

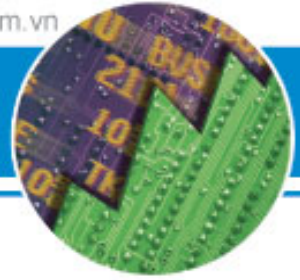
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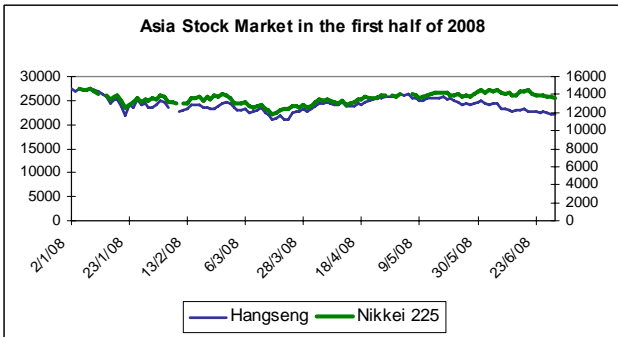
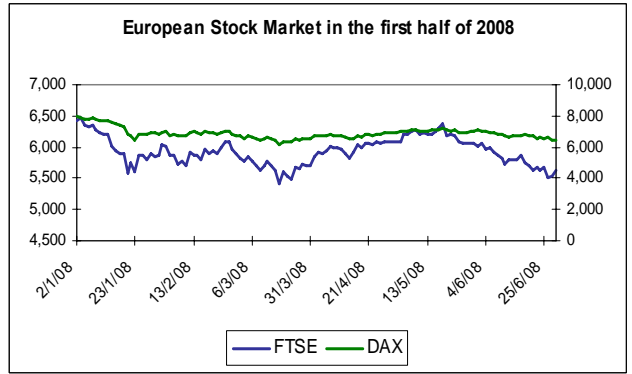
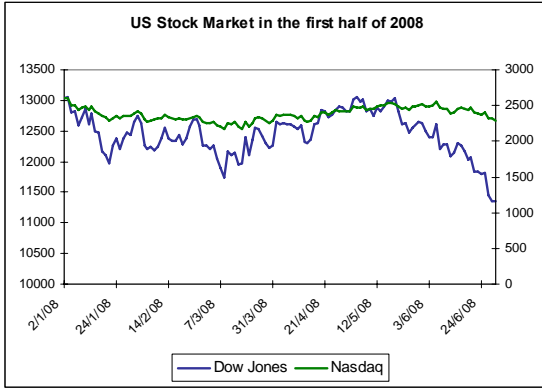
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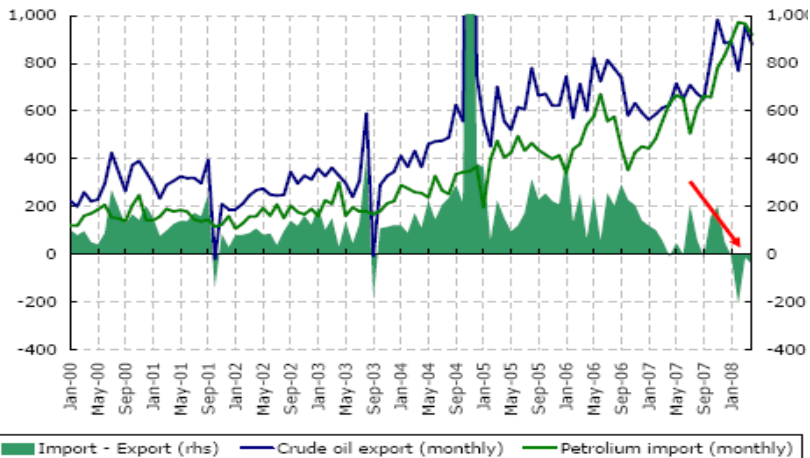
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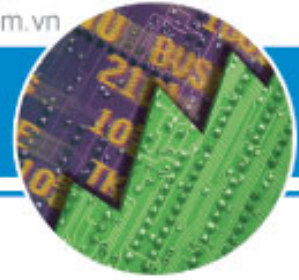
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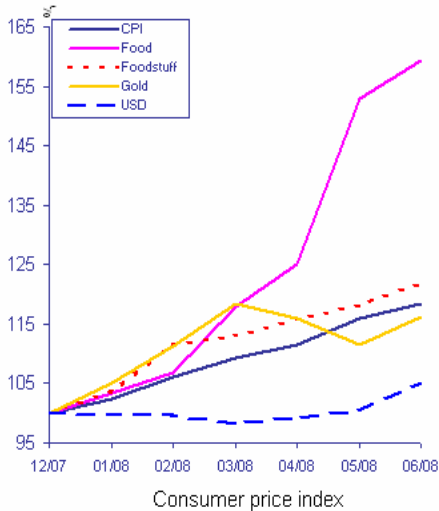
Vietnam crude oil export and petrol import development in the first half of 2008



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Vietnam Economy Overview in the first 6 months of 2008

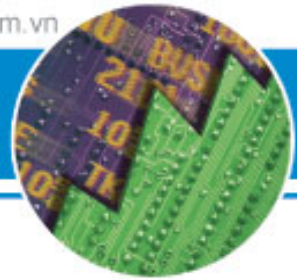


Source: General Statistics Office

■ Gross Domestic Product (GDP) in the first half of 2008 estimated to increase by 6.5% over the same period last year, in which the figure for agriculture, forestry and sea food sectors rose by 3.04%; industry and construction sectors by 7%, service sector by 7.6%. In comparison to the period of 2001-2007, GDP's growth pace in the first half of 2008 was the same as that of 2002 but lower than the other years. If GDP is expected to rise by 7.0% this year (*following the government's plan*), it must reach the average growth rate of 7.4% within the second half of 2008. This is considered a great challenge faced by Vietnamese government in the last 6 months.

■ CPI soared 20.34% y-o-y within 6 months, which has experienced the highest hike during the past few years. Price increase mainly occurred in food and restaurant service (*by 33.05%*) and construction material (*by 20.04% y-o-y*), which was followed by the recent price fluctuation of food, cement and steel. Following the evaluation of foreign organizations, high inflation has posed negative impact on Vietnam economy, leading to a series of macro economic unstableness and bad effects on financial market and main industries.

■ According to the report released by MPI, foreign trade turnover in the first 6 months reached US\$74.2 billion, in which import turnover was approximately US\$44.5 billion and export turnover was estimated to be US\$29.7 billion. Thus, the trade deficit came up to US\$ 14.8 billion (*equivalent to 49.8% export turnover*), even higher than the figure of the whole year 2007 (*US\$14.1 billion*). Import of key commodities all increased in terms of quantity, i.e car, car component, steel, computer, fertilizer... High import turnover did not only come from quantity but also from price. In the first half of 2008, the price of key commodities rose significantly, for example petrol and oil by 61.8%; steel and iron by 29.8%, fertilizer by



According to research by EIU – The Economist Intelligent Unit about Vietnam economy, GDP growth rate in 2008 was predicted at 6.9% and likely to increase to 7.7% in 2009. Inflation rate would remain high during 2008 and only show signals of going down in 2009, when Government's money tightening policy starts to take effect. Besides, trade deficit in 2008 has reached its peak (*trade deficit in the first 6 months is even higher than it was in the whole 2007*) so it was foreseen that Vietnam's trade deficit in 2008 would be equivalent to 9.2% of GDP (*much higher than the number of 1.8% of GDP in 2007*).

BVF's arguments

In the circumstance of global economic recession, financial crisis has spread globally and high inflation has been a stinging issue for not only countries in Southeast Asia but developed nations like United States or England as well, Vietnam could not stay out of the scenario. It is predicted the world economic growth rate was reduced to 3.7% in 2008 (*lower than 4.8% in 2007*). Instability in economics and politics leading to a sharp increase in crude oil's price, which nearly reached US\$150 per barrel and was predicted to keep on going up, would create a major influence on global economy in general and Vietnam's economy in particular.

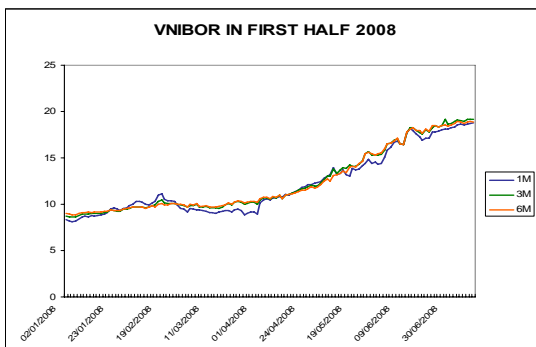
Vietnam government has gained initial achievements in controlling inflation and prices when consumer price index in June slowed down compared to the previous month. Necessary commodities' price stability would prevent inflation from rising high in the rest of this year (*it was estimated that consumer price index at the end of this year would be still high at around 25 – 30%*). However, due to negative developments on global market, prices of commodities which depended much on world market such as crude oil, gold, steel... might soar significantly. In that condition, it was hard for government to maintain stable domestic price. It is predicted that petrol and oil price would be raised sooner or later, which results in higher inflation and macro economic instability.

The Government's policies related to exchange rate, interest rate and tightening credit has just started to take effect and proved to be on the right way. But, it also has bad impact of slowing down Vietnam economic growth. Predictably, Vietnam would hardly meet the targeted economic growth rate of 7.5% in 2008 but only 7%.

Analysis of financial market during the first 6 months of 2008

At the beginning of 2008, interest rates in the financial market started to rise due to difficulties commercial banks faced in raising capital

The Central Bank relieved pressure on the market by increasingly pumping money via open market channel, limiting interest rate ceiling to 12% per year (in May, 2008)



Vietnam financial market in the first 6 months of 2008 fluctuated significantly and complicatedly due to negative factors existing in macro economic situation, policies issued by governmental authorities and short-comings in management activities of some commercial banks. Market's up and down was divided into 3 separate periods:

- At the beginning of 2008, interest in financial market started to rise when commercial bank got difficulties in raising capital. At the same time, the State Bank of Vietnam (the Central Bank) issued a range of money tightening policies including increasing required reserve ratio, raising discount rate in OMOs and issuing VND20,300 billion worth treasury bills (*imposing on 41 commercial banks in order to stop inflation from soaring up*), which revealed weakness in commercial banks' management activities. This resulted in a big fluctuation in financial market from late January to early February, in which interest rates went up abnormally against the same period last year (*especially short-term interest rate*).

- Knowing that financial market was in extra-ordinary growth and some commercial banks might lose their liquidity, the Central Bank decided to release pressure on the market by supplying more cash via OMOs, restricting interest rate ceiling at 12% a year and committing to buy USD from them... This move significantly eased capital constraints and reduced interest rates in the market (*common short-term interest rate is around 15%-20% and long-term one is 11%-12% p.a.*). However, some who had troubles in cash liquidity still take advantage of unclear points in the Central Bank's policies, which restricted interest rate ceiling to 12%, to increase their competitiveness by providing savings promotion, shopping card offers, special offers....

Commercial banks, especially small-sized joint stock commercial banks, had to face many difficulties in mobilizing capital from public and were constantly concerned about their liquidity.

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Although the Central Bank continually refinanced commercial banks via open market operations, inter-bank's interest rate did not show any signals of going down.

In May and June, the Central Bank issued a range of regulations in which refinance interest rate would be increased to 12% p.a. and the following year would be 14% p.a.

In May and June, the Central Bank issued a range of regulations in which refinance interest rate would be increased to 12% p.a. and the following year would be 14% p.a. Along with these restrictions, the Centre Bank tightly watched over commercial banks' lending interest rates and issued regulations on service fees... in order to make sure that lending interest rates would not exceed 21% a month. Increased basic interest rate has contributed in rising borrowing interest rate by commercial banks which triggered an interest race in the market.

On the whole, in the first half of 2008, in order to stabilize financial market and meet economic targets, Government and the Central Bank issued a lot of regulations and flexibly implemented them to fit up with market changes. Interest rates were adjusted up many times since Government still kept their opinion of maintaining a balancing position and positive real interest. However, due to both the world and domestic economic difficulties and undisciplined management of some commercial banks, there was a sharp fluctuation in monetary market, which led to a new unprecedented interest rate range. There were some explanations for this movement:

World economy had to cope with many difficulties, financial crisis spread in a large scope

- Firstly, world's economy had to deal with many obstacles created by a sturdy increase in essential fuels and materials' prices like oil, gold, steel... Besides, the sub-prime credit crisis occurred in a large scope, leading to a fact that a host of financial institutions suffered from deep loss. As a result, there was a trend of capital withdrawal from markets with low creditability including Vietnam, which impaired the fund mobilization capabilities of commercial banks. The operations of banks consequently become more difficult.



Vietnam's macro-economic instability

▪Secondly, national economy faced a lot of difficulties including high inflation, ineffectively invested projects, continually down-trend stock market, as a result, other investment channels such as real estate, gold were becoming more attractive and attracted a large amount of capital in the market. Meanwhile, the Government and the Central Bank's money tightening policies which imposed banks to increase required reserve ratios, buy treasury bills... put commercial banks in severe shortage of capital. The combined effect triggered an interest rate race during the past period.

Commercial banks' short-coming

▪Thirdly, important factors resulting in unstable financial market originated from commercial banks themselves. A host of new banks were established and rural joint stock commercial banks were transferred into urban banks. In the situation of high speed economic growth, a pressure was put on banks to compete severely, leading to undisciplined management, especially in small-sized commercial banks. These banks lent long-termed on their short-termed borrowings, lend customers money to make investments in risky areas such as securities, real estate. In case of economic crisis, banks were not able to maintain its liquidity and obliged to raise capital in inter-bank market, from mass people, or other enterprises at high interest rates.

BVF's assessment of future financial market

Under the pressure of both controlling inflation and ensuring GDP growth rate at 7% in 2008, the Central Bank's announcement of not lifting basic interest rate in July was a proof that the bank was facing pressure from enterprises (*especially state-owned ones*), which are lack of capital for production. Due to the increasing interest rate that lead to enterprises' bad performance, Vietnam would hardly meet the target of economic growth.



Therefore, it was foreseen that the Government and the Central Bank would issue a range of administrative measures to control commercial banks' interest rates and at the same time, avoid raising interest rate race among them. It was essential to set the ceiling of 21% for lending interest rate. As a result, in the time to come, the interest rate race, if ever happen, would occur in inter-bank market. In conclusion, because of all foreseen obstacles, financial market would not able to make any further progress if not even go down a little bit in the rest of 2008.



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Bond market within 6 months 2008

In the situation that unstable signals in both the domestic and the international economy has risen, leading by high inflation, the State Bank of Vietnam has applied a number of monetary policies to curb capital flow in the market. This has enormous affects on financial market in general and bond market in particular.

Bond transactions in secondary market

In the first 6 months of this year, the bond market depended heavily on foreign investors' actions. It is supposed to be blame on the difference in both demand for and supply of bond between Vietnamese and foreign. Due to limited sources of capital, commercial banks (*the main bond investors in the market*) rarely took part in the bond market. Insurance companies and investment funds had few transactions because of limited sources and the fear of unexpected interest rate. It is officially estimated that there has been USD10 billion of bonds in the market, from 30% to 40% of which owned by foreign investors. This is the reason why foreign investors' actions had such huge affect in the bond market.

Bond market depended heavily on foreign investors' moves.

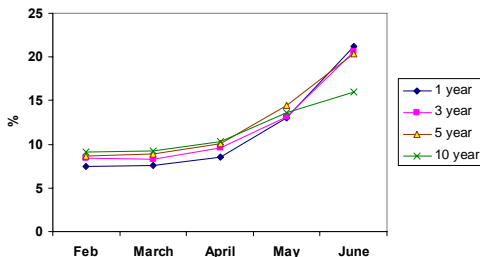
In the first 6 months, there were upward trend in the interest rate of the bond market. Only in the beginning of March, bond interest rate went through slight decline due to foreign investors' high demand of bond. However, because of the State Bank's tightened monetary policies, investors swift to real estates, foreign currencies... Unhealthy macro economic situation and a number of the government's policies led to higher supply and lower demand of bond, which was the reason why yields-to-maturity were that high.

In the first 6 months, bond interest rate experienced upward trend.



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Bond interest rate in the first 6 months



In the first 3 months, due to FED's low interest rate and VND/USD rate, foreign investors were keen on government bonds having short time-to-maturity less than 3 years. The bond interest rate experienced little change (*around 9.10-9.48% per year*).

Months after that saw a number of Government's announcements about high inflation rate and wide trade deficit, slower economic development, unstable monetary market... which affected the bond market. The unstable macro economy led to the rebound of the VND/USD rate which was the reason why foreign investors stopped buying to place more selling orders of different terms deposit. Moreover, foreign investment banks such as HSBC, Morgan Stanley,... issued many reports reflecting gloomy picture on Vietnam economy in 2008, advising investors to review and restructure their portfolios. S&P and Fitch Rating published a report on Vietnam credit rating as Negative – BB (*Unstable*). The negative evaluation on Vietnam financial market has caused withdrawal from investors. In this backdrop, high supply of bonds pushed the yields-to-maturity of bonds up to a unprecedented high level.

Transaction volume

Transaction volume in the first 6 months was much lower than in the same period of 2007.

Like equity, the trading volume of bonds in the first 6 months decreased dramatically, staying at below VND300 billion per session including bonds repo. There were few periods when the transaction volume increased dramatically (*to about VND1,000 billion/ session*) which was still affected by foreign investors' move in early March when their buying orders increased and in late June when they sold in large quantity at high rate.



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The bid situation of government bonds

In 2008, the State Bank planned to issue to the market government bonds with the value of VND90,000 billion. However, to reduce capital expenditure, the government reduced the figure by VND16,000 billion. Therefore, the number of bonds released this year will remain only VND74,000 billion. By the end of June 2007, the number of bonds released will take up approximately 15% the total bond value of the year. (*equal above VND 11,000 billion*).

In the first six months of the year, the State Treasury and Bank for Development of Vietnam held a number of government bond bids and underwritings (*mainly for bonds with less than 5 year tenures*), however, all bids were unsuccessful due to the difference between the ceiling interest rate and market rate. Recently, the Ministry of Finance adjusted the ceiling interest rate to be higher.

Issuance and transaction of company bonds

The liquidity of corporate bond has dropped to a very low level. Recent marketing events carried before bond issuance by big Corporations such as EVN, Vinashin, Vinacomin have not drawn attention from investors. This is partly because investors do not have unoccupied capital and partly because a number of those with demand are more interested in government bonds with a higher yield-to-maturity and security.

Market trend forecast

In the future, State Bank may issue administrative measures to control banks' borrowing and lending interest rates, to reduce pressure for companies. Accordingly, the basic interest in the market is likely to remain or reduce slightly so that domestic demands for bond (*especially commercial banks*) will increase.

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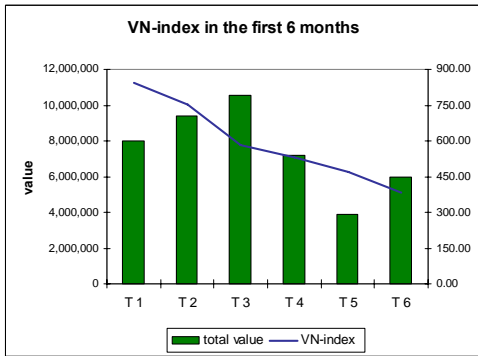
Moreover, the fact that the VND/USD exchange rate became more stable improved foreign investors' trust in the market, which meant the yields-to-maturity of bonds offered for sale stay the same or decrease.

In general, the bond interest rate in the following period depends on many elements. The most outstanding impact still come from the macro-economic situation and investors' moves. However, the Government's policies in general and competent authorities' administrative measures in particular will have great affect on the bond market.



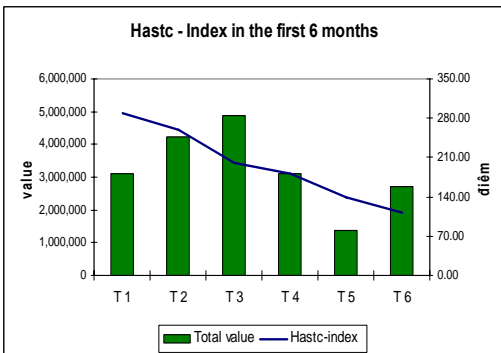
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Stock market in first half 2008



Market's downward trend: During the past 6 months, HOSE and HASTC indexes were on down trend, VN index fell from 921 points on January 2nd, 2008 to 392 points on June 27th, 2008 (down by 529 points in 6 months), HASTC Index decreased from 322 points at the beginning of this year to 112 points in June 30th, 2008. In 3 days (from May 27th to 29th), HOSE was close due to broken down services, decelerating the plummet but could not reverse the falling trend in both markets.

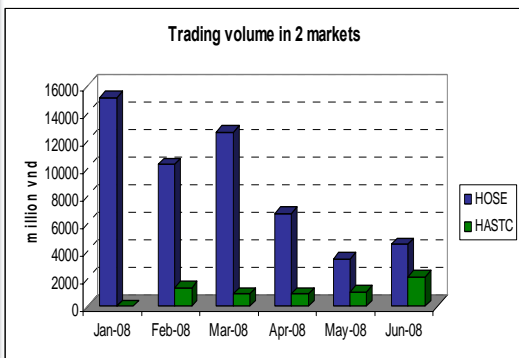
Reduced capitalized values: At the end of 2007, total Vietnam capitalized value reached VND495,000 billion (equivalent to USD31 billion), accounting for 43% of 2007 GDP but by late June, it lost USD16 billion and only made up 17% of GDP in mid 2008.



By the end of 2007, there were 249 listed enterprises in both HOSE and HASTC markets, and by late June, 2008, this number increased to 289 (by 40 listed companies).

Transactions' volume and value dropped: In the first quarter of 2008, monthly transaction value in Ho Chi Minh market was around VND10,000 – 15,000 billion and in Hanoi was about VND1,000 billion. However, by the second quarter, transaction value fell sharply to VND5,000 per month on average in HOSE market and nearly VND1,500 billion per month in HASTC.

Source: BVF



Transaction amplitude adjustment:

During the past 6 months, State Securities Commission adjusted transaction variation band 3 times. This adjustment was considered to be an administrative measure which rapidly and directly affected stock transactions and partly reduced either loss suffering in downward market or profitability in upward trend, but it does not change the intrinsic value of the

Source: BVF



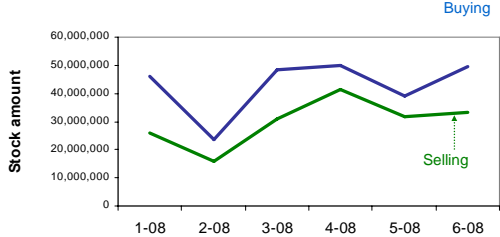
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market. Moreover, the successive changes in variation band during last period make it difficult for investors to assess the market movements. It was the macro economy itself that caused a recession in market during last period. Therefore, besides ad hoc intervention measures taken recently it is hoped that in the future, Government agencies will adopt proper policies toward a stable macro economy – the root of the issue.

Foreign investors' transactions

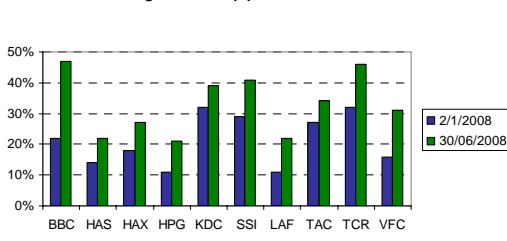
Buying in

Transaction volume of foreign investors on HASTC first 6 months of 2008



which stock are most favored among foreign investors?

Foreign ownership portion of some stocks



Reviewing transactions of foreign investors, it's easy to see that net buying volume increased comparatively since earlier this year, especially in March, April and May which are said to be the worst time of Vietnam stock market with prolonged decreasing indexes. While domestic investors are pessimistic and speed up selling out, foreign investors kept buying. With the advantages of experiences and capital, foreign investors released capital to buy cheap stocks and reduce cost price or buy good stocks at reasonable price. Thus, foreign ownership portion in listed companies in late June has sharply increased compared with earlier of the year, typically in some below companies:

Foreign investors always show their interest in blue chips and stocks of potential sectors, especially leading stocks like: VNM, ANV (Foodstuff), FPT (technology), DPM (fertilizer), DHQ (Pharmaceutical).

Moreover, in unfavorable macro-economic situation earlier of the year, foreign investors kept buying stocks of manufacturing sectors which are less affected by market, i.e. TCR, TAC, HPG or stocks of confectionery and consumer goods sector like BBC, NKD, KDC...

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OTC market in first 6 months of 2008

The total stock sold out to the market was not much and IPO stocks of large SOEs has no longer attracted investors. Companies successful in auction were mostly small and medium-size companies with good performance, less vulnerable to inflation, interest, for example: Saigon Plant Protection Company, Vang Danh Coal Company... The total stock sold out of the other IPOs were very low and had to resold many times which caused difficulties to enterprises in mobilizing capital.

All OTC stocks saw sharp decrease in the first 6 months of 2008 with the hardest hit stocks in banking, finance, and insurance companies of over 70%, real estate from 50-70%, stocks of foodstuff, beverage and pharmaceutical sectors suffered lower loss, about 40-60%. This was an extremely hard period for investors on OTC when stocks price seriously decreased and liquidity was at alarm level.

Main reasons leading to the decline in OTC market in first 6 months of 2008

Main reasons leading to the decline in OTC market in first 6 months of 2008 as follows:

Global market declined, high inflation rate in Vietnam have badly influenced financial market, leading to the decline in stock market. OTC stocks in Vietnam securities market are of low transparency and liquidity.

Remarkable fluctuation in interest, foreign exchange rate in monetary market and especially the increase in gold and oil prices have made stock market not lucrative as before. Investors diversify investment products in order to reduce risk, making OTC market almost frozen.

The commercial banks, the main supplier of fund for OTC investments, upon the promulgation of credit tightening measures by the Government, has almost stopped lending to OTC investors.

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Impacts from listed market when Vietnam-index lost 60% within first 6 months of 2008 dispirited investors; both institutional and individual investors suffered from big losses.

The floor price for SOEs' IPO set so high makes it hard for these auctions to get success and bid price is only approximate to offering price which ruined the stock attractiveness.

A lot of newly-established banks issuing stocks made it impossible for OTC market to absorb in short time, diluted banking stocks, dropped value of other stocks in banking and finance area.

The year 2008 is considered to be a year of many difficulties for enterprises: increasing production cost, difficulties in borrowing from banks, loss in financial investments... Thus, securities market in general has no sign of soon recovery. It needs more time for enterprises to self assert their ability in difficult period and more time for regaining trust from domestic and foreign investors. It is estimated that, the performance outcomes in second quarter will not good, difficulties will still continue in third quarter till the end of 2008, hence, it's advisable that investors should wait for the performance outcomes of second quarter to be released in July before making any investment decisions.

By choosing companies with good performance and high preparedness for bad situations, investors can reduce risks currently.

Overview of market the last 6 months of 2008

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Investors should be interested in the following enterprises: Enterprises in banking and finance sector with a good risk-management system, manufacturers with adequate materials storage and reasonable selling pricing, enterprises with low leverage especially small portion of short-term debts... These enterprises may gain better growth when difficult period ends.

Besides, stocks of the enterprises currently superior than others such as those exploiting raw materials, producing fertilizers, and foodstuff...should be in the portfolio of the investors in at least the last half of 2008.

Predicting that macro economy cannot improve quickly, enterprises are still facing up with difficulties, demand of domestic investors are limited, capital of foreign investors in market will be only at limited level, BVF holds that VNindex in the later half of 2008 may hover around 350-400 points.



General judgments on market in later half of 2008

- It's said that bad macro economic situation in first 6 months has strongly affected Vietnam finance market as well as all sectors in market, among them, enterprises operating in finance, banking, securities and insurance was the hardest hit.
- Although macro indices in late quarter II of 2008 recovers gradually, measures to stabilize macro economy of the Government partly take effect, it is predicted that economy and finance market situations in later half of 2008 will encounter many obstacles owing to the effect of both internal and external factors, i.e.:
 - ✓ The economies of USA, Europe and other countries in the region are in recession, the world oil price is still in upward trend due to insecure politics and oil speculation; all of these are putting pressure on raising price of oil and gasoline locally and likely to exacerbate the already high inflation in next 6 months of the year.
 - ✓ Inflation is in downward trend but still at high rate (*estimated over 25% this year*), the risk of bad debts is facing commercial banks, the real estate market is declining, enterprises' performance is not likely to peak up, all these factors will have strong impact on market in the second half of 2008.

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