

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\$ 2.385 as at 31 August 2004		
Number of shares in issue:	4,282,000		
Fund size:	US\$ 10.21 million		
Number of holdings:	13		
Performance	1 month	3 months	YTD
PXPVF	-1.00%	-4.14%	-4.60%*
Viet Nam Index	-2.54%	-7.78%	+39.20%

TOP 5 HOLDINGS

	% of net assets
Sacom Cable (SAM)	10.35
Gemadept (GMD)	9.53
REE (REE)	5.78
Chau Thoi 620 Concrete (BT6)	5.58
Transimex (TMS)	5.14

* The Fund started to invest on 11 February 2004

INVESTMENT COMMENT

During August the Fund's net asset value per share fell 1.0% compared to the Viet Nam Index (VNI) decline of 2.54%, the fifth consecutive month of outperformance against the benchmark. The Fund's equity holdings as a percentage of Net Assets rose from 48.4% at the end of July to 55.7% as at 31 August 2004.

The beginning of August saw a sharp sell-off in the market with the VNI falling to 213.74 points on 9 August before recovering; a level last seen on 12 February this year, coincidentally the day after the Fund received its trading code. The Fund increased the number of its holdings in August, taking relatively small positions in Bibica (BBC), Cobovina (BBT) and Hoa An (DHA), and added to existing holdings with foreign availability. We continue to lobby for the introduction of a foreign board; two recent articles in the local financial press by Kevin Snowball (copies in English available on request) have attempted to explain the mechanics and advantages of such a system and the concept is beginning to be understood by the local broking community.

Saigon Fuel (SFC), a small-cap filling station operator, is expected to make its debut at the Securities Trading Centre (STC) on 21 September 2004, becoming the 25th company to list in Vietnam in spite of its stated uncertainty about the tax treatment of listed companies. SFC Director Cao Van Phat is quoted as saying "The relevant agencies should make the tax policy more transparent if they want more companies to be listed". We would not disagree with those sentiments.

October should finally see the listing of Viet Fund (VF1), the first local mutual fund, which is expected to add close to US\$ 20 million to market capitalisation.

The equitisation process continues to provide optimism for the coming year, with Ho Chi Minh City reportedly in the latter stages of permitting simultaneous equitisation and listing at the STC. Vinamilk is expected to sell a further 10% of its shares in the coming months as a prelude to listing; we will be attempting to secure a full weighting in this stock which should at least double market capitalization.

The listing of the first two private joint stock commercial banks may have run into a difficulty or two; both are rumoured to be in discussions with "strategic investors" wanting to secure the remainder of the stock available to foreigners. For example, in the case of Sacom Bank, which is owned as to 10% by each of Vietnam Enterprise Investments Limited (VEIL) and the IFC, the remaining 10% is targeted with perhaps a call or convertible on a further 19% when rules permit. A listing with no foreign participation permissible could cause the worst fears of certain members of Government to be realized; weakness in the share price caused by the fickle behaviour of retail investors unchecked by foreign investor opinion could lead to a run on either, both or all banks. We have expressed our concerns about the wisdom of pursuing a listing under such circumstances, making clear of course our self-interest on behalf of the Fund. Although the run on Asia Commercial Bank a year ago was handled extremely well by the government, any sort of repeat performance would prove unpopular and might undermine the arguments of the pro-marketeters. When I asked the head of a local securities company recently which bank he thought would be the first to be listed, his reply was unequivocal: "Vietcombank".

Inflation update: CPI is up 8.3% for the first 8 months on the same period in 2003. The IMF estimates 10% for the full year.

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