PXP VIETNAM ASSET MANAGEMENT LTD

Newsletter as at 31 August 2006

VIETNAM EMERGING EQUITY FUND LIMITED

A Cayman-domiciled closed-end fund listed in Ireland. The investment objective of the Company is to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of companies with a significant presence in Vietnam.

FUND DETAILS

Launch Date: 3 November 2005 **Issue Price:** US$ 5.000

NAV per share: US$ 6.818 as at 31 August 2006

Number of shares in issue:	7,663,750
Fund size:	US$ 52.25 million
Number of holdings:	28

Performance	1 month	3 months	Inception
VEEF	+8.844%	+2.357%	+36.36%

TOP 10 HOLDINGS

	% of Net assets
Sacom Bank (STB)	10.65
Sacom Cable (SAM)	10.15
Vinamilk (VNM)	6.61
Yue Yuen Industrial	6.31
Sanyang Industrial	5.18
REE (REE)	5.03
Tiberon Minerals	4.83
Ellipsiz	4.37
Fimex (unlisted)	4.20
Agifish (AGF)	3.56

INVESTMENT COMMENT

During August the Fund's net asset value per share rose by 8.844%. The Fund's equity holdings as a percentage of Net Assets increased to 83.7% as at 31 August 2006 from 73.2% as at 31 July 2006.

The strong bounce from the 2 August low has been followed by a relative lull through September as the market consolidates recent gains. The theoretical stimulation of new demand as a result of the (as yet unconfirmed) impending removal of the foreign ownership limit in non-sensitive sectors was balanced from the supply side by the announcement of the cancellation of the 2-year 50% tax holiday on listing with effect from 1 January 2007, the latter intended to inspire the dawdlers to list before its too late to obtain the benefit. Estimates currently range between 20 and 50 new listings by 31 December 2006.

Our take, in brief, on these new developments;

The main beneficiaries of the removal of foreign limits, if and when it happens, will be those foreigners who have ready access at the time. That pre-supposes an acceptable level of comfort with the reliability of on-the-ground research, and that the price of entry is reasonable given the potential. Certainly foreign access is much improved since the Merrill Lynch attention grabber in February this year. Only 3 stocks are currently at the foreign limit, however, and it is unlikely that the restriction will be eased in the banking sector for the time being, which might otherwise be regarded as offering the best access to the macro-economic dynamics. Neutral.

Whilst it is understandable at first sight for the intended last quarter rush (or rash?) of listings to be perceived as a potential drain on liquidity, it should be noted that locally there has never been an IPO as understood outside of Vietnam. All listings to date have been by introduction, which suggests that there are unlikely to be any attendant cash calls before the year end. The diffusion of whatever demand does eventuate over a broader (and hopefully more diverse) group of stocks should result in a decrease in short-term volatility which should in turn enable a broader base of participants to gain entry. Long-term positive.

Where from 1 January 2007 in the post-tax incentive world? Nothing has been said regarding the removal of post-equitisation incentives, so we assume they will continue. One interpretation might be that the government is losing patience with the speed at which soon-to-be designated "public" companies are moving to the more formal arena and is indicating a preference to concentrate on attempting to satisfy through equitisation and IPOs the *real* foreign demand which must, of course, be for big caps at this stage of the market's development. Very positive if our interpretation is correct.

In short, the final quarter of this year is likely to begin to provide the answer to a number of interesting questions and we look forward to developments.