VIETNAM ASSET MANAGEMENT LTD

Newsletter As at 30 September 2004

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$ 2.396 as at 30 September 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	+0.46%	-3.04%	-4.16%*
Viet Nam Index	+0.35%	-6.61%	+39.68%

* The Fund started to invest on 11 February 2004

TOP 5 HOLDINGS

	% of net assets
Sacom Cable (SAM)	10.23
Gemadept (GMD)	10.13
Chau Thoi 620 Concrete (BT6)	6.56
REE (REE)	6.22
Savimex (TMS)	5.22

INVESTMENT COMMENT

During September the Fund's net asset value per share rose 0.46% compared to the Viet Nam Index (VNI) gain of 0.35%, the first monthly increase since March. The Fund's equity holdings as a percentage of Net Assets rose from 55.7% at the end of August to 59.9% as at 30 September 2004.

The Investment Manager's opinion of the current state of play at the Vietnam stock exchange is outlined in the following article, which will appear in the November edition of the Vietnam Economic Times. The article was written by Kevin Snowball on 13 September 2004. We apologise for the quality of the prose, but reproduce in order to give an honest summation of the potential blockages.

"CATCH 22: Why the Vietnam Stock Exchange is going nowhere fast."

The Oxford English Dictionary defines a "Catch 22 situation" as "a difficult situation from which there is no escape because it involves mutually conflicting or dependent conditions."

We have recently held a variety of meetings with representatives of Vietnam's leading securities companies to discuss why the Vietnam stock market has returned to the state of torpor last seen a year ago, and to seek their opinions on what needs to be done to reawaken interest in trading shares of Vietnamese companies on the stock exchange.

The general consensus is that companies will not consider listing until the market reaches a higher level as those responsible for making the decision to list do not think that their shares will trade at a fair price in current conditions. But how is the market to reach a higher level if nothing is done to reawaken investor interest, such as listing new companies? Hence the Catch 22 situation.

Average turnover at the Vietnam Stock Exchange reached US$ 1.4 million per day in March this year; recently turnover has declined to roughly one-tenth of that level. With only two listings so far this year advisory fees are clearly not compensating brokers for a 90% drop in income. The more enterprising securities companies have found alternative sources of income from trading bonds, OTC stocks or repos, or from equitisation advisory fees, with the result that they are no longer interested in the stock market. This should be causing alarm bells to ring at the Securities Trading Centre; if the intermediaries of the exchange do nothing to promote its development then the prospects for its eventual success are severely diminished.

The "father" of investment analysis, Benjamin Graham observed well over half a century ago that "in the short term the markets are a voting machine, in the long term they are a weighing machine." This illustrates the fact that investment analysis is by no means a science and that any prediction is therefore heavily based on one's own perception of ***value**, or of **sentiment**, or both*. With that caveat, my opinion on where the VNI will be in 6 months time based on three different scenarios follows:

1. No significant new listings in the near future. Interest will continue to decline; many of the currently active investors will lose interest and withdraw from participation having sold their shares. The VNI will fall back below 200 and turnover will shrink still further.
2. Vinamilk, Asia Commercial Bank and Sacom Bank are listed along with a number of smaller companies within six months. This would be an extremely positive move as investors will be able to see evidence of the

implementation of the capital markets development strategy and the increased market capitalisation will attract new institutional investors. The VNI will move up to test the 2004 high of 280 points, unless the private joint stock commercial banks are already 30% foreign-owned by the time they list. Much of the turnover which contributed to the strong performance of the VNI in the first quarter of 2004 came from a surge in foreign interest; if foreigners are, in effect, prevented from buying shares in the banks (which would remain in the hands of the existing foreign shareholders until such time as the law is relaxed to the extent that the so-called "strategic investor" is allowed to buy out the other foreigners) there is nothing to attract them beyond Vinamilk given the already severely restricted foreign access. In that case the upside is probably limited.

3. Action is taken to allow foreign investor access to all stocks. A mechanism to achieve this is illustrated in the tables below.

Table 2 separates the 30% of AGF shares that are owned by foreigners from the 70% that are owned by Vietnamese (or 'domestic') investors for the purpose of enabling trade between foreigners and, hopefully, improving the overall liquidity of the market once the respective prices of the domestically-owned and foreign-owned shares have found the level at which trade can take place. In table 1 the current market pricing system is illustrated; the closing share price of a stock does not change (and therefore the movement limits, up or down, ***cannot*** change) irrespective of whether investors are prepared to pay more for the shares (or sell them for less) than at the previous day's close. This restricts the ability of the market to move up (or down) to find the price at which people are prepared to actually trade. Table 2 illustrates the price changes that might occur if an alternative method correcting this was employed. Assuming that the registers were both traded according to the latter system liquidity would be enhanced whilst the relative prices would naturally provide a system of checks and balances.

Table 2 further illustrates the way in which foreigners could find the price at which *they* are prepared to trade in the proportion of the shares that they are allowed to own under Vietnamese law. As there has been no trade by foreigners in Agifish since June 2004 (and that at a price more than 10% higher than the current VND36,000) it is safe to assume that there are no foreign sellers at this level. It is not possible to determine whether there might be foreign buyers at this (or any other) level as foreigners are not allowed to buy any more shares. In order to limit the opportunities for manipulation of the price of shares under the foreign register the minimum size of transactions could be set at 25,000 or more shares.

If this mechanism were considered acceptable by the authorities I believe that it would provide a workable solution to stimulate the market to find a level at which sufficient interest would be generated to persuade potential listing candidates of the benefits of allowing their company's shares to be traded on the stock exchange.

There has been much discussion of Vietnamese companies obtaining listings in Singapore because "it will make it easier for them to raise money". Why? How? This argument is, in my opinion, counter-intuitive. In order to obtain a listing overseas any such Vietnamese company would have to adopt International Accounting Standards (IAS) and submit to a far more regulated regime at the very least. Trade in its shares and capital raising would still be subject to Vietnamese foreign ownership limits; the only effect would be that trading of foreign-registered shares would move offshore, depriving the Vietnamese securities industry of much needed revenues and stifling its development. As can be seen from the above suggestion regarding the onshore trading of foreign-registered shares, it is possible for the same objectives to be accomplished through the local market. Vietnam has a stock exchange of which it can justifiably be proud: As a point of comparison I have never (in the course of almost 200 trades on behalf of the fund which I co-manage) encountered a settlement problem; trades on the Indonesian stock market could take up to *two years* to settle as recently as the 1990s."

Table 1

AGF Domestic Register
Number of Shares (70%): 2,925,391
Previous Close Price: 36,000

	BID	OFFER	TRADED	**CLOSE**
Day 1	36,500	37,000	0	36,000
Day 2	36,800	37,500	0	36,000
Day 3	37,000	37,500	0	36,000
Day 4	37,800	0	0	36,000
Day 5	37,800	0	0	36,000

Table 2

AGF Foreign Register
Number of Shares (30%): 1,253,739
Previous Close Price: 36,000

	BID	OFFER	TRADED	**CLOSE**
Day 1	37,800	-	0	37,800
Day 2	39,600	-	0	39,600
Day 3	40,500	41,500	0	40,500
Day 4	41,000	41,000	41,000	41,000
Day 5	40,000	40,500	0	40,500