

Market Update

Trade deficit declining growth rate

The policies enacted to restrict imports showed some effect this month, when lower import demand along with increasing gold exports contributed to the improvement in the June's trade deficit figures. Trade deficit, which stood at \$400 million, saw decreased growth for the first time in several months and the lowest level since August 2010. Continued gold exports should slow however, as the arbitrage opportunities between domestic and international gold prices even out. Support from commodity exports may also dip if a decline in commodity prices persists. Removing gold from the balance of payment would cause June's trade deficit to increase 2.6% over May's results. Imports for the month were down 5.2% over May's figures; fewer consumer goods, raw material and machinery demand were the main drivers of this downward trend.

CPI

The national inflation index for the month slowed down to 1.09%, the lowest MoM level since October 2010. The largest contributor to CPI came from restaurant and food services which increased 1.8% in June, the only item in the index to increase more than 1%. Drinks, tobacco, houses, construction, culture-entertainment and tourism staples all increased less than 1%. The considerable electricity and fuel increases of March were to be followed with another adjustment, but were delayed in an effort to control inflation; however, another price hike is expected as EVN continues pressing for further increases. Accompanying the downward CPI trend is the threat of loosening monetary policy given industry complaints about the tight credit policies rendering borrowing costs unaffordable for corporates. CPI reached 20.8% YoY and 13.29% YTD.

Dong stability

Stability in the dong continues into June and the rate differences between official and unofficial rates have disappeared. The State Bank of Vietnam (SBV) purchased 1.2 BN of foreign exchange (~\$3 billion) more for its reserves. The dong / dollar rate for the month closed at 20,318, which is slightly more than 0.3% stronger compared to June's opening rates. The dollar interest rates which were lowered to 2% for individuals and 0.5% for institutions caused many clients to convert dollars deposit to dong deposits.

Contributing to the currency stability is the tight fiscal and monetary policy currently being applied, this however, may bring about challenges should the SBV ease monetary policy.

Tax cut

The MOF has proposed tax incentives for businesses and individuals. If approved, some enterprises will be granted a tax payment extension of one year. Also proposed is a 30% tax reduction for qualifying enterprises, exempting workers earning monthly incomes at the lowest tax tier, and tax exemptions on dividends earned between August 1 and December 31. The total budget for tax relief is VND20 trillion (US\$1 billion). Voting is expected to occur next month to ratify this proposal and if approved, will be thought to encourage businesses to develop and provide assistance to their employees.

GDP

Q2 saw higher annualized growth than Q1. The General Statistics Office predicts the GDP in the first half of the year will reach 5.75% YoY, making the 6% - 6.5% growth target for the year achievable but optimistic. Despite the secondary sector (comprised mostly of construction and industry) leading growth with 6.49% YoY., the prohibitive interest rates make a surge in this sector unlikely for the year and could create some negative investors sentiment if the SBV misses its target, which in turn may negatively impact near future stock market performance. Providing some positive news is the continued tightened government spending may contain the budget deficit to 5 - 5.4% of GDP and bring about long term macro stability.

Lending

Interest rates remain high, reflecting the level of inflation; however, lending rates have shifted down from the previous month's level of 20 - 22% to 18 - 20%. Overnight rates on June 30th were 11.75%.

Equity Markets

The VN Index opened and closed the month at 435.69 and 432.54 respectively, representing a 2.65% increase after a month of uninspiring trading and poor liquidity. The high mark for the index for the month reached 450.59 on June 2, with a high volume of 12.2 million shares traded that day.

A new MOF circular effective August 1, will legalize margin trading but likely result in stricter SSC rules as lending will be restricted to 3% of shareholder's equity, down from the current 20%. Unwinding of margin positions and security lending will likely follow. Tighter regulatory environment on banks and brokers are what's driving this circular. Under the new circular, banks may also not hold more than 20% of their equity in foreign currency; currently the limit is set at 30%. Opening new branches will also set to become more difficult as bad debts must be limited to less than 3% of total outstanding loans in the first 6 months after registering to open a new branch. New

regulations will likely put downward pressure on banks' profits. There are some positive notes in the circular however, opening of multiple accounts and same day trading of stocks will be permitted and are looked upon to help provide a much needed boost to the market. The current regulations circulated in 2002 when the equities in banks were still quite small.

Our View

In recent months, the Vietnamese government has shown strong determination and efforts in fighting inflation by consistently issuing restrictive monetary policies to curb the acceleration of inflation growth. To a certain extent, they did achieve some notable success in stabilizing the economy. These austerity policies have been proven effective with a slowdown in GDP growth, a declining trend in CPI and stability in F/X market. However, all these achievements were not enough to bring demand back to the equity market. Given a persistently high interest rate environment and restrictive policies in margin and lending securities, the flow of money into markets was quite limited. Retail investors continued to stay out of the market as they either adopted a wait-and-see attitude or are attracted by the high bank deposit rates. The markets, therefore, traded within a narrow range and did not seem to break through since there was no major catalyst to boost.

The second-quarter corporate earnings will soon be announced so investors will have an opportunity to examine the health and business performance of companies in the first half given all the tightening policies in place. Since valuations have been quite attractive recently while most bad news has been discounted, we expect investors' interest to gradually come back.

The key issue at this juncture is whether the Government will maintain these tightening policies to fight inflation and trade deficit or whether some loosening might be applied to help local enterprises. In case of the latter, inflation woes may come back, stronger than before.

We think given the current situation, the government will take appropriate action to remove the threat of inflation. We uphold our interests in firms with good fundamentals, strong cash and good business plans in sectors such as dairy, consumer staples, oil and gas. In addition, seeing a significant plunge in the global oil price, we think this can be good opportunity for companies importing raw materials, whose price move in tandem with oil price, such as plastic and pharmaceuticals, to stock up their inventories at cheaper cost without lowering their average selling price. This opportunity can help these firms to generate earnings surprise at year-end.



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%	6.4%	-7.8%	-13.4%	8.2	8.1	7.0	5.8	5.3	2.0	4.6	23.4	32.8	23.8	20.1	3.02
Automobiles & Components	0.9%	3.5%	-28.5%	-43.5%	5.2	5.8	5.0	3.9	3.1	1.3	6.0	23.0	17.8	11.5	6.5	0.3
Banks	24.1%	0.4%	-5.6%	-11.8%	9.3	7.3	6.4	5.6	4.5	1.4	3.0	19.4	32.2	23.2	17.0	11.8
Capital Goods	3.0%	6.9%	-15.9%	-29.3%	5.2	7.3	5.8	5.4	4.6	1.2	7.5	18.8	36.8	17.1	28.2	0.2
Commercial Services & Supplies	0.2%	-7.5%	-12.4%	-34.2%	4.3	4.1	3.3	2.6	2.0	0.8	7.3	18.9	32.9	13.5	11.5	0.1
Consumer Durables & Apparel	0.9%	16.4%	-7.9%	-27.7%	6.7	5.9	5.6	5.0	4.3	1.1	6.4	18.7	10.8	6.0	3.7	0.7
Consumer Services	0.0%	14.1%	-20.3%	-31.2%	2.1	1.9	1.8	1.7	1.4	0.6	-	26.0	94.8	63.9	67.2	-1
Diversified Financials	4.4%	17.7%	-8.9%	-30.3%	8.9	5.6	4.9	4.4	3.4	1.1	7.7	19.1	78.4	75.0	63.0	-0.7
Energy	7.1%	0.7%	-12.8%	-15.6%	8.0	7.2	6.0	5.5	4.5	1.6	4.9	21.5	17.4	12.1	8.8	0.8
Food & Staples Retailing	0.1%	8.1%	-4.1%	-11.8%	5.4	5.6	5.6	5.6	5.4	1.1	-	18.1	16.7	8.2	5.3	1.1
Food, Beverage & Tobacco	18.4%	10.2%	12.8%	18.3%	9.7	9.9	7.7	6.2	4.1	4.1	3.6	36.0	32.8	20.3	17.5	-0.1
Household & Personal Products	0.2%	15.1%	-17.7%	-23.4%	7.6	4.3	4.3	4.3	4.0	0.5	1.8	1.7	19.1	4.9	-0.7	0.9
Insurance	0.8%	14.1%	-3.7%	0.8%	6.2	6.1	5.1	4.0	4.0	0.6	4.5	9.7	45.6	7.6	13.4	-1.3
Materials	13.6%	1.7%	-12.8%	-19.9%	6.7	6.2	5.5	4.9	4.0	1.7	7.5	26.3	27.9	21.4	18.0	0.2
Pharmaceuticals & Biotechnology	2.1%	7.1%	-1.3%	-9.4%	7.8	7.2	7.0	5.2	4.0	2.0	4.1	26.4	44.7	18.1	18.5	-0.3
Real Estate	15.4%	14.8%	-22.0%	-28.7%	7.3	9.8	7.5	5.8	4.8	1.6	3.1	17.4	40.2	34.3	30.3	0.6
Retailing	0.6%	12.4%	-5.5%	-19.0%	6.3	3.8	3.8	3.2	2.8	0.8	7.1	19.3	7.0	2.7	2.2	0.5
Software & Services	0.6%	-8.6%	-28.3%	-43.6%	6.7	4.8	5.2	5.3	4.6	1.4	14.2	27.5	18.9	11.2	9.5	0.2
Telecommunication Services	3.7%	6.6%	-7.9%	-24.1%	7.6	6.6	5.7	5.3	4.4	2.4	3.0	31.4	20.6	10.5	6.5	0.6
Transportation	2.7%	5.2%	-24.6%	-34.5%	9.0	19.1	25.1	16.4	35.2	0.6	5.0	7.9	18.4	12.7	6.2	0.9
Utilities	1.3%	-1.9%	-21.4%	-30.8%	6.6	5.5	5.1	4.7	4.4	0.7	12.2	13.4	54.3	51.3	58.6	-0.1

* 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

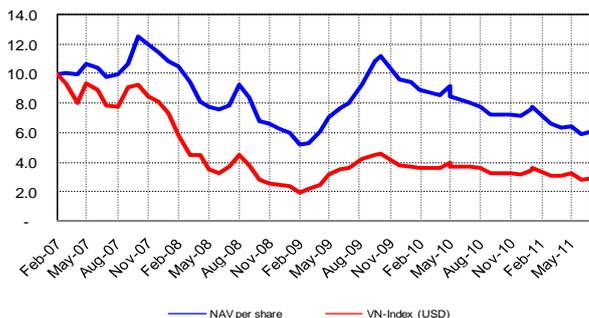
Vietnam Emerging Market Fund (VEMF)

NAV per share	US\$6.11
Jun-11	2.5%
YTD	-19.8%
Since inception (Feb 07)	-38.9%
Reuters	65092798
Bloomberg	VAMVEMF KY Equity
ISIN	KYG 936131005
CUSIP	G93613100

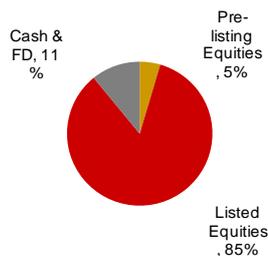
VEMF is a Cayman open-end fund with monthly liquidity for offshore investors. The Fund invests in private equities, privatization, OTC and listed stocks in Vietnam on an actively-managed basis.

As at end June, the Fund's NAV per share was 6.11. With a 2.5% MoM increase, the Fund still continued to lead the VN-Index (in US\$), recording out-performance of 0.04% MoM, and 31.66% since inception.

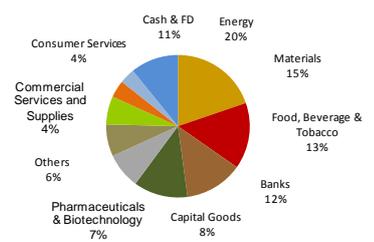
Performance vs. VN-Index (US\$)



Fund Breakdown



Sector Breakdown



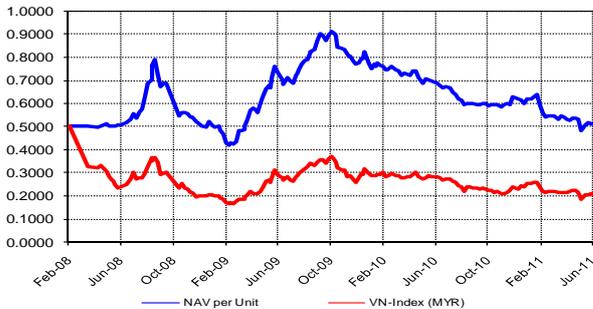
Hong Leong Vietnam Fund (HLGVF)

NAV per unit	RM 0.5058
	US\$ 0.1665
Jun-11	4.79%
YTD	-18.33%
Since inception (Feb08)	1.2%
Bloomberg	HLGVIET.MK

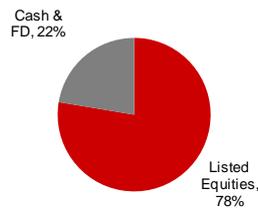
HLGVF is an actively-managed open-end unit trust for Malaysian high-net-worth investors. The Fund invests in OTC, pre-listing and listed stocks in Vietnam.

As at end June, the Fund's NAV per unit was RM0.5058. With a 4.79% MoM increase, the Fund continued to lead the VN-Index (in MYR), recording outperformance of 60.6% since inception.

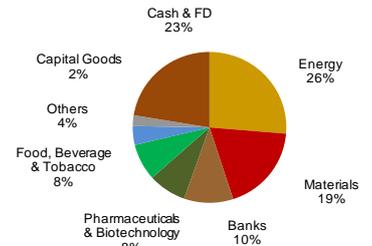
Performance vs. VN-Index (MYR)



Fund Breakdown



Sector Breakdown



HS-VAM Vietnam Index Linked Fund (VILF)

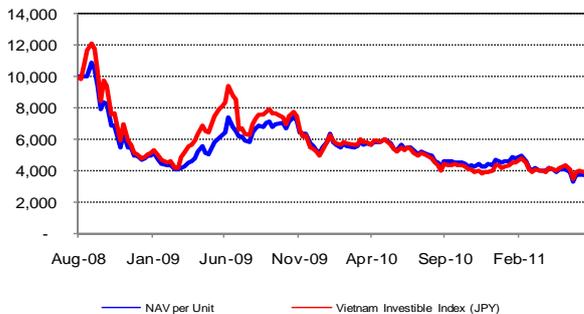
NAV per unit	JPY 3,656
	US\$ 45.20
Jun-11	9.5%
YTD	-19.1%
Since inception (Jul08)	-63.4%
Bloomberg	VAMINLI KY Equity

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.

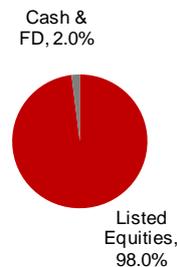
The Fund's NAV per unit increased 9.5% MoM to close at JPY 3,656 on 29 June 2011.

As of 29 June '11

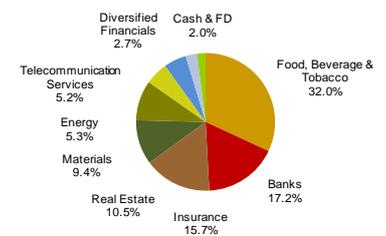
Performance vs. VII (JPY)



Fund Breakdown



Sector Breakdown



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