

PXP VIETNAM FUND LIMITED

A Cayman-domiciled closed-end fund listed in Ireland. The investment objective of the Fund is to achieve long-term capital appreciation of its assets by investing in a portfolio of the equity securities of Vietnamese companies, whether established with domestic or foreign ownership, which are either listed companies or pre-listing companies.

FUND DETAILS

Launch Date: 31 December 2003 **Issue Price:** US\$ 2.500

NAV per share: US\$ 3.011 as at 27 January 2006

Number of shares in issue: 8,564,000

Fund size: US\$ 25.79 million

Number of holdings: 23

Performance	1 month	3 months	1 Year
PXPVF	+3.79%	+8.31%	+27.37%
Viet Nam Index	+1.57%	+1.60%	+33.86%

TOP 10 HOLDINGS

	Net assets	% of VNI
Vinamilk (VNM)	13.61	51.74
Sacom Cable (SAM)	12.02	6.06
Gemadep (GMD)	11.23	9.02
REE (REE)	8.24	6.31
Southern Seed (SSC)	6.45	1.64
Transimex (TMS)	4.56	1.16
Hoa An (DHA)	4.39	1.11
Agifish (AGF)	4.22	1.03
Gilimex (GIL)	3.93	0.95
CT 620 Concrete (BT6)	3.82	1.16

INVESTMENT COMMENT

During January the Fund's net asset value per share rose by 3.79% compared to the Viet Nam Index (VNI) gain of 1.57%. The Fund's equity holdings as a percentage of Net Assets increased from 91.7% at the end of December 2005 to 93% as at 27 January 2006.

The most significant events for the Vietnam stock exchange so far in 2006 have been the listings of Vinamilk and (to a lesser extent) Taya, the first foreign-invested enterprise (FIE) to do so, and the publication of the hyper-bullish Merrill Lynch report on Vietnam. The combination of those factors has seen enhanced interest in the global media and the anticipation of such turning into inward flows has driven the market from the Tet-delayed February resumption of trading to near 5-year index highs at the time of writing (27 February 2006). Our year-end VNI target of 375 points has now been surpassed without significant foreign participation and there is, in our opinion, an element of overheating in the market in the short-term.

Chau Thoi 620 Concrete (BT6) became the first listed stock to hit the 49% foreign ownership limit in late-February, which will provide an opportunity for the relevant authorities to address the question that will eventually occur to all interested future foreign participants: "Now what?" We understand that the Government intends to continue reducing its stake in BT6 to below 10%; clearly foreigners will not be able to participate in any future auctions of around 12% of the shares, but it might be considered that it would help the domestic bid prices somewhat if the stock becomes a pilot case for a foreign board.

Of more pressing concern (since less than a handful of the

other listed stocks have currently edged above 40% foreign ownership) might be the state of play in the over the counter market in bank shares, which has continued to exhibit gravity-defying performance as global players allegedly circle in the wake of the recent HSBC stake in Techcombank. Singapore's OCBC appears to be the next likely successful bidder, for 10% of VP Bank.

In very simple terms we understand the situation as follows: Any foreigner wishing to buy a stake in a Vietnamese bank must have State Bank of Vietnam (SBV) approval; only the top-500 financial institutions in the world will be considered by the SBV as "strategic investors" in Vietnam's banking sector (and they obtain their 10% stakes direct); and, given that, as far as we are aware, there are no newly permitted foreign investors in the over the counter market in bank stocks, it follows that that sector is currently dominated by local players, we suspect mainly of a retail nature.

The last time that domestic retail investors enjoyed that sort of presence in the local equity arena was in the first couple of years of the existence of the stock market (2000 to 2002), when the VNI surged from 100 to 570 points in the first eleven months and from there to below 200 points in the next 10 months. Bubbles do have a habit of bursting at high altitudes, as most of us will recall.

The solution (in our humble opinion)? List a bank urgently (in Vietnam first, not overseas) in order to clarify the rules of engagement for foreign investors in bank stocks; will they, for example, as a "sensitive" sector necessarily enjoy the same higher foreign ownership limit on listing? Otherwise when retail investors decide to sell, there may be no buyers. Further,

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a spill-over effect into the listed market might create a similar situation there.

We are sure that the local authorities are well aware of the potential blockages and are actively considering corrective measures, but the level of stock trading experience at a retail level is not high and speed is sometimes a good thing.

It may seem strange to our reader that the Fund is pursuing a further issue of shares in March (announced via the Irish Stock Exchange on 10 February 2006; if you have not seen a copy please follow http://www.ise.ie/app/announcement_Details.asp?ID=1159101) at a time when we are, on the face of it, bearish. Then again, if we are right, it may not.

We would, in any event, reiterate that we are merely cautious in the short-term in listed stocks as well as remaining unconvinced about the stability of the over the counter market; we do not consider that Vietnam has taken more than a few first steps on the path to realising its full potential and remain unreservedly (if not unrelentingly) bullish in the long term.

The Fund's four largest holdings (VNM, SAM, GMD and REE) are all on multiples of over 16 times 2005 earnings and we expect to be able to obtain shares of companies of similar stature at less than half that price at forthcoming auctions. One possible impact of the relatively high index level would be in the increased willingness of larger state owned enterprises to push ahead in the equitisation process, and we intend to position the Fund to take advantage of that situation as it arises over the coming months.

Our apologies for taking up more of your time than is customary, but as the development of Vietnam's capital markets accelerates we find that there is more to say.

As this Newsletter is the first of the year we have not included a Vietnam Funds relative strength chart, but will do so from the next issue.

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