

Market Update

Despite a long 8-day Tet (Lunar New Year) holiday in Vietnam, February was an eventful month with a series of measures by the government and central bank (SBV) in an increasing effort to stabilize the volatile economy. The most noteworthy but well expected event was the 9.3% devaluation of the Dong on 11th February with trading band simultaneously being lowered to $\pm 1\%$ from $\pm 3\%$. The largest single devaluation over years helped bring the official and unofficial rates, which had been diverging for several months, to come closer improving liquidity in the FX market. However, the desired effect seemed not very stable when concerns on high inflation and shrinking foreign reserves continued to put downward pressures on the Dong sentiment.

To address the issue, the Prime Minister had to execute a powerful action once used in 2009. He directed major state-owned enterprises (SOEs) to sell their foreign currency (mainly dollars) to banks and committed that the SBV would sell them dollars at the official rate when they need for legitimate demand. According to a market source, in mid-2010, the SOEs were reported to hold about 30 billion of foreign currency in their bank accounts, either in Vietnam or overseas. If the government can get SOEs assured to turn over their foreign currency to banks, this would be a huge source of dollars for the economy and the Dong would have a strong support from this move going forward. However, the real results from this measure remain to be seen, but the Dong sentiment actually improved with the news. It was also a good sign when the SBV applied a more dynamic and flexible FX regime after the major devaluation with FX rate adjustments being made on a daily basis instead of periodic major devaluations. Towards month end, the unofficial VND/USD rate was recorded at 4.6% above the official upper ceiling rate.

The devaluation inevitably brought certain unfa-

avorable impact to the already galloping inflation. February CPI was released at 2.09% MoM and 12.31% YoY, the 24-month high. Major culprits were named: Tet high consumption effects, withdrawal of price controls, rising global commodity prices, and the Dong devaluation. In addition, high lending rates at 16%-20% p.a. currently have contributed to rampant inflation to some extent given most local companies mainly rely on bank loans for working capital. With higher capital costs, their product prices must be raised as a result. To exacerbate the problem, fuels price hikes of 17.7% - 19.7% which took place in the last week of February and the 15.3% electricity price increase effective from 1st March will quickly feed into CPI index in March. Inflation control and Dong stability are now top priorities to the government. They have set to implement a package of policy measures such as reducing M2 growth this year to 15%-16% (from 24% prior); lowering 2011 credit growth to below 20% (from 23% prior); and cutting government spending on public projects by 10% this year to reduce the budget deficit to 5% of GDP. However, with ongoing turmoil and uncertainty in the MENA pushing up fuels price, continued rising commodity prices globally, and inflation in regional countries, we think it would take Vietnamese government at least a couple of months to gradually put inflation in check.

On a positive note, in February, industrial production and retail sales grew by 14.6% and 23.7% on year, respectively. Year to date trade deficit shrank to US\$1.83 billion from US\$2.4 billion in the same period last year as exports growth kept outpacing imports. If monthly trade deficit continues to be kept under the threshold of US\$1 billion throughout the year, full-year figure would come at around US\$12 billion or less, which will likely be well financeable with inflows in the capital account. In the first two months, the country received US\$1.15 billion of disbursed FDI, up by 4.5% compared to the same period last year. Hav-

ing said that, we think the economic growth will slow down in the coming months when the government's package of measures for stability take effect and 2011 GDP growth would end up below 7%.

The market reacted negatively to the slew of measures described above and closed February at 461.37 points, down by 9.6% on-month. Liquidity also dropped during the month with average daily trading value combined on both bourses recording at US\$63 million. Foreign investors were net sellers on the HOSE in February.

Our View

Seeing the first nice gains in the market right after Tet holiday, no one would imagine that Vietnamese stock market could lose 13 percent afterwards. In fact, the VNI-index fell from over 529 points to below 460 points after the government demonstrated its determination to combat inflation by continuously implementing a series of monetary tightening policies (increasing refinancing rate from 9% to 11%, lowering credit growth from 23% to 20% withdrawing about VND 100,000 billion from OMO markets), measures to stabilize the money market (request SOEs to stop hoarding USD, restrict gold bullion) and more drastic measures to restructure banking and stock market system. Inevitably, these policies and measures directly caused a shock to market sentiment in the short-term, resulting in fairly low liquidity and net selling from foreign investors as concerns on economic instability and rising fuel costs will hurt corporate profits. However, in the long-term, we believe that government's recent "painful" approach will help to tackle persistent macroeconomic issues and strengthen the financial system in Vietnam. As the market is likely to see further correction in the coming days, we think that medium and long-term investors can start picking up stocks at good valuation for the long haul.



Sector valuation

Industry group	Weight %	1M %	3M %	YTD %	2010 PE	2011 PE	2012 PE	2013 PE	2016 PE	P/B	Dvd Yield	ROE	Gross Margin	Op Margin	Net Margin	Net D/E
Vietnam Market	100.0%	-5.6%	3.1%	-3.9%	14.8	6.1	5.7	5.2	2.8	1.3	2.4	11.1	50.3	16.0	8.9	0.11
Automobiles & Components	0.7%	-14.4%	-2.7%	-16.5%	7.0	7.2	6.7	5.7	4.4	1.6	5.0	21.2	16.5	10.1	6.3	0.20
Banks	20.5%	-8.4%	7.9%	-4.4%	11.5	9.8	9.1	10.2	3.0	1.6	1.5	0.3	163.4	10.7	-10.6	0.20
Capital Goods	2.3%	-6.9%	-1.6%	-12.9%	6.3	6.3	5.9	5.4	4.2	1.2	6.2	19.4	33.0	19.3	26.4	-
Commercial Services & Supplies	0.1%	-11.2%	-9.3%	-17.4%	6.3	5.5	5.0	4.4	3.6	0.9	4.3	16.2	32.7	14.0	13.3	-0.20
Consumer Durables & Apparel	0.7%	-15.2%	-4.6%	-14.5%	9.3	8.3	7.7	6.9	5.8	1.5	4.8	18.4	10.9	6.0	3.6	0.80
Consumer Services	0.3%	-6.3%	16.4%	-9.6%	19.5	18.5	17.5	16.6	14.7	1.0	-	6.7	64.8	26.0	25.0	0.10
Diversified Financials	3.9%	-13.5%	8.2%	-19.7%	8.9	7.7	6.8	5.9	4.5	1.4	6.3	17.9	78.3	76.8	63.4	-0.80
Energy	3.6%	-6.8%	-1.6%	-2.8%	9.8	8.7	7.4	5.8	4.5	1.9	5.3	20.2	21.7	16.1	12.3	1.00
Food & Staples Retailing	0.1%	-3.0%	-6.2%	-4.0%	-	-	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	8.1%	-3.8%	11.1%	3.1%	8.3	9.2	7.5	6.1	4.0	3.5	3.9	35.5	33.3	19.9	17.5	-0.10
Household & Personal Products	0.1%	-4.6%	27.2%	-3.0%	4.8	5.0	5.0	5.0	4.6	0.6	1.5	-	18.5	4.3	-2.2	1.00
Insurance	0.8%	3.3%	17.3%	11.2%	7.4	7.3	6.1	4.8	4.6	0.7	3.8	9.7	45.6	7.6	13.4	-1.30
Materials	7.7%	-11.9%	-4.5%	-9.2%	7.8	7.5	6.3	5.4	4.4	1.9	5.9	26.2	28.6	22.2	18.8	0.30
Pharmaceuticals & Biotechnology	1.1%	-3.8%	-1.6%	-6.7%	7.8	6.9	6.6	5.2	3.9	1.9	4.0	26.4	44.0	18.3	18.9	-0.30
Real Estate	10.0%	-8.2%	10.4%	-4.4%	10.9	10.4	8.8	7.1	5.6	2.4	1.1	20.5	51.6	46.1	31.0	0.20
Retailing	0.5%	-11.6%	-2.3%	-13.5%	8.4	5.8	5.7	4.9	4.1	0.9	4.7	16.1	12.5	8.6	6.8	0.40
Software & Services	0.4%	-4.7%	5.2%	-10.4%	6.5	3.9	3.4	2.9	2.2	2.1	12.0	45.1	20.9	12.8	9.8	0.30
Telecommunication Services	2.4%	-14.3%	-21.4%	-15.2%	8.7	5.8	5.9	6.0	4.2	2.7	5.3	39.8	22.9	12.9	7.7	0.60
Transportation	1.6%	-10.4%	-2.8%	-12.1%	15.0	18.5	32.9	21.1	7.1	0.9	2.6	7.7	17.8	12.5	6.0	0.90
Utilities	1.6%	-3.6%	5.0%	-2.7%	420.9	7.3	6.2	5.6	4.1	0.9	10.7	12.8	38.0	35.4	35.1	0.20

* 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

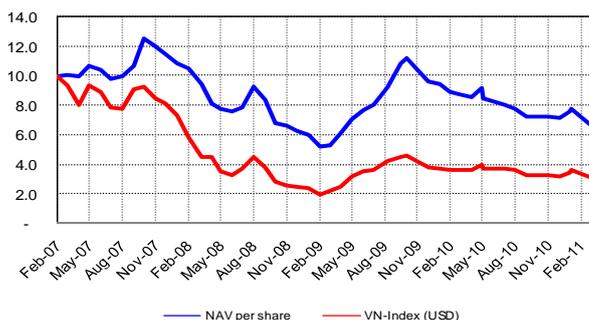
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$6.6
Feb-11	-14.7%
YTD	-13.4%
Since inception (Feb 07)	-34.0%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

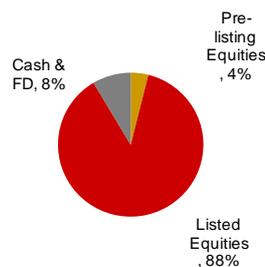
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end February, the Fund's NAV per share was \$6.6. Despite a 13.4% MoM decrease, the Fund still continued to lead the VN-Index (in US\$), recording outperformance of 0.89% MoM, and 35.05% since inception.

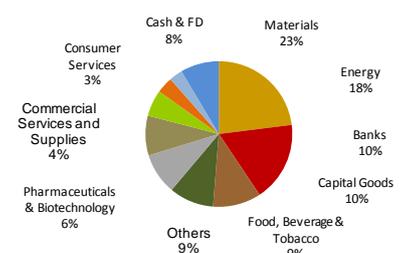
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown



Hong Leong Vietnam Fund (HLGVF)

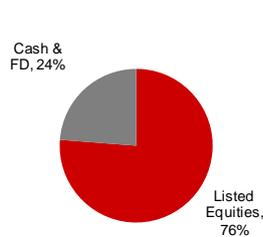
NAV per unit	RM 0.5596
	US\$ 0.1835
Feb-11	-9.77%
YTD	-9.64%
Since inception (Feb08)	11.9%
Bloomberg	HLGVIET.MK

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 February, the Fund's NAV per unit was RM0.5596. Despite a 9.77% MoM decrease, the Fund was up 11.9% since inception and continued to lead the VN-Index (in MYR), recording outperformance of 0.2% MoM, and 68.9% since inception.

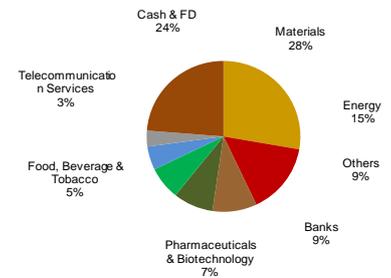
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

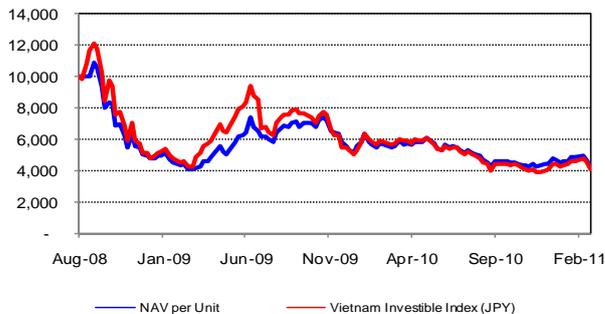
NAV per unit	JPY 4,230
	US\$ 51.23
Feb-11	-12.5%
YTD	-6.4%
Since inception (Jul08)	-57.7%
Bloomberg	VAMINLI KY Equity

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.

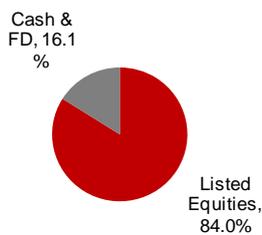
The Fund's NAV per unit decreased 12.5% MoM to close at JPY 4,230 on 23 February 2011.

As of 23 Feb '11

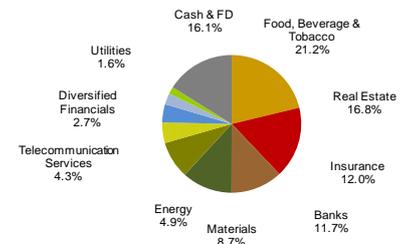
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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