PRIVATE EQUITY AND VENTURE CAPITAL IN VIETNAM: CONTRIBUTIONS TO THE DEVELOPMENT OF THE CORPORATE SECTOR AND THE STOCK MARKETS IN VIETNAM

by

Hoang Quoc Hung

THESIS

Submitted to
School of Public Policy and Management, KDI
in partial fulfillment of the requirements
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MASTER OF BUSINESS ADMINISTRATION

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ABSTRACT

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In recent years, interests have focused more on the role of non-Foreign Direct Investment (FDI) in emerging markets with the financing of the corporate sector of many developing countries, including Vietnam. The non-FDI flows are mainly equity investments in the capital of local companies in the transitional markets. The equity investments are made by financial institutions and investors (such as pension funds, insurance companies or investment funds, either private equity, private equity or publicly mutual funds) and foreign and local individuals.

Private equity and venture capital are new concepts to business communities in Vietnam. The concepts are now being known to some local entrepreneurs as very complicated and advanced practices for corporate financing. In line with an economic reform agenda, many financing practices of a market economy will be introduced to the Vietnam, sooner or later. In the early stage of the capital markets in Vietnam, it will be much useful and interesting to search and to get better understandings of the private equity and venture capital investments for both theoretical and practical purposes. Besides the above interests, recent developments of the stock markets in Vietnam and key questions, raised in business reality, of equity financing also lead the author's determination to research on the situations and possible relevant aspects to be considered from the standpoints of either investment professionals and business owners in Vietnam.

ACKNOWLEGDEMENTS

The author would owe much to Professor Lee Young Ki (the Supervisor), Professor David Behling (the Advisor) and many other professors at the KDI School of Public Policy and Management, for the education, valuable knowledge and experience shares and exchanges, lectures and encouragements. The author has received continued encouragements from professors, classmates at the School and colleagues through guidelines, advices and information references for the completion of his business education, including this report assignment.

The author would be grateful to many local, foreign entrepreneurs in Vietnam, including investment officers and other professionals, and some Vietnamese government officials and professors from whom much knowledge and thoughtful advice have been contributed during the completion of the Thesis.

The author would also like to express his sincere thanks to the leaders, management and many administrative staff of the School for significant supports, including library's information and resources for the completion of handling this Thesis through the assessment and evaluation procedures of the School.

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INTRODUCTION

As an alternative asset class, private equity and venture capital have an impact on the economic growth of many countries and the impact is significantly greater than the actual proportion of funds invested by this asset class in many developed and developing countries. In particular, the investment of venture capital has transformed the innovation process in the fast growing, high technology sectors - semi-conductors, personal computers, biotechnology, and software - where venture-backed firms had risen into prominence (Rogers and Larsen, 1984).

Since Vietnam is on its way to a market economy, both private and public corporate will be major market participants. Corporate sector development will be one of the most important parts contributing to the national economic growth and entrepreneurship culture for the country. Besides traditional banking sources, equity finance will be of the most significant resources for entrepreneurship and corporate culture to develop in Vietnam. Equity financing in Vietnam began with the launch of new economic policies of “Reforms”. Since the time post of 1986, the Government of Vietnam allowed a mixed economy to operate in Vietnam. Many private companies have been establishing and running profitably. The private corporate sector is now contributing more and more to the economic growth and development of the country.

With recent reforms in corporate regulatory and legal system in Vietnam, local entrepreneurs have more and more incentives to set up and operate their own businesses in different areas of the economy. Private equity and venture capital recently become new concepts to businesspeople in Vietnam. This source of equity financing will be a leading factor to guide the local entrepreneur community in Vietnam and their businesses to a market economy in broad terms and to the Vietnamese and regional capital markets.

Holding this amplification and importance, as well as the potential contribution of private equity to the development of the corporate sector and the development of stock markets of Vietnam, the author is really interested in understanding and writing about the private equity and venture capital. The thesis will have the title of "**Private equity and venture capital in Vietnam: contributions to the development of the corporate sector and the stock markets in Vietnam.**" This thesis will be organized in such a way to search more on the common concepts and practices on private equity and venture capital. The thesis will also give closer observations on the Vietnamese corporate and private equity-financing environment as a basic finding to analyze any market opportunity for both private equity investment and corporate communities. The thesis, therefore, may also describe the situation of equity financing in Vietnam and how the equity source is working in Vietnam.

In Chapter One, common concepts, practices, procedures and other institutional factors of private equity and venture capital will be recapped and discussed for further understandings and creating an analytical framework of private equity and venture capital investment industry.

Chapter Two will provide a closer look at the corporate environment in Vietnam, reviewing the existing forms of equity financing in Vietnam. This chapter will, at the same time, briefly describe current demand for equity financing of enterprises in Vietnam, both equitized State Owned Enterprises (SOEs) and private corporate business entities. The chapter will also search into the activities of some investment engines with hybrid nature of private equity and venture capital investment funds in Vietnam.

Chapter Three will discuss the potentials and challenges for private equity and venture capital investments in Vietnam. The Chapter will bring into considerations recent development of corporate sector in Vietnam and the early phase of capital markets as potentials and challenges for private equity and venture capital investment in Vietnam. This chapter will discuss some constraints, specific risks and other macro-economic risk factors of private equity investment in the Vietnamese companies.

Chapter Four will describe how private equity and venture capital can take parts in the development of corporate sector and the stock markets in Vietnam. This Chapter will consider the potential impacts of private equity and venture capital investment in corporate sector performance. Private equity and venture capital may have potential impacts on Foreign Direct Investment, banking and other financial transactions in Vietnam. Especially, this Chapter will find how private equity and venture capital can have important impacts on development of the Vietnamese capital markets.

And finally, the ending part will be conclusions with some recommendations and implications on private equity and venture capital business and its contribution to the development of Vietnamese corporate sector in the coming years.

CHAPTER I.
UNDERSTANDING OF PRIVATE EQUITY AND VENTURE CAPITAL INVESTMENTS

1. Concepts of Private Equity and Venture Capital

Private equity is medium to long-term finance provided in return for an equity stake in potentially high growth unquoted companies.[1] Some commentators use the term "private equity" to refer only to the buy-out and buy-in investment sector. Others, in Europe but not the USA, use the term "Venture Capital" to cover all stages, i.e. synonymous with "private equity". In the USA "Venture Capital" refers only to investments in early stage and expanding companies. Originally "Venture Capital" is financing provided for new higher risk ventures such as start-up companies. Over time, the term has expanded to also include investment in management buy-outs and other situations in which venture capitalists invest. Venture capital investments are generally characterized by high risk and an expectation of high return.

Venture capital is typically defined as the investment by professional investors of long-term, listed, risk equity finance in new firms where the primary rewards is and eventual capital gain, supplemented by dividend yield. Venture Capital refers to investing in start-up and very early stage companies. Private Equity refers to investing in medium - or larger-sized, established companies. Often, the term 'Private Equity' is used to cover both venture capital and later stage investing.

Venture capital finance is intermediated external investment in small-and-medium-sized companies that offer the prospect of above average earnings growth coupled with above average levels of investment risk. The investment process consists of

[1] BVCA and PricewaterhouseCoopers: Guide to Private Equity, 2003, p. 4.

raising a fund, then screening, selecting, structuring and monitoring investments. Finally, investments must be sold and the capital repaid to investors.[2]

The British Venture Capital Association (BVCA) defines venture capitals as "means of financing a start-up, expansion or purchase of a company whereby the venture capitalist acquires an agreed proportion of the share capital of the company in return for providing the requisite funding." In this definition, venture capitalists are equity business partner looking for more than a financial return on investment in a business - they plan to actively contribute to the success of the business. This definition makes venture capital cover funds for financing management buy-outs (MBOs)/buy-ins (MBIs), by adding "purchase of a company" in the range of investments. Venture capital operations become a combination of managerial expertise with equity and sometimes debt financing. Such arrangements involve the following three points. One is an equity participation of "outside" investors via a direct purchase of stock, or through warrants, options or convertible securities. The second is a long-term investment, which may span one to 10 years. The third is an active, on-going involvement in the investee company.

As originally conceived, venture capital targets were mainly smaller and also younger companies with advanced technologies during their early stage as they are developing new products or services. High tech industries exhibit the characteristics, which appeal to venture capital firms: small, innovative, and indicating high growth potential. Such firms have taken a big bite out of venture capital funds in developed countries, despite a broader range of investment interests.

There is a lot of confusion between venture capital and private equity. Some in the

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[2] Anthony Alward (The World Bank, Washington, D.C), IFC Discussion Paper No. 36: Trends in Venture Capital Finance in Developing Countries, p.1.

investment industry use the term “private equity” to refer only to buyout fund investing, such as management/leveraged buyouts, mezzanine (or bridge) financing, and many other types of acquisition financing. Some of them recognize the difference in the expectation level of returns as an important element of a realistic identification of private equity, because they narrow down the meaning just to mezzanine financing. On the other hand, some investors have been referring to venture investing and buyout investing as “private equity investing.” That collides head on with the definition of the British Venture Capital Association (BVCA) about venture capital, which is based on the fact that there are many venture capital firms managing buyout funds in EU.

All the forms of investing mentioned above share common points in the point of type of investment. They all aim to equity or quasi-equity investment with relatively long-term and hand-on approach. In addition, in the point of institutional investment, an institutional investor will allocate 2% to 3% of their institutional portfolio in those kinds of alternative assets as part of their overall asset allocation. Those kinds of investing can be categorized into an investment class. Because the term “private equity” can be used comprehensively, it is acceptable for that purpose, even though some investments have been made to public (or listed) companies, or some of their transactions have been had in public stock exchange market. The term “venture capital” deserves significant distinction as earlier stage financing than other types of investment.

1.1. Risk exposure to private equity and venture capital

Private equity and venture capital funds work at the more risky end of the financial spectrum, providing fund to nascent companies often in situations where established financial institutions are unwilling to invest. Private equity and venture capital funds deal in unusually risky investments, that is, investments where the probability of failure is high. Typically, projects are either small startups or companies with some experience but where financing is needed for rapid expansion or other purposes. Venture investments usually involve equity, because it is the intention of fund managers to take advantage of unusual profit and growth opportunities to earn substantial capital gains. On the other hand, either equity investments or loans expose the funds to a substantial risk of not being repaid at all. Fund managements, therefore, expect to gain sufficiently large returns on a few of their equity investments to make up for losses on the many investments that will be failures, in the process earning overall profits commensurate with the high risks taken.

We can mention many reasons why the risk and return of private equity might differ from the risk and return of publicly traded stocks, even holding equal their betas or characteristics such as industry, small size, and financial structure (book/market ratio, etc.).

Low liquidity. Private equity and venture capital investors may require a higher average return to compensate for the liquidity of their investments. Investing in start-ups, unlisted and small companies means a long term commitment of capital and investment efforts. This feature represents the low liquidity of the investment. Once the investor needs cash or want to exit their investment, it will takes more time and efforts to find out the most relevant way to have their dispose their investment than dealing with investment in public listed companies.

Poor diversification. Private equity and venture capital have typically been held in larger portions than other sizeable fractions of the average investors. Standard asset pricing theory assumes that every investor holds a small part of every risk, and that all assets are held in perfectly diversified portfolios. Therefore, with private equity diversification objectives are more restricted than those of investment in public traded stocks.

Information and monitoring. Venture capital investments are often not purely financial. The venture capital investors often provide a mentoring or monitoring role to the firm, they sit on boards of directors, and may have the right to appoint or fire directors and managers. Compensation for these activities may result in a higher measured financial return. Investors expect to be rewarded for taking extra risks, but the reality is that their gains are tied inextricably to their own managerial competence in selecting investment vehicles, to the management talents of the investee firms and, of course, to the external competitive and macroeconomic environment. For example, rewards were often limited by delays in finding investments, by deterioration of economic conditions both in the markets and by management shortcomings. But, venture capital funds under any circumstances make a number of development contributions.

To monitor well the decision making process of investee companies, information flow between venture capital investors and directors, managers of investee is crucially active and productive. There will be a risk of information asymmetry between these parties upon there decision making process. Therefore, venture capital investors may have risks of receiving misleading information or misstatement on the investee companies and possible costs for dealing with this problem should be considered.

1.2. Legal structures of private equity and venture capital funds

A fund's legal structure may be determined by its legal domicile (country where it is registered for tax purposes). Therefore, in some jurisdictions, a fund may be a partnership, a trust, a limited liability company (LLC), or a corporation. Under the partnership structure, the fund manager is called the general partner (GP), and the Investor is called a limited partner (LP). Under the Trust structure, the Fund Manager is called the Trustee or the Advisor to the Trustee, and the Investor is called the Unit holder or Beneficiary. Under the LLC structure, the Fund Manager may be called either the Manager or the Advisor, and the Investor may be called the Shareholder.

There are two major forms of investment vehicle for private equity and venture capital, managed investment companies and limited liability partnership.

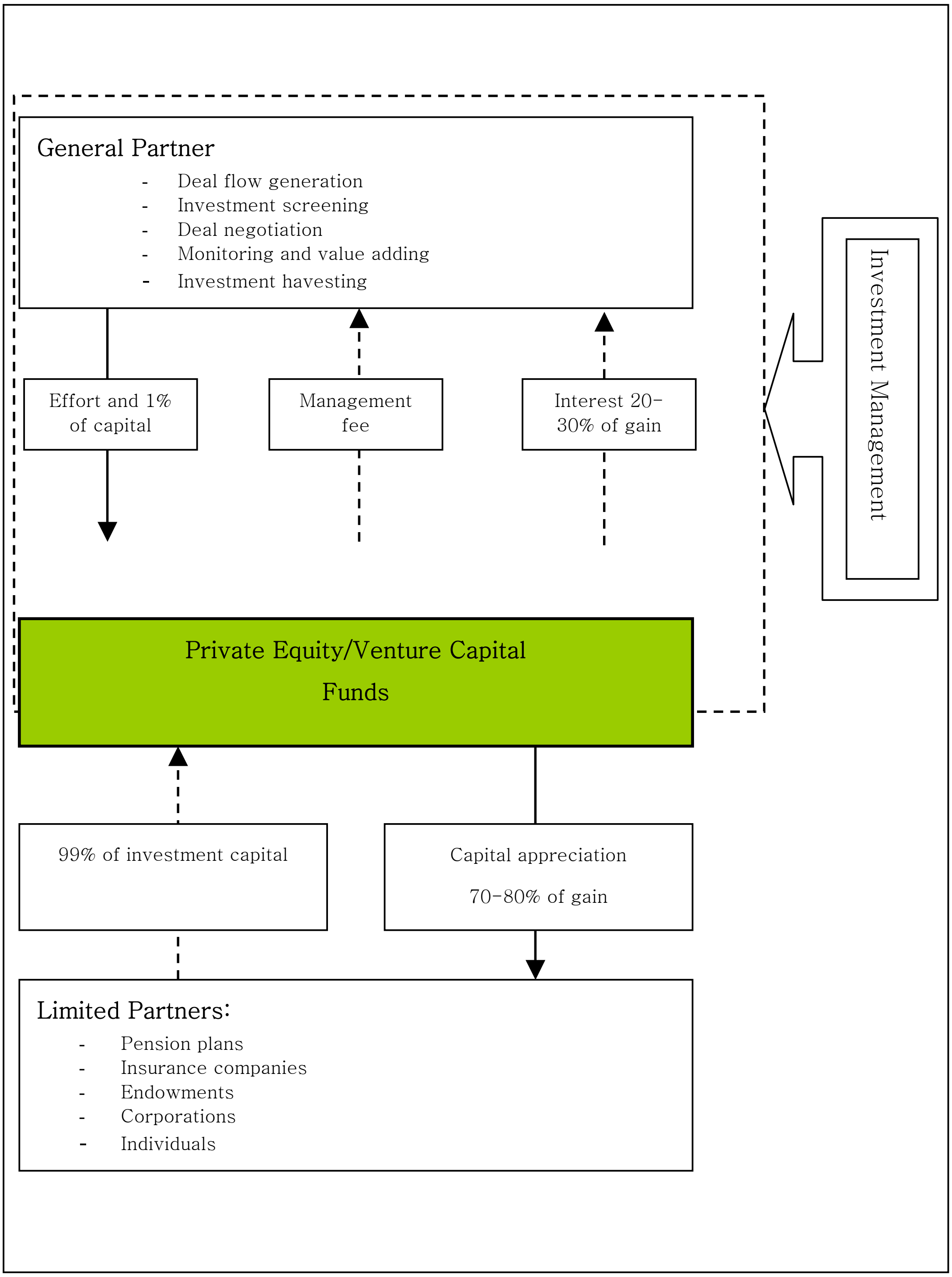
Managed investment companies: An investment company typically is a corporation that has as its major assets as a portfolio of marketable securities referred to as a fund. An investment company invests a pool of funds belonging to many individuals in a single portfolio of securities. Investment Company, in exchange for investors' commitment of capital, will issues to each investor new shares representing his or her proportional ownership of the mutually held securities portfolio, which is commonly known as a fund. Investment company may be listed or unlisted. The investment company may invest in more than one country, but this is the exception rather than the rule. The investment company 's board of directors will hire a management company to act as the investment manager. Management Company will be a separate legal entity to aid transparency and sharpen management incentives.

Under the United States jurisdiction, a recent phenomenon in the venture capital industry is the Limited Liability Company (LLC). Similar to the limited partnership, all items of net income or loss as well as capital gains are passed through to the shareholders of in the LLC. Also, like a limited partnership

Limited liability partnership (American): Partnership is a common organizational structure for private equity and venture capital investment engine. The limited partnership is predominant form of venture capital investing in the United States. Under the partnership structure, the fund manager is called the general partner (GP) and the investors are called limited partners (LP). Venture capital funds structured as a limited liability partnership will not be subject to the Investment Company Act of 1940.

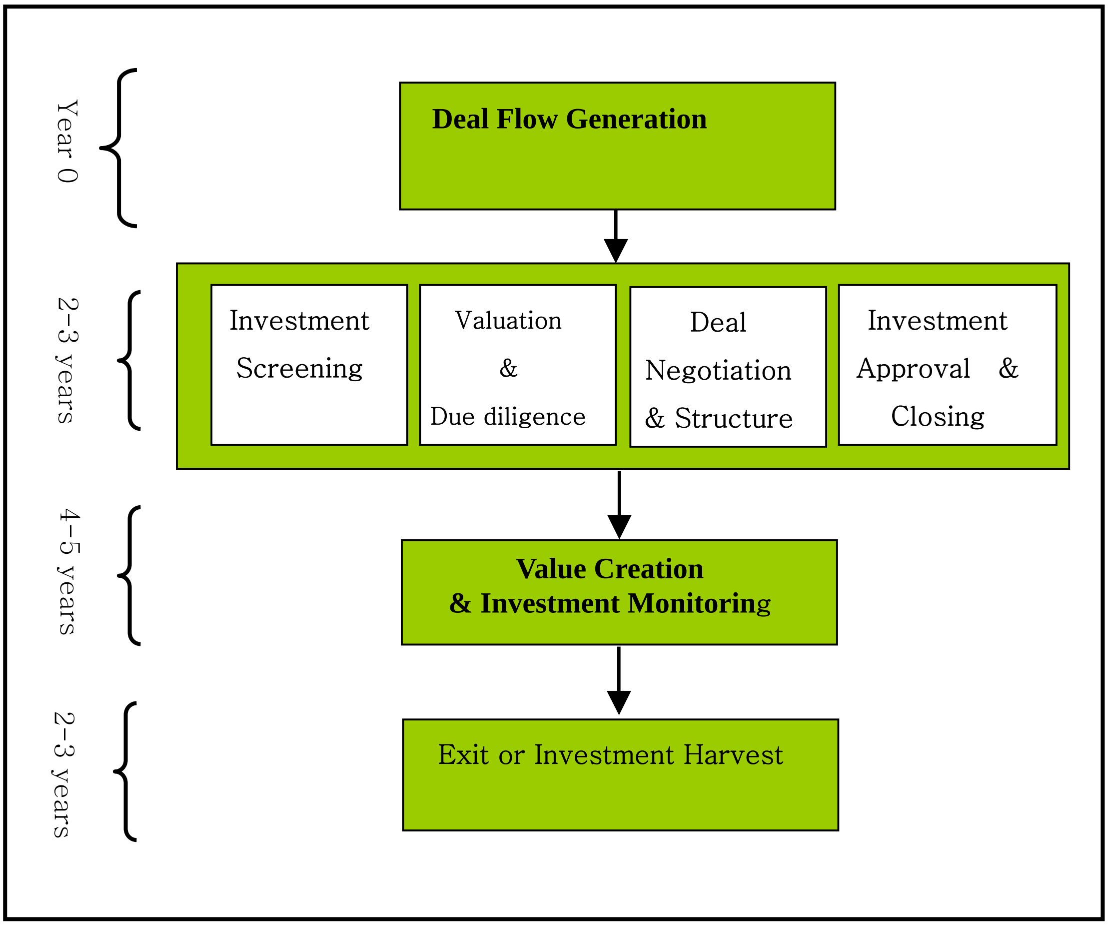
All partners in the fund will commit to a specific investment amount at the formation of the limited partnership. However, the limited partners do not contribute money to the fund until it is called down or “taken down” by the general partner. Usually, the general partner will give one to two month notice of when it intends to make additional capital call on the limited partners. Capital calls are made when the general partner has found an investee company or project. General partner may make capital calls up to the amount of the limited partners’ initial commitments. The following figure describes the organizational structure, functioning and capital and return distribution relationships of General partner and limited partners under a limited liability partnership.

Limited Liability Partnership Structure



2. The investment process

The private equity investment process is a long and tedious one. Venture capitalists typically invest in a small percentage of the businesses they review. The rejection rate is very high; typically, only one out of every ten to twenty projects will pass the initial screening where more than one partner will review the project in detail. Besides the technical and business merits of the proposed company, the quality of the founder entrepreneurs is also a key factor in determining whether the company will receive funding. To mitigate investment risks, venture. Capital firms will typically assemble a portfolio of between twenty to thirty young companies in a single venture fund, as well as co-invest with other professional venture capital firms. Many venture capital partnerships manage multiple funds simultaneously. The figure below illustrates the typical investment process for a venture capital firm.



Unlike traditional commercial banks, equity investors are not passive financiers. A good venture capital firm nurtures growth in companies through the personal involvement of the venture partners and officers in the management, strategic marketing and planning of their investee companies. With their industry network of contacts, venture capitalists play a very important advisory role in formulating the business strategy of the portfolio companies and advising the management. It is common for partners of venture capital firms to take a seat on the board of the investee company to ensure that the investment has the best chance of being successful.

There are four basic phases to the venture capital investment process. The first is the development of fund concept and generation of deal flow. Where capital is committed and available for investment and venture capitalist starts build up deal flow. The second is decision stage where a decision must be made as to the entry of a venture capital firm into a particular investment. The third is the operating stage where the venture capital firm has entered a deal and began monitoring management. Venture capitalists minimize losses and maximize gains through an advisory role and by providing any necessary new financing while assisting the entrepreneur in making the firm more professional and attractive for outside investors. The fourth is the exit stage where the investors will seek to profit from their investments. The stage typically involves the components that follow its objective to enhance the quality of deals to review by filtering out those deals that are concluded not to meet the venture capitalists' strategic objectives.[3] Often one of the various stages, while its conclusions may necessarily need to be reached in a certain sequence in this filtering process, may actually be undertaken before or after another stage. This overlap ensures the most

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3. Janet Kiholm Smith – Richard L. Smith. “Entrepreneurial Finance”, 1999, p. 505

efficient linking of information and judgments between them, as well as the most effective use of the venture capitalists' time and resources. We will look more closely at the following phases of the investment process.

2.1. Deal flow generation

At the beginning of the venture capital process, it is crucial to obtain access to viable projects or companies to be financed, which can generate expected rate of returns. Healthy deal flow is one of the most critical resources of venture capitalist.[4] It is a key factor in determining investment strategy and also attracting fund sources. Without a healthy deal flow venture capitalists will not only have difficulty successfully placing the funds at their disposal in viable deals and doing so in the time frame, but will tend also to obtain deals with consequent adverse impact on pricing as well as deal quality. Developing a healthy deal flow takes significant investment of their time and effort, because deal flow is primarily a function of personal relationships or networking.

Fostering such relationships and network to create deal flow means making the effort to become known as an approachable and professional venture capital firm to people in related business to expected investees, other professionals in investment baking, commercial banking, accounting, legal service, and venture capital itself. They would provide referral and sometimes syndication opportunities. Deal generation is closely linked at the strategic level to venture capitalists' preference with respect to investment stages, deal size and availability of information, as well as the employment of venture capital executives with skills to seek out deals.

2.2. Investment screening

Given a respectable deal flow, it is obviously necessary to perform a filtering process.

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4. Institute of Asian Private Equity Investment. "The Fundamentals of Asian Private Equity Investing", 1999, p. 11

It is quick decision by venture capitalists without spending too much of time or effort before due diligence. Venture capitalists determine whether a prospective transaction may be viable to justify further consideration and fits the investment strategy.

Critical questions about the investment are raised in this stage. Some of them are confirmed before due diligence, and those that don’t fit the investment strategy or marginal ones are discarded. Questions that need to be verified from due diligence are defined for the investments that will be processed more. The most important factor in the overall evaluation of an investment is the investee company’s managerial qualification. Other typical questions are about objectives of financing, time span to get return from capital gains, contemplated way out of the investment, important factors that will affect the industry, market opportunity of the products or services, projected sales and profit, etc.

2.3. Due diligence and valuation

This step includes financial valuation and due diligence processes to determine if prospective return fits the strategic financial objectives as well as to prepare for investment negotiation. For valuation, venture capitalists calculate expected returns then try to estimate a reasonable price for the investment. Many valuation methods are used by venture capitalists. Valuation using various multiples, such as Price Earning Ratio (PER), Price Sales Ratio (PSR), Price to Book Ratio (PBR), and Equity Value/Earning Before Interest, Tax, Depreciation and Amortization (EV/EBITDA) is the most simple and useful way in many cases.

One other way of valuation bases on present value of the business (*First Chicago Method*). Venture capitalists, first, estimate the cash flows during the explicit value period based on a small number of discrete scenarios. Normally, the valuation is based on a “success scenario” for the venture, a “failure scenario” a and a “neutral scenario" or "sideways scenario." Then they compute the continuing value of the venture by applying one multiplier for individual scenarios to the cash flow projection. After that they compute the expected cash flows of the investee company by appropriately weighing the scenarios. Finally, they come up with the present value of the investee company by discounting the expected cash flows, including expected continuing value at their opportunity cost of capital. And based on the present value, compute the fraction of ownership the investor should require in exchange for the contributed capital. However, as an investee company is earlier stage is, most of data showing current status is less meaningful. So valuation of those companies largely depends on venture capitalists' perspective on the business.[5]

Due diligence involves the careful review of features and details of potential investee companies. It is a complicated and time consuming process dealing with legal, financial and management aspects of an investee company. Due diligence process can be broken down to include an initial screening of the deal and a detailed evaluation in determining the suitability of a deal before moving to the next stage in which the valuation and deal structure is conducted. Due diligence process can be the general practices involved in screening due diligence and business due diligence.

The intent of screening due diligence is to quickly flag the deals that either do not fit with the investment criteria of the firm or the criteria that are deemed necessary for success. Venture capital firms typically use processes or mechanisms to quickly screen out the deals that are not of interest. There are many approaches to screening because each firm has to determine what is critical to its fund and what types of deals

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5. Institute of Asian Private Equity Investment: "The Fundamentals of Asian Private Equity Investing", 1999, p. 12.

will fit. Fit is often characterized by the stage of the business, geographic region, size of the deal, and industry sector. In screening for a high quality deal there are a few additional areas of focus. Therefore most firms screen based on ***investment fit*** and ***investment potential***.

On the other hand, the intent of business due diligence is to verify the potential of the deals that survive the initial screening. Often the criteria which are evaluated are similar to those explored in the initial screening criteria but in greater depth. Therefore, assumptions are often made during the initial screening that need to be further investigated and verified. The business due diligence should test the robustness of the information obtained during the initial screening process.

Due diligence can be described as simply a process of getting answers to questions. The key is in asking the right questions that are open-ended and probing in nature. Continuing to “peel the onion” helps to get below the surface of the initial question. For purposes of brevity, typical questions are highlighted under each category. These questions will help explore management, market, product/service, and the business model in further detail. Satisfactory completion of due diligence can include conclusion of commercial, scientific and intellectual property due diligence, a review of current trading and forecasts, a review of existing and proposed management service contracts, a review of the company's financial history and current financial position, either a full legal review or one targeted on specific areas and, if it is not already in place, obtaining key man insurance and satisfactory references and checks on key employees.

2.4. Deal negotiation and structure

Deal negotiation and structure is a set of arrangements negotiated between the investee company and the venture capitalist with the objective of reconciling their different needs and concerns with respect to a specific deal. The issues to be settled are the kind and mix of financial instruments to be used, pricing of the deal, and other terms of the agreement, such as warranties and covenants. Venture capitalists have a different set of concern from the investee company when negotiating the structure of the deal. These includes earning a reasonable return given the level of risk in the transaction, having sufficient influence on the development of the company usually through board representation, minimizing tax payments resulting from the cash flows of the deal, assuring liquidity in the future, having voting control to be able to replace management in case of consistent bad performance, and the like.

The investee company looks for a structure protecting their interests, such as ability to lead the business they are establishing, receiving reasonable financial returns for their initiative, having a flow of resources adequate to run their business, and minimizing tax exposure.

Venture capitalists structure the investment in order to ensure that they enter in the best possible position to insure that your objectives are achieved in the most efficient manner. They would achieve control over their investment to protect their expected return as well as to avoid any unnecessary liabilities.

Syndication of deal may be structured, considering size of the investment, potential risk, existing exposure to a particular sector, or regulatory and accounting liabilities. Venture capital benefits from getting chances to participate in other syndicated deal as well as limiting individual risk. And, the investee company benefits from limiting outside control; being offered combined business expertise, and inducing larger amount of investment.[6]

6. Institute of Asian Private Equity Investment, “The Fundamentals of Asian Private Equity Investing”,

2.5. Investment approval and closing

In this stage venture capitalists negotiate with the proposed investee company on pricing and deal structure. Capitalists will have talks with management of the potential investees to agree on any issues related to their deals. Capitalists may have talk with the chairman of board of directors, or with any person assigned by the board of the potential investee. If the capitalists and investee's people can get the talks to its right way, the deal can be structured and completed as either side's wishes. The two sides will talk on such issues as stake holding portions, their management and corporate governance involvements, price, timing, legal ties and how the capitalist can propose values to the investee. On closing of the negotiation, capital injection will be made may be in cash or in term of capital goods supplies, or some case technology transfers to the investee company.

Deal negotiation is very tough process for both parties. Actually more parties, such as other investors, existing shareholders, deal introducers, and advisers, may have their own interests on the transaction. But, the key is a successful and mutually beneficial relationship that will last for a long time. Both parties prepare and review all related documents and close the transaction and they become a long-term partnership for business growth.

2.6. Value creation and investment monitoring

After closing the transaction, venture capitalists get into the long-term value creation process that is to bear superior return. Each venture capitalist decides the degree to which to manage each individual investment. Some prefer to rely on management reports and periodic company visits, while others prefer more pro-active role in the

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1999, pp. 15-20

areas of future financial arrangements, strategic decision, planning development, marketing and personnel issues. These kinds of active involvement are mostly performed through membership on the board of directors.

Funds or fund sources may demand certain level of involvement. Most investors hope venture capitalists will spend more time improving the performance of their current portfolios rather than attempting to raise new funds as soon as they are fully invested. In many cases, monitoring policy is stipulated in contracts or investment strategy.

More competent venture capitalists have superior expertise, more experiences, a stronger international network for assisting the investee company in professionalizing the firm as well as financing additional capital. And also venture capitalists may play a decisive role in relieving investee companies of difficult situation. If their activities benefit the investee companies and they bring higher return, they will have easier time raising funds at a later time. Capable venture capitalists are differentiated in that way.

2.7. Exit or investment harvest

Exiting from the investments is the last stage of venture capital process, which realizes returns on the investments in the investee companies. It is quite usual for venture capitalists to gradually decrease their shares as realizing partly. An excellent transaction should provide a flexible choice of exit routes that would make venture capitalists promptly respond to the situation. There are five main exit mechanisms: listing on public stock exchange market, trade sales, refinancing, repurchase and involuntary exit.[7]

Listing on stock market is the most common and profitable route for venture capital,

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7. Institute of Asian Private Equity Investment, “The Fundamentals of Asian Private Equity Investing”, 1999, pp. 27-29.

and has several advantages. First, a growing company can raise more capital by marketing the company shares on the stock market. Listed companies can raise additional capital by further issues of shares, normally by way of right issues to existing shareholders. Second, listed companies can finance expansion through an offering of its own shares in payment in the acquisition of other business operations. An offer of shares may allow the negotiation of a more favorable price, since the seller may be able to defer tax liabilities on capital gain. Third, once shares are publicly held, the shareholders can realize the value of shareholding easier by selling their holding. It is possible for venture capitalists, or other shareholders to realize part of it while still maintaining a significant stake in the business if desired. And also, better price may be available in this way, than through a private sales if the company had not gone public. Of course, the owner can also get the same chances.

Forth, employees can get a much greater incentive through employee share ownership programs or stock option, since the employees can more easily value their holding in the company. They can also sell their shares more readily if they wish to realize a gain. Fifth, a company will enhance its status with consequent impact in its markets once shares are publicly traded. Public awareness and visibility to brokers or investors are also considerably enhanced. Disadvantages can include the possible loss of control or unwelcome bids, burdensome disclosure requirements, increased scrutiny from shareholders and the press, perceived emphasis on short-term profits, and high costs of gaining quotation.

Trade sale is also the most common way, especially in the U.S. It is accompanied with acquisitions or strategic investments. Therefore, the third parties may well be strategic investors. Even though it generates smaller return than IPO, it is popular form of exit, because it is appropriate for relatively small companies that because of their size are not attractive to the large institutional investors. Refinancing of the investee company can give an exit route, if they are willing to purchase the venture capitalists' share. This can occur when the venture capitalist is looking for an exit but the investee company is unwilling to go for a listing or a trade sale.

Repurchase of the venture capitalists' shares by the investee company or its management can also an exit route. But, this is limited when the company or the management has grown enough to buying the shares. Or, it can occur based on investment structure agreed upon between the investee company and the venture capitalists, in example, if the company doesn't meet managerial targets. If large institutional investors take liabilities on the repurchase provisions, they will buy the venture capitalists' shares. Involuntary exit occurs under receivership or liquidation. Write-off of investments is not unusual for venture capitalists at all. However well a portfolio company has performed in various aspects, for example, high profitability, stable revenue stream, strong balance sheet, and established market position, poor exit strategy cannot ensure corresponding returns from the investment. Therefore, exit strategy for each portfolio companies should be considered when conducting due diligence, structuring the investment, and negotiating terms and conditions. In addition, it is clear that one of most important post-investment activities is to continuously look for better exit opportunities.

CHAPTER II.
OVERVIEW OF PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY IN VIETNAM

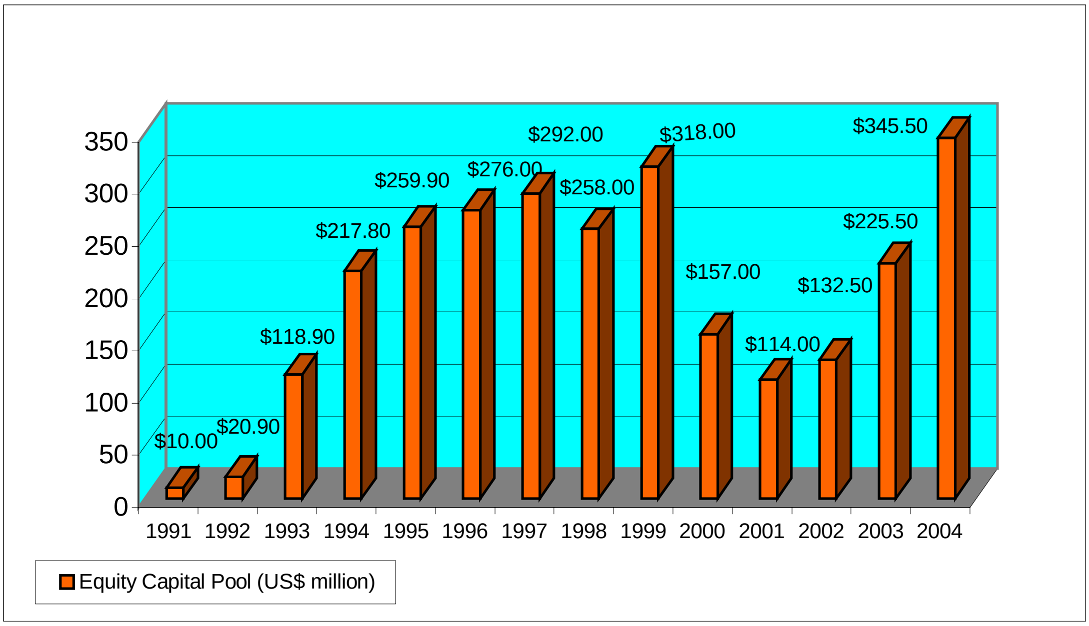
1. Overview of private equity and venture capital in Vietnam

In Vietnam, concepts of equity finance and venture capital used to be new concepts to business people for long time, until 2000. There had been not a local investment engine to seek for benefits of private equity and venture capital investments, both from the point views of investors and investees until the present of some foreign venture capital firms increased their operation in Vietnam, followed by a recent establishment of a local venture capital firms raising and managing a offshore fund. Vietnam private equity and venture capital industry has been originated and dominant by some foreign private equity firms. Some international investors and investment organizations are major supply of venture capital for local companies seeking to expand their business through equity finance. These investors are contributing much and at the same time will be reaping the profitable chances of venture capital and private equity investments in Vietnam. They have found great potentials, in medium to long run, for growth of corporate sector in Vietnam in comparison with other countries in Asia and the developing world.

At present, both short-term and long-term financing for many private enterprises tends to be quite informal, and is often classified into the two group of internal and external sources: For internal source, private enterprises may raise their funds from their business retained earnings and savings accounts provided by founding shareholders/management, and family and friends of management. This source of corporate financing is not representing the major sources in the private enterprises. Getting access to suppliers’ and bank loans are traditional and common ways for financing capital demand of local companies. A recent survey estimated that 55% of private companies in Vietnam had access to bank credit of one kind or another. Where private companies are able to access bank loans, this is usually in the form of relatively short-term credit that is adequate for day-to-day working capital or trading needs, but not for more long-term fixed capital investment needs for growing.

The financial pattern represents a good potential window for venture capital and private equity industry to develop, especially with the recent growth of the corporate sector and the equitization of State Owned Enterprises in Vietnam. The major local venture capitalists like insurance companies, social insurance and pension management organizations in Vietnam have not been investing or spending significant efforts to seek for venture capital and private equity investments in local potential investee companies. Major investments made are from some foreign venture capital firms with offshore equity funds. These investment engines are originated from international foreign investors seeing the future and long-term benefits of venture capital industry in Vietnam. The shareholders of these managed offshore funds are international financial organizations, investment funds and financial groups looking for diverse portfolio with growing investments in Vietnam. These funds have investments of both private equities and publicly traded equities on the markets.

Figure 1. Foreign Equity Capital Pool in Vietnam



Source: *The 1996 Guide to Venture Capital in Asia and various media sources of foreign and local publications.*

2. Private equity and venture capital activities

Although roughly private equity and venture capital investments appear older than the operations of an organized stock market, the private equity industry in Vietnam is a relatively recent phenomenon. The first venture capital fund, the Vietnam Fund Ltd., solely oriented towards Vietnam was established in 1991 (see the Figure 1 above). At the beginning of the 1990s, the macro-economic and business growth forecasts for Vietnam (and Southeast Asia in general) were very positive, and institutional investors specializing in the emerging markets started to focus some of their attention towards Vietnam.

Overall picture of the operation of foreign investment funds could be considered in two periods; before and after the Asian financial crisis. The first foreign investment funds made their appearance in 1991 and during the first half of the 1990s, Vietnam experienced very substantial inflows of foreign direct investment, and there was also a fairly consistent annual increase in the number of foreign venture capital funds wholly or partially oriented towards the country. A total of eight (listed) venture capital funds exclusively focused on Vietnam or the Indochina region was launched during this period, and over US$400million in funds was raised for investment in Vietnam during this period.[8] They included:

- The Vietnam Fund Ltd., launched in 1991, with initial assets of US$10million, later increased to US$57million;
- Templeton Vietnam Opportunities Fund, launched in 1994, with assets of US$113million;
- Beta Viet Nam Fund, launched in 1993, with assets of US$71million;
- Beta Mekong Fund (with a mandate to invest across the GMS region, including Vietnam), launched in 1994, with assets of US$25.6million;
- Lazard Vietnam Fund, launched in 1994, with assets of US$59million.
- Vietnam Frontier Fund, launched in 1994, with assets of US$60million.[9]
- Vietnam Enterprise Investments Ltd., launched in 1995, with initial assets of US$17million, with two subsequent share issues in 1997 and 2001, and a fourth share issue completed in late 2003.[10]
- Southeast Asian Frontier Fund (with a mandate to invest across the Greater Mekong Sub region, including Vietnam), launched in 1996, with assets of US$12.5million.[11]

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[8] For information on the VC associations within Southeast Asia, see: http://www.svca.org.sg/ (Singapore); http://www.hkvca.com.hk/ (Hong Kong); http://www.venturecapital.or.th (Thailand); and http://www.mvca.org.my/ (Malaysia).

[9] Managed by Finansa Plc.

[10] Managed by Dragon Capital Ltd.

[11] Managed by Finansa Plc.

The first wholly-Vietnam venture capital fund to be successfully launched was “the Vietnam Fund Ltd.”, in late 1991 with an initial capital of US$10million. All of these venture capital funds were foreign-managed, raised all their investment capital outside Vietnam, were listed on overseas stock markets (Dublin, London or New York), and were 'closed-end'. A small number of unlisted funds targeting Vietnam market were also launched at around the same time, including the Keppel Vietnam Fund (in Singapore) and the Greater Mekong Capital Fund (in Thailand).

The investment strategies and specific investment deals that each venture capital fund pursued tended to be different, as was their degree of success in enacting profitable investment deals and building attractive investment portfolios. But there were some common features and areas of overlap and they were not exactly venture or private equity funds. This was largely because, for much of the 1990s, the regulatory regime in Vietnam confined the types of investments that the funds - as foreign investors - could pursue, notably with regard to investing in local companies. For those funds that wished to invest in local firms, initial investments made were structured as convertible bond or loan agreements, rather than straight equity deals. It was only later that foreign investors were permitted to take equity stakes in local firms, albeit with various constraints. Over time, these constraints have been gradually reduced.

Once they invested in local companies, they brought many contributions of active participation into the investee and the way the Government improves the business climate in the long run. In general, irrespective of their investment features, the venture capitalists make their contribution in re-capitalizing and restructuring the investee companies. Through their networking, they brought the investees with management improvement, marketing strategies for product development and production. They contributed much to the growth of the local investees, and have significant influence on the public view of equity financing, especially on venture capital and private equity investment and involvement in local corporate thinking and governance culture of Vietnamese entrepreneurs.

A number of equity capital funds therefore primarily co-invested in FDI projects enacted by other foreign companies, such as various hotel and leisure projects, a range of residential, commercial and office property projects, cement and steel plants, building suppliers, hard and soft commodity producers, sugar mills, etc. A few funds were able to acquire minority stakes in local joint stock banks (such as Asia Commercial Bank and Vietnam Bank for Private Enterprises). Another option was to invest in foreign companies listed on stock markets overseas, but which had a proportion - or all - of their business operations located in Vietnam or invest in the small number of Vietnam-related debt instruments, such as Vietnam's government bonds. In 1995, Vietnam Industrial Investments Limited, a US$12million, Australian listed fund started raising capital for their investment in Vietnam. The investments of the fund were mainly made as FDI investments into Vietnam.

In the first period, equity capital activity in Vietnam was much less vigorous, largely as a result of (i) Generally disappointing performances of the funds investing in Vietnam and a paucity of quality investments made; (ii) The difficulties (including regulatory obstacles) of developing attractive investment portfolios in Vietnam, and gaining exposure to the macroeconomic growth trajectory of the country through specific investments, became more apparent to investors, and; (iii) General foreign investor sentiment towards the country lessened, due to a number of factors (including delays in opening the first stock market).

Due to the poor performance of the investment returns between 1996 and 2002, many funds closed the investments and no new venture capital funds for Vietnam were established, at a time when venture capital activity in much of the rest of East Asia was on the rise.

At present, there are some foreign equity funds capitalized at about US$550million. They are of small scale and have gained some experience of the Vietnamese market. These funds, however, are still new to Vietnam but their presence helps make operations in stock markets more professional. After the financial crisis, the flow of foreign indirect investment started to rise again but it represents only a small proportion of the total foreign investment: 0.9% in 2001; 1.2% in 2002 and 2.3% in 2003 while this proportion in such neighboring countries as Thailand, Malaysia and China varies from 30% to 40%. Recently, among the funds established in the mid-1990s, only some funds such as Vietnam Enterprise Investments Ltd. (VEIL) and the Mekong Enterprise Fund continued to be actively investing and raising further fund. From 2002, the industry was considered as turning around with the joining of a new fund, the US$18.5million Mekong Enterprise Fund focusing on investments mainly in companies involved in manufacturing, processing and assembly, as well as distribution and branding which has a mandate to invest in private companies in Cambodia, Laos and Vietnam.[12]

In 2003, two first local investment managers, Vietfund Management, a joint venture fund management company between Sacombank and Dragon Capital, and Thanh Viet Investment Fund Management Corporation. Vietfund Management raised US$19.1million for its first locally listed fund (Vietnam Securities Investment Fund-VF1). The fund is investing mainly in Listed companies in the Ho Chi Minh city Securities Trading Center. This is the first listed fund in the local market. Also in 2003, VEIL raised further US$60million for investments in Vietnam, increased its

[12] Managed by Mekong Capital Ltd.

capital pool to US$97million. In September 2003, VinaCapital, a foreign venture capital company, launched the Vietnam Opportunities Fund (VOF) with initial capital of US$10 million and listed on the Alternative Investment Market in London.[13] Additionally, start-up PXP Asset Management launched in 2003 the US$10.2million PXP Vietnam Fund, which is listed in Dublin the Ireland, to invest in listed companies or companies preparing to list on the stock exchange.[14] The fund started investments in January 2004.

July 2004, Dragon Capital Management Limited launched Vietnam Growth Fund Limited, a small closed end fund (US$50million) listed in Dublin, the Ireland with targeted investment of listed and unlisted companies in Vietnam. And late 2004, US-based IDG launched a large venture capital fund, IDG Venture Vietnam (US$100million) to invest in Vietnam's burgeoning ICT and software sector.[15] May 2005, Indochina Capital group raised a fund of US$42million, Indochina Land Holdings to invest to properties and real estate opportunities in Vietnam.[16] To June 2005, VOF increased its capital, after many capital-raising rounds, to US$96million and the fund invested in more than 34 investee companies both private and privatized SOEs in the growing industries in Vietnam. At present, VOF is considered as the most aggressive fund in the Vietnamese private equity markets. By August 2005, Finansa Plc., a Thai Investment Bank, closed Vietnam Equity Fund, an $18.2million closed end fund for investment in Vietnam.[17] The Fund is designed to take a private equity style investment approach to OTC traded and listed companies in Vietnam in need of

[13] Managed by VinaCapital Ltd.

[14] Managed by PXP Asset Management Ltd.

[15] Managed by IDG Venture Vietnam

[16] Managed by Indochina Capital Group.

[17] Managed by Finansa Plc.

capital to expand their operations.[18] With 9 investments made, the Mekong Enterprise Fund nearly fully invested, Mekong Capital plans to launch a second investment fund in the first quarter of 2006. The new fund is expected to be US$40million and have a similar focus and strategy as Mekong Enterprise Fund.

As for investment management industry, early 2005 there have been some active movements in the Vietnamese market. Some foreign insurance companies, like the Prudential Vietnam Ltd., Chinfon Manulife Insurance Vietnam Ltd. and American International Assurance (AIA) Vietnam Ltd. started their investment funds and management arms. The Prudential Vietnam Fund Management Company will be managing the investment of its fund of more than US$414million. Prior to the establishment of its management arm, the Prudential Vietnam Ltd invested its funds in both government bonds and equities. The fund manager will create a diversified mixed portfolio of fixed income and equities in Vietnam. The manager also seeks for investments in private businesses in growing sectors in Vietnam. In June 2005, Manulife Vietnam Fund Management (MVFM), a wholly owned local subsidiary of Manulife (Vietnam) Limited, was established to operate a fund management and investment-finance consulting business. It will be managing an investment portfolio of US$116million.[19] Beside the foreign insurers, Vietnam Insurance Corporation (Bao Viet), a state owned insurance company, is also in the process of turning its Investment Center into an investment fund management company. The company will manage funds with initial capital of US$30million and is scheduled to start operations this year-end. At the same time, Aureos Capital Limited ("Aureos") is currently

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[18] Finansa Plc. Disclosure at http://www.finansa.com/pdf/vef_press_release.pdf

[19] Manulife (Vietnam) Limited's disclosure at http://www.manulife.com/corporate/corporate2.nsf/Public/vietnam062305.html

promoting the establishment of the Aureos South-East Asia Fund, L.L.C. The target capitalization of the Fund is US$70million. The Fund will invest in small and medium sized enterprises (“SME’s”) in South-East Asia. The countries within the region that the Fund will invest in are Thailand, Philippines, Indonesia, Vietnam, Cambodia and Laos. Investments by the Fund in target companies will range from US$0.5million to US$4million.

The new management companies and their funds are expected to be actively entering into the private equity markets. The total of more than US$1,050million of capital pool, US$500million from investment funds and US$505million from insurance companies’ funds, are available for equity investments local businesses in information technology, telecommunication, fast moving consumers goods, growing and stable processing and service sectors. They are well aware of the potential growth of the selected leading investee companies in Vietnam. They are positively responsive to the market changes in order to realize their long-term visions and long-term returns on equity investment in Vietnamese businesses. Importantly, they have a capital pool in hand to capture the growth potentials of local business leadership and entrepreneurship.

3. Current and potential demand for equity finance

As Vietnam is being a transitional and growing economy, there will be three main sources of demand for equity capital in general and venture capital in particular in Vietnam. First and most promising source is capital requirement for the development of private corporate sector in Vietnam. This component of the demand side will require more and more equity finance as well as other advantages that venture capitalists can bring. The second source will be the financial need for the ongoing equitization of State Owned Enterprises and the third demanders will be FDI enterprises seeking to transform into joint stock companies.

Broadly, by the end of 2004, Vietnamese business society comprises of 3,500 State Enterprises (SOE), 2,242 equitized SOEs (operating as joint stock companies after their equitization), more than 24,000 registered private companies, more than 3,000 FDI enterprises, 3,000 cooperatives and 2.4 million sole proprietorships.

3.1. Capital need for recent development of private corporate sector

In a broad sense, the private business community in Vietnam is now composed of more than 120,000 enterprises officially registered under the Enterprise Law, 16,899 cooperatives, 300,000 cooperative groups and 2.4 million registered sole proprietorships in all business areas. The private enterprise community keeps expanding at an incredible rate both in terms of number and in terms of registered capital. Since the Law became effective (01 January 2000) to date, more than 120,000 enterprises have been registered with total investment capital of US$20.2billion (VND 320 trillion). In the first 8 months of 2004 alone, 23,392 enterprises were established with total investment capital of US$2.6billion (VND 41,528billion), an increase of 36.3% in the number of enterprises and of 29.6% in terms of register capital as compared with 2003. 1.6 - 2 million new jobs have been created by these newly registered SMEs. Despite these encouraging progresses, the incidence of enterprise remains low at 1 enterprise/1,000 population (2004) and most of these businesses are small in size (in terms of labor and capital).

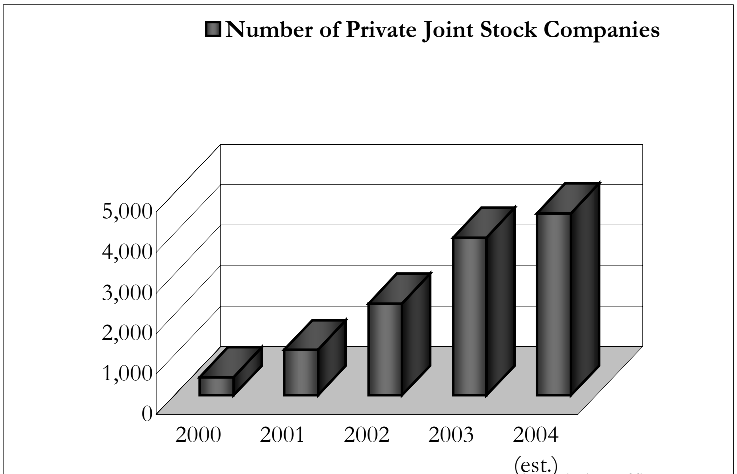
The formal private sector in Vietnam comprises three main types of registered companies: sole proprietorships, limited liability companies, and joint stock companies:

• Sole Proprietorship: A company with a single registered owner.

• Limited Liability Company: A company with up to seven registered owners; ownership is registered in percentage terms, no shares are issued. Transfer/sale of a part by an owner must have approval of all registered owners.

• Joint Stock Company: A company owned by shareholders. Shares can be freely or publicly traded.

These enterprises are making up an increasingly vibrant and dynamic sector in Vietnam. They are contributing significantly to economic growth and poverty reduction efforts in the country through job creation, income generation... Statistics show that the private sector in Vietnam is contributing to 42% of GDP (as compared with 39% by state-owned enterprises). Private enterprises are providing 56.3% of the country's regular job supply, and absorb the majority of 1.2 million people entering



Source: General Statistic Office

the labor market each year. It is leading in industrial growth rate at 19.5% in 2003. 28.8% of total investment in the economy comes from the sector and this share keeps increasing steadily over the last few years.

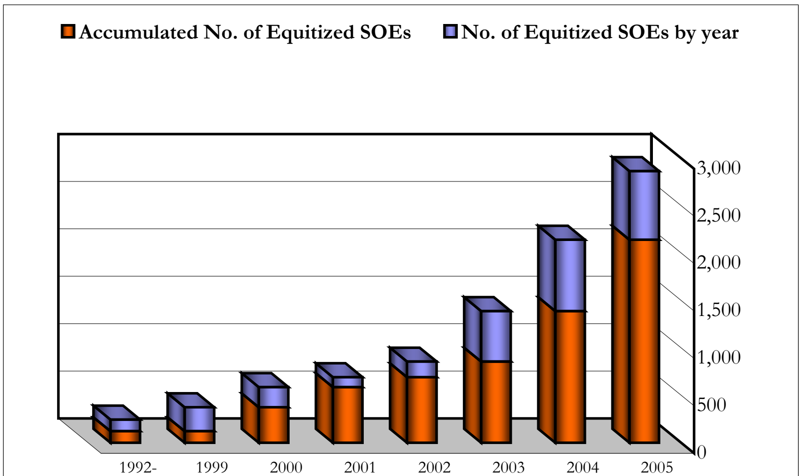
The expansion of the private sector started in 2000 with the new Enterprise Law, one of the government's most successful recent reforms. This created a modern legal regime for the establishment and operation of private enterprises. The Enterprise Law governs the organization and operation of domestic private sector enterprises and the rights and obligations of their investors. One of the principal changes introduced by the Enterprise Law was the establishment of companies upon mere registration rather than by discretionary government licensing. This has reduced the costs of, and the bureaucratic impediments to, establishing private companies, and has resulted in the creation of a significant number of new businesses. This new legislation effectively lit the fuse that caused a private enterprise growth explosion. Further support was provided when the government opened up many sectors previously closed to private business, established the Vietnam Stock Exchange (2000), amended the Constitution so that the private sector was given equal status to that of the state (2001) and allowed communist party members to own shares in private businesses (2002). As a result, many thousands of Vietnamese became entrepreneurs and their numbers continue to swell today.

Among the private companies, more than 4,000 companies are incorporated as joint stock companies, more than 3000 are as limited liability companies. And the companies are possibly of a size or type that would interest venture capitalists. The increasing number of companies and diversified business areas will create an increasing capital need from venture capitalists as well as other financial sources. The private sector is gradually gaining greater access to equity finance, both locally and internationally. The increased access to credit from banks and, potentially, capital from the stock market should help Vietnam's private sector to continue to flourish in the coming years. Vietnamese companies have comparative advantages in a number of sectors. For example, export-led manufacturing, fast consumer good and services are growth areas. Obviously, the growing private corporate sector will generate demand for capital both in equity and debt financing sources for their future growth.

3.2. Capital need for the equitization of State Owned Enterprises

In addition to the corporate private sector development, the equitization of the State Owned Enterprises (SOE) in Vietnam will be also add more demand for equity capital to the demand sides of the capital market.

The restructuring of state-owned enterprises has been at the centre of Vietnam's overall economic reforms, and has received a great attention over the last decades. Various measures have been taken up to restructure and improve the efficiency of the SOE sector. Early reforms aimed to create appropriate mechanisms and grant SOEs the autonomy in production and management.



Source: NSCERD

Permanently loss-making and inefficient SOEs were merged and a small number of SOE were allowed to go bankrupt. Many SOEs are consolidated through the establishment of state corporations. The number of SOEs was brought down from 12,000 in the late 1980s to around 5,000 in 2002.

The equitization of SOEs has been speeded up since the late of 1990s. By early 2005, 2,242 SOEs were equitized. According to the current survey on 500 SOEs equitized over the last year, there has been a considerable improvement in the performance of equitized SOEs. On average, as for 722 equitized SOEs, a considerable amount of idle funds have been mobilized through the sale of state capital and issues of new shares. Only 8% of the legal capital of equitized SOEs if held by outside shareholders. The drive to equitize more SOEs comes amid the country's attempts to enter the World Trade Organization (WTO). The number of SOEs that have been equitized from 1992 to the early 2004 has reached 2,242, accounting for a third of the SOEs in Vietnam. Total re-capitalization of the Equitized SOEs has been US$1.13billion (VND 17,700billion). The total asset of the equitized SOEs, however, represents only 8.2 percent of the State sector.

As reported by the National Steering Committee for Enterprise Reform and Development (NSCERD), on average, more than 90% of the equitized SOEs are running profitable with their equity capital increases by 44%, revenue increases by 23.6%, net income increases by 49% and dividend rates are closed to 17%. In the coming years, the Vietnamese economy will be actively integrating into the world market, the Government plans that from 2005 to 2007 about 1,500 SOEs will be undergone proactive equitization, including many large and leading SOEs in power, petroleum, telecommunication industries. Obviously, the process will be facilitated in combination with other ongoing market reforms in Vietnam. This means more and more equities will be sold to the local and foreign investors. The ongoing equitization will open equity channel for foreign investors to construct and diversify their equity portfolios of the growing corporate sector in the Vietnam. This equitization efforts will required much equity capital from both domestic and foreign investment communities. The ongoing equitization will obviously produce demanders of private equity and venture capital investments in the economy. As long as the equitization is apart of the public sector reforms and the legal framework for equity finance of the equitized SOEs become more and more favorable in a growing and opened economy, the demand for equity capital will be created and enhanced.

3.3.Capital need for the piloting equitization of Foreign Direct Investment Enterprises

In Vietnam, until April 2003, all aspect of foreign investments should be subjected to the Law on Foreign Direct Investments (initially passed in 1986 with many subsequent revisions). Under the legal framework, an FDI corporate could take their legal form of either a joint-venture company or a 100% foreign owned company where ownership and transfers of share capital of investors would be limited with very low liquidity. Equity or capital deals would have been complicated and time-consuming matters for existing FDI investors. Given the legal stipulations of the Law on FDI, foreign equity investors were not easy to realize and enhance their portfolio investments in Vietnam.

With the purposes of removing the barriers and unifying the corporate legislation in Vietnam, on April 15, 2003, the Government of Vietnam issued the long-awaited Decree No. 38/2003/ND-CP which sets out requirements and procedures for the conversion of Foreign Invested Enterprises to foreign-invested joint stock companies. The Decree is a further effort by the Government to improve the investment environment and to create a better capital channeling for both foreign and domestic investors.

As an experimental move, the Decree means to set rules for some FDI enterprises to convert to joint stock companies. The conversed companies will be subject to a more flexible corporate legal domain, closer to the legal guidelines for joint stock companies. Under the stipulations, equities of the converted enterprises may be acquired by Vietnamese individuals and institutional investors, other FDI enterprises, foreign individual and institutional investors and overseas Vietnamese. The FDI enterprises are also encouraged to sell equities on an incentive basis to management and staff. Converted FDI enterprises are required to have at least one foreign shareholder, and foreign shareholders must hold at least 30 per cent of the legal capital of the company during its life. There must be at least three shareholders but there is no upper limit on the number of shareholders.

The ownership of equity and all legal rights and benefits of shareholders of converted FDI enterprises are expressly guaranteed by the Government, as what have been affirmed in the Law on FDI in Vietnam. Once approved to be an equitized FDI enterprise, rights and obligations of a FDI enterprise will remain and the FDI enterprise must continue to implement the approved projects and will be entitled to any incentives on corporate income tax the FDI enterprise had been given.

The equitized FDI enterprises will remain subjected to the terms of their investment licenses and applicable Law on Foreign Investment. To further legalize the operation of the equitized companies, some flexible and favorable legal stipulations of the Law on Enterprise will be also expressly applied. The equitized FDI companies may issue shares to raise equity capital through IPOs, or private placements, they may be considered listing their equities on Vietnam and foreign stock exchanges.

July 2004, 6 FDI enterprises were approved by the Ministry of Planning and Investment to be equitized. The enterprises are successful joint ventures meeting all conditions for eligibility for the pilot FDI legislation reforms. These enterprises are of different industries such as cable and wire, food processing, construction materials and hospitality. The industries are considered as potential industries as Vietnam actively join the regional and global markets. Some of the enterprises have plan to raise capital through IPOs in Vietnam, and this will be good opportunities for equity investors, both local and foreigners.

May 27 2005, Taya Vietnam Electric Wire and Cable Co., a Taiwanese-owned electric wire producer with chartered capital of more than US$11.5million, succeeded in its Initial Public Offering (IPO) with 223 investors purchasing 2,440,150 shares (about US$2.5million) on auction out of its total 18,267,627 shares. The auction was held via the HCM City and Hanoi securities trading centers with the winning bids ranging from 1.8 to 2.9 its chartered capital. This was the first IPO launched by a FDI enterprise in a pilot scheme to turn FDI enterprises into shareholding concerns.

Late September 2005, Chang Yih Enameled Tile with US$5.7million in chartered capital is expected to go IPO through a auction sales on the securities trading centers. The Ministry of Planning and Investment (MPI) of Vietnam is currently finalizing all necessary formalities to turn 20-25 FDI enterprises into joint-stock companies at the end of 2005. The enterprises to be reformed are mostly operating in industry and construction, one in the field of agriculture and another in the service industry. Four of them have total capital of less than US$5million; two have US$5-10million and the remainders have more than US$10mil. MPI revealed that after the first two enterprises were licensed to turn into joint stock companies, a series of enterprises in different fields, of different sizes and investment forms applied for approval to become joint stock companies as well. Currently under review are Tung Kuang Industrial Limited Company, Taya Limited Company of Electrical Line and Cable, Taicera Porcelain Limited Company and Interfood Food Processing and Industrial Company. The Prime Minister has also recently approved in principle the restructure of Gull Power Company, Chang Yih Enamel Limited Company, Vietcans Limited Company, and the Caesar Company for hygienic devices.

It’s likely that with the success of the piloting equitization, there will be a official frame work for the conversion of the FDI businesses into corporate structure with a more favorable mechanism for portfolio investments in the growing and potential markets. Accordingly, the equity investment opportunities in FDI enterprises in Vietnam may come both from the existing and would-be enterprises with higher liquidity corporate markets.

CHAPTER III.

POTENTIALS AND CHALLENGES FOR PRIVATE EQUITY AND VENTURE CAPITAL INVESTMENT IN VIETNAM

1. Recent development of the capital market and roadmap for capital market in Vietnam

The official Vietnamese stock exchange, Ho Chi Minh City Securities Trading Centre (STC), opened to trading in July 2000. The exchange commenced trading with initial trades of two equity issues, capitalized at US$31.5million with the listing volume of 45.5 million shares. In 2002, there were 17 listed companies and to the end of December 2004, the total number of listed companies increased to 26 with a market capitalization of US$ 295.59million for more than 132 million shares outstanding. To June 2005, there are 30 listed equities with volume of 154 million shares and market capitalization of US$310million. The STC has been put into operation with capacity of executing 300,000 orders in a trading session with the 3-day settlement interval.

The Vietnamese listed equity market is small, its trading are still simple, but it marked a new step in the country's capital market progress towards the market economy. Its establishment aims at mobilizing investment capital and making this resource highly liquid. To December 2004, the stock market recorded 820 trading sessions with the average total value of US$1.2million per session. It accounted for 3.4% of the country's GDP, growing to more than twice compared to 2003. To August 2005, after 5 years of the exchange's operations, the stock market has brought reasonable results. The STC has structured its trading system smoothly, and its average turnover has risen from VND1.4billion (US$88,600) per session in 2000 to VND81billion (US$5.1million).[20]

[20] See Appendix 03: Shares listed on the Ho Chi Minh Securities Trading Center.

New investment models like the securities investment fund and repurchase agreement have contributed to the market’s development. Although these figures are still modest, after four years of operation the stock market has scored two undeniable achievements.

First, better performance of the listed companies has been increasingly enhanced. They are known more by the public and businesses. The listed companies have shown improvements in management and financial soundness.

Second, the market activities have increased in both trading volume and process, which may have a positive impact on the current equitization process of the state-owned enterprises. Considering the ownership, the Vietnamese stock exchange is not owned by banks, stockbrokers or private entities like those in most countries of the world. They are special financial organizations and are owned, established, and managed by a government agency. In term of operation technique, the Vietnam stock market is basically not quite different from stock markets in all other countries.

There is quite a diverse range of different business sectors represented by the 30 companies currently listed on the market, despite their small number. However, as noted above, all but one of the listed companies - the Bien Hoa Confectionary Company - are equitized former state-owned enterprises, and the public offerings of their shares were enacted significantly prior to listing on the HCMCSTC. Among more than 2,242 equitized SOEs in Vietnam, a substantial proportion are thought to meet the minimum criteria to list on the STC, but the majority have chosen not to do so. This is despite the introduction of fiscal incentives by the SSC in a bid to encourage more companies to list.

We have also yet to see the listing in Vietnam of any 'big name' companies with nationally known brands, which might be expected to increase investor confidence and interests in the stock market as an investment field. This should occur in time, however, particularly if we see a number of major state-owned companies undergoing equitization, as envisaged for 2004 and 2005.

1.1. Demand for listing and equity investment

The current public traded market consists of 30 listed equities, one listed fund unit and 259 debt listings with a total market capitalization of some US$2,060million of which US$310million is equity and US$17.62million is fund's units. The stock market has carried out its vital role as an avenue for raising capital. Several listed companies issued shares to raise capital. The number of investors in the stock market has increased significantly, five years ago, there were only 3,000. The figure is now 24,000, including 250 institutional investors. By the end of 2004, there are around 16,000 securities trading accounts, including about one hundred institutional investors and more than 30 thirty or so foreign investors. Although 98% of all investors in Vietnam are individuals, the small number of institutional investors is believed to hold 25% or more of all securities listed on the STC. Probably no more than 2,000 securities accounts are being used regularly; down from approximately 800 in mid-2001.

As a common investment trend, most of the retail investors are relatively young individuals, and regard stock investing as a variant of gambling or speculation, rather than as a long-term investment. Most of them tend to be seeking quick returns, and only trade stocks in the short-term. It appears that the majority of Vietnam's prosperous urbanites are still holding back from investing in companies listed on the STC, until they have greater confidence that the stock market is a relatively safe place to invest their savings, and see that it can offer investment returns that compare favorably with other popular asset classes, such as property.

The lack of domestic institutional investors participating in the stock market, and adopting more long-term investment strategies, has been a weakness for the stable and visionary growth of the stock market in Vietnam. For the stock market to develop in the long-term it needs more robust community of investors, with different demands and investment strategies for listed equities. Therefore, a welcome development was the licensing of the first two local investment fund management companies in early 2004. In terms of foreign investments in the listed companies, both resident foreign institutions and individuals are permitted to buy and sell shares in Vietnam, and trade in securities listed on the STC. In practical terms, however, it remains cumbersome for foreign investors to buy and sell shares on the Vietnam stock market, largely due to various regulatory hurdles and incidental costs of opening an account. If foreign institutions wish to actually trade in securities in Vietnam, as a securities company, they must establish a joint venture with a domestic partner, although none have yet sought to do so.

Under Decree 144 of late 2003, foreign organizations and individuals as a group may now hold a maximum of 30% of a company's total outstanding shares. (This revised cap is now consistent with the 30% cap placed on foreign ownership of unlisted local companies, under the Domestic Investment Encouragement Law.) Previously, this cap had been set at 20%, of which a single foreign organization could only hold a maximum of 7% of shares, and a foreign individual could only hold a maximum of 3% of the issuer's total outstanding shares.

Although some foreign institutional investors displayed some initial interests in the opening of the Vietnamese stock market, most of them perceive the market to be currently too small and illiquid, and the hassles of trading on the STC to be unduly burdensome. The maximum capital that all foreign investors could potentially invest in the STC, which is effectively only 30% of this very small market, is currently a mere US$70million – a very small amount when put within a global - or even regional - context. In total, foreign investors held almost 20% of listed shares in June2005.

The launch, in late 2003, of US$5million PXP Vietnam Fund, the first foreign investment fund focused exclusively on investing in companies listed on the Vietnam stock market (and pre-listing companies), may assist more institutional investors to gain some exposure to the STC. The fund is listed on the Dublin stock exchange.[21] Small number of institutional investors has been identified as a constraint facing the Vietnamese stock market. This paucity of institutional investors in commonly found in relatively young equity markets that have focused more on the 'supply side' of the stock market: listing more and better companies, and obliging them to adopt better standards of corporate governance and disclosure. However, it is now widely appreciated that there is an equal need to work on the 'demand side' of stock market development: developing an adequately robust market for the equity paper being issued. For example, China's stock market (which is Asia's second-largest by capitalization), is reported to consist of 60 million-mainly poorly informed-retail investors, often trading on rumors, rather than on fundamental analysis of the relevant companies. In order to switch from a gambling mentality to a more fundamental investing approach, the Chinese government decided in 2001 to open up the market to institutional investors, including mutual funds, insurers and pension funds.

1.2. Demand for listing on the Vietnamese stock exchange

According to the recent legal stipulations on membership, listing, information disclosure and securities trading, types of securities listed on the Ho Chi Minh City

21. More information of the Fund and fund manager will be available in the website of the company at http://www.pxpcm.com.

Securities Trading Center include: Government bonds; Stocks registered at the Securities Trading center; Corporate bonds registered at the Securities Trading center; Investment fund units registered at the Securities Trading center. In order to create a favorable environment for securities issuance and trading, to promote the mobilization of domestic and foreign long- term capital, the Government encourage stock companies to undertake initial public offering with least criteria such as having a minimum registered capital at about US$600,000 (VND10billion), having been profit making in the last two consecutive years, having at least 20 percent of its equity offered to more than 100 investors and foundation shareholders' must hold at least 20 percent of the shareholders' equity of the issuer and maintain this holding for at least 3 years from the completion of the stock offering. In 2000, most of the over 1,000 Vietnam's joint-stock companies are of small and medium sizes, and do not meet the requirements for a listed company. Thus, there were only five joint stocks companies listed on the STC. As of December 2004, there are 26 joint stock companies with the total market capitalization of approximately US$295million (VND4,200billion) which have been listed to June 2005, there are 30 listed companies on the exchanges with total Market Capitalization of US$310million. The listed companies are all profitable and have bright prospective; their profit growth for the year 2003 ranged from 20 to 40% per annum; on top of that, listed companies in the center have been benefiting from the preferential tax treatments, which have made dividend payout attractive to investors.

With a small number of listed companies in the growing market, in the coming years, the listing of stocks on Vietnamese stock exchange will be remarkably visible for joint stocks, equitized SOEs and equitized FDI enterprises to access to the capital markets. This will also be the promising exit for private equity and venture capital investments to be made in the coming years. Recent and ongoing development of the Vietnamese stock market will be potential chance for private equity and venture capital to bring the small sized joint stock companies in Vietnam to public trading floors in the medium and long run.

2. The potentials for private equity and venture capital investment in Vietnam

As a result of economic development and poverty reduction, living standards in Vietnam have risen at an annual rate of 5-6 per cent. The 2000-2002 annual income per capita of US$417 jumped to US$600 in 2005, with total GDP of US$50 billion, representing a six-fold increase against the period of initial inflow of foreign capital. Thanks to many open policies, business climate improvement serves as a basis for planning long-term strategies for FDI implementation, in line with the general development strategy. Capital from public and private economic sectors, as well as from internal and external sources, if pooled in at a proportion of 36-38%of GDP will maintain annual economic growth rate of 8 per cent. In particular, the "closure" mechanism of ministries, branches and provinces is to be removed, thus facilitating private investors to put capital into new sectors, including transportation, seaports, electricity and water supply, hospitals, schools, amusement parks and construction.

In undertaking its international commitments, including those made in the BTA, Vietnam will rapidly expose more restricted sectors to foreign investment, including the services sector. There will be stronger decentralization, where provincial governments are authorized to grant investment permits to projects worth up to US$40 million, and for projects in key sectors, provide more monitoring of management authorities and supervision by the community. The National Assembly at its year-end meeting in 2005 will review and approve the Unified Law on Enterprises and the Unified Law on Investment. Laws on trade, customs, intellectual property, and anti-corruption, among others, are to be finalized to create a transparent, equal legal environment, facilitating the growth of enterprise in all economic sectors.

Once private equity and venture capital investors actively participate in Vietnam markets, they will be the first who gain the upside benefits of the growing economy, and at the same time their investment will be exposed to the downside out come. The investors themselves are required to take risks of facing challenges brought during the growing path of the economy in general, and the challenges for growing of the Vietnamese corporate sector.

The equity investments will pay off on the major potentials and opportunities of Vietnam. The ongoing trends and favorable factors contributing to the growth path may include steady economy growth and political stability of the country.

The main catalysts driving the development of Vietnamese capital markets have been and are economic growth, structural reform and financial deregulation. In the last 3 years Vietnam has accelerated these reforms as it became apparent as a result of the drop in FDI and ODA due to the 1997/8 Asian Crisis, that, if the country were to meet its economic growth and poverty reduction targets, it must develop a policy and supporting infrastructure to mobilize domestic savings to finance investment. Some of the most significant government initiatives implemented to support this policy were;

- Further integration of the Vietnamese economy into the regional and the world economy will pave a growing way for all market participants and mechanisms in the transitional economy.
- The reforms in corporate and investment legislation (the Enterprise Law and Common Investments Law) will provide a strong basis for liberalizing private entry and unifying the framework for most enterprises. Since its passage

almost 90,000 new enterprises have been registered with an average capital of US$120,000.

- State Owned Enterprise Reform - the National Enterprise Reform Committee has developed and submitted a comprehensive 3 year SOE reform program with the focus on the speeding up of equitization, divesture and liquidation of SOEs, covering action schemes for 2,280 SOE's.
- Liberalization of the life insurance industry including the licensing of 100% foreign owned companies. The opening of the Vietnam Stock Exchange in July 2000 and many significant in Banking Sector Reforms in recent years will facilitate the openness of the local financial markets to different investment communities.

Further financial reforms that will directly impact the capitalization of the stock market and the operation and profitability of private equity and venture capital investors in Vietnam may be a) listing of commercial banks and foreign invested companies, b) the development of a domestic fund management industry, c) the limits on equity investment of insurance companies and banks and d) corporate and income taxation reform.

In conclusions, the future growth and the opportunities in Vietnamese market for private equity and venture capital investors are closely related to the Government's current economic reform and deregulation policies in general. Especially, those reforms and policies related to the areas of business client improvement, ongoing SOE restructuring and FDI as well as capital market development policies.

3. The challenges and risks for equity investments in Vietnam

Besides the permanent constraints and risks of private equity and venture capital investments, equity investors in Vietnam may be confronted with a business environment that on the very early days of development. Today, although many favorable developments and potentials have been seen in the market, equity investors may face a number of obstacles in Vietnam. Broadly, these constraints to private equity and venture capital investment may comprise the following:

i) Relatively low levels of corporate transparency in Vietnam. This high degree of corporate opacity, which stems in large part from companies' desire to reduce their tax burden, clearly makes investment a more risky proposition.

ii) A number of weaknesses in the existing Enterprise Law pertaining to corporate governance issues.

iii) Some of the tax regulations for foreign investors, such as those relating to capital gains tax, are also unclear, as are regulations pertaining to remitting the proceeds from share sales and dividends into foreign currency.

iv) The concepts of good corporate governance and minority shareholder rights is not fully understood by many companies in Vietnam, nor protected adequately in law. This poses an additional set of risks for all outside investors seeking to acquire minority stakes in local firms, whether through private equity deals or the stock market.

v) Weaknesses in the accounting system in Vietnam pose some additional difficulties for outside investors, including no requirement to disclose related-party transactions or contingent liabilities.

vi) Notwithstanding some commendable progress in this area recently, foreign venture capital companies still face obstacles relating to the ability of overseas investors to buy shares in local companies in Vietnam. These include: some limitations on the business sectors in which foreign investors may acquire shares in local firms, the 30% equity holding cap, and the complex process for investing in unlisted firms.

Given various constraints such as the low level of corporate transparency, some of the tax regulations for foreign investors, such as those relating to capital gains tax, are unclear, as are regulations pertaining to the remittance of proceeds from share sales and dividends into foreign currency. This clearly makes venture capital investment a more risky proposition.

Prospective investors should be particularly aware of certain specific risk factors relating to private equity and venture capital investments in Vietnam. These risk factor will include:

3.1. Limited liquidity investments

One of the important elements of successful investments in private companies is the "exit" mechanism, to be a successful investment must ultimately be liquidated. In economies with well-developed private equity industries, such as the United States, liquidity for private equity investors is typically obtained through sale of portfolio companies' shares in public stock markets after the shares have become eligible for trading in such markets or through acquisitions of portfolio companies by larger enterprises for cash or marketable securities of the acquiring company. Because the economy of Vietnam is substantially less developed in this regard than those of other geographic regions such as the United States and other developed countries in Asia, it may be considerably more difficult for the investor to liquidate its portfolio investments than it is for private equity investors in other countries in the regions. Although there is now a stock exchange in Vietnam, it still on the very early phase of development with little history and it may be more regulated than other regional stock exchanges. It may take a long time horizon to be a well functioning stock market where by private equity and venture capital investors may easily have their investment exited. And the risks will also be more considerable when many equity investors come up with various investments in local enterprises at one point in time, then as time goes, these investments will need to find their harvests through the local capital markets. This mean at one extreme, the price investors pay for equity investments in local firm will be more expensive as competitive investments, At other extreme, it will be more difficult to exit in a small market where many investments find the exit windows.

3.2. Competition

On a small economy where an dynamic corporate sector starts to grow over the last years, a large number of substantial private equity companies, institutions and other investors have become active in seeking private equity investments throughout the world, including emerging markets such as Vietnam. Competition for a limited number of attractive investment opportunities may lead to a delay in investment and may increase the price at which investments may be made and reduce the potential profits.

3.3. Foreign exchange risks

The Vietnamese Dong, the domestic currency, is not freely traded or convertible. While the Law on Foreign Investment purports to provide foreign investors access to foreign exchange for certain purposes, there can be no assurance that such access will actually be obtained or that the rights contained in the Law on Foreign Investment will not change. In certain instances, foreign investors may be given assurances in respect of foreign currency conversion where investment is made in qualifying projects, such as infrastructure projects.

There can be no assurance that fluctuations in exchange rates will not have an adverse effect on (a) the Net Asset Value of the investment, or (b) the distributions received by Shareholders of the funds in US dollars after conversion of the income and realisation returns from the funds' Dong-denominated investments. There is no assurance that any hedging transactions engaged in by venture capital funds will be successful in protecting against currency devaluations or fluctuations.

3.4. Legal change risks

The economy of Vietnam is substantially less developed than many other Asian economies as well as those in other geographic regions such as Western Europe. The laws and regulatory apparatus affecting the economy are also in a relatively early stage of development and not as well established as the laws and regulatory apparatus of other regional and European countries. Although in recent years the legal system in Vietnam has shown some improvement, there can be no assurance that investors, especially private equity and venture capitalists, will be able to obtain effective enforcement of its rights by legal proceedings in Vietnam nor is there any assurance that improvements will continue. In addition, the time taken to obtain approvals to undertake business activities in Vietnam may be substantial. As Vietnam's legal system develops, there are inconsistencies in laws and regulations and time delays before old laws are up-dated to accord with other regulations and laws. There is therefore not the same degree of certainty as to the laws and regulations of Vietnam as investors would expect if they invested in other countries.

Therefore, in making private equity investments into local companies, the funds are exposed to some potential losses that may occur as the consequences of the changing legal framework. Changes in legal stipulations on the ownership of foreign equity investors in the stock markets, both organized and OTC markets should be carefully considered in fund concept origination, fund structure and investment decision-making process.

3.5. Political and economic risks

The value of investee companies' assets, and thereof any equity investments may be adversely affected by changes in Government, Government personnel or Government policies, which may include, among other things, changes in economic policy and taxation and restrictions on foreign investment and on foreign currency conversion or repatriation. While Vietnam has implemented some economic reforms, which have improved the overall framework for investors, there is no guarantee that economic reform will continue or that it will continue at any particular pace.

3.6. Accounting, auditing and financial reporting standards

At the moment, there are differences between Vietnam's accounting, auditing and financial reporting standards, practices and disclosure requirements and those generally accepted worldwide. Notable accounting standards differences are found in areas such as provision for inventory obsolescence, preparation of consolidated financial statements, valuation of properties and other assets, accounting for depreciation, deferred taxation and contingencies and treatment of exchange differences. Further, less audited information may be available to private equity investment funds in Vietnam than in respect of investments in more developed countries. However, if investments by private equity and venture capital funds usually are made on the basis of financial statements audited by a major international firm of accountants and, in the process, are restated to International Accounting Standards. Then the risks inherited to the investments will be reduced significantly.

In conclusions, as a consequence of the investment risks entailed in investing in local companies, this increases the rate of return that venture capital firms must seek to derive from their investments, in order to mitigate these high-risk levels. This in turn limits both the number of venture capital companies willing to invest in Vietnam, and the kinds of investment deals that they are willing to consider. If the obstacles and risks associated with investing in local companies in Vietnam could be removed or lessened, we could reasonably expect to see greater venture capital - and most other kinds of investment, for that matter - activity increase. It should be noted, however, that the challenges posed to venture capital investors in Vietnam are not exclusive to this country. As a recent article noted, venture capital investors in many emerging markets have tended to encounter problems arising from: low standards of corporate governance and transparency; limited recourse to the law; and "dysfunctional capital markets".[22]

[22].Roger Leeds and Julie Sunderland (2003), 'Private Equity Investing in Emerging Markets', pg. 11-12.

CHAPTER IV.
HOW PRIVATE EQUITY AND VENTURE CAPITAL CAN TAKE PARTS IN THE DEVELOPMENT OF CORPORATE SECTOR AND STOCK MARKETS IN VIETNAM

1. Potential impacts of private equity and venture capital investments in corporate sector performance

As private equity and venture capital investors will seek for new starts-up or existing businesses with strong product concept and potential growth window, they will speed up the entrepreneurship of Vietnamese people and foreigners to set up businesses in Vietnam.

Private equity and venture capital investments' contribution to the growth of investee companies are illustrative of the types of development impacts inherent in this type of investments. Broadly, there are two major types of impacts: (a) impacts associated with the financial activities of the funds themselves, and (b) impacts related to outputs of the investee companies in Vietnam.

In most ways, development contributions of companies financed by venture capital investment are identical to those of any enterprise facilitating employment creation, above average wages, development of suppliers, technology advancement, new or better products, market growth, increasing competition, and employee training, among others. Generally, all private equity and venture capital firms will provide the following assistance to add values to their investee companies. Private equity and venture capital investors affect development by providing capital to local companies, providing managerial advice to companies and promoting capital market development.

1.1. Capital provision and corporate financing structure

At this early stage of the Vietnam stock market, a US$310 market capitalization of the listed equities and about US$2,000million of the listed bonds. Raising funds of the local corporate sector is mainly from through private sources, either in equity investments, shareholder’s loan, capital contributions to any corporate form in Vietnam. The provision of equity capital is the most obviously important to the local financial markets. In Vietnam, when domestic investments is limited to low technologies, lack of management skills and other international market access, venture capital provision by venture capital and private equity funds will be productive to the economic growth of the corporate sector. Not only with the direct capital contributed to the investee companies in equity investment, venture capital firms with their global networking may bring different capital sources to the investee companies by introducing lenders, suppliers and other forms of working capital to the investee companies from the trade suppliers and consumers. As released by Mekong Capital Ltd, in 1999 the foreign accumulated indirect capital invested in Vietnam was US$9.4million (accounting for 0.2 percent of total foreign investments) and to 2003 the number was US$35.4million, equivalent to 2.3% total foreign investment in Vietnam and this figures is expected to increase to (the figures for other regional countries is ranging from 30-40%).[23]

In comparison with the market capitalization of the listed companies, equity capital from venture capital funds and other institutional investors, collectively more than US$1,000million, in Vietnam appears very significant contribution to the corporate funding aspects. Especially, in the context of the Vietnamese capital market, where

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[23] Vietnam Economic Times updates: 07/01/2005 at www.vneconomy.com.vn

the listed companies are major equitized SOEs without any public offerings made by the listed companies. These amounts may not appear to be large, but in part that is the point of venture capital. Entrepreneurs produce ideas for products or companies, but they need capital to commercialize those ideas. At the stage of development at which venture capital is involved, small amounts of capital can often make the crucial difference in the entrepreneur's ability to build the investee company into a viable commercial enterprise. Once commercial viability is possible, other sources of capital become available through either bank lending or private or public providers of equity. The role of the venture capitalist is to make the equity available early in the development of the idea, because that is when it is least available and when the returns are expected to be highest. Of course, by investing at an early stage of development of a small local companies, the venture capitalist is contributing much to the funding sources of the firm and their capital really add value to the investee company.

With injection of equity capital by the investment funds to local companies (usually up to 30% equity increase), private equity and venture capital funds afford an important part of cash need for the expansion of business of the Vietnamese companies. In fact, at the present, the market capitalization was about US$2.0 billion for unlisted companies traded on the unofficial, over-the-counter markets and more than US$310million of the listed company's market capitalization. It is estimated that there will be a capital pool amounting to more than USD1.05billion (US$500million from investment funds, about US$505million from insurance companies) to seek for investments in Vietnamese local private enterprises and equitized SOEs in the coming years. With their capital pool, private equity and venture capital funds will, obviously, help improve considerably capital structure of the local companies, both listed and unlisted, in term of funding the business expansion.

On the other side, investments of the private equity and venture capital funds will introduce and create a change in corporate financing culture of local enterprises. They will develop a culture of equity financing for local entrepreneurs. At present, the equitized SOEs and private companies in Vietnam are additionally financing their business expansion through bank loans, short term and long-term loans. And of course, many companies facing difficulties and problems from financing their long-term business expansion with short term bank loans at very high cost of capital and very weak capital structure. The difficulties somehow represent the risk factors for commercial banks lending to the local businesses. Equity investments bring fund and a lot of active contributions from the investors to local investee companies. Along with other influences, equity financing will better shape the corporate thoughts of equity investment and contribution to the development local entrepreneurs and corporate sector in Vietnam. They will take a key role in creating equity culture in local entrepreneurs and business communities, which are very crucial for the development of the corporate sector in Vietnam.

1.2. Strategic and management advice

Private equity and venture capitalists provide more than just capital. An important part of the values added is the expertise in strategic/financial planning, marketing and accessing complementary financing that they bring to the companies in which they have invested. Those skills are especially valuable in transitional and low-income countries, where such skills are in short supply. For example, by demanding consistent standards of financial planning and reporting as a prerequisite for investing in a company. Private equity and venture capital investors require their investee companies to submit quarterly financial statements, the annual versions of which must be prepared by independent auditors, accordingly the investors can have a significant effect on the behavior of the companies. The development impact of this advice is enhanced when the investee company is successful.

The key to providing this extra added value is to have experienced fund management that has knowledge of the local market, as well as a network of international contacts that can be exploited to increase company value. At the time private equity and venture capital investors became involved in local investee companies, they will be able to exploit their international network and experience. Then, over time, with their involvement, the investors will be more valuable to investee companies.

In some cases, the investors transfer some knowledge directly to investee companies by appointing an staff member who has considerable experience as a member of the investee company’s board of directors. That staff member played an active role in monitoring the activities of the investee company and advise the company managers on management skills, operational strategies as well as other corporate development initiatives.

In order to be able to add value, given the specific experience and skills that individual private equity and venture capital investor possess, they may carefully identify the strategy that it uses to select the company growth strategies. As a result of its experience in other countries, private equity and venture capital investors emphasize technology-related industries, but it recognizes the potential of other industries and they may contribute considerable success in companies outside of the high-technology markets.

A company’s current financial condition can also be the basis for adding value and expecting growth. For example, financially distressed companies can present enormous growth potential if their condition is the result only of poor management.

With adequate investment, private equity investors may be able to replace management and set the company on a growth path. On the other hand, the investors may wish to consider mainly companies that are in the start-up or commercialization/expansion stage of development, because that is where they believe they can add the most value.

1.3. Personnel capacity improvement

Most private equity and venture capitalists take a very active role in helping investee companies to recruit and build out the senior management team. They have skills and network, as well as recruitment initiatives to look for talented managers. They also help investee companies to evaluate management teams and making additions or changes where appropriate – including recruiting and interviewing prospective new hires. Some times, they may bring advanced management expert into the investee companies for reviewing, restructuring and streamlining the current operational aspects of investee companies. And the activism of venture capital investors help much in developing a good management team for the investee companies.

1.4. Leveraging contacts

All venture capital firms have extensive contacts within their respective industry segments as well as other financial institutions. The investors leverage these contacts for a number of purposes, including negotiating transactions on behalf of portfolio companies or sourcing exit transactions. Portfolio companies can also leverage these contacts directly to assist in new business development, sales support and gathering market intelligence. They also help investee companies to access to various debt financing approach to sustain working capital needs as well as other short term financial request of the investee companies. In addition, leveraging contacts also includes resource sharing within the portfolio. Private equity and venture capital investors can help set up associations of executives, professionals or industrial producers or strategic location to raise the voice of their investee companies. And the associations will be the umbrella organization to protect and take care of their members.

1.5. Potential impacts on the corporate governance mechanisms and practices

Responsible corporate governance has been a critical issue in the international business arena for the past decade. The principles and practices of corporate governance are still in their infancy in Vietnam, despite some accelerated reforms taking place at both private and state-owned enterprises. The weak corporate governance is mainly due to a shortage of corporate governance mechanism and practices, from both legislation and business reality perspectives. In fact, minor shareholders in Vietnam, especially in equitized SOEs would far from be exercising their shareholders rights, regarding what so called “hard to follow” corporate charters and lack of shareholder activism. The shareholders in non-listed companies are not provided with nor given access to all information, records and other documents of the companies. In addition, only shareholder(s) holding at least 10 per cent of the total shares have the right to view and to receive a copy of the list of shareholders that entitled to attend the general shareholders’ meetings.

Once private equity, venture capital funds invest in a local company, they will influence corporate governance mechanism and practices. A fund manager holding equity stakes in any single company can help design and introduce better reporting systems, better mechanisms for shareholders’ rights in bettering corporate management structure. Particularly, fund manager may appoint directors to the board, help select management and otherwise monitor corporate decision-making. Fund managers have skills and incentives to initiate corporate restructuring, they can compare investee company executives performance, remove under performing executives and can counterbalance the control of management and employees. Fund managers can also effectively monitor an investee company on behalf of groups of other small investors.

All in all, private equity fund managers should be also considered as being developing mechanisms and practices for corporate governance. They can influence good corporate governance in their own interest and the interests of their investors who have entrusted their money to them. Fund managers, after all, are also human beings - therefore it is important that they too adhere to best practice rules including ethical and professional best practice standards. Definitely, investment funds and fund managers, acting as active shareholders in local companies, will help develop better corporate governance in Vietnam.

2.Potential impacts on the Vietnamese stock markets

Serving as capital providers, private equity and venture capital will have good influences on the financial markets in terms of helping the market to price different types of financial assets. They also bring more options to the local capital demanders; local companies may have alternative financing approaches. Besides equity financing, they may help investee companies get better assess to debt financing through the current commercial banking markets. The investee companies will easily call for further equity investment form private equity and venture capital firms or from public investment communities with the networking and piloting investments made by the private equity capitalists. As a prerequisite for their investments, private equity investors will be the first group of investors to contribute to the development of corporate governance mechanism and practices in corporate sector in Vietnam. on the end of private equity investment extreme, exits by the investment funds will help create and bring the secondary markets with better stocks, either IPOs or seasonal issuance of the invested companies.

The establishment of venture capital funds and fund management companies in Vietnam paved the way for the development of Vietnamese capital markets. As shown in the Appendix 02, the industry will lead the development of the venture capital industry itself, which provides collectively about US$1,000million to local companies as of mid 2005. And as growing trend, if not being considered as hot, will bring more and more money to the existing pool of capital for the growing corporate sector in Vietnam. That increasing capital pool has been investing primarily into the local businesses. Many of those companies have prospered, thereby providing jobs and growth for the country. In the regards, the capital provided has resulted in the employment of several thousand workers, many in less developed parts of the country, in jobs that otherwise might not have been available.

The growth and development of a private equity and venture capital industry has also promoted the public issuance of equity, increasing both the breadth and the depth of the existing stock exchange. As mentioned exit strategies, private equity and venture capital investors are most interested in investments that can be taken public, because a public listing offers the best manner for the funds to realize value on exit, and more than one-third of the funds' companies have been taken public. There more IPOs will be on the market, the bigger supplies of equities to the public investors through public trading in the markets. The established institutional investors in the equity markets will contribute their medium to long term visions and investments with valued proposed to their investee companies. They also help lead the public investors to focus more on long term and fundamental investments rather than actively trading investment strategies that may have more negative impacts on small sized capital markets. The venture capital funds' expertise and experience with public listings coincide with an increase in the number of listed equities in the emerging countries more generally. They will make faster increases in the number of listed equities, listed companies' total market capitalization, and traded volume. These benefit all the capital demanding participants with a lower cost of equity for listing companies. This occurs for three reasons. First, the larger number of listed shares means that the choices available to investors are more varied, allowing greater diversification of risk. This, in turn, lowers the rate of return required by investors and the cost of equity to companies that issue shares. Second, higher market capitalization means that the price per share has increased, which also reduces the cost of equity to companies. Third, more activity on the exchange means that shares are more liquid, thus reducing the risk associated with selling them and further decreasing the cost of equity.

Private equity funds and their investments are key institutional investor and traders in both the primary and secondary markets in Vietnam. On the trading effects, they will help the investment communities in the markets to develop the visions and stability in investment strategies and market expectations. The funds will help educate the investor communities to focus more on medium and long term investments. The investments and trading practices, and knowledge transferred by the investment professionals of the funds, will in turn produce good guidelines for individual investors in the markets. Private equity investments through placements into the SOEs in Vietnam will, for sure, accelerate the equitization process of SOEs in the country. The equitization of the SOEs will be further implemented in the ongoing efforts to speed up the SOEs restructure of the public sector in Vietnam.

It's also important to discuss some potential negative impacts may be caused by a small number of large private equity funds and fund managers in a small and infant stock market, especially when the funds are all, or in majority, offshore to Vietnam. These impacts can be considered either on two extremes of an investment cycle of a typical private equity fund or on the market stability, in general.

On the investment closing, as private equity funds try to buy into a local company, they may have some strategies pressing the company and its existing shareholders to sell the shares at lower prices than the valuation. In such a newly and infant corporate control market in Vietnam, investment funds may try not to pay fair price for their equity stakes in investee companies. This trend, of course, seems to damage the potential growth of existing shareholders of companies and therefore a class of local individual entrepreneur investors in Vietnam. Doing so, some private equity funds, or their managers may be dominating the buy side of the markets. They can deprive other individual investors of opportunities to buy into small and growing companies in the leading industries in Vietnam.

On the investment harvesting, some fund managers may cooperate with investment banks, mainly underwriters for IPOs of investee companies, and other fund managers to manipulate the stock market and stock prices, as they always want to exit with higher capital gain. There may be many different malpractices by the institutional investors on stock markets, ranging from insider trading to trading match, market and price manipulations. The illegal trading practices will damage the fair trading practices, causing losses for public investment communities in the stock markets. The fund managers, being major institutional shareholders in investee companies, will try to seek for higher returns on their investments. In fact, as experienced in many other emerging markets, investment funds are the major inside traders and many price manipulations originated by fund managers to get better exits at lost of other shareholders and the market stability.

In Vietnam there may be the same potential negatives and if the investment funds with their launch time very closed to each other, once the funds are to exit at the same time point in future, the market may suffer from some level of uncertainty if the legal frame and regulations on the exits of investments are not fairly and adequately in place. Especially, when it comes to the market stability, from the experience of the Asian financial crisis suffered by Thai Land, Indonesia and Singapore other Asian countries in 1997 and early 1998, institutional investors in the stock markets seemed to have significantly important influences on the capital flows of the markets. The stock markets were more responsive to the outflow of financial capitals withdrew by some major offshore investment vehicles, causing the shortage, and the higher uncertainties in their secondary markets. The active capital withdrawals of investment funds out of the markets had worsen the negative impacts of the financial crisis on the overall economy of the countries. Therefore, if there is a small number of large investment funds seeking for investment in the Vietnamese equity markets, once the market has any signal of possible crisis, potential impacts of the capital withdraws by the funds would be negatively influencing the stability of the stock markets. To cope with these negative impacts, its better for the market to develop more and more onshore or local based investment funds and fund management companies to head these institutional investors' commitments to long-term investments.

3. Private equity and venture capital fund managers to be prudent investors and shareholders in the Vietnamese markets

With a small number of investment funds targeting local companies in Vietnam, to be prudent investors, under their stewardship to private equity and venture capital funds' beneficiaries, there should be some key conditions to be considered by the fund managers. There may be two groups of conditions for effective delivery of prudent performance by the fund managers; market background considerations and conditions related to investment process of the fund managers.

A strong market background would consist of a strong corporate culture and business environment where investors can see tremendous opportunities for sustainable sales growth and profitability over time, a sound legal frame work for corporate and equity investments, established accounting and auditing and financial reporting standards and effective corporate governance mechanism and practices. The market background will also compose of an effective capital market active in the economy with transparency and fair trading practices. All the components will serve fair investment decisions and monitoring and exit options for the private equity and venture capital investment funds as well as facilitate the activism of active roles of sound investors of the funds in the investee companies. As the fund's beneficiaries will be ready to invest with their observations of explainable risks involved in a specific market, the presentation and communication by fund managers on the market background and insights must be considered as initial conditions for fund concepts, at the beginning and fund management process in the following phases of private equity and venture capital investments. In the context of a transitional economy, investment managers operating in Vietnam should be fully aware of the in depth local market insights and experience, considering what really happen in the market and all the related factors to be prudent in their investment and management. On the other sides, acting as shareholders of investee companies, with understandings of market background and macro economic trends, fund managers will be more committed to the long-term investments in the local companies. They will also be able to propose more values to the investee companies in term of business planning and strategic value added. They will help the local companies to be growing more fantastically in the opening economy of Vietnam.

On the operational side of fund management companies, prudence in investing is very important and required by equity fund's beneficiaries. Fund managers are required to meet rules of prudent investors. These rules of prudent investors can vary from assets to assets under management by different managers. In principles, rules of prudent investors will require managers to follow set of operational and professional rules, either by legal stipulations or by industry professional standards. To be prudent investors, in general, fund managers must ensure their investments and management performance is up to the rules in terms of care, diligence and professional fiduciaries and many other related aspects.

On standards of care, fund managers will invest and manage investments with considerations the purposes, terms, distribution requirements, and other statutory statements of the fund they manage. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. Therefore, the conditions will be the established understandings and compliance with the descriptions of the fund concept. With the standard of care, fund managers will must evaluate every investment and management decision in the context of a portfolio and an overall investment strategy having risk and returns objectives relevant to the fund's concept. Among many other considerations, a fund manager may be required to consider (i) general economic conditions; (ii) possible effect of inflation or deflation; (iii) expected tax consequences of investment decisions or strategies; (iv) role played by each investment within the fund's overall portfolio, which may include financial assets, interests in closely held enterprises or any other asset alternative; (v) expected total return from income and the appreciation of capital; (vi) other resources of the beneficiaries; (vii) needs for liquidity, regularity of income, and preservation or appreciation of capital; and (viii) an asset's special relationship or special value, if any, to the purposes of the fund or to one or more of the beneficiaries.

On diversification aspect, to be a prudent investor, it’s a condition that fund managers diversify investments to the extent appropriate to the requirements of the private equity and venture capital funds and to the general economic and market conditions. Prudence of any portfolio managed is therefore emphasis as a whole rather than the performance of any specific investment. The rationale is that diversification reduces risk, because value of every investee company, stock price movements is imperfectly correlated. This means that if one holds a well-diversified portfolio, the gains in one investment will cancel out the losses in another. Fund managers are also required to meet standards of loyalty that they will invest and manage a private equity and venture capital funds solely in the interest of the funds’ beneficiaries. This standard is the most characteristic rules of trust law, requiring the managers to act exclusively for the beneficiaries, as opposed to acting for the fund manager’s interests or that of any third party.

In conclusions, objectively or subjectively, a professional fund management would be prudent if they will be observing and seeking to meet the above-mentioned conditions. As for the operational conditions, as long as fund management companies develop and commit to a strong and sound fund concept and investment objectives, risk and return policies with definite investment criteria, theoretically and practically, they will be prudent shareholders contributing to the growth of their portfolio companies and their final beneficiaries of funds they are managing.

CONCLUSIONS

With this thesis, the author hopefully brings an up to overall picture of the equity markets in Vietnam along with the recent developments of the industries. The study has tracked historically the beginning of the industry, with descriptions of some initial investment funds in the market in early 90s. Then some recent performance of the existing and new developments of private equity and investment industries in Vietnam has been analyzed to identify the key changes in the markets.

Since the start of foreign investors entered into venture capital fund investments in Vietnam, those investments were expected to a significant way, besides others financial channels, to develop venture capital into a viable and important source of finance for small and medium-scale enterprises. At the beginning, venture capital had not yet been successfully established in the country, and there was considerable risk associated with the first of those investments. Recently, all the macro economic fundamentals and overall legal climate are enabling the private and venture capital investments in Vietnam. And in fact, the recent development of the industry with presence of many investments funds, both onshore and offshore, the potentials of market and the experience brought by the piloting funds then have led to a many fund entries into the market over the last 5 years. The funds operating in Vietnam so far have had a considerable effect on the Vietnamese economy, especially the corporate sector and capital markets.

Along with the description of the current situations, the author analyzes the trends, potentials as well as risks inherited to equity investment in Vietnam. The study also brings to consideration some benefits and impacts being brought by the private equity and venture capital into the markets, reflected on contributions to the development of the corporate sector and the capital markets in Vietnam. Given the above understanding and analyses, the author simply means to reach for important roles of the private equity and venture capital industry to the economy. Through the entire study and related researches, the author has presented some key findings of what has been happening in the markets. Based on the findings, trends and potentials, as well as the overall economic changes of Vietnam, the author would like to have following recommendations:

As for the overall, especially equity investment climate, the government of Vietnam and local business communities should be more ware of private equity and venture capital investments. The government and local authorities should be providing both domestic and foreign private equity and venture capitalists with better investment environments. There should be some incentives to attract more portfolio investors to the countries as well as some regulatory to protect the interests of the investors and investee companies. There should be further reforms in corporate legislation and administrative procedures for private investments, especially both foreign equity investments in the domestic companies. The authorities should think of portfolio investments as one of the important funding channels to the economy.

As for the business communities, there should be thoughts by the entrepreneurs of the contributions and roles of private equity and venture capital in the growth path of their businesses. Local entrepreneurs should be better understanding the equity culture, looking for the benefits, financially and operationally, brought by the investors to their business growth. The entrepreneur communities should be ready and welcome the investments and post investment contributions from the private equity investments. The benefits will not be only limited to the additional financing, but also open the local businesses to better management, more effective networking, experience and idea sharing and better corporate governance as well as scalable nature for their local businesses to work with the capitalists. Its necessary to nurse and develop a corporate culture among the entrepreneurs, open mindsets and to be very selective in finding the right corporate partners to business growth.

As for the private equity and venture capital investors, the implications will be (i) the necessary of the insight of local corporate sector under the overall developing context of the country; this is to make sure they will educate the entrepreneurs along with their investments in the companies. The local insight will help investor succeed in finding good investees and better structure their investment processes to close successful deals with local companies; (ii) the need for visionary investment strategies, specific industry targets and the local approach to value propositions. Investors should keep in their mind of a win-win approach. This means that equity investors should think of being an insider and a true partner to the business growth for portfolio companies, by standing on the investee's management shoes to find a better way to make the successes happen; (iii) for the current situations of the Vietnamese capital markets, investors should think of an appropriate exit strategy for their term investments. This means that there should be a preparation for revolving investments in the portfolio companies until the stock markets bring the investors with profitable exits.

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Francis C.C. Koh, Winston T.H. Koh, "***Venture Capital and Economic Growth: An Industry Overview and Singapore's Experience***", 16 December 2002, Singapore Management University.

Global Insight (www.globalinsight.com), "***Venture Impact 2004: Venture Capital Benefits to the U.S. Economy***", commissioned by the National Venture Capital Association (NVCA- www.nvca.org).

And other publications available on many websites of international organizations, associations and institutes will also serves as an information source for the research and many other publication and disclosures by the related companies and agencies. Venture Capital Associations within Southeast Asia, see: http://www.svca.org.sg/ (Singapore); http://www.hkvca.com.hk/ (Hong Kong) and http://www.venturecapital.or.th (Thailand); and http://www.mvca.org.my/ (Malaysia).

APPENDIX 01

MAJOR FUNDS ACTIVE IN EQUITY INVESTMENTS IN VIETNAM

No.	Fund name	Fund size (USD)	Launch Time	Manager
1.	**Vietnam Enterprises Investments Ltd.**	97,000,000	Jul-95	Dragon Capital Ltd.
2.	**Vietnam Industrial Investments Ltd.**	12,000,000	1996	CIBC World Markets Australia Ltd.
3.	**Mekong Enterprise Fund**	18,500,000	Apr-02	Mekong Capital Ltd.
4.	**Vietnam Opportunities Fund**	95,000,000	Sep-03	VinaCapital Group
5.	**PXP Vietnam Ltd.**	10,200,000	Dec-03	PXP Asset Management Vietnam Ltd.
6.	**Vietnam Securities Investments Fund**	19,100,000	Mar-04	Vietfund Management
7.	**IDG Venture Vietnam**	100,000,000	Oct-04	IDG Venture Vietnam
8.	**Vietnam Growth Fund**	50,000,000	Jul-04	Dragon Capital Ltd.
9.	**Indochina Land Holdings**	42,000,000	May-05	Indochina Capital Group
10.	**Vietnam Equity Fund**	18,200,000	Aug-05	Finansa Plc.
11.	**Mekong Enterprise Fund II (planed)**	40,000,000	2006	Mekong Capital Ltd.

Source: Author’s information collection and updates, August 2005.

APPENDIX 02

FUND MANAGEMENT COMPANIES ACTIVE IN VIETNAM

Company	Contact (Vietnam)	Website
Mekong Capital Ltd.	Saigon Tower, 11th Flr. 29 Le Duan St., District 1, Ho Chi Minh City Tel: 84-8-827 3161 Fax: 84-8-827 3162	http://www.mekongcapital.com
Dragon Capital Limited	1901 Me Linh Point 2 Ngo Duc Ke St., District 1, Ho Chi Minh City Tel: 84-8-823 9355 Fax: 84-8-823 9366	http://www.dragoncapital.com
Finansa Plc.	Metropolitan Tower, 3rd Flr. 235 Dong Khoi St., District 1, Ho Chi Minh City, Tel: 84-8-825-0168 / 9 Fax: 84-8-825-0167	http://www.finansa.com
VinaCapital Group	17th Floor, Sun Wah Tower Nguyen Hue Bldv. Dist. 1, Ho Chi Minh City Tel: 84-8-821 9930 Fax: 84-8-821 9931	http://www.vinacapital.com
PXP Capital Market	Kevin Snowball 120 Tran Quoc Thao, District 3, Ho Chi Minh City, Vietnam	http://pxpam.com
Aureos Capital	Somerset Chancellor Court, 1st floor 21-23 Nguyen Thi Minh Khai St, District 1,Ho Chi Minh City Tel: 84-8-823 0326 Fax: 84-8-823 0329	http://www.aureos.com

Company	Contact (Vietnam)	Website
The Prudential Investment Fund Management Company	Prudential Tower, 25th Floor, 37 Ton Duc Thang Street, Dist 1, Ho Chi Minh City Tel: (08) 9 101 660 Fax: 84-8-910 0899	http://www.prudential.com.vn
Manu life Investment Fund Management Company	Diamond Plaza, 11-12/Fl 34 Le Duan, District 1, Ho Chi Minh City. Tel: (08) 825 7722 Fax: 84-8-825 7718	http://www.manulife.com.vn
Indochina Capital Group	Saigon Trade Center Suite 1002, 37 Ton Duc Thang, Ho Chi Minh City Tel: 84-8-910 4855 Fax: 84-8-910 4860	http://www.indochinacapital.com
IDG Ventures Vietnam	Sunwah Tower, 11th Floor, Suite 1108, 115 Nguyen Hue Street, District 1, Ho Chi Minh City Tel: 84-8- 827-8888 Fax: 84-8-827-8899	http://www.idgvv.com.vn
Vietfund Management	Bitexco Office Building, 8th Flr., 19-25 Nguyen Hue, District 1, Ho Chi Minh City Tel: 84-8-9143393 Fax: 84-8-914 3392	http://www.vinafund.com
Kamm Investment Company Inc.	Saigon Trade Center, Ste. 1607 37 Ton Duc Thang St., Dist. 1, Ho Chi Minh City Tel: 84-8-9101 782 Fax: 84-8-9101 783	http://www.kamminvestment.com

Source: Author's information collection and updates, August 2005.

APPENDIX 03

SHARES LISTED ON HOCHIMINH CITY SECURITIES TRADING CENTER

No.	Code	Issuer	Listing Volume	Par (VND 1,000)	Listing Value (VND 1,000 million)	First Trading Date	Current Price (VND 1,000)	Outstanding Shares	Market Cap. (VND 1000,000)
1.	AGF	AGIFISH	4,179,130	10	41.79	05-02-02	31.2	4,179,130	130.39
2.	BBC	BIBICA	5,600,000	10	56	19/12/2001	18.1	5,250,000	95.03
3.	BBT	COBOVINA	6,840,000	10	68.4	15/03/2004	12.1	6,840,000	82.76
4.	BPC	BPC	3,800,000	10	38	04-11-02	15.9	3,600,000	57.24
5.	BT6	620CCC	5,882,690	10	58.83	18/04/2002	30.3	5,882,690	178.25
6.	BTC	BTC	1,261,345	10	12.61	21/01/2002	8.3	1,261,345	10.47
7.	CAN	CANFOCO	3,500,000	10	35	22/10/2001	14.8	3,499,880	51.8
8.	DHA	HOAAN	3,500,000	10	35	14/04/2004	39.6	3,428,124	135.75
9.	DPC	DANAPLAST	1,587,280	10	15.87	28/11/2001	10	1,587,280	15.87
10.	GIL	GILIMEX	2,550,000	10	25.5	01-02-02	30.5	2,550,000	77.78
11.	GMD	GEMADEPT	20,986,342	10	209.86	22/04/2002	50	20,713,671	1,035.68
12.	HAP	HAPACO	3,250,251	10	32.5	08-04-00	23.2	3,245,881	75.3
13.	HAS	HACISCO	1,600,000	10	16	19/12/2002	27	1,600,000	43.2
14.	KHA	KHAHOMEX	3,135,000	10	31.35	19/08/2002	24.8	3,135,000	77.75
15.	LAF	LAFOOCO	1,909,840	10	19.1	15/12/2000	36.4	1,782,840	64.9
16.	MHC	MARINA HANOI	6,705,640	10	67.06	21/03/2005	22.9	6,705,640	153.56

No.	Code	Issuer	Listing Volume	Par (VND 1,000)	Listing Value (VND 1,000 million)	First Trading Date	Current Price (VND 1,000)	Outstanding Shares	Market Cap. (VND 1,000,000)
17.	NKD	NORTH.KINHDO	5,000,000	10	50	15/12/2004	47.7	5,000,000	238.5
18.	PMS	PMSC	3,200,000	10	32	11-04-03	14.8	3,151,910	46.65
19.	PNC	PNC	2,000,000	10	20	07-11-05	15.9	1,992,000	31.67
20.	REE	REE	23,174,274	10	231.74	28/07/2000	29.5	23,174,274	683.64
21.	SAM	SACOM	18,000,000	10	180	28/07/2000	39.1	18,000,000	703.8
22.	SAV	SAVIMEX	4,500,000	10	45	05-09-02	31.9	4,350,000	138.77
23.	SFC	SFC	1,700,000	10	17	21/09/2004	26.1	1,700,000	44.37
24.	SGH	SAIGON HOTEL	1,766,300	10	17.66	16/07/2001	18.6	1,766,300	32.85
25.	SSC	SSC	6,000,000	10	60	03-01-05	41.8	6,000,000	250.8
26.	TMS	TRANSIMEX SAIGON	3,300,000	10	33	08-04-00	32.2	3,300,000	106.26
27.	TNA	TENIMEX	1,300,000	10	13	20/07/2005	21	1,300,000	27.3
28.	TRI	TRIBECO	4,548,360	10	45.48	28/12/2001	23.5	4,548,360	106.89
29.	TS4	SEAPRIEXCO No.4	1,500,000	10	15	08-08-02	17.7	1,500,000	26.55
30.	VTC	VTC	1,797,740	10	17.98	02-12-03	31	1,797,740	55.73
Total listed shares			**154,074,192**			**Total Market Capitalization (VND 1000,000)**			**4,779.51**

Source: Ho Chi Minh City Securities Trading Center, September 2005.

Note: USD/VND rate of 15,580.

APPENDIX 04

SECURITIES COMPANIES REGISTERED IN VIETNAM

No.	Company Name	Address	Website
1.	**ACB Securities Company Ltd.**	No. 9 Le Ngo Cat, Dist. 3, Ho Chi Minh City, Vietnam Tel: 84-8-930 2422 Fax: 84-8-930 2423	
2.	**BIDV Security Company, Ltd**	No. 20 Hang Tre, Ha Noi, Vietnam Tel: 84-4-9261278 Fax: 84-4-926 1279	http://www.bsc.com.vn
3.	**Bao Viet Securities joint stock Company**	No. 94 Ba Trieu, Ha Noi, Vietnam Tel: 84-4-943 3435 Fax: 84-4-943 3012	http://www.bvsc.com.vn
4.	**The First Securities Company**	No. 9 Hoang Van Thu, thu Dau Mot, Binh Duong Province, Vietnam Tel: 84-8-955 4938/39 Fax: 84-8-955 4940	http://www.fsc.com.vn
5.	**Incombank Securities Company, Ltd**	No. 306 Ba Trieu, Ha Noi, Vietnam Tel: 84-4-974 1054 Fax: 84-4-974 1760	
6.	**MeKong Securities Corporation**	No. 2 Phan Chu Chinh, Hoan Kiem, Ha Noi, Vietnam Tel: 84-4-936 1389/90/91/92 Fax: 84-4-936 1393	http://www.mekongsecurities.com.vn

No.	Company Name	Address	Website
7.	**Thang Long Securities Company, Ltd**	No. 14C Ly Nam De, Ha Noi, Vietnam Tel: 84-4-733 7671 Fax: 84-4-733 7670	
8.	**Vietcombank Securities Company, Ltd.**	17th Flr., Vietcombank Tower, No. 198 Tran Quang Khai, Ha Noi, Vietnam Tel: 84-4-936 0267 Fax: 84-4-936 0264	http://www.vcbs.com.vn
9.	**Eastern Asia Bank Securities Company, Ltd.**	No. 60-62-64 Nguyen Cong Tru, Dist.1, Ho Chi Minh City Tel: 84-8-914 4132 Fax: 84-8-914 3471	http://www.eabbank.com.vn
10.	**Hai Phong Securities Joint Stock Company**	No. 24 Cu Chinh Lan, Hai Phong City, Vietnam Tel: 84-31-746 267/ 842 332/ Fax: 84-31-746 266	
11.	**Saigon Securities Incorporation**	No 01-12 Nam Ky Khoi Nghia, Dist.1, Ho Chi Minh City Tel: 84-8-821 8567 Fax: 84-8-829 4123	http://www.saigonsecurities.com
12.	**Ho Chi Minh City Securities Corporation**	33-39 Pasteur, Dist.1, Ho Chi Minh City, Vietnam Tel: 84-8-914 2121 Fax: 84-8-914 4755	http://www.hsc.com.vn
13.	**Agribank Securities Company, Ltd.**	Floor 4, C3 Phuong Liet, Ha Noi, Vietnam Tel: 84-4-868 7217 Fax: 84-4-868 7219	

Source: State Securities Commission of Vietnam, August 2005