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RESEARCH REPORT

VIETNAM ECONOMY 2008

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WORLD ECONOMY

The world economy saw a large recession on the worldwide scale. If in the first few months of 2008, world economies faced sky high price increases, in the latter half of the year, the major problem is the chain of bankruptcy of financial institutions, frozen credit market, and economic recession. Investors sold off their stock portfolios and looked for less risky asset such as US bonds. MSCI index, the index of emerging economies stocks fell by 60% relative to its peak in Oct, 2007, of which Ukraine index fell by 80%, Rumanian and Bulgarian indices by 75%, Vietnam, China and India ~ 60%. US\$ 17,000 bil. disappeared from the global stock markets. We also see the appreciation of USD among most major currencies as a result of recession.

In 2008, we also saw the unprecedented involvement of most governments and central banks in the financial systems and the economies. “Money pump”, “nationalization”, and “rescue package” are frequently met in the final months of 2008. It’s too early now to see the effect of these methods but at least, confidence has been partly rescued in the credit and interbank market.

We expect to see further difficulties to the world economy in 2009 as it keeps on bearing the delayed effect of the financial crisis. We see the first two quarters a very difficult time ahead.

In this report, we focus on the major economies that can have big influences on Vietnam’s growth and export so that we can have a clear picture of the world economy as well as Vietnam in 2009. We choose America, Europe, Japan, and China for detailed analysis herein.

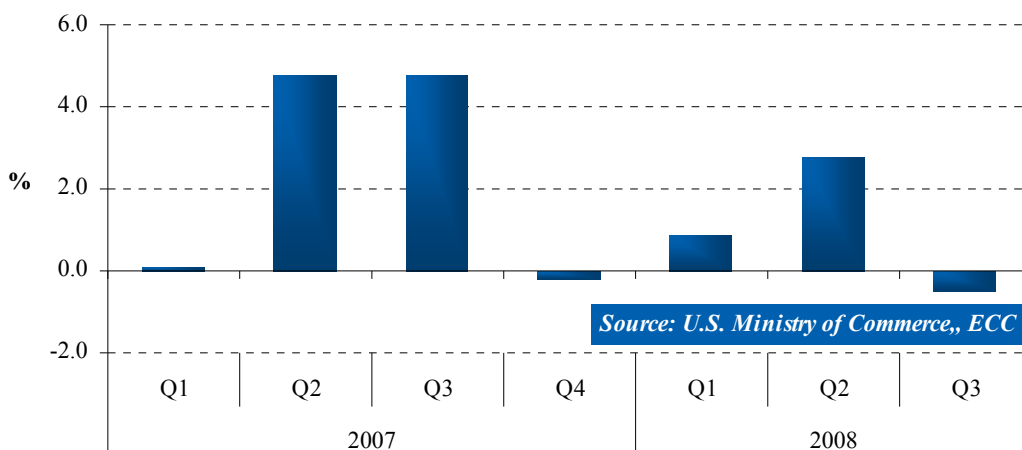
The U.S economy

U.S real estates in 2008 fell by 18% relative to its peak and we expect further decrease in 2009. An average reduction of 21% has been suggested before a recovery in 2010. As such, the root of the crisis will see no early end in 2009, which mean the major part of next year is certain to be very difficult time for the U.S economy as well as the world economy.

GDP growth

In Q3/2008, America saw the clear impact of the financial crisis on the real economy. GDP growth was -0.5% in Q3 relative to Q2, the economy fell into recession. Q4 GDP was predicted to fall as much as 5% relative to Q3. We also expect in the first 2 quarters of 2009, the economy keeps on its falling and predict that for 2009, American economy will fall by 0.8%.

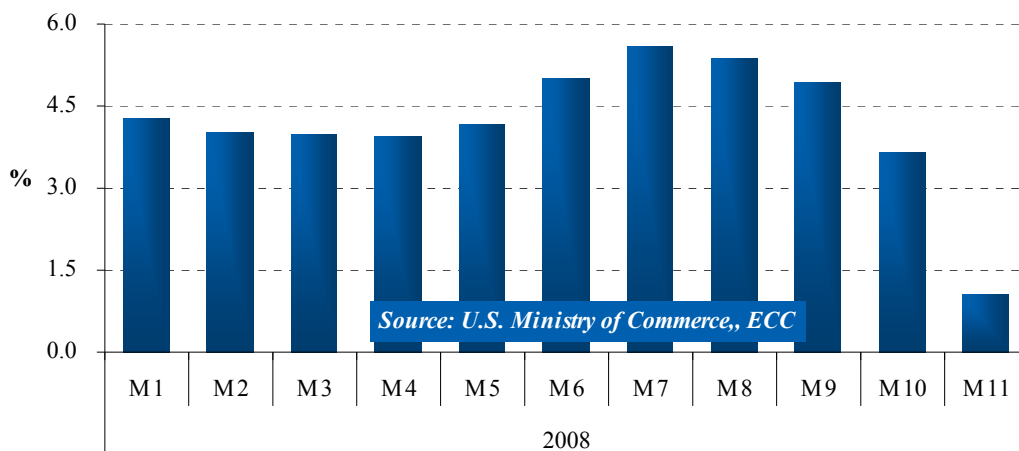
U.S. quarterly GDP growth 2007 - 2008



Inflation

Inflation fell by the last months of 2008 as consumption decreased. In November, y-o-y CPI rose by 1.07% only while CPI in July and August were still around 5%. In December, we estimate CPI to rise slightly by 0.3% and we are very likely to see deflation in the first half of 2009.

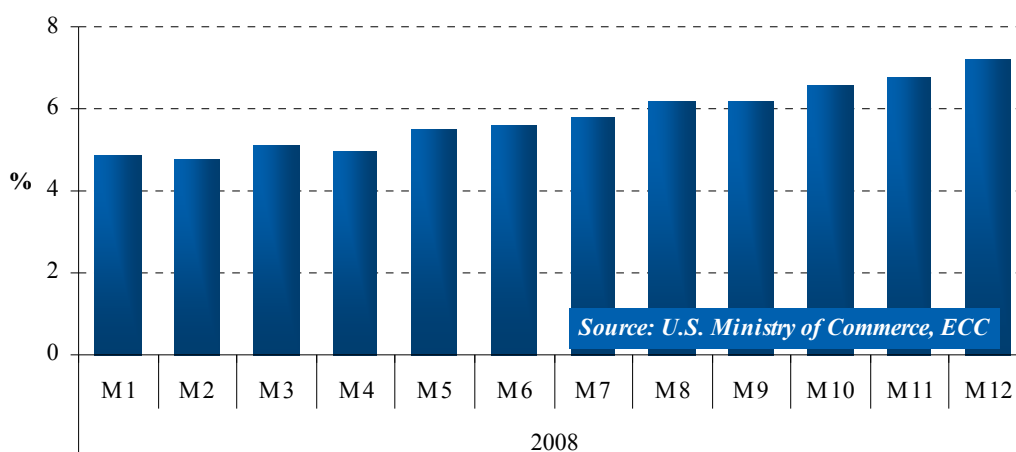
U.S. monthly inflation in 2008



Unemployment

By the end of 2008, 2.6 million jobs have been cut, unemployment rate climbed to 7.2%. We predict the number of unemployed to rise gradually in 2009 and unemployment can climb to two digits.

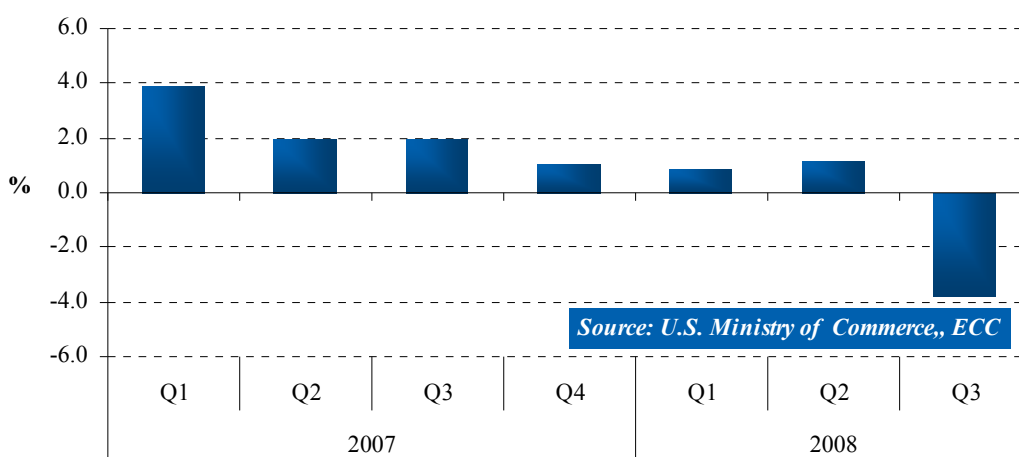
U.S. monthly unemployment rate in 2008



Investment and consumption

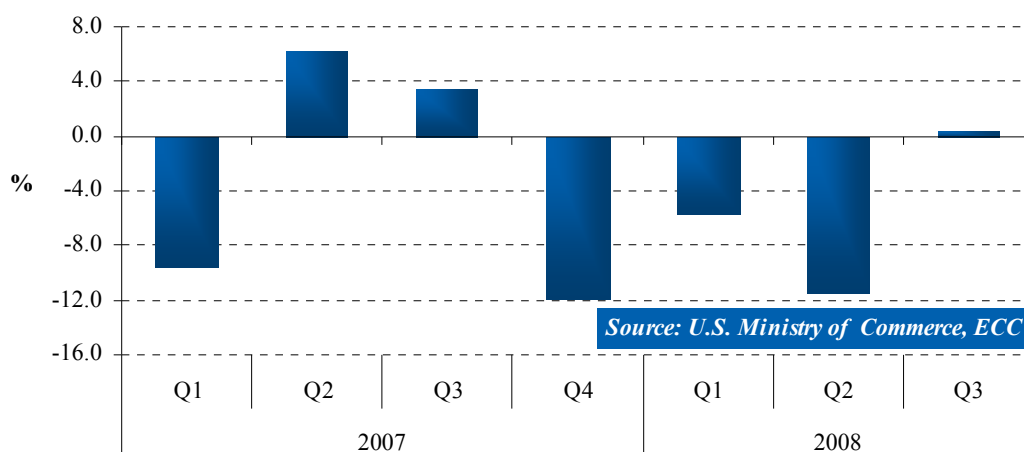
Household consumption, the major contributor to American GDP growth, slumped by 3.8% in Q3/2008 compared to Q2. Durable goods such as autos, houses, machinery saw sharp reduction of 14.8% after falling 4.3% and 2.8% in two previously quarters. Service is less impacted with a negative growth of just 0.1% in Q3 while on average, goods and products consumption fell by 7.1%. In Q4/2008, we predict that household consumption continue to fall (retail revenues have fallen for 6 months consecutively). In December/ 2008 only, retail revenues fell by 2.7%, as much as two times that predicted by analysts as consumers tightened their budgets as they were fear of being unemployed.

Quarterly private consumption growth 2007 - 2008



Private investment recovered in Q3 after falling for 3 consecutive quarters starting from Q4/2007. However, real estate investment still fell dramatically in Q3 at -16% after falling 25.1% and 13.3% in two previous quarters. Fixed asset investment fell by 5.3% in Q4 and predicted to further reduce in Q4 and in 2009.

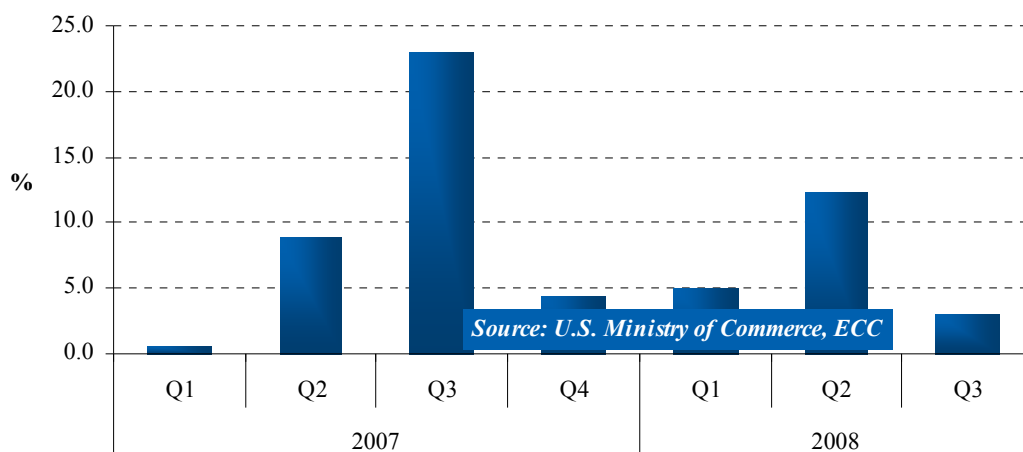
U.S. quarterly private investment growth 2007 - 2008



Export – Import

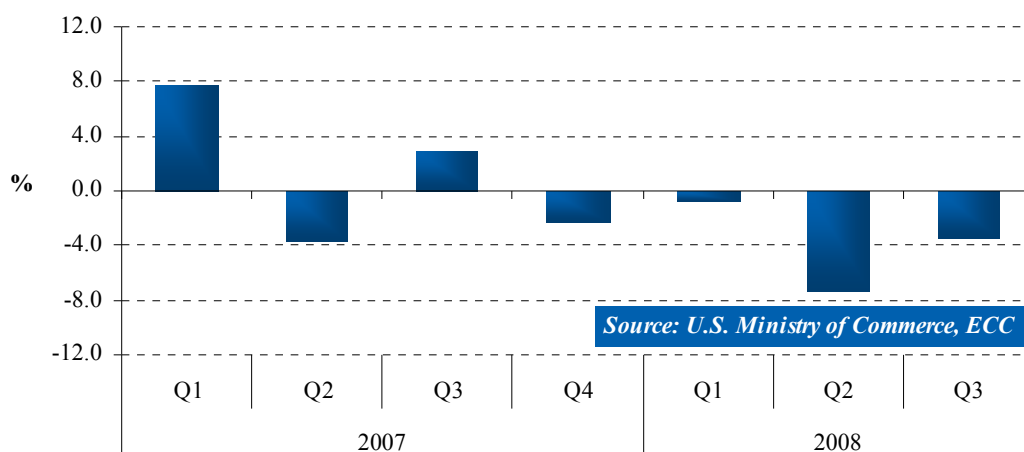
Export accounts a major part in economic growth. Export enjoyed growth in first 3 quarters of 2008 despite the appreciation of USD against other major currencies (except for JPY). However, the growth has been reduced in Q3 to 3% from a strong growth of 12% in Q2, of which, product export rose by just 3.7% compared with that of 16.3% for Q2. We predict that in Q4/2008, export is still on the rise but in 2009, it will fall by 2.8%, creating more difficulties for the economy.

U.S. quarterly export growth 2007 - 2008



By the end of Q3/2008, Import has fallen for 3 consecutive quarters with Q2 the hardest at -7.3% relative to Q1/2008. The sharp reduction in consumption and investment resulted in demand for imported products. Product import, in particular, fell by 4.7% in Q3/2008, facing 4 consecutive quarters of decrease since Q4/2007. Service import, however, saw a recovery in Q3, rising by 3.3%. In relation with Vietnam, it's clear that American import reduction will be a major impact on Vietnam export in 2009 as this market accounts for 25% of Vietnam export, particular industries such as footwear, textiles, seafood, furniture, electronics equipments.

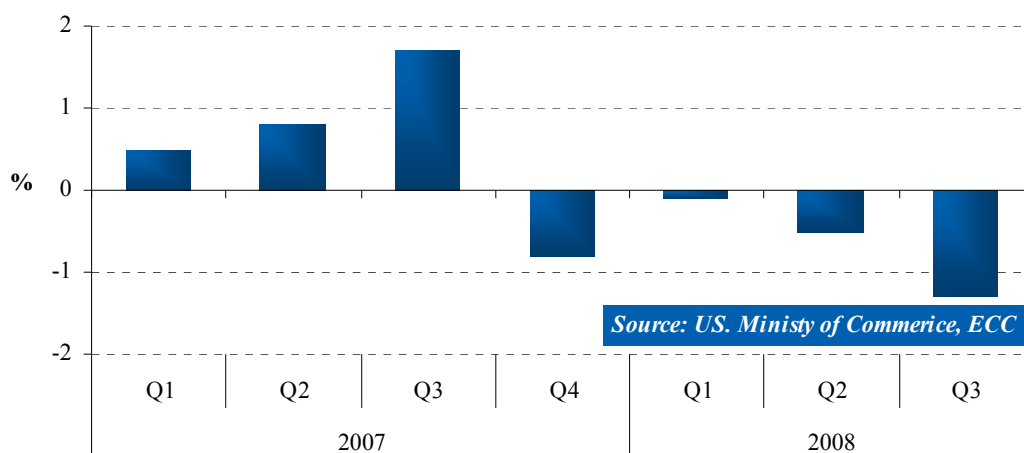
U.S. quarterly import growth 2007 - 2008



Industrial output growth

Industrial output slumped for four consecutive quarters since Q4/2007. The rate of reduction keeps higher from -0.1% in Q1 to -1.3% in Q3. We predict further reduction in industrial output for Q4/2008 and 2009 as major industries such as autos, electronics, and minery still face many difficulties ahead.

U.S. quarterly industrial output growth

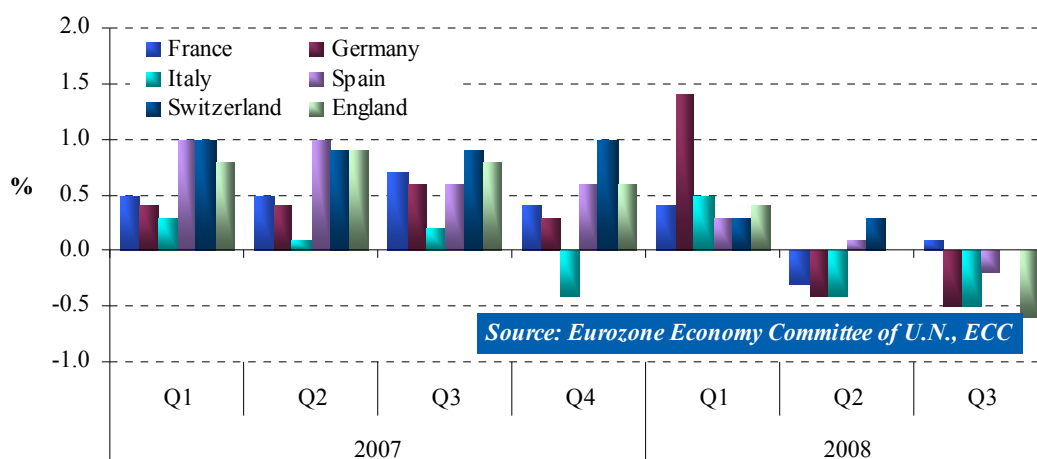


Europe economy

GDP growth

Most of Europe major economies had negative GDP growth in Q3/2008, except for France (+0.1%). England was hit hardest with GDP ~ -0.6% with Q3/08 the first one it had negative growth in last 7 quarters. Even Switzerland, a strong economy, can not avoid the affect of the global crisis. In Q3, it enjoyed no growth, the lowest in the last 10 years. Europe major economies are predicted to see negative GDP growth for 2009 from -0.5% to -1.3% with England still the worst with -1.3% GDP growth. Eurozone GDP is predicted to decrease by 0.6% in 2009.

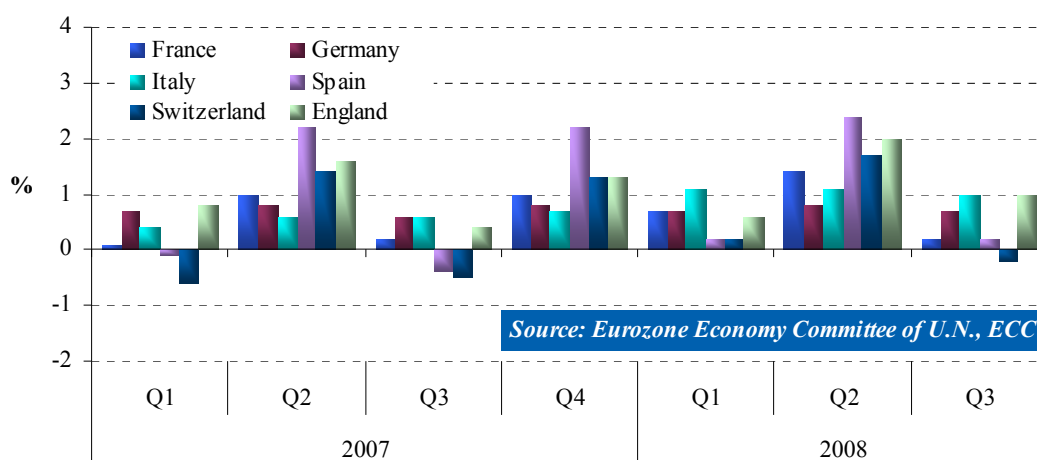
Eurozone quarterly GDP growth



Inflation

Inflation rose strongly in Q2/2008 in most economies, with Spain the highest at 2.4%, followed by England at 2%. Q3/2008 saw downward inflation to a level lower than that of Q1/2008, in particular Switzerland had an inflation of -0.2%. We expect to see further deflation in Eurozone in Q4/2008 and the first 2 quarters of 2009.

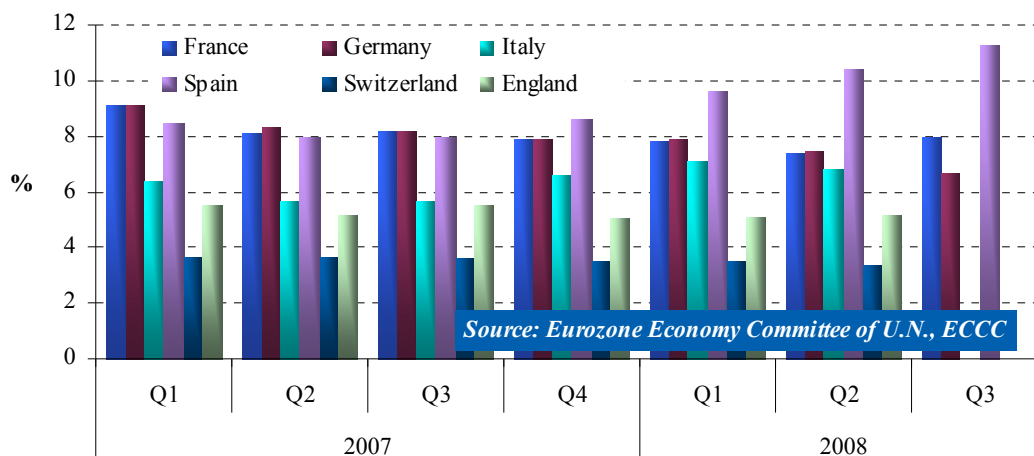
Eurozone CPI growth



Unemployment

Unemployment rose in most of Europe major economies at higher speed. Spain faced the highest at 11.3% for Q3/2008. The number of unemployed is predicted to rise significantly in 2009 with more than half the economies face double-digit unemployment rates.

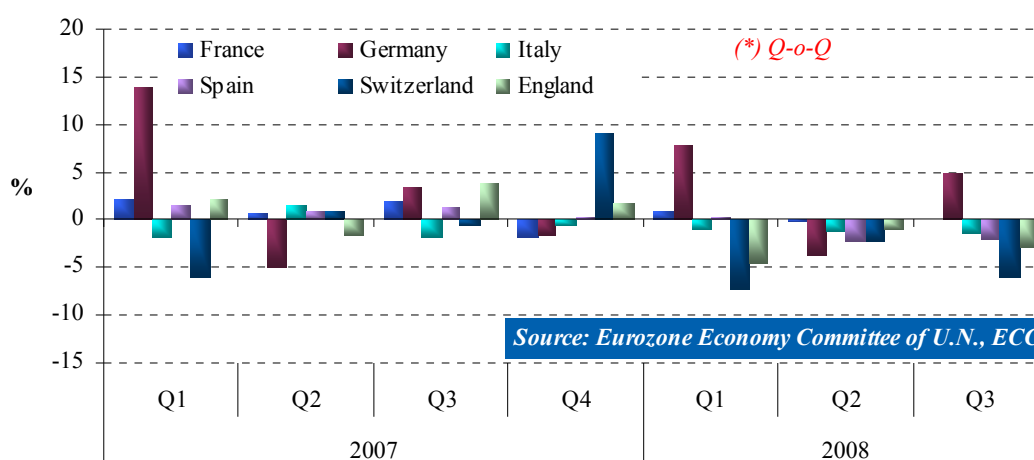
Eurozone quarterly unemployment rate



Investment

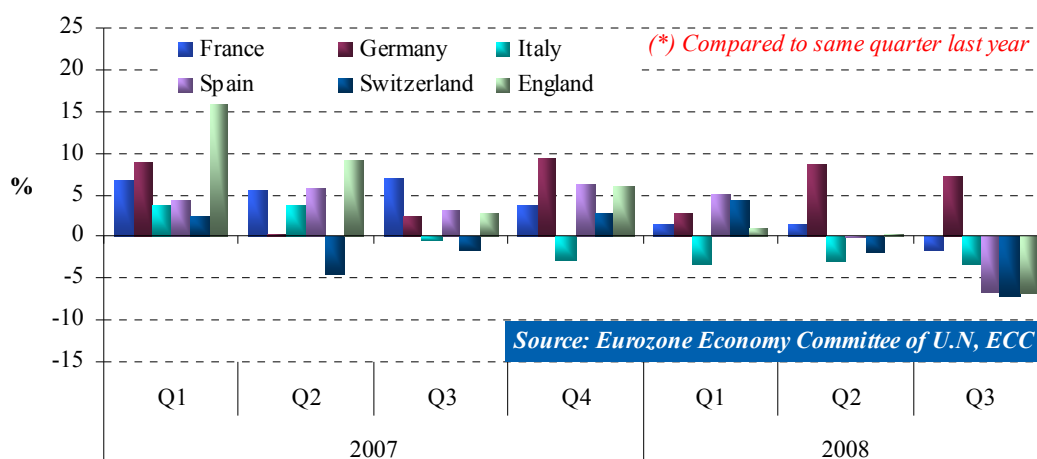
Except for Germany that saw a recovery in investment in Q3 after the slump in Q2, all other Europe economy faced reduced investment in 3 consecutive quarters with Switzerland the hardest at -6% in Q3 after falling 9% in the first two quarters of 2008. Global recession originated from the U.S has quickly expanded to negatively affect investment demand in Europe as companies cut down on productions.

Eurozone quarterly investment growth (*)



We see even clearer reduction in investment when comparing quarters of 2008 with those of 2007:

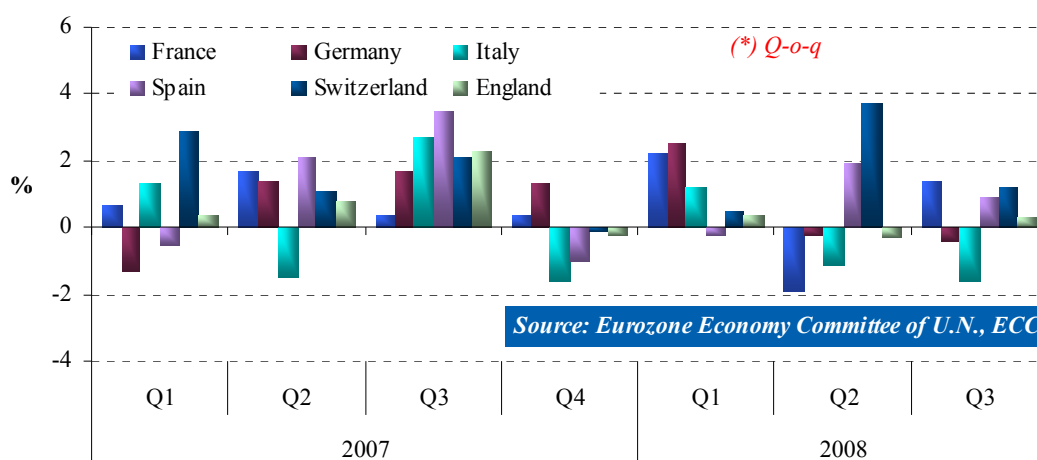
Eurozone quarterly investment growth *



Export - Import

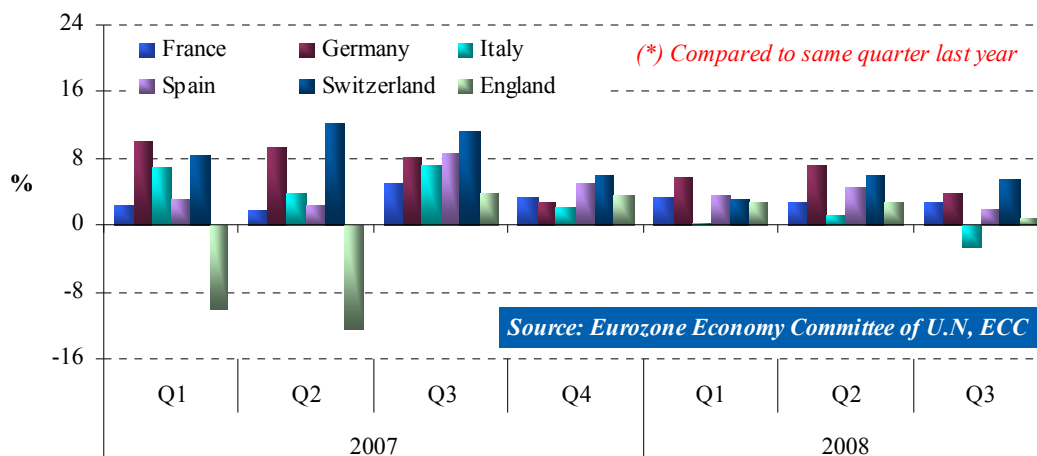
There is differentiation among Europe economies in term of export. While France, Spain, Switzerland, and England still maintained its growth for Q2-Q3/2008, we saw signs of reduction mostly clearly in Germany and Italy for both quarters. Spain saw a recovery in export in Q2 and Q3 and the reduction in Q1.

Eurozone quarterly export growth *



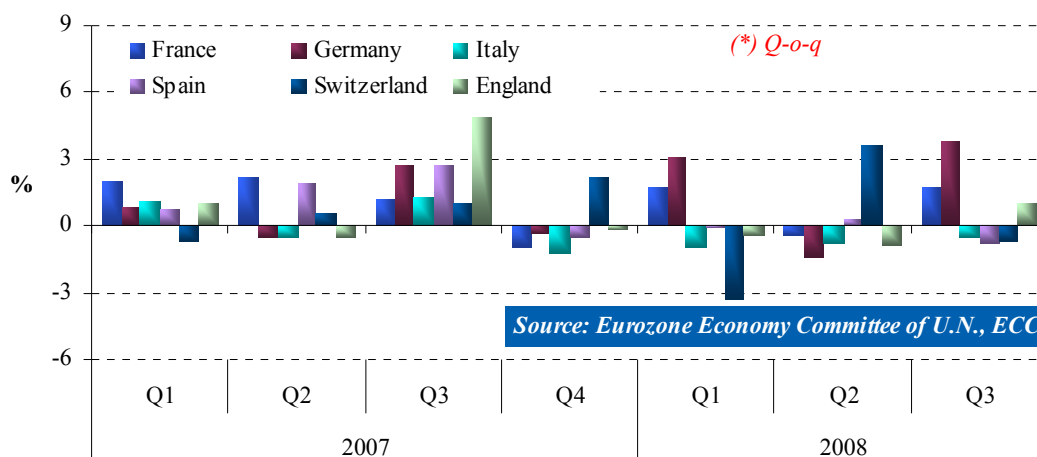
Compared to last year, Europe still enjoyed export growth (with an exception of Italy in Q3/2008); however, there has been a slowdown and differentiation. Because Euro lost value against USD and JPY in Q4/2008 and in 2009, Europe economies may have support to enjoy trade surplus.

Eurozone quarterly export growth *



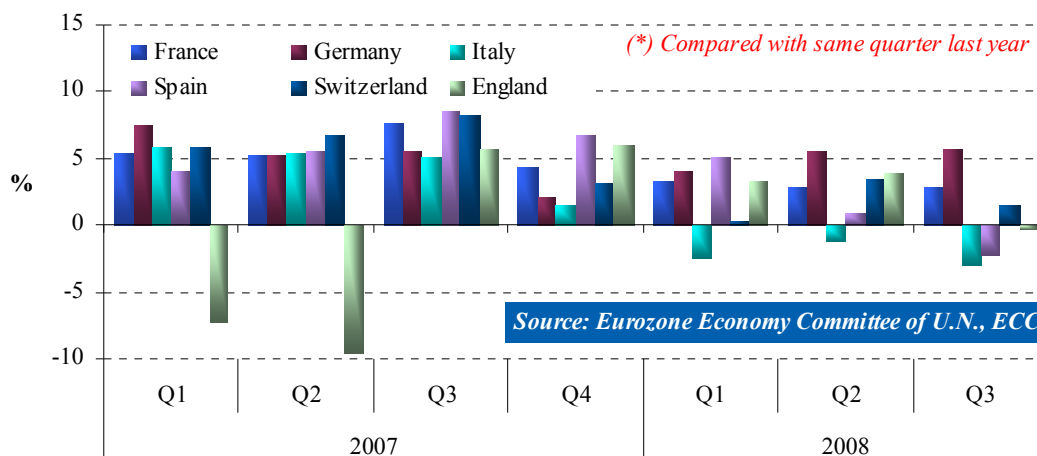
After the reduction in Q2, import rose again in Q3 in Germany (4%) and France. Similarly, England import rose in Q3 after 3 consecutive quarters of negative growth. Italia, however, have seen 4 quarters of negative import growth.

Eurozone quarterly import growth *



Compared to same period last year, France and Germany import grew fairly in 3 quarters of 2008, while Spain and Italy had import reduction. England import was down recently, while Switzerland had a small increase in import. Vietnam companies need to look closer at the fluctuation of each country and each industries to restructure their exports to overcome the difficult times of 2009.

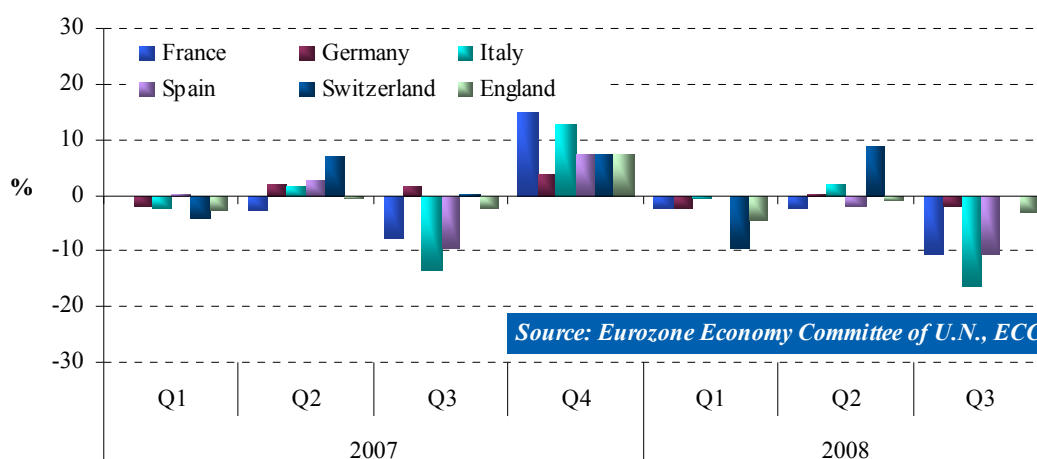
Eurozone quarterly import growth *



Industrial output growth

Europe economy saw the industrial output slump in Q3/2008, led by Italy at -16.3%, followed by France and Spain (both at -10.6%). Global recession is predicted to continue to affect industrial output in Q4/2008 and first 2 quarters of 2009.

Eurozone quarterly industrial output growth



Japan economy

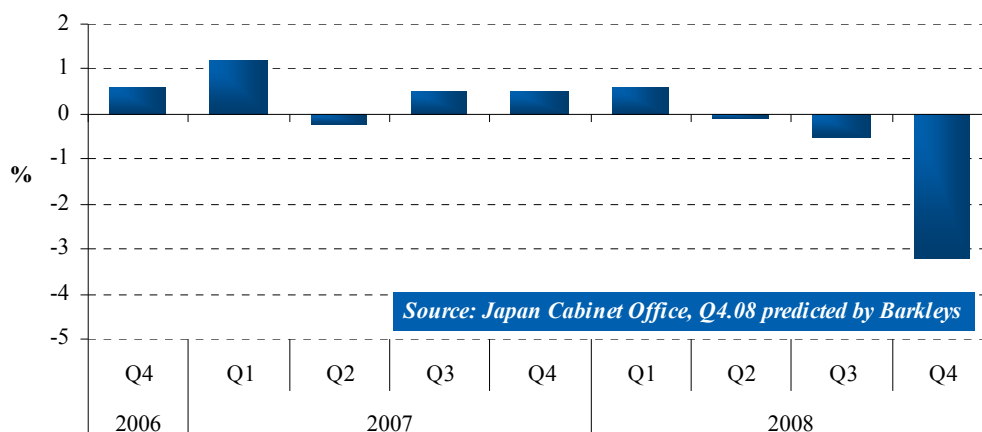
Japan was hit by the current crisis since 2007 and the effect has been clear since late 2008

In 1989, Japan securities bubble busted, the real estate market, however, maintained its growth till mid 90s. The economy starts facing difficulties as banks faced huge losses because of their investments in real estates. To save the economy, the government undertook a series of monetary policy: cutting the prime rate from 6% (1990) to 0.5% (early 1995) and 0.15% (March/2001) and maintained this low interest rate till 2006. Along with monetary policies are stimulus packages (from 1992 to 2000, Japan issued 10 different demand stimulus packages, focusing on government's infrastructure spending). Till late 1999, despite numerous monetary policies, interest rate was ~ zero, the economy was worsened, particularly during Asian financial crisis 1997-1998. Early 2000, Bank of Japan (BoJ) had to change to a different type of monetary policy: quantitative easing (QE). The government through the banking system pumped money directly into firms to meet liquidity demand and overcome

deflation. A series of actions to restructure banks' financials, the source of economic recession, have been undertaken. In the period 1990-2003, Nikkei index was down from 39,000 to below 8,000 in March/2003. It takes up to 2006 for Japan to recover (higher interest rates from 2005 to 2007; Nikkei increased 50%) however since mid 2007, Japan began to bear to effect of the global recession although the economy got worsening significantly late 2008.

GDP growth

Japan quarterly GDP growth in 2007 - 2008



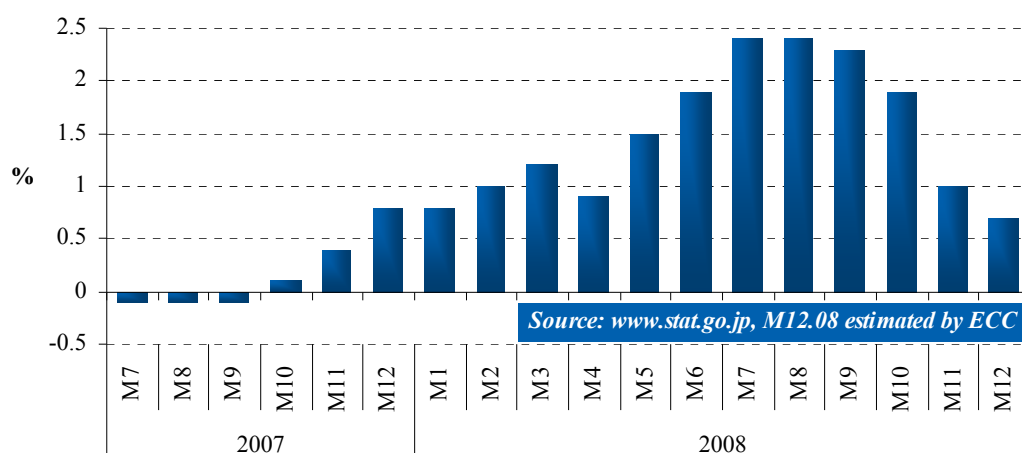
For 2009 (starting from 01/04/2009 for Japan), GDP growth is predicted to be from -0.1% to 0%

Japan 2007 GDP was US\$ 4,384 billion, up 0.2% compared to US\$ 4,375 billions in 2006. In Q1/2008, GDP increased 0.6% compared to the previous quarter, however, GDP was negatively in the next 3 consecutive quarters, -0.1% (Q2), -0.5 % (Q3) and forecast -3.2% (Q4). Japan official stepped into recession in 2008 and 2009 with GDP forecast to be 0% (according to Japan government) and -0.1% (WB).

Main causes for GDP slump was industrial production (in particular autos and electronics) which sluggish from Q3/2008. In November, 2008, industrial production dropped -8.1% compared to Oct.2008; export dropped -26.7% compared to same period in 2007.

Inflation

Japan monthly inflation rate



By the end of 2007, there were signs of returned inflation after a long period of deflation. In first 9 months 2008, high inflation negatively affected consumption and created difficulties for Japan to undertake its monetary policy. The main cause of high inflation was high fuel and equipment price worldwide.

Japan may face with deflation again since Q2/2009

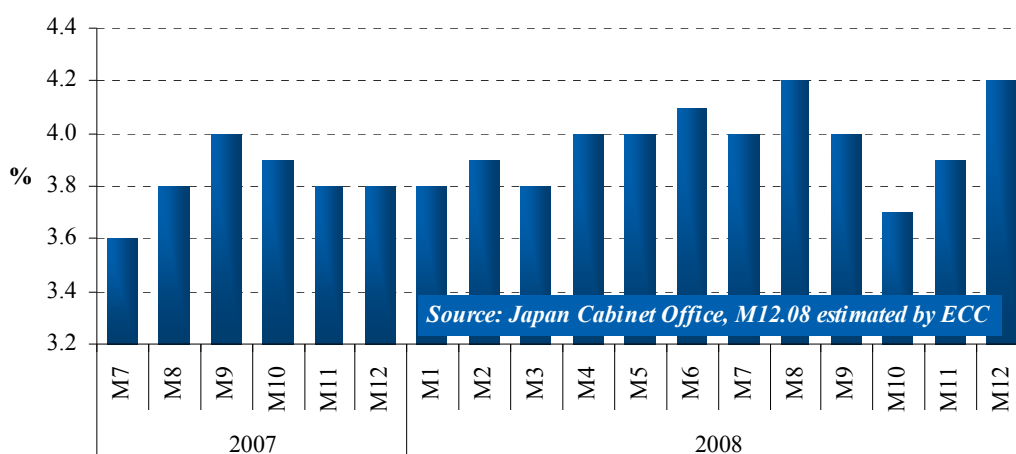
However, the world financial crisis rooted from the U.S. breaking out since Sept/2008 raised worries about a coming recession, leading to the sharp decreases of goods and products and the possibility of deflation in Japan and other economies. After peaking in July-August (core inflation up 2.4%) and in September (up 2.3%), core inflation decreased significantly from Oct/2008 and till Dec/2008, core inflation was just 0.7%.

In the context of worldwide recession in 2009, sky high unemployment and reduced consumption, Japan will soon face with deflation that can come as early as Q1-Q2/2009.

Unemployment

Unlike in the US and other developed countries, there was no big increase in Japan's unemployment rate until November, 2008. However, since October, 2008, industrial output and company profits have seen a considerable slump, many big corporations like Toyota announced loss, investments were cut, the number of bankruptcy increased. We expect Japan's unemployment to rise from January, 2009 and can reach the top by Q2 or Q3 of 2009.

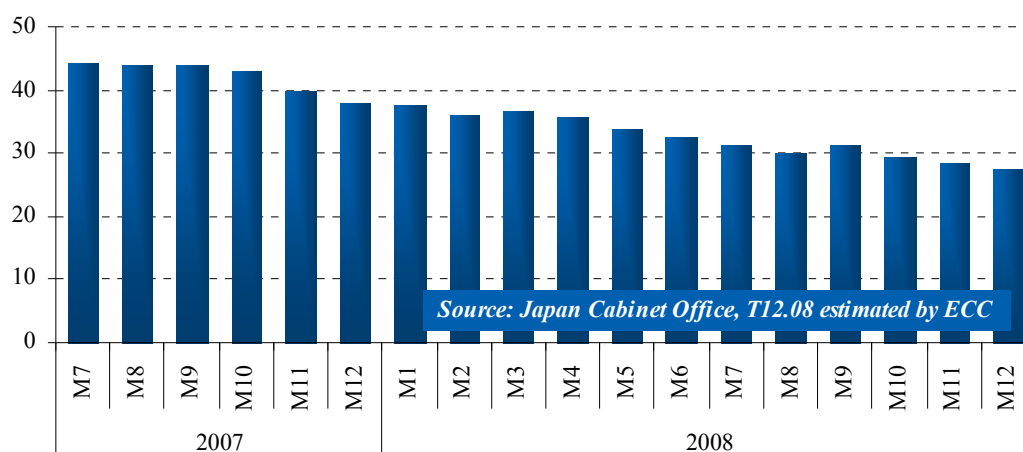
Japan monthly unemployment rate



Consumer confidence

Consumer confidence index dropped from 37.6 (Jan, 2008) to 28.4 (Nov, 2008), the biggest drop in the last 20 years, showing that consumers are losing confidence in the economy at the moment.

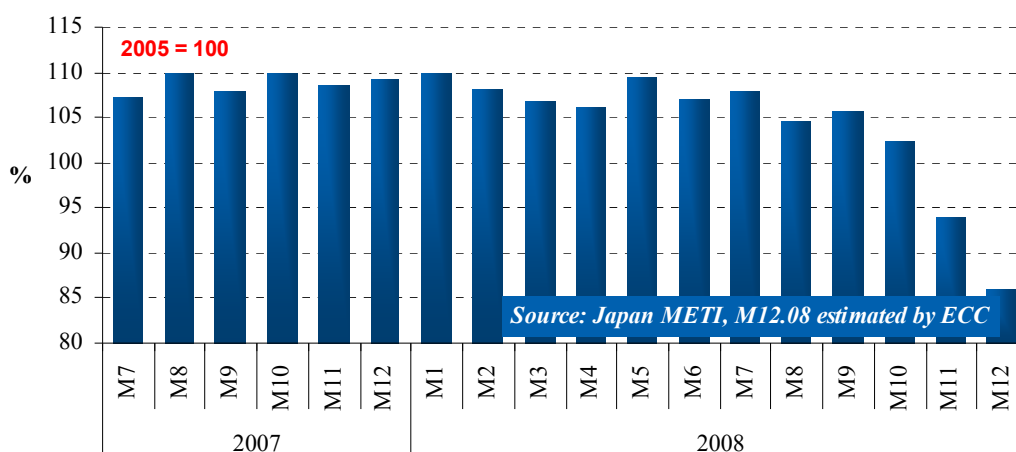
Consumer confidence index



Industrial output growth

Starting from September, 2008, industrial output went down at high speed, fixing at 105.8 (Sept), 102.3 (Oct) and 94 (Nov). Industrial output saw big drops in autos and electronics as a result of low demand from domestic and overseas markets.

Monthly industrial output growth



China economy

China main economic figures

Economic figure	2005	2006	2007	2008	2009*
CPI	1,8	1,5	4,8	6%	-0,5
Change in foreign reserves (US\$ bil.)	207	247	462	472*	200
GDP growth	10.4	11.6	11.9	9.0*	4
Foreign reserves (US\$ bil.)	819	1.066	1.528	1.900*	2.100
Foreign debts (US\$ bil.)	-	-	-	-	2.000

Source: WB & (*) estimated by ECC

- **Capital changes direction- bad sign for the economy:**

Capital outflows is a big risk for China in 2009. The first sign is the reduction in China's foreign reserves in Oct. 2008, the first drop since 12/2003 to below US\$ 1,900 bil. Despite enormous trade surplus (although this surplus is currently supported by USD appreciation against EUR). China is now facing hot money outflows (hot money-foreign investors put money into the yuan in expectation of an appreciation). Parts of the outflows will be from foreign investments. For instance, this Jan, 2009, Bank of America sold US\$ 2.83 bil. (5.62 units) of China Construction Bank, UBS sold equivalent US\$ 900 mils of Bank of China in Dec, 2008, RBS may sell equivalent US\$ 3 bils. of Bank of China...Currently, stocks of China's biggest commercial banks have foreign investors as strategic investors (RBS, Temasek, UBS.. in Bank of China, Goldman Sachs, Allianz SE & American Express in the Industrial and Commercial Bank of China...). China's biggest banks also hold large amounts of American institutions, in particular Fannie Mae and Freddie Mac (*Almost 10% GDP of China in 2007, according to New York Times*). China Central Bank may look closer at the appropriateness of trading payments in its road to control of exchanges carried over border.

- **Real estates:** China real estates enters the worst time in 10 years. According to Peking General Statistics Office, in November 2008, in Peking, 7.389 millions metres square was sold, down 52.4% compared to same time in 2007. Until the end of December, 2008, the number of houses and apartments sold reached just 188,000, while those remained unsold was 174,000 and 360,000 houses and apartment left empty. If the number of houses and apartments were sold in the following year is similar to that of 2007 (120,000), it will take 3 more years to sold out the remained houses and apartments before any new constructions. Similar to Peking, in Shanghai, revenues from housing dropped 57%. Although the price has not dropped significantly in 2008 (down 10%) with low demand, we expect further cut in housing price.
- **Electricity production down- bad sign for industrial output:** Electricity production in Oct/2008 dropped 4% compared to same period last year, in November and December this figure was -11% and -6%, respectively. Big reductions in electricity output in the last months of 2008 implied much lower demand from heavy industries (steel, chemicals, construction materials) as a result of production cut.
- **Export and Import slump in 2009:** Export dropped for 2 consecutive months in November (2.2% compared to same period last year) and December (2.8%) in USD value. However, in Chinese Yuan, export dropped -9%. December import dropped even highest at 21.3% compared to same period last year, implying a much lower demand for materials for export for the first quarter of 2009. We estimate that China export will drop 17%-20% in 2009 and contribute negatively to GDP growth. On 8/1/2009, Bank of China announced its plan to use Yuan to replace USD as the payment currency first to Hongkong, Macau, and Southeast Asia. This is an attempt to support export companies by guarding them against exchange risks.

Difficulties that China may face in 2009:

- Dropped export
- Reduction in revenues and profits
- Dropped real estates price. A bubble burst is unlikely but if it happens, China will be the focus of the world economy.
- Increased inflation
- More companies filing for bankruptcy, merging or closing.
- GDP much slower to 0-4%, ending a period of double digit growth.

Measures to support the economy recovery:

- US\$ 586 billion demand stimulus package for 2009-2010 includes: tax cut, favorable loans to small and medium sized enterprises, building and infrastructure investments.
- Limit further US bond purchases: In 2008 and the previous years, a majority of China bank's required reserves was put on US bonds. In 2009, this will be used to push domestic demand and cover for lower FDI inflows.
- Continue monetary policy and cutting prime rate.

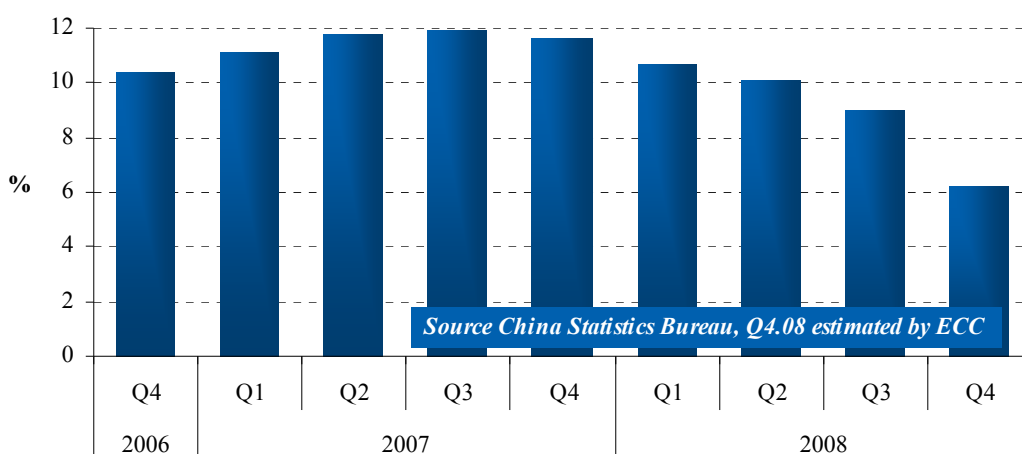
GDP growth

In our worst scenario, China GDP growth may be around 4%, making it one of the biggest shocks after 30 years of world's highest growth.

GDP growth in 2009 will be deteriorated considerably, contributed by investment reduction, in particular the construction area even though the government is actively in spending on space, airlines, technology. Economic difficulties will result in much higher savings and lower consumer spending as well..

WB predicted that China GDP would grow by 9.6% in 2008 with Q4 GDP was 8.4% compared to same quarter 2007. GDP growth for Q4 turned out to be much lower at 6.8%. According to WB, GDP for 2009 will be around 7.5% (Deustch Bank: 7-7.6%). However, we think that if the situation is not improved, GDP growth for 2009 may be around 4%, making it one of the biggest shocks for China after 30 years holding the world's record in GDP growth.

China quarterly GDP growth 2007 - 2008



Inflation

China monthly inflation rate 2007 - 2008



We estimate CPI for China in 2009 soon to drop to 0%

The sharp drop in oil and other products prices in Q4/2008 caused China to see the lowest CPI growth in two years at 2.4% (compared to October CPI of 2.4%) with December CPI estimated to be around 1%. If this trend continues, we will see zero or negative CPI growth for the first few months of 2009. The case of deflation in China for 2009 is potential as the pressure to cut down on prices is still considerable. In our scenario of economic growth to reach its lowest point in Q2 or Q3/2009 and may start to recover from Q4/2009, we estimate CPI for the whole year to be around 0%.

THE CHARACTERISTICS OF VIETNAM ECONOMY AND FINANCIAL MARKETS

Balance of Payments

Current Account

Trade Account

According to the General Statistics Office (GSO), export turnover (on FOB basis) for 2008 achieved US\$ 62.9 bil., an increase of 29.5% compared to last year. The FDI sector (oil included) achieves US\$ 34.9 bil., up 25.7%, accounting for 49.7% of export increase; domestic sector achieves US\$ 28 bil., up 34.7%, accounting for 50.3%. Of total export, heavy industries and minery account for 31% and agri-product and seafood 16.3%. Export turnover of majority of goods increased compared to those of 2007 mainly because of world price hike.

Import turnover for 2008 is estimated at \$US80.4 bil., an increase of 28.3% compared to 2007. Of that, domestic sector imported ~ US\$ 51.8 bil., up 26.5%, FDI sector US\$ 28.6 bil., up 31.7%. Production materials account for 88.8%, consumer products 7.8%, and gold 3.4% (in 2007, proportions of them were 90.4%, 7.5%, and 2.1%, respectively). If we take out the price factor, import turnovers increases by 21.4% only. While import for production increases for the whole year, it slowed down in the last months of 2008, meaning a halt in production for 2009. Consumer products import is still on the rise, however, putting pressure on domestic products. Autos and components import made a record at US\$ 2.4 bil., of which cars imported directly overseas accounts for US\$ 1 billion or 50,400 units (cars under 12 seats ~ 27,500 units)

Trade deficit for 2008 is US\$ 17.5 bil., estimated at US\$ 13 bil. for 2009

Trade deficit for 2008 is US\$ 17.5 bil., up 24.1 % compared to 2007 and equivalent of 27.8% of total export. While trade deficit has been narrowed down in the last months of 2008, it is still at a high level, of which Vietnam has the biggest deficit trading with Asia (Trade deficit with China at US\$ 10.8 bil., up US\$ 1.7 bil.)

For 2009, we estimate export at US\$ 52 bil., down US\$ 10.9 bil. relatively to 2008 or -18%. Import is on the downtrend as well, estimated -18% relative to 2008, trade deficit to be narrowed down to US\$ 13 bil.

Service balance

According to GSO, service export for 2008 is US\$ 7.1 bil., up 9.8% compared to 2007. Of that, tourism is US\$ 4 bil., up 7.2%, air service US\$ 1.3 bil., up 23.7%, sea transportation US\$ 1 bil., up 27.7%.

Service deficit is US\$ 0.8 bil. for 2008 and US\$ 0.6 bil. for 2009

Service import for 2008 is US\$ 7.9 bil., up 10.3%, of which tourism US\$ 1.3 bil. (+ 6.6%), air service US\$ 800 mil. (-2.4%), and sea transportation US\$ 300 mil. (+20%)

Service balance deficit for 2008 is \$US 800 mil.

In 2009, we see troubles facing most services with tourism a major hit. We estimate service export ~ US\$ 5.6 bil., down 20% compared to 2008. Service import down 22% to be at US\$ 6.2 bil.

For 2009, service deficit is US\$ 0.6 bil.

Net external income

Net external income estimated at US\$ -2.61 bil. for 2008 and, US\$ -2.74 bil. for 2009 According to previous years statistics (average -2% GDP) and Q3-2008 (-2.9%GDP), we estimate this to account for 3%GDP or -US\$ 2.61 bil.

Estimatedly, net external account will be -US\$ 2.74bil. for 2009.

Net current account transfer

Remittance for 2008 was estimated (by SBV) at US\$ 8 bil. We expect net current account transfer for 2008 at US\$ 8.2 bil.

Net current account transfer of US\$ 4,2 bil. for 2009 In 2009, we predict that remittance will be just 50% that of 2008, resulting in Net current account transfer of US\$ 4.2bil.

In all, current account deficit is US\$12.71 bil., improved by 4.4% compared with that of US\$ 13.33 bil for first 6 months 2008.

We predict that in 2009, current account deficit will be at US\$ 12.124 bil.

Capital account

Net foreign direct investment

According to GSO, in 2008, registered FDI was at a record level of US\$ 64 bil, three times higher than that of 2007, of which US\$ 60.3 bil. is new investment and US\$ 3.7 bil. added capital. Industrial and construction sector accounts for 54.1% or US\$ 32.6 bil.; service 45.5% or US\$ 27.4 bil. However, we only pay attention to disbursed FDI (US\$ 11.5 bil.) when calculating net foreign direct investment.

FDI equals US\$ 11.5 bil. for 2008, estimated at US\$ 7.2 bil. for 2009 In 2009, we expect a reduction in disbursed FDI compared with 2008. In 2008 FDI, Malaysia, Taiwan, Japan and Singapore account for 80% of registered capital. These economies will face many more difficulties in 2009, while owners' capital of projects only account for 30% (70% in loans), then, we have a conservative estimate of disbursed FDI for 2009 at US\$ 7.2 bil.

Medium and long term debt

Medium and long term debt is estimated at US\$ 1.227 bil. for 2008 and US\$ 1.3 bil. According to GSO, disbursed ODA for first 9 months 2008 was **US\$ 1.227 bil.** (74.5% annual project) of US\$ 1.826 bil. pledged.

According to the meeting of Vietnam donors late December 2008, ODA for 2009 will be US\$

for 2009

5.12 bil., we estimate disbursed ODA for 2009 is US\$ 1.3 bil.

Short term debt

Short term debt for 2008 is US\$ 0.261 bil. estimate for 2009 is US\$ 0.274 bil.

We do not have official data about this item. However, based on previous years and Q3 statistics, (average for 1999- 2007 is 0.11% GDP, for 2007 is 0,1% and for Q3/2008 is 0,3%), we estimate short term debt at 0.3% GDP for 2008 or US\$ 0.261 bil.

Estimatedly, for 2009, short term debt is US\$ 0.274 bil.

Foreign Portfolio Investment

Foreign portfolio investment is US\$ -1,82 bil. for 2008 and estimated at US\$ -1.2 bil. for 2009

Per our statistics, in 2008, foreign portfolio investment is VND -31,005 bil. or – **US\$ 1.82bil.** Of that, net bond investment is VND -37,383 bil. (-US\$ 2.2 bil.), net stocks investment is VND 6,378 bil. (US\$ 0,38 bil.). Until 16/01/2009, foreign investors keep on selling bonds ~ VND 2,645 bil., buying stocks at VND 151 bil. With the concentration of international capital flows that will continue in 2009, we expect foreign investors to be net sellers for 2009, FPI for 2009 is predicted at **US\$ -1.2 bil.**

Deposits

Last several year statistics showing that cash deposit within capital account varies inconsistently, it was negative from 1999 to 2001, 2005-2006, but positive in 2002-2004 and increases strongly in 2007 and Q1/2008. In particular, this figure in FY 2007 and Q1/2008 are about USD 2.623 bil. (3.7% GDP) and USD 3.302 bil. (1.79% GDP) respectively.

In 2008, we saw the reduction of capital from developed countries to developing ones, down from 2% GDPs of developed countries (2007) to 1.8% (2008) (WB). Vietnam is not an exception and we expect deposits for 2008 at 1.8% GDP or US\$ 1.57 bil. For 2009, we predict deposits at US\$ 1.1 bil.

Overall, capital account surplus for 2008 is US\$ 12.87 bil. with FDI the major contributor (89.37%). We predict capital account surplus at US\$ 8.67 bil. for 2009

Balance of payments and Foreign reserves

Balance of payments in 2008 is + US\$ 0.16 bil., so estimated foreign reserves is US\$ 23.76 bil.

Increase/decrease in foreign reserves equals surplus/deficit in balance of payments if the country does not depend on special aids

Balance of payments in 2008 is + US\$ 0.16 bil., so estimated foreign reserves is US\$ 23.76 bil.

Balance of payments for 2008 and forecast for 2009

Unit: US\$ bil.

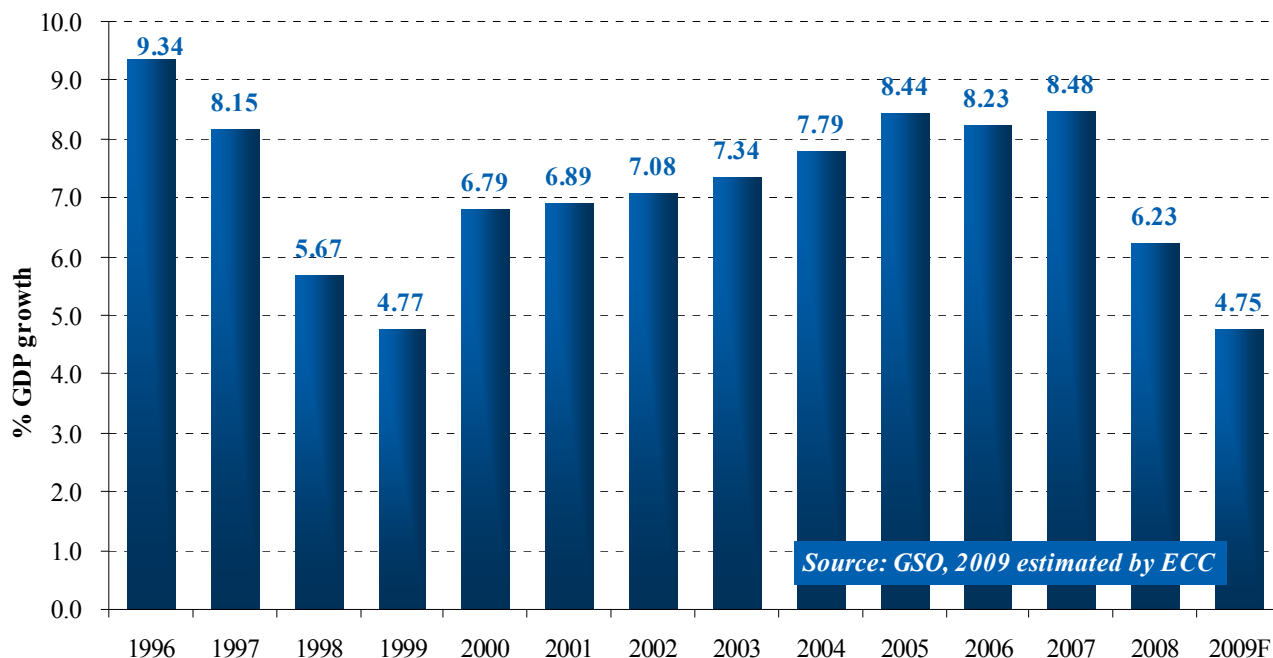
No.	Items	2007	% GDP	9M/2008	2008	2009F
1	Trade Balance	-10.36	-14.5	-15.83	-17.50	-13.00
	Export (FOB basis)	48.56		49	62.90	52.00
	Import (CIF basis)	58.92		64	80.40	65.00
2	Balance of services	-0.89	-1.3	-0.97	-0.80	-0.60
	Export	6.03		0.00	7.10	5.60
	Import	6.92		0.00	7.90	6.20
3	Net income from external sources	-2.17	-3	-1.84	-2.61	-2.74
	Inflow	1.09		0.00		
	Payments	3.26		0.00		
4	Net current account transfer	6.43	9	5.82	8.20	4.20
	Private sector	6.18		0.00		
	Government sector	0.25		0.00		
I	Current Account	-6.99	-9.8	-12.82	-12.71	-12.14
	Net FDI	6.55	9.2	8.10	11.50	7.20
	Medium and long term borrowing	2.05	2.9	1.23	1.23	1.30
	Short term borrowing	0.08	0.1	0.18	0.26	0.27
	Foreign portfolio investment	6.24	8.8	0.83	-1.82	-1.20
	Cash deposit	2.62	3.7	2.27	1.70	1.10
II	Capital Account	17.54	24.6	12.61	12.87	8.67
	Error item	-0.35		-1.49	0.00	0.00
III	BALANCE OF PAYMENTS	10.20	14	-1.70	0.16	-3.47
IV	Reserves at ending	23.60		21.90	23.76	20.29
	Reserves change at current term	10.198		-1.702	+0.16	-3.47

(Source: ECC, ADB, SBV & Morgan Stanley Research)

Gross domestic product (GDP)

From soft landing to risks of economic recession

Diagram of economic growth 1996 - 2009



GDP in 2008

2008 is not a good year for Vietnam GDP as it only achieves a 6.23% growth, the lowest since 1999, the year when Vietnam bore the effects of Asia's 1998 financial crisis. Even more concerning, we estimate that in 2009, GDP growth is very likely to halt at 5% only.

Q-I:

2008 started promising as the Congress set up an ambitious target of 8.5%-9% growth for 2009. However, this quarter saw the first effects of a "hot" economy:

- Increased inflation: IN Q1-2008, inflation was up 16.37% compared to same period last year, due to fixed ER management, resulting in a direct reflection of higher world price on Vietnam's CPI. Moreover, money supply peaked in 2007 and there seems to be more money in the system that brings in higher inflation.

- Recorded trade deficit: Trade deficit reached its record in many year (9.3%-9.7% GDP) of that import turnovers increase 40% compared to last year.

- Real estate bubble: Government strong method in the stock market led to an inflow of capital into the properties markets late 2007. Early 2008, the properties market showed signs of a bubble that was ready to burst.

Q-II:

By Q-I, GDP grew by 7.4% but the signs of a slower growth were clearer as government

GDP growth is 6.23% in 2008, lowest from 1999

put down strong method to solve the problems of high inflation, exchange rate, and trade deficit. The target changed from high growth to soft landing. The influence of a tight monetary policy, the main policy chosen for economic landing, pushed GDP growth down to 6.5% for first 6 months.

Q-III:

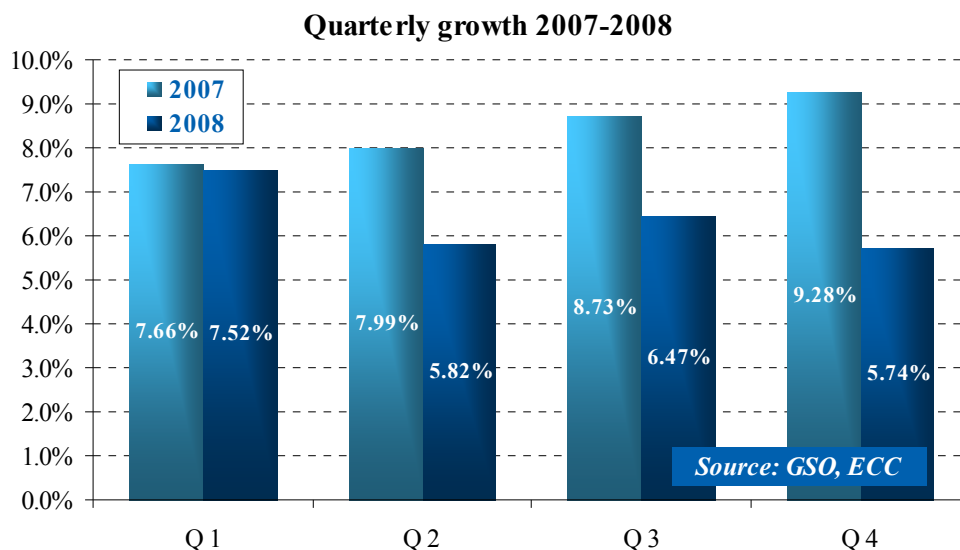
Inflation curb methods showed effective as inflation slowed down, aided by lower world material prices. FDI and lower trade deficit are the two main reasons for a recovery in GDP growth in Q-III, pushing GDP growth to 6.52% for 9M.

Q-IV:

The financial crisis quickly spread out to other fields resulting in a world recession. Demand for materials and products dropped, world prices kept on further decreases. At the same time, Vietnam's exchange rate policy was rather inflexible, resulting in a relatively appreciation of VND compared to currencies of other export competitors. As a result, Vietnam's export dropped almost 5% in Nov/2008 (compared to Oct/2008) while import bounced back, leading to a higher trade deficit.

Although the Congress lowered GDP growth target to just 6.5% in its meeting in Nov/2008, the situation got worse very quickly. GDP growth for 2008 was finally settled down at 6.23% to many surprises. More concerning, as our Q-to-Q diagram, GDP growth was lower in each of 2008 quarters compared to same period in 2007, in particular in Q4, the growth was just ~ 60% of that in Q4/2007

Economic growth slows down in Q2 and Q4



Forecast of 2009 GDP growth

Economic growth is estimated at 4.75% for 2009

Although the Congress set up a target of 6.5% growth for 2009, we think that it's almost impossible for Vietnam to make it. We estimate that the GDP growth will be around 4.75% for 2009, with the first 2 quarters a special tough period and signs for recovery only appear in Q-3 or Q-4. The longer it takes for the world economy to recover, the longer it takes for Vietnam export to grow. In the worst case when the world economy will not

recover until 2010, we expect a 3% -4% GDP growth for Vietnam in 2009.

In recent years, the three main pillars for economic growth are private consumption, non-state investment and exports. We take a closer look at components of GDP to arrive at our estimation of economic growth for 2009.

$$\text{GDP} = \text{Final consumption} + \text{Investment} + \text{Government spending} + (\text{Export-Import})$$

- Final consumption:

GDP is assisted by narrower trade deficit but negatively impacted by slower private sector investment and FDI.

In 2008, household consumption achieved an 8% growth compared to 10.7% growth for 2007. In 2009, this will still be the stable source for GDP growth, especially when Vietnam population increases by almost 2% (> 3 millions) each year. On the other hand, higher unemployment means slower growth. According to WLO, 1% of economy growth equals to 0.33%-0.34% labor growth. In 2008, Vietnam economy growth dropped from 8.48% (2007) to 6.23%, which equals to 300,000 more unemployment of 9-million working force. We estimate further 150,000 will lose their jobs in 2009, equals to an economy growth of 5.1% (a decrease of 1.1% compared to 2008). Overall, we estimate that household consumption will achieve a 6% growth for 2009.

- Investment:

The first caution is that even though total GDP for 2008 is US\$ 88 billions, US\$ 4.5 billions is in inventory, much higher than the average of 2% in recent years. Many major products such as steel, fertilizer will take up to the end of Q1-2009 to clear its current inventories. That means a 6.23% growth in 2008 has eaten into part of growth for 2009. Our second caution is a deteriorated ICOR, currently at 7 compared to 4.5 (2001) and 6.6 (2007), an increase of 48% in just 6 years, which is “very high” according to World Bank.

Investment structure in 2008 showed that the state-owned sector accounts for 29%, Private sector 41% and foreign-invested sector 30%. However, the growth mostly comes from the private sector (up 43%) and FDI sector (up 47%).

In 2009, we estimate FDI to stay level in the best case, and is very likely to drop ~20% to US\$ 9 billion. Actually, while Vietnam achieved a record in FDI in 2008, most capital flew to real estate, steel, and oil & petroleum sectors. With current over supply in steel industry, very low oil price, and a sleeping real estate market, we do not expect strong growth in FDI for 2009. Overall, we estimate FDI to range from 1) US\$ 9 billions (good case) to 2) US\$ 7 billions (bad case).

Private investment is estimate to achieve lower growth for 2009. Currently, many firms have no plans for investment at least in the first 2 quarters of 2009. Our initial scanning of listed companies' projections for 2009 finds that most have lower revenues targets. Private sector investment's bouncing back will depend largely on the effectiveness of government's stimulus package. We estimate private sector investment to range from 1) +5% (good case) to 2) down 5% (bad case).

- Net export:

We expect better contribution of net export to GDP. Even though export is very much likely to fall (estimated at US\$ 52 billions, down 18% from 2008), import will fall at the same rate. As such, we estimate that the trade deficit will be tightened from US\$ 17 billions (2008) to US\$ 13.5 billions (2009).

- Government spending and investment

In a year where other sources of investment are less likely to be major sources, GDP growth will depend largely on the amount and the effectiveness of government spending. We, however, have some doubts over the sources for budget. After facing consecutively high inflation, trade deficit, and recession, Vietnam does not have as much capital to send. In 2008, state budget deficit is limited at 4% but that includes high turnovers from oil export. Next year, oil export will reduce both in price and in quantity. We expect the state budget to face USD 2-3 billions down from oil export revenues. At the same time, the tax-cut plan means the budget is as unlikely to expect high growth from tax.

To conclude, we see high possibility of a considerable budget deficit for 2009. For government spending to be the stimulus for economy growth, Vietnam will have to depend further on domestic and overseas funding. If our forecast of the components that make up GDP is correct, the government will need US\$ 2-3 billions more to make up for decrease in other components. In 2008, budget deficit > 4 US\$ bil. was covered by domestic funding (77%) and overseas capital (23%).

Three GDP scenarios for 2009

Unit: bil. USD

Consumer spending	Private investment	FDI	Budget spending	Net export	Budget deficit (% GDP)	GDP growth
52	15.5	9	24.5	-13.5	-7%	5.6%
51,5	15.2	8	25.5	-13.5	-9%	4.75%
51	14.7	7	26	-13.5	-11%	3%

Source: ECC

As such, to achieve a 5.6% GDP growth (our best scenario) already requires great compensation from state spending. In this scenario, budget deficit can be curbed at 7%. However, in worse scenario when consumer spending, private investment and FDI decreased sharply, we can have a double-digit budget deficit. The second scenario with a budget deficit of 9% and GDP growth ~ 4.75% is the high possibility in our estimate.

Conclusion

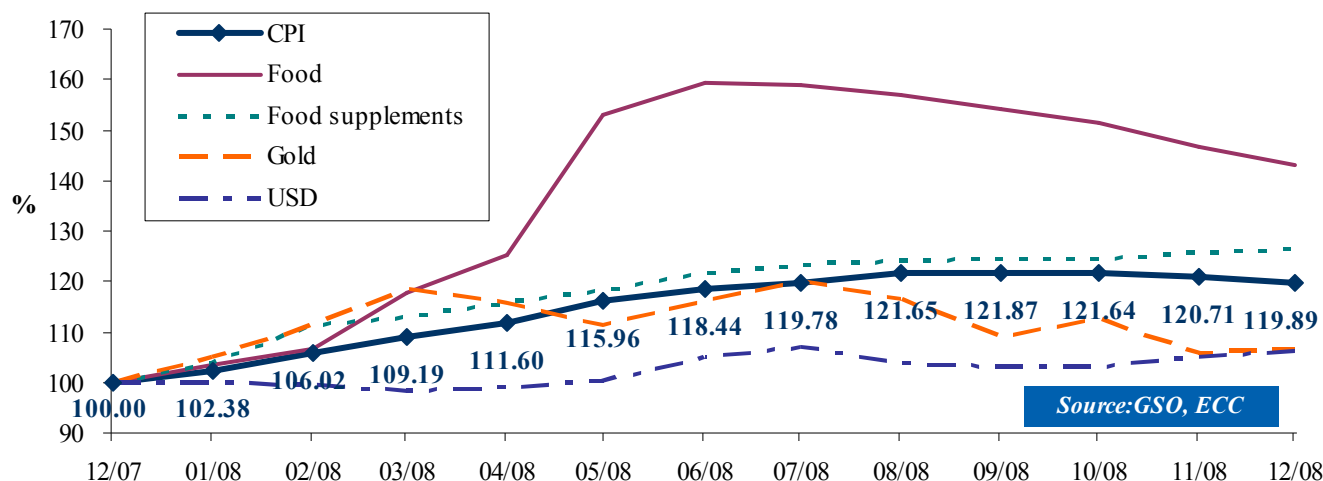
Demand stimulus package through interest support will directly impact Investment

In 2 years 1998-1999, under the Asian financial crisis of much smaller scale, GDP growth was only 5.67% (1998) and 4.77% (1999). Similar to other countries, Vietnam will have to accept higher deficit (up to 10% GDP) to overcome the current recession. In addition, economy growth will depend largely on export, which in turn depends on world economic recovery.

Inflation

From inflation to deflation

Inflation graph



Inflation in 2008

Inflation in 2008 can be divided into three different phases: High inflation - reduced inflation and deflation.

1st phase: High inflation

Until the first half of 2008, inflation was the number 1 problem of Vietnam economy. CPI increased ~ 2% per month with its peaks in February and May (up 3.19%). Inflation was caused by all three factors: Pushed costs, pulled demand, and increase in money supply. First, as USD lost its value against many currencies and increases in many materials, goods and products resulted in a big rise in imports, in particular. Inflation was caused by three factors: Pushed costs, pulled demand, and money supply increase. First, the decline of USD early 2009 caused big rises in import prices such as oil, rising from 89 USD/barrel by the end of 2007 to 147 USD/barrel by half 2008, steel, peaking at 1200 USD/ton, or fertilizer. Materials actually increased by 39.85% in first half of 2008. Second, investments were at a very high level with excessive state budget payment (up 12% compared to projected in 2007), record FDI & ODA while ICOR was deteriorating. Third, money supply in 2007 was up by 46.7% in 2007. Along with FDI & ODA was US\$ 22 billion inflow, allowing the State Bank of Vietnam (SBV) to increase foreign exchange reserves from US\$11.5 billion equivalent (2006) to US\$ 21.6 billion (2007). VND supply to the market was partly used to buy foreign currencies.

2nd phase: Curbed inflation

To confront inflation, the government announced 8 sets of methods to curb inflation, focusing on a tight money supply, reduction in balance of trade deficit, and cut-down on public investments. Aided by the fall of world materials and products from the peaks at

3 phases of inflation:
High inflation, curbed
inflation, and
deflation

around June-July 2008, inflation was reduced to below 2 % per month (July-August, 2008) and approximately 0% in September, 2008. This success can be partly attributed to Vietnam's "specific" method (requiring commercial banks to buy Treasury bills ~ VND 20.300 billion) and was caused mainly by a tight monetary policy rather than a budget spending and public investment cut. In 2008, budget spending actually increased by 22.7% compared to 2007 and 18.9% compared to projection approved by the Congress.

3rd phase: Signs of deflation

The global financial crisis initiated from 2007 broke out in 09/2008 and quickly expanded to other areas of the global economy, leading to a global economic recession. Sudden reduction in investment and demand caused significant drops in materials and products prices, exemplified by oil, falling from its peak of 147 USD/barrel to 35 USD/barrel in 12/2008/ In 4 months from August to November, 2008, materials fell 58% with increased velocity. Deflation in Vietnam has a delay of 2 months as started official from Oct/2008 because firms and companies were slow to reduce selling price as they expected to reduced loss from selling products from materials bought at peak prices (oil, steel, fertilizer, plastics, etc) during the middle of 2008. As what happened in other countries, worries changed dramatically from inflation to deflation in Q4/2008. A tight monetary policy for 2/3 of 2008 with its delayed effects and difficult access to bank funds in Q4/2008 also led to lower increase in monetary instruments of 16% and an increase of 21% in lending compared to the average of 30% in recent years.

Inflation influence on firms performance

Two signs of inflation in one year hurts firm performance badly in 2008

Confronting consecutively two different faces of inflation, firms and companies have overcome a very difficult 2008. In the first 6 months of 2008, high inflation made 97% of all firms reporting that inflation negatively influenced its profits (VCCI report on 15/07/2008) but still 53% enjoyed better revenues growth than those of the same period in 2007. However, till the end of the year, deflation and recession hit not just profits but also revenues as firms can not sell products or sell at a loss. Steel companies are typical examples. Increased steel prices in the first half of 2008 brought abnormal profits to steel companies especially those with high inventory, but the vertical fall in the second half as a result of halted consumption caused steel companies to face loss and consecutively ask for assistance from the government and banks for debt extension & refinancing.

Inflation forecast for 2009

Inflation to be curbed at 8%-9% and can be as low as 5% if recession extends

In theory, deflation occurs when prices go down and can accompany economic recession. If in two consecutive quarters, prices go down and GDP growth is negative, the economy is officially under recession.

CPI reduced in 3 consecutive months of Q4/2008. However, with the Lunar New Year coming this January, 2009, further CPI drop is more unlikely. Eventhough the current conditions of the economy is difficult and not many companies pay good bonus for employees, the demand for goods and products is still likely to go higher, though not

much, for this biggest festival of the year. Further reduction is more likely in February and March, but thanks to January, the likelihood of two consecutive quarters' fall in CPI is not significant. Otherwise, if CPI is still to drop in January, deflation seems to become a reality and not a worry anymore.

While deflation will still be a worry for Q1/2009, for the whole year, we expect CPI to rise by ~9%-10%, half of that in 2008, based on our predictions that CPI will stay flat in Q1/2009 and increased approximately 1% per month in the next 3 quarters. On the condition that the world economy will need at least 1 or 2 years more to recover from the current recession, we don't expect any big rise in CPI for 2009 and 2010 unless there are big errors in Vietnam's monetary policy. With an economy that has export-import equivalent to 160% of GDP, ranked fifth in the world (behind only Singapore, Hong Kong, Malaysia, and Belgium), inflation will still be affected by three main factors: monetary policy (relatively flexible to adjust), fiscal policy (increased budget deficit, inefficient investment) and world price fluctuation. Main factors to affect CPI in 2009 are:

External factors:

- Oil remains relatively low in 2009 because of low demand but recovery process can start from the latter half of 2009 when enormous demand stimulus packages by multiple countries come into effect. The conflict between Israel and Palestine will continue to leave strains on oil price. Oil price is predicted to reach 60 USD per barrel in 2009. Higher oil price leads to higher prices of related products such as rubber, sugar...
- Price of many agricultural products may rise but there is unlikely a sharp increase in 2009. 2008/2009 seems to be a slight over supply of many products such as rice, rubber, or coffee.
- Some predicts show as much as 20% further drop in materials in 2009 because of lower demand.

Internal factors:

- Vietnam demand stimulus package including interest rate assistance, tax reduction, infrastructure investments... while having some delays due to the official procedures but will have certain effect on the economy starting from Q3/2009. Money supply is urged to increase appropriately (target for credit disbursement ~ 30%) can all lead to higher inflation.
- Higher public investment with target at state-owned chaebols: 2008 shows no progress in fiscal policy despite pledges of cutting public investment made by half year. If high capital flows to state-owned chaebols and corporations, which invest at an ICOR of 10, double digit inflation has its chance to come back.
- Highest ICOR in recent years: An ICOR >7 (and ~ 10 for state-owned companies) means to maintain GDP growth, bigger capital is needed, together

with it higher risk of inflation.

- Basic salary to increase from 1/1/2009: On 10/11/2008, the government planned to delay basic salary adjustment till May/2009 due to worry of returned inflation. Deflation in Q4/2008 opened to door for a quicker adjustment of VND 100.000 –VND 130.000 (US\$ 5-US\$ 7) from 1/1/2009.
- Prices of many basic materials and fuels for productions will be adjusted higher in 2009 including electricity, coal, pharmaceuticals... From the first day of 2009, gas price increased by 7%. The government recently allows companies in 14 different products to have more power in changing prices.

Forecast inflation impact on firm performance in 2009

Electricity, coal, water price adjustment will put a pressure on inflation in 2009

Different from 2008 when inflation impacted significantly all sectors of the economy, inflation expected at 1 digit for 2009 and lower risks for high inflation means companies have more control in their operation projections. The main worry now is the risk of deflation in the first few months of 2009. Many basic products such as steel, fertilizer, rice...have high inventories now and there is very unlikely a sharp price increase in Q1/2009. We also wait for the impact of changes in coal, electricity, water prices... to inflation, though we expect the government to be very careful to avoid risk of returned high inflation. The hot lesson from high inflation recently will still make the monetary policy more conservative.

Conclusion

With world price is unlikely to rise sharply in 2009, Vietnam will take control of inflation

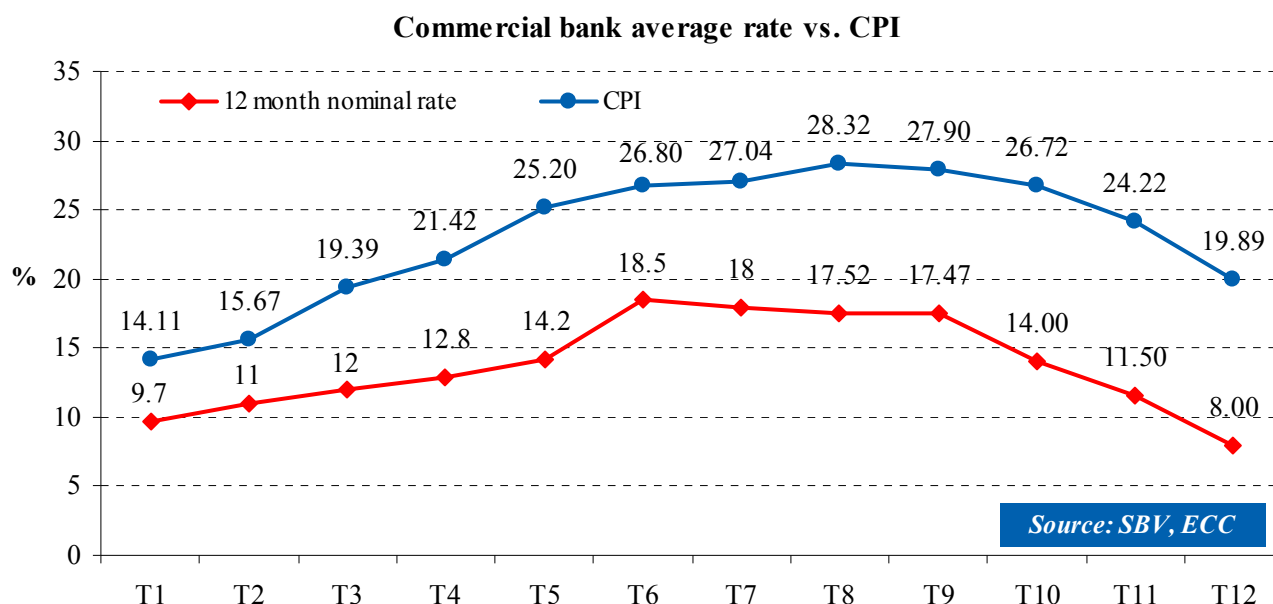
Deflation is still a worry, but we don't see the situation in Vietnam to be as bad as in many other countries in the world. Indeed, target CPI for this year approved by the Congress is still pretty high at 15%, showing that the government still worries a great deal about coming back high inflation. As an example, recently, the ministry of industry and commerce suggested to the government of an average 9 per cent hike in electricity price, much lower than the previously prediction of 15 per cent hike in Oct/2008.

In the long term, we, however, are cautious of returned high investment in inefficient state-owned corporations, such as recent Bank for Industry and Development's agreement to fund Vinalines ~ VND 15,000 billion (US\$ 900 million) in 2009-2011. We are even more cautious of a much increased ICOR, which means GDP growth will demand a high amount of capital, accompanied with it the risk of high inflation.

Interest rates

Interest rates in 2008

Interest rates diagram



Interest rates in 2008

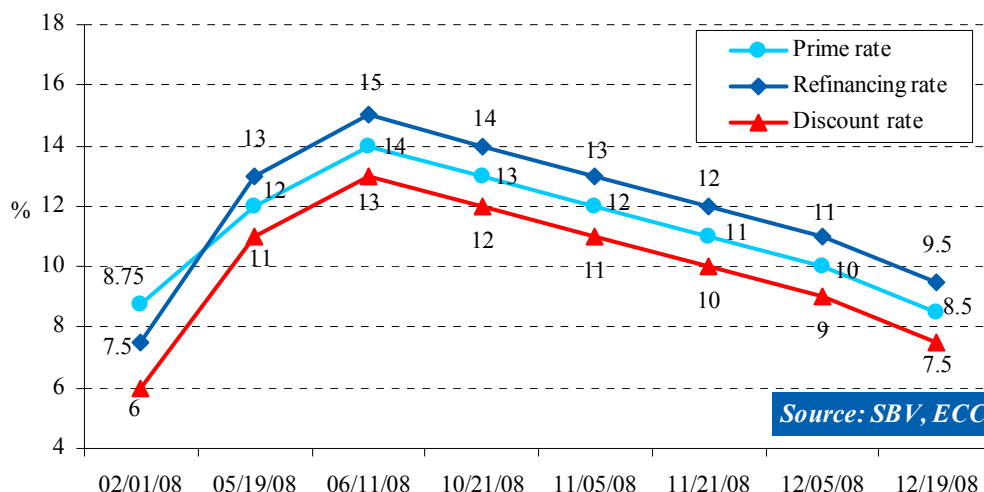
2008 is a hot year for interest rates as they fluctuated widely between two opposite directions. This year also marks major adjustments, more than those in any recent years, by the State bank of Vietnam (SBV) in a market-based manner that surprised many who follow its policies over the years. The monetary policy can be partly attributed to the tamping of inflation in the middle of 2008, and because of that, despite its errors and slowness sometimes, we can consider 2008 a successful year in monetary policy.

8 time prime rate change in 2008

We divide 2008 into two parts in term of interest rates: a phase of rate hike between banks (first 2/3 of the year) and another competition on interest rate reduction by the end of 2008. Major events in 2008 include:

- ❖ 8-time prime rate changes: For 2008 only, SBV increased the prime rate (and its associated discount rate and refinancing rate) 3 times (all in first half 2008) and reduced it 5 times (second half 2008), 5-time required reserves changes, and 5-time required-reserve rate changes. Prime rates increased sharply but lasted unchanged for longer in the first 2/3 of the year (~ 8.75% in Feb-April and ~ 14% in June-Sept.) while dropped milder but more frequently in the last 1/3 of 2008, with November and December both seeing 2 changes in prime rate each.

Prime rate, refinancing rate and discount rate adjustments in 2008



Prime rate plays a major role in monetary policy

- ❖ Prime rate plays a “prime” role in monetary polity: For many years, there has been no or very slight changes in prime rates despite CPI fluctuations. Since the adjustment on 19/05/2008 (prime rate from 8.75% to 12%), prime rate was used as the major rate as other rates (deposit-lending) can not exceed 50% of the prime rate in-use (according to Vietnam Civil Law). This new regime cancelled out previous negotiating ceiling rates set up by the Association of Commercial Banks and ceiling rate of 12% per annum set up by SBV earlier. This new regime helped stabilize the market during high inflation period in the middle of 2008 but created problems by the end when falling prime rates means commercial banks can not lend to risky borrowers as the ceiling rates (12.75% per annum can not make up for increased default risks). As we know, SBV is now thinking of a new regime that allow the existence of ceiling rate based on Civil Law and “special negotiating rates”
- ❖ Monetary policy becoming more flexible: Prime rate increased sharply in the first half 2008 to curb inflation under a tight monetary policy but as the risk of world recession become more visible, it has been cut quickly as the policy changed into a loose one.
- ❖ Interest rate races among commercial banks: On the basis of a record inflation in recent years and the lack of operating capital under a tight monetary policy, all banks, especially small ones, participated in the interest rate hike race that broke out in May and June with record rate on the Interbank market around 43% and deposit rates around 19%-20% in many banks. This race only slowed down from July/2008 as capital became more available and under strong involvement of SBV. From Sept/2008, as the world went into recession, SBV consecutively cut its prime rates and commercial banks entered another interest rate cut race. We see at least 8 times when commercial banks all together cut their rates, many times even earlier than the official rate cut by SBV.

Interest rate race among banks hurts their profits in 2008

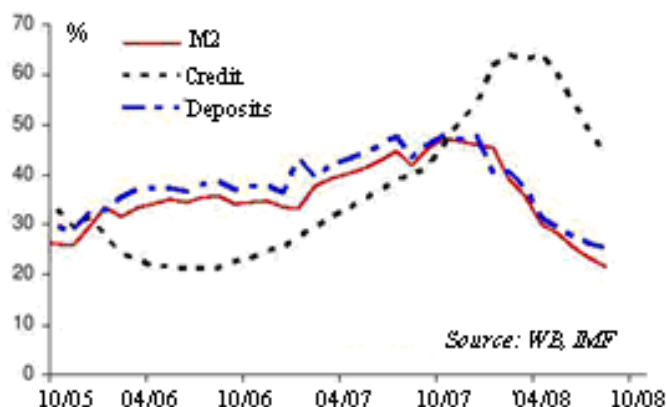
Interest rate influence on firm performance

Interest rate fluctuations reflect negative influence of both high inflation and deflation on firm performance. High inflation resulted high financial costs, VCCI report showed that 93% of firms consider high interest rate negatively affecting its operations. Interest rates were lower by the end of the year but the recession means good firms have less demand for expansion and banks are cautious in lending as the rates can not make up for default risks from firms especially when bank's NIM is low due to its funds with high deposit rates earlier 2008. Instead, banks found better ways of making profits through investment on government bonds that bring ~10% return without any risk. We identify industries most affected by interest rate changes as below:

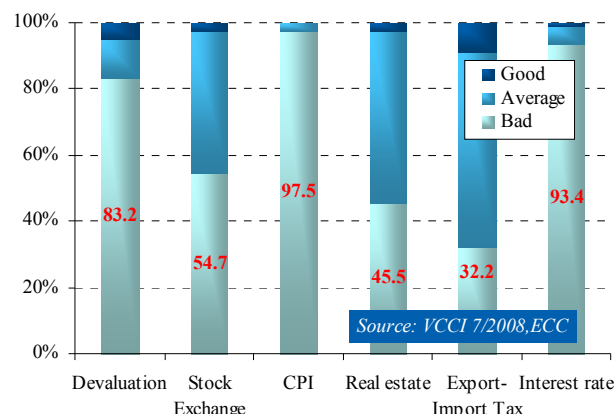
- **Commercial banks:** Banks in 2008 can fall into 3 traps: Liquidity trap earlier 2008, the trap of excess fund without being able to disbursed, and the trap of dropping interest rates making banks face difficulties in calling funds. Although there is no banks that face loss in 2008 according to SBV, this fact was helped largely by SBV policies (required reserve rate increase, cut required reserve, less steeper prime rate cut) and that many banks have excess capital from their stock issuances in 2006 and 2007. We also have doubts on bank's non- performing loans, which was officially estimated by SBV at VND 43,500 billion or 3.5% of lending. This was a result from the fact that many banks leave bad debts as out-of-balance sheet after they treat these debts with bad debt reserves, then making balance sheet look better.
- **Real estates:** There may be no other industries that are as negatively affected by high interest rates as properties. Tight monetary policy caused construction to slow down and decrease quickly as most firms highly rely on debts to fund constructions. Until the end of the year, although interest rates dropped quickly but an ailing future of the economy made this industry not attractive as its recovery follows that of the economy. Besides, Property bad debts that once worried the whole economy in 2008 showed no sign of improvements, as such, banks are very prudent when lending to these types of companies.
- **Industrial transportation:** On the basis of high growth in 2007, many companies borrowed to purchase new transportation facilities. Most companies have high debt/total asset ratio from 40% to 60% (VTO: 59%, VSP: 42%, VFC: 38%, VIP: 42%- Company annual reports 2007). While the interest rate stayed high for most of the year, the transportation soon entered the recession phase as this is one of the most sensitive industry to economic fluctuation. Stocks of many transportation companies dropped even quicker than the index, those which perform better all have low debt ratio such as VSC (9%) , TMS (6%) , PJC (18%) or DXP (26%).

Financial market and real estates market bear the full effect of interest rate fluctuation

M2 and Credit growth in 2008



Factors most influencing firm performance



Demand stimulus package

Just a few days ago, the demand stimulus package ~ US\$ 1 billion was approved to be disbursed in form of 4% lending rate support by the government through the banking system (which we understand that the state-owned commercial banks) and with loan duration < 1 year. As such, VND 420,000 billion (US\$ 3.2 billion) or 1/3 of banking total lending in 2009 will be provided to the economy with a very favorable rates (companies can borrow at just 6% per annum, the lowest rates in many recent years, supposed that the banks lend at 10% and the government pays for 4% of interest rate). This is a very special way by Vietnam in contrast to other countries which invest in buying bad debts (US, Japan...) or invest in infrastructure (China, Thailand...). Many analysts think that this is a way for the government to support ailing exporting companies rather than direct support which risks domestic companies in the face of more anti-dump litigations. g.

2009 interest rate forecast

Prime rate

According to Saigon Times, in the last rate cut in 2008, the government planned to adjust prime rate to 7% from 10%. This plan was supported by large commercial banks but opposed by smaller banks. Vietnam banking association (VBA) then suggested an intermediate level of prime rate at 8.5%. Slower rate drops will allow bank to adjust their rate curves, as currently the average deposit rate, according to unofficial source, is about 12% per annum.

Prime rate curbed
< 7%, lending rate
< 10%

This means there is certain to be another rate cut in the near future. We expect the interest rate to drop to around 7% in 2009. There is also a high possibility of a smaller cut ~100 bps from the current level of 8.5%, which will allow more “room” for SBV to cut rate in the future in case the condition gets worse quickly.

Deposit rates - Lending rates

Indeed, many banks have already priced in another prim rate cut as they put their deposit rates at only 7% for 1Y duration. Therefore, even if there is a further cut, we don’t expect

deposit rate and lending rate to drop significantly. With an inflation of 10%, a deposit rate of 7% can not bring depositor positive real interest rate. Also, with a lending rate of 10%, many can borrow at 6% per annum, cheapest for many years, as the government can sponsor 4%. Already, we have seen demand from this source of low cost capital from state-owned general corporations (coffee, rubber, textile, etc).

Impact of interest rate on firm performance in 2009

Further interest cut will have positive influence on firm performance in most industries. According to our statistics, even at the time of high interest rate, still 73% of firms had debt/equity > 50% and 56% of firms used commercial debts (mostly bank debts) for their working capital.

- Exporting companies: These are the targets of the interest rate support program. ON the other hand, these are firms most impacted by the world economic recession (agricultural products, rubber, coffee, textile, seafood, footwear...).
- Companies with stable market, sustainable growth and under less influence from the global recession: Firms in the milk industry (Vinamilk), the pharmaceutical industry (DHG, IMP, DHC...) have stable domestic market and relatively good growth in 2009 can directly benefit from lower rates. Lower rate is especially positive for firms with plans for expansion, equipment purchase. Lower borrowing rate will leave a sustained positive effect on these firms' long term operations.
- Electrical industry: In 2008, tight monetary policy made many power plant projects to halt. From the end of 2008, these projects have been restarted and with favorable borrowing capital, these projects promise profits for electrical companies. On the other hand, power plants with high excess funds currently put in form of bank deposits will receive lower financial incomes. Overall, we think that lower benefit will favor firms with expansion plans (PPC, VSH).
- Banking: Interest rate support will be the lifebuoy for banks under this plan (State-owned banks) to continue to make profits in 2009. However, smaller banks with limited access to cheap capital will still be under great influence from their high cost calling funds from 2008. However, most of these deposits will expire in Q1/2009, then banking profits should improve from the second quarter of 2009, particularly ones under more favorable conditions (VCB, Vietinbank, BIDV, ACB, STB...). Actually, in a very bad year like 2008, still all banks made profits, eventhough they were helped a great deal from SBV and the inflow of registered capital called at the time the stock market at its peak in 2007.

*Interest rate cut is key
to economic recovery*

Constructions and materials for construction: Construction industry, despite property price drop in 2008, is still a potential market for investment, especially leading firms (HAG, TDH...) which have plans with higher net income for 2009. With lower rate (firms in this industry have the highest debt ratios in the stock markets) and easier access to capital, 2009 will be a very potential years for strong firms to maintain their investments, waiting

for later economic booms. Steel or plastic industries will still be under great difficulties in Q1/2009 but the lower rates will be favorable for firms in these industries in 2009.

Conclusion

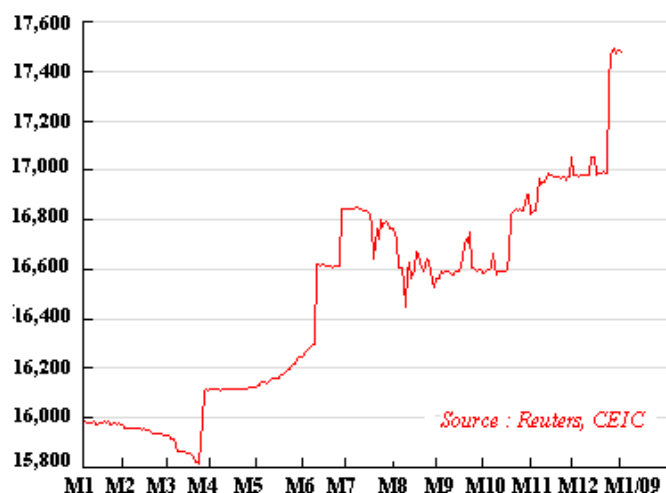
We think that prime has been very close to its bottom (~ 7%). Different from other countries which lowered their prime rates to ~ 0%, Vietnam still has many room for further cut and prime rate can be as low as 5%. The problem now, for us, is not interest rate anymore but fund disbursement. The current rate of 6% for favorable companies is a very good one and we expect companies will rush to have access to these funds, but there maybe a trend to disperse fund to state-owned companies, while the private firms, which only have access to much higher cost fund (10%) will be reluctant to borrow, especially when they have not seen the rebound of the world market yet.

Exchange rate

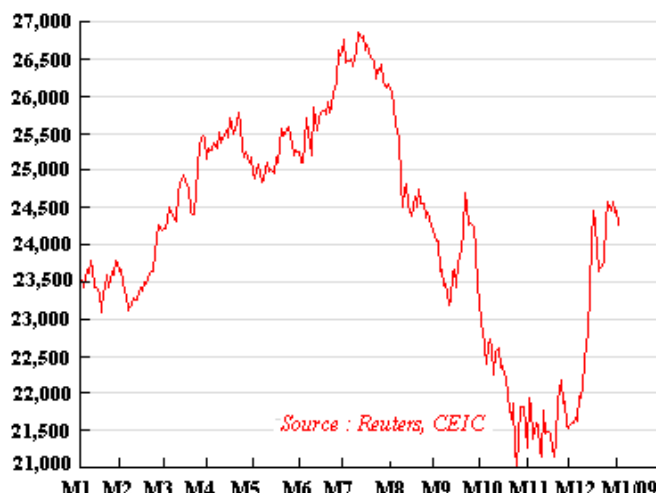
More fluctuation than any other year in a decade

Exchange rate diagram

VNDUSD 2008 trading rate



VNDEUR 2008 trading rate



Exchange rate in 2008

4 phases of exchange rate in 2008

Similar to the case of interest rates, exchange rate in 2008 was impacted by macro economy factors, demand-supply and even rumors. Just in 2008, exchange rate has been changed 5 times, more than any of the recent year. If in previous year 2000-2007, VND was managed to lose slightly around 1% per year, in 2008, Interbank official rate increased (VND devaluation) 5% and commercial bank trading rate increased on average 10%. Based on SBV's decisions on exchange rate (ER) over the year, we divide exchange rate fluctuation into 4 phases:

1st phase: From 1/1/2008 to 10/3/2008

VNDUSD dropped significantly (VND appreciation) from 16,112 to 15,960. ER in the black market dropped to lower than the official rate, an incident not seen in many years. Main reasons for VND appreciation include: High remittances (US\$ 5.5 billions) especially during the Lunar New Year, high inflow of ODA and FDI which started from 2007, and USD devaluation against most other currencies. SBV increased trading band from +/- 0.75% to 1% on 10/3/2008. VNDUSD dropped to the floor level (-1% of the official rate) right after the decision.

2nd phase: From 10/3/2008 to 27/6/2008

VND devalued against USD, official rate rose to 15,960- 15,946, especially in June/2008 the trading rate on the interbank rose to 19,400, 2,600 higher than the ceiling rate (which means banks did not follow the official rule). Main reasons are the worries for VND valuation as the economy showed real signs of high inflation and huge trade deficit (~ US\$ 15 bil. counting to June/2008), high demand for USD to import gold, and foreign

1 time official ER adjustment, 4 time widening band

investors' withdrawal as a result of worries on Vietnam economies. On 27/6/2008, SBV raised trading band to $\pm 2\%$ and tightened its control of the interbank and the black market.

3rd phase: From 27/6/2008 to 7/11/2008

VNDUSD stabilized $\sim 16,500$ thanks to 1) SBV strong measures to stabilize the exchange market 2) Trade deficit showed signs of improvement and 3) As the financial crisis broke out in September, 2008, commercial banks withdrew overseas deposit back home.

*Official rate increases
by 5.4%, trading rate
by 10% in 2008*

By the end of this period, there were some concerns that led to SB's lift of trading band on 7/11/2008 from $\pm 2\%$ to $\pm 3\%$. The worldwide financial crisis expanded to other areas of the world economy, leading to stagnant productions, deflation, and unemployment; signs of a recession became very clear. Pressure on VND to devalue was very high as 1) Exports decreased as demand from USA, Japan, and Europe zone declined dramatically. USD appreciated against most other currencies as investors considered USD to be a safe place to invest in time of recession. Foreign investors' withdrawal in many emerging economies led to a sudden devaluation of these currencies, including those of countries which are direct exporting competitors of Vietnam (Thailand, Indonesia, Philippines); 2) Trade deficit showed signs of worsening and 3) Foreign investors' withdrawal was clear in Vietnam. From the point of the crisis broke-out (mid Sept/2008) till the end of the year, foreign investors were continuously net sellers on the bond market ($\sim$ US\$ 1.3 billion) and the stock market ($\sim$ US\$ 100 mil.), part was converted to USD leading to high demand for USD at foreign-owned bank branches.

4th phase: from 7/11/2008 to 31/12/2008

After SBV's lift of the trading band, the trading rate stayed at the ceiling level of 17,000 and that on the black market at 17,200- 17,450 while the official rate was only at $\sim 16,500$. For a short period, the ER was stabilized, aided by lower trade deficit and USD devaluation on the world market after FED's cutting its prime rate to almost zero. Later, the pressure was on again as worries of Vietnam's exports piled up, especially when the recession was predicted not to over soon.

On 24/12/2008, the Ministry of Planning and Investment announced that GDP growth for 2008 was at 6.23%, much lower than previous estimate of 6.5%. Exports in November dropped 4.8% from October (while in the same period last year it was up 6%) On the basis of these bad news, on 24/12/2008, SBV for the first time of the year announced VND devaluation (all the previous adjustment was on the trading band) of 3%, with the official rate to be increased from 16,494 (24/12/08) to 16,989 (25/12/2008). Right after the decision, trading rate of commercial rose (Vietcombank's ER was at 17,180-17,350). Actually, banks had long predicted this valuation. Since early December, 2008, many banks were actively buying foreign currencies but not lending out, maintaining a positive position on foreign currencies (Source: Stock investment on 26/12/2008). Till now, commercial banks' exchange rates were still at the ceiling rate, ready to price in another devaluation.

Impact of ER on firm performance

ER fluctuation impacted a great deal on firm performance. The most influenced are firms importing materials from foreign countries which have to bear double a trouble: high material costs and VND devaluation.

- Plastic industry: Binh Minh plastic company lost VND 5-6 bil. because of ER change in Many-June/2008.
- Textile: Vinatex lost ~ VND 50 bil. in this period because of differences in the prices of USD sold to commercial banks (at official rate) and USD bought from commercial banks (at a rate much higher than the ceiling rate) to buy materials.
- Petroleum: At the end of March/2008, free market rate was lower than the official rate; as such, Petrolimex had to buy USD at higher price, a litre was sold at VND 300-400 higher because of ER impact. From April/2008, trading rate was at the ceiling of the band, ER difference from the date of signing contract to the date of actual payment was from VND 40 per litre to VND 500 per litre in July-August/2008.
- Pharmaceuticals: In its Q2 financial statement, DHG explained that higher price in May-June/2008 was due to its importing of materials, leading to a loss due to ER difference in Q2/2008.
- Power plants: PPC was the typical case of a company facing loss because of ER. With its long-term debt of JPY 37 bil. (~ US\$ 400 mil.) , PPC bear double losses as VND devalued against USD and USD itself devalued against JPY (from June/2008 to Nov/2008, JPY increased 7.73% against USD, of which 20%-25% just in Sept-Nov/2008). VNDJPY used for 2007 financial statements was 142. As the price of 1 JPY increased to VND 180 and that PPC has to pay interest and a part of the debt ~ JPY 3 billions, ER loss was at VND 60 billions. Moreover, PPC has to register VND 872 bil. for its exchange loss reserves (on 20/11/2008 when VNDJPY is 166), resulting a before tax profit of VND 240 billions and 0 for stock dividends. In 6 days after PPC's announcement of changing its profit estimate, its stocks dropped 23%. According to PPC's 2007's financial statement, PPC had a loss of VND 232 bil. due to ER and with the current VNDJPY rate (180-184), we estimate that PPC's reserves for 2008 will be around VND 1400 bil, resulting in a negative profit for this year.

ER fluctuation hurts company performance through access to foreign currencies as well as ER loss

2008 EURUSD exchange rate



2008 JPYUSD exchange rate



Forecast of 2009 ER

We think that SBV's decision to change exchange official rate, rather than loosening the trading band to 5% as many have predicted, show that the government realized that the current recession will lengthen for years and as such, VND direct devaluation is a better method than changing the trading band. With a ceiling rate of 17,500, VND has been devalued rather strongly. However, events after the devaluation decision show that there should be further devolution. Commercial banks recently traded at the new ceiling rate and the black market VNDUSD rate sometimes passed 17.700. Any more bad news (lower FDI, bigger trade deficit) will put a great pressure on VND to further devalue.

In reality, with Vietnam inflation rate to be around 10% and that for the US < 2%, VND can devalue as much as 8% more in 2009 based on PPP. In the past, VND lost 19% in 14 months during the 1997-1998 Asian financial crisis. The current crisis is on a much bigger scale, then, we have all the reasons to think that VND can continue to devalue for 8%-10% more. Actually, currencies of Vietnam main competitors such as Thailand, Indonesia, or Philippines already had a 15%-20% devaluation against USD.

VND to lose 3%-5% at least in 2009

That is one possibility, however, we are in favor of a smaller devaluation with VND to be devalued at 3%-5% more in 2009. This possibility is based on:

- Although export is very much likely to drop in 2009 to ~US\$ 55 bil. (12% drop compared to 2008), import will drop even faster as demand is low (consumers are going back to domestic products) and price level of materials in 2009, on average, is predicted to drop 30%-50% compared to that in 2008. VND has been devalued making importing products more expensive. As Dung Quat oil refinery plant starts its operation in 2009, petroleum demand will drop ~ 3-4 million tons (however, if Dung Quat imported oil rather than used domestic oil that will make not much a difference). If we expect import to drop to US\$ 70 billions (or 12% drop), then trade deficit will be ~ US\$ 15 billions only, compared to US\$ 17.5 billions for 2008.
- Registered FDI is expected to fall sharply but dispersed FDI is forecast to level that of 2008 (US\$ 11 billions) according to the Ministry of Planning and Investment.
- Remittance was expected to drop sharply (~ US\$ 2 billions) ODA dropped 1 billions, however, Vietnam can sell government and government-backed bonds to the world, and we expect that it can bring in ~ US\$ 1-2 billion. Current, debt level is not a big concern (30% GDP). The major question for us is 1) "Who" will buy the bonds when all countries need money for its own stimulus package and 2) At what price will Vietnam be willing to pay? The risk factor of Vietnam has increased in recent months, which means that Vietnam has to be willing to pay much higher a rate to be able to call funds.

In worst case, an 8%-10% is not unlikely

If the balance follows the previous estimates, there is a high possibility that VND only

slightly devalue. We expect the ER to be adapted to market factors, the trading can also be loosened toward a +/- 5% band, although we are in favor of a direct devaluation. We expect the official VNDUSD rate by the end of 2009 to be around 17.600, with the trading rate at 18.000 (3% trading band) or 18.400 (5% trading band). This possibility is based on the estimate that the world economy will start its recovery from Q3-2009. VND slight devaluation is also aided by the possibility that USD will drop against other big currencies such as EUR by the end of 2009 as the huge stimulus package comes into effect under Obama's reign. However, we expect JPY to drop slightly against USD as Japan currently also plan to have as huge a stimulus plan in 2009 and Japanese government will be very decisive in keeping a cheaper JPY to support the exporters.

Impact of ER on firm performance in 2009

Directly, a cheaper VND will benefit the exporters positively and importers negatively. In specific, we estimate that:

- Pharmaceuticals: Because this industry imports 90% of its materials, higher USD will result in higher input cost, while increases in output prices are controlled closely by Drug administration agency. Companies with bigger domestic supply (TRA, OPC) can be less influenced by a dearer USD.
- Milk products: Companies imported 80% materials and VND devaluation will negatively affect them. Firms with better domestic supply (VNM) however can alleviate the affect of higher ER, especially when inflation is expected to be single-digit. Furthermore, milk materials dropped sharply in recent month can compensate for rise in ER. Milk companies also have strong domestic demand (as consumers turn away from imported products after the Melamine crisis) and as such have more supplier power to change prices.
- Steel: This industry is in an overstock condition around the world and in Vietnam. In short term, ER increase will benefit steel firms as import products become more expensive compared to those of domestic firms. However, as this industry still rely mostly on imported steel foils, in the long term, ER increase will result in a higher production costs. Output prices, however, can be changed as steel firms receive more power to adjust their prices from 2009.
- Seafood: In 2009 is a harder year for seafood after the major markets such as the US, Japan, and Europe were narrowed down because of the current recession and currencies of Vietnam competitors devalued 15%-20%. ER increase will directly benefit sea food companies to alleviate the affect of the current recession. We can pay attention to leading firms such as Nam Viet (ANV) and Vinh Hoan (VHC).
- Textile and Footwear: Firms in these industries will benefit from a better ER. In the last months of 2008, textile turnover was down significantly partly because VND appreciated relatively to the currencies of other exporting countries such as China, Thailand, or Indonesia. However, similar to the case of seafood, these

Export firms will benefit from a cheaper VND, while Import firms will be hurt, depending on its ability to charge higher prices on customers

industries' growth depend largely on the ability to surpass non-tariff barrier.

- Oil and petroleum products: Firms in this industry can take benefit from a higher USD. As our estimate, with current adjustment in ER, oil export already gained VND 2,500 billions and will continue to gain VND 4,500 billions in case of another 5% of VND depreciation. Many firms (PVD, for instance), however, borrow in USD as well but still, the higher revenues from ER can make up for high financial costs.
- Firms with foreign currency debts: These firms will face higher financial costs due to VND devaluation. However, the level of impact is different. For instance, among power plants, VinhSon- SongHinh (VSH) currently has a loan ~ US\$ 34 millions and each year pays around 4 millions (interests+ part of original loan). After ER adjustment, financial cost will increase by VND 2 billions, and in case VSH set up its exchange reserves, it will incur a loss of VND 17 billions. These amount, however, are not significant compared to its profits (depreciation inflows only ~ VN 140 billions per annum). At a much higher scale is PPC with a debt ~ US\$ 400 millions. Any further devaluation of VND against USD and USD against JPY will negatively affect PPC's profits.

Conclusion

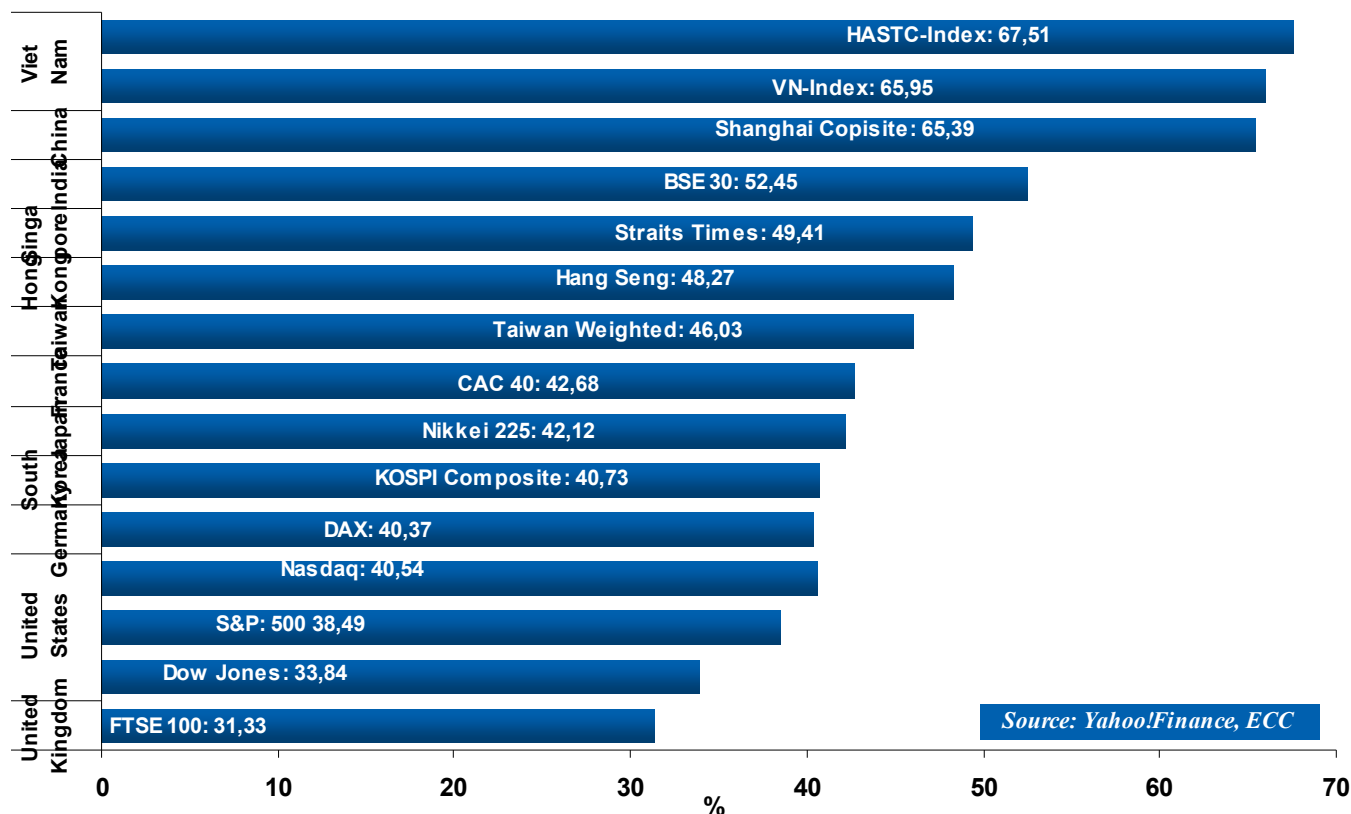
*Bank USDVND
trading rates at VND
18.000 - 18.500 in
2009*

In 2008, VND devalued ~ 10% compared to a regular devaluation of 1% per annum in recent 6-7 years. This shows that the government has seen the devastation of the world economy's recession to Vietnam's exports as Vietnam is currently ranked fifth in the world in term of economy openness. VND devaluation recently helped break ice on the interbank market and alleviate further devaluation in the short term, but we think that further devaluation is likely to come, maybe by the end of Q1 when we have a clearer picture of firm operations.

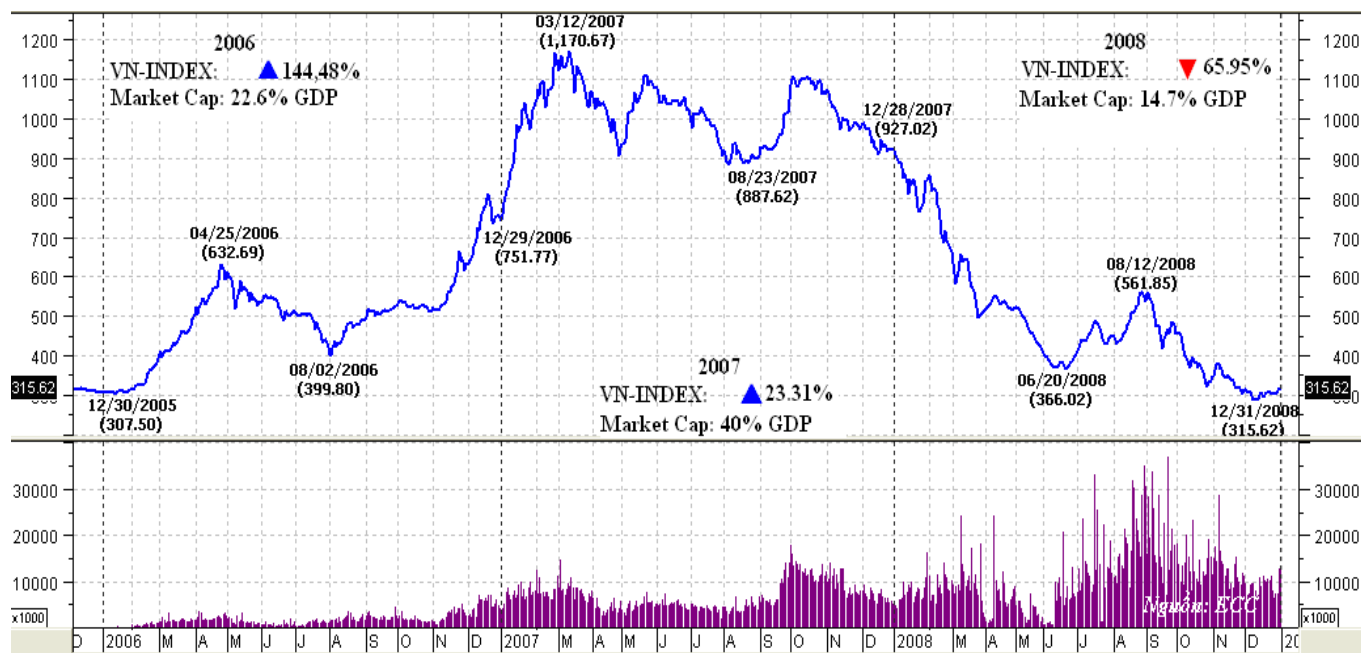
In the worst case, we think of a 8%-10% devaluation but in the most likely case, we expect VND to devalue by 5% so that the trading USDVND rate will be ~ 18,500 by the end of 2009.

The stock market in 2008

Major indices performance in 2008



VN-INDEX in 2008



Special numbers for a special year

In 2008, the world saw slumps in most stock indices and in other economic fields. The financial crisis, the real estate slump, and economic recessions were reflected in the stock indices. 2008 was considered to be at the level of 1931, which draws many analysts to consider 2009 to be like 1932, the year when the stock market cut back on its slump. That means we have to wait until 2010 to see the recovery of the stock market.

US stock market

On 20/11/2008, Dow Jones reached its bottom at 7,552.29 (DJ peaked at 14,093.08 on 19/10/2007) followed by its recovery which makes many to believe that the stock market has already formed the bottom. Still, 2008 is the worst since the Great Depression in 1929-1933 with Dow Jones losing 33.84%, Nasdaq 40.54% and S&P 500 38.49%. Nasdaq itself saw the worst year since it was created in 1971. In total, the market lost \$7,500 bil., its history record. To cite history, Dow Jones index lost 17% in 1929, followed by -34% (1930), -53% (1931) and -22% (1932). Until 1933, Dow Jones recovered by 67% (S&P +48%).

Europe and Asian markets: record slump

Europe: The financial storm drove the fluctuation of the world stock markets, making Europe indices to drop from 31% to 43%, of which CAC40 (France) dropped the most (-42.68%) and FTSE (England) the lowest (-31.33%).

Asia The stock markets of China, Korea, Hong Kong saw a bad year, losing from 40.73% to 69.95% of its values with KOSPI (Korea) having the lowest declines (-40.73%) while VN-Index (Vietnam) and Shanghai Composite (China) dropping the highest at 65.95% and 65.39% respectively. Nikkei dropped 42.12%, the biggest decline since 1990 (-39%), BSE 30 (India) declined by 52.45%. In 2008, many individual investors in China, Vietnam, India, saw their savings disappear in the stock markets, where the luck and rumors still play an important part in success.

Vietnam stock market

To Vietnam, 2008 is the year of the biggest decline in its 8 years in operation. This year also marked the failure of equitization program, the stock market also bears the negative affect of the world recession. By the end of 2008, VN-Index and HASTC-Index decline respectively by 65.95% and 67.51% relative to the end of 2007, thousand of VND billions evaporated this year out of the stock markets.

Listed companies: by the end of 2008, there were 338 listed companies and fund certificates (HOSE: 170, HaSTC: 168), including 89 new listed stocks (33 in HOSE, including PTC & BMI previously listed on HASTC) and 58 in HASTC. Even though the number of new listed stock still has a relative good increase (by the end of 2006, there was 193 listed stocks and fund certificates, 2007: 233), the number of listed companies accounts for a small percentage of existing companies in Vietnam. Equitization faces another failing year. According to the Ministry of Finance, in 11 months of 2008, just 73/262 were equitized or 28% government's plan. (in 2007, the figure is 21% of government's plan). Equitization of a series of big corporations can not be fulfilled. On the other hand, the number of securities companies and funds increase rather rapidly, with currently 101 securities companies (2006: 55 and 2007: 74), and 42 asset management companies (2006: 18 and 2007: 24).

Units of listed shares: In 2008, the number of listed shares reaches 8 billion units, 1.7 times that of 2007 and 3.2 times that of 2006.

Market valuation: Total market valuation reached VND 219,775 bil. (equivalent to US\$ 13.12 billion) (HOSE: VND 169,346 bil., HaSTC: VND 50.429 bil.). Relatively to GDP estimated at VND 1,478,000 bil., market

valuation is 14.7% of GDP, much lower than that of 2006 (22.6% GDP) and 2007 (40% GDP). Even though the Ministry of Finance planned to develop the market to reach 50% of GDP in 2010, the unexpected decline in 2008 makes it very difficult for this plan to be fulfilled. In just one year, the market lost VND 270,000 bil. (US\$16 bil.), and without counting new listed stocks, the market lost VND 314,000 bil. If in 2007, 12 stocks have market valuation higher than VND 10,000 bil., by the end of 2008, there was just 5: VNM, DPM, ACB, HAG and PVD, of those HAG was listed by the end of 2008.

Investors: On 25/07/2008, there was 430,000 accounts, including 418,569 accounts of domestic investors. The number of foreign investor accounts on 1/1/2009 was 12,720, including 11,833 individual accounts and 887 institutions. Relative to 2007, foreign investors accounts increases by 1.6 times, of which institution accounts increases by 1.85 times and foreign individuals 1.5 times. We note that unlike other countries, in Vietnam, individual investors account for 70% and institution investors account for 30%. The high number of individual investors and their dependence on borrowed capital is one main cause of the fragile of the market.

Bond market: In 2008, the bond market was aided by government assistance, bonds were mainly traded on HaSTC, creating a specific market for bond trading. In 2008, HaSTC has 12 new member, bringing the number of members to 77. Until 31/12/2008, HaSTC organized 44 bond auctions, calling VND 7,008 bil. on VND 31,700 bil offered, fulfilling 22.1% of its plan and 36.9% of 2007. Compared to 2007, more auctions in 2008 were unsuccessful, in particular in the first 6 months when the country faced high inflation and the government imposed a tight monetary policy. Auctions in Q3 and Q4 saw more successes with auction rate lower than that of bank deposits. On the listed bond market, there was 527 different bonds on HaSTC (including 275 transferred from HOSE) with total valuation of VND 162,539 bil. HaSTC accepted 89 new bonds with face valuation of VND 51,273 bil. in 2008. 1,992 millions of bonds (VND 189,108 billion valuation) was traded, 2.427 times that in 2007, with an average of VND 762.5 billion per trading day. Difficulties of the economy led to the net sale of foreign investors in 06/2008 (VND 6,000 bil.) with bond discount rate over 20% p.a. Many banks took advantages of this opportunity to earn high profits from bond trading in 2008.

The stock market has unexpected moves in 2008, surprising both the government planners and the market specialists. In 2008, we faced the tough of the market when the majority of the investors face huge losses. A troubled year is over, but we are very likely to see more difficulties in 2009.

Market prediction for 1H/2009

We predict the first 2 quarters to be the toughest time for Vietnam corporations and for listed companies in particular. By the end of 2008, not including real estates, banking, securities and insurance companies, total market valuation is equivalent to total listed company book values, or a market Price/Book Value ~1. P/B of Asia during the 1997 financial crisis was 1.2, we then predict that even after revaluation after the performance of companies were released in 2008, P/B is still around 1.2 and the market has formed its bottom. In our worse scenario with a market P/B (not including banking, insurance, securities and real estate firms) of 0.8, VNIndex will fall to 250. On the other hand, if we see early signs of a recovery, there maybe small increases in the market to reach 350. During this tough period, we expect many corporations to prepare for a high growth period later after the recession is over, which means this period is a “gold” opportunity for investors to choose good stocks for their portfolios.

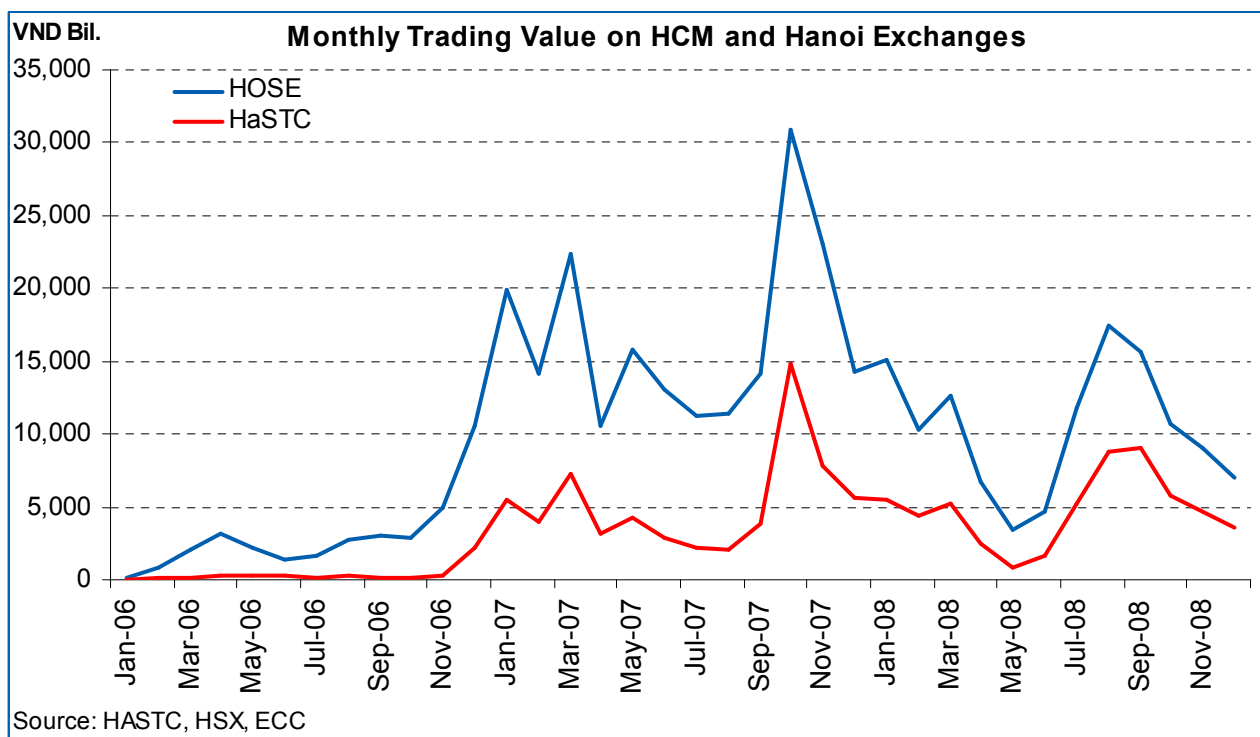
From our analysis of the macro economy and Vietnam companies, we predict that : *VNIndex in first half 2009 will fluctuate in the 250 - 350 range.*

Market volume

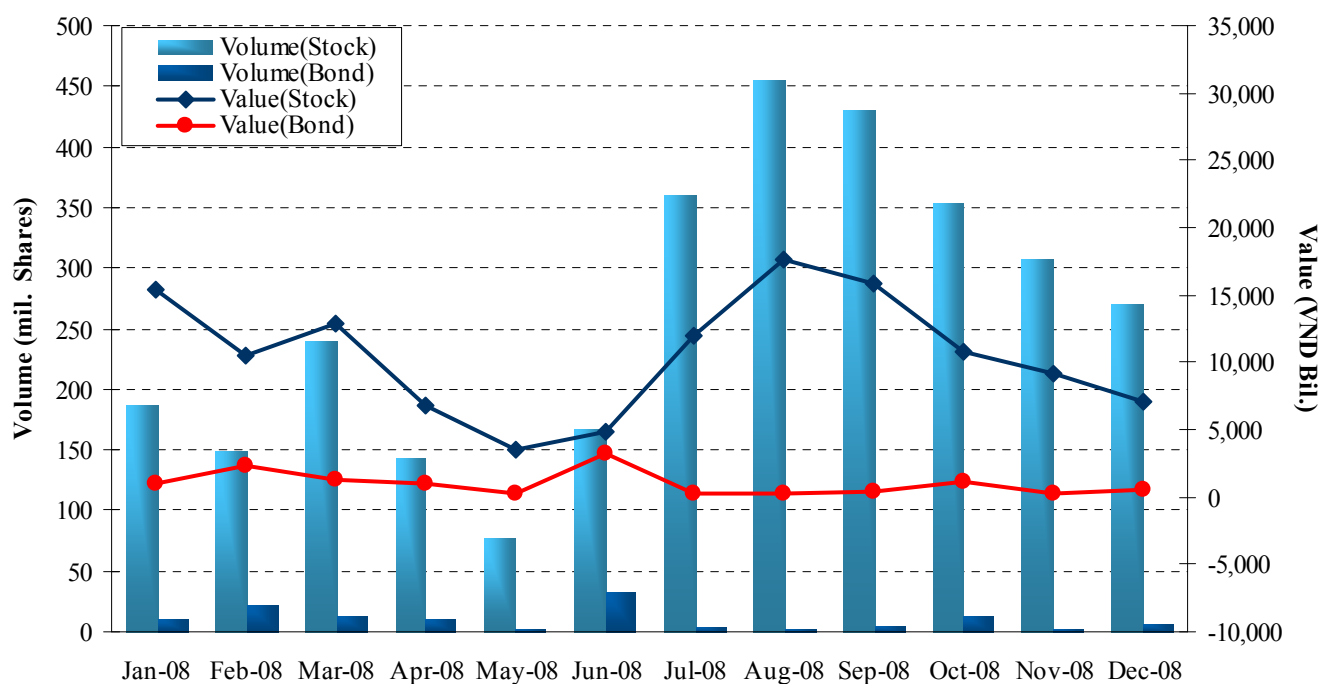
Vietnam stock market – impressive figures

	2005	2006	2007	2008
No. of listed companies	41	193	233	338
HOSE	32	106	130	170
HASTC	9	87	103	168
Volume	341.812.955	2.526.310.974	4.721.406.458	7.911.009.469
HOSE	191.750.215	1.406.149.638	3.540.881.671	5.739.530.842
HASTC	150.062.740	1.120.161.336	1.180.524.787	2.171.478.627
Bonds (VND bil.)	38.122	74.845	115.657	180.382
Stocks (VND bil.)	9.356	221.156	451.555	219.775
Capital calling (VND bil.)	7.088	27.893	334.702	
Equitization	4.573	18.068	258.446	
Bonds auction	2.515	8.525	75.832	
IPO		1.300	424	
No. of securities companies	14	55	74	101
Total registered capital (VND bil.)	724	3.972	12.855	20.173
Asset management companies	6	18	24	42
Total registered capital (VND bil.)	88	335	725	1.542
No. of accounts	31.316	106.393	307.409	510.000
<i>Domestic</i>	<i>30.880</i>	<i>104.293</i>	<i>299.268</i>	<i>497.280</i>
Individuals	30.601	103.800	298.175	
Institutions	279	493	1.093	
<i>Foreign</i>	<i>436</i>	<i>2.100</i>	<i>8.141</i>	<i>12.720</i>
Individuals	398	2.003	7.664	11.833
Institutions	38	97	477	887
VN-Index	307,5	751,8	927,0	315,62
HASTC-Index	96,2	242,9	323,6	105,12

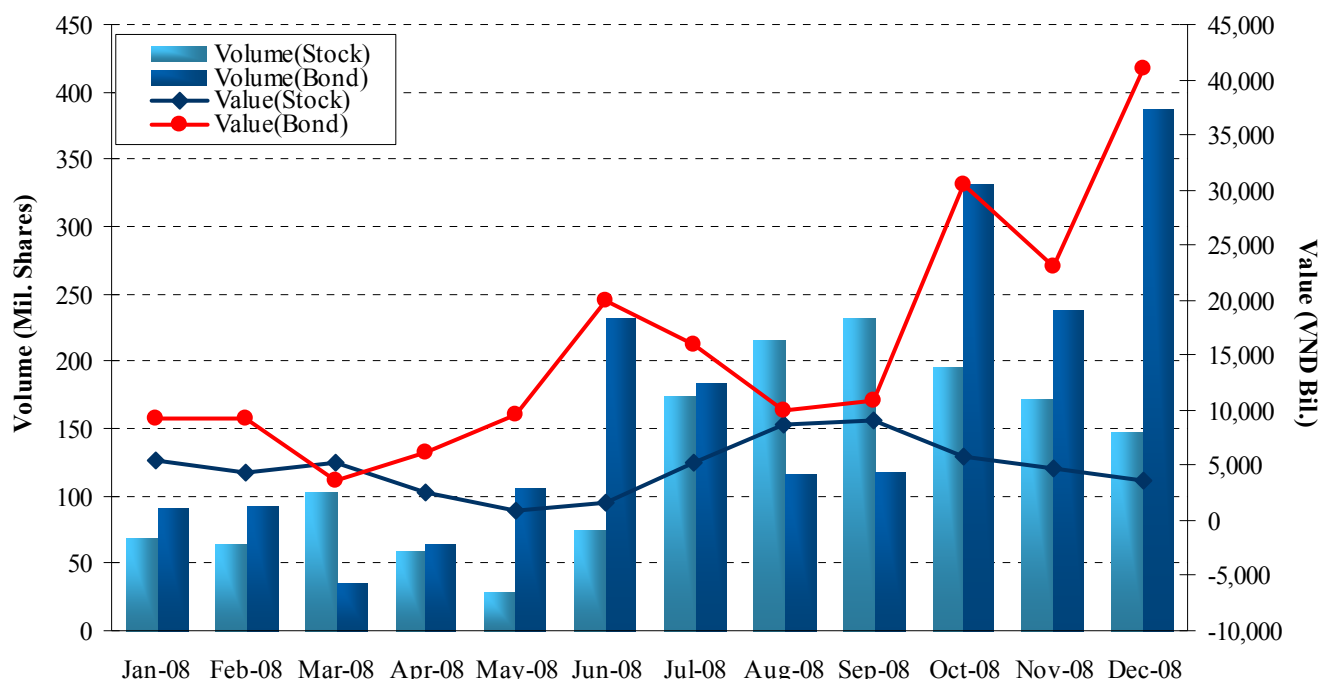
(Source: ECC)



HOSE - Market Transactions in 2008



HASTC - Market Transactions in 2008



Top 20 highest market valuation stocks⁽¹⁾

Mã CK	Stock exchange	Industry ⁽²⁾	Market valuation (VND bil.)	% value change ⁽³⁾	% price change ⁽³⁾	Volume foreign investors can own	Volume foreign investors can buy left
VNM	HOSE	Food and drinks	14.548	-50.00	-50.00	80.626.808	2.491.593
DPM	HOSE	Chemical	13.656	-51.44	-53.38	186.200.000	118.721.173
ACB	HASTC	Banking	12.908	-65.14		138.798.479	-
HAG	HOSE	Financials	11.328	-		88.109.105	57.509.889
PVD	HOSE	Petroleum	10.838	-35.26	-44.08	64.762.077	26.268.728
PVF	HOSE	Financial service	9.900	-		150.000.000	92.397.940
STB	HOSE	Banking	9.413	-67.70	-71.91	153.474.925	-
VIC	HOSE	Industrial goods and services	8.911	-28.14	-48.71	58.791.746	53.096.756
KBC	HASTC	Industrial goods and services	8.325	-54.91		65.700.670	41.932.470
FPT	HOSE	Technology	7.108	-65.32	-77.58	68.496.031	30.046.272
VPL	HOSE	Tourism and Entertainment	6.600	-		49.000.000	32.721.300
HPG	HOSE	Industrial goods and services	6.284	-49.89	-66.84	96.218.359	49.540.809
PPC	HOSE	Public service	6.080	-68.58	-68.57	159.855.150	101.468.451
SSI	HOSE	Financial service	3.954	-80.39	-82.86	66.966.669	3.795.517
VSH	HOSE	Public service	3.822	-40.48	-40.04	67.372.186	28.816.704
ITA	HOSE	Industrial goods and services	3.570	-64.58	-78.65	64.799.934	21.007.442
PVI	HASTC	Insurance	3.313	-50.48		50.739.500	38.152.689
PVS	HASTC	Petroleum	3.090	-74.16		49.000.000	39.849.700
PVT	HOSE	Industrial goods and services	2.448	-54.97	-77.88	35.280.000	32.388.290
VCG	HASTC	Constructions and materials	2.369	-		73.492.724	51.082.617

(1) On 31/12/2008

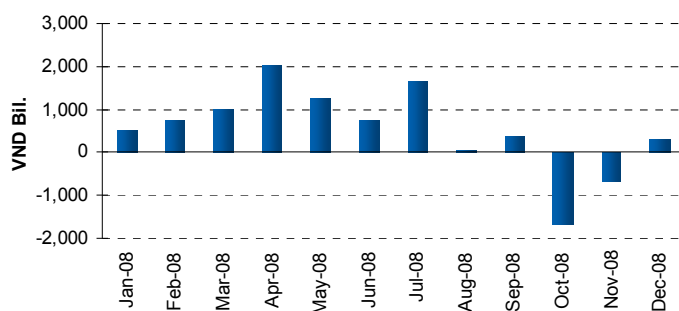
(2) 2nd classification - ICB

(3) Relative to 31/12/2007

(Source: HOSE, HASTC, ECC)

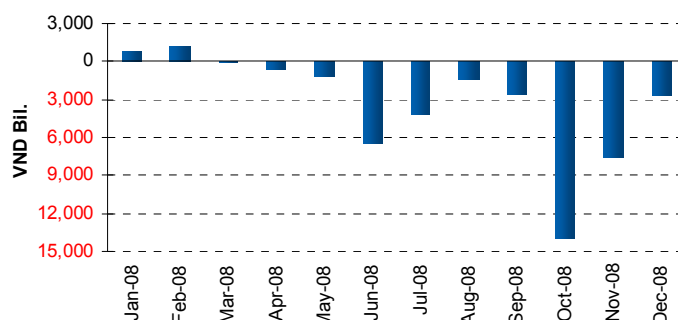
Foreign investors transactions

Stock transactions



Source: HOSE, HASTC, ECC

Bond transactions



Source: HOSE, HASTC, ECC

In its 8 years, the stock market never saw such a tough year when it bore the effect of the domestic macro economy in the first half and the impact of the recession in the latter half.

The world slump impacted greatly on the stock market, shown through the fragility of domestic investors and the unexpected movements of foreign ones. We seen foreign investors to be the net sellers for most of the year. While in Q1, foreign investors joined actively especially on the bond secondary market in February, Q2 saw them withdraw extensively from the bond market.

There has been two phases of foreign investor's withdrawals. The first happened in June and July, 2008 in the bond market, resulting mainly from the negative signs of the economy. At that time, no investors succeeded in the bond auction at HaSTC, in particular, some auctions had no participants. Government bonds with coupon rates ~ 8%-8.5% were sold at up to 20%-23% discount. The successful rate on bond primary market was only 30%. The second phase happened during October and November to both bonds and stocks with the global financial crisis as the major cause. At its peak, foreign investors withdrew VND 14,000 bil. in bonds and VND 1,658 bil. in stock during October on the listed markets.

In the final month of 2008, foreign investors changed and became net buyers in stocks after two months selling straight. Bond trading showed signs of stabilization along with SBV's cutting prime rate. Foreign investors, however, were still net sellers in bonds. We estimate that in the first half of January, 2009, foreign investors sold an amount of bond that equals the whole December, 2008. For the whole year 2008, foreign investors withdrew from Vietnam VND 31,005 bil. (US\$ 1.82 bil. equivalent).

Foreign investors transactions on HOSE and HASTC in 2008

Tiêu chí	HOSE			HASTC
	Market transaction	Negotiated transaction	Total	Market and Negotiated transactions
Number of stocks bought (code)	171	85	172	154
Volume bought (1 share)	393,051,460	75,937,963	468,989,423	56,947,490
Value bought (VND 1,000)	22,037,485,922	3,362,391,508	25,399,877,430	2,467,709,215
Number of stocks sold (code)	167	78	167	143
Volume sold (1 share)	344,129,230	69,154,465	413,283,695	59,324,880
Value sold (VND 1,000)	16,440,893,063	3,135,080,513	19,575,973,576	1,913,652,638
Net value (buy – sell) (VND 1,000)	5,596,592,859	227,310,995	5,823,903,854	554,056,577

(Source: HOSE, HASTC, ECC)

HOSE Foreign investor transactions in 2008

Unit: VND bil.

Quarter	Stocks and IFCs			Bonds		
	Buy	Sell	Buy - Sell	Buy	Sell	Buy - Sell
Q I/2008	6,020	3,908	2,111	8,870	5,319	3,551
Q II/2008	5,556	1,674	3,882	3,273	4,847	-1,574
Q III/2008	9,922	8,048	1,875	343	248	95
Q IV/2008	3,902	5,946	-2,044	160	939	-780
2008	25,400	19,576	5,824	12,646	11,353	1,293

(Source: HOSE, ECC)

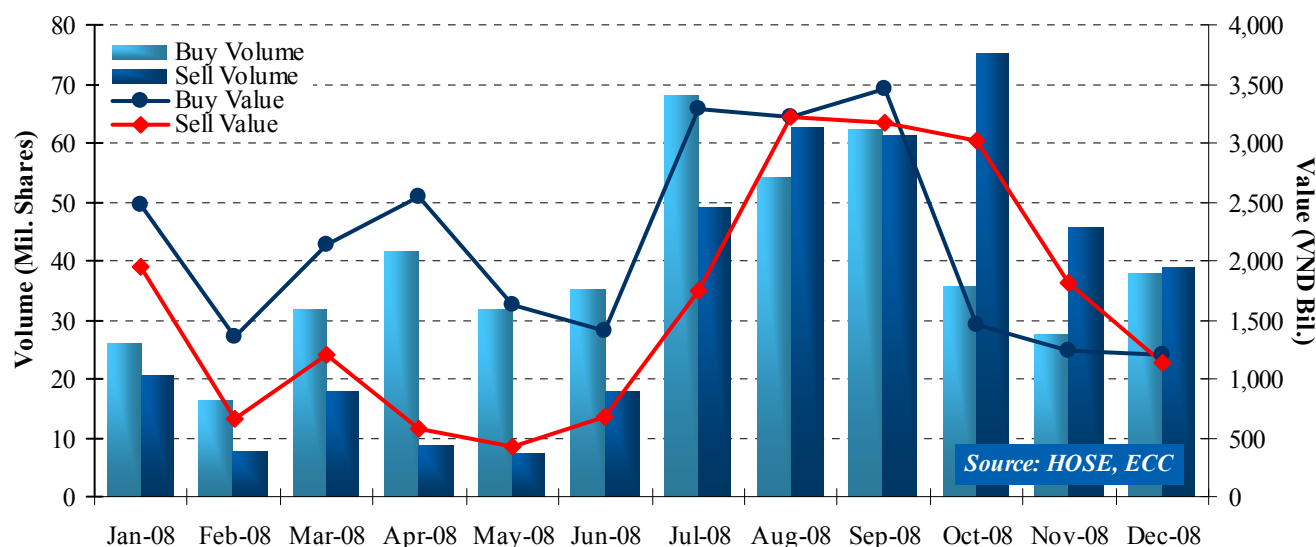
HASTC – Foreign investor transactions in 2008

Unit: VND bil.

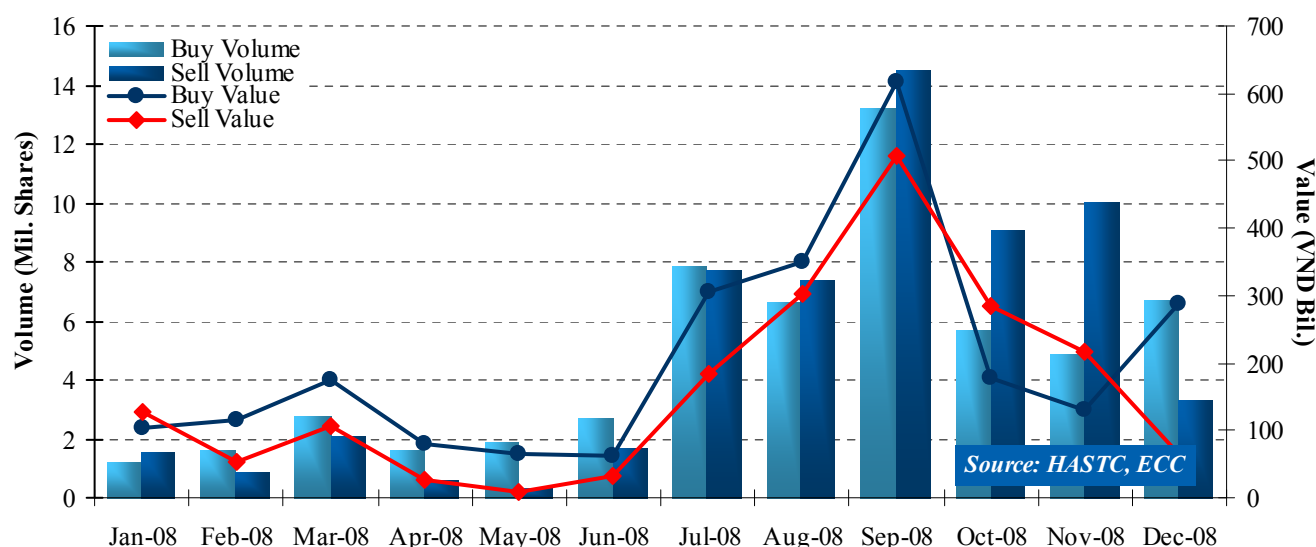
Quarter	Stocks and IFCs			Bonds		
	Buy	Sell	Buy-Sell	Buy	Sell	Buy-Sell
Q I/2008	396	287	109	18,634	16,684	1,950
Q II/2008	206	70	136	21,941	30,243	-8,303
Q III/2008	1,272	993	279	18,201	26,354	-8,153
Q IV/2008	595	565	30	19,699	43,870	-24,170
2008	2,468	1,914	554	78,475	117,151	-38,676

(Source: HASTC, ECC)

HOSE - Histogram of foreign investor transactions in 2008



HASTC - Histogram of foreign investor transactions in 2008



HOSE - Top 10 stocks with net foreign investors buying in 2008

No.	Code	Net value bought (VND 1,000)	Value bought (VND 1,000)	Volume bought (1 share)	Net volume bought (1 share)	Volume allowed (1 share)	Volume left (1 share)	% foreign owned 31/12/08	% state owned 31/12/08
1	DPM	1,748,222,904	3,248,172,578	60,699,960	31,145,420	186,200,000	118,721,173	17.76	60.05
2	SSI	1,272,254,746	2,363,096,063	47,068,940	25,084,650	66,966,669	3,795,517	46.22	0
3	HPG	815,902,996	1,661,594,949	27,446,630	11,001,120	96,218,359	49,540,809	23.77	0
4	PVD	782,131,945	2,143,903,639	22,200,629	7,146,060	64,762,077	26,268,728	29.12	50.38
5	PPC	522,944,828	1,177,635,061	33,538,463	13,727,010	159,855,150	101,468,451	17.90	67.82
6	FPT	418,770,988	1,663,291,108	18,292,580	4,835,680	68,496,031	30,046,272	27.51	7.20
7	DHG	287,179,635	855,175,785	5,869,540	1,765,610	9,800,000	1,545,242	41.27	44.28
8	VSH	243,444,391	458,667,760	14,892,640	7,744,040	67,372,186	28,816,704	28.04	54.55
9	ANV	169,522,192	431,764,095	8,875,950	2,013,520	32,340,000	19,286,140	19.78	0
10	DPR	154,537,719	337,550,908	6,006,310	2,707,150	19,600,000	13,869,300	14.33	60.00

Updated on 31/12/2008

(Source: HOSE, ECC)

HOSE - Top 10 shares with net foreign investors selling in 2008

No.	Code	Net value sold (VND 1,000)	Value sold (VND 1,000)	Volume sold (1 share)	Net volume sold (1 share)	Volume allowed (1 share)	Volume left (1 share)	% foreign owned 31/12/08	% state owned 31/12/08
1	SAM	453,256,488	158,646,716	23,288,978	18,419,170	32,045,616	21,210,065	16.57	31.36
2	VPL	398,220,450	775,656,210	12,273,610	4,070,400	49,000,000	32,721,300	16.28	0.00
3	ITA	159,295,925	605,905,418	12,542,937	4,612,280	64,799,934	21,007,442	33.11	0.00
4	VIP	149,183,656	91,378,966	13,816,962	9,498,380	29,305,815	22,760,910	10.94	51.00
5	AGF	87,181,204	26,893,656	3,735,546	3,173,846	6,301,051	3,248,185	23.74	8.19
6	REE	79,716,142	198,263,070	7,974,740	2,170,590	39,280,107	2,147,260	46.32	4.85
7	DMC	78,001,016	95,635,059	1,821,570	740,530	6,747,300	789,083	43.20	38.61
8	TDH	75,879,291	290,576,275	6,605,320	2,675,550	12,372,500	3,245,925	36.14	0.00
9	TTP	69,068,789	43,818,425	4,602,930	3,197,960	7,349,999	3,922,576	22.85	27.31
10	BHS	59,439,557	4,290,063	2,927,670	2,775,190	9,080,494	8,287,148	4.28	11.25

Updated on 31/12/2008

(Source: HOSE, ECC)

HaSTC - Top 10 stocks with net foreign investors buying in 2008

No.	Code	Net value bought (VND 1,000)	Value bought (VND 1,000)	Volume bought (1 share)	Net volume bought (1 share)	Volume allowed (1 share)	Volume left (1 share)
1	KBC	468,638,150	501,825,990	5,313,300	5,793,400	65,700,670	41,932,470
2	PVS	149,751,800	362,122,790	3,343,700	7,708,500	49,000,000	39,849,700
3	PVI	108,286,162	542,231,662	1,578,240	14,467,140	50,739,500	38,152,689
4	VNR	58,210,800	68,530,560	1,874,900	2,186,000	32,937,036	11,339,866
5	NTP	37,112,430	234,980,170	428,000	4,095,200	10,617,809	7,252,959
6	PVC	34,047,560	36,590,170	492,500	580,800	5,880,000	6,478,386
7	KLS	9,792,130	47,534,330	571,500	2,532,700	24,261,399	23,646,119
8	PAN	7,934,070	26,603,740	180,800	624,800	3,430,000	3,090,100
9	VCS	7,771,790	8,766,600	189,500	212,600	6,345,500	4,816,219
10	SD7	7,615,080	21,138,670	249,100	529,600	4,410,000	4,039,047

Updated on 31/12/2008

(Source: HASTC, ECC)

HaSTC - Top 10 stocks with net foreign investors selling in 2008

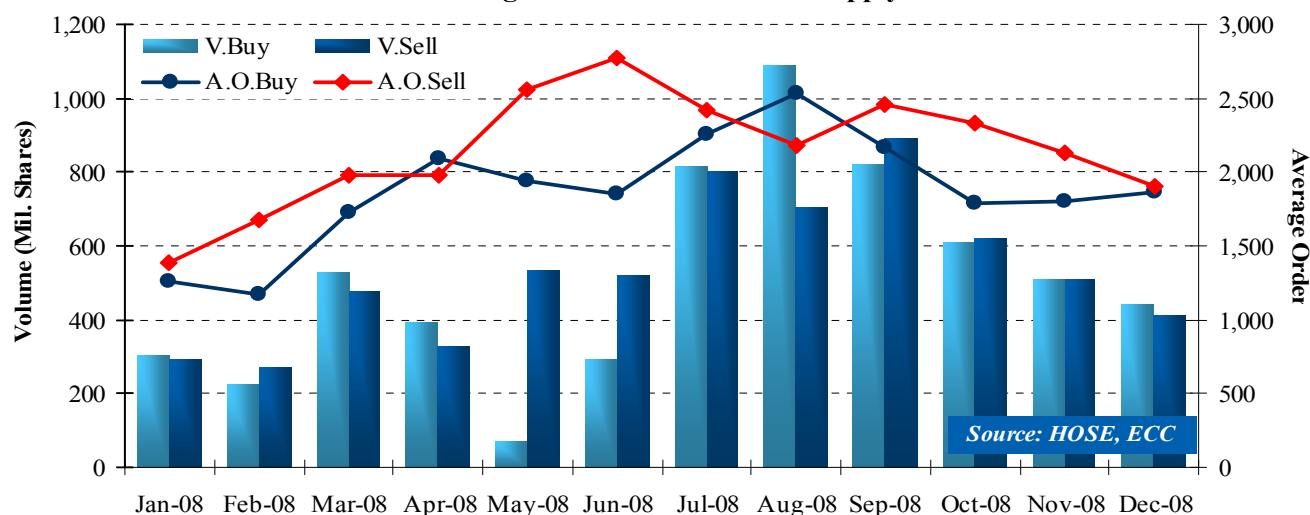
No.	Code	Net value sold (VND 1,000)	Value sold (VND 1,000)	Volume sold (1 share)	Net volume sold (1 share)	Volume allowed (1 share)	Volume left (1 share)
1	VCG	78,973,680	162,382,110	3,173,900	7,147,300	73,492,724	51,082,617
2	BVS	60,495,265	217,915,040	2,334,030	4,830,200	22,050,000	12,766,024
3	BCC	49,626,090	67,040,318	3,738,900	4,791,680	46,874,085	36,446,265
4	NBC	44,658,460	93,853,690	840,500	1,791,300	2,940,000	2,419,800
5	SDT	39,459,990	42,424,240	1,137,200	1,233,200	5,733,000	5,634,200
6	TLC	33,528,720	35,323,280	3,067,400	3,215,800	4,890,200	4,831,000
7	TC6	24,806,820	26,969,090	632,400	692,600	4,900,000	3,858,707
8	HPC	24,676,250	39,547,620	485,100	1,090,900	11,730,506	11,064,082
9	TBC	18,208,430	33,903,600	1,102,100	2,210,600	31,115,000	30,187,346
10	BTS	10,474,690	12,231,810	776,000	894,500	44,531,278	38,212,523

Updated on 31/12/2008

(Source: HASTC, ECC)

Stock demand - supply

HOSE - Histogram of stock demand - supply in 2008



HOSE - Top 10 stocks and IFCs with net buy

Unit: 1 share

No.	Code	Volume Buy	Volume Sell	Net Buy	No. ofshare/1 buy	No. of share/ 1 sell
1	DPM	462,933,850	387,854,910	75,078,940	2,839	2,928
2	HPG	227,542,820	191,260,180	36,282,640	2,007	2,298
3	DPR	52,234,160	38,416,680	13,817,480	2,857	2,382
4	PET	89,605,230	75,813,490	13,791,740	1,681	1,703
5	SBT	86,901,100	76,174,220	10,726,880	2,448	3,310
6	MPC	51,763,430	42,990,610	8,772,820	2,656	2,497
7	TYA	34,771,560	26,099,520	8,672,040	2,046	1,984
8	VNM	76,074,340	68,044,150	8,030,190	1,666	1,637
9	PVD	96,911,490	89,180,580	7,730,910	2,390	2,262
10	TSC	26,824,860	19,295,620	7,529,240	1,410	1,463

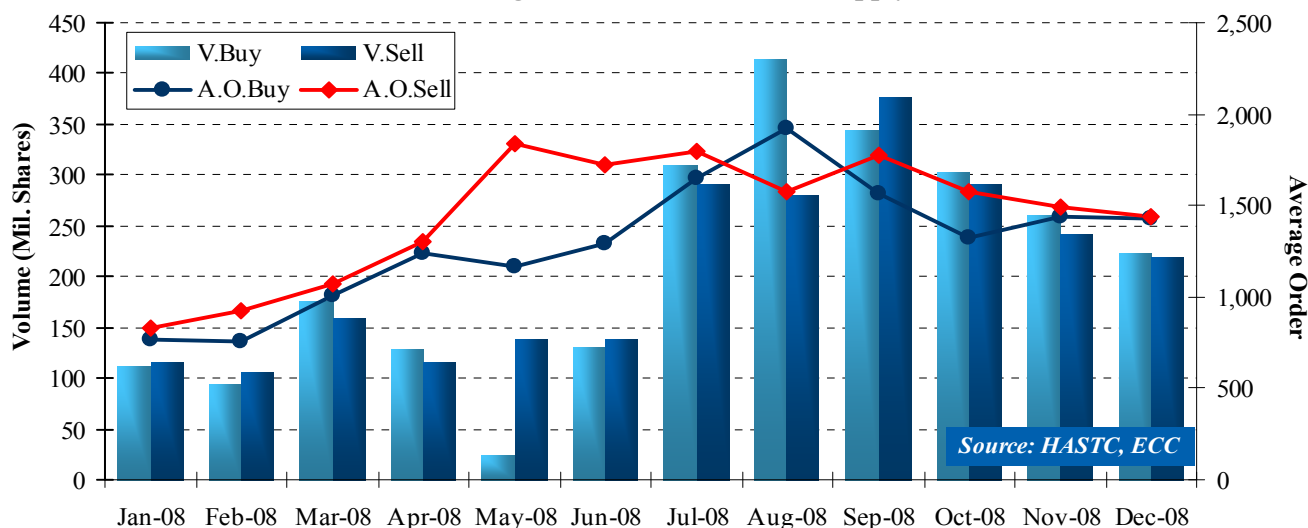
(Source: HOSE, ECC)

HOSE - Top 10 stocks and IFCs with net sell

Unit: 1 share

No.	Code	Volume Buy	Volume Sell	Net Buy	No. ofshare/1 buy	No. of share/ 1 sell
1	SSI	385,837,190	461,634,210	-75,797,020	2,271	2,731
2	STB	882,626,420	921,794,170	-39,167,750	2,277	3,129
3	DQC	39,324,560	65,808,530	-26,483,970	1,520	2,176
4	VFMVF4	45,622,260	67,551,280	-21,929,020	2,978	5,282
5	VKP	10,445,800	32,360,190	-21,914,390	2,059	4,011
6	PRUBF1	96,292,580	117,861,080	-21,568,500	2,015	2,757
7	BBC	27,035,830	47,382,480	-20,346,650	1,690	2,402
8	PPC	116,069,620	135,311,990	-19,242,370	2,753	3,231
9	SJS	84,608,730	102,684,470	-18,075,740	1,967	1,996
10	KMR	14,136,920	30,888,810	-16,751,890	1,590	3,723

(Source: HOSE, ECC)

HASTC - Histogram of stock demand - supply in 2008

HaSTC - Top 10 stocks and IFCs with net buy

Unit: 1 share

No.	Code	Volume Buy	Volume Sell	Net Buy	No. ofshare/1 buy	No. of share/ 1 sell
1	PVS	160,558,900	142,433,400	18,125,500	1,662	1,622
2	KLS	243,530,800	230,437,800	13,093,000	1,996	2,428
3	NTP	61,291,200	49,475,400	11,815,800	1,628	1,521
4	MIC	17,351,100	5,784,400	11,566,700	2,315	754
5	ACB	277,899,300	270,090,200	7,809,100	1,630	2,060
6	DBC	49,830,800	42,850,200	6,980,600	1,940	1,967
7	BCC	47,813,700	41,017,400	6,796,300	1,876	1,967
8	PVI	115,545,800	108,804,000	6,741,800	1,785	1,742
9	VSP	32,300,000	26,257,700	6,042,300	934	980
10	VCS	20,069,400	15,164,400	4,905,000	1,600	1,430

(Source: HASTC, ECC)

HaSTC - Top 10 stocks and IFCs with net sell

Unit: 1 share

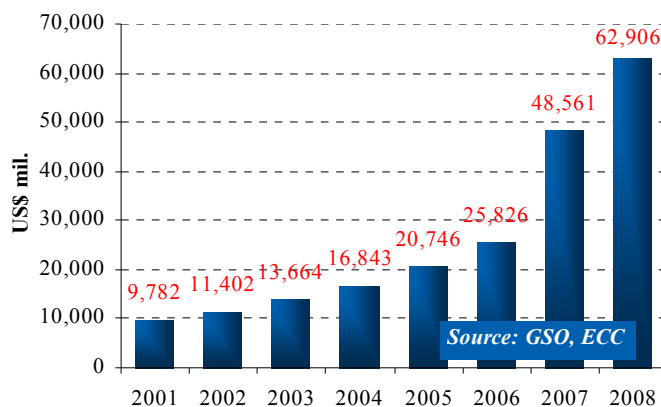
No.	Code	Volume Buy	Volume Sell	Net Buy	No. ofshare/1 buy	No. of share/ 1 sell
1	SD7	45,682,300	67,546,500	21,864,200	1,338	2,067
2	TLT	25,135,500	31,473,900	6,338,400	1,255	1,527
3	HPC	57,554,600	62,318,500	4,763,900	1,162	1,225
4	KMF	5,425,100	9,782,900	4,357,800	1,181	1,343
5	CSG	24,061,300	27,365,200	3,303,900	1,762	2,180
6	XMC	13,458,600	16,756,500	3,297,900	1,580	1,996
7	L62	2,485,700	5,609,600	3,123,900	1,366	1,938
8	TLC	27,577,500	30,549,300	2,971,800	1,307	1,728
9	HUT	4,722,600	7,466,400	2,743,800	1,812	2,415
10	KKC	13,409,800	16,150,600	2,740,800	1,187	1,636

(Source: HOSE, ECC)

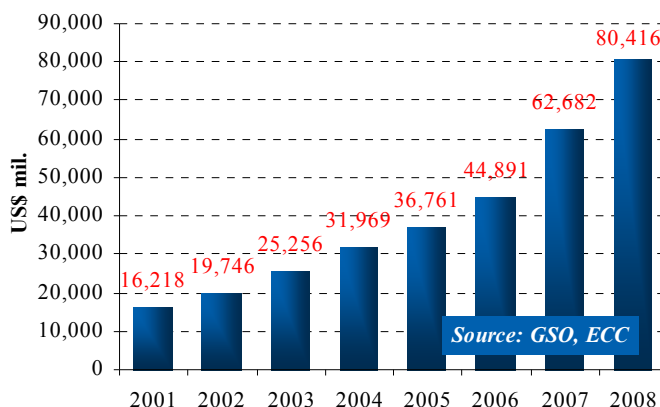
APPENDIX

Vietnam export - import

Export turnovers 2001 - 2008



Import turnovers 2001 - 2008



10 major export products in 2008

No.	Products	Export value (US\$ mil.)	%
1	Petroleum	10,450	16.61%
2	Textile	9,108	14.48%
3	Footwear	4,697	7.47%
4	Seafoods	4,562	7.25%
5	Rice	2,902	4.61%
6	Woods & wooden products	2,779	4.42%
7	Electronics	2,703	4.30%
8	Coffee	2,022	3.21%
9	Rubber	1,597	2.54%
10	Coal	1,444	2.30%
11	Other	20,642	32.81%
Total		62,906	100.00%

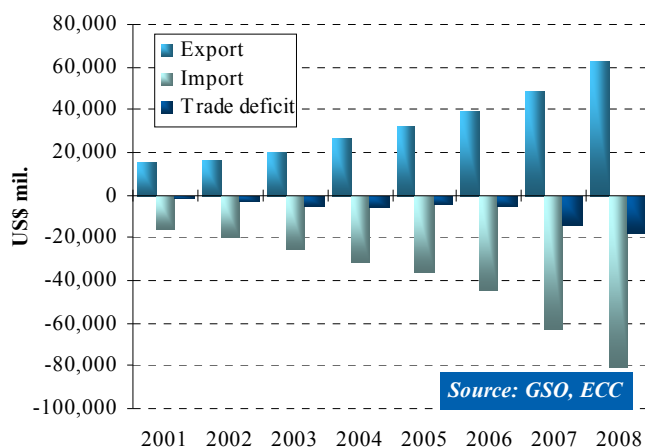
(Source: GSO, ECC)

10 major import products in 2008

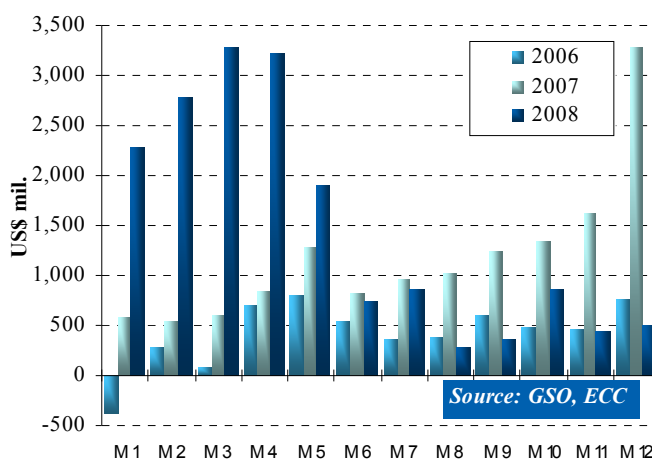
No.	Products	Import value (US\$ mil.)	%
1	Machinery	13,712	17.05%
2	Petroleum	10,888	13.54%
3	Steel	6,566	8.17%
4	Textile	4,434	5.51%
5	Electronics	3,722	4.63%
6	Plastic	2,924	3.64%
7	Auto	2,442	3.04%
8	Materials for textiles	2,376	2.95%
9	Chemicals	1,768	2.20%
10	Cattle foods	1,738	2.16%
11	Other	29,846	37.11%
Total		80,416	100.00%

(Source: GSO, ECC)

Trade deficit 2001 - 2008



Monthly trade deficit



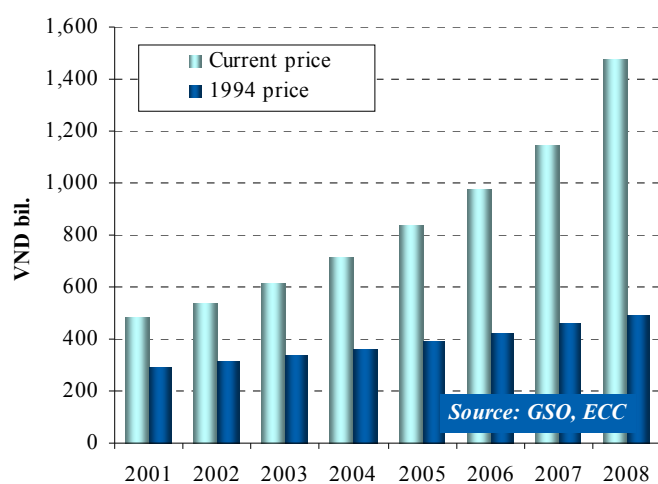
GDP

Vietnam GDP 2001-2008

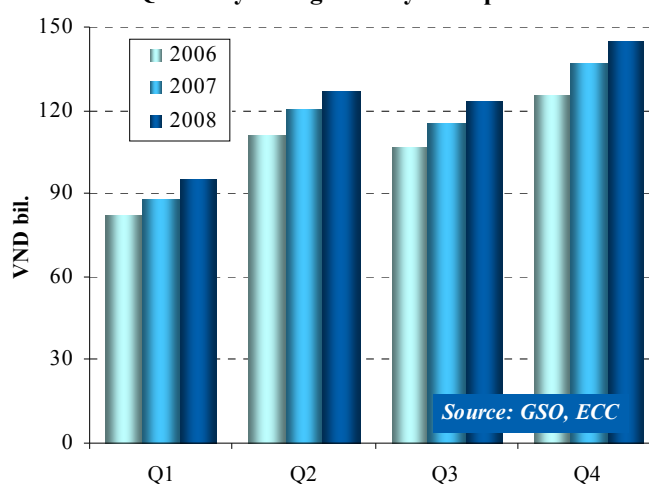
GDP	2001	2002	2003	2004	2005	2006	2007	2008
Current price (VND bil.)	481,295	535,762	613,443	715,307	839,211	974,300	1,144,000	1,016,503
1994 price (VND bil.)	292,535	313,247	336,242	362,435	393,031	425,400	461,400	345,353
Growth (%)	6.89%	7.08%	7.34%	7.79%	8.44%	8.23%	8.48%	6.52%

(Source: GSO, ECC)

Vietnam GDP 2001 - 2008



Quarterly GDP growth by 1994 price



GDP by sector



GDP structure in 2008

Industry/Sector	Vnd bil.	% GDP
Agriculture and Seafood	325,166	22.0%
Industrial and Constructions	590,075	39.9%
Industrial	494,111	33.4%
Processing industry	313,941	21.2%
Construction	95,964	6.5%
Service	563,454	38.1%
Trading	204,375	13.8%
Hotels	64,717	4.4%
Transportations and Telecom	67,046	4.5%
Others	227,316	15.4%
Total	1,478,695	100%

(Source: GSO, ECC)

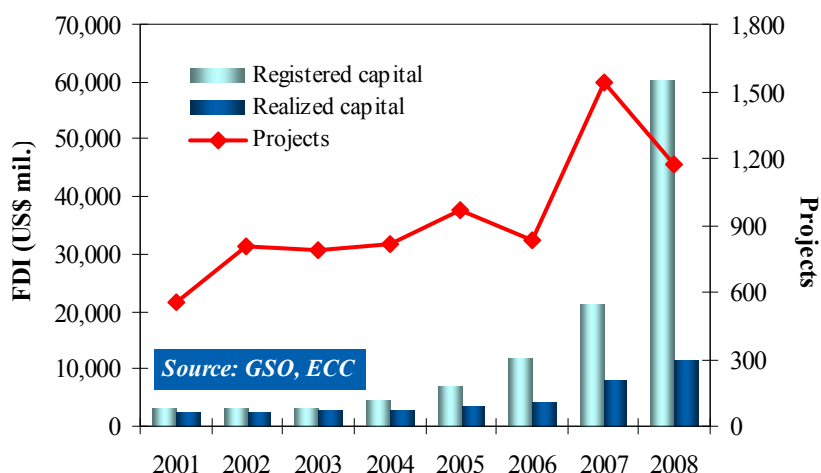
FDI

FDI in Vietnam 2001 - 2008

Year	Projects	Registered capital	Realized capital
2001	555	3,142,8	2,450,5
2002	808	2,998,8	2,591,0
2003	791	3,191,2	2,650,5
2004	811	4,547,6	2,852,5
2005	970	6,839,8	3,308,8
2006	833	12,004,0	4,100,1
2007	1,544	21,347,8	8,030,0
2008	1,171	60,271,2	11,500 (*)

(*)Estimate

Source: GSO, , ECC



FDI structure in 2008

Invested Sector	Projects	Registered capital		Countries and regions	Projects Total (US\$ mil.)	Registered capital	
		Total (US\$ mil.)	%			Total (US\$ mil.)	%
Heavy industry	177	19,441	32.3%	Malaysia	55	14,938.3	24.8%
Petroleum	8	10,574.9	17.5%	Taiwan	132	8,643.5	14.3%
Constructions	33	9,594.5	15.9%	Japan	105	7,287.5	12.1%
Hotels and Tourism	26	9,126.1	15.1%	Singapore	101	4,466.4	7.4%
New constructions	5	4,896.5	8.1%	Brunei	19	4,400.8	7.3%
Transportations and Telecoms	25	1,858.6	3.1%	Canada	9	4,237.7	7.0%
Light industries	245	1,818.5	3.0%	Thailand	32	3,992.7	6.6%
Other services	438	1,278.6	2.1%	Virgin Islands (England)	49	3,940.8	6.5%
Education and healthcare	21	489.5	0.8%	Cyprus	3	2,200.1	3.7%
Food processing	35	434.2	0.7%	Korea	292	1,803.4	3.0%
Others	158	758.8	1.3%	Others	374	4,360.0	7.2%
Total	1,171	60,271.2	100%	Total	1,171	60,271.2	100%

(Source: GSO, ECC)

ABBREVIATION

No.	Abbreviation	Full name
1	CPI	Consumer price index
2	FDI	Foreign direct investment
3	GDP	Gross domestic product
4	HASTC	Hanoi stock trading center
5	HOSE	Hochiminh stock exchange
6	Yuan	Chinese currency
7	SBV	State bank of Vietnam
8	WB	World Bank
9	GSO	General Statistic Office
10	USD	US dollar
11	VCCI	Vietnam chamber of commerce and industry
12	VND	Vietnam currency
13	JPY	Japanese Yen

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