



# Newsletter - December 2007 -

Vietnam Emerging Equity Fund Limited (VEEF)

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.

## Summary

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**Portfolio Managers**  
Kevin Snowball  
Jonathon Waugh

**Bloomberg Ticker**  
PXPVEEF KY <Equity>

**ISIN**  
KYG 936101065

**Market Makers**  
**CLSA:**  
John Bridgman / Michele White +44 207 614 7280  
**HSBC:**  
Hugh Harvey-Kelly +44 207 991 5241  
**JP Morgan:**  
Richard Crawford / Peter Brown + 44 207 779 2111  
**LCF Rothschild:**  
Johnny Hewitson + 44 207 845 5960

**PXP VIETNAM ASSET MANAGEMENT**

PXP Vietnam Asset Management  
Vietnam Representative Office  
6th Floor, Opera View Building  
161 Dong Khoi, District 1  
Ho Chi Minh, Vietnam

Tel. No. + (84) 8 827 6040  
Fax No. + (84) 8 827 6043  
www.pxpam.com

## I • Fund details

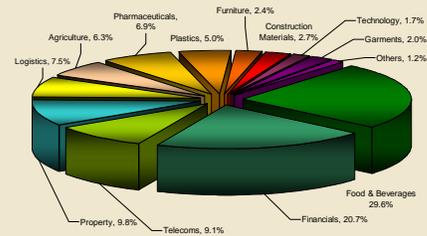
<b>Launch Date</b>	3 November 2005		
<b>Issue Price</b>	US\$ 5.000		
<b>NAV per share</b>	<b>US\$ 12.136</b> as at 30 November 2007		
<b>Number of shares in issue</b>	7,663,750		
<b>Fund size</b>	US\$ 93.0 million		
<b>Number of holdings</b>	Listed: 28 Pre-Listed: 11		
<b>Performance</b>	<b>1 month</b>	<b>3 months</b>	<b>6 months</b>
<b>VEEF</b>	<b>-3.36%</b>	<b>+7.70%</b>	<b>-4.97%</b>
	<b>YTD</b>	<b>1 year</b>	<b>Inception</b>
	<b>+29.05%</b>	<b>+44.9%</b>	<b>+142.7%</b>

## II • Top 10 holdings

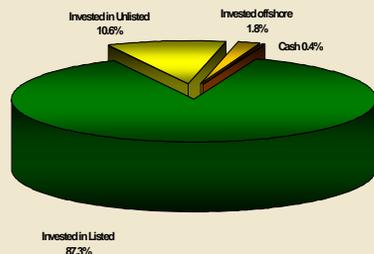
	% of Net assets
<b>Sacombank (STB)</b>	15.1
<b>Sacombank Cable (SAM)</b>	9.7
<b>REE (REE)</b>	8.7
<b>Vinamilk (VNM)</b>	7.5
<b>Gemadep (GMD)</b>	6.6
<b>Agifish (AGF)</b>	5.5
<b>Binh Minh Plastics (BMP)</b>	5.3
<b>Bao Viet Securities (BVSC)</b>	3.9
<b>Imexpharm (IMP)</b>	3.5
<b>North Kinh Do (NKD)</b>	3.4

## IV • VEEF portfolio

Sectoral Breakdown (as at 30/11/07)



Segments (as at 30/11/07)



## III • Investment comment

### VIETCOMBANK: Where's the upside? What's the point?

Much has been written and much breath had been held awaiting the details of the Vietcombank auction (we'll refer to it as "VCB" here, but that's probably too obvious to be the actual ticker when it eventually lists). With as much information in hand as we are likely to get, and with the main event only a few days away, we find ourselves desperately bored with the whole story and are struggling to justify making the effort to participate. Why? Isn't that what we are paid to do? Make the effort, of course, but participate in the scramble (if anyone is that excited about it) for possibly the world's most fully-priced IPO? Can't find any reference to that in our mandate.

According to our multi-dimensional slicing and dicing of the numbers, the minimum price payable at auction puts the bank on somewhere between (a very optimistic) 4 and (a worst-case) 10 times book depending how much of the share premium the bank is allowed to retain. If that bit of information had found its way into the prospectus we might have been able to make a more precise fist of our estimate but it appears to have been deemed superfluous. The Chairman has apparently subsequently informed the Hanoi roadshow audience that the number will be "at least" 30% of the difference between the average price paid at auction and the VND 10,000 nominal or par value of the shares. Whilst we always do our best to restrain a natural cynicism we cannot help but feel that that titbit might be more useful in terms of multiple expansion than for anything else.

The biggest obstacle to being able to justify participation from our perspective is in the two-tier nature of the breakdown of the offering. The total number of shares available (97.5 million) represent 6.5% of the share capital of Vietcombank. Foreigners are able to buy 30% of that total. Given that so much foreign money was raised over the past year in expectation of the floatation of VCB, among other large cap state-owned enterprises, we see no difficulty in foreign investors coming up with well in excess of the roughly US\$ 180 million needed to fully subscribe for the 29.25 million shares available to us as a group. We think that it is fair to assume that the foreign tranche will command a decent premium and fetch an average of somewhere close to VND 150,000 per share in spite of the current difficulties in obtaining dong.

The local tranche, on the other hand, might prove less easy to shift. At the minimum price, local investors need to find roughly US\$ 425 million to take up the balance. We are pretty sure that only once has a public auction in Vietnam attracted that level of interest and that was in the distant past (March this year) when margin financing was freely available. Assuming that the local issue is fully subscribed we would be surprised to see the average price much above the minimum, if at all, which would put the overall average at approximately VND 115,000 per share. We wonder how many funds feel that participation is worth an immediate write-down of 23% in the value of their holding (assuming that valuation policies are as conservative as our own).

At VND 115,000, VCB would, by our estimates be on 93 times 2007 earnings and a shade under 50 times 2008. The largest holding in Vietnam Emerging Equity Fund, Sacombank (STB) is, by our reckoning on 25 times 2007 and 17 times 2008 earnings. We leave our readers to speculate on what might (or should, if there is any logic in this market) happen to the price of the latter after the dust has settled. We know which we prefer to own.

Since this will be the last Newsletter of the year, and in an effort to lighten the mood ahead of the Holidays (for which our best wishes to both our readers), we would like to leave you with what we consider to be the joke of the year in spite of Mark Gibson only having shared it with us this morning. Our apologies if it crosses too many boundaries of political (in) correctness: *On the way to work this morning, I rear-ended a car. Somehow I knew it was going to be a bad day. The driver got out of the other car, and he was a dwarf. He looked at his dented car and then looked up at me and said "I am not happy". I said, "Well, which one are you then?" That's how the fight started.*

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