

Vietnam Insights

Take a fresh look

You usually get one of two responses when you talk about Vietnam's stock market. Either investors are interested but don't know where to start because of limited transparency. Or they are not interested because of the low turnover.

But things are changing. Vietnam presents an exciting opportunity in 2011. The National Party Congress in January 2011 could be the short-term catalyst while accelerating privatisation and ongoing market reform should provide multi-year support that lifts liquidity by luring back foreign investors.

We understand investors may be sceptical as these catalysts have failed to trigger a sustainable rally in the past. We explain in this report why it is different this time.

By Jacqueline Tse and Garry Evans



Disclosures and Disclaimer This report must be read with the disclosures and analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

Vietnam at a glance

| | HCM | Hanoi | Total |
|---------------------------------|----------------------------------|----------------------------|---------|
| Count of companies | 263 | 345 | 608 |
| Market cap (VND tn) | 523,125 | 120,432 | 643,557 |
| Market cap (USD bn) | 27 | 6 | 33 |
| Count of companies > USD 1000mn | 7 | 1 | 8 |
| Count of companies > USD 500mn | 13 | 1 | 14 |
| Count of companies > USD 200mn | 24 | 5 | 29 |
| Count of companies > USD 100mn | 42 | 9 | 51 |
| Daily Turnover (USD mn) | 48 | 28 | 75 |
| Foreign Ownership | 19.7% | 10.8% | 18.0% |
| Largest sector (by mkt cap) | Financials (50%) | Industrials (41%) | |
| Largest company (by mkt cap) | JSC Bank For Foreign Trade (VCB) | Asia Commercial Bank (ACB) | |

Source: HSBC, Bloomberg, CEIC

Top 10 largest listed Vietnamese stocks

| Ticker | Name | Sector | Mkt cap (USDmn) | Daily turnover (USD k) | Exchange | Turnover ratio | Unused foreign quota (%) | Foreign quota (%) |
|--------|----------------------------|------------------|-----------------|------------------------|----------|----------------|--------------------------|-------------------|
| VCB | JSC BANK FOR FOREIGN TRADE | Financials | 2,374 | 268 | HCM | 8,872 | 6 | 9 |
| BVH | BAOVIET HOLDINGS | Financials | 2,112 | 507 | HCM | 4,166 | 25 | 49 |
| VNM | VIET NAM DAIRY | Consumer Staples | 1,603 | 244 | HCM | 6,553 | - | 46 |
| CTG | VIETIN BANK | Financials | 1,471 | 186 | HCM | 7,889 | 10 | 11 |
| MSN | MASAN GROUP | Consumer Staples | 1,394 | 93 | HCM | 14,948 | 31 | 49 |
| VIC | VINCOM JSC | Financials | 1,209 | 488 | HCM | 2,475 | 22 | 29 |
| HAG | HAGL JSC | Financials | 1,176 | 1,321 | HCM | 890 | 14 | 49 |
| ACB | ASIA COMMERCIAL BANK | Financials | 1,082 | 381 | Hanoi | 2,841 | - | 30 |
| EIB | VIETNAM EXPORT-IMPORT BANK | Financials | 758 | 591 | HCM | 1,282 | - | 30 |
| STB | SACOMBANK | Financials | 724 | 1,019 | HCM | 710 | - | 30 |

Source: HSBC, Bloomberg, as of November 5, 2010

The Ho Chi Minh Index: a bumpy ride



Source: HSBC, Bloomberg

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We would like to acknowledge the contribution of Sowyma Sriram to this report.

Time to give Vietnam a second chance

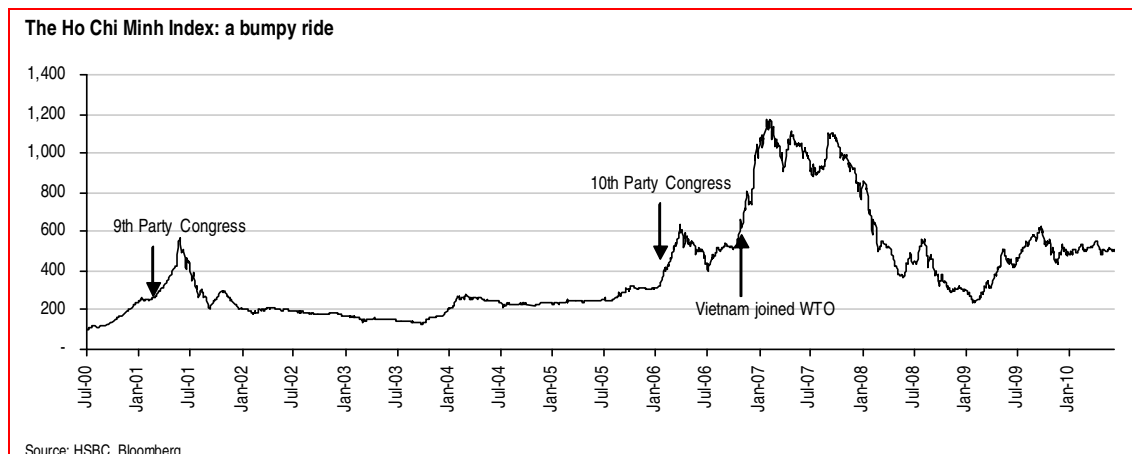
- ▶ We believe this is the right time to have another look at Vietnamese stocks
- ▶ The country's stock market is primed for a comeback in 2011, with market reforms and privatisation the catalysts
- ▶ But macro risks – including currency, transparency and liquidity issues – will remain

Why now?

The Vietnamese stock market opened in 2000 with the launch of the Ho Chi Minh City Securities Trading Center, now known as the Ho Chi Minh Exchange (HOSE). The first wave of optimism was triggered by Vietnam's 9th Party Congress in April 2001, with the Ho Chi Minh Index (VN Index) rising 176% in the first six months of the year, followed by a sharp correction as liquidity dried up when the handful of companies hit the foreign ownership limit.

Investors took profits while they could.
(see chart below.)

The market then stayed relatively flat for five years until 1H06, when the excitement returned with the 10th Party Congress. The index doubled in the first four months of 2006 and then corrected again. What was different this time was that Vietnam's accession to the World Trade Organization (WTO) in January 2007 triggered a temporary re-rating. This sent the VN Index over the 1,000 mark for the first time but there was



Emerging and frontier markets comparison

| Ticker | Market | Main index | Market cap of all listed companies (USDbn) | 3 mth avg turnover (USDmn) | HSBC 2010f GDP % | 2010f Nominal GDP (USDbn) | Mkt cap as % of GDP | Trailing PE |
|-------------------------------------|-------------|--------------------------|--|----------------------------|------------------|---------------------------|---------------------|-------------|
| Emerging Markets in Asia | | | | | | | | |
| SHCOMP Index | China | SHANGHAI SE COMPOSITE | 3,868 | 23,164 | 10.0 | 5,614 | 69 | 19.6 |
| SENSEX Index | India | BSE SENSEX 30 INDEX | 1,661 | 195 | 8.8 | 1,455 | 114 | 20.1 |
| JCI Index | Indonesia | JAKARTA COMPOSITE INDEX | 344 | 485 | 6.1 | 699 | 49 | 31.2 |
| KOSPI Index | Korea | KOSPI INDEX | 1,036 | 5,263 | 6.0 | 991 | 104 | 14.4 |
| FBMKLCI Index | Malaysia | FTSE Bursa Malaysia KLCI | 382 | 252 | 7.3 | 235 | 163 | 18.2 |
| PCOMP Index | Philippines | PSEi - PHILIPPINE SE IDX | 148 | 87 | 5.9 | 187 | 79 | 15.0 |
| TWSE Index | Taiwan | TAIWAN TAIEX INDEX | 799 | 3,923 | 7.3 | 419 | 191 | 12.7 |
| SET Index | Thailand | STOCK EXCH OF THAI INDEX | 275 | 1,201 | 7.9 | 317 | 87 | 15.7 |
| Frontier Markets in the East | | | | | | | | |
| KSE100 Index | Pakistan | KARACHI 100 INDEX | 34 | 28 | 2.8 | 198 | 17 | 9.9 |
| CSEALL Index | Sri Lanka | SRI LANKA COLOMBO | 19 | 29 | 7.0 | 47 | 41 | 24.9 |
| VNINDEX Index | Vietnam | HO CHI MINH STOCK INDEX | 34 | 44 | 7.0 | 101 | 33 | 10.7 |

Source: HSBC, Bloomberg

another correction in 2008 set off by monetary and fiscal tightening policies that coincided with the global financial crisis. The index has been range-bound between 400 and 600 ever since.

Now that valuations have risen significantly elsewhere, investors are once again looking for new opportunities that come at a reasonable price. This means Vietnam is back on the radar screen. We acknowledge that Vietnam is not quite in the same league as the larger ASEAN markets in terms of market capitalization and turnover (see table above). However, we think Vietnam stands out as a better investment choice compared to other frontier markets like Sri Lanka and Pakistan. While Pakistan's Karachi Stock Exchange has the same market capitalization as Vietnam's, the average daily turnover in the past 3 months is not much more than half of Vietnam's. Sri Lanka's 3-month average daily turnover of USD29mn is roughly the same as Pakistan's but the market capitalization of USD19bn is the smallest among the three.

In this report we bring investors up to date with what is happening in the country. Here we identify a number of important themes:

1 Economy set to outperform

The long-term economic growth story is compelling – Vietnam's 2011 consensus GDP forecast is 7.1%, 16% higher than the consensus growth forecast for Asia ex Japan at 6.1%.

Part of this growth is driven by the emergence of the middle class. Vietnam graduated from low income country status in 2009, and per capita income is now above USD1,000. According to the CIA World Factbook, 65% of the population (86 million in 2010) is aged between 15 and 64, with a further 25% aged 14 and younger, providing a growing labour force, unlike in some other ageing Asian markets. This workforce also has jobs to go to, helped by the increasing number of Chinese factories relocating to Vietnam.

Income growth coupled with labour force growth is likely to drive private consumption, which currently accounts for 55% of GDP. We also note that 41% of Vietnamese exports comprise rice, fishery products and footwear that all enjoy stable demand.

2 Market reforms gaining traction

Vietnam has a weak legal system, characterised by ambiguous regulations and loose enforcement. The insider trading rules in the Securities Law that became effective in 2007 are a good example. According to the law, insiders cannot trade on

material undisclosed information that will have a “major impact” on the company’s share price. However, “major impact” has not been clearly defined. The maximum penalty for insider trading was a non-threatening VND50mn (USD2,564) until September 2010, when it was increased to VND500mn (USD26,000).

To strengthen the legal system, Vietnam’s government is working with international bodies such as the World Bank, Asia Development Bank and International Monetary Fund to close the loopholes. It is a long journey but recent developments, such as raising banks’ capital requirements, imposing higher insider trading penalties and more stringent disclosure rules, are an encouraging sign.

In addition to beefing up the legal system, the government is also revising a number of market rules, such as lengthening trading hours by introducing the afternoon session, shortening settlement time to T+2 from T+3 and increasing the foreign ownership limit, possibly to 69% for non-strategic sectors. For details, please see the Market Rules section.

3 Privatisation to accelerate

Privatisation is probably the most-discussed topic among foreign investors. Progress has been slow since 2006 because state assets could not fetch the prices the government wanted amid the global financial crisis. Uncertainty over share allocation and the pricing mechanism also complicated matters.

But we believe Vietnam is now in a better position to accelerate the privatisation process. The government is running a structural trade deficit, its foreign currency reserves are down to nine weeks of imports and there is a real need for state-owned enterprises (SOEs) to find alternative funding sources.

Many rules have been revised to facilitate privatisation. The most significant is the introduction of a platform (Upcom) that trades unlisted public companies. Upcom creates a conduit for privatised but unlisted SOEs to be traded in a regulated market. It also gives SOEs the time to meet listing requirements and provides an exit strategy for investors. For details, please see the Privatisation section.

4 Party Congress a near term catalyst

Politics are important in Vietnam but also different. You will not see sizeable pre-election spending and measures to stimulate the economy. Stability is highly valued and politicians maintain a low profile before the polls in order to avoid negative publicity. They also avoid rolling out any new measures that might disturb the market, so the stock market moves sideways before an election.

Pent-up demand usually kicks in after the party Congress. It is here that the Central Committee elects the Political Bureau and discusses the next 5-year plan. The next Party Congress takes place in January 2011, so we think this will be a good time to start accumulating Vietnamese equities as new policies will gradually be announced after the Congress is over.

5 Valuations seem reasonable

We believe valuations are currently attractive. Given the macro risks that investors take in Vietnam, a discount is to be expected. VN Index’s trailing PE is at a 38% discount to Asia ex Japan and a 21% discount to its’ own average since 2008, 27% discount to the MSCI Emerging Market PE and 32% discount to the MSCI Frontier Market PE. Given the catalysts we mentioned above, we don’t think the VN Index will go much lower from the current level.

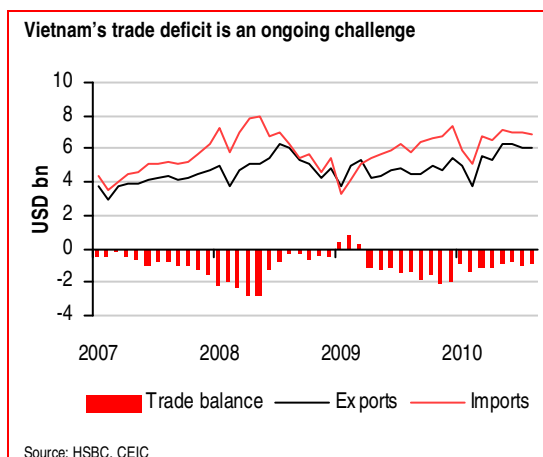
Can you live with these risks?

We would like to stress that while we think now is a good opportunity to buy Vietnam equities, it does not mean the country's macro risks have dissipated. Like other frontier markets, many of these risks are structural, so it is important for investors to have a thorough understanding of the terrain.

Structural economic risks

1 Entrenched trade deficit

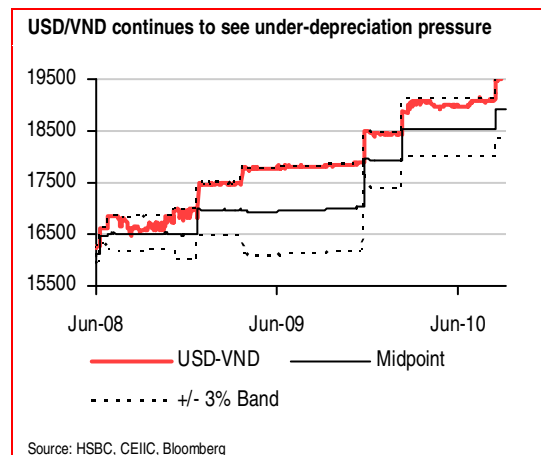
As a growing economy, Vietnam needs to import components and machinery to produce its exports. The government set a 2010 trade deficit target of USD12bn and no more than 20% of total exports. Based on the year-to-date trade deficit of USD8.2bn (18% of exports), this target looks achievable. Vietnam's trade deficit will not go away while the country is still developing. A more realistic expectation is to keep the deficit under control and ensure that exports at least keep pace.



2 Depreciating VND

One of the government's attempts to rein in the trade deficit has led to another economic risk. The central bank depreciated the Vietnamese dong (VND) by another 2% on 17 August 2010 and the currency has now depreciated almost 10% since November 2009. This creates a whole host of issues, including rising import costs and falling levels of foreign investor confidence. The market widely expects depreciation to continue and

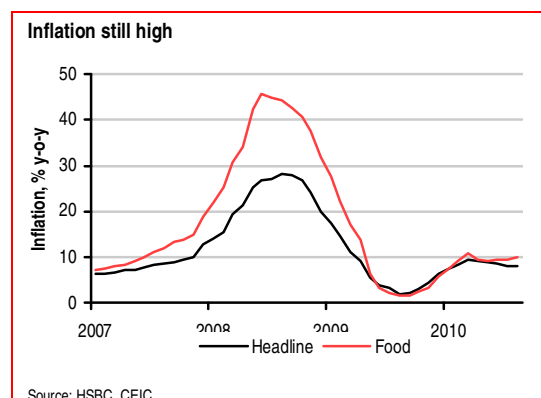
HSBC believes the VND will hit 19,800 to the USD by the end of 2010 from the current 18,932. For details, see the Foreign Exchange section.



3 Inflation concerns

While we are sceptical about whether VND depreciation will boost Vietnam export demand, we are certain it will exacerbate another problem – inflation – a long-standing challenge faced by the central bank.

For 2010, the official target is 8%, but rising food prices driven by storms and import-led inflation made it a hard target to meet and prompted the government to impose price controls. Inflation was 8.2% yoy in August, and we think this is probably as good as it can get in the short term. HSBC's economics team expects Vietnam's inflation to reach 8.7% by the end of 2010 and 8.5% by the end of 2011.



Top 10 largest listed Vietnamese stocks

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|--------|----------------------------|------------------|-----------------|------------------------|----------|----------------|--------------------------|-------------------|
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Source: HSBC, Bloomberg, as of November 5, 2010

Conflicting macro policy

Investors are sometimes faced with policy changes that appear to be contradictory. For example, to be in full compliance with the WTO accession requirements, Vietnam is meant to open up the economy by 2012. However, at a time when imports are high and foreign reserves low, regulators have limited imports to curb the trade deficit.

As mentioned earlier, the move by the central bank to boost exports by depreciating the VND has led to other problems, including rising inflation. Policies like this surprise the market and create unwanted side effects.

Poor corporate governance

While it is improving, weak corporate governance is still an issue in Vietnam. The existence of compliance departments and timely disclosure of financial information in English cannot be taken for granted. Listed companies are only required to file audited financial statements once a year, access to corporations is rare and investors are unlikely to get a board seat even if they hold a sizeable stake in a company. We advise investors to be wary of smaller companies unless they have staff on the ground to closely manage investments.

What to invest in?

The 10 largest stocks is the best way to get exposure

A good way to get direct exposure to Vietnam is to buy the 10 largest stocks on a market cap basis. These companies have experience of dealing with foreign investors and their stocks are more liquid than the alternative investments we discuss below. The downside, though, is that many foreign investors have already snapped up the shares of these companies, which are now approaching their foreign ownership limits (see table above). To start trading, investors can get in touch with a local custodian to set up the proper accounts and obtain trading codes. (see Investment Options section for more information).

Alternative investments

For overseas investors, offshore listed Vietnamese stocks are available but with limited choices and liquidity

There are a handful of Vietnamese stocks listed overseas. They are mainly in furniture and auto parts manufacturing. Buying these stocks may be easier than opening a Vietnamese trading account and also helps avoid currency risk, but the market capitalizations for these stocks are small and they have very little trading activity. We include the list of overseas listed Vietnamese stocks above but do not think they are the best way to gain exposure to Vietnam.

Top 10 Upcom stocks

| Ticker | Name | Industry | Mkt cap (USDmn) | Avg Daily Value Traded 3M (USD) |
|--------|------------------------------|--------------------------|-----------------|---------------------------------|
| NT2 | PETROVIETNAM NHON TRACH 2 PO | Electric | 128 | 2,721 |
| PFV | PFV INVESTMENT AND TRADING | Real Estate | 105 | - |
| CHP | CENTRAL HYDROPOWER JSC | Energy-Alternate Sources | 25 | 9,264 |
| PSB | SAO MAI-BEN DINH PETROLEUM | Oil&Gas Services | 24 | 31,486 |
| SHP | SOUTHERN HYDROPOWER JSC | Engineering&Construction | 23 | - |
| SMB | SAI GON - MIEN TRUNG BEER JS | Beverages | 22 | - |
| HIG | HIPT GROUP | Computers | 17 | 13,593 |
| PDN | DONG NAI PORT JSC | Transportation | 16 | 1,105 |
| ABI | AGRICULTURE BANK INSURANCE B | Insurance | 14 | 1,831 |
| SPC | SAI GON PLANT PROTECTION JSC | Chemicals | 14 | - |

Source: HSBC, Bloomberg, as of 5 November 2010

For risk-takers, Upcom stocks offer a way to buy into companies before listing

Private equities investors have been trading over-the-counter (OTC) securities in Vietnam. But these trades are largely unregulated and the securities are not subject to disclosure requirements and listing rules. Price, volume and trading information are not publicly available. The only way to get involved in these trades is to contact a local broker to identify counterparties.

In an attempt to facilitate these OTC trades in a more orderly fashion, the Hanoi Stock Exchange has established a special trading platform called Upcom for unlisted public companies. The Upcom board has 102 privatised but unlisted companies, of which 65 have been traded in the past three months. These are privatised SOEs or unlisted companies that have not met the listing requirements such as profitability or have not yet achieved a satisfactory listing price.

Upcom shares offer a way for investors to buy into pre-listed companies. The price limit on Upcom companies is a bit looser (+/-10% instead of 5% for listed companies.) If the Upcom shares are not traded in 25 days, the price limit no longer applies and a new price can be determined by negotiation between buyer and seller. These unlisted companies are not subject to the foreign ownership limit (mostly 49%), except for some strategic sectors like oil & gas and fertilizers. However, this flexibility comes with higher risks as these companies are not as liquid as listed players. Investors should also be prepared for a great deal of uncertainty as the disclosed information is very scattered.

The 10 largest companies traded on Upcom are listed in the table above. A full list of 102 Upcom stocks appears in the Appendix.

Overseas listed Vietnamese companies

| Tickers | Name | Mkt cap (USDmn) | 3m avg daily traded value (USD) | Exchange | Currency | Sector | Industry |
|-----------------|--------------------------------|-----------------|---------------------------------|-----------|----------|-----------------|----------------------|
| 422 HK Equity | VIETNAM MANUFACTURING & EXPORT | 264 | 303,375 | Hong Kong | HKD | C Discretionary | Automobiles & Parts |
| LATI SP Equity | LATITUDE TREE INTERNATIONAL | 54 | 17,770 | Singapore | SGD | C Discretionary | Household Goods |
| LATI1 TH Equity | LATITUDE TREE INTERNATIONAL | NA | NA | Tradegate | EUR | C Discretionary | Household Goods |
| TRTH US Equity | TRAI THIEN USA INC | 11 | 865 | OTC BB | USD | Financials | Investment Companies |
| 4V2 GR Equity | VIETNAM MANUFACTURING & EXPORT | NA | 47 | Berlin | EUR | C Discretionary | Automobiles & Parts |
| BBVVF US Equity | BBV VIETNAM S.E.A. ACQUISITION | NA | 220 | OTC US | USD | Financials | Financial Services |
| 9110 TW Equity | VIETNAM MANUFACTURING-TDR | 250 | 1,844,035 | Taiwan | TWD | C Discretionary | Automobiles & Parts |

Source: HSBC, Bloomberg, as of 5 November 2010

Top 10 most liquid Vietnamese funds

| Ticker | Name | Inception date | Market cap (USD mn) | Currency | Exchange | Fund type | Fund house | Avg daily trading value (USD mn, Jul - Sep, 2010) | Avg daily trading value (USD mn, Sep - Nov, 2010) | Increase |
|-----------|-----------------------------|----------------|---------------------|----------|---------------|------------------|-------------------------------|---|---|----------|
| VNM US | MARKET VECTORS VIETNAM ETF | 08/14/09 | 184 | USD | NYSE Euronext | ETF | Market Vectors Vietnam ETF | 1.47 | 2.22 | 50% |
| VOF LN | VINACAPITAL VIETNAM | 09/30/03 | 600 | USD | London | Investment Trust | Vinacapital | 0.82 | 2.28 | 177% |
| 3087 HK | TRACKERS FTSE VIETNAM | 07/08/09 | 262 | HKD | Hong Kong | ETF | FTSE VIETNAM | 0.25 | 1.09 | 345% |
| XFVT SP | TRACKERS FTSE VIETNAM | 02/19/08 | 257 | USD | Singapore | ETF | FTSE VIETNAM | 0.64 | 0.80 | 24% |
| VNL LN | VINALAND LTD | 03/21/06 | 454 | USD | London | Investment Trust | Vinaland Ltd | 0.28 | 0.67 | 138% |
| XFVT IM | TRACKERS FTSE VIETNAM | 03/14/08 | 257 | EUR | Brsaltaliana | ETF | FTSE VIETNAM E | 0.30 | 0.55 | 82% |
| VNI LN | VIETNAM INFRASTRUCTURE | 07/04/07 | 159 | USD | London | Closed-End Fund | Vietnam Infrastructure | 0.22 | 0.21 | -5% |
| VFMVF1 VN | VIETNAM SEC INVESTMENT FUND | 11/08/04 | 56 | VND | Ho Chi Minh | Closed-End Fund | Vietnam Securities Investment | 0.13 | 0.12 | -7% |
| XVTD LN | TRACKERS FTSE VIETNAM | 02/08/08 | 257 | USD | London | ETF | FTSE VIETNAM | 0.17 | 0.14 | -17% |
| JSM LN | JSM INDOCHINA LTD | 06/29/07 | 64 | USD | London | Closed-End Fund | JSM Indochina Ltd | 0.12 | 0.19 | 57% |

Source: HSBC, Bloomberg, as of November 5, 2010

For passive investors, funds might be better

There are 123 Vietnam-focused funds. Five are listed on the Ho Chi Minh Exchange, some are exchange traded funds listed overseas and the rest are funds traded overseas. Dragon Capital, Saigon Securities, Bao Viet, Prudential, Manulife, Vinacapital, Indochina Capital and Mekong Capital are the key fund managers in Vietnam.

Buying listed funds is probably the easiest way to invest in Vietnam. Liquidity of these funds is also improving. The average daily trading value of the latest 3 months has increased 17% from the average trading value of the past 6 months (more in Liquidity section). These funds offer expertise in investment management and local insight. Investors can also avoid currency risks and the account opening process as many of these shares trade on foreign exchanges.

However, these funds are often trading at a discount to net asset value because of low turnover, and some also charge a management fee (usually 0.5-3%). Exchange traded funds with a steep pick up in traded value in recent months, such as Vinacapital Vietnam (VOF LN) and FTSE Trackers (3087 HK), are probably a better choice. We provided a list of the 10 most liquid Vietnamese funds above and a full list of Vietnamese funds in the Appendix.

Market structure

- ▶ Ho Chi Minh Exchange (HOSE) is dedicated to equities trading, while Hanoi Exchange (HNX) trades listed stocks, OTCs and bonds
- ▶ Total market capitalisation of companies listed on HOSE has grown 32x since 2006
- ▶ The 10 biggest companies account for half of the market capitalisation on each exchange

A tale of two cities

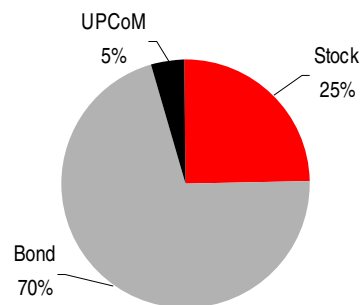
Vietnam has two stock exchanges – the Ho Chi Minh Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX). HOSE is dedicated to equities trading, while HNX trades equities, bonds and over the counter (OTC) securities. Both the stock exchanges in Vietnam are state-controlled and are supervised by the State Securities Commission (SSC), which is under the Ministry of Finance.

HOSE was initially established as Ho Chi Minh City Securities Trading Center (HoSTC) in 2000. It was later upgraded and renamed Ho Chi Minh Stock Exchange on 8 August 2007. Prior to 1 March 2002, shares were only traded on alternate days. As of October 2010, there are 262 stocks listed on HOSE with a total market capitalization of USD27bn.

The Hanoi stock exchange started its journey as the Hanoi Securities Trading Center (Hanoi STC) in March 2005. On 2 January 2009, it was upgraded to Hanoi Stock Exchange (HNX). Currently, 346 stocks, 510 bonds and 102 OTC securities are traded on it. The total market capitalization of these listed equities is USD6bn,

which accounts for 22% of the total traded values of HNX for all asset classes. The HNX is the primary platform for government bond offerings.

Breakdown of listed securities on HNX by value



Source: HSBC, HNX website

OTC securities are traded on a platform called Upcom, which is dedicated to unlisted public companies. These OTC companies are privatised state-owned enterprises or unlisted companies that are in the pipeline to be listed. These shares used to be traded between private parties through brokers based on negotiated prices. In order to bring more transparency to the market place, SSC introduced the Upcom platform to make it easier for private parties to find buyers or sellers, and also to collect and disseminate information to the market.

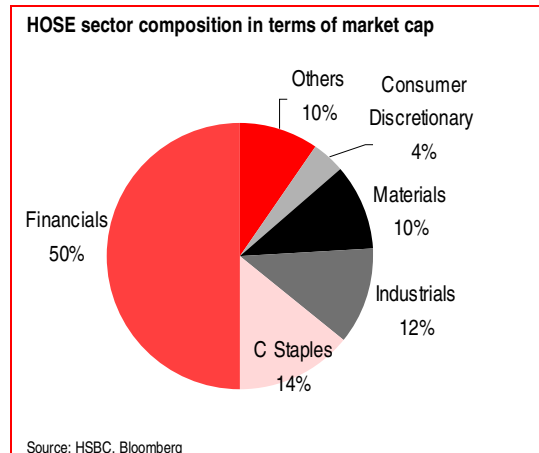
The Vietnam equities market has come a long way in a short space of time. In January 2006, there were only 34 companies listed on HOSE; this number has increased to 267, causing market cap to expand from USD86mn in 2006 to USD27bn now. This indicates that HOSE has grown in size around 32 times in four and a half years.

Both exchanges are dominated by a few companies. The biggest 10 HOSE companies account for 50% of the HOSE market capitalisation, while the biggest 10 companies on the HNX account for 48% of the market capitalisation. These companies can easily move the market. For the growth of each exchange, please refer to the charts below.

HOSE sector composition

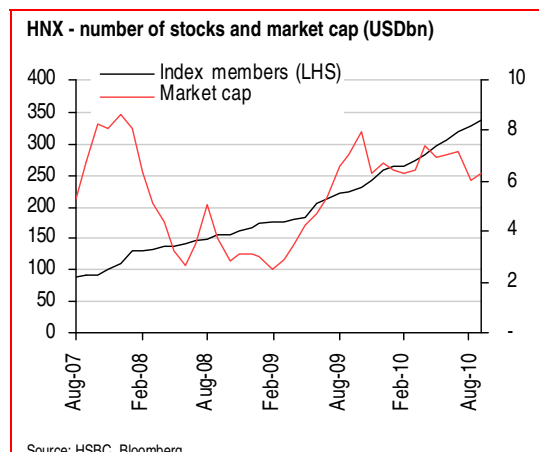
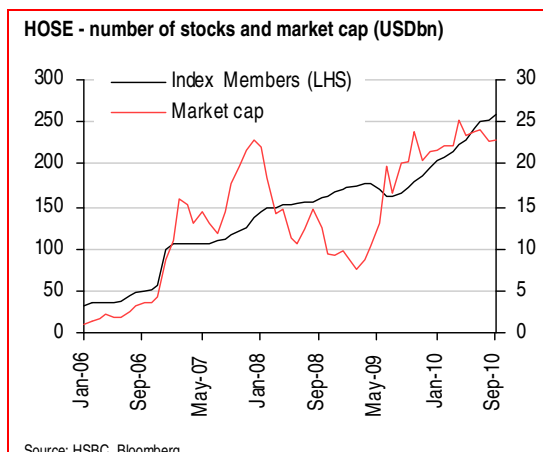
In terms of sector composition, HOSE is skewed towards the financial sector. Only 39 companies are financial institutions, but they constitute more than 50% of the total market capitalisation. The consumer staples sector is a distant second with a 14% share, followed by industrials and materials with 12% and 10% shares, respectively. The largest company listed on HOSE is a commercial bank, Bank for Foreign Trade of Vietnam Joint Stock Company (VCB VM). It has a market capitalisation weight of 9.6% of the VN Index. It is followed by an insurance company, Baoviet Holdings (BVH VM), with an 8% weight, and

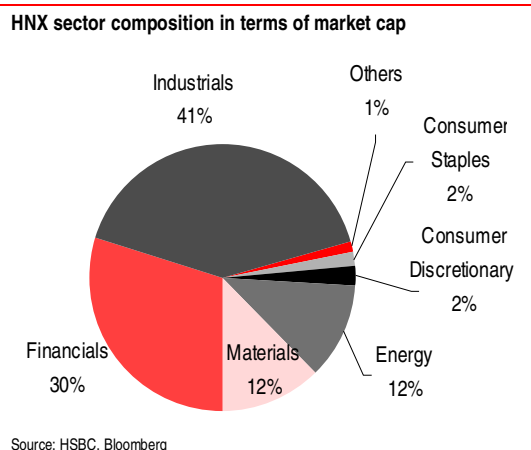
then by Vietnam Dairy Products Joint Stock Company (VNM VM) with a 6% weight.



HNX sector composition

Financials is a dominant sector on HNX as well, constituting 30% of the total market cap. Other major sectors are Industrials, Materials and Energy with 41%, 12% and 12% weights, respectively. The largest company on HNX is Asia Commercial Bank (ACB VH) with a 17% weight. Quy Nhon Mining Corp (SQC VH) is the second largest company with a 6.7% weight.





Upcom

Upcom is the board dedicated to trading unlisted public companies. It launched in June 2009. In less than two years, Upcom has already attracted 102 companies. By introducing this platform, the Vietnamese government attempted to crack down on the grey market where unlisted companies were traded based on negotiated prices between two private parties, often through a broker. With Upcom in place, investors will be able to find buyers and sellers more easily. Trading information such as price and volume are also collected and published by HNX for more transparency.

While Upcom companies are subject to less stringent trading rules than those on the main board, they still need to adhere to some basic requirements such as annual disclosures. HNX is working closely with the Ministry of Finance and SSC to revise regulations around Upcom to enable more trades to take place while bringing these companies to a higher standard and increasing transparency, which we believe will give foreign investors more confidence to participate. For a full list of the 102 Upcom stocks, please see table in the Appendix.

Top 10 Upcom stocks

| Ticker | Name | Industry | Mkt cap (USDmn) | 3m avg daily traded value (USD) |
|--------|------------------------------|----------------------------|-----------------|---------------------------------|
| NT2 | PETROVIETNAM NHON TRACH 2 PO | Electric | 128 | 2,721 |
| PFV | PFV INVESTMENT AND TRADING | Real Estate | 105 | - |
| CHP | CENTRAL HYDROPOWER JSC | Energy-Alternate Sources | 25 | 9,264 |
| PSB | SAO MAI-BEN DINH PETROLEUM | Oil&Gas Services | 24 | 31,486 |
| SHP | SOUTHERN HYDROPOWER JSC | Engineering & Construction | 23 | - |
| SMB | SAI GON - MIEN TRUNG BEER JS | Beverages | 22 | - |
| HIG | HIPT GROUP | Computers | 17 | 13,593 |
| PDN | DONG NAI PORT JSC | Transportation | 16 | 1,105 |
| ABI | AGRICULTURE BANK INSURANCE B | Insurance | 14 | 1,831 |
| SPC | SAI GON PLANT PROTECTION JSC | Chemicals | 14 | - |

Source: HSBC, Bloomberg

Market composition

- ▶ Financials is the dominant sector in Vietnam, commanding 49% of total market capitalization
- ▶ Many of the opportunities are emerging from the growing demand of the middle class and the need to upgrade infrastructure
- ▶ The risks remain with low transparency and complicated structure of state-owned enterprises

In Vietnam, foreign investors have things like liquidity and foreign ownership limits to worry about, so sector analysis might not be as meaningful as it is in other markets. We recommend investors stay with the largest and most liquid stocks. However, for those who seek a deeper understanding of the market, we have put together a SWOT analysis to look at the strengths, weaknesses, opportunities and threats for the key industries in Vietnam.

Financials

- ▶ Market weights: 49% of combined market cap, 50% of HOSE, 30% of HNX
- ▶ The three largest listed companies and their market cap: Bank for Foreign Trade (USD2.4bn), BaoViet (USD2.1bn) and Vietnam JSC Commercial Bank (USD1.5bn)
- ▶ Structure: The banking sector in Vietnam is dominated by the four largest state-owned banks, namely Bank for Foreign Trade of Vietnam (Vietcombank), Vietnam JSC Bank for Industry and Trade (Vietin Bank), Bank for Investment and Development of Vietnam (BIDV) and Vietnam Bank for Agriculture and Rural Development (Agri Bank)
- ▶ Strengths: Vietnamese financial institutions have minimal exposure to problematic sovereign debts outside Vietnam
- ▶ Weaknesses: Many banks are still at the infancy stage of risk management practice. Therefore, policy on anti money laundering, insider trading, and credit assessments are still at an embryonic stage
- ▶ Opportunities: Apart from real estate, most other parts of the financial sector are still underdeveloped
- ▶ Threats: Many local banks have extended credit to large state-owned enterprises like Vinashin, which overextended itself into non-core business over the year. It is important for investors to have a good understanding of the banks' exposure to SOEs and the underlying projects SOEs took out the loans for

Consumer Staples

- ▶ 13% of combined market cap, 14% of HOSE, 2% of HNX
- ▶ The largest three companies and their market cap are Vietnam Dairy Products JSC (USD1.6bn), Masan Group (USD1.4bn) and Kinhdo (USD0.3bn)
- ▶ Structure: There are 49 listed stocks in the consumer staples sector. Most of them are food processors and distributors as well as fishery companies
- ▶ Strengths: The Vietnamese labour force will likely benefit from the relocation of Chinese factories. This keeps unemployment down and supports income growth (HSBC economics team expects the unemployment rate to drop from 5.4% in 2009 to 4.8% by 2012). This should translate into rising demand for food products
- ▶ Weaknesses: Dairy companies import a significant portion of their raw materials (eg Vinamilk imports 75% of its dairy materials) and are thus exposed to import prices and currency fluctuation. Fishery companies are also impacted by weather conditions that are beyond the companies' control
- ▶ Opportunities: Penetration of health foods and nutrition products is low. Fisheries can also upgrade their product mix to higher margin products and diversify to reduce product concentration
- ▶ Threats: The elevated inflation (HSBC expects it to reach 8.7% by the end of 2010) in Vietnam triggered price controls that squeezed margins for food processors who have little control over raw material prices. Operation cost management and product mix upgrade will be key

Industrials

- ▶ 12% of combined market cap, 12% of HOSE, 41% of HNX
- ▶ The largest three companies and their market cap are Vietnam Construction (USD350mn), Tan Tao Investment Industry (USD278mn) and Development Investment Construction (USD201mn)
- ▶ Structure: The industrials sector consists of 140 companies. About half are listed on HOSE and half are listed on HNX. These are mainly construction, logistics and machinery & equipment (M&E) companies
- ▶ Strengths: Many of these construction and M&E companies have their roots as state-owned companies (eg REE, VCG) and have a strong record of winning government infrastructure projects
- ▶ Weaknesses: The underdeveloped infrastructure in Vietnam jacks up logistic costs and lowers efficiency. Many of the Vietnamese logistic companies only provide basic port facilities and partial supply chain service. These logistic companies also lose out to international players due to underdeveloped IT systems
- ▶ Opportunities: The government will continue to invest in infrastructure projects such as water treatment plants, bridges and roads as these are necessary for the economy to advance. These create ongoing demand for construction and M&E companies
- ▶ Threats: Some of these former SOEs have access to cheap credit and land, giving them incentive to overextend themselves into the real estate sector. These companies will encounter risk in their real estate projects as the government rolls out policies to tighten and limit cash flow into the real estate sector

Materials

- ▶ 11% of combined market cap, 10% of HOSE, 12% of HNX
- ▶ The largest three companies and their market cap are Petrovietnam Fertilizer & Chemical (USD649mn), Hoa Phat Group (USD577mn) and Quy Nhon Mining (USD436mn)
- ▶ Structure: The key companies in the materials sector include fertilizers, steel, cement and plastic
- ▶ Strengths: Petrovietnam Fertilizer and Chemicals Corporation, being the biggest urea fertilizer manufacturer in Vietnam, generates steady cash flow given the low production cost, well established brand and extensive network
- ▶ Weaknesses: Demand for construction-related materials such as cement and steel are highly dependent on the real estate market outlook, which is cautious at the moment due to oversupply in high end residential and commercial buildings
- ▶ Opportunities: Some fertilizer and plastics companies that are committed to their core business have stronger balance sheets and are in a better position to weather cyclical demand and intensifying competition
- ▶ Threats: Many of the materials companies are still obligated to help carry out social responsibilities because of their affiliation with the state and the SOE management style is very ingrained. For example, Petrovietnam Fertilizer and Chemical Corp is occasionally asked to supply enough fertilizer to stabilize the market. The company also sees frequent management changes and offers limited information disclosure

Energy

- ▶ 4% of combined market cap, 3% of HOSE, 12% of HNX
- ▶ The largest three companies and their market cap are Petrovietnam Drilling (USD458mn), Petrovietnam Construction Company (USD269mn) and Petrovietnam Technical Services (USD267mn)
- ▶ Structure: There are 21 listed energy companies. Five of them have affiliations with Petrovietnam. Together, they account for 83% of the market capitalization of the energy sector. The rest are coal and gas companies
- ▶ Strengths: The highly regulated energy sector enjoys some preferential treatment from the state, including cheap credit and land access rights. As a result, these SOEs have outgrown competitors to have a commanding position with unmatched competition. They are able to generate a steady income stream
- ▶ Weaknesses: Energy is a highly regulated sector because the government wants to ensure there is sufficient energy to support production growth and general domestic use without an energy supplier jacking up the price. For example, the pretax profit of Nibeco Coal JSC is determined by a certain profit margin set by Vietnam Coal and Minerals Industry Corporation (Vinacomin) and the company has little room to operate freely
- ▶ Opportunities: The government has set a plan to develop coal thermal power as the main source of electricity supply in the future and this will create huge demand for the coal sector
- ▶ Threats: Many of these energy SOEs have intertwined structures that cause significant corporate governance risk where shareholders have limited transparency on the projects in which the companies invest

Consumer Discretionary

- ▶ 4% of combined market cap, 4% of HOSE, 2% of HNX
 - ▶ The largest three companies and their market caps are Vinpearl (USD259mn), Phuoc Hoa Rubber (USD152mn) and Ocean Hospitality and Services (USD129mn)
 - ▶ Structure: This is a diverse sector that includes jewellery, auto parts and tourism companies among others
 - ▶ Strengths: Gold jewellery are popular wedding and birthday gifts. Jewellers are expected to see stable demand for jewellery and prices are expected to grow proportionally with income growth
 - ▶ Weaknesses: Demand for consumer discretionary goods, be it in jewellery, auto parts or travel tours, is highly volatile
- ▶ Opportunities: As Vietnam gradually opens up the market according to the WTO agreement, more tourists are likely to be drawn to Vietnam
 - ▶ Threats: Many of the state-owned auto part companies like Southern Industrial Rubber are in the process of relocating factories to inner cities. This will free up some land for real estate development which might coincide with the oversupply in real estate. If these projects are not managed carefully, these companies, which are already capital-intensive, could end up with an even higher debt burden

Top 3 listed companies in each sector

| Ticker | Name | Sector | Mkt cap (USD mn) | Daily turnover (USD k) | Exchange | Unused foreign quota (%) | Foreign quota (%) |
|--------|--------------------------------|------------------------|------------------|------------------------|----------|--------------------------|-------------------|
| VPL | VINPEARL JSC | Consumer Discretionary | 259 | 48 | HCM | 34 | 49 |
| PHR | PHUOC HOA RUBBER | Consumer Discretionary | 152 | 168 | HCM | 40 | 49 |
| OCH | OCEAN HOSPITALIT | Consumer Discretionary | 129 | - | Hanoi | 49 | 49 |
| VNM | VIET NAM DAIRY P | Consumer Staples | 1,603 | 244 | HCM | 0 | 46 |
| MSN | MASAN GROUP CORP | Consumer Staples | 1,394 | 93 | HCM | 31 | 49 |
| KDC | KINHDO CORP | Consumer Staples | 270 | 701 | HCM | 16 | 49 |
| PVD | PETROVIETNAM DRILLING | Energy | 458 | 375 | HCM | 20 | 49 |
| PVX | PETROVIETNAM CONSTRUCTION | Energy | 269 | 4,744 | Hanoi | 44 | 49 |
| PVS | PETROVIETNAM TECHNICAL SERVICE | Energy | 267 | 200 | Hanoi | 34 | 49 |
| VCB | JSC BANK FOR FOR | Financials | 2,374 | 268 | HCM | 6 | 9 |
| BVH | BAOVIET HOLDINGS | Financials | 2,112 | 507 | HCM | 25 | 49 |
| CTG | VIETIN BANK | Financials | 1,471 | 186 | HCM | 10 | 11 |
| DHG | DHG PHARMACEUTIC | Health Care | 155 | 100 | HCM | 3 | 49 |
| DVD | VIEN DONG PHARMA | Health Care | 88 | 391 | HCM | 13 | 49 |
| SPM | SPM CORP | Health Care | 50 | 101 | HCM | 39 | 49 |
| VCG | VIET NAM CONSTRU | Industrials | 350 | - | Hanoi | 46 | 49 |
| ITA | ITACO | Industrials | 278 | 696 | HCM | 29 | 49 |
| DIG | DIC CORP | Industrials | 201 | 563 | HCM | 24 | 49 |
| FPT | FPT CORP | Information Technology | 697 | 866 | HCM | 7 | 49 |
| CMG | CMC CORP | Information Technology | 62 | 23 | HCM | 46 | 49 |
| SGT | SAIGON TELECOM & | Information Technology | 50 | 12 | HCM | 35 | 49 |
| DPM | PETROVIETNAM FER | Materials | 649 | 797 | HCM | 28 | 49 |
| HPG | HOA PHAT GRP JSC | Materials | 577 | 675 | HCM | 14 | 49 |
| SQC | QUY NHON MINING | Materials | 436 | 5 | Hanoi | 41 | 49 |
| PPC | PHA LAI THERMAL | Utilities | 191 | 337 | HCM | 34 | 49 |
| VSH | VINH SON - SONG | Utilities | 118 | 493 | HCM | 34 | 49 |
| PGD | PETROVIETNAM LOW | Utilities | 61 | 198 | HCM | 47 | 49 |

Source: HSBC, Bloomberg

Profiles for top 10 listed companies

| | |
|---|---|
| <p>JS Commercial Bank For Foreign Trade Of Vietnam (Vietcombank) Ticker: VCB Market Cap (USDm): 2522 Daily Turnover (USDm): 0.37 Sector / Industry: Financials / Banks</p> | <p>VCB was formerly the Foreign Currency Department of SBV. It was the first and the only bank in the 1960s. In the 90s, VCB leveraged off its expertise in trade finance and foreign exchange business to expand into a commercial bank. It was equitized in 2007 and listed on HOSE on June 30, 2009. The state still holds over 90% stake but has plans to reduce this to 51%. Due to its affiliation to the state, it has unmatched ability to invest in IT systems and personnel to become the most trusted bank in Vietnam. However, VCB's business plans are often limited by state intervention in the market.</p> |
| <p>Viet Nam Dairy (Vinamilk) Ticker: VNM Market cap (USDm): 1650 Daily turnover (USDm): 0.45 Sector / Industry: Consumer Staples / Food</p> | <p>VNM is a food manufacturer and distributor, established in 1992 and listed on HOSE in 2006. It has an unmatched portfolio covering dairy products, nutritional supplements, infant formula milk, coffee and non-alcoholic drinks. VNM has successfully built on its experienced management, sales force, nationwide distribution networks and production capacity. Demographics are favourable as disposable income and health consciousness rise. While growth opportunities are abundant, VNM faces significant currency risk and volatility of material prices as it imports 75% of dairy materials. It has yet to establish a brand that appeals to younger consumers, and retailers' loyalty is fading with the increasing choice of foreign brands.</p> |
| <p>Baoviet Holdings Ticker: BVH Market cap (USDm): 1523 Daily turnover (USDm): 0.24 Sector / Industry: Financials / Insurance</p> | <p>BVH is the parent company of Baoviet Financial Insurance Group which owns insurance companies, an asset management company, a security company and a bank. It went public in 2007, but the Ministry of Finance still owns 78%. Free float is low and liquidity can be a problem for minority shareholders. Having said that, the business outlook for BVH is still bright. Its life insurance company is the only one in Vietnam with domestic invested capital, second only to Prudential in terms of market share (33%). Its non-life insurance company also offers a wide range of products including car, health and marine insurance.</p> |
| <p>Vietnam JSC Bank for Industrial & Trade (Vietin) Ticker: CTG Market cap (USDm): 1373 Daily turnover (USDm): 0.15 Sector / Industry: Financials / Banks</p> | <p>CTG was equitized and listed on HOSE in July 2009. The state still owns 90% while only 10% was listed. Owing to its specialization in industry and commerce, it maintains close relationships with the pillar sectors like construction, electricity, energy and telecoms. CTG has a great branch network in urban areas, which creates an entry barrier for competitors. The other valuable asset CTG has is its land bank; this not only makes it easy for CTG to expand its branch network but also generates good rental income. However, the large number of branches also leads to lower efficiency and higher overhead costs compared to other listed commercial banks.</p> |
| <p>Masan Group Ticker: MSN Market cap (USDm): 1295 Daily turnover (USDm): 0.14 Sector / Industry: Consumer Staples / Investment</p> | <p>MSN is a conglomerate engaged in food distribution, financial services, and natural resources that aims to encompass all opportunities arising from the emergence of Vietnamese middle class consumers. It partners with a wide range of companies, from food to banks. The most recent partnership was signed with International Finance Corporation of World Bank in May 2010. MSN holds a leading stake in leading food and beverage company, Masan Food, and private bank, Techcombank, and in various private companies that are difficult to dispose of if the company's strategy changes.</p> |
| <p>Vincom SJC Ticker: VIC Market cap (USDm): 1260 Daily turnover (USDm): 0.46 Sector / Industry: Financials / Real Estate</p> | <p>VIC was established in 2002 to develop and invest in real estate projects and entertainment venues. It also provides securities brokerage services through its subsidiaries. VIC was listed on HOSE in 2007 as the largest listed real estate company. The real estate sector will benefit from the government's commitment to raising housing quality. However, VIC faces risks including ambiguous regulations around land use, intensifying competition from local companies diversifying into real estate and foreign players entering Vietnam. Furthermore, VIC has fully exploited its crown jewel, Vincom City Tower, and earnings might slow until new projects are launched.</p> |
| <p>Asia Commercial Bank Ticker: ACB Market cap (USDm): 1168 Daily turnover (USDm): 0.69 Sector / Industry: Financials / Banks</p> | <p>ACB was originally a private bank listed on HNX in 2006. Therefore, the state does not hold any stake in ACB. But its room for foreign investor stake has already been used up by the three strategic partners, ICF, Standard Chartered and Dragon Capital. ACB has set the standard on many fronts. First, its ROE is the highest in the industry, consistently above 28%. Credit risk is also well managed, as evidenced by the lower than 1% NPL. ACB also diversified well into gold and securities trading and organized the first gold exchange in Vietnam. Although its IT systems are inefficient and the business is too concentrated in Ho Chi Minh City, it has a well diversified portfolio and a solid track record for risk management.</p> |
| <p>Hoang Anh Gia Lai JSC Ticker: HAG Market cap (USDm): 1141 Daily turnover (USDm): 1.50 Sector / Industry: Financials / Real Estate</p> | <p>HAG began life as a timber manufacturer, was equitized in 2006 and listed on HOSE in 2008. It expanded into real estate, hotels, rubber, hydropower and mining. HAG's good relationship with banks allows it to offer good pricing and credit terms to buyers. It also holds a land bank sufficient for projects through 2013. However, aggressive growth means high leverage, a maturity schedule in 2010-2011, and an interest burden that squeezes the bottom line, making further capital-raising difficult. Recent sale of convertible bonds to Temasek eased cash flow and proved HAG's ability to tap overseas capital markets. HAG aims to reduce its dependence on real estate from 79% to 35% of revenue in 2012 and expand into natural resources.</p> |
| <p>Saigon Thuong Tin Commercial JS Bank Ticker: STB Market cap (USDm): 755 Daily turnover (USDm): 1.89 Sector / Industry: Financials / Banks</p> | <p>STB started by consolidating four credit institutions in Ho Chi Minh. It was the first listed bank in Vietnam and currently has three foreign strategic partners, IFC, ANZ and Dragon Capital, that use up the foreign investment quota. STB's daily turnover is currently the highest among all listed banks. STB has a strong presence in the Chinese Vietnamese community and is targeting the untapped markets in middle Vietnam. However, the old IT infrastructure is insufficient as STB grows its branch network. ROE stays low amid confusing monetary policy – SBV tried to help by keeping the prime rate low yet limiting credit growth. Diversifying away from commercial banking into leasing, securities, asset management and gold trading should help.</p> |
| <p>Vietnam Export – Import Commercial JSB (Eximbank) Ticker: EIB Market cap (USDm): 754 Daily turnover (USDm): 0.62 Sector / Industry: Financials / Banks</p> | <p>EIB strength lies in trade finance and foreign exchange, especially for the export-import companies. It listed on HOSE in October 2009 after a successful public offering in 2007. Sumitomo Mitsui Banking Corp is the only foreign strategic partner and owns a 15% stake. Domestically, it has formed successful alliances with various banks and manufacturing companies. The good price that EIB commanded during its public offering gave it plenty of equity to invest in infrastructure and branch network while maintaining a high capital ratio of 30% relative to the 10% average for the industry. But earnings haven't been able to keep pace which has led to a low return on equity. In order to combat its shrinking market share, EIB will likely need to be more aggressive in expanding its network for future growth to stay competitive.</p> |

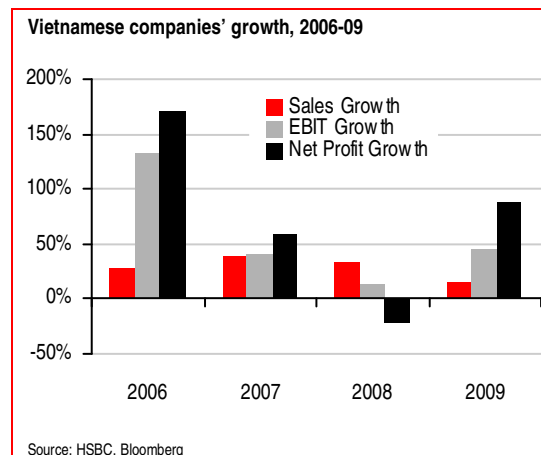
Source: HSBC, Bloomberg, Company websites. Note: Market cap is taken as at August 2010; daily turnover is taken as the 3-month average for June-August 2010

Earnings

- ▶ Vietnamese companies' earnings have shown impressive growth and stability over the period 2006-2009
- ▶ Our DuPont analysis suggests Vietnamese companies generate higher ROE than most Asian peers, partly due to the high asset turnover ratio
- ▶ Favourable demographics point to strong domestic growth which should drive earnings further

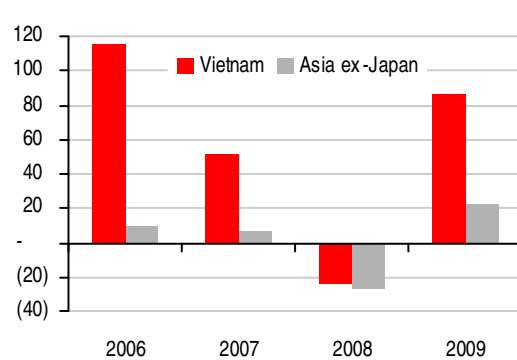
The Vietnamese market has grown rapidly in the last few years. The number of companies listed on the Ho Chi Minh Stock Exchange (HOSE) has increased to 262 now from 34 in 2006. However, fundamental analyses are still hard to come by. Historical data are sporadic as the market is still in a nascent stage. We have gathered as much data as possible to put together an analysis of company earnings in Vietnam. Although the analysis will not be perfect until a more complete and up-to-date data set is available, we attempt to provide investors with the big picture of how the Vietnamese market is performing and where it is heading.

Vietnamese companies have staged an impressive performance on the earnings front over 2006-09. On an aggregate basis, they have posted average annual growth in sales, EBIT and net profit of 25.7%, 28.4% and 38.0%, respectively. Healthcare and consumer discretionary companies have shown consistent sales, EBIT and net profit growth.



Besides, earnings growth has been higher than Asia ex Japan regional average. Even when the Vietnamese companies suffered a decline in net income growth in 2008, it was smaller than the decrease in net income of regional peers (see chart on next page). We acknowledge that the time horizon for comparison is short and that financial statements in Vietnam might not be fully up to international standards. However, given the growth trajectory and improvement in reporting, we think now is a good time for foreign investors to take a look at Vietnam.

Earnings growth of Vietnam companies vs Asia ex Japan (%)



Source: Bloomberg, HSBC

Interestingly, revenues did not suffer even during the 2008-09 crisis, although as mentioned, net profit dropped. This indicates that demand is strong and as long as companies can operate efficiently, better earnings will follow naturally. This was exactly what happened in 2009 – earnings growth outpaced sales probably because companies learned to operate more efficiently. Cost control measures will help companies compete better with their regional counterparts.

At the moment, there are only sporadic earnings forecasts available for some larger companies. We take a bottom-up approach to consider earnings growth forecasts for those available and an assumption of 25% earnings growth in 2011 for companies that do not have consensus. We conclude that earnings growth for 2011 will likely be 26.8%. This is not too aggressive given it is still below the Asia ex Japan consensus 2011 earnings growth of 28%.

DuPont analysis

We have put together a DuPont analysis of the return on equity (ROE) of Vietnamese companies. The DuPont model provides a framework to analyse the ROE by breaking it down into five components, as given below:

$$\text{ROE} = \text{Profit margin} \times \text{Asset turnover} \times (1 - \text{Interest burden}) \times (1 - \text{Tax burden}) \times \text{Leverage}$$

Our universe includes most of the Ho Chi Minh Stock Index constituents excluding the financials sector and companies with patchy data. We have used 163 companies for 2007, 202 for 2008 and 220 for 2009, which we believe are still quite representative of the general trend.

The most remarkable finding of our analysis is that Vietnamese companies are delivering return on equity (ROE) that are as good as or better than its regional peers. In 2006, Vietnam's ROE was 21.1%, considerably higher than the Asia ex Japan average of 17.3%. In the following year, Vietnamese companies generated an ROE of 17.6%, almost equal to the Asia ex Japan average of 17.8%. In 2008, Vietnam ROE stood at 13.3%, higher than the regional average of 12.5%, while 2009 saw the ROE rising substantially to 18.6% from 13.3% in Vietnam, whereas the average ROE of the region remained at 13.5%. In 2009, the Technology sector had the highest ROE (30.8%) mainly because of higher margins, while Energy and Industrials recorded the lowest ROE of 14%, which still beat the Asia ex Japan average of these sectors.

Vietnamese companies delivering high ROEs



Source: HSBC, Bloomberg

DuPont Analysis – Deconstructing ROE

| | | | 2006 | 2007 | 2008 | 2009 |
|---------------|---------------------|----|-------------|-------------|-------------|-------------|
| EBIT/sales | Margin (%) | M | 11.7 | 12.8 | 9.5 | 13.4 |
| Sales/assets | Asset turn (x) | AT | 1.1 | 1.0 | 1.0 | 0.9 |
| <i>ROA</i> | | | <i>13.1</i> | <i>12.4</i> | <i>9.8</i> | <i>12.0</i> |
| 1-(PBT/EBIT) | Interest burden (%) | I | 16.2 | 12.4 | 24.2 | 13.9 |
| 1-(NP/PBT) | Tax burden (%) | T | 7.5 | 7.7 | 12.7 | 13.4 |
| <i>ROI</i> | | | <i>10.2</i> | <i>10.0</i> | <i>6.5</i> | <i>8.9</i> |
| Assets/equity | Leverage (x) | L | 2.1 | 1.8 | 2.1 | 2.1 |
| ROE | | | 21.1 | 17.6 | 13.3 | 18.6 |

Source: HSBC

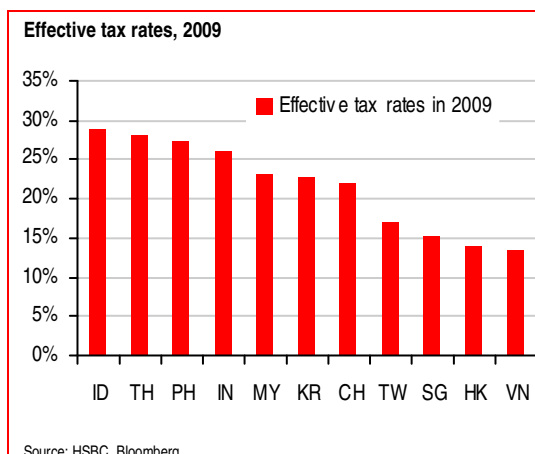
Key takeaways

Some key points of our analysis are given below:

- ▶ Vietnamese companies' margins are comparable with those of companies in the Asia ex Japan region. Also, margins have been on the rise, except in 2008, pointing to improved cost efficiency. Materials and Industrials sectors push up the overall efficiency level while Technology pulls it down, followed by Consumer Discretionary.
- ▶ The asset turnover ratio in Vietnam has been higher than the regional average. In fact, in 2009 asset turnover fell everywhere, except Vietnam. Vietnamese companies generate sales around 1.1 times their assets, which corroborates their cost efficiency. Consumer Staples companies has a high asset turnover ratio in our DuPont universe.
- ▶ The combination of higher margins and better asset turnover helps Vietnamese companies generate higher return on assets (ROA) in the Asia ex Japan region.
- ▶ Vietnam has higher interest rates than the regional average, and hence Vietnamese companies' interest burden is higher than the regional average. The tight credit situation in 2008 increased the burden even more. However, the central bank has been taking an accommodative stance, while also persuading banks to lower their lending rates to 12% from the current average of 14.5%. This will

help companies lower their interest burden in the coming years.

- ▶ Although the tax burden increased from 2007 to 2008, as the government withdrew some tax exemptions, Vietnam's tax structure is still more competitive than in other Asian markets. The effective tax rate in Vietnam in 2009 was only 13.4%, compared to the regional average of 22.9%. Hong Kong with a 13.9% effective tax rate is the closest comparable market. Though the government is slowly withdrawing tax exemptions, this will take a few years to fully reflect in the earnings.



Earnings growth for top 10 companies listed on Ho Chi Minh Exchange

| Ticker | Name | Industry | 2007 | 2008 | 2009 | 2010f | 2011f |
|---------------|---------------------------------------|------------------|--------|--------|--------|--------|-------|
| VCB VM Equity | Bank for Foreign Trade of Vietnam JSC | Banks | -16.6% | NA | NA | -1.9% | 7.8% |
| BVH VM Equity | Baoviet Holdings | Insurance | NA | NA | NA | 29.1% | NA |
| VNM VM Equity | Viet Nam Dairy Products JSC | Food | 46.0% | 29.8% | 90.0% | 29.7% | 2.1% |
| CTG VM Equity | VietinBank | Banks | 91.7% | 57.0% | 0.0% | NA | NA |
| MSN VM Equity | Masan Group Corp | Consumer Staples | NA | NA | 98.1% | 117.1% | 31.7% |
| VIC VM Equity | Vincom JSC | Real Estate | -21.6% | -53.7% | 620.5% | 36.8% | 22.0% |
| HAG VM Equity | HAGL JSC | Real Estate | NA | NA | 69.8% | 92.8% | NA |
| EIB VM Equity | Viet Nam Export-Import Commercial JSB | Banks | 79.3% | 53.4% | 59.3% | 33.5% | 27.8% |
| STB VM Equity | Saigon Thuong Tin Commercial JSB | Banks | 197.3% | -31.7% | 75.0% | 7.4% | 16.0% |
| FPT VM Equity | FPT Corp | Telecom | 63.7% | 13.4% | 27.2% | NA | NA |

Source: Bloomberg, HSBC

Summary

Vietnamese companies have done exceptionally well on the earnings front, especially compared to the region. Earnings in the Financials and Consumer Discretionary sectors should be driven by growing middle class demand. The Industrial sector is also gearing up and gaining momentum – Industrial output surged 15.2% y-o-y this August. The main thing to note here is that both retail sales and exports are supporting industrial production. Going forward, even if exports slow down, domestic demand should be able to fill the gap. This increases our confidence in Vietnamese companies' earnings growth.

Also, despite the low leverage, Vietnamese companies still seem to be generating better returns for their shareholders than companies in most other Asian markets. Also, companies are efficiently using their assets, as is evident from their high asset turnover ratio. Therefore, we believe Vietnamese companies should prudently increase their gearing to secure even higher returns for their shareholders.

Sales growth by sector (VN Index)

| Sales Growth | 2006 | 2007 | 2008 | 2009 | Average | Volatility |
|------------------------|--------|-------|-------|-------|---------|------------|
| Consumer Discretionary | 35.4% | 42.2% | 47.8% | 42.2% | 44.1% | 5.1% |
| Consumer Staples | 18.7% | 26.0% | 27.6% | 10.9% | 21.5% | 7.7% |
| Energy | 103.8% | 57.2% | 33.3% | 10.0% | 33.5% | 40.1% |
| Financials | 203.9% | -2.9% | 10.0% | 94.5% | 33.8% | 95.4% |
| Health Care | 55.8% | 23.3% | 20.1% | 19.3% | 20.9% | 17.5% |
| Industrials | 56.4% | 35.2% | 24.0% | 7.9% | 22.4% | 20.3% |
| Information Technology | -18.8% | 21.2% | 18.9% | 13.4% | 17.8% | 18.6% |
| Materials | 8.9% | 55.5% | 40.3% | 2.0% | 32.6% | 25.4% |
| Utilities | 144.4% | -1.7% | 6.1% | 17.2% | 7.2% | 69.0% |
| Total | 16.8% | 33.0% | 28.4% | 15.6% | 25.7% | 8.5% |

Source: HSBC, Bloomberg

EBIT growth by sector (VN Index)

| EBIT Growth | 2006 | 2007 | 2008 | 2009 | Average | Volatility |
|------------------------|--------|--------|--------|--------|---------|------------|
| Consumer Discretionary | 74.7% | 72.2% | 38.2% | 47.8% | 52.7% | 18.0% |
| Consumer Staples | 24.2% | 29.3% | 7.1% | 44.2% | 26.9% | 15.3% |
| Energy | 144.6% | 128.9% | 62.1% | -5.2% | 61.9% | 68.6% |
| Financials | 281.4% | -49.3% | 7.2% | 168.5% | 42.2% | 151.1% |
| Health Care | 21.0% | 24.7% | 24.0% | 81.4% | 43.3% | 29.2% |
| Industrials | 50.4% | 30.3% | -18.5% | 31.2% | 14.4% | 29.4% |
| Information Technology | 71.5% | 54.0% | 27.4% | 31.8% | 37.8% | 20.5% |
| Materials | 1.9% | 65.5% | 18.7% | 21.6% | 35.3% | 27.2% |
| Utilities | 571.4% | -9.6% | -15.3% | 7.6% | -5.8% | 288.8% |
| Total | 92.8% | 31.5% | 7.7% | 45.9% | 28.4% | 35.9% |

Source: HSBC, Bloomberg

Net income growth by sector (VN Index)

| Net Profit Growth | 2006 | 2007 | 2008 | 2009 | Average | Volatility |
|------------------------|---------|--------|--------|--------|---------|------------|
| Consumer Discretionary | 31.3% | 105.4% | -17.1% | 108.1% | 65.5% | 60.9% |
| Consumer Staples | 33.1% | 52.5% | -45.5% | 151.9% | 53.0% | 81.2% |
| Energy | 95.0% | 230.2% | 50.1% | -8.9% | 90.5% | 101.7% |
| Financials | 368.9% | 15.7% | -23.6% | 139.3% | 43.8% | 176.7% |
| Health Care | 59.6% | 38.1% | 5.6% | 92.8% | 45.5% | 36.6% |
| Industrials | 89.4% | 68.7% | -44.6% | 106.5% | 43.5% | 68.2% |
| Information Technology | 90.2% | 66.6% | 8.0% | 38.1% | 37.6% | 35.6% |
| Materials | -2.7% | 57.9% | 7.4% | 26.8% | 30.7% | 26.7% |
| Utilities | 1187.1% | -8.6% | -70.1% | 134.3% | 18.5% | 590.5% |
| Total | 114.8% | 51.1% | -24.0% | 86.9% | 38.0% | 60.1% |

Source: HSBC, Bloomberg

Valuations

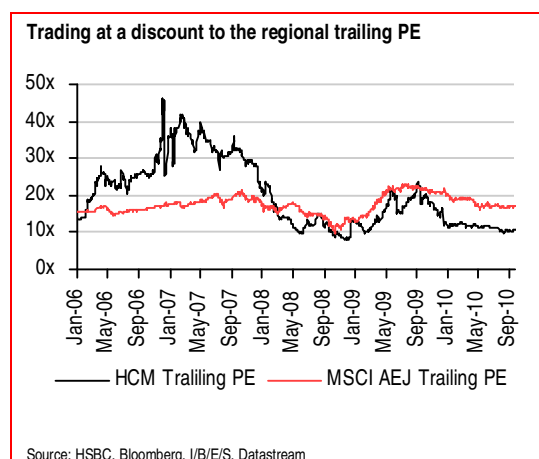
- ▶ Both PE and PB analyses suggest Vietnam is trading at a substantial discount
- ▶ The market has not priced in the high ROE and earnings growth
- ▶ We do not think the VN Index will go much lower than the current 450 level

Price to earnings (PE)

Trailing price to earnings

The Ho Chi Minh Index (VN Index) is trading at a trailing PE of 10.6x (based on the reported EPS in the last 4 quarters). This is current at a 38% discount to the MSCI Asia ex Japan's trailing PE of 17x, 27% discount to the MSCI Emerging Market Index and 32% to the MSCI Frontier Market. Based on the history available (since 2006), we see that on average, the VN Index has been trading at a 15% premium to the Asia ex-Japan average trailing PE, 35% premium to MSCI Emerging Market Index's and 18% premium to MSCI Frontier Market Index. However, a detailed look at the time series reveals that Vietnam was trading at a premium between February 2006 and March 2008. Since then, Vietnam has traded at a discount of as much as 24% Asia ex Japan and

1% discount to MSCI Emerging Market Index. If we compare the current trailing PE to the long-term average trailing PE of 20.1x, it trades at a 47% discount. Making a similar comparison with the post-2008 trailing PE reveals a 21% discount. (see comparison table below)



Vietnamese valuation multiple comparison

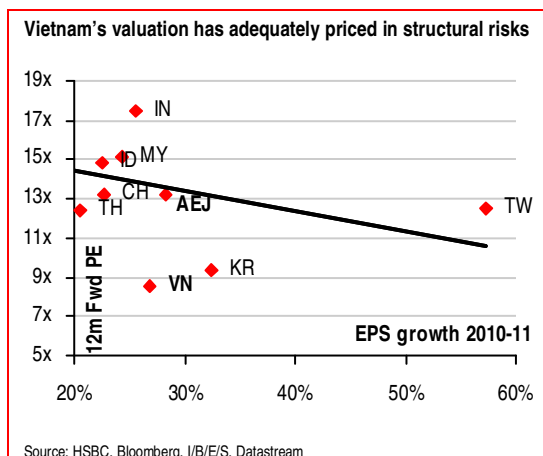
| | Now | LT avg trailing PE | Post 08 avg trailing PE | Linear Approximation | MSCI Asia ex Japan | MSCI Emerging Mkt | MSCI Frontier Mkt |
|---|------|-----------------------|----------------------------|-------------------------|-----------------------|----------------------|----------------------|
| Trailing PE | 10.6 | 20.1 | 13.4 | 13.7 | 17.0 | 14.5 | 15.7 |
| avg + premium / - discount since 2008 | | 15% | -24% | -23% | -24% | -1% | 16% |
| + premium / - discount at current level | | -47% | -21% | -23% | -38% | -27% | -32% |
| Trailing PB | 2.0 | 3.6 | 2.1 | 2.6 | 2.3 | 2.1 | 1.7 |
| avg + premium / - discount since 2008 | | 53% | -3% | -24% | -3% | 11% | 31% |
| + premium / - discount at current level | | -45% | -5% | -24% | -15% | -4% | 19% |

Source: HSBC, Datastream

Forward PE vs 2010/11 EPS growth

The 12-month forward PE based on our assumption of 2011 earnings growth of 26.8% (see Earnings section for details) is 8.7x, much lower than the MSCI Asia ex Japan forward PE of 13.2x. At these levels, Vietnam is the cheapest market in the region. We believe these are attractive valuations even if we factor in the risks in Vietnam and do not expect PE to fall significantly from the current levels.

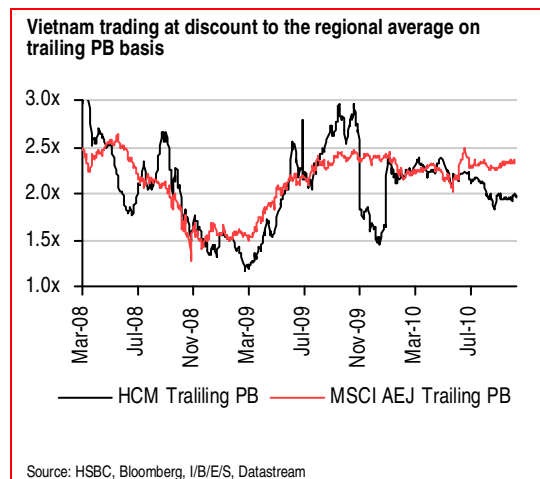
We plotted 12-month forward PE with the 2010/11 earnings growth in the chart below for all major Asian markets. Vietnam is clearly an outlier in that it is very much undervalued given its earnings growth of 26.8%. Using a linear approximation, we find a 12-month forward PE of 13.7x is the fair value for such earnings growth potential. Vietnam's 12-month forward PE of 8.7x has adequately factored in the risks in our view.



Price to book (PB)

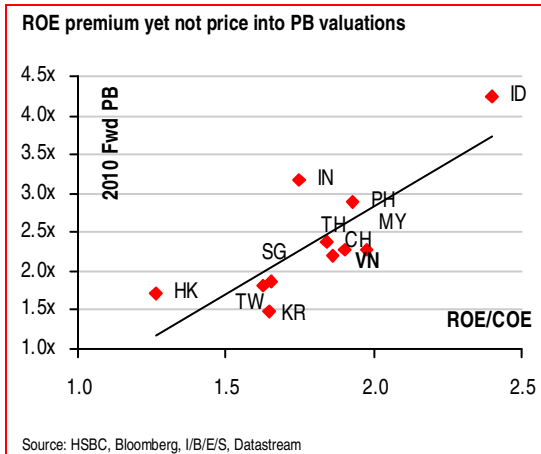
Trailing PB

In terms of the price-to-book (PB) ratio, Vietnam is trading at a trailing PB of 2.0x, which is 15% lower than the Asia ex Japan average of 2.3x. (we use comparison since March 2008 for the reason mentioned for PE above) and 4% below the MSCI Emerging Market. Also, the current trailing PB of 2.0x represent a 5% discount to the post-2008 average trailing PB of 2.1x and 45% to the long term average of 3.6x.



Forward PB

Forward PB valuation is also attractive as the market is trading at a 2010e PB of 2.3x, higher than the MSCI Asia ex Japan 2010 PB of 2.0x. Instead of looking PB alone, we suggest investors look at PB vs ROE/COE, which gives an idea of the risk and return profile of a country. Vietnam's ROE is expected to be 23% in 2010, which is the second highest in the region after Indonesia (24%) and average ROE for the region is expected to be 14%. On a linear approximation based on the ROE/COE and 2010e forward PB of most of the Asian markets, Vietnam's ROE can justify a 2010 forward PB of as high as 2.6x. The 24% discount that the current 2010 forward PB offers is attractive and we believe the market has not yet priced in the high ROE story of Vietnam.



The overall picture that emerges from the valuation angle indicates that current valuations are attractive. It is unlikely that valuations will fall significantly from these levels. Vietnam is a reasonable investment for those investors who understand the structural challenges of the country and are willing to take the risks. We believe such investors will be fairly rewarded as long as they restrict their exposures to large and liquid stocks.

Summary

No matter which multiples you are looking at, the current valuation of Vietnam seems to offer a great discount. Given the improvement of the legal system and corporate governance, along with the privatization and National Party Congress catalysts, we do not believe the Vietnam index will trade much lower than the current level of 450.

Dividend yields are also rising

The trend in the trailing 12-month dividend yield since 2006 suggests that yields are rising. The chart below shows that the dividend yield doubled from late 2008 to early 2009 to 4%. However, the higher-than-normal dividend yield level in 2008 was a result of distressed prices rather than high dividend payout. But excluding the outliers, the current yield of 2.6% is still sustainable.



Privatisation

- ▶ Vietnam has only seen partial privatisation
- ▶ The privatisation process has been slow, mainly because of demanding valuations and no real funding needs
- ▶ But the process should accelerate – at least 60 SOEs have been approved for privatisation

Partial privatisation

Vietnam has only seen partial privatisation. The process entails state-owned enterprises (SOE) being converted into joint stock companies, which can trade some of their shares publically.

However, privatisation in Vietnam does not immediately lead to a public offering; thus, even privatised company stocks are not always traded on the stock exchange. This process is often referred to ‘equitisation’ locally.

Why not trade on the exchange?

The purpose of privatisation is to monetise state assets, and eventually to boost market turnover and the efficiency of these SOEs by having external investors other than the state. Vietnam has many state assets and many interested investors. Why, then, has privatisation not been successful in the country? The reasons are many, as given below:

No reason to go the extra mile

Many of the SOEs are backed by the state and thus have no real funding needs. Consequently, SOEs do not see any benefits from going to the trouble of meeting extra disclosure requirements and dealing with external investors.

Not enough shares sold outside

Only minority stakes have been privatised. For example, JSC Bank for Foreign Trade of Vietnam was listed in June 2009 but the state sold only a 9% stake. Another state-owned bank, Vietnam JSC Bank for Industry and Trade, sold only 10% to the public when it was listed in July 2009.

Also, many of these privatised shares were allocated to employees. Therefore, privatisation has not served the intended purpose, ie to tighten oversight by external investors and increase trading liquidity.

Lofty valuations

Many SOEs were listed in a booming market where they commanded high valuations. As a result, the government mistakenly believed that all SOEs could fetch comparables multiples and thus seemed unwilling to accept a lower price, despite the downturn. Consequently, privatisation negotiations are stuck in a loop that slows progress.

Privatisation started before the advent of the stock exchange

The privatisation process started in the 1980s but the HOSE did not commence trading until 2000. Consequently, the SOEs that were privatised in the early stage would have to be traded over the counter anyway.

So why should privatisation accelerate now?

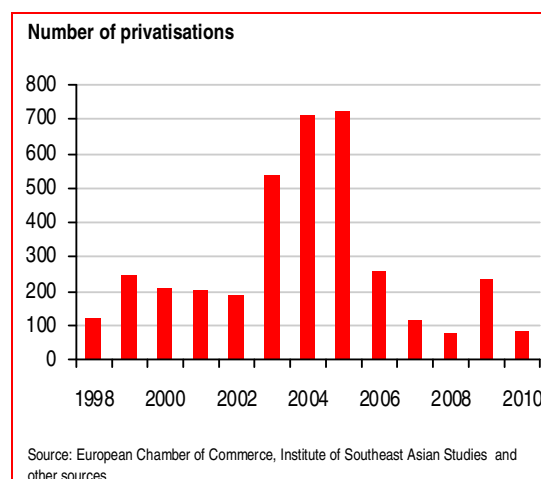
The Vietnamese government has taken many steps to revise the listing rules. Market conditions and SOEs' culture are also changing in favour of listings, as given below:

- 1 Vietnam has always been running a budget deficit. In 2009, the fiscal deficit widened to 8% of GDP. HSBC economics team expects it to reach 7% of GDP in 2010. Therefore, SOEs can no longer rely on the state alone for funding.
- 2 Given the stall in the past few years, the government is now more in touch with the reality and has more reasonable expectations about the prices that privatised SOEs can fetch.
- 3 The most encouraging development of all is that the market for unlisted public companies, Upcom, is finally gathering momentum – in two years' time, it has grown to 102 companies with a market capitalisation of USD667m. This will serve as a platform for privatised unlisted SOEs shares to trade and thus help independent investors participate in these privatisations.
- 4 Regulators have not only set up rules to solve the existing problems, they are also proactively introducing rules to ensure that companies do not bypass listing just because they do not want to improve corporate governance. The State Securities Commission (SSC) is drafting a decree to require privatised SOEs to sell a minimum percentage of shares to independent investors. This should substantially increase the shares that reach investors outside. Also, the SSC is formulating rules that will require all companies to reach a certain size to file an audited annual financial statement. When this becomes effective, companies will need to

increase their transparency and meet disclosure requirements regardless whether they are listed or not.

How many more SOEs to privatise?

Statistics on SOEs and progress on the privatisation process are hard to come by. They are available but different sources tally up different numbers. Fortunately, they all seem to describe a similar trend. We gathered data from various sources and found that there were 12,300 SOEs at the start of the privatisation reform, in the 1980s. The number of SOEs reduced by half to roughly 6,500 in the 1990s. The effort was stepped up further in 1998. Since then, 100 or more privatisations have been taking place every year. The heaviest deal flow was recorded in 2005, when 724 deals were recorded. However, due to unfavourable market conditions, the number dropped to 74 in 2008. Momentum picked up again in 2009, when 238 privatisations were completed. Year-to-date in 2010, 81 deals have been completed. The chart below plots the yearly number of privatisations based on the available statistics.



Who will be privatised next?

The state does not provide frequent updates on its privatisation plans, which makes the task of identifying the next privatisation candidate

difficult. The last official SOE approval was published in 2004. We have updated the list by filtering out some of the SOEs that have already been privatised and are left with 60 SOEs. Some of these, such as the Bank for Investment and Development of Vietnam, are frequently viewed by the market as the next key state owned enterprise to be privatised next because their privatisation plans have already been approved by the government and they are relatively more transparency and foreign investors friendly. The original plan was to privatise these companies between 2006 and 2010. The SOEs that have been approved for privatisation will likely become the priority in the next five-year plan for 2011-2015. The table below lists these candidates.

SOEs with an approved privatisation plan

| | |
|---|---|
| Agricultural Supplies Corporation | Sai Gon Transport Mechanical Corporation |
| Agriculture and Rural Development Construction Corporation | Song Da (Da River) Construction Corporation |
| Agriculture, Irrigation Mechanization, Electrification-Construction Corporation | Southern Riverway Corporation |
| Animal Husbandry Corporation | State corporations under ministries: |
| Bach Dang Construction Corporation | Sugarcane Corporation No. I |
| Bank for Investment and Development of Vietnam (BIDV) | Sugarcane Corporation No. II |
| Ben Thanh Corporation | Thang Long Construction Corporation |
| Central Vietnam Corporation | Traffic Works Construction Corporation |
| Construction Glass and Porcelain Corporation | Urban and Industrial Zones Development Investment Corporation (IDICO) |
| Construction Materials Corporation No. 1 | Urban Infrastructure Development Investment Corporation |
| Construction Mechanical Corporation | Vegetable, Fruit and Farm Produce Corporation |
| East Sea Fisheries Corporation | Vietnam Airlines Corporation |
| Electrical Technical Equipment Corporation | Vietnam Automobile Industrial Corporation |
| Ha Long Fisheries Corporation | Vietnam Bank for Agriculture and Rural Development (Agribank) |
| Hanoi Construction Corporation | Vietnam Cement Corporation |
| Hanoi Housing Investment and Development Corporation | Vietnam Construction Investment Corporation for Water Supply and Drainage |
| Hanoi Tourism Corporation (Hanoitourist) | Vietnam Engine and Agricultural Machines Corporation (VEAM) |
| Hanoi Trade Corporation (HAPRO) | Vietnam Fisheries Corporation |
| Hanoi Transportation Corporation (Hanoi Transerco) | Vietnam Forestry Corporation |
| Industrial Machinery and Equipment Corporation | Vietnam Industrial Construction Corporation (VINAINCON) |
| Infrastructure Construction and Development Corporation | Vietnam Insurance Corporation |
| Irrigation Construction Corporation No. 4 | Vietnam Machinery Installation Corporation (LILAMA Corporation) |
| Mekong River Delta Housing Development Bank | Vietnam Medical Equipment Corporation |
| Northern Food Corporation | Vietnam Mulberry, Silkworm and Silk Corporation |
| Northern Riverway Corporation | Vietnam National Chemical Corporation |
| Sai Gon Agricultural Corporation | Vietnam National Salt Corporation |
| Sai Gon Construction Corporation | Vietnam National Tea Corporation |
| Sai Gon Real Estate Corporation | Vietnam Paper Corporation |
| Sai Gon Tourism Corporation (Saigontourist) | Vietnam Steel Corporation |
| Sai Gon Trade Corporation | Waterway Construction Corporation |

Source: Steering Committee for Enterprise Renewal and Development

Foreign exchange

- ▶ VND is still under pressure to depreciate
- ▶ Accommodative monetary policy is exacerbating inflation and the trade deficit, impacting both volatility and liquidity
- ▶ We expect VND to reach 19,800 by the end of 2010

VND under pressure

Currency represents a particular area of risk for equity investors, from both liquidity as well as a volatility perspective. The Vietnamese exchange rate regime is a de facto crawling peg, managed within a trading band of +/-3% around a mid-point (most recently stable around USD-VND18,932). However, the market clearing equilibrium price regularly falls outside of this band, as seen in various unofficial and informal foreign exchange markets. As a result, the market regularly goes through periods when liquidity is poor and when the supply of either the USD or the VND is rationed by the central bank.

Over the last two years, the authorities have completed a series of VND depreciations, the most recent being raising the mid-point of the band by 2% on 17 August 2010. While in some ways, Vietnam's structurally high level of inflation suggests ongoing nominal depreciation over time, the more recent periods of depreciation and volatility come as much from difficulty in managing the economic cycle.

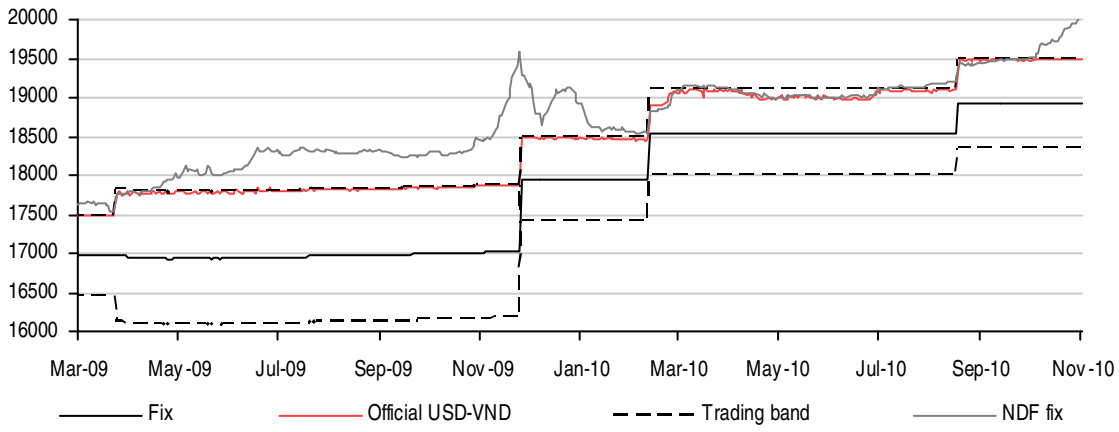
In the 2007-08 cycle, monetary policy became overly accommodative, which we have also seen in the most recent cycle. Inflation is now notably above the target range, while domestic demand for imports has also risen, pushing the trade deficit

higher. Despite rising FDI, tourism and overseas remittances, this trade deficit is becoming increasingly difficult to fund. Moreover, with FX reserves at relatively limited levels, the Central Bank will face a stiff challenge to maintain the VND at its current level. Another challenge on the structural side is that the economy remains noticeably dollarised, such that domestic currency allocations tend to amplify swings in the currency, particularly during periods where inflation is perceived to be threatening the ability of the local currency to store value.

Low USD lending rates during 2H09 and 1H10 led to increased USD supply. However, with many of these loans maturing in 2H10, onshore USD supply has declined. This situation is likely to continue in the coming months. Exporters have shown a preference for using USD earnings to pay back USD loans, as opposed to converting to VND, while rising USD lending rates and falling VND rates mean that USD loan credit growth is limited. Q4 is also traditionally a strong import season. These factors point to a short-term onshore USD supply shortage, which has – and will continue to – put upward pressure on the USD-VND exchange rate. Given the structural problems and this cyclical driver, we see USD-VND ending 2010 at 19,800.

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VND / USD trading bands



Source: HSBC, CEIC, Bloomberg

Politics

- ▶ Vietnam adopts an open door policy
- ▶ But the one-party set up leads to insufficient checks and balances
- ▶ Based on past experiences, we expect a rally after the January National Party Congress

Open door policy

The Vietnamese government has an ‘open-door’ policy. We attest to that. Regulators are generally willing to meet with foreign investors. The Vietnamese government is genuinely interested in attracting foreign investors so they can advance the economy. Vietnam works closely with international bodies such as the International Monetary Fund and Asia Development Bank to learn to better manage the economy. A large-scale investor conference is held at least once a year to showcase the investment opportunities and latest market reforms undertaken.

But Vietnam lacks checks and balances given the one-party structure

However, the fact that Vietnam only has one political party leads to some downside. It does not have the checks and balances from the opposition party that most other markets have to monitor and challenge the incumbent government. For example, the ‘National Champion’ concept introduced in the 80s has not been successful. Under the National Champion scheme, the Vietnamese government tried to incubate some internationally competitive Vietnamese corporations with cheap credit, favourable tax treatment and access to land. This led to

inefficient use of scarce resources. The problem exacerbated when these National Champions tried to diversify into non-core businesses. They took greater risks than they should have because of the implicit state guarantee. While having an opposition political party might not solve all these problems, such counterproductive policies would have a higher chance of being challenged.

Political dynamic is also different from other places

Most countries see a significant pick up in pre-election spending as political parties compete for popularity in the run up to an election. The incumbent party usually supports the market by introducing market-friendly policies to boost sentiment. However, this is not the case in Vietnam. Here, policymakers favour stability before an election. Party members err on the side of caution. Candidates maintain a low profile so as not to attract any negative publicity. The market does not expect any major policy before an election because regulators cannot afford to surprise the market. This was witnessed twice in the run up to and during the 2001 and 2006 National Party Congress.

More changes at this Party Congress

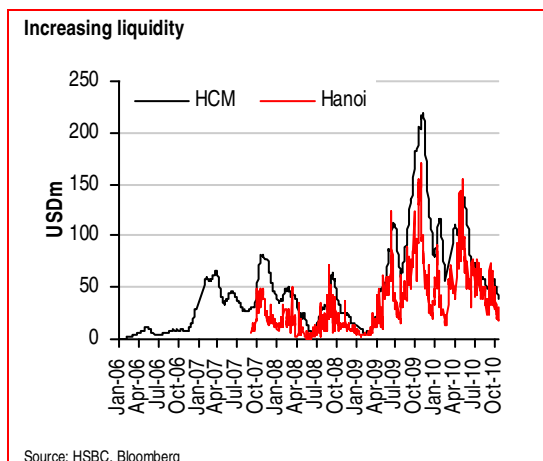
In the past, politics has not played a huge role in shifting market sentiment. The single-party state has the advantage of making subtle changes behind closed doors to maintain political stability. However, Vietnam has a 65-year age limit for Politburo members. Coincidentally, 6 of the 15 politburo members will reach this limit by the next Party Congress in January 2011. While the age limit has been automatically extended by two years in the past if these members were re-elected, the National Assembly in March 2010 decided that there would not be any extension this time. The two-year limit does not look significant. However, it will force a number of politburo members to retire and leave only a few senior members eligible to be considered for General Secretary, Prime Minister and President. This also disturbs the long tradition of having a northerner as the General Secretary, a southerner as Prime Minister and a person from the central region as the President. While it is premature to say whether the younger leadership will bring faster changes or new direction to future policy, we can safely conclude that there will be new blood in the politburo to bring in new insights and perspective.

Liquidity and fund flow

- ▶ Volatile liquidity is still a challenge but foreigners are consistent net buyers
- ▶ Foreigners own 18% of the equity market as compared to the weighted average limit of 42%
- ▶ Recently, more foreign investors are interested in investing in the Vietnam equity market

Limited liquidity

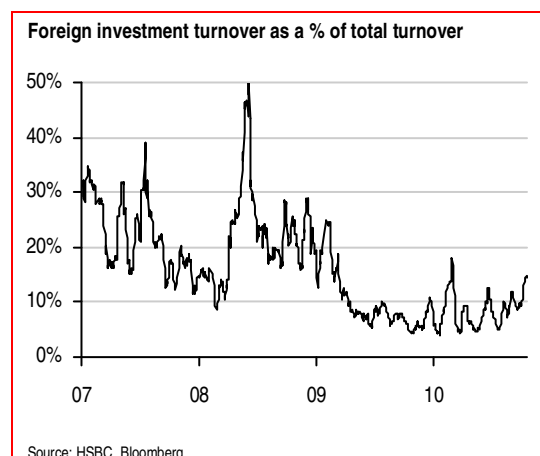
Turnover on both Vietnamese bourses is quite low. The 20-day moving average of the combined daily trading value as of 13 October 2010 of the Ho Chi Minh Exchange (HOSE) and the Hanoi Exchange (HSX) is USD75m. Out of this, the bigger exchange (HOSE), accounts for USD48mn.



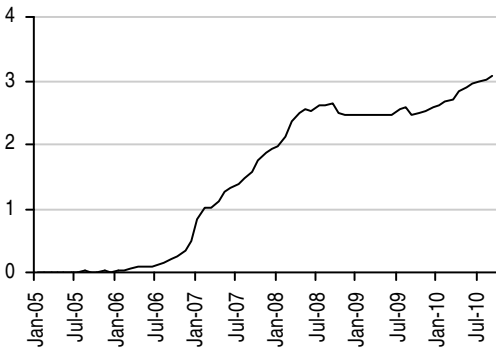
Low foreign participation

Foreign investors' participation was at its peak in the first half of 2008. This was the time when global equity markets were at the peak of their bull run. Investors were parking their funds in frontier markets in search of value as all the major

markets were already overbought. Currently, foreigners trade around 15% of the total turnover of the market. This exceeds the range of 5-10% trading volume that foreign investors have usually represented in 2009-2010. However, it is still at the low end of the range based on a longer history. As global markets have started to stabilise and the valuations of Vietnamese equities have become attractive, we believe more foreign investors will want to explore this market.

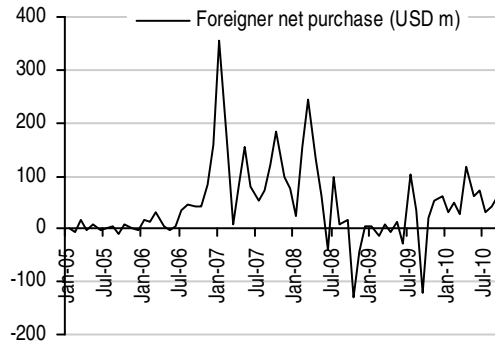


Cumulative net foreign buying on HOSE (USDbn)



Source: HSBC, CEIC

Monthly net foreign buying on HOSE (USDmn)



Source: HSBC, CEIC

Foreigners are cautiously but steadily buying

Although the trading volume and foreign investors' participation are low, foreigners are consistently net buyers of equities. At HOSE, foreigners were net sellers in only 13 months out of the last 69 months (starting January 2005). Outflows in these months have not been high. Even during the 2008 crisis, Vietnam did not suffer a major flight of funds. Since January 2005, foreigners have bought close to USD3bn worth of Vietnamese equities on HOSE. And for the first half of 2010, the figure is close to USD492mn. Clearly, foreign investors interests are still there waiting for the next catalysts.

The general rule for the foreign investor limit is 30% for banks and 49% for other companies. However, there are a few exceptions such as Bank for Foreign Trade of Vietnam and Vietnam JSC Bank for Industry and Trade, in which the state still holds close to 90% stakes and thus the foreign limit will be 10% or less. Consequently, taking the combined market capitalization weighted average of both exchanges, foreigners can own up to 42% of the equity markets. However, they currently own only 18%. Separating the two exchanges, foreigners can own 41% of the HCM exchange and they currently own 20%, whereas they can own 45% of the Hanoi exchange, while they currently own 11%.

The tables on p.37 show the details of foreign ownership of the companies with the largest market cap traded on the HOSE and HNX.

Top 10 most liquid Vietnamese funds

| Ticker | Name | Inception date | Market cap (USD mn) | Currency | Exchange | Fund type | Fund house | 3m avg daily turnover (USD mn, Jul - Sep, 2010) | 3m avg daily turnover (USD mn, Sep - Nov, 2010) | Increase |
|-----------|-----------------------------|----------------|---------------------|----------|---------------|------------------|-------------------------------|---|---|----------|
| VNM US | MARKET VECTORS VIETNAM ETF | 08/14/09 | 184 | USD | NYSE Euronext | ETF | Market Vectors Vietnam ETF | 1.47 | 2.22 | 50% |
| VOF LN | VINACAPITAL VIETNAM | 09/30/03 | 600 | USD | London | Investment Trust | Vinacapital | 0.82 | 2.28 | 177% |
| 3087 HK | TRACKERS FTSE VIETNAM | 07/08/09 | 262 | HKD | Hong Kong | ETF | FTSE VIETNAM | 0.25 | 1.09 | 345% |
| XFVT SP | TRACKERS FTSE VIETNAM | 02/19/08 | 257 | USD | Singapore | ETF | FTSE VIETNAM | 0.64 | 0.80 | 24% |
| VNL LN | VINALAND LTD | 03/21/06 | 454 | USD | London | Investment Trust | Vinaland Ltd | 0.28 | 0.67 | 138% |
| XFVT IM | TRACKERS FTSE VIETNAM | 03/14/08 | 257 | EUR | Brsaltaliana | ETF | FTSE VIETNAM E | 0.30 | 0.55 | 82% |
| VNI LN | VIETNAM INFRASTRUCTURE | 07/04/07 | 159 | USD | London | Closed-End Fund | Vietnam Infrastructure | 0.22 | 0.21 | -5% |
| VFMVF1 VN | VIETNAM SEC INVESTMENT FUND | 11/08/04 | 56 | VND | Ho Chi Minh | Closed-End Fund | Vietnam Securities Investment | 0.13 | 0.12 | -7% |
| XVTD LN | TRACKERS FTSE VIETNAM | 02/08/08 | 257 | USD | London | ETF | FTSE VIETNAM | 0.17 | 0.14 | -17% |
| JSM LN | JSM INDOCHINA LTD | 06/29/07 | 64 | USD | London | Closed-End Fund | JSM Indochina Ltd | 0.12 | 0.19 | 57% |

Source: HSBC, Bloomberg, as of November 5, 2010

Vietnamese funds liquidity also pick up

Of the 123 Vietnamese funds, 47 have trading data available. We compared the average daily traded value in the past 3 months of these 47 funds and their average daily traded value in the past 6 months. We found that 28, or 60% saw an increase in their average daily traded value. 15% of this pool saw an increase of average daily traded value of greater than 50% and 9% saw an increase of greater than 90%.

We focused on the top 5 most liquid Vietnamese funds and compared their 3-month daily average value traded between July to September and between September to November. All 5 funds saw a notable pick up in traded value, ranging between 24% to 345%. The most liquid funds, Market Vectors Vietnam Exchange Traded Fund (VNM US) saw an increase of 50% in the 2 daily averages. The most significant increase in average daily traded value in these 2 periods is coming from a FTSE Trackers Exchange Trade Funds listed in Hong Kong (3087 HK) with a 345% increase in average daily traded value reached USD1mn now.

Foreign ownership of Vietnam equity market as of 18 Oct 2010

| Sector | Ho Chi Minh | | Hanoi | | Total | |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | % allowed | % owned | % allowed | % owned | % allowed | % owned |
| Financials | 33.9 | 16.8 | 38.9 | 17.9 | 34.7 | 17.0 |
| Consumer Staples | 47.8 | 29.0 | 49.0 | 16.2 | 47.9 | 28.4 |
| Industrials | 49.0 | 16.8 | 49.0 | 5.6 | 49.0 | 11.8 |
| Health Care | 49.0 | 31.8 | 49.0 | 4.0 | 49.0 | 29.2 |
| Materials | 49.0 | 18.5 | 49.0 | 3.1 | 49.0 | 17.2 |
| Energy | 49.0 | 21.7 | 49.0 | 10.3 | 49.0 | 17.1 |
| Consumer Discretionary | 49.0 | 15.5 | 49.0 | 3.9 | 49.0 | 12.5 |
| Information Technology | 49.0 | 35.9 | 49.0 | 1.8 | 49.0 | 28.9 |
| Utilities | 49.0 | 10.2 | 49.0 | 6.6 | 49.0 | 10.1 |
| Total | 41.2 | 19.7 | 45.1 | 10.8 | 42.0 | 18.0 |

Source: HSBC

Top 10 HOSE stocks and their foreign limit

| Ticker | Short Name | GICS Sector Name | Cur Mkt Cap (USD mn) | Daily Turnover (USD k) | Exchange | Unused Foreign Quota (%) | Foreign Quota (%) |
|--------|------------------|------------------------|----------------------|------------------------|----------|--------------------------|-------------------|
| VCB | JSC BANK FOR FOR | Financials | 2,374 | 268 | HCM | 6 | 9 |
| BVH | BAOVIET HOLDINGS | Financials | 2,112 | 507 | HCM | 25 | 49 |
| VNM | VIET NAM DAIRY P | Consumer Staples | 1,603 | 244 | HCM | 0 | 46 |
| CTG | VIETIN BANK | Financials | 1,471 | 186 | HCM | 10 | 11 |
| MSN | MASAN GROUP CORP | Consumer Staples | 1,394 | 93 | HCM | 31 | 49 |
| VIC | VINCOM JSC | Financials | 1,209 | 488 | HCM | 22 | 29 |
| HAG | HAGL JSC | Financials | 1,176 | 1,321 | HCM | 14 | 49 |
| EIB | VIETNAM EXPORT-I | Financials | 758 | 591 | HCM | - | 30 |
| STB | SACOMBANK | Financials | 724 | 1,019 | HCM | - | 30 |
| FPT | FPT CORP | Information Technology | 697 | 866 | HCM | 7 | 49 |

Source: HSBC

Top 10 HNX stocks and their foreign limit

| Ticker | Short Name | GICS Sector Name | Cur Mkt Cap (USD mn) | Daily Turnover (USD k) | Exchange | Unused Foreign Quota (%) | Foreign Quota (%) |
|--------|--------------------------------|------------------------|----------------------|------------------------|----------|--------------------------|-------------------|
| ACB | ASIA COMMERCIAL | Financials | 1,082 | 381 | Hanoi | - | 30 |
| SQC | QUY NHON MINING | Materials | 436 | 5 | Hanoi | 41 | 49 |
| VCG | VIET NAM CONSTRU | Industrials | 350 | - | Hanoi | 46 | 49 |
| PVX | PETROVIETNAM CONSTRUCTION | Energy | 269 | 4,744 | Hanoi | 44 | 49 |
| PVS | PETROVIETNAM TECHNICAL SERVICE | Energy | 267 | 200 | Hanoi | 34 | 49 |
| SHB | SHB BANK | Financials | 169 | 233 | Hanoi | 29 | 30 |
| PVI | PETROVIETNAM INS | Financials | 143 | 91 | Hanoi | 25 | 49 |
| KLS | KIM LONG SECURIT | Financials | 132 | 1,982 | Hanoi | 43 | 49 |
| OCH | OCEAN HOSPITALIT | Consumer Discretionary | 129 | - | Hanoi | 49 | 49 |
| NVB | NAVI BANK | Financials | 95 | - | Hanoi | 30 | 30 |

Source: HSBC

Market rules

- ▶ Trading rules in Vietnam are not more restrictive than other Asian markets
- ▶ The real constraint comes from currency and stock illiquidity
- ▶ Market reform is underway to alleviate such problems

Real restrictions are not the official rules

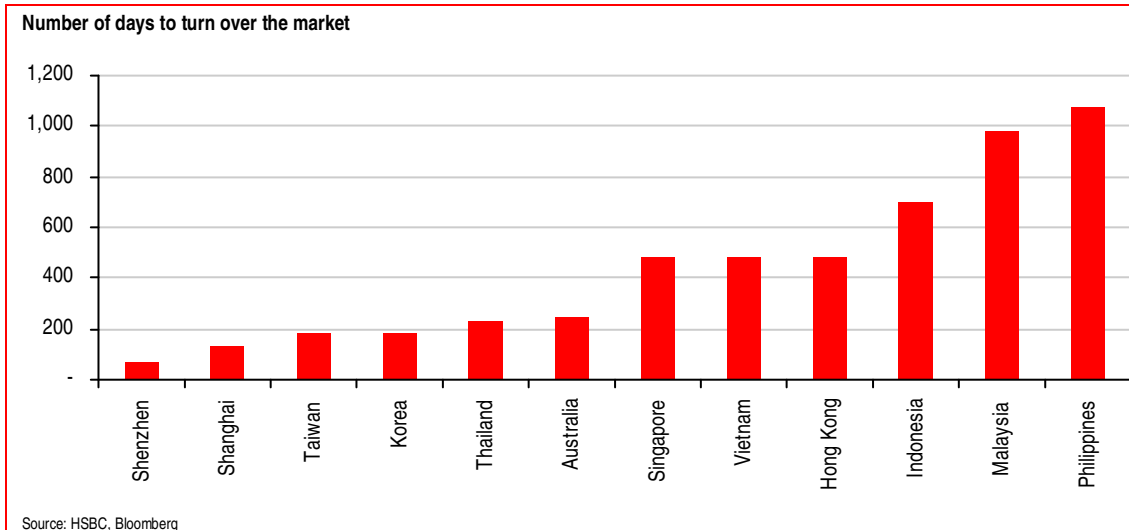
The market rules in Vietnam are only as restrictive as in other developing markets. We list the main points below:

- ▶ Trading hours: 8:30-11am
- ▶ Lot size: 10 shares
- ▶ Trading band: +/- 5% from previous day's closing price, +/- 10% for Upcom and +/- 20% for newly listed stocks on the first day
- ▶ Settlement period: T+3
- ▶ Foreign ownership limit: 49% generally, 30% for banks. A few exceptions to this rule include those companies that the state still holds a stake greater than 51%, leaving less room for foreign investors
- ▶ Tax: 0.1% on the trading value at the time of the sale. No dividend tax for institutional investors
- ▶ Short selling: Not allowed
- ▶ Same day trade: Not allowed

For more details of the rules, please refer to the Appendix.

There are no explicit capital controls in Vietnam. However, the country has a managed currency regime, which makes things difficult. (Please see the Foreign Currency section for details.) Equity investors normally do not face any problem buying VND to purchase equities. However, problems arise when they try to repatriate their proceeds from equity sales. Given that VND is constantly under pressure to depreciate, people usually hoard their USD. As a result, the onshore market's daily USD/VND turnover is only around USD20m. In other words, it could take equity investors a number of days to get out of a VND position to repatriate proceeds.

The other difficulty that investors run into is the illiquidity of the equity market. The combined three-month daily average turnover for the Ho Chi Minh and Hanoi exchanges is roughly USD75mn. Given the total market cap of the two exchanges is USD33bn, it takes about 471 days to turn over the market once. This might not look too bad at first glance, as it is about the same pace as Singapore and Hong Kong (see chart on the next page). However, the Vietnamese market is characterised by the high participation of local retail investors who tend to turn around the smaller caps rapidly. For the large caps that foreign investors might be interested in, the turnover takes a lot longer. If we isolate the top 20 stocks from the rest, it takes



1,488 days to turn over the total market cap of these 20 large stocks once while it only takes 224 days for the rest of the companies.

Opening an account

Investors need to obtain a trading code and set up a capital contribution account to trade Vietnamese equities. Local custodian banks can take care of most of the work once the investor has provided the supporting documents. These documents include securities trading code application forms, power of attorney to the custodian bank and company registration. We include a full list of required documents in the Appendix. An application usually takes 10 working days once the investor has provided all the documents required. The leading custodian banks in Vietnam include Deutsche Bank, Citibank, Standard Chartered Bank, Far East National Bank and Bank for Investment and Development of Vietnam (BIDV).

Market reforms

The regulator in Vietnam is constantly reviewing market rules to see how it can match international standards. Reforms mainly target the two issues – currency and liquidity – mentioned above. Currently, the reform plans being considered include reducing settlement time from T+3 to T+2, extending trading hours into the afternoon and increasing the foreign ownership limit in non-strategic sectors.

Investment options

- ▶ The most direct way to get exposure to Vietnam is to buy Vietnamese stocks
- ▶ More aggressive investors can buy unlisted public companies
- ▶ Passive investors can buy Vietnamese funds

There are numerous ways to invest in Vietnam. Each provides different convenience but also comes with certain risks. In this section, we explore these options one by one.

Onshore Vietnamese stocks

There are 606 listed stocks in Vietnam with 262 stocks listed on the Ho Chi Minh Exchange and 346 listed on the Hanoi Exchange.

Investors need to set up trading accounts to purchase stock in Vietnam. Custodian banks onshore can help with the process. Once the documentation, such as the trading code application forms, power of attorney to authorise the custodian to act and business registration are ready, it takes about 10 days for the Vietnam Securities Depository to grant the trading code to successful applicants.

Advantage: Once a proper trading account is set up, investors can trade quite freely.

Disadvantage: Illiquidity and transparency can be problematic. We recommend investors stick to large cap stocks.

We list the top 10 stocks by market capitalisation in the table below. More details of each company in the Appendix.

Offshore Vietnamese stocks

There are a few Vietnamese stocks listed overseas. These are mainly furniture companies, auto parts manufacturers and investment companies.

Advantage: Buying offshore Vietnamese stocks can circumvent the account opening process and avoid currency risk.

Top 10 largest listed Vietnamese stocks

| Ticker | Name | Sector | Mkt cap (USDmn) | Daily turnover (USD k) | Exchange | Turnover ratio | Unused foreign quota (%) | Foreign quota (%) |
|--------|----------------------------|------------------|-----------------|------------------------|----------|----------------|--------------------------|-------------------|
| VCB | JSC BANK FOR FOREIGN TRADE | Financials | 2,374 | 268 | HCM | 8,872 | 6 | 9 |
| BVH | BAOVIET HOLDINGS | Financials | 2,112 | 507 | HCM | 4,166 | 25 | 49 |
| VNM | VIET NAM DAIRY | Consumer Staples | 1,603 | 244 | HCM | 6,553 | - | 46 |
| CTG | VIETIN BANK | Financials | 1,471 | 186 | HCM | 7,889 | 10 | 11 |
| MSN | MASAN GROUP | Consumer Staples | 1,394 | 93 | HCM | 14,948 | 31 | 49 |
| VIC | VINCOM JSC | Financials | 1,209 | 488 | HCM | 2,475 | 22 | 29 |
| HAG | HAGL JSC | Financials | 1,176 | 1,321 | HCM | 890 | 14 | 49 |
| ACB | ASIA COMMERCIAL BANK | Financials | 1,082 | 381 | Hanoi | 2,841 | - | 30 |
| EIB | VIETNAM EXPORT-IMPORT BANK | Financials | 758 | 591 | HCM | 1,282 | - | 30 |
| STB | SACOMBANK | Financials | 724 | 1,019 | HCM | 710 | - | 30 |

Source: HSBC, Bloomberg

Overseas listed Vietnamese companies

| Tickers | Name | Mkt cap (USDmn) | 3m avg daily turnover (USD) | Exchange | Currency | Sector | Industry |
|----------------|--------------------------------|-----------------|-----------------------------|-----------|----------|-----------------|----------------------|
| 422 HK Equity | VIETNAM MANUFACTURING & EXPORT | 264 | 303,375 | Hong Kong | HKD | C Discretionary | Automobiles & Parts |
| LATI SP Equity | LATITUDE TREE INTERNATIONAL | 54 | 17,770 | Singapore | SGD | C Discretionary | Household Goods |
| LATI TH Equity | LATITUDE TREE INTERNATIONAL | | | Tradegate | EUR | C Discretionary | Household Goods |
| TRTH US Equity | TRAI THIEN USA INC | 11 | 865 | OTC BB | USD | Financials | Investment Companies |
| 4V2 GR Equity | VIETNAM MANUFACTURING & EXPORT | | 47 | Berlin | EUR | C Discretionary | Automobiles & Parts |
| BBVF US Equity | BBV VIETNAM S.E.A. ACQUISITION | | 220 | OTC US | USD | Financials | Financial Services |
| 9110 TW Equity | VIETNAM MANUFACTURING-TDR | 250 | 1,844,035 | Taiwan | TWD | C Discretionary | Automobiles & Parts |

Source: HSBC, Bloomberg

Disadvantage: Market capitalisations for these stocks are low and they have very little trading activity. We do not believe investing in these stocks is an effective way to gain exposure to Vietnam.

A list of overseas-listed Vietnamese stocks can be found in the table above.

Vietnamese Funds

There are 123 Vietnamese funds worldwide with 5 traded locally in Vietnam and the rest traded in Europe, the US and various Asian markets like Korea. Dragon Capital, Saigon Securities, Bao Viet, Prudential, Manulife, Vinacapital, Indochina Capital and Mekong Capital are the key fund managers in Vietnam.

Advantage: Buying listed funds is the probably the easiest way to invest in Vietnam. The liquidity of these funds improved markedly in the past months. For the 48 funds that have data available, the aggregated average daily traded value in the

past 3 months have increased 17% compared to the average daily traded value in the past 6 months. These funds also offer expertise in investment management and local insights.

Investors can also avoid the currency risks and account opening process since many of these shares trade on foreign exchanges.

Disadvantage: Investors need to pay management fees (usually 0.5 – 3%) and these funds are trading at a discount to net asset value because of low turnover.

We have included a list of Vietnamese funds on below and a full list of listed funds in the Appendix.

Top 10 Upcom stocks

| Ticker | Name | Industry | Mkt cap (USDmn) | 3m avg daily turnover(USD) |
|--------|------------------------------|----------------------------|-----------------|----------------------------|
| NT2 | PETROVIETNAM NHON TRACH 2 PO | Electric | 128 | 2,721 |
| PFV | PFV INVESTMENT AND TRADING | Real Estate | 105 | - |
| CHP | CENTRAL HYDROPOWER JSC | Energy-Alternate Sources | 25 | 9,264 |
| PSB | SAO MAI-BEN DINH PETROLEUM | Oil & Gas Services | 24 | 31,486 |
| SHP | SOUTHERN HYDROPOWER JSC | Engineering & Construction | 23 | - |
| SMB | SAI GON - MIEN TRUNG BEER JS | Beverages | 22 | - |
| HIG | HIPT GROUP | Computers | 17 | 13,593 |
| PDN | DONG NAI PORT JSC | Transportation | 16 | 1,105 |
| ABI | AGRICULTURE BANK INSURANCE B | Insurance | 14 | 1,831 |
| SPC | SAI GON PLANT PROTECTION JSC | Chemicals | 14 | - |

Source: HSBC, Bloomberg

Top 10 most liquid Vietnamese funds

| Ticker | Name | Inception date | Market cap (USD mn) | Currency | Exchange | Fund type | Fund house | Avg daily trading value (USD mn, Jul - Sep, 2010) | Avg daily trading value (USD mn, Sep - Nov, 2010) | Increase |
|-----------|-----------------------------|----------------|---------------------|----------|---------------|------------------|---------------------------------|---|---|----------|
| VNM US | MARKET VECTORS VIETNAM ETF | 08/14/09 | 184 | USD | NYSE Euronext | ETF | Market Vectors Vietnam ETF | 1.47 | 2.22 | 50% |
| VOF LN | VINACAPITAL VIETNAM | 09/30/03 | 600 | USD | London | Investment Trust | Vinacapital Vietnam Opportunity | 0.82 | 2.28 | 177% |
| 3087 HK | DB X-TRACKERS FTSE VIETNAM | 07/08/09 | 262 | HKD | Hong Kong | ETF | FTSE VIETNAM E | 0.25 | 1.09 | 345% |
| XFVT SP | DB X-TRACKERS FTSE VIETNAM | 02/19/08 | 257 | USD | Singapore | ETF | FTSE VIETNAM E | 0.64 | 0.80 | 24% |
| VNL LN | VINALAND LTD | 03/21/06 | 454 | USD | London | Investment Trust | Vinaland Ltd | 0.28 | 0.67 | 138% |
| XFVT IM | DB X-TRACKERS FTSE VIETNAM | 03/14/08 | 257 | EUR | Brsaltaliana | ETF | FTSE VIETNAM E | 0.30 | 0.55 | 82% |
| VNI LN | VIETNAM INFRASTRUCTURE LTD | 07/04/07 | 159 | USD | London | Closed-End Fund | Vietnam Infrastructure Ltd | 0.22 | 0.21 | -5% |
| VFMVF1 VN | VIETNAM SEC INVESTMENT FUND | 11/08/04 | 56 | VND | Ho Chi Minh | Closed-End Fund | Vietnam Securities Investment | 0.13 | 0.12 | -7% |
| XVTD LN | DB X-TRACKERS FTSE VIETNAM | 02/08/08 | 257 | USD | London | ETF | FTSE VIETNAM E | 0.17 | 0.14 | -17% |
| JSM LN | JSM INDOCHINA LTD | 06/29/07 | 64 | USD | London | Closed-End Fund | JSM Indochina Ltd | 0.12 | 0.19 | 57% |

Source: HSBC, Bloomberg

Upcom

Private equities investors have been trading over-the-counter (OTC) securities in Vietnam. But these trades are largely unregulated and the securities are not subject to disclosure requirements and listing rules. Price, volume and trading information are not publicly available. The only way to get involved in these trades would be to contact a local broker to identify counterparties.

In an attempt to facilitate these OTC trades in a more orderly fashion, Hanoi Stock Exchange has established a special trading platform called Upcom for unlisted public companies. The Upcom board has 102 privatised but unlisted companies, of which 65 have been traded in the past three months. These are privatised SOEs or unlisted companies who have not met the listing requirements like profitability or could not get a satisfactory listing price yet.

In order to trade Upcom or OTC, investors need to set up a dedicated capital contribution account.

The account set up process and time required are similar for listed shares, and custodian banks onshore can help with getting the registration approval. The top three leading brokers for Upcom trades are Asian Pacific Securities JSC (22% of total Upcom trade volume), SME Securities Corporation (10%) and Viet Dragon Securities Corporation (8%).

Advantage: Investors can potentially earn higher returns on these stocks because the price is subject to a wider price collar of +/-10%. If the stock has not had any trading activity for the past 25 days, the price limit is no longer applicable. The new price will be determined based on negotiation between buyer and seller.

These unlisted companies are not subject to the foreign ownership limit, which is mostly 49%, except for some strategic sectors like oil & gas and fertilizers.

Disadvantage: Upcom securities are even less liquid than listed stocks. Transparency of these

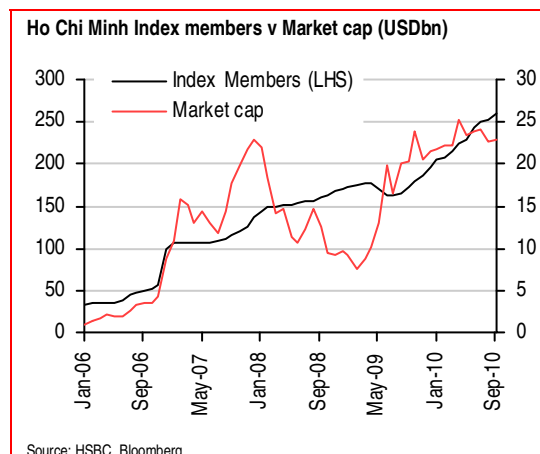
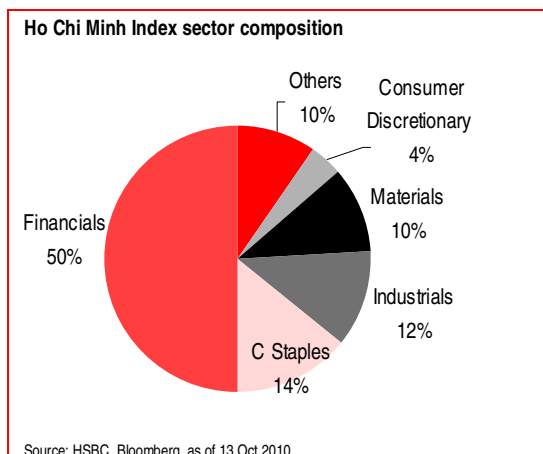
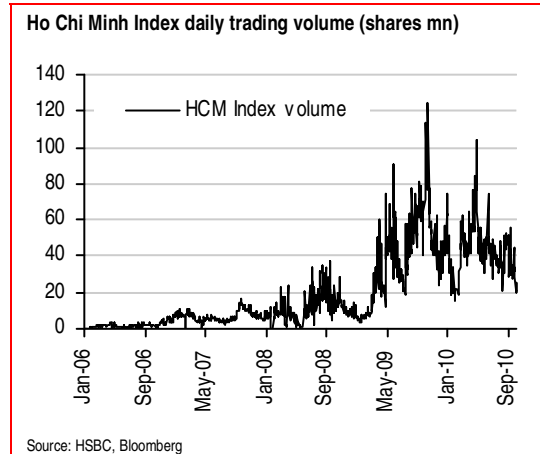
unlisted companies is poor and thus investors are taking significantly more risk. While there are Upcom stocks successfully listed, namely Viet Dragon Securities JSC, Apec Investment and Hanoi Beer Trading JSC, Asian Pacific Securities, SME Securities, the timing for when other Upcom stocks will be listed is unclear.

We present a list of the 10 largest Upcom stocks in the table above and a full list of all 102 Upcom stocks in the Appendix.

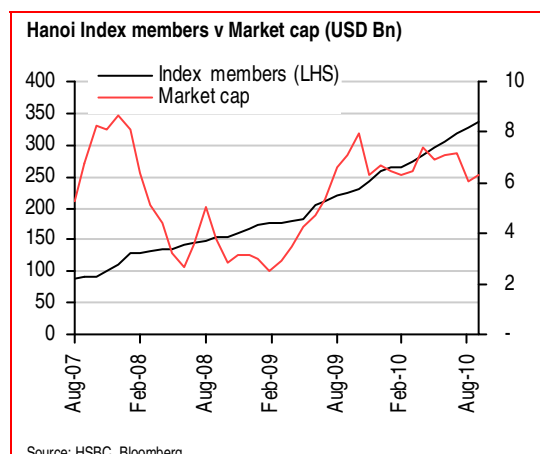
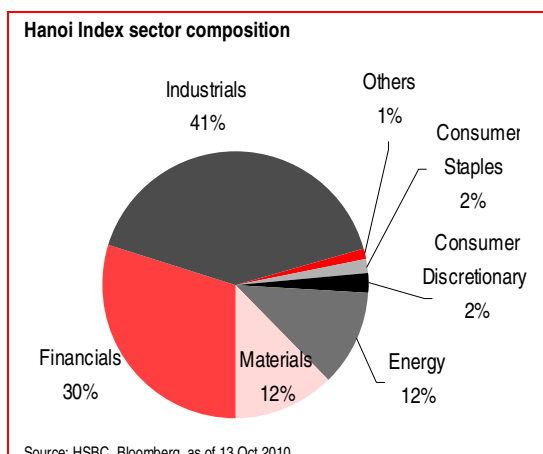
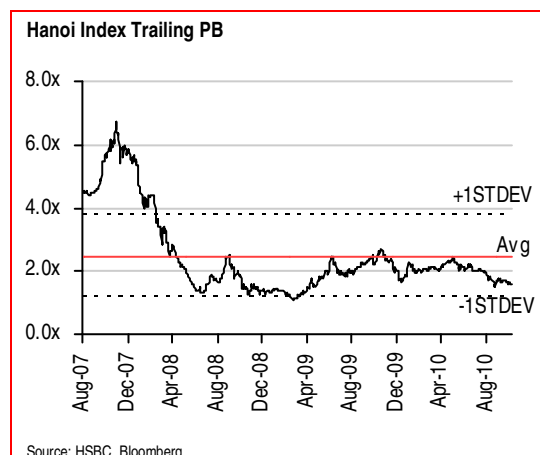
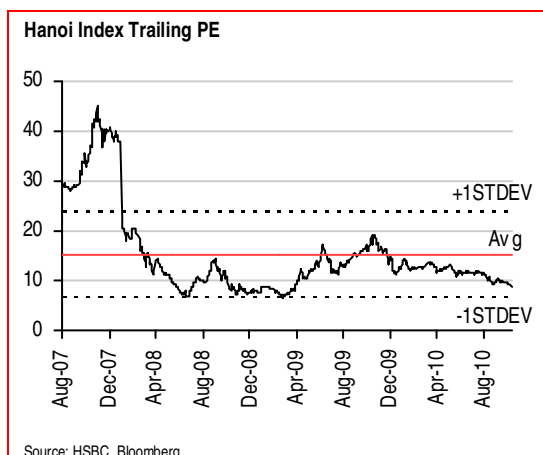
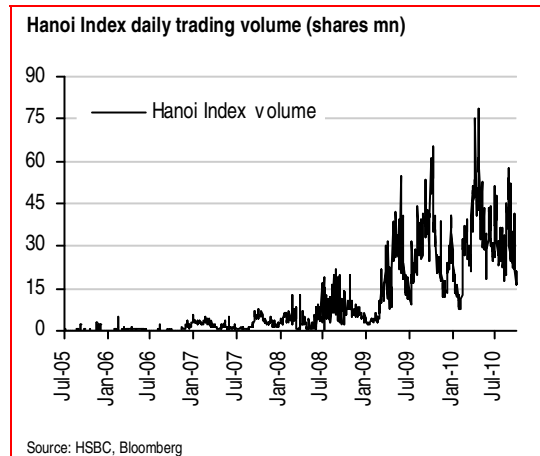
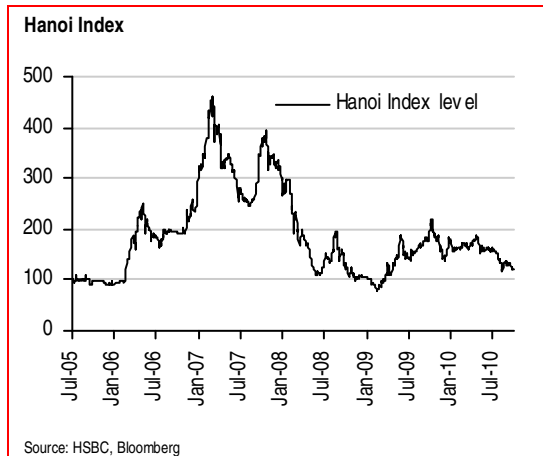
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Appendix

Ho Chi Minh Index



Hanoi Index



Foreign ownership of Vietnam equity market as of 18 Oct 2010

| Sector | Ho Chi Minh | | Hanoi | | Total | |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | % allowed | % owned | % allowed | % owned | % allowed | % owned |
| Financials | 33.9 | 16.8 | 38.9 | 17.9 | 34.7 | 17.0 |
| Consumer Staples | 47.8 | 29.0 | 49.0 | 16.2 | 47.9 | 28.4 |
| Industrials | 49.0 | 16.8 | 49.0 | 5.6 | 49.0 | 11.8 |
| Health Care | 49.0 | 31.8 | 49.0 | 4.0 | 49.0 | 29.2 |
| Materials | 49.0 | 18.5 | 49.0 | 3.1 | 49.0 | 17.2 |
| Energy | 49.0 | 21.7 | 49.0 | 10.3 | 49.0 | 17.1 |
| Consumer Discretionary | 49.0 | 15.5 | 49.0 | 3.9 | 49.0 | 12.5 |
| Information Technology | 49.0 | 35.9 | 49.0 | 1.8 | 49.0 | 28.9 |
| Utilities | 49.0 | 10.2 | 49.0 | 6.6 | 49.0 | 10.1 |
| Total | 41.2 | 19.7 | 45.1 | 10.8 | 42.0 | 18.0 |

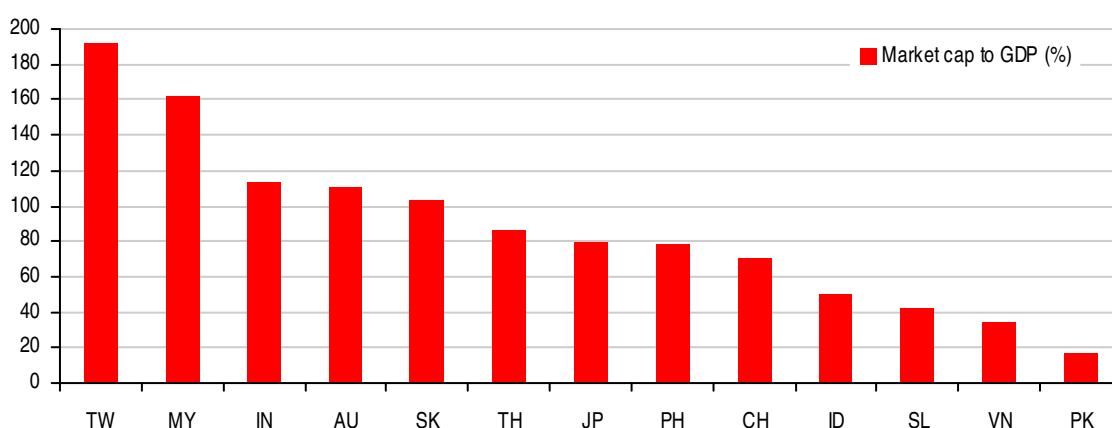
Source: HSBC

Top 10 largest listed Vietnamese stocks

| Ticker | Name | Sector | Mkt cap (USDmn) | Daily turnover (USD k) | Exchange | Turnover ratio | Unused foreign quota (%) | Foreign quota (%) |
|--------|----------------------------|------------------|-----------------|------------------------|----------|----------------|--------------------------|-------------------|
| VCB | JSC BANK FOR FOREIGN TRADE | Financials | 2,374 | 268 | HCM | 8,872 | 6 | 9 |
| BVH | BAOVIET HOLDINGS | Financials | 2,112 | 507 | HCM | 4,166 | 25 | 49 |
| VNM | VIET NAM DAIRY | Consumer Staples | 1,603 | 244 | HCM | 6,553 | - | 46 |
| CTG | VIETIN BANK | Financials | 1,471 | 186 | HCM | 7,889 | 10 | 11 |
| MSN | MASAN GROUP | Consumer Staples | 1,394 | 93 | HCM | 14,948 | 31 | 49 |
| VIC | VINCOM JSC | Financials | 1,209 | 488 | HCM | 2,475 | 22 | 29 |
| HAG | HAGL JSC | Financials | 1,176 | 1,321 | HCM | 890 | 14 | 49 |
| ACB | ASIA COMMERCIAL BANK | Financials | 1,082 | 381 | Hanoi | 2,841 | - | 30 |
| EIB | VIETNAM EXPORT-IMPORT BANK | Financials | 758 | 591 | HCM | 1,282 | - | 30 |
| STB | SACOMBANK | Financials | 724 | 1,019 | HCM | 710 | - | 30 |

Source: HSBC, Bloomberg, as of November 5, 2010

Market cap to GDP ratio – Asian markets



Source: HSBC, CEIC, Bloomberg

Market Rules

Ho Chi Minh Exchange Market Rules

| | |
|--|---|
| Abbreviation | (HOSE) |
| Reuters | VNI |
| Bloomberg | VNINDEX |
| Website | http://www.hsx.vn |
| Boards | Main board only (HSX) |
| Trading days | Monday - Friday |
| Trading Currency | Vietnam Dong (VND) |
| Trading holidays | <ul style="list-style-type: none"> ▶ January 1st - New Year ▶ Jan - Feb - Vietnamese New Year (last day of the last lunar month to the third day of the first lunar month inclusive) ▶ April - King Hung Commemorations (10th day of the 3rd lunar month) ▶ April 30 - Liberation day ▶ May 1 - Labour day ▶ September 2 - National Holiday |
| Session Timings | <p>HOSE (no bonds on HSX)</p> <ul style="list-style-type: none"> ▶ Session 1: 08:30am -08:45am (Periodic OM Open) ▶ Session 2: 08:45am -10:30am (Continuous OM) ▶ Session 3: 10:30am - 10:45am (Periodic OM Close) ▶ Session 4: 08:30am -11:00am (Put -through) <p>Session 1,2,3 are for order matching (OM). Matching in session 1 and 3 is done at the end of each session (periodic) while Session 2 matching is continuous throughout the session and follows the Price-Time-Quantity (PTQ) priority principle A put-through transaction (PT) or cross transaction is the matching of orders (buy and sell) directly with another market participant, in case of block trading and putting through the exchange system. The counter party for the PT transaction can be searched.</p> |
| Trading level | The trading is at the account level, according to the acquired trading code from The Vietnam Depository Centre and the broker assigned code. |
| Open/Close protocol | <ul style="list-style-type: none"> ▶ Open: Closing price of the previous day is the reference for the first session. It is the matching price of the first session. ▶ Close :Matching price of the third session |
| Trading band | Equities : +/- 5% trading band (referencing from previous day's closing price) and for a newly listed ticker the band is +/- 20% |
| Trading method | Order Driven |
| Board lot | Equities - 10 shares for OM, none for PT |
| Odd-lots | Odd lots may be kept, sold in a PT transaction or sold to the broker |
| Order | |
| Matching volume protocol | Equities - Minimum of 10 shares per transaction and maximum of 19,990 shares per transaction |
| Put through volume protocol | Equities - Minimum of 20,000 shares per transaction and it is unlimited |
| Quote Unit | In Order Matching for Less than or equal to 49,900 it is 100 VND, 50,000 to less than 100,000 it is 500 VND and greater than or equal to 100,000 it is 1000 VND. |
| Order types and Validity (not applicable to PT transaction) | <ul style="list-style-type: none"> ▶ LO: Limit order, valid the entire day. ▶ ATO: Market order valid in the first session only, priority over LO ▶ ATC: Market order valid in the 3rd session only priority over LO |
| Amending and Cancelling orders (not applicable to PT transaction) | <ul style="list-style-type: none"> ▶ Session1: Cannot cancel any order. The unmatched portion of any ATO order is automatically cancelled at the end. ▶ Session 2: The unmatched portion of any ATO order can be cancelled any time ▶ Session 3: Can only cancel limit orders placed in the previous sessions. ▶ Session 4: The unmatched portion of any Electronic PT order can be cancelled any time |
| Matching Principle (not applicable to PT transaction) | <p>LO bids at higher or equal prices to ask prices are matched against each other following the Price-Time-Quantity (PTQ) principle. Partial fills are possible ATO and ATC orders are matched at the end of their sessions.</p> |
| Matching Priority (not applicable to PT transaction) | <ul style="list-style-type: none"> ▶ #1 - Price priority: priority to highest price bids or lowest asks. ▶ #2 - Time priority: for orders at same price, priority to orders that came first. ▶ #3 - Quantity priority: for orders at same price and time, priority is given to orders with highest quantity of shares. |
| Settlement | T+3 days. If transacting over 100,000 (through PT) then T+1 Note: money/securities received on settlement day can only be used the day after. |
| Payment mode | Automatically transferring between clients' accounts at securities companies or custodian banks and BIDV (HSX's and HNX's payment clearance bank) |

Source: Exchange website

Hanoi Exchange Market Rules

| | |
|--|--|
| Abbreviation | (HNX) |
| Reuters | HNX1 |
| Bloomberg | VHINDEX |
| Website | http://www.hnx.vn |
| Board | Main board (HNX) & OTC board (Upcom) & Special Bond Trading Platform |
| Trading days | Monday - Friday |
| Trading Currency | Vietnam Dong (VND) |
| Trading holidays | <ul style="list-style-type: none"> ▶ January 1st - New Year ▶ Jan - Feb - Vietnamese New Year (last day of the last lunar month to the third day of the first lunar month inclusively) ▶ April - King Hung Commemorations (10th day of the 3rd lunar month) ▶ April 30 - Liberation day ▶ May 1 - Labour day ▶ September 2 - National Holiday |
| Session Timings | <ul style="list-style-type: none"> ▶ HNX Equities Session 1: 08:30am - 11:00am (Continuous OM & PT) <ul style="list-style-type: none"> ▶ UpCom: Equities Session 1: 10:00am - 11:30am Session 2: 13:30pm - 15:00pm HNX has only one session for equities with continuous order matching or put-through (PT) transactions. Only OM orders are accepted on the first day of newly listed stocks. HNX has only one session for Outright and Repo transactions through the PT transactions. A PT transaction can be either Normal or electronic which is an advertisement for an available bond on the board. UpCom has two sessions with PT only where trades are matched through PT only and brokers intermediate the transactions based on the price and volumes announced by the board. |
| Trading level | The trading is at the account level, according to the acquired trading code from The Vietnam Depository Centre and the broker assigned code. |
| Open/Close protocol | HNX and UpCom <ul style="list-style-type: none"> ▶ Open: Reference Price of a stock is the weighed average of all executed prices by continuous order matching method of the previous trading day. ▶ Close: The last trade's match price (this will not be the reference price for next day's trading) |
| Trading band | (a) HNX Equities: +/- 7% trading band (referencing from opening price). Collar is not applied in the first trading day of a newly listed stock and for re-trading stock after the trading suspension for over 25 sessions (b) UpCom: + 10% trading band (referencing from opening price) and no band for newly listed ticker |
| Trading method | The transaction of all listed stocks at Hanoi Stock Exchange is organized via the trading system by two methods: - Continuous order matching is the method implemented on the basis of matching buy orders with sell orders right after being put into the trading system. - Negotiation is the method whereby members negotiate with each other on the transaction conditions, then the trading result will be placed into the trading system by member representatives for trade confirmation. |
| Board lot | (a) HNX Equities: 100 shares for OM, none for PT (b) UpCom: No board lot but a minimum of 10 shares must be traded |
| Odd-lots | Odd lots may be kept, sold in a PT transaction or sold to the broker |
| Order | |
| Matching volume protocol | (a) HNX Equities: Minimum of 100 shares per transaction and it is unlimited (b) UpCom: Minimum of 10 shares per transaction and it is unlimited |
| Put through volume protocol | (a) HNX Equities: Minimum of 5,000 shares per transaction and it is unlimited (b) UpCom: Minimum of 10 shares per transaction and it is unlimited |
| Quote Unit | Quote unit for stocks is VND 100. There is no quote unit in negotiation method. |
| Order types and Validity (not applicable to PT transaction) | (a) HNX Equities: LO: Limit order, valid the entire day. (b) UpCom: LO: Limit order, valid the entire day. |
| Amending and Cancelling orders (not applicable to PT transaction) | (a) HNX Equities: The unmatched portion of any OM order and Electronic PT can be cancelled any time (b) UpCom: All sessions - The unmatched portion of any Electronic PT order can be cancelled any time |
| Matching Principle (not applicable to PT transaction) | (a) HNX Equities: Lo bids at higher or equal prices to ask prices are matched against each other following the Price-Time-Quantity PTQ principle. Partial fills are possible (b) UpCom: Only LO orders of the same price and volume are matched. Orders cannot be partially filled. |
| Matching Priority (not applicable to PT transaction) | <ul style="list-style-type: none"> ▶ #1 - Price priority: priority to highest price bids or lowest asks. ▶ #2 - Time priority: for orders at same price, priority to orders that came first. ▶ #3 - Quantity priority: for orders at same price and time, priority is given to orders with highest quantity of shares. |
| Settlement | (a) HNX Equities: T+3 days. If transacting over 100,000 (through PT) choice of T+1, 2 or 3. (b) UpCom :T+3 Note: money/securities received on settlement day can only be used the day after. |
| Payment mode | Automatically transferring between clients' accounts at securities companies or custodian banks and BIDV (HSX's and HNX's payment clearance bank) |

Source: Exchange website

Listing rules

Instructions on Listing Registration Procedures

| | HOSE | Hanoi |
|----------------------------|---|--|
| Admission criteria | <ul style="list-style-type: none"> ▶ The applicant company must have a minimum book value of VND80 billion for the last two consecutive years and no accumulated losses up to the year of listing. ▶ Overdue debt must be earmarked for payment from existing reserves and disclosures should be made regarding debts owed. ▶ At least 20% of the voting shares of the applicant company must be held by at least 100 shareholders. ▶ Any shareholder who is an executive should not sell any shares for 6 months after listing and sell no more than 50% of its shares in the following 6 months ▶ The applicant company should submit a completed application file thereafter. | <ul style="list-style-type: none"> ▶ The applicant company must have a minimum book value of VND10 billion in the year preceding the date of application. ▶ No debts more than a year overdue should exist and all financial obligations to the State must have been discharged. ▶ At least 100 shareholders must own voting shares of the applicant company. |
| Approval time | <ul style="list-style-type: none"> ▶ Within 30 days of submitting the application, HOSE is required to issue its decision. ▶ If there is any material change, the applicant has to resubmit the application. | <ul style="list-style-type: none"> ▶ Optimistically within 10 days of submitting the application HNX is required to issue its decision. |
| Quotation | <ul style="list-style-type: none"> ▶ Once the listing is approved by the respective exchanges, offering should be completed within 90 days of the approval date. ▶ The notice of approval should be made public within 5 working days from the date of approval. ▶ The service fees must be paid to the exchange within 5 working days from the approval date ▶ The shareholder register must be submitted to the respective exchanges. ▶ A letter confirming the first day of trading should be sent to the respective exchanges. | |
| Pricing and Trading | <ul style="list-style-type: none"> ▶ The applicant company will determine and announce the offer price which will be the reference price of first day of trading. ▶ The transaction price must not be more than or less than 20% of the reference price on the first day | <ul style="list-style-type: none"> ▶ No such minimum or maximum price is applicable on the first trading day |

Source: Exchange website

Market regulators in Vietnam

Regulatory bodies in Vietnam

| Regulators | Function |
|--|--|
| Ministry of Finance | A principal agency for setting policies and overall monitoring and supervision of equities market. |
| State Securities Commission | Responsible for day to day monitoring and granting licenses and overseas operations of HOSE and HASTC. |
| State Bank of Vietnam | Responsible for setting monetary and forex policy. |
| Department of Planning and Investments | A principal business licensing body. |

Source: Exchange website

Supporting documents for trading account setup

- 1 Securities Trading Code Application Form
- 2 Power of Attorney to the custodian bank
- 3 Identification Document to prove the legal status of the investor. Different types of investors are subject to different identification documents as follow:

Trading account setup

| No | Types | Identification Documents |
|----|--|---|
| 1 | Investment Fund | <ul style="list-style-type: none"> ▶ Certificate of Incorporation or equivalent documents proving the legal basis of the foundation issued by relevant authorized regulator where the FII domiciles; or ▶ Regulator's web-based page which shows information of FII or ▶ Tax Registration Certificate where the fund is domiciled; or ▶ Prospectus/ Trust Deed/ Memorandum for private placement/ Establishment Contract and approval/acknowledgement letter from the authorized authority. |
| 2 | Hedge Fund | <ul style="list-style-type: none"> ▶ In addition to the documents required in No. 1, the investor has to supply one of the following documents: ▶ Articles of Incorporation and other document(s) on the detailed investment strategies of the investor; or ▶ Memorandum for private placement/Establishment Contract and other document(s) on the detailed investment strategies of the investor. |
| 3 | <ul style="list-style-type: none"> ▶ Commercial/ Merchant Fund ▶ Investment Bank ▶ Insurance Company ▶ Broker firm/ Futures Commission Merchant ▶ Fund (Asset) Management Company ▶ Others (FI, Ltd., Plc, etc.) | <ul style="list-style-type: none"> ▶ Certificate of Incorporation / Certificate for Business Registration / License on Establishment for institutions or equivalent documents issued by relevant authorized regulator where the institution domiciles; or ▶ Tax registration/certificate issued by the tax authority where the institution domiciles; or ▶ Memorandum of Association and Articles of Association and approval/acknowledgement letter from the authorized authority; |

Source: HSBC

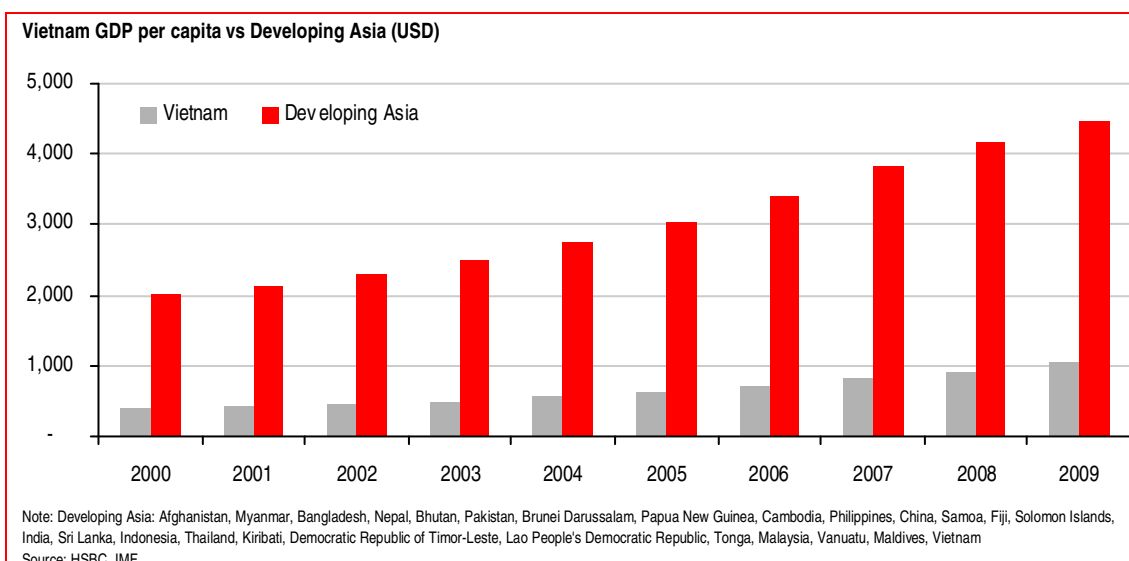
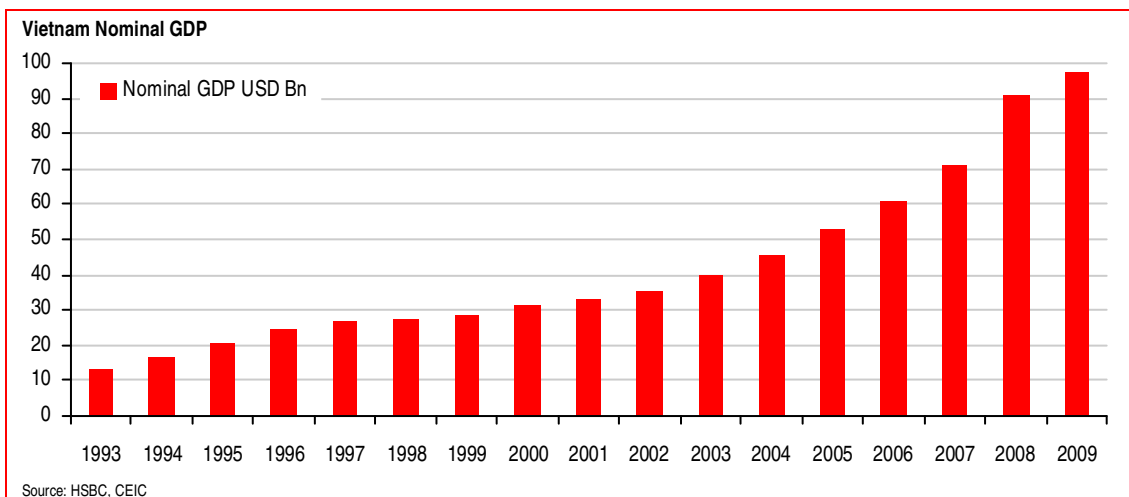
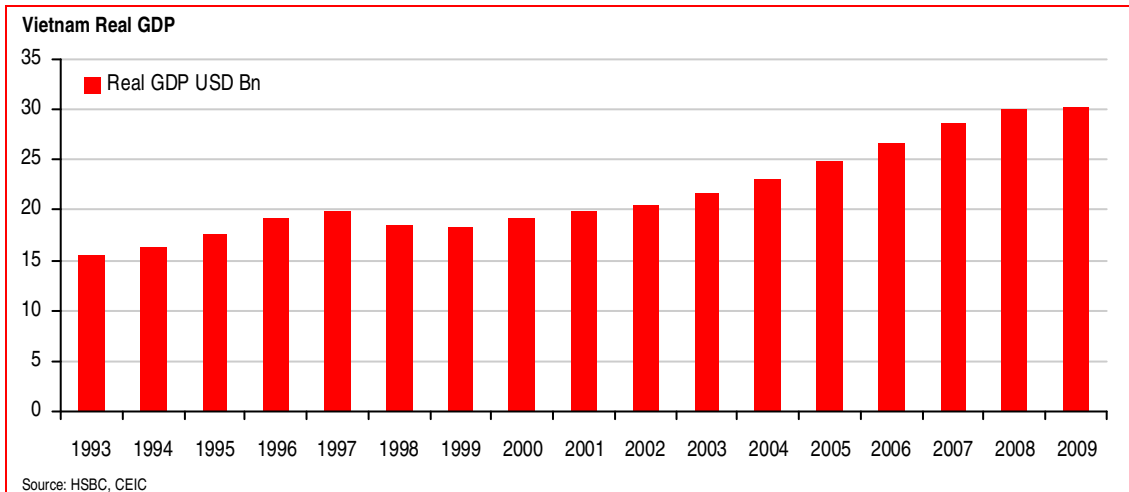
Please note that the above documents are required to be notarised by and consularised by a Vietnamese Embassy or Consulate. The notarisation and consularisation guidelines are as follow:

Notarisation and consularisation guidelines

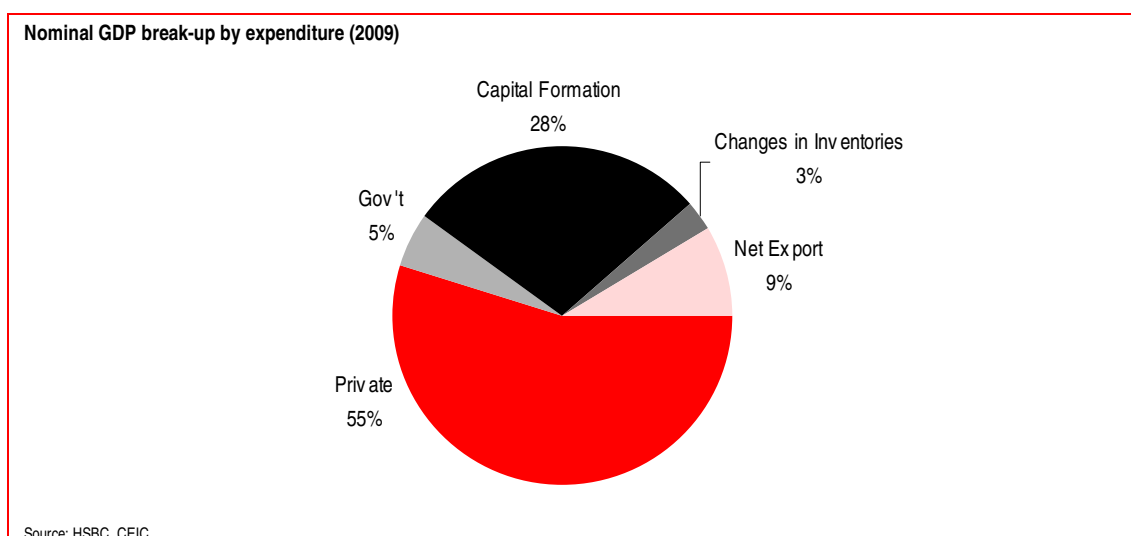
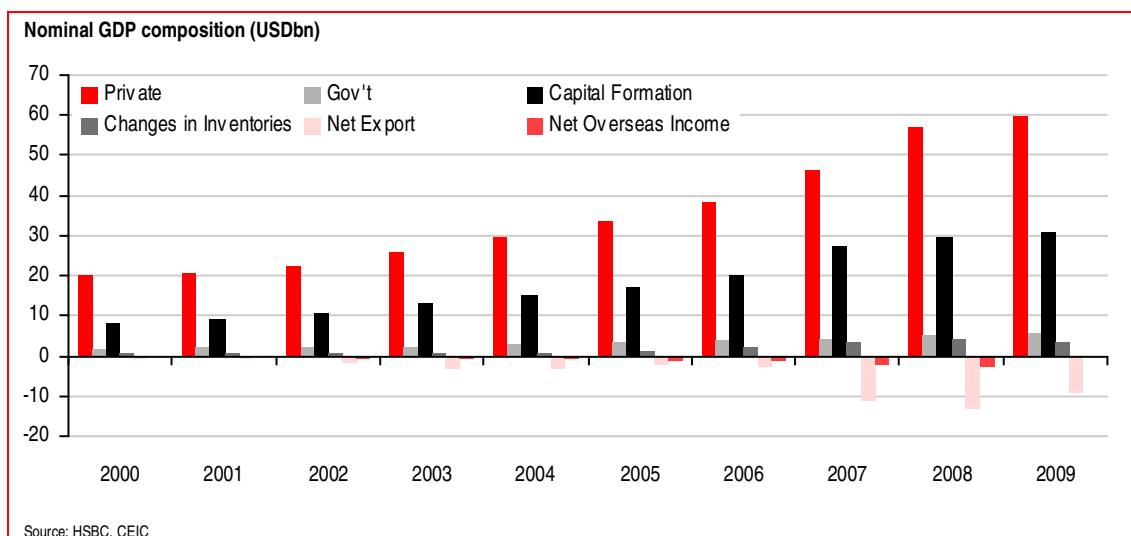
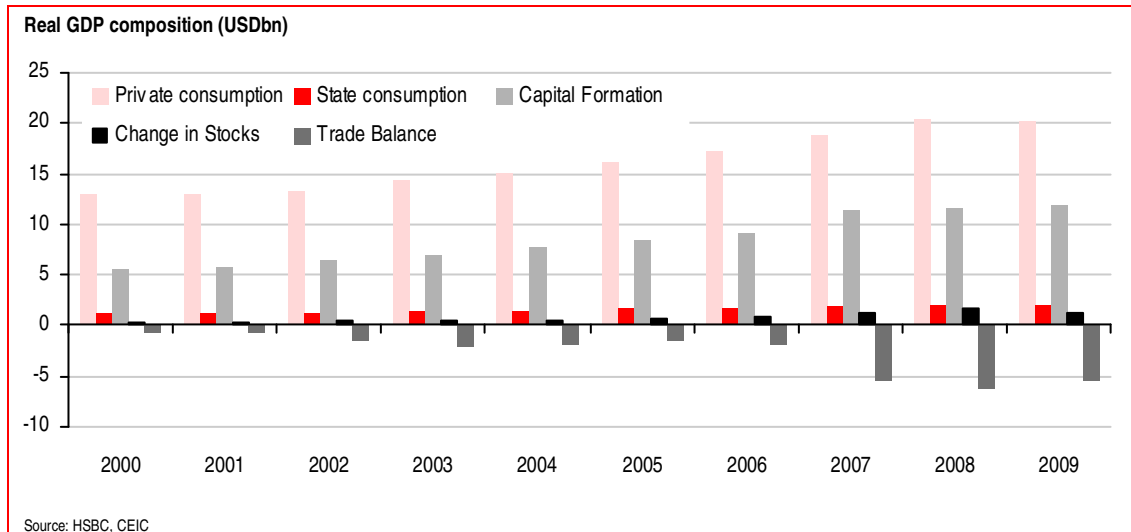
| Country of Domicile | Notarised by | Consularised at |
|------------------------|--|-----------------------|
| Cayman Islands | | |
| Bermuda | UK Embassy/Consulate in any country where Vietnamese Embassy/Consulate present | VN Embassy/Consulate |
| British Virgin Islands | | |
| Mauritius | | |
| Cook Islands (CI) | Notarised by CI's Notary and verified by New Zealand's Notary/ Ministry of Foreign Affairs | VN Embassy in NZ |
| Luxembourg | Public Notary & Ministry of Foreign Affairs | VN Embassy in Belgium |
| Oman | Public Notary & Ministry of Foreign Affairs | VN Embassy in Kuwait |

Source: HSBC

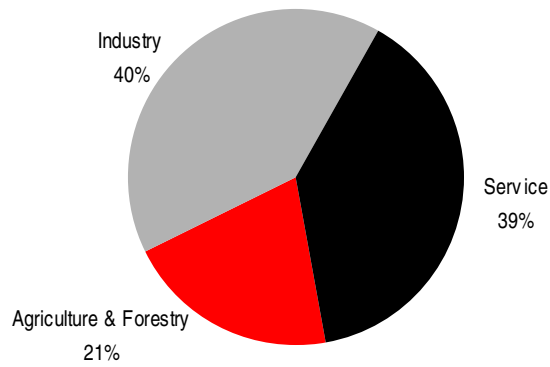
GDP



GDP composition

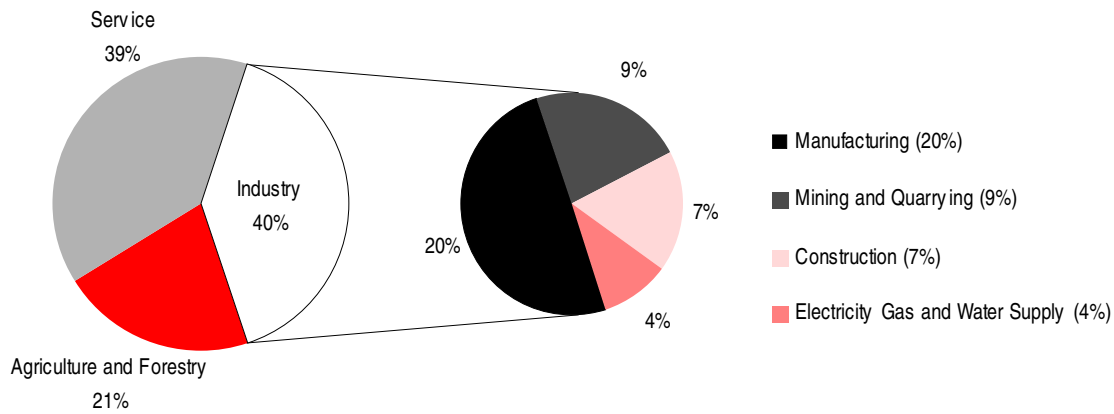


Nominal GDP break-up by production (2009)



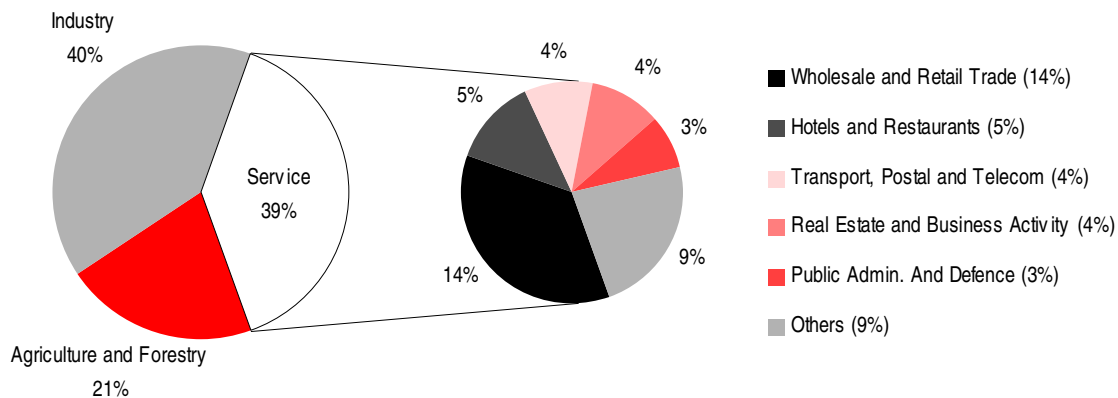
Source: HSBC, CEIC

Nominal GDP sub-break-up by Industry (2009)



Source: HSBC, CEIC

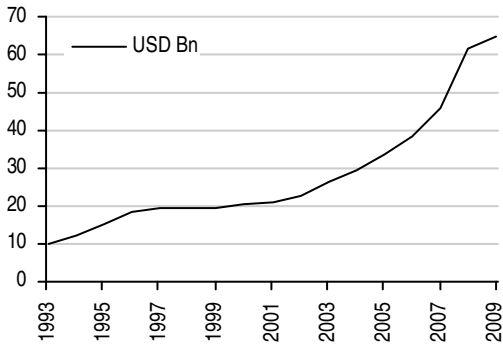
Nominal GDP sub-break-up by Services (2009)



Source: HSBC, CEIC

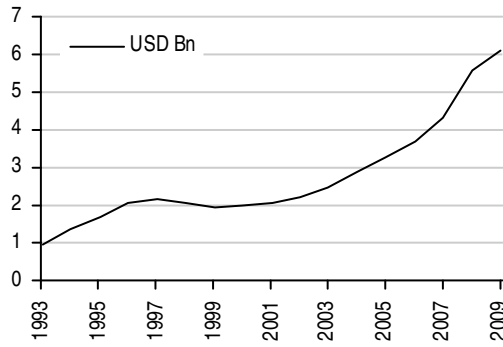
Nominal GDP components over time

Private Consumption Expenditure



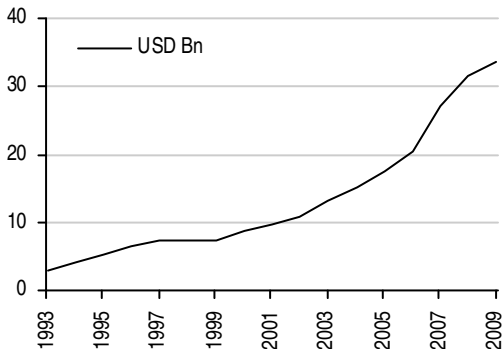
Source: HSBC, CEIC

Government Consumption Expenditure



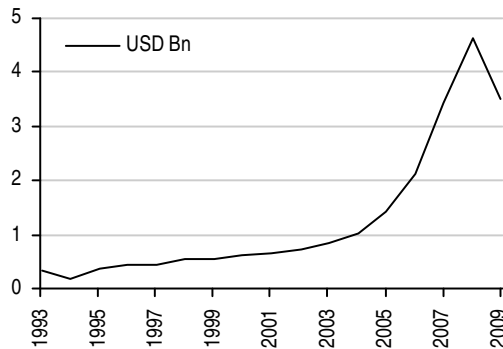
Source: HSBC, CEIC

Gross Fixed Capital Formation



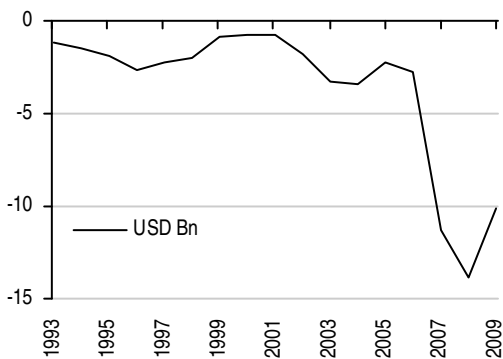
Source: HSBC, CEIC

Change in Inventories



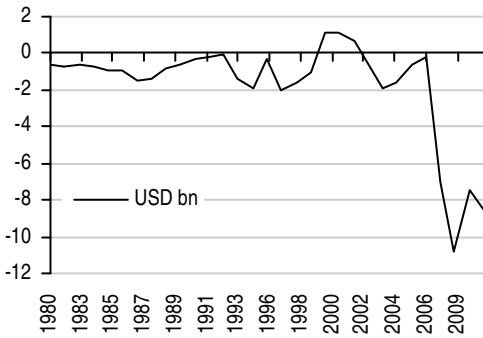
Source: HSBC, CEIC

Net Exports



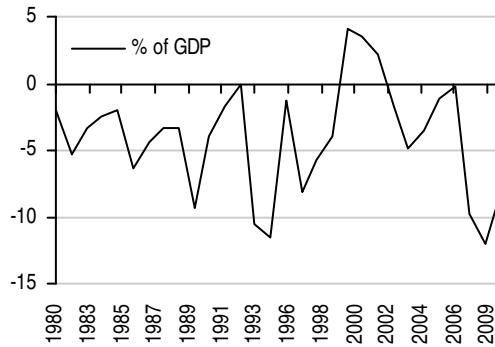
Source: HSBC, CEIC

Current account balance (USD bn)



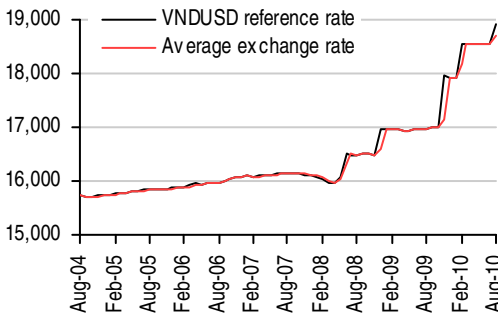
Source: HSBC, CEIC

Current account balance (% of GDP)



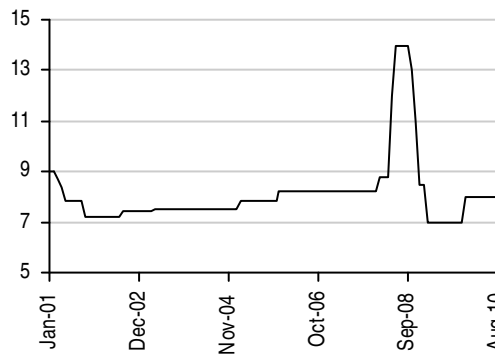
Source: HSBC, CEIC

VND v USD



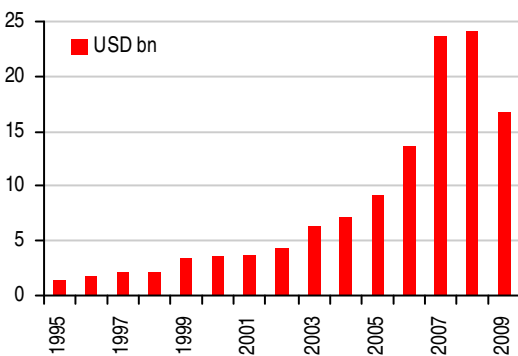
Source: HSBC, CEIC

Policy rate % pa



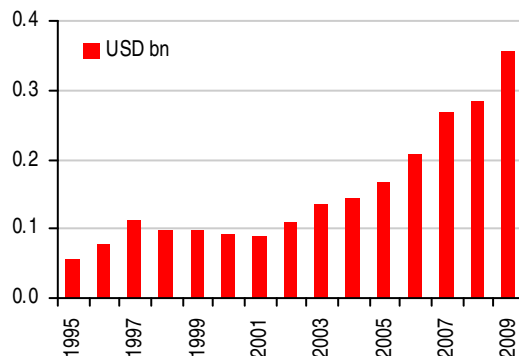
Source: HSBC, CEIC

Vietnam foreign reserves



Source: HSBC, CEIC

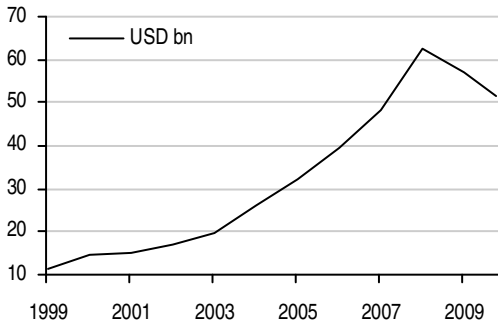
Vietnam gold reserves



Source: HSBC, CEIC

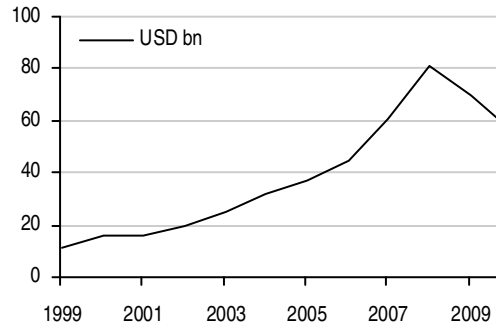
Trade

Exports



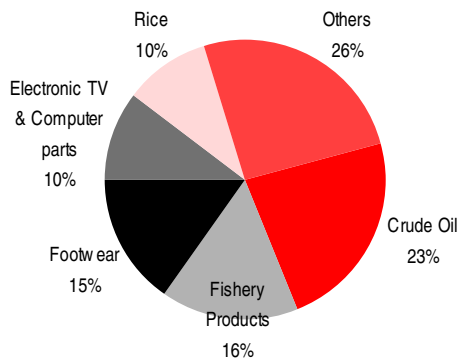
Source: HSBC, CEIC

Imports



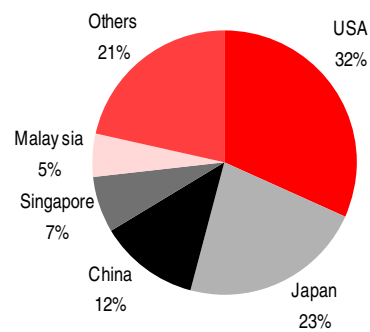
Source: HSBC, CEIC

Exports by products (2009)



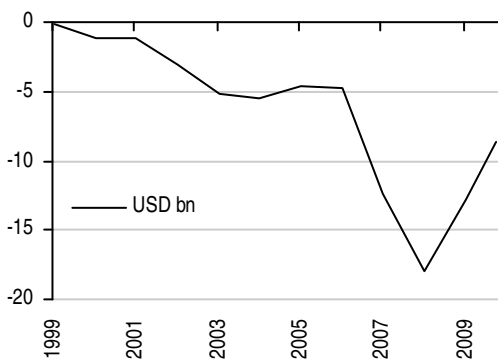
Source: HSBC, CEIC

Exports by destination (2009)



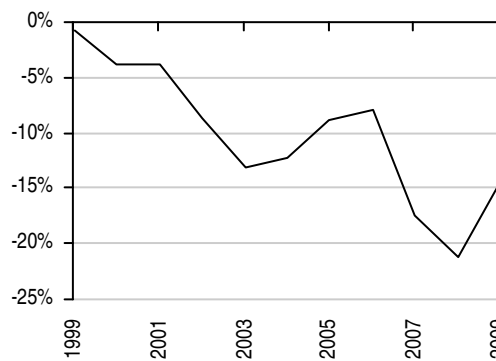
Source: HSBC, CEIC

Trade balance



Source: HSBC, CEIC

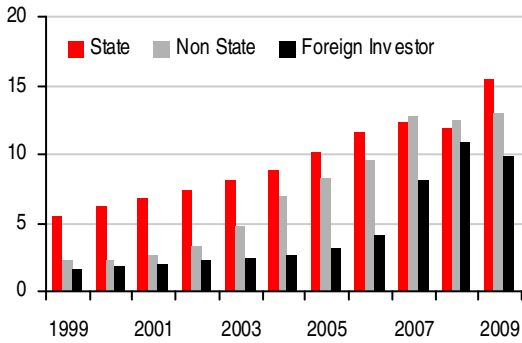
Trade balance as a % of GDP



Source: HSBC, CEIC

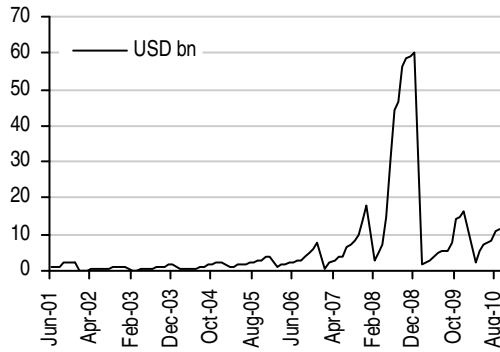
Investment

Total Investment by type (USD bn)



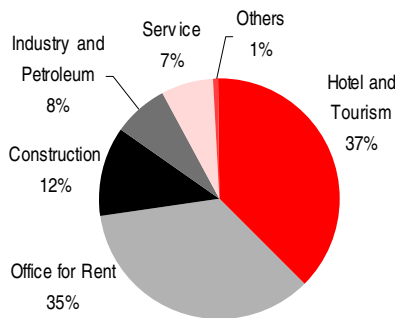
Source: HSBC, CEIC

Foreign Direct Investment (registered capital)



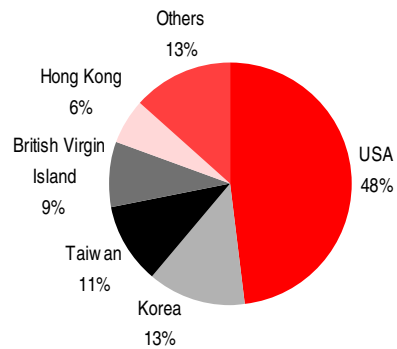
Source: HSBC, CEIC

Foreign Direct Investment by industry (2009)



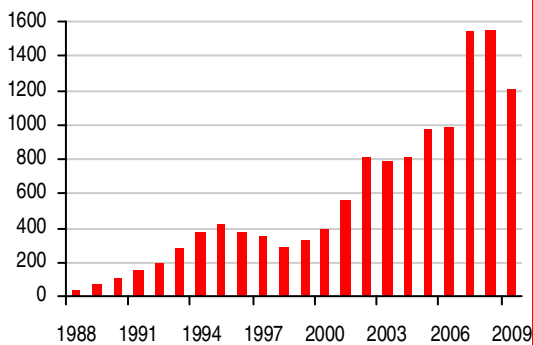
Source: HSBC, CEIC

Foreign Direct Investment by source (2009)



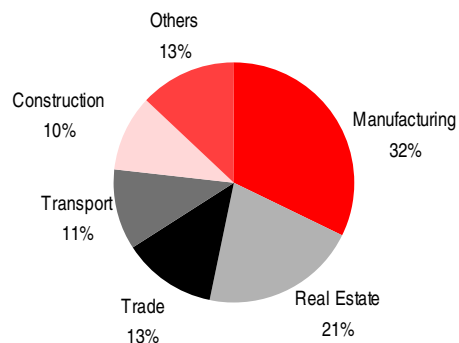
Source: HSBC, CEIC

No of FDI projects licensed



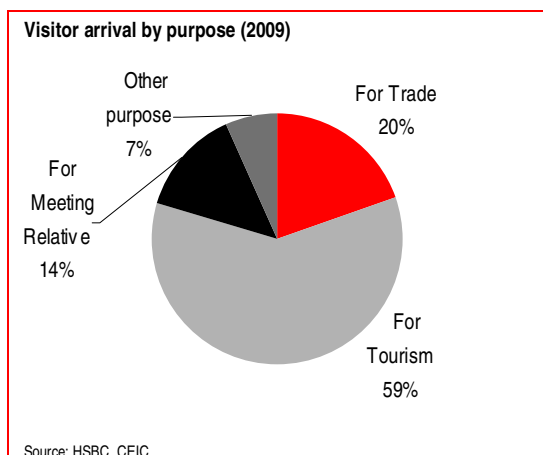
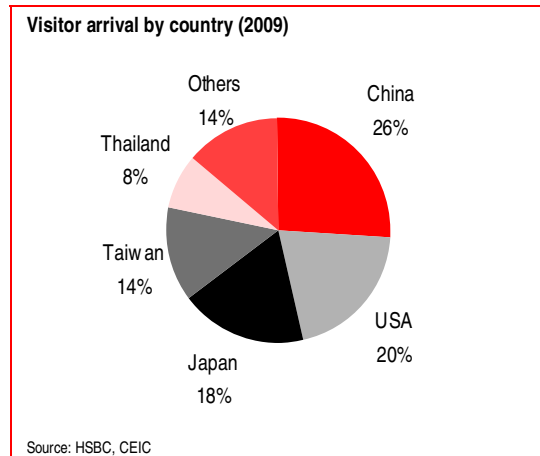
Source: HSBC, CEIC, IMF

FDI projects licensed - by industry (2009)

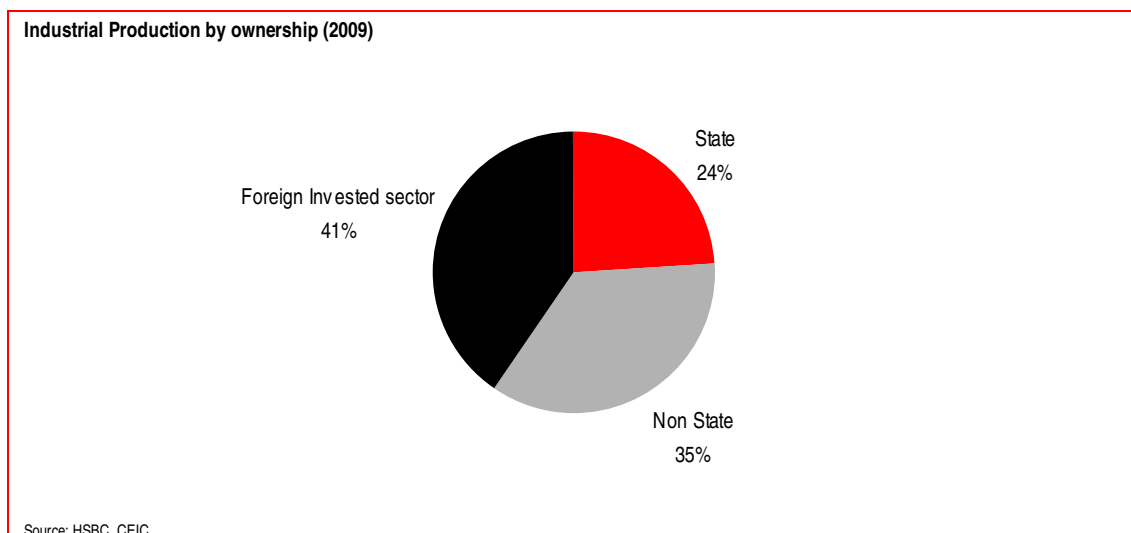


Source: HSBC, CEIC

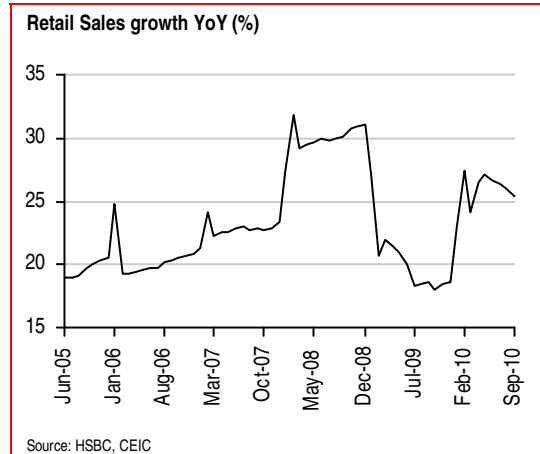
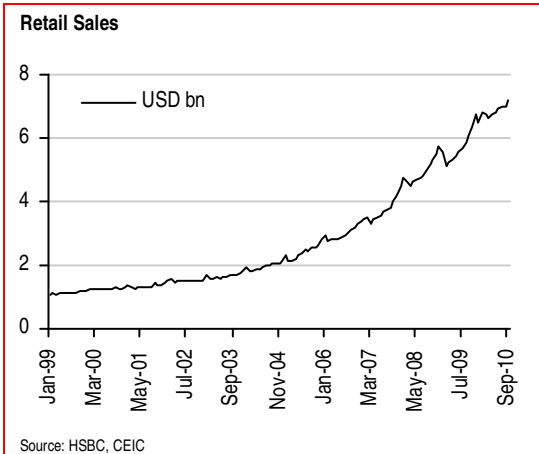
Foreign Visitors to Vietnam



Industrial Production



Retail Sales



Vietnamese funds

| Ticker | Fund Name | Inception date | Mkt cap (USD mn) | Trading Currency | Exchange | Fund Type | Fund House |
|-------------|--------------------------------|----------------|------------------|------------------|-------------|------------------|---------------------------------|
| V4MV GR | PXP VIETNAM EMERGING EQUITY | 11/03/05 | N/A | USD | N/A | Closed-End Fund | PXP Vietnam Emerging Equity Fu |
| PRREVIE FP | PREVOIR RENAISSANCE VIETNAM | 11/21/07 | N/A | EUR | N/A | Open-End Fund | Societe de Gestion Prevoir - P |
| 701016S6 KS | KOREA WORLDWIDE VIETNAM HY-1 | 09/26/06 | 36.60823 | KRW | Korea SE | Investment Trust | Korea World Wide Vietnam Hybri |
| VNDEBTA KY | VIETNAM DEBT FUND SPC-A | 11/29/07 | N/A | USD | N/A | Hedge Fund | Dragon Capital - Vietnam Debt |
| VNDEBTB KY | VIETNAM DEBT FUND SPC-B | 11/29/07 | N/A | USD | N/A | Hedge Fund | Dragon Capital - Vietnam Debt |
| 707016TB KS | TONGYANG VIETNAM PRIVATZN-2 | 01/31/08 | 10.92485 | KRW | Korea SE | Investment Trust | TongYang Vietnam Privatization |
| 707016T4 KS | TONGYANG VIETNAM PRIVATZN-1 | 06/29/07 | 131.8658 | KRW | Korea SE | Investment Trust | TongYang Vietnam Privatization |
| 74311104 JP | VIETNAM STOCK PLUS OPEN | 04/01/10 | N/A | JPY | N/A | Open-End Fund | United Vietnam Stock Plus Open |
| 7913711 KS | TONGYANG VIETNAM SAVINGS-1CE | 02/02/09 | N/A | KRW | N/A | Unit Trust | TongYang Vietnam Regular Savin |
| 7913703 KS | TONGYANG VIETNAM SAVINGS-1C1 | 02/02/09 | N/A | KRW | N/A | Unit Trust | TongYang Vietnam Regular Savin |
| HLVIETS MK | HONG LEONG VIETNAM STRATEGIC | 04/12/10 | N/A | MYR | N/A | Open-End Fund | Hong Leong Vietnam Strategic F |
| 79312107 JP | SUMITOMO MITSUI VIETNAM STOC | 07/01/10 | N/A | JPY | N/A | Open-End Fund | Sumitomo Mitsui Vietnam Stock |
| 9A311108 JP | DRAGON CAPITAL VIETNAM FUND | 08/10/10 | N/A | JPY | N/A | Open-End Fund | Capital Dragon Capital Vietnam |
| VM6 TH | VINACAPITAL VIETNAM OPPORTUN | N/A | N/A | EUR | Tradegate | Investment Trust | Vinacapital Vietnam Opportunit |
| VFMVFA VN | VIETNAM ACTIVE FUND | 04/08/10 | 10.97663 | VND | Ho Chi Minh | Closed-End Fund | Vietnam Active Fund |
| DXS7 TH | DB X-TRACKERS FTSE VIETNAM | N/A | N/A | EUR | Tradegate | ETF | db x-trackers - FTSE VIETNAM E |
| 1664592 KS | KITM WW VIETNAM REAL EST 1 | 03/16/07 | N/A | KRW | N/A | Closed-End Fund | KITM World Wide Vietnam Balance |
| VIETNGF KY | VIETNAM GROWTH FUND LTD | 09/15/04 | N/A | USD | N/A | Closed-End Fund | Dragon Capital - Vietnam Growth |
| JAREVIE KY | JA RE FUND-JA VIETNAM RE F | 05/02/08 | N/A | JPY | N/A | Fund of Funds | JA RE Fund - JA Vietnam RE Fun |
| 5631402 KS | MA MAPS OPP VIETNAM EQ BAL 1 | 12/18/06 | N/A | KRW | N/A | Closed-End Fund | Mirae Asset Maps Opportunity V |
| VIETVDF BH | VIETNAM DRAGON FUND | 12/16/05 | N/A | USD | Bermuda SE | Closed-End Fund | Dragon Capital - Vietnam Dragon |
| MAXVIET KY | MAXFORD GROWTH-VIETNAM FOCUS | 05/16/07 | N/A | USD | N/A | Open-End Fund | Maxford Growth Fund SPC - Viet |
| VIETSEP KY | PCA-VIETNAM SEGREGATED PORT | 12/28/06 | N/A | USD | N/A | Closed-End Fund | PCA International Funds SPC - |
| DWSVIET KY | DWS VIETNAM FUND LTD | 12/08/06 | N/A | USD | N/A | Closed-End Fund | DWS Vietnam Fund Ltd |
| NKVIETN KY | NIKKO VIETNAM FUND | 09/07/07 | N/A | JPY | N/A | Open-End Fund | Nikko Vietnam Fund |
| KBCACVD BB | HORIZON ACCESS FUND VIETNA | 01/16/08 | N/A | EUR | N/A | SICAV | KBC Horizon Access Fund Vietnam |
| KBCACVT BB | HORIZON ACCESS FUND VIETNAM | 07/02/07 | N/A | EUR | N/A | SICAV | KBC Horizon Access Fund Vietnam |
| VPO GR | VIETNAM PROPERTY FUND LTD | 04/24/08 | N/A | EUR | Berlin | Closed-End Fund | Vietnam Property Fund Ltd |
| JFVNOPP HK | JF VIETNAM OPPORTUNITIES - A | 11/27/06 | N/A | USD | N/A | Unit Trust | JF Vietnam Opportunities Fund |
| 79212075 JP | SUMI M VIETAM FUND 2007-5 | 05/31/07 | N/A | JPY | N/A | UIT | Sumitomo Mitsui Vietnam Fund 2 |
| SGVIEOP KY | AMUNDI VIETNAM OPPORTUNITIES | 06/13/07 | N/A | USD | N/A | Unit Trust | Amundi Harvest Funds - Amundi |
| LCVIETU SP | LIONGLOBAL VIETNAM FUND - US\$ | 02/02/07 | N/A | USD | N/A | Unit Trust | LionGlobal Vietnam Fund |
| FULVIEA KY | FULLERTON VIETNAM FUND - A | 04/23/07 | N/A | USD | N/A | Open-End Fund | Fullerton Vietnam Fund |
| 7921707A JP | SUMI M VIETNAM FUND 2007-10 | 10/31/07 | N/A | JPY | N/A | UIT | Sumitomo Mitsui Vietnam Fund 2 |
| 7921806B JP | SUMI M VIETNAM FUND 2006-11 | 11/30/06 | N/A | JPY | N/A | UIT | Sumitomo Mitsui Vietnam Fund 2 |
| FULVIEB KY | FULLERTON VIETNAM FUND - B | 04/23/07 | N/A | USD | N/A | Open-End Fund | Fullerton Vietnam Fund |
| 5863421 KS | SAMSUNG VIETNAM BAL MUL-1 | 07/30/08 | N/A | KRW | N/A | Unit Trust | Samsung Vietnam Balanced Multi |
| AJVIETF KY | AJS SERIES - VIETNAM ALT FD | 07/03/07 | N/A | USD | N/A | Hedge Fund | AJS Series - AJS Vietnam Alter |
| 4761116 KS | IBK VIETNAM PLUS ASIA-1 | 11/15/07 | N/A | KRW | N/A | Unit Trust | IBKSG Vietnam Plus Asia Equity |
| VIETENI KY | VIETNAM ENTERPRISE INV LTD-R | 11/08/95 | N/A | USD | N/A | Closed-End Fund | Dragon Capital - Vietnam Enter |
| DBSINDC SP | DBS INDOCHINA FUND | 02/28/07 | N/A | USD | N/A | Unit Trust | DBS INDOCHINA FUND |
| 5863439 KS | SAMSUNG VIETNAM BAL MUL-1 A | 07/30/08 | N/A | KRW | N/A | Unit Trust | Samsung Vietnam Balanced Multi |
| 5863447 KS | SAMSUNG VIETNAM BAL MUL-1 C | 07/30/08 | N/A | KRW | N/A | Unit Trust | Samsung Vietnam Balanced Multi |
| 4761124 KS | IBK VIETNAM PLUS ASIA-1A | 11/15/07 | N/A | KRW | N/A | Unit Trust | IBKSG Vietnam Plus Asia Equity |
| 4761140 KS | IBK VIETNAM PLUS ASIA-1CE | 11/15/07 | N/A | KRW | N/A | Unit Trust | IBKSG Vietnam Plus Asia Equity |
| 3697677 KS | KB VIETNAM FOCUS BALANCED-FD | 06/01/07 | N/A | KRW | N/A | Unit Trust | KB Vietnam Focus Securities In |
| 4761132 KS | IBK VIETNAM PLUS ASIA-1C1 | 11/15/07 | N/A | KRW | N/A | Unit Trust | IBKSG Vietnam Plus Asia Equity |
| BLAENVN KY | THE BLACKHORSE ENH VIETNAM | 01/31/07 | N/A | USD | N/A | Hedge Fund | Blackhorse Enhanced Vietnam In |

Source: HSBC, Bloomberg

Vietnamese funds

| Ticker | Fund Name | Inception date | Mkt cap (USD mn) | Trading Currency | Exchange | Fund Type | Fund House |
|------------|--------------------------------|----------------|------------------|------------------|--------------|---------------------|---------------------------------|
| TIMVIET LE | T.I.M VIETNAM TIGER FUND | 06/04/07 | N/A | USD | N/A | Open-End Fund | IFM - TIM Vietnam Tiger Fund |
| 3697685 KS | KB VIETNAM FOCUS BALANCED-A | 06/01/07 | N/A | KRW | N/A | Unit Trust | KB Vietnam Focus Securities In |
| 3699038 KS | KB VIETNAM FOCUS BALANCED-C | 06/05/07 | N/A | KRW | N/A | Unit Trust | KB Vietnam Focus Securities In |
| ALTVIET MV | INNOCAP VIETNAM FOCUS SUB-FD | 03/07/08 | N/A | USD | N/A | Hedge Fund | Innocap Fund SICAV PLC - Vietn |
| NBCGVIE MV | NBCG VIETNAM FOCUS SUB-FUND | 03/07/08 | N/A | USD | N/A | Fund of Hedge Funds | NBCG Fund SICAV PLC - NBCG Vie |
| PXPVEEF KY | PXP VIETNAM EMERGING EQUITY | 11/03/05 | N/A | USD | N/A | Closed-End Fund | PXP Vietnam Emerging Equity Fu |
| LCVIETS SP | LIONGLOBAL VIETNAM FUND - \$\$ | 01/15/07 | N/A | SGD | N/A | Unit Trust | LionGlobal Vietnam Fund |
| 1626392 KS | KOREA WORLDWIDE VIETNAM HY-2 | 11/30/06 | N/A | KRW | N/A | Closed-End Fund | KITM World Wide Vietnam Balance |
| TIMVIIN LE | TIM-VIETNAM INSTITUTIONAL | 06/03/09 | N/A | USD | N/A | Open-End Fund | T.I.M. Vietnam Institutional F |
| IOFVTEQ LX | INTERNATIONAL OPP-VIET EQ-J | 07/02/07 | N/A | USD | N/A | SICAV | International Opportunities Fu |
| 1580714 KS | KOREA WORLDWIDE VIETNAM HY-1 | 06/30/06 | N/A | KRW | N/A | Investment Trust | Korea World Wide Vietnam Hybri |
| IOFVTEC LX | INTERNATIONAL OPP-VIET EQ-C | 01/11/08 | N/A | USD | N/A | SICAV | International Opportunities Fu |
| PXPVIET KY | PXP VIETNAM FUND LTD-USD | 12/31/03 | N/A | USD | N/A | Closed-End Fund | PXP Vietnam Fund Ltd |
| 1622615 KS | KOREA WW VIETNAM RSP BAL1 | 11/21/06 | N/A | KRW | N/A | Unit Trust | KITM Vietnam Regular Savings S |
| HWAINCH MK | HWANGDBS INDOCHINA FUND | 04/05/07 | N/A | MYR | N/A | Unit Trust | HWANGDBS Indochina Fund |
| PXPLTUS KY | PXP VIETNAM LOTUS LTD - USD | 12/15/06 | N/A | USD | N/A | Open-End Fund | Vietnam Lotus Fund Limited |
| 9651177 KS | GB BLUE OCEAN VIETNAM EQ 1 | 01/05/07 | N/A | KRW | N/A | Closed-End Fund | Golden Bridge Blue Ocean Vietn |
| VDIGVIE KY | V.D.I. GRAND VIETNAM FUND | 11/09/07 | N/A | USD | N/A | Hedge Fund | Vinaceous Diamond International |
| 7911186 KS | TONGYANG VIETNAM SAVINGS-1 | 02/02/09 | N/A | KRW | N/A | Unit Trust | TongYang Vietnam Regular Savin |
| 7671343 KS | TONGYANG VIETNAM PRIVATZN 1 | 04/02/07 | N/A | KRW | N/A | Investment Trust | TongYang Vietnam Privatization |
| 7913695 KS | TONGYANG VIETNAM SAVINGS-1A | 02/02/09 | N/A | KRW | N/A | Unit Trust | TongYang Vietnam Regular Savin |
| 7759684 KS | TONGYANG VIETNAM PRIVATZN-2 | 11/12/07 | N/A | KRW | N/A | Investment Trust | TongYang Vietnam Privatization |
| VAMVEMF KY | VIETNAM EMERGING MARKET FUND | 02/28/07 | N/A | USD | N/A | Closed-End Fund | Vietnam Asset Management Ltd - |
| AMCFMVP LE | AMCFM VIETNAM EQUITY FUND-P | 05/31/07 | N/A | CHF | N/A | Open-End Fund | AMCFM Vietnam Equity Fund |
| AMCFMVI LE | AMCFM VIETNAM EQUITY FUND-I | 05/31/07 | N/A | CHF | N/A | Open-End Fund | AMCFM Vietnam Equity Fund |
| HLGVIET MK | HONG LEONG VIETNAM FUND | 02/26/08 | N/A | MYR | N/A | Unit Trust | Hong Leong Vietnam Fund |
| VAMINLI KY | VIETNAM INDEX LINKED FUND | 07/14/08 | N/A | JPY | N/A | Open-End Fund | Vietnam Asset Management Ltd - |
| VNM US | MARKET VECTORS VIETNAM ETF | 08/14/09 | 184 | USD | NYSE Arca | ETF | Market Vectors Vietnam ETF |
| VOF LN | VINACAPITAL VIETNAM OPPORTUN | 09/30/03 | 600 | USD | London | Investment Trust | Vinacapital Vietnam Opportunit |
| 3087 HK | DB X-TRACKERS FTSE VIETNAM | 07/08/09 | 262 | HKD | Hong Kong | ETF | db x-trackers - FTSE VIETNAM E |
| XFVT SP | DB X-TRACKERS FTSE VIETNAM | 02/19/08 | 257 | USD | Singapore | ETF | db x-trackers - FTSE VIETNAM E |
| VNL LN | VINALAND LTD | 03/21/06 | 454 | USD | London | Investment Trust | Vinaland Ltd |
| XFVT IM | DB X-TRACKERS FTSE VIETNAM | 03/14/08 | 257 | EUR | Brsaltaliana | ETF | db x-trackers - FTSE VIETNAM E |
| VNI LN | VIETNAM INFRASTRUCTURE LTD | 07/04/07 | 159 | USD | London | Closed-End Fund | Vietnam Infrastructure Ltd |
| VFMVF1 VN | VIETNAM SEC INVESTMENT FUND | 11/08/04 | 56 | VND | Ho Chi Minh | Closed-End Fund | Vietnam Securities Investment |
| XVTD LN | DB X-TRACKERS FTSE VIETNAM | 02/08/08 | 257 | USD | London | ETF | db x-trackers - FTSE VIETNAM E |
| JSM LN | JSM INDOCHINA LTD | 06/29/07 | 64 | USD | London | Closed-End Fund | JSM Indochina Ltd |
| XFVI SW | DB X-TRACKERS FTSE VIETNAM | 11/19/08 | 259 | CHF | SIX Swiss Ex | ETF | db x-trackers - FTSE VIETNAM E |
| VNF LN | PXP VIETNAM FUND LTD-USD | N/A | 44 | USD | London | Closed-End Fund | PXP Vietnam Fund Ltd |
| VNF EU | PXP VIETNAM FUND LTD-USD | N/A | N/A | USD | Euro Comp | Closed-End Fund | PXP Vietnam Fund Ltd |
| XFVT LN | DB X-TRACKERS FTSE VIETNAM | 02/07/08 | 256 | Gbp | London | ETF | db x-trackers - FTSE VIETNAM E |
| XFVT GR | DB X-TRACKERS FTSE VIETNAM | 02/06/08 | 261 | EUR | Frankfurt | ETF | db x-trackers - FTSE VIETNAM E |
| 094520 KS | MA MAPS OPP VIETNAM EQ BAL 1 | 01/31/07 | 84 | KRW | Korea SE | Closed-End Fund | Mirae Asset Maps Opportunity V |
| VNH LN | VIETNAM HOLDING LTD | 06/14/06 | 51 | USD | London | Closed-End Fund | Vietnam Holding Ltd |
| VCVOF US | VINACAPITAL VIETNAM OPPORTUN | 09/30/03 | 575 | USD | OTC US | Investment Trust | Vinacapital Vietnam Opportunit |
| VOF PZ | VINACAPITAL VIETNAM OPPORTUN | N/A | N/A | USD | PLUS Mkt Grp | Investment Trust | Vinacapital Vietnam Opportunit |
| XFVT PZ | DB X-TRACKERS FTSE VIETNAM | N/A | N/A | Gbp | PLUS Mkt Grp | ETF | db x-trackers - FTSE VIETNAM E |

Source: HSBC, Bloomberg

Vietnamese funds

| Ticker | Fund Name | Inception date | Mkt cap (USD mn) | Trading Currency | Exchange | Fund Type | Fund House |
|-------------|------------------------------|----------------|------------------|------------------|--------------|------------------|---------------------------------|
| PRUBF1 VN | PRUDENTIAL BALANCED FUND 1 | 12/08/06 | 14 | VND | Ho Chi Minh | Closed-End Fund | Prudential Balanced Fund/Vietn |
| INTA NA | INTEREFFEKT FRONTIER VIETNAM | 10/02/89 | N/A | EUR | EN Amsterdam | Open-End Fund | Intereffekt Frontier Vietnam |
| VFMVF4 VN | VIETNAM BLUE CHIPS FUND | 06/12/08 | 23 | VND | Ho Chi Minh | Closed-End Fund | Vietnam Blue Chips Fund |
| VH1 GR | VIETNAM HOLDING LTD | 06/14/06 | N/A | EUR | Berlin | Closed-End Fund | Vietnam Holding Ltd |
| VM6 GR | VINACAPITAL VIETNAM OPPORTUN | 09/30/03 | N/A | EUR | Frankfurt | Investment Trust | Vinacapital Vietnam Opportunit |
| XVT FP | DB X-TRACKERS FTSE VIETNAM | 05/27/09 | 256 | EUR | EN Paris | ETF | db x-trackers - FTSE VIETNAM E |
| 096300 KS | KITM WW VIETNAM REAL EST 1 | 06/12/07 | 81 | KRW | Korea SE | Closed-End Fund | KITM World Wide Vietnam Balance |
| XFVT SS | DB X-TRACKERS FTSE VIETNAM | 04/14/10 | 255 | SEK | Stockholm | ETF | db x-trackers - FTSE VIETNAM E |
| 3MS GR | VIETNAM EQUITY HDLG | 11/28/07 | 48 | EUR | Frankfurt | Closed-End Fund | Vietnam Equity Holding |
| 094950 KS | GB BLUE OCEAN VIETNAM EQ 1 | 05/07/07 | 19 | KRW | Korea SE | Closed-End Fund | Golden Bridge Blue Ocean Vietn |
| 3MT GR | VIETNAM PROPERTY HOLDING | 11/28/07 | 29 | EUR | Frankfurt | Closed-End Fund | Vietnam Property Holding |
| MAFPF1 VN | MANULIFE PROGRESSIVE FUND | 12/28/07 | 4 | VND | Ho Chi Minh | Closed-End Fund | Manulife Progressive Fund |
| V2V GR | DWS VIETNAM FUND LTD | 01/08/07 | N/A | EUR | Frankfurt | Closed-End Fund | DWS Vietnam Fund Ltd |
| VNLDF US | VINALAND LTD | 03/21/06 | 440 | USD | OTC US | Investment Trust | Vinaland Ltd |
| V4L GR | VINALAND LTD | 03/21/06 | N/A | EUR | Berlin | Investment Trust | Vinaland Ltd |
| VPF LN | VIETNAM PROPERTY FUND LTD | 04/24/08 | 61 | USD | London | Closed-End Fund | Vietnam Property Fund Ltd |
| VNL PZ | VINALAND LTD | N/A | N/A | USD | PLUS Mkt Grp | Investment Trust | Vinaland Ltd |
| VPF PZ | VIETNAM PROPERTY FUND LTD | N/A | N/A | USD | PLUS Mkt Grp | Closed-End Fund | Vietnam Property Fund Ltd |
| VNI PZ | VIETNAM INFRASTRUCTURE LTD | N/A | N/A | USD | PLUS Mkt Grp | Closed-End Fund | Vietnam Infrastructure Ltd |
| VP3 GR | VIETNAM ENTERPRISE INV LTD-R | 11/08/95 | 321 | EUR | Hamburg | Closed-End Fund | Dragon Capital - Vietnam Enter |
| FFI GR | JSM INDOCHINA LTD | 07/03/07 | N/A | EUR | Berlin | Closed-End Fund | JSM Indochina Ltd |
| JSM PZ | JSM INDOCHINA LTD | N/A | N/A | USD | PLUS Mkt Grp | Closed-End Fund | JSM Indochina Ltd |
| VCJ1 GR | VIETNAM INFRASTRUCTURE LTD | 10/11/07 | 140 | EUR | Berlin | Closed-End Fund | Vietnam Infrastructure Ltd |
| VNH PZ | VIETNAM HOLDING LTD | N/A | N/A | USD | PLUS Mkt Grp | Closed-End Fund | Vietnam Holding Ltd |
| VG6 GR | VIETNAM GROWTH FUND LTD | 09/15/04 | 200 | EUR | Hamburg | Closed-End Fund | Dragon Capital - Vietnam Growth |
| VNF PZ | PXP VIETNAM FUND LTD-USD | N/A | N/A | USD | PLUS Mkt Grp | Closed-End Fund | PXP Vietnam Fund Ltd |
| 701016SB KS | KITM WORLDWIDE VIETNAM BAL-2 | 11/30/06 | 57 | KRW | Korea SE | Closed-End Fund | KITM World Wide Vietnam Balance |
| VH1 TH | VIETNAM HOLDING LTD | N/A | N/A | EUR | Tradegate | Closed-End Fund | Vietnam Holding Ltd |

Source: HSBC, Bloomberg

List of Upcom Stocks

| Ticker | Name | Industry | Mkt cap (USD mn) | 3m avg daily turnover (USD) |
|--------|------------------------------|--------------------------|------------------|-----------------------------|
| NT2 | PETROVIETNAM NHON TRACH 2 PO | Electric | 128 | 2,721 |
| PFV | PFV INVESTMENT AND TRADING | Real Estate | 105 | - |
| CHP | CENTRAL HYDROPOWER JSC | Energy-Alternate Sources | 25 | 9,264 |
| PSB | SAO MAI-BEN DINH PETROLEUM | Oil&Gas Services | 24 | 31,486 |
| SHP | SOUTHERN HYDROPOWER JSC | Engineering&Construction | 23 | - |
| SMB | SAI GON - MIEN TRUNG BEER JS | Beverages | 22 | - |
| HIG | HIPT GROUP | Computers | 17 | 13,593 |
| PDN | DONG NAI PORT JSC | Transportation | 16 | 1,105 |
| ABI | AGRICULTURE BANK INSURANCE B | Insurance | 14 | 1,831 |
| SPC | SAI GON PLANT PROTECTION JSC | Chemicals | 14 | - |
| SHV | HAI VIET CORP | Food | 12 | - |
| UDJ | BECAMEX URBAN DEVELOPMENT JS | Real Estate | 11 | 51,276 |
| NBW | NHA BE WATER SUPPLY JSC | Water | 11 | 4 |
| TNB | NHA BE STEEL CO | Building Materials | 10 | 1,101 |
| ITD | INNOVATIVE TECHNOLOGY DEVELO | Electronics | 10 | 14,668 |
| MAX | HUU NGHI VINH SINH MINING AN | Commercial Services | 10 | - |
| PSP | DINH VU PETROLEUM SERVICE PO | Transportation | 9 | 9,867 |
| ADP | A DONG PAINT STOCK CO | Chemicals | 9 | 1,094 |
| HPP | HAI PHONG PAINT JSC | Chemicals | 9 | - |
| PCT | CUU LONG PETRO GAS TRANSPORT | Oil&Gas | 8 | - |
| KMT | CENTRAL VIETNAM METAL CORP | Iron/Steel | 7 | 213 |
| POV | VUNG ANG PETROLEUM JSC | Commercial Services | 7 | - |
| ACC | BECAMEX ASPHALT AND CONCRETE | Building Materials | 7 | 7,688 |
| NDC | NAM DUOC JSC | Distribution/Wholesale | 7 | 37 |
| CT3 | PROJECT 3 CONSTRUCTION AND | Engineering&Construction | 7 | 30 |
| ND2 | NORTHERN ELECTRICITY DEVELOP | Electric | 6 | - |
| BMJ | BECAMEX MINERAL JSC | Holding Companies-Divers | 6 | 5,867 |
| WTC | VINACOMIN-WATERWAY TRANSPORT | Transportation | 6 | - |
| TCO | DUYENHAI MULTI MODAL TRANSPO | Transportation | 5 | 717 |
| HU1 | HUD1 INVESTMENT AND CONSTRUC | Engineering&Construction | 5 | 2,871 |
| PTT | INDOCHINA PETROLEUM TRANSPOR | Transportation | 5 | 106 |
| PSL | PHU SON LIVESTOCK JSC | Agriculture | 5 | 16 |
| PTH | HA TAY PETROLIMEX TRANSPORTA | Retail | 5 | 31 |
| HPT | HPT VIETNAM CORP | Software | 4 | 2,906 |
| GDW | GIA DINH WATER SUPPLY JSC | Water | 4 | 416 |
| CLS | CHO LON SECURITIES JSC | Diversified Finan Serv | 4 | 3,547 |
| DDN | DA NANG PHARMACEUTICAL -MED | Pharmaceuticals | 4 | 1,133 |
| BTW | BEN THANH WATER SUPPLY JSC | Water | 4 | 4,128 |
| TGP | TRUONG PHU JSC | Electrical Compo&Equip | 4 | 2,955 |
| SPD | DANANG SEAPRODUCTS IMPORT-EX | Food | 3 | 40 |
| PTP | POST PRINTING AND TELECOMMUN | Commercial Services | 3 | 710 |
| PEC | POWER ENGINEERING JSC | Engineering&Construction | 3 | - |
| VQC | VINACOMIN QUACONTROL JSC | Commercial Services | 3 | 786 |
| DNT | DONG NAI TOURIST JSC | Leisure Time | 3 | 71 |
| MTP | MEDIPHARCO TENAMYD CENTRAL P | Pharmaceuticals | 3 | - |
| VIR | VUNG TAU INTOURCO RESORT | Lodging | 3 | 1,684 |
| VKD | KHANH HOA MINERAL WATER JSC | Beverages | 3 | - |
| DNS | DA NANG STEEL JSC | Iron/Steel | 3 | 2,175 |
| STS | SAI GON TRANSPORT AGENCY JSC | Transportation | 2 | 270 |
| DNF | DANANG FOOD JSC | Food | 2 | - |

Source: HSBC, Bloomberg

List of Upcom Stocks

| Ticker | Name | Industry | Mkt cap (USD mn) | 3m avg daily turnover (USD) |
|--------|------------------------------|--------------------------|------------------|-----------------------------|
| ICI | INDUSTRIAL CONSTRUCTION AND | Engineering&Construction | 2 | 3,072 |
| SCO | SEAPRODUCT MECANICAL SHAREHO | Commercial Services | 2 | - |
| CFC | CAFICO VIETNAM JSC | Food | 2 | 849 |
| VPC | V-POWER INVESTMENT AND DEVEL | Electric | 2 | 11,736 |
| TVG | TRANSPORT INVESTMENT AND CON | Engineering&Construction | 2 | 25 |
| ACE | AN GIANG CENTRIFUGAL CONCRET | Engineering&Construction | 2 | 1,966 |
| DGT | DONG NAI TRANSPORTATION WORK | Engineering&Construction | 2 | 1,118 |
| KSC | KHANH HOA SALT JSC | Food | 2 | 59 |
| PMT | POSTAL MATERIAL JSC | Telecommunications | 2 | - |
| VT1 | BEN THANH MATERIAL JSC | Distribution/Wholesale | 2 | 197 |
| TTR | TOURISM TRADE AND INVESTMENT | Leisure Time | 2 | 91 |
| DAP | DOPACK JSC | Forest Products&Paper | 2 | 210 |
| IMT | HCMC GENERAL IMPORT EXPORT | Distribution/Wholesale | 2 | 18,892 |
| LCC | LANG SON CEMENT JSC | Building Materials | 2 | 634 |
| VIA | VIAN JSC | Beverages | 2 | - |
| DBM | DAKLAK PHARMACEUTICAL MEDICA | Pharmaceuticals | 1 | 19,921 |
| IME | MECHANICAL AND INDUSTRIAL | Machinery-Diversified | 1 | 196 |
| TNM | TRANIMEXCO TRANSPORTATION IM | Engineering&Construction | 1 | 7,580 |
| DPP | DONG NAI PHARMECEUTICAL JSC | Pharmaceuticals | 1 | 468 |
| MAS | DANANG AIRPORT SERVICES JSC | Engineering&Construction | 1 | 486 |
| BTG | TIEN GIANG PACKAGING JSC | Packaging&Containers | 1 | 50 |
| HDM | HUE TEXTILE GARMENT JSC | Apparel | 1 | 199 |
| GTH | THUA THIEN HUE CONS TRANS | Engineering&Construction | 1 | 2,568 |
| MJC | MOC HOA TRADING JSC | Holding Companies-Divers | 1 | - |
| PPP | PHONG PHU PHARMACEUTICAL JSC | Pharmaceuticals | 1 | 4,767 |
| VDN | VINATEX DANANG JSC | Apparel | 1 | 3,784 |
| VCT | VINACONEX CONSTRUCTION CONSU | Engineering&Construction | 1 | 807 |
| IN4 | NO 4 PRINTING JSC | Commercial Services | 1 | 25 |
| IHK | AVIATION PRINTING JSC | Commercial Services | 1 | 664 |
| SSF | SAI GON SHOES JSC | Apparel | 1 | 98 |
| PTG | PHAN THIET GARMENT IMPORT-EX | Apparel | 1 | 8 |
| TTG | THANH TRI GARMENT JSC | Apparel | 1 | 931 |
| KBE | KIEN GIANG BOOK AND EQUIPMEN | Internet | 1 | 45 |
| VNX | VIETNAM NATIONAL TRADE FAIR | Advertising | 1 | 104 |
| BWA | BAO LOC SUPPLY SEWERAGE AND | Water | | |
| TBT | BEN TRE TRANSPORTATION WORKS | Engineering&Construction | | |
| BTC | BINH TRIEU CONSTRUCTION | Machinery-Constr&Mining | | |
| HPL | CAN THO FERRY-BRIDGE STANDAG | Transportation | | |
| C32 | CONSTRUCTION INVESTMENT CORP | Commercial Services | | |
| BXD | DA NANG TRANSPORTATION AND | Transportation | | |
| DBF | DONG BAC FOOD JSC | Food | | |
| GER | GERU SPORT JSC | Leisure Time | | |
| JSC | HANOI CIVIL CONSTRUCTION AND | Engineering&Construction | | |
| HFC | HANOI FUEL AND PETRO JSC | Gas | | |
| HCI | HANOI INVESTMENT CONSTRUCTIO | Engineering&Construction | | |
| DXL | LANG SON TOURISM AN IMPORT-E | Leisure Time | | |
| WSB | SAIGON BEER WESTERN JSC | Beverages | | |
| TMW | TAN MAI GENERAL WOOD JSC | Building Materials | | |
| DTV | TRA VINH RURAL ELECTRIC DEVE | Engineering&Construction | | |
| REM | VIETNAM JSC FOR RESTORATION | Engineering&Construction | | |
| VHF | VINH FOOD PROCESSING AND CON | Food | | |

Source: HSBC, Bloomberg

Overseas listed Vietnamese companies

| Tickers | Name | Mkt Cap (USDm) | 3m Avg Daily Traded Value | Exchange | Trading Currency | Sector | Industry |
|-----------------|--------------------------------|----------------|---------------------------|-----------|------------------|------------------------|--------------------------------|
| 422 HK Equity | VIETNAM MANUFACTURING & EXPORT | 264 | 303,375 | Hong Kong | HKD | Consumer Discretionary | Automobiles & Parts |
| LATI SP Equity | LATITUDE TREE INTERNATIONAL | 54 | 17,770 | Singapore | SGD | Consumer Discretionary | Household Goods & Home Constru |
| LATI1 TH Equity | LATITUDE TREE INTERNATIONAL | | | Tradegate | EUR | Consumer Discretionary | Household Goods & Home Constru |
| TRTH US Equity | TRAI THIEN USA INC | 11 | 865 | OTC BB | USD | Financials | Investment Companies |
| 4V2 GR Equity | VIETNAM MANUFACTURING & EXPO | | 47 | Berlin | EUR | Consumer Discretionary | Automobiles & Parts |
| BBVVF US Equity | BBV VIETNAM S.E.A. ACQUISITI | | 220 | OTCUS | USD | Financials | Financial Services |
| 9110 TW Equity | VIETNAM MANUFACTURING-TDR | 250 | 1,844,035 | Taiwan | TWD | Consumer Discretionary | Automobiles & Parts |

Source: HSBC, Bloomberg

Top 3 Listed Companies in Each Sector

| Ticker | Name | Sector | Mkt cap (USD mn) | Daily turnover (USD k) | Exchange | Unused foreign quota (%) | Foreign quota (%) |
|--------|--------------------------------|------------------------|------------------|------------------------|----------|--------------------------|-------------------|
| VPL | VINPEARL JSC | Consumer Discretionary | 259 | 48 | HCM | 34 | 49 |
| PHR | PHUOC HOA RUBBER | Consumer Discretionary | 152 | 168 | HCM | 40 | 49 |
| OCH | OCEAN HOSPITALIT | Consumer Discretionary | 129 | - | Hanoi | 49 | 49 |
| VNM | VIET NAM DAIRY P | Consumer Staples | 1,603 | 244 | HCM | 0 | 46 |
| MSN | MASAN GROUP CORP | Consumer Staples | 1,394 | 93 | HCM | 31 | 49 |
| KDC | KINHDO CORP | Consumer Staples | 270 | 701 | HCM | 16 | 49 |
| PVD | PETROVIETNAM DRILLING | Energy | 458 | 375 | HCM | 20 | 49 |
| PVX | PETROVIETNAM CONSTRUCTION | Energy | 269 | 4,744 | Hanoi | 44 | 49 |
| PVS | PETROVIETNAM TECHNICAL SERVICE | Energy | 267 | 200 | Hanoi | 34 | 49 |
| VCB | JSC BANK FOR FOR | Financials | 2,374 | 268 | HCM | 6 | 9 |
| BVH | BAOVIET HOLDINGS | Financials | 2,112 | 507 | HCM | 25 | 49 |
| CTG | VIETIN BANK | Financials | 1,471 | 186 | HCM | 10 | 11 |
| DHG | DHG PHARMACEUTIC | Health Care | 155 | 100 | HCM | 3 | 49 |
| DVD | VIEN DONG PHARMA | Health Care | 88 | 391 | HCM | 13 | 49 |
| SPM | SPM CORP | Health Care | 50 | 101 | HCM | 39 | 49 |
| VCG | VIET NAM CONSTRU | Industrials | 350 | - | Hanoi | 46 | 49 |
| ITA | ITACO | Industrials | 278 | 696 | HCM | 29 | 49 |
| DIG | DIC CORP | Industrials | 201 | 563 | HCM | 24 | 49 |
| FPT | FPT CORP | Information Technology | 697 | 866 | HCM | 7 | 49 |
| CMG | CMC CORP | Information Technology | 62 | 23 | HCM | 46 | 49 |
| SGT | SAIGON TELECOM & | Information Technology | 50 | 12 | HCM | 35 | 49 |
| DPM | PETROVIETNAM FER | Materials | 649 | 797 | HCM | 28 | 49 |
| HPG | HOA PHAT GRP JSC | Materials | 577 | 675 | HCM | 14 | 49 |
| SQC | QUY NHON MINING | Materials | 436 | 5 | Hanoi | 41 | 49 |
| PPC | PHA LAI THERMAL | Utilities | 191 | 337 | HCM | 34 | 49 |
| VSH | VINH SON - SONG | Utilities | 118 | 493 | HCM | 34 | 49 |
| PGD | PETROVIETNAM LOW | Utilities | 61 | 198 | HCM | 47 | 49 |

Source: HSBC, Bloomberg

Profiles for top 10 listed companies

| | |
|---|---|
| <p>JS Commercial Bank For Foreign Trade Of Vietnam (Vietcombank) Ticker: VCB Market Cap (USD mn): 2522 Daily Turnover (USD mn): 0.37 Sector / Industry: Financials / Banks</p> | <p>VCB was formerly the Foreign Currency Department of SBV. It was the first and the only bank in the 1960s. In the 90s, VCB leveraged off its expertise in trade finance and foreign exchange business to expand into a commercial bank. It was equitized in 2007 and listed on HOSE on June 30, 2009. The state still holds over 90% stake but has plans to reduce this to 51%. Due to its affiliation to the state, it has unmatched ability to invest in IT systems and personnel to become the most trusted bank in Vietnam. However, VCB's business plans are often limited by state intervention in the market.</p> |
| <p>Viet Nam Dairy (Vinamilk) Ticker: VNM Market cap (USDmn): 1650 Daily turnover (USDmn): 0.45 Sector / Industry: Consumer Staples / Food</p> | <p>VNM is a food manufacturer and distributor, established in 1992 and listed on HOSE in 2006. It has an unmatched portfolio covering dairy products, nutritional supplements, infant formula milk, coffee and non-alcoholic drinks. VNM has successfully built on its experienced management, sales force, nationwide distribution networks and production capacity. Demographics are favourable as disposable income and health consciousness rise. While growth opportunities are abundant, VNM faces significant currency risk and volatility of material prices as it imports 75% of dairy materials. It has yet to establish a brand that appeals to younger consumers, and retailers' loyalty is fading with the increasing choice of foreign brands.</p> |
| <p>Baoviet Holdings Ticker: BVH Market cap (USDmn): 1523 Daily turnover (USDmn): 0.24 Sector / Industry: Financials / Insurance</p> | <p>BVH is the parent company of Baoviet Financial Insurance Group which owns insurance companies, an asset management company, a security company and a bank. It went public in 2007, but the Ministry of Finance still owns 78%. Free float is low and liquidity can be a problem for minority shareholders. Having said that, the business outlook for BVH is still bright. Its life insurance company is the only one in Vietnam with domestic invested capital, second only to Prudential in terms of market share (33%). Its non-life insurance company also offers a wide range of products including car, health and marine insurance.</p> |
| <p>Vietnam JSC Bank for Industrial & Trade (Vietin) Ticker: CTG Market cap (USDmn): 1373 Daily turnover (USDmn): 0.15 Sector / Industry: Financials / Banks</p> | <p>CTG was equitized and listed on HOSE in July 2009. The state still owns 90% while only 10% was listed. Owing to its specialization in industry and commerce, it maintains close relationships with the pillar sectors like construction, electricity, energy and telecoms. CTG has a great branch network in urban areas, which creates an entry barrier for competitors. The other valuable asset CTG has is its land bank; this not only makes it easy for CTG to expand its branch network but also generates good rental income. However, the large number of branches also leads to lower efficiency and higher overhead costs compared to other listed commercial banks.</p> |
| <p>Masan Group Ticker: MSN Market cap (USDmn): 1295 Daily turnover (USDmn): 0.14 Sector / Industry: Consumer Staples / Investment</p> | <p>MSN is a conglomerate engaged in food distribution, financial services, and natural resources that aims to encompass all opportunities arising from the emergence of Vietnamese middle class consumers. It partners with a wide range of companies, from food to banks. The most recent partnership was signed with International Finance Corporation of World Bank in May 2010. MSN holds a leading stake in leading food and beverage company, Masan Food, and private bank, Techcombank, and in various private companies that are difficult to dispose of if the company's strategy changes.</p> |
| <p>Vincom SJC Ticker: VIC Market cap (USDmn): 1260 Daily turnover (USDmn): 0.46 Sector / Industry: Financials / Real Estate</p> | <p>VIC was established in 2002 to develop and invest in real estate projects and entertainment venues. It also provides securities brokerage services through its subsidiaries. VIC was listed on HOSE in 2007 as the largest listed real estate company. The real estate sector will benefit from the government's commitment to raising housing quality. However, VIC faces risks including ambiguous regulations around land use, intensifying competition from local companies diversifying into real estate and foreign players entering Vietnam. Furthermore, VIC has fully exploited its crown jewel, Vincom City Tower, and earnings might slow until new projects are launched.</p> |
| <p>Asia Commercial Bank Ticker: ACB Market cap (USDmn): 1168 Daily turnover (USDmn): 0.69 Sector / Industry: Financials / Banks</p> | <p>ACB was originally a private bank listed on HNX in 2006. Therefore, the state does not hold any stake in ACB. But its room for foreign investor stake has already been used up by the three strategic partners, ICF, Standard Chartered and Dragon Capital. ACB has set the standard on many fronts. First, its ROE is the highest in the industry, consistently above 28%. Credit risk is also well managed, as evidenced by the lower than 1% NPL. ACB also diversified well into gold and securities trading and organized the first gold exchange in Vietnam. Although its IT systems are inefficient and the business is too concentrated in Ho Chi Minh City, it has a well diversified portfolio and a solid track record for risk management.</p> |
| <p>Hoang Anh Gia Lai JSC Ticker: HAG Market cap (USDmn): 1141 Daily turnover (USDmn): 1.50 Sector / Industry: Financials / Real Estate</p> | <p>HAG began life as a timber manufacturer, was equitized in 2006 and listed on HOSE in 2008. It expanded into real estate, hotels, rubber, hydropower and mining. HAG's good relationship with banks allows it to offer good pricing and credit terms to buyers. It also holds a land bank sufficient for projects through 2013. However, aggressive growth means high leverage, a maturity schedule in 2010-2011, and an interest burden that squeezes the bottom line, making further capital-raising difficult. Recent sale of convertible bonds to Temasek eased cash flow and proved HAG's ability to tap overseas capital markets. HAG aims to reduce its dependence on real estate from 79% to 35% of revenue in 2012 and expand into natural resources.</p> |
| <p>Saigon Thuong Tin Commercial JS Bank Ticker: STB Market cap (USDmn): 755 Daily turnover (USDmn): 1.89 Sector / Industry: Financials / Banks</p> | <p>STB started by consolidating four credit institutions in Ho Chi Minh. It was the first listed bank in Vietnam and currently has three foreign strategic partners, IFC, ANZ and Dragon Capital, that use up the foreign investment quota. STB's daily turnover is currently the highest among all listed banks. STB has a strong presence in the Chinese Vietnamese community and is targeting the untapped markets in middle Vietnam. However, the old IT infrastructure is insufficient as STB grows its branch network. ROE stays low amid confusing monetary policy – SBV tried to help by keeping the prime rate low yet limiting credit growth. Diversifying away from commercial banking into leasing, securities, asset management and gold trading should help.</p> |
| <p>Vietnam Export – Import Commercial JSB (Eximbank) Ticker: EIB Market cap (USDmn): 754 Daily turnover (USDmn): 0.62 Sector / Industry: Financials / Banks</p> | <p>EIB strength lies in trade finance and foreign exchange, especially for the export-import companies. It listed on HOSE in October 2009 after a successful public offering in 2007. Sumitomo Mitsui Banking Corp is the only foreign strategic partner and owns a 15% stake. Domestically, it has formed successful alliances with various banks and manufacturing companies. The good price that EIB commanded during its public offering gave it plenty of equity to invest in infrastructure and branch network while maintaining a high capital ratio of 30% relative to the 10% average for the industry. But earnings haven't been able to keep pace which has led to a low return on equity. In order to combat its shrinking market share, EIB will likely need to be more aggressive in expanding its network for future growth to stay competitive.</p> |

Source: HSBC, Bloomberg, Company websites. Note: Market cap is taken as at August 2010; daily turnover is taken as the 3-month average for June-August 2010

Notes

Disclosure appendix

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