

Macroeconomic Update

Annualized inflation fell to 6.9% in June from 8.3% in the previous month, but the most shocking statistic was that the nation experienced *negative* monthly inflation at -0.26% M-o-M. The Vietnamese government responded by cutting interest rates twice in June by 100 basis points each time. Thus, interest rates have fallen 500 basis points in the last four months, practically erasing all interest rate increases that were imposed in 2011. Naturally, the IMF and World Bank have issued warnings that these interest rate cuts will reignite inflationary pressures that will be reflected in CPI results in late Q2 and Q3 of this year. However, both institutions admit that even though these interest rate cuts have been aggressive, inflation has fallen much faster than anticipated, prompting many, including ourselves, to wonder if the government may have waited a little bit too long to start reducing interest rates.

The refinance rate now stands at 10%, the discount rate at 8%, and the Vietnam Dong (VND) deposit rate cap stands at 9%. When the VND deposit rate cap cut was announced on June 8th, the VND depreciated to the ceiling rate of 21,036, most likely because speculators rushed to buy FX since keeping cash in VND accounts is no longer very attractive at 9%. However, the VND appreciated through the rest of the month and it seems that, unlike previous years, there is enough FX both in the system and in the State Bank of Vietnam (SBV) reserves to cover short-term shortfalls. A factor helping this situation is definitely the much improved trade deficit which remains below \$1bn YTD.

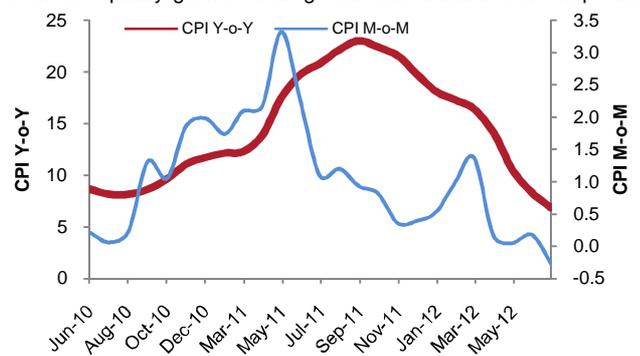
Economic growth for the second quarter was announced at 4.7% with Y-o-Y growth standing at 4.4%. The GDP growth target has been reduced from 6.5% to 6.0%, but it is increasingly questionable whether the economy will expand by more than 5.5% in 2012. A major factor that is holding back economic growth is the lack of credit growth through 1H 2012. However, with the latest interest rate cuts, signs that banks are beginning to increase lending activities are appearing. In June, the overnight interbank rate began to increase from the historically low rates that we reported in the last monthly report to 5.98% at month-end. Concurrently, government bond yields started to increase from their lows and auction success rates have started to fall. Both of these changes point to banks raising cash for lending activities.

This month, the SBV governor explained to the National Assembly that the total bad debts in the system stand at approx 8.6%; in our opinion this seems to be the most realistic number that has been publicly announced, though many agree that it is probably still lower than the actual amount due to different standards at the banks. As a first step to resolving the issue of non-performing loans (NPLs) in the system, the SBV proposed the idea of creating a Debt Asset Management Company for the purpose of purchasing \$5bn worth of bad debts from commercial banks. Concurrently, the government announced that to stimulate the economy, it would inject approximately \$5.75bn through the rest of the year. Plans for the disbursement of this sum have not been disclosed yet, and funding sources for the Debt Asset Management Company have also not been explained. Even though these amounts will not be sufficient to repurchase all of the NPLs in the system, these are the first concrete ideas that have been put forth to resolve the NPL issues.

Given all that have occurred in the last 6 months, we agree that the government waited too long before reducing interest rates, and that it could have done so much more gradually than has taken place. We believe that Vietnam's slowing inflation is equally attributable to moderating commodity prices globally, slower domestic retail sales growth and the stifling of credit, but the problems that may return with an excess of credit in the system and increasing commodity prices have not been resolved. The \$5.75bn that the government has pledged to inject into the economy is eerily reminiscent of the stimulus package of 2009 that set off the inflationary cycle that we have just emerged from. Another inflationary cycle will help the equity and real estate market rebound but it is not good for the long-term growth of the economy. An encouraging development is that members of the government are now acknowledging that there is a distinction between "quality growth" and "growth with inflation". We hope that necessary changes to ensure future "quality growth" will be made soon.

| Indicators | Jun-12 | YTD | Y-o-Y | 2011 |
|----------------------|--------|--------|--------|---------|
| GDP Growth (%) | | 4.4% | | 5.9% |
| Inflation (%) | -0.3% | 2.5% | 6.9% | 18.1% |
| Exports (\$Bn) | \$9.8 | \$53.1 | 22.2% | \$96.2 |
| Imports (\$Bn) | \$9.9 | \$53.8 | 6.9% | \$105.8 |
| Trade Deficit (\$Bn) | \$0.2 | \$0.7 | -89.7% | \$9.5 |
| Disbursed FDI (\$Bn) | \$0.9 | \$5.4 | 1.9% | \$11.0 |
| VND/USD | 20,920 | -0.6% | 1.5% | 21,036 |

Source: General Statistics Office of Vietnam (GSO), Vietcombank



Equity Market

Activities on the Vietnam Index (VNI) fell during June with the index falling to 422.4, down 4.2% in EUR terms (down 1.6% in VND terms), on much lower liquidity than previous months. Average daily shares traded fell from an average of 80 million shares over the previous 3 months down to 47 million shares in June. Amid the increasing unease amongst foreign investors about the prospects for global growth, foreign investors registered as net sellers this month on the Ho Chi Minh Stock Exchange (HOSE). The VNI continued to fall after the two interest rate reductions in June as investors are waiting for a more stable macroeconomic environment before entering. The deputy chief executive of HOSE commented this month that due to high demand from foreign investors for certain stocks therefore raising the foreign ownership limits of public companies (now at 49%) would be beneficial to the businesses as well as to the bourse as a positive correlation between foreign inflows and market performance is generally observable. This would be a good development for the market, but it would be a momentous decision that may not be made for a while longer.

Real Estate Market

Real estate continues to be challenging despite reductions in policy interest rates as commercial bank lending rates have not fallen substantially and still hover in the upper teens (around 15%-18%). This is despite the fact that real estate is no longer listed as a "non-productive sector" and that investors no longer receive the great VND deposit rates that existed last year. However, a number of factors are leading some to believe that demand for real estate will increase in the near future due to the reduction in VND deposit rates, the presently falling attractiveness of gold as a momentum trade and hedge against a surprisingly strong VND, and the fact that the equity market has lost some of the luster that it had at the beginning of the year. Of course, this would be the thinking of experienced real estate speculators whereas the concerns of the average families run along the lines of "Will the prices continue to fall?" The answer is most likely "yes" given the distressed nature of many developers and the continued stagnancy of the market. However, demand will eventually return, stemming the losses on the valuations of developments; it will just take a long time for the valuations to return to levels seen in previous years.



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Vietnam Equity Holding (VEH) Monthly Update

June 2012

| | |
|---------------|-------------|
| NAV per share | €2.12 |
| Share price | €1.40 |
| Discount | 33.9% |
| Total NAV | €46,086,784 |

Performance

| | % | Monthly | YTD | Year End 2010 | Since Inception |
|-----------------|---|---------|------|---------------|-----------------|
| NAV per share | | -4.7 | 16.6 | 0.2 | -9.5 |
| Share price | | 2.9 | 34.6 | -26.3 | -47.2 |
| VN Index in EUR | | -4.2 | 23.9 | -13.8 | -60.8 |
| MSCI EM in EUR | | 1.0 | 4.7 | -14.0 | -11.9 |
| MSCI FM in EUR | | -3.1 | -2.5 | -21.6 | -48.0 |

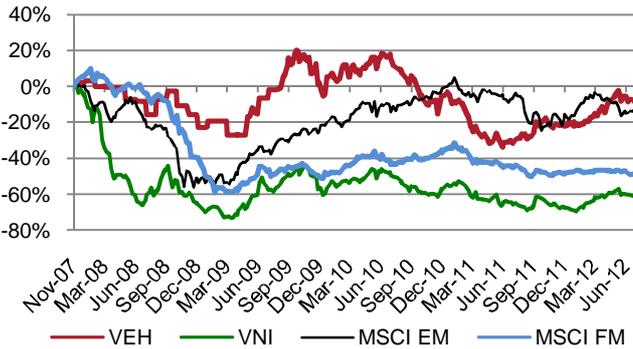
VEH Update

In June, VEH's un-audited NAV per share was €2.12, representing a decrease of 4.7% from €2.22 at the end of the prior month. Over the same period, the VN Index decreased 4.2% in EUR terms (down 1.6% in VND terms). The NAV decrease was mainly due to a 2.1% loss in portfolio value from the decrease in price of listed stocks, combined with a 2.7% unrealized FX loss from the appreciation of the EUR against the VND.

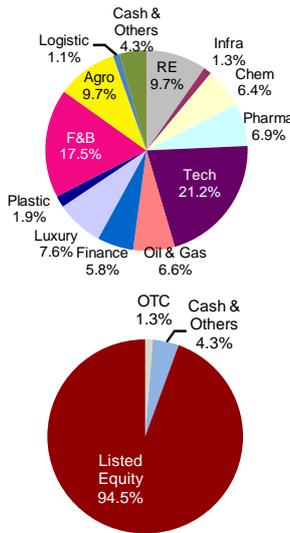
Investment Manager Update

We continue to screen for opportunities to rebalance into small and mid cap stocks with strong fundamentals and higher reward/risk ratios to capitalize on the potential upside gain from an anticipated long-term rebound in the Vietnam stock market.

June 2012 AGM & EGM Update: Both meetings were held successfully and all proposed resolutions passed; results are available on the SAM website.



Portfolio by Sector and Asset Allocation



VN Index – last 6 months: Bloomberg



| Top Holdings | % of NAV |
|-----------------------------------|----------|
| FPT Corp (FPT) | 17.6% |
| Vinamilk (VNM) | 17.5% |
| Phu Nhuan Jewelry (PNJ) | 7.6% |
| Development Investment Corp (DIG) | 5.7% |
| Dabaco Corp (DBC) | 4.5% |

| Foreign Investors' Net Buy on HOSE | | |
|------------------------------------|--------------------|--------------|
| Date | Volume (Mn shares) | Value (\$Mn) |
| Jun-12 | -32.7 | -31.2 |
| May-12 | 11.4 | 6.1 |
| Apr-12 | -25.9 | -35.4 |
| Q1 2012 | -24.0 | 40.6 |

About Saigon Asset Management

Established in 2007 in the Cayman Islands with representative offices in Ho Chi Minh City, SAM manages Vietnam Equity Holding (VEH) and Vietnam Property Holding (VPH) and employs over twenty professionals with diverse international financial backgrounds and proven track records.

Louis Nguyen
Chairman & CEO

Peter Dinning
Managing Director
Real Estate Investments

Chinh Hoang
Director
Equity Investments

Kevin Flaherty
Managing Director
Energy & Natural Resources Investments

Antony Nezcic
Managing Director
Impact & Agriculture Investments

| | | |
|--------------------------------|---|-------------------|
| Structure | Cayman Islands registered closed-end funds | |
| Funds launch | November 2007 | |
| Duration | 5 Years (subject to shareholder vote for extension) | |
| Listed | Frankfurt Stock Exchange (FSE) and Xetra | |
| Management Fee | 2% of NAV | |
| Performance Fee | 20% of gains over 8% hurdle with high water mark | |
| Auditor | Grant Thornton | |
| Legal Counsel | Reed Smith LLP & Appleby | |
| Administrator Custodian | Deutsche Bank (Cayman) Ltd Deutsche Bank AG, Ho Chi Minh City Branch | |
| Clearing/Settlement | Euroclear or Clearstream | |
| Market Makers | 886 AG +49 6101 98861 18, www.886ag.de LCF Rothschild +44 207 845 5900, www.lcf.co.uk | |
| Bloomberg | VEH: 3MS:GR | VPH: 3MT:GR |
| Reuters | VEH: 3MS.DE | VPH: 3MT.DE |
| ISIN | VEH: KYG936251043 | VPH: KYG9361R1074 |

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