Vietnam stock markets had a disappointing year with the VN-Index closing the year at 484.66, down 2% on year and the Hanoi bourse even losing 32% to close the year at 114.24. Average daily trading value combined on both bourses throughout the year was recorded at US\$124 million. Foreign investors continued to be net buyers with new inflows into the market being estimated at US\$1 billion in 2010, of which about US\$700 million going to equity and the remaining going to fixed income.

Our View

2010 was a disappointing year for Vietnam stock market. It underperformed most of its peer markets in the region. Despite showing a good recovery in GDP growth, the economy has been facing quite a number of challenges including rising inflation, high interest rates, weakening currency and prolonged trade deficit. Corporate with high leverage and high dependence on imported raw materials are facing constant pressure on margin. Consumer sector remains the bright and stable spot given the country's strong and resilient domestic demand.

Going into 2011, we expect the market will continue to remain volatile until the current challenges in the economy can be skillfully managed. The bright note is that the market valuation has become increasingly attractive, especially when compared with regional peers. We are seeing many solid, well-managed companies trading at attractive valuation levels. We continue to favor the consumer, pharmaceutical, petroleum and natural resource, and IT-Telecommunication sectors. Banking is a very interesting sector to watch for a potential recovery play given its deep discounted valuation. Given the country's strong GDP growth and favorable demography, property and building material sectors should also do well once interest rates start to come down.



Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2009 PE	2010 PE	2011 PE	2012 PE	2014 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	7.9%	9.1%	8.6%	10.5	9.7	8.9	7.7	5.8	2.1	3.8	18.6	66.8	25.6	16.0	0.2
Automobiles & Components	0.8%	10.1%	2.6%	-30.6%	10.2	8.3	8.0	7.0	5.6	2.3	3.8	22.2	16.3	9.8	7.2	0.2
Banks	15.8%	10.3%	0.2%	-24.4%	11.2	9.8	9.0	8.8	7.0	1.4	2.5	0.2	178.1	11.9	-12.4	0.2
Capital Goods	4.0%	8.5%	2.3%	-23.5%	10.5	11.0	10.7	10.5	9.1	1.6	4.4	15.6	26.9	14.8	20.0	-
Commercial Services & Supplies	0.2%	9.7%	-12.4%	-25.7%	7.2	6.2	5.7	5.1	4.2	1.0	2.8	15.8	30.5	13.0	14.2	-0.3
Consumer Durables & Apparel	0.8%	8.1%	6.6%	-10.2%	10.7	9.8	9.2	8.4	7.1	1.7	4.4	17.5	10.8	6.0	3.6	0.6
Consumer Services	1.6%	18.4%	31.6%	6.6%	3.1	2.8	2.6	2.4	2.1	0.8	-	26.0	94.8	63.9	67.2	-1.0
Diversified Financials	4.6%	22.4%	14.4%	-30.2%	11.2	9.7	8.5	7.4	5.6	1.9	5.0	17.9	78.3	76.7	63.3	-0.8
Energy	4.4%	-2.7%	4.1%	-22.7%	9.6	8.8	7.0	5.9	4.8	1.8	5.4	20.1	22.3	16.7	12.4	1.0
Food & Staples Retailing	0.1%	-4.7%	-14.0%	-28.7%	-	-	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	17.3%	7.1%	14.4%	37.3%	8.9	9.4	7.6	6.2	4.1	3.5	3.9	35.8	33.2	19.8	17.4	-0.1
Household & Personal Products	0.1%	20.2%	5.7%	-11.4%	5.4	5.6	5.6	5.6	5.2	0.6	1.3	-	18.5	4.3	-2.2	1.0
Insurance	9.6%	1.6%	24.6%	161.7%	7.2	7.1	5.9	4.7	5.2	0.7	3.9	9.7	45.6	7.6	13.4	-1.3
Materials	10.5%	3.2%	8.7%	-9.7%	10.0	8.2	7.0	6.4	5.3	2.2	5.8	26.6	28.4	22.8	19.2	0.4
Pharmaceuticals & Biotechnology	1.5%	6.0%	2.3%	-28.7%	8.6	7.5	7.2	5.7	4.6	2.0	3.6	24.0	44.3	18.2	19.0	-0.3
Real Estate	20.1%	13.1%	12.5%	-13.9%	10.6	10.0	8.4	6.9	5.4	2.3	1.0	20.9	50.3	44.6	30.7	0.2
Retailing	0.6%	7.1%	-13.2%	-28.5%	9.0	6.0	5.9	5.0	4.1	1.0	5.6	18.2	7.1	2.9	1.8	0.7
Software & Services	0.5%	5.2%	-8.3%	-24.6%	7.1	4.3	3.6	3.2	2.5	2.2	11.0	45.0	20.9	12.8	9.7	0.3
Telecommunication Services	3.3%	-7.9%	-9.3%	3.8%	10.3	11.4	9.9	8.9	6.2	3.3	4.6	27.3	17.8	7.8	4.1	0.6
Transportation	2.4%	6.4%	-8.6%	-35.4%	17.2	20.6	33.5	22.0	7.7	1.1	2.8	8.7	18.0	12.8	6.3	0.9
Utilities	1.8%	4.3%	-4.0%	-30.1%	10.7	6.3	5.6	5.4	4.4	0.9	10.4	15.1	41.2	38.6	38.0	0.2

* Vietnam Market comprises of both the Ho Chi Minh Stock Exchange (HoSE) and the Hanoi Stock Exchange (HNX).

*The Sector valuation table is generated by VAM in-house Company Analysis System - VCAS

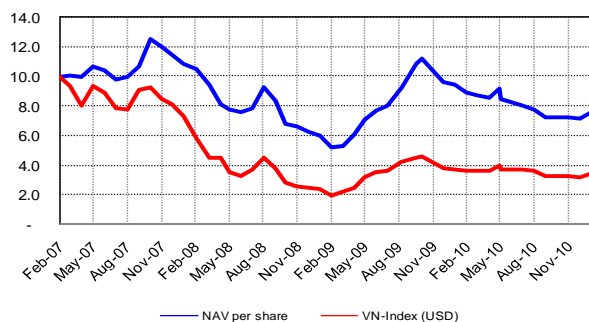
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$7.62
Dec-10	6.7%
YTD	-18.9%
Since inception (Feb 07)	-23.8%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

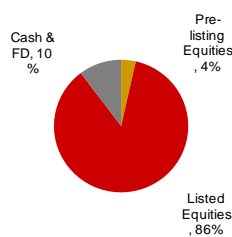
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end December, the Fund's NAV per share was \$7.62. With a 6.7% MoM increase, the Fund continued to lead the VN-Index (in US\$), recording outperformance of 41.39% since inception.

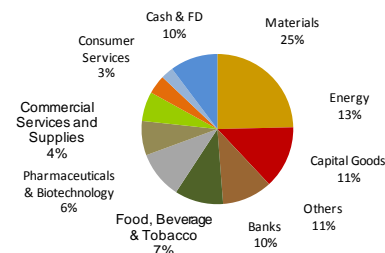
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown



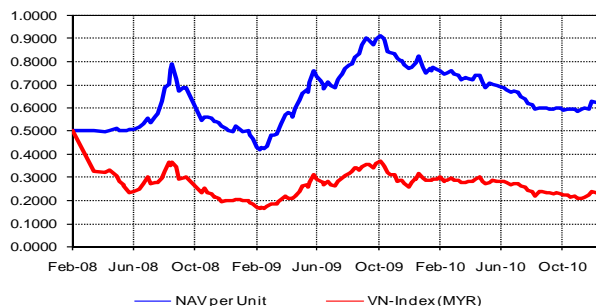
Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.6193
	US\$ 0.2002
Dec-10	4.52%
YTD	-21.93%
Since inception (Feb08)	23.9%
Bloomberg	HLGVIET:MK

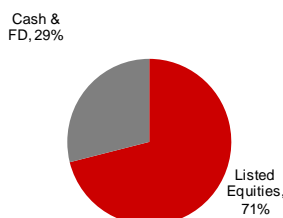
HLGVF is an actively-managed open-end unit trust for Malaysian high-net-worth investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end December, the Fund's NAV per unit was RM0.6193. With a 4.52% MoM increase, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 0.4% YTD, and 78.3% since inception.

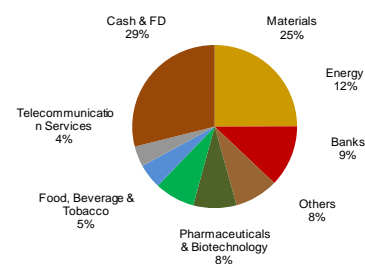
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

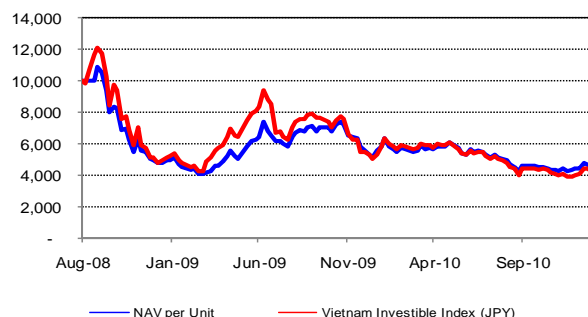
NAV per unit	JPY 4,519
	US\$ 55.07
Dec-10	4.5%
YTD	-22.8%
Since inception (Jul08)	-54.8%
Bloomberg	VAMINLI KY Equity

VILF is a Cayman open-end unit trust for Japanese retail investors. The Fund invests in top 20 investible listed blue-chips in Vietnam on a passively-managed basis.

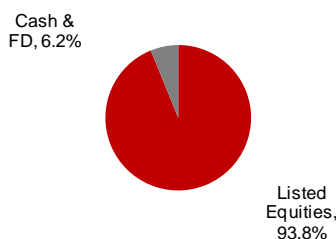
The Fund's NAV per unit increased 4.5% MoM to close at JPY 4,519 on 29 December 2010.

As of 29 Dec '10

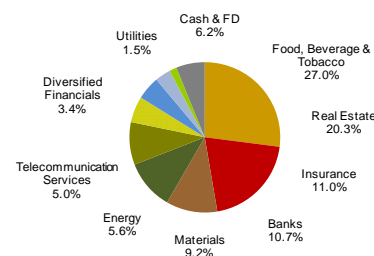
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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