Initial Coverage

MEKONG SECURITIES

16TH OF JULY 2008

Hoa Phat Group Joint Stock Company

Hoa Phat Group • HPG

Target Price: VND45,200 • US$2.73 (-8.7%)

www.mekongsecurities.com

HÒA PHÁT GROUP

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Ownership

State	-	-
Foreign	30.837,470	21.99%
Domestic	165,526,530	78.01%
Outstanding shares	196,364,000	100.00%

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Diversified Yet Strong — HOLD

Company's Statistics

Exchange	Ho Chi Minh City Stock Exchange	Last price	VND 49,500 • USD 3.00
Sector	Manufacturing	BPS*	VND 20,975 • USD 1.27
Index weight	4.84%	EPS expected	VND 5,783 • USD 0.35
Market cap. (mn)	VND 9,720 • USD 589.1	EPS trailing	VND 5,481 • USD 0.33
52-week range	VND 92,857– VND 30,714	Hist DPS (adj.)	VND 714 • USD 0.04
30-day average daily turnover (mn)	US$0.7	Dividend yield	1.4%
Beta	n.a.	Expected PER	8.5x
ROCE	n.a.	P/BV	2.4x

**BPS as at the end of 1QFY08, adjusted for estimated capital contribution from additional share issuance.*

Exchange rate: USD1=VND16,500

Investment Highlights

We are initiating our coverage for Hoa Phat Group Joint Stock Company (HPG) with a HOLD recommendation and a target price of VND45,200 (US$2.73) based on our sum of parts (SOP) valuation. Our investment case is highlighted as follows:

*Leading conglomerate in Vietnam……*HPG is one of the leading conglomerates in Vietnam with diversified business activities including the manufacturing of construction steel, steel pipes and involvement in various real estate projects. Steel operations remain its key earnings driver, contributing 46% of the Group's net earnings in 2007.

Strong earnings growth despite challenging environment. Despite the challenging operating environment, we are optimistic that the Group's double digit earnings growth will be sustainable in the near term supported by the completion of the first phase of integrated steel complex with designed capacity of 350,000 tonnes, an increased contribution from industrial park operations and higher contribution from its cement manufacturing associate due to the commencement of cement manufacturing plant in 2009. The Group might also export its steel billets abroad to mitigate earnings risk should domestic construction and real estate sectors suffer from a prolonged slowdown.

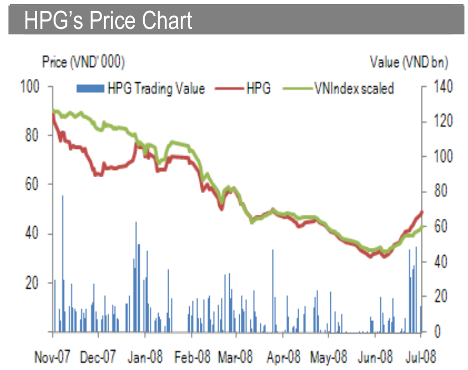
Optimistic of the long term prospects of the steel sector. Although we expect the growth rate of domestic steel sector to moderate in the near term in line with the slowdown in construction and property sectors, we remain optimistic on the long term prospects of the sector supported by the expected pick up in construction and real estate activities in 2009, low steel consumption rate per capita and the favorable external environment.

Conservative in term of PER valuation. Our target price gives an implied PER of 7.8x based on our estimated EPS of VND5,783 (US$0.35) which we believe is conservative. Key downside risks to our recommendation include unexpected correction in the global steel price coupled with the Government intervention to curb the increase in steel prices.

Analysis of Share Performance

Riding on the current recovery in the domestic equity market, the Group's share price has surged by 58.9% compared to its low of VND31,143 (US$1.89) registered on the 20th of Jun 2008 supported by the improved domestic macroeconomic conditions and strong quarterly earnings. On a year-to-date basis, the Group's share price has dropped by 27.1%, outperforming the VNIndex which has fallen by 48.2% in the same period. Foreign interests continue to be strong with the foreign ownership increased from around 10% in Nov 2007 to 22% in Jul 2008.

HPG's Price Chart



Hoa Phat Group Joint Stock Company

Hoa Phat Group • HPG

Earnings Outlook

Despite the near term challenges in the construction and property sectors, we expect HPG to continue enjoying robust earnings growth between 2008 to 2010 supported by significant capacity expansion of steel operations coupled with increased contributions from industrial park and cement manufacturing operations.

Steel remains the major earnings driver. Despite the rising input costs in 2008, earnings growth in its steel operations is expected to remain strong due to rising domestic steel prices and the Group's ability to produce steel billet. Compared to other domestic steel manufacturers, HPG is able to meet 80% of its billet demand for construction steel internally, resulting in a significant cost advantage. We believe that steel operations will continue to be HPG's key earnings driver, particularly with the establishment of an integrated steel complex in 2009.

*Slow down in construction and real estate sectors would negatively affect construction-related sectors….*Although the construction sector performed well in early 2008, it is expected to slow down in the second half of 2008 and early 2009 due to the tightening of monetary policy, potential delays in construction projects and the Government's decision to cut 10% of total public spending on major infrastructure projects. The real estate sector has also slowed considerably as a result of rising material costs and high interest rates. This is expected to moderate the near term demand for related sectors such as steel, cement and furniture.

……but HPG is cushioned by increased contributions from other operations in 2009. Nonetheless, we are optimistic that the Group's earnings growth will be sustained in the near term supported by the completion of the first phase of integrated steel complex with designed capacity of 350,000 tonnes, an increased contribution from industrial park operations and higher contribution from its cement manufacturing associate due to the commencement of cement manufacturing plant in 2009. The Group might also export its steel billets abroad to mitigate earnings risk should domestic construction and real estate sectors suffer from a prolonged slowdown.

*Income Statement (US$mn)	2005A	2006A	2007A	2008E
Net Revenue	55.1	79.9	342.0	490.3
Steel	55.1	79.9	138.0	204.0
Steel pipe	0.0	0.0	73.7	98.5
Others	0.0	0.0	130.3	187.8
Operating Income	(2.2)	2.0	45.5	81.7
Pretax Income	(1.1)	2.0	46.0	81.7
Net Income	(1.1)	1.8	38.9	68.9
Steel	(1.1)	1.8	18.0	42.2
Steel pipe	0.0	0.0	7.3	7.9
Others	0.0	0.0	13.6	18.9
Operating margin (%)	-4.0%	2.5%	13.3%	16.7%
Pre-tax margin (%)	-2.0%	2.5%	13.5%	16.7%
Net margin (%)	-2.0%	2.3%	11.4%	14.1%
Revenue growth (%)	n.a.	45.1%	327.9%	43.4%
Operating income growth (%)	n.a.	n.a.	2198.5%	79.4%
Pretax profit growth (%)	n.a.	n.a.	2218.0%	77.5%
Net profit growth (%)	n.a.	n.a.	2027.2%	77.1%

**Financial results for FY2005 and FY2006 are only for Hoa Phat Steel, the parent company. Financial results for FY2007 and FY2008 are the Group results.*

Investment Risks

We believe that investing in HPG is subject to the following risks:

Risk of an economic slowdown. As one of the most prominent groups in the building materials and manufacturing sectors, HPG is exposed to the risk of a general economy slowdown particularly in the construction and property sectors. Despite the challenges these sectors face, we remain optimistic that the slowdown is temporary in nature and these sectors will recover by mid 2009.

Exposure to steel price volatility. Steel operations remain a major driver for the Group, therefore the volatility in steel price will have a significant impact on the overall Group's financial performance. Steel prices are expected to continue to rise as domestic steel manufacturers have to pass on rising input costs to customers. However, the ability for manufacturers to pass on increased costs will largely depend on the Government policy and the global steel price.

Oversupply in domestic market over the longer term. The upcoming mega steel projects will increase domestic production capacity substantially over the longer term, which could lead to an oversupply of steel in Vietnam.

Funding risk. The current high interest rate environment and volatile stock market could impose a major funding risk for the Group to finance its future expansion plan. If interest rates remain high, the Group may have to switch to the equity market to fund its expansion plan which could lead to material share dilution.

Valuation

We have applied a SOP methodology for the valuation of the Group to reflect its diversified business operations:

Steel, steel pipe, equipment, furniture, and refrigeration. We have used the average PER of regional comparables to value the Group's steel, steel pipe, equipment, furniture and refrigeration operations. We have applied 10% discount to these PERs to reflect HPG's relatively small scale operations and low competitiveness compared with regional players.

HPG's Subsidiaries	Asian Comparables (Reuters SIC)		Implied PER (10% discount)
	Sector	Expected PER	
Steel	Blast furnace & steel mills	8.8	7.9
Steel pipe	Steel pipes & tubes	8.4	7.5
Equipment	Construction & mining machinery	11.1	10.0
Furniture	Upholstered household furniture	7.2	6.5
Refrigeration	Refrigerator/heating equipment	8.7	7.9

Source: Reuters

Urban Development. We have selected Tan Tao Group (ITA) and Kinh Bac Corporation (KBC), two listed industrial park developers, as sector comparables in order to estimate the average price per book ratio (P/B) for its urban development operations .

HPG Urban Development's Comparables

	Price per share (US$)	Market cap (US$mn)	Latest book value (US$mn)	P/B
ITA	6.1	674.0	262.6	2.6
KBC*	7.1	888.9	205.6	4.3
Average				3.5

**Latest book value per share for KBC is based on 1QFY08 BPS adjusted for additional share issuance*

Trading. We have conservatively attached a PER multiple of 5x to value HPG's trading operations.

Target price of US$2.73 per share. We have fairly valued the Group at *VND45,200 (US$2.73)* per share based on our SOP model. This implies an expected FY08 PER of 7.8x based on our estimated EPS of VND5,783 (US$0.35). Key downside risks to our recommendation include unexpected correction in the global steel price coupled with the Government intervention to curb the increase in steel prices.

SOP Valuation	Expected FY08 Net Profit (US$ mn)	PER multiple (x)	Value (US$ mn)
Steel	42.2	7.9x	334.1
Steel pipe	7.9	7.5x	59.2
Equipment	3.4	10.0x	34.4
Furniture	5.6	6.5x	36.5
Refrigeration	3.2	7.9x	24.9
Trading	1.3	5.0x	6.3
Urban Development	P/BV of 3.5x based on the latest financial statements		41.6
Total Value			$537.0
No. of shares outstanding (mn)			196.4
Value per share			$2.73

APPENDICES

1. Corporate Profile

HPG was formed in January 2007 upon the consolidation of Hoa Phat Steel and five of its related companies operating under Hoa Phat's brand name. The Group was subsequently listed on the Ho Chi Minh Stock Exchange (HOSE) in November 2007. At present, HPG is one of the leading conglomerates in Vietnam with diversified business activities including the manufacturing of construction steel, steel pipes and involvement in various real estate projects. The Group consists of eight subsidiaries and three joint-venture / affiliate companies as outlined below:

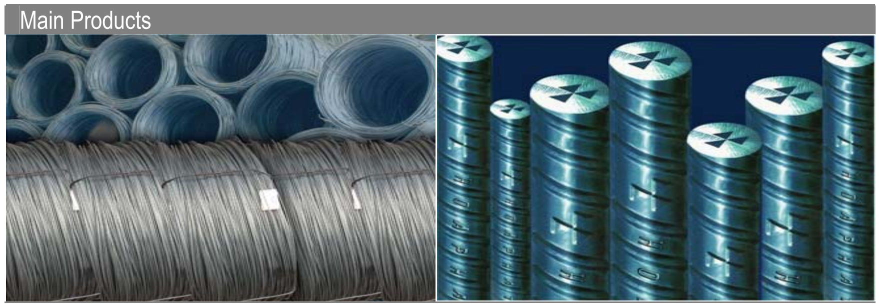
Subsidiaries	Ownership (%)	Established Year
Hoa Phat Equipments & Accessories	99.6	1992
Hoa Phat Furniture	99.3	1995
Hoa Phat Steel Pipe	99.7	1996
Hoa Phat Refrigeration Engineering	99.5	2001
Hoa Phat Urban Development & Construction	99.3	2001
Hoa Phat Trading	98.3	2004
Hoa Phat Steel JSC	85.0	2007
Hoa Phat Kinh Mon Plate	85.0	2007
Joint-Ventures / Affiliates		
Hoa Phat Cement	50.0	2007
Hoa Phat Mineral	40.0	2007
Hoa Phat Mining JSC – SSG	40.0	2007

Steel Manufacturing. HPG is the fifth largest steel manufacturer in Vietnam. The Group's major product is construction steel which mainly consists of steel bars with a diameter of 10-41mm and steel coils with a diameter of 6-8mm. Its rolling steel mill has an annual production capacity of 250,000 tonnes.

HPG is also one of the few domestic steel manufacturers with the capacity to produce steel billets from scrap steel. The Group owns a steel billet plant in Hung Yen province with an annual production capacity of 180,000 tonnes. HPG's ability to fulfill up to 80% of the steel billet requirement for the production of construction steel is one of its major cost advantages compared to other domestic steel manufacturers.

The Group is currently constructing an integrated steel complex to expand its production capacity to capitalize on the strong demand for its products. The Group expects the first phase of the steel complex to commence operations in the 1Q2009 with an annual production capacity of 350,000 tonnes of construction steel, at which point HPG will emerge as the third largest steel manufacturer in Vietnam. There is no specific timeline for the commencement of the second phase of 350,000 tonnes of steel plates.

Main Products



Steel Pipe Manufacturing. Hoa Phat Steel Pipe is the largest steel pipe manufacturer in Vietnam with approximately 23% market share in the domestic steel pipe sector. Its products include black- welded steel pipes and zinc-plated steel pipes with over 300 categories of civil and industrial applications. Its manufacturing plant is also located in Hung Yen province with a designed annual capacity of 120,000 tonnes.

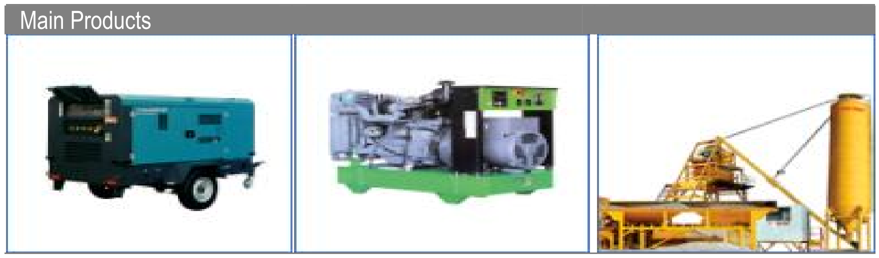
Main Products

Furniture. Hoa Phat Furniture Company is the largest supplier of furniture products for offices, schools and government agencies with around 40% market share in the office furniture sector. The company is supported by more than 3,000 skilled workers and has an extensive distribution network of 500 dealers covering 64 provinces throughout Vietnam.

Main Products

Construction Equipment and Accessories. Hoa Phat Equipment and Accessories Company is a dominant player in the domestic construction equipment market with around 40% market share in 2006. In addition to being the sole distributor of construction equipments for global manufacturers, the company also has its own construction equipment manufacturing operations. At present, the company has two plants, one situated in Binh Duong province, producing spare parts and components for stone crushers, while another in Hung Yen province, specializing in the manufacturing of large-scaled crushing and filtering equipment.

Main Products



Refrigeration. Hoa Phat Refrigeration is one of the pioneers in the production of electrical appliances in Vietnam. The Group's main products include air-conditioners, refrigerators, and water heaters marketed under the "Funiki" brand. Its products are well accepted by domestic consumers. Domestic market share of its air-conditioners, refrigerators, and water heaters products was around 10%, 4%, and 12% respectively in 2006.

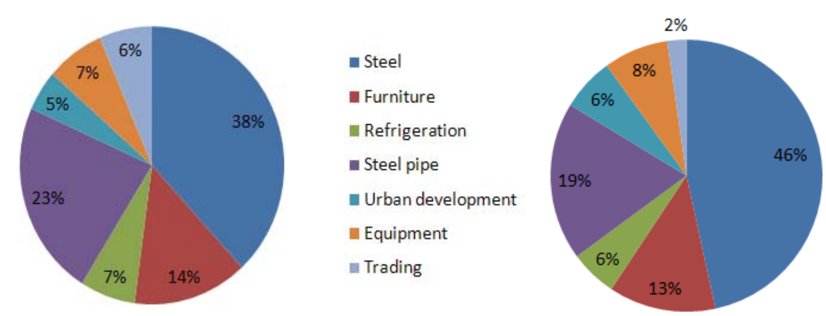
Main Products

Urban Development. Upon the successful development of 390ha Pho Noi A Industrial Zone in Hung Yen province, Hoa Phat Urban Construction and Development has been awarded several large scaled industrial and real estate projects in Hung Yen province and nearby provinces. The development projects in hand are outlined below:

Name of the projects	Land area	Commencement
Pho Noi A industrial zone Stage IV	80ha	2008
Pho Noi A industrial zone Expansion	200ha	2008
Hoa Mac industrial zone	200ha	2009
Dai Dong industrial zone	500ha	2009
Pho Noi A urban complex	300ha	n.a.

Trading. Hoa Phat Trading Company is principally involved in the trading of steel products. Despite its modest contribution to the overall revenue and profit of the Group, trading operations are complementary to steel operations with its ability to source imported steel inputs at reasonable prices through bulk purchases.

The Group's 2007 Revenue Breakdown — The Group's 2007 Net Profit Breakdown



2. Management Team

Board of Directors	
Mr. Tran Dinh Long	Chairman
Mr. Tran Tuan Duong	Vice Chairman, General Director
Mr. Doan Gia Cuong	Vice Chairman, Director of Hoa Phat Furniture
Mr. Nguyen Manh Tuan	Vice Chairman, Director of Hoa Phat Steel Pipe
Mr. Chu Quang Vu	Member, Vice General Director of HPG
Mr. Nguyen Ngoc Quang	Member, Director of Hoa Phat Equipments and Accessories
Mr. Ta Tuan Quang	Member, Director of Hoa Phat Refrigerator Engineering
Mr. Hoang Quang Viet	Member, Director of Hoa Phat Development and Construction
Mr. Don Di Lam	Member, Director of VOF Investment Limited
Mr. Lars Kjaer	Member, Representative of BI Private Equity New Markets II K/S
Board of Management	
Mr. Tran Tuan Duong	General Director
Mr. Chu Quang Vu	Vice General Director
Ms. Ta Thi Thu Hien	Chief Financial Officer

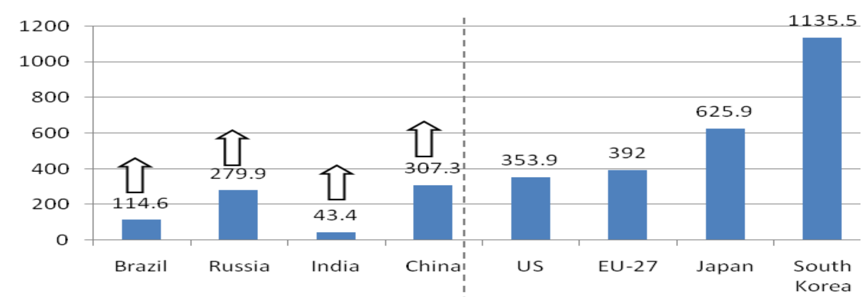
3. Sector Outlook

I. Steel Sector

Exceptional growth in global steel production. According to International Iron and Steel Institute (IISI), global output of crude steel has grown by a compounding annual growth rate (CAGR) of 7.9% to 1.344bn tonnes from 2001 to 2007 driven mainly by the surge in China's steel production. Crude steel production in China has surged from 127mn tonnes in 2000 to 489mn tonnes in 2007, representing a CAGR of 21.2%.

Strong demand from emerging economies to sustain growth in the steel sector. MEPS (International) has forecasted that global steel consumption will increase from 1.2bn tonnes in 2007 to over 1.5bn tonnes in 2011. This represents a 320mn tonnes hike compared with 2006 and a massive 88% leap in the ten years from 2001. Strong economic growth and a construction boom in emerging economies particularly in Brazil, Russia, India, China (BRIC) and Middle East are the key drivers for the consumption growth of steel in recent years. According to IISI, apparent consumption of finished steel by BRIC countries has increased from around 157mn tonnes in 1997 to 521mn tonnes in 2007. Despite an economic slowdown in the US in 2008, global steel consumption is expected to remain strong supported by a continued construction boom and the relatively low per capita consumption rate in the emerging economies.

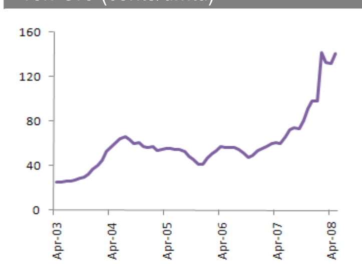
. Average consumption per capita 2007 (kg) Source: IISI



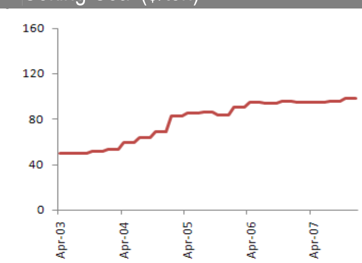
Rising merger and acquisition (M&A) activities to capitalize on the consumption growth!! To capitalize on the sustainable growth in steel consumption, global steel manufacturers have been actively engaged in M&A activities to expand their market share and to further increase their production scales. In 2007, the top 15 steel manufacturers accounted for over one-third of global production compared with around 25% of the global production ten years ago. The sector has also witnessed a wave of vertical integration between steel manufacturers and natural resource providers for iron-ore, coal as a means to secure resources in the future.

Surging raw material prices. Prices of iron-ore, coking coal, and scrap steel, which are the three major material inputs for production steel, have increased substantially in recent years. Iron-ore prices have risen 71% this year while coking coal and scrap have almost doubled in price. Prices of these materials are expected to rise further in 2009, although to a lesser extent as demand is not likely to increase significantly.

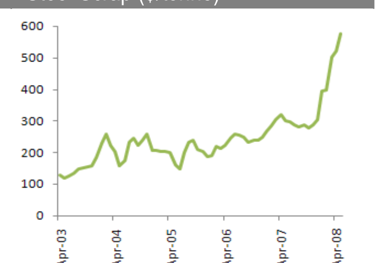
Iron Ore (cents/dmtu)



Coking Coal ($/ton)



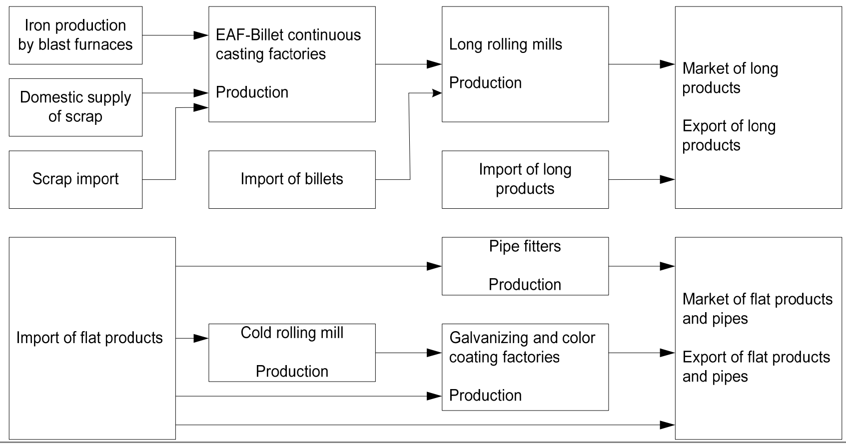
Steel Scrap ($/tonne)



Source: steelonthenet

Development phase of domestic steel sector. On the domestic front, Vietnam's steel sector remains in its early development phase with limited product offerings. The overview of domestic steel sector is illustrated below:

Overview of Vietnam Steel Sector Source: SEASI



Domestic steel production growing rapidly. Domestic steel production has enjoyed a robust CAGR of 15.2% from 2000 to 2007. Crude steel production capacity has also experienced a CAGR of 30.8% from 2000 to 2007. Nonetheless, supply shortage of crude steel remains apparent with imported crude steel contributing around 53% of domestic crude steel demand in 2007.

High demand unmatched by limited production capacity. According to Vietnam Steel Association, steel consumption for both long and flat steel products in Vietnam surged by 43% to 10.2mn tonnes in 2007 compared with 7.2mn tonnes in 2006. On the other hand, domestic steel production, mainly in long products, only amounted to 4.3mn tonnes, equivalent to 42% of the total demand. Nonetheless, we understand that the shortage mainly stems from the flat steel products while the long steel products are facing excess supply.

Overcapacity and heavy dependence on billet imports in the long steel product segment. According to Vietnam Steel Association, total production utilization rate for long steel products was only 70% in 2007, with total production capacity of domestic steel manufacturers reaching 6.5mn tonnes, exceeding the demand of around 4.5mn tonnes. Since the domestic production of steel billet, one of the major inputs for long steel production, is only able to meet around 50% of the domestic billet demand, the domestic long steel manufacturers will have to depend heavily on billet imports mainly from China. In 2007, domestic supply of billets was estimated to be around 2mn tonnes while imports were around 2.5mn tonnes. Nonetheless, the billet shortage is expected to reduce in the coming years when around four electric arc furnaces (EAF) manufacturing plants coming on streams by 2010, each with an annual production capacity of 500,000 tonnes. Therefore, domestic billet supply is expected to fulfill around 80% of the steel billets demand with commencement of these plants compared with 50% recorded in 2007.

Low capacity in the flat steel product segment. At present, there are only two cold rolling plants in Vietnam. Phu My Flat Steel, a subsidiary of Southern Steel Company, owns the first manufacturing plant that commenced operation in 2005 with annual production capacity of 400,000 tonnes. Lotus Steel owns the second plant which was set up in 2007 with annual capacity of 120,000 tonnes. Imports contribute a major proportion of total flat steel supply, accounting for about 90% of consumption.

Low per capita consumption rate coupled with high economic growth offer promising opportunities. Domestic consumption per capita of finished steel is around 120kg in 2007, lower than global average of 197kg estimated by IISI. The low level of consumption per capita coupled with the need for large infrastructure investments is expected to drive the domestic consumption for steel going forward.

China imports remain the main threat. The competitiveness of steel products from China coupled with the close geographical proximity between Vietnam and southern China makes it conducive for cross border selling. In 2007, 51% of Vietnam's semi finished steel and finished steel were imported from China. After China raised export tariffs of semi-finished steel products and finished steel products by 15% and 5% respectively in 2008, domestic steel manufacturers who have heavily relied on semi finished steel products from China would have to endure higher production cost due to the increased cost of imported semi-finished steel. On the other hand, finished steel products from China have become more competitive for these companies given the relatively lower export tariff increase imposed on the finished steel products in China.

Government's projection may be too conservative. In the 2007-2025 steel industry master plan, the Government has projected the demand for finished steel to be around 11-12mn tonnes by 2010. Nonetheless, we believe the estimation is conservative given that steel consumption has surged by 42% to 10.2mn tonnes in 2007, which is significantly higher compared with the growth rate of 10-11% in 2005 and 2006.

Government's Master Plan on Steel Industry 2010-2025 — Source: MOI

(in million tonnes)	2010	2015	2025
Demand of finished steel	11−12	15−16	24−25
Output of pig iron	1.5−1.9	5.0−5.8	10−12
Output of semis	3.4−4.5	6−8	12−15
Output of finished steel	6.3−6.5	11−12	19−22
Export of finished steel	0.5−0.7	0.7−0.8	1.2−1.5

Steel manufacturing hub for global steel giants. The availability of skilled workers and relatively low production costs coupled with government incentives to attract foreign direct investment (FDI) has made Vietnam an attractive steel manufacturing centre. Several steel giants have announced billion-dollar plans to set up steel projects in Vietnam. These include India-based Tata Group, Indian steel manufacturer Essar Global Ltd, South Korean giant POSCO and Thai steel manufacturer Tycoons Worldwide Steel.

Major projects for the steel industry for period 2007-2015 — Source: MOI

No	*Items*	*Investor*	*Location*	*Construction*	*Investment*	*Products (thd tonnes)*		
						Cast Iron	*Semis*	*Finished steel*
1	Ha Tinh Steel Complex	Tata Steel (65%), VSC (35%)	Vung Anh, Ha Tinh	2010-2017	US$3-3.5bn	Rotated products	4,500	4,000
2	Quang Ngai Steel Complex, phase 1	Tycoons Worldwide Group (60%), Jinan Steel & Iron Group (40%)	Dung Quat EZ, Quang Ngai	2008-2010	US$539mn		2,000	1,860
	Quang Ngai Steel Complex, phase 2			2011-2017	US$500mn		2,500	2,000
3	POSCO, phase 1 – cold rolling	POSCO	Ba Ria Vung Tau	2007-2009	US$340mn			700
	POSCO, phase 2 – hot rolling			2010-2012	US$660			3,000
4	ESSA-VSC Hot Rolling Project	Essar (65%), VSC (20%), Geruco (15%)	Ba Ria Vung Tau	2007-2009	US$525mn			2,000
5	Renovation and expansion of Thai Nguyen Cast Iron and Steel Company – Phase 2	Thai Nguyen Iron and Steel Company (TISCO)	Thai Nguyen	2006-2010	US$237mn	Rotated products	500	500
6	Lao Cai Pig Iron and Steel Complex	n.a.	Lao Cai	2006-2010	US$150	500	430	500

Optimistic of the long term prospects of the sector. Although we expect the growth rate of domestic steel sector to moderate in the near term in line with the slowdown in construction and property sectors, we remain optimistic on the long term prospects of the sector supported by the expected pick up in construction and real estate activities in 2009, low steel consumption rate per capita and the favorable external environment.

II. Furniture Sector.

*Demand for office furniture on the rise……*The rapid industrialization and urbanization developments in Vietnam have increased the ratio of urban population over total population from 20.8% in 1995 to exceeding 28% in 2007. In addition, the emergence and expansion of Vietnamese companies coupled with the establishment of foreign invested enterprises (FIEs) have created strong demand for office space. It is estimated that the office space area in two major business hubs, HCMC and Hanoi, would triple during the 2007-2010 period. As such, demand for office furniture is expected to increase further going forward.

……….but so is the competition. The domestic furniture sector is highly fragmented with over 2,000 companies in the furniture processing sector with many focused on furniture exports. Many domestic manufacturers have started to expand into the domestic market which is expected to intensify the competition going forward.

4. Summary of Financials

*Income Statement (US$ mn)	*2005A	*2006A	2007A	2008E
Net Revenue	55.1	79.9	342.0	490.3
COGS	(54.2)	(72.3)	(283.4)	(390.8)
Gross Profit	0.9	7.7	58.6	99.6
Financial revenue	0.0	0.0	1.6	4.5
Financial expense	(2.5)	(5.1)	(2.7)	(8.1)
SG&A	(0.6)	(0.6)	(11.9)	(14.2)
Operating Income	(2.2)	2.0	45.5	81.7
Net other income/(expense)	1.1	0.0	0.4	0.0
Pre-tax Income	(1.1)	2.0	45.9	81.7
Income Tax	0.0	(0.2)	(7.0)	(12.5)
Net Income	(1.1)	1.8	38.9	69.1
Minority Interest	0.0	0.0	(0.1)	(0.2)
Profit attributable to shareholders	(1.1)	1.8	38.8	68.9

*Balance Sheet (US$ mn)	2005A	2006A	2007A	2008E
CURRENT ASSETS				
Cash & Short-term Investments	0.1	4.8	40.3	23.6
Accounts Receivable	4.0	22.4	47.5	68.2
Inventory	12.7	51.2	95.8	132.0
Others	0.0	1.9	6.4	9.2
Total Current Assets	16.9	80.2	190.0	233.0
Fixed Assets, net	25.5	55.2	57.6	209.3
Others	0.1	5.6	40.7	36.0
Total Fixed Assets	25.6	60.8	98.3	245.3
TOTAL ASSETS	42.5	141.0	288.3	478.2
CURRENT LIABILITIES				
Short-term Debt	15.9	54.2	39.6	46.9
Trade & Other Creditors	5.6	18.4	37.3	43.7
Total Current Liabilities	21.4	72.5	76.9	90.6
Net Current Asset/ (Liabilities)	(4.5)	7.7	113.2	142.4
NON-CURRENT LIABILITIES				
Long-term borrowings	5.4	7.1	2.9	76.2
Others	0.0	0.9	13.2	14.0
Total Long-term Liabilities	5.4	8.0	16.1	90.2
Net Asset / (Liabilities)	15.7	60.5	195.4	297.4
SHAREHOLDERS' EQUITY				
Paid-in capital	18.2	51.2	80.0	119.0
Retained Earnings	(2.5)	8.6	27.3	62.2
Other funds & reserves	0.0	0.1	81.9	101.0
Total Shareholders' Equity	15.7	59.9	189.2	282.2
Bonus & Compensation Funds	0.0	0.3	1.3	1.3
Minority Interest	0.0	0.2	4.9	13.9

**Financial results for FY2005 and FY2006 are only for Hoa Phat Steel, the parent company. Financial results for FY2007 and FY2008 are the Group results.*

5. Recent News and Developments

- *HPG wants to withdraw capital from start-up Hong Viet Bank.* 8th Jul 2008 – HPG has submitted an application to Hong Viet Bank's preparatory management board to withdraw VND300bn out of its contributed VND400bn in the newly created Hong Viet Bank as the capital was unused over a long period of time amidst the difficult financial market and high interest rates. Other shareholders of the VND2500bn chartered-capital Hong Viet Bank include Petrovietnam (40% of total chartered capital), VIB Bank (18%), Vietnam Aviation Corp (6%), I.P.A Financial Investment Co. (10%), and Habeco (10%). (Vneconomy)
- *Net profit for five months 2008 reaches VND732bn.* 20th Jun 2008 – HPG has announced that in the first five month of FY2008, the Group has achieved a revenue of VND3,900bn (US$236mn) and net profit of VND732bn (US$44mn). (HOSE Daily News)
- *Hoa Phat Mineral imported first iron ore process line.* 26th May 2008 – Hoa Phat Mineral Company has imported, transported and gathered the iron ore process line in Phu Tho Province. This is one of the five assembly lines ordered in Tung Son Heavy Industrial Company, China. The assembly line has a designed production capacity of 1,000 tonnes raw ore/day. Input material is iron ore with Fe>30%, output is net iron ore with Fe>60%. The materials used for the Phu Tho Steel Refinery Factory are expected to be explored in the areas of Thanh Son, Cam Khe, Ha Hoa and some neighboring areas. (HPG)
- *Strategy partnership between BankInvest and HPG.* 25th Apr 2008 – BankInvest and HPG has signed a strategic partnership at Hilton Hotel – Hanoi. Under the agreement, BankInvest will become a 5% shareholder and a committed partner to HPG. BankInvest will utilize its broad management and industry experience to support the company in strategic planning, which is particularly important given its present stage of growth. The capital provided by BankInvest will help to support HPG's investment plan in various areas including building additional steel and steel plate capacity and expanding its industrial park and urban construction business. (HPG)

6. Corporate Actions

- *9th Jul 2008 – Share dividend ex-date.* HPG announced that the ex-date for share dividend (10 to 4) will be 11st Jul 2008. The floating date of the dividend share will be 12th Aug 2008.
- *11th Jun 2008 – AGM Resolution.* The AGM has agreed on the following issues 1) private placement of 8.26mn shares to strategic investors; 2) stock dividend of 10% on the share premium account; 3) 10% of cash dividend (over chartered capital) and 30% stock dividend from the net profit 2007; and 4) Mr. Lars Kjaer, representative of BI Private Equity New Markets II K/S, to be the Board Member.

Equity Rating Definitions	
BUY	Positive recommendation of stock under coverage. Expected absolute return of +15% over 12-months, with low risk of sustained downside
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between –15% and +15% over 12-months, with low risk of sustained downside.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes