

Report on HKGCC Mission to Vietnam
Hanoi – Danang – Hochiminh City
21 – 24 May, 2007

BACKGROUND

According to World Bank, Vietnam is one of the world's best-performing developing economies in 2006. Real income has grown 7.3 percent per year over the last 10 years and the economic growth rate had exceeded 8 percent in the past two years. Since the introduction of its free-market reforms, "Doi Moi", in 1986, which implemented a series of initiatives to encourage domestic investments by the private sector, attract foreign investment and modernize the banking and financial services industry, the country has made a remarkable turn-around. In 1995 it became a member of ASEAN and in 2006 it gained accession to the World Trade Organization (WTO), opening up the world market for Vietnam's exports. Imports grew 23% in 2004, while exports grew by 29%. With Vietnam's close proximity to massive export markets, its the abundance of natural resources and an educated and young work force (over 70% of its population is under 35), it is said to be the next Asian Tiger.

The purpose of the mission are:

- To study the latest development in the three cities
- To explore the export processing and development zones for manufacturing
- To seek business opportunities in construction, property, and tourism
- To explore the investment opportunities in the funds/ stock market

THE DELEGATION

The 19-member delegation was led by Mr. K.L. Tam, Chairman of the Asia Africa Committee with Dr Lily Chiang, Chamber Chairman, as the Honorary Leader. This is also the Chamber's Chairman's first overseas delegations upon assuming the role earlier in the month. Other delegates came from business sectors ranging from manufacturing, logistics, trading, property, consulting, research, finance and others in Hong Kong.

PROGRAM

21-22 May, Hanoi

Delegates met with senior government officials from: The National Assembly Of Vietnam, Ministry of Trade and Ministry of Planning and Investment, and a courtesy call was made to the Vietnam Chamber of Commerce and Industry. A cocktail reception was organized for the delegation to meet with the business community in Hanoi. Amongst invited guests were lawyers, consultants and bankers, as well as senior managers from logistics companies. On the second day the delegation received a briefing from the Authority of the Hanoi Industrial & Export Processing Zone, followed by a visit to Hanoi's largest real-estate development project, which is being developed by Ciputra.

23 May, Danang

Delegates met with senior government officials from the Danang People's Committee for an update on the major opportunities in Danang. Opportunities in tourism and real-estate were also explored in a briefing received from Vina Capital – Danang. A meeting was held with the Danang Industrial and Export Processing Zones Authority, which was followed by factory visits at the Hoa Khanh Industrial Zone.

24 May, Hochiminh City

Delegates visited Linh Trung Export Processing Zone & Industrial Park, followed by a luncheon sponsored by VinaCapital, where the delegation received an update on the funds market in Vietnam. The trip ended with a visit to the office of Sun Wah Group where delegates received a briefing on the real-estate market in Hochiminh City and learnt about the "Saigon Pearl" project.

Government Protocol

Senior government officials who received the HKGCC delegation included: H.E. Truong Quang Duoc, Vice President Of The National Assembly Of Vietnam, Mr. Tran Duc Minh, Vice Minister of the Ministry of Trade, Ms. Nguyen Thi Bich Van, Deputy Director General of the Ministry of Planning and Investment, in Hanoi; and Mr. Tran Phuoc Chinh, Permanent Vice Chairman, People's Committee of Danang City, in Danang. Through these meetings, delegates were briefed on the latest economic developments and the business opportunities in Vietnam.

Business Opportunities

Manufacturing

As a key part of the mission, visits were paid to the export development and processing zones in all three cities. Delegates met with officials from the authorities as well as the opportunity for face-to-face meetings with FDI businesses already operating in those development zones.

In Hanoi, delegates visited Hao Lac Hi-Tech Park and toured the factory of a Japanese electronics company – Noble Electronics. In Danang, delegates visited Hoa Khanh Industrial Zone, and visited the factories of Mabuchi Motor Danang Ltd, an electronics company, and Matrix Manufacturing Vietnam Company Limited, a toys maker with over 90% of its production sold to McDonalds. In Hochiminh City, delegates had a meeting with officials of Linh Trung Export Processing Zone, Kollan, a Hong Kong company that manufactures garments also joined the meeting. Through these meetings and visits, delegates were briefed on the various business incentives in operating in each of these development zones, such as tax incentives and reduced land-rental costs. An additional point worth noting is that Vietnam is not limited by any apparel export quotas.

In summary, it was felt that while labor may be more stable and labor cost may be lower than in China, however the high cost of operating in Vietnam may diminish any savings. Such costs include additional cost for importing raw materials and transportation cost. With a lack of supplies in surrounding factories or regions, most raw materials need to be imported. The delegation were advised that for products that are to be sold in the Chinese market, it is still more worthwhile to have those factories based in China to avoid additional cost in transportation. Companies such as Noble and Mabuchi, use their Vietnam base as an assembly center only, with all parts imported to Vietnam. However, these factories still find it worthwhile to locate their factories to Vietnam, due to the attractive incentives which help to reduce overall costs by potentially up to 30%. Incentives vary from city to city and from one zone to another. It is worth noting that some industrial zones seek for labor intensive factories, while others would look for companies from Hi-Tech industries. Investors who are interested to set up manufacturing or research facilities in Vietnam were asked contact the Ministry of Planning and Investment directly to get a list of development zones which are specific to their manufacturing or R & D needs.

Real Estate & Investment

Both the property and stock markets have boomed in recent years, and opportunities in both sectors were looked at through briefings from real-estate developers and a fund house.

In Hanoi, we visited the 350-hectare site, which is being developed by Ciputra, an Indonesian Company, and invested in Vietnam through a joint venture formed in Singapore. Ciputra Hanoi International City is a US\$2.1 billion project to build a satellite city. Basic apartments, which were sold for USD550 per square meter three years ago, are now being sold at about USD1000 per square meter, and still,

demand exceeds supply. Higher-grade apartments and villas, which have still to be developed, are expected to be sold at much higher prices.

In Danang we were briefed on VinaCapital's projects which included a Golf & Villa / Resort project, of two 5 star hotels and a 36-hole golf course. It is expected that within the next 5 years, that Danang would be developed in to a major resort region. The developer also has plans for a 9 hectare project in the city which will include offices, a mall, apartments and a school, overlooking the Han River. Current price for similar offices are approximately USD1300 per square meter.

In Hochiminh City, we visited the office of the Hong Kong developer, Sun Wah Group, which is developing another large-scale satellite city – Saigon Pearl. The project is jointly-owned by Vietnam Land (HK) Ltd., a member company of the Sun Wah Group, and Vietnam's S.S.G Construction and Real Estate Joint Stock Company. The project received an investment license in 2004 from the Ho Chi Minh City Government to develop over 10-hectare of plot. By 2005-6 it had already sold all of its Phase One apartments, albeit still under construction – in fact so popular that they did not have to advertise and boasts a list of clients on their waiting list. The Saigon Pearl development project includes the construction of eight twin apartment buildings of 37 stories each, one office tower of 30 stories above a 4-storey podium and one service apartment of 37 stories. There will also be a 40,000-square-metre retail and recreational facilities including clubhouses, a large-scale shopping complex with shops, supermarkets, cinemas and other entertainment components. Total sales for this project is estimated to be about US\$400 million. Apartments are being sold between USD600 – USD3000 per square meter, net.

The above are indicators of the sharp rise in property demand and price in recent years. The shortage in supply, in particular in offices, continues to push rents higher.

According to Vina Capital, the stock market is in its all time high, and is estimated to be trading at 32 times FY 2007 earnings, with that said, an extended correction is expected.

Attachments:

- Appendix I: A list of delegates is attached in
- Appendix II: Vietnam Statistics – at a glance. Provided by the Hong Kong Business Association in Vietnam is attached in

Appendix

Delegate List

Honorary Leader

1. Dr. Lily CHIANG
Chairlady, HKGCC
Founder of Eco-Tek Holdings Ltd

Mission Leader

2. Mr. TAM Kwong Lim
Chairman of the Asia Africa Committee, HKGCC
Managing Director of Kingstar Shipping Ltd

HKGCC

3. Mr. Alex FONG
Chief Executive Officer
HKGCC

Mission Members

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| 4. Mr. Neville SHROFF
Director, Shroff & Co Ltd
Vice Chairman, Asia Africa Committee | 12. Mr. Michael Lorenz
Director
Lorenz & Partners (Hong Kong) Ltd |
| 5. Ms. Keri WONG
Secretary
Asia Africa Committee, HKGCC | 13. Mr. Alexander KAYMER
Consultant
Lorenz & Partners (Hong Kong) Ltd |
| 6. Mr. Ivan TANG
Sales Manager
Cheong Wing Electric Ltd | 14. Mr. Hideki YAMAZAKI
Managing Director
Nekist Industrial International Limited |
| 7. Mr. Dun Hoi WONG
Marketing Manager
Cheong Wing Electric Ltd | 15. Mr. Stuart TSANG
Director
Nekist Industrial International Limited |
| 8. Ms. Obence MA
Managing Director
Golden Regent Electronics Industrial Ltd | 16. Mrs. Margaret BROOKE
Chief Executive Officer
Professional Property Services Ltd |
| 9. Mr. Benny CHIU
Managing Partner
Grand Prize Limited | 17. Ms. Christine LAM
Asia Pacific Regional Director
Reed MIDEM |
| 10. Ms. Leona LAM
Director
LeConcepts Holdings Co Ltd | 18. Ms. Freda WAN
Director
Strategic Access Ltd |
| 11. Mr. Behzad MIRZAEI
Managing Director
Litamos Electronics Ltd | 19. Mr. Edmond YUE
Director
Wo Hing Construction Co Ltd |

VIETNAM STATISTICS

FIGURES AT A GLANCE

SOCIO-ECONOMIC INDEX	Unit	2001	2002	2003	2004	2005	2006	2007 (est.)
GDP growth rate	%	6.89	7.08	7.26	7.70	8.43	8.17	8.2 - 8.5
GDP at current price	US\$ Billion	32.55	35.14	39.64	45.55	52.96	60.51	70.00
Per capita GDP	US\$	414	441	490	555	637	724	820
Inflation rate	%	0.8	4.0	3.0	10.5	8.4	6.6	-----
Consumer Price Index	%	-0.3	4.1	3.1	7.7	8.4	6.6	-----
Exchange rate	VND per US\$	15,084	15,403	15,646	15,777	15,915	16,091	-----
Population	Million	78.7	79.7	80.9	82.1	83.1	84.1	-----
Unemployment rate (urban)	%	6.2	6.0	5.8	5.6	5.4	4.4	-----

GROSS DOMESTIC PRODUCT BY SECTOR AT CURRENT PRICES

Sector	Unit	2001	2002	2003	2004	2005	2006
Total	VND Billion	481,295	535,762	613,443	715,306	839,211	973,791
Agriculture, forestry and fisheries	VND Billion	111,858	123,383	138,285	155,993	176,401	198,676
Industry, Construction	VND Billion	183,515	206,197	242,126	287,615	343,807	404,344
Service	VND Billion	185,922	206,182	233,032	271,698	319,003	370,771

EXPORT AND IMPORT

2006 IMPORT	US\$ Billion	44.40	↑ 20.1% on 2005
* Foreign Investment Sector	US\$ Billion	16.41	↑ 20.4% on 2005
* Domestic Sector	US\$ Billion	27.99	↑ 19.9% on 2005
2006 EXPORT	US\$ Billion	39.60	↑ 22.1% on 2005
* Foreign Investment Sector	US\$ Billion	22.86	↑ 23.2% on 2005
* Domestic Sector	US\$ Billion	16.74	↑ 20.5% on 2005

BIGGEST FDI INVESTORS IN 2006

Country / Territory	Rank in 2005	Rank in 2006	Total Projects	Total Registered Capital
South Korea	3	1	203	US\$2.4 Billion
Hong Kong	4	2	21	US\$1.2 Billion
Japan	5	3	130	US\$938 Million
United States	8	4	47	US\$638 Million

HCM CITY'S ECONOMY IN 2006

GDP growth rate	↑ 12.2%
Foreign Investment	US\$ 2.1 Billion ↑ 2.2 times on 2005
International Tourists	2.35 million ↑ 17.5%

TOP FOUR FOREIGN INVESTMENT ATTRACTIONS IN 2006

City / Province	No. of Projects	Total Capital
Ba Ria - Vung Tau	19	US\$1.69 Billion
HCM City	195	US\$1.20 Billion
Ha Tay	17	US\$805 Million
Binh Duong	155	US\$709 Million