

### VN Index slows in July; up 48 percent YTD

## Capital markets update

Vietnamese equity markets paused in July, returning only 4.3 percent in VND terms. This was less than the 13.2 and 11.4 percent seen by the MSCI Asia ex-Japan and MSCI Emerging Market indices, respectively. However, given the strength of the Vietnamese market since March (up 99 percent), the slower rate of market expansion seen in July was anticipated. The Vietnam Index closed the month at 466.8, still below the 52-week high of 575.7 seen in May. On a trailing basis the market is trading at 17.6x earnings and 2.3x book value. On current consensus earnings expectations, the market PE is slightly lower at 15.9x.

Last week the government reported the state has raised VND35.2 trillion (USD2.0bn) in debt to fund 57 percent of the forecasted fiscal deficit thus far this year. The sources of these funds appears to be VND4.2 trillion in offshore borrowing from multilateral institutions such as the World Bank and Asian Development Bank, VND12 trillion from domestic bond auctions, and the balance from as-yet undisclosed sources or private placements.

### Inflation moderates; bond market outlook improves

Additionally, the inflation outlook for 2009 has also moderated slightly, given weaker than expected oil and food prices. Market consensus is that the second half of 2009 will see a trend of rising prices, but the yearly inflation rate will stay at 7-8 percent. As such the outlook for mid-duration government bonds has improved in recent weeks, as evidenced by the flattening of the yield curve to 9.5 percent on the 5- to 15-year durations. The revised estimates appear achievable so long as commodity and energy prices remain stable. Loan growth in Vietnam also needs to moderate, given the targeted maximum of private credit growth of 25-27 percent for the year. The State Bank has reportedly begun asking banks to reduce the amount of short-term deposits matched against long-term loans to 30 percent of total deposits, down from 40 percent. The aim is to help free-up capital in the banking sector to invest in less risky assets, such as government bonds.

Overall, the lower inflation outlook, combined with a higher than expected government borrowing to date, should facilitate the incremental disbursement of stimulus package funds, as well as help make the funding of the fiscal deficit (about VND60 trillion or 7 percent of GDP) less arduous than was previously thought. Consequently, government bond auctions may have more success in the third quarter than they did during the second quarter of 2009. In the short term, this makes fixed income slightly more attractive than equities, as the prospect of single-digit inflation and near double-digit bond yields suggests that bond prices should rise, especially against a backdrop of index PE ratios in the mid teens, and low dividend yields. However, with overall market conditions looking broadly favourable, both asset classes could see further upside in the coming weeks.

## Performance summary

Most recent NAV:	VOF	VNL	VNI
	(31 Jul 09)	(30 Jun 09)	(30 Jun 09)
NAV per share (USD) <sup>1</sup>	<b>2.18</b>	<b>1.34</b>	<b>0.62</b>
Return (%) <sup>2</sup>	(from Jun 09)	(from Mar 09)	(from Mar 09)
Previous NAV	3.8	-7.6	-0.4
YTD	16.8	-12.4	-1.0
Since inception	124.7	38.1	-25.5
	(30 Sep 03)	(22 Mar 06)	(5 Jul 07)
Issued shares <sup>3</sup>	324,610,259	499,967,622	402,100,000
Total NAV (USDm)	706	669	250
Market cap (USDm)	549	375	149
Reuters	VOF.L	VNL.L	VNI.L
Bloomberg	VOF LN	VNL LN	VNI LN
ISIN	KYG9361Y1026	KYG936361016	KYG936121022

<sup>1</sup> Unaudited. VOF NAV is updated monthly; VNL and VNI NAVs are updated quarterly.

<sup>2</sup> Adjusted for dividends/distributions (see VNI, page 5).

<sup>3</sup> VNI holds 930,700 shares in a treasury facility.

VN Index	30-Jul	31-Dec	52 wk low	52 wk high
Close	466.8	315.6	234.7	575.7
Change (%)	4.1	47.9	98.9	(18.9)
Trailing PER (x)	17.6	Est. PER (x)	15.9	
Trailing P/B (x)	2.3			

Govt bonds	1 yr	3 yr	5 yr	10 yr
Yield curve (%)	8.7	9.5	9.5	9.5

(Source: VinaSecurities).

**Market rumours; gas prices rise again**

**Economy**

During July, liquidity declined slightly as a result of the State Bank announcing mild tightening measures (reducing the interest rate paid on reserve requirements and controlling loans to the private sector by state-owned banks) to prevent potential inflation. At one point during the month, there was a rumour the State Bank would issue mandatory bonds, as was done in mid-2008. This news pushed equity values down until the State Bank quashed the rumour.

Inflation for the month was 0.52 percent month-on-month, with the CPI continuing to decline year-on-year, reaching 3.3 percent. Gasoline and construction costs led July's CPI increase, a trend likely to continue as the gasoline price was raised again on 9 August. The CPI is expected to rise between 0.5-1.0 percent per month for the remainder of the year, which would result in 2009 inflation of 7-8 percent.

**Import volume stable but value down**

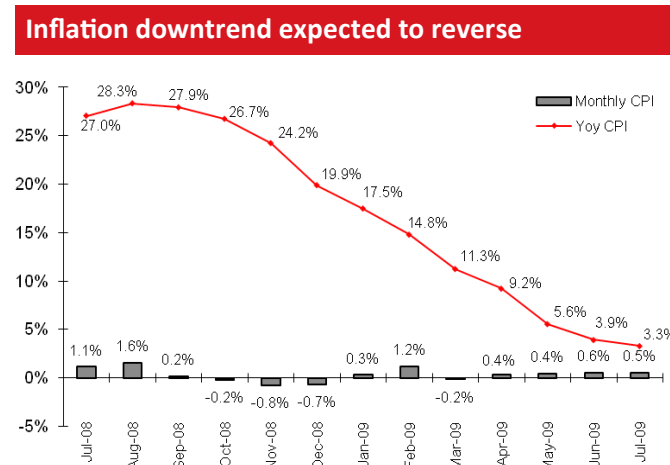
The trade deficit for July is estimated at USD1.25 billion, or 26 percent of the USD4.75 billion earned by exports. On a month-on-month basis, imports have been rising faster than exports. For the year to date, exports are 86.6 percent of the same period last year. The FDI export sector has suffered more than domestic sector exports, due in part to the lower crude oil price. Excluding crude oil, FDI-invested exports have fallen 8.8 percent compared to a 4.7 percent decline for the domestic sector. Other than rice, major export products such as seafood, garments, footwear and furniture are all down from last year's levels. Still, imports have dropped in value more than exports, down 32 percent. Import volumes of essential materials and equipment for production are the same or higher than last year, but importers have benefited due to lower prices.

An additional USD1.2 billion in FDI was committed in July; an improvement over the early months of 2009. Year-to-date commitments total USD10.1 billion, of which USD5.4 billion is new capital and USD4.7 billion is for existing projects. Some USD4.7 billion has been disbursed to date in 2009, down 22.5 percent year-on-year. Industrial production, however, continues to grow, with July 2009 production 7.6 higher than July 2008. For the year to July, production is up 5.1 percent year-on-year. The domestic private sector leads the way (7.4 percent growth), followed by the FDI sector (5.3 percent) and the state-owned sector (1.5 percent).

Macroeconomic indicators and forecast				
	2008	Jun-09	YTD	Y-o-Y change
<b>GDP growth</b>	6.2%		3.9%	
<b>Inflation</b>	19.9%	0.5%	3.2%	3.3%
<b>FDI (USDbn)</b>	71.7	1.2	10.1	-81.2%
<b>Imports (USDbn)</b>	80.7	6.0	35.6	-32.0%
<b>Exports (USDbn)</b>	62.7	4.8	29.7	-13.4%
<b>Trade deficit (USDbn)</b>	18.0	1.3	3.4	-77.4%
<b>Exchange rate* (USD/VND)</b>	17,486	17,715	1.8%	
<b>Bank deposit rate (VND %)</b>	7-8.5%	8.2-8.7%	n/a	n/a

Note: GDP figure updated quarterly. Exchange rate is Vietcombank ask rate at end of period. Sources: GSO, SBV, VCB.

\* Official rate.



## Portfolio developments

At the end of July 2009, VOF's NAV increased 3.8 percent to USD2.18 per share from USD2.10 per share at the end of June. VOF's capital market portfolio returned 9.2 percent, while the VN Index returned 4.3 percent during the same period. Within the capital market portfolio, the listed and OTC components gained 11.9 and 5.0 percent, respectively, with the biggest gains recorded by blue chip holdings such as Vinamilk, Hoa Phat, REE, Phu Nhuan Jewelry and new investments made during the month. VOF's share price rose 18.2 percent in July, to USD1.69 per share from USD1.43 per share at the end of June 2009. VOF announced on 4 August that it has invested in shares of VNL, and held a stake amounting to 2.95 percent of VNL, or 1.49 percent of VOF's NAV. The decision to invest in VNL shares has been taken as a means to enhance the liquidity of holdings while taking advantage of the substantial discount to NAV of the shares of VNL and other closed-end funds. Further information regarding the reasons for the investment and the procedures involved in making investments are contained in the 4 August regulatory announcement.

## Regulatory news

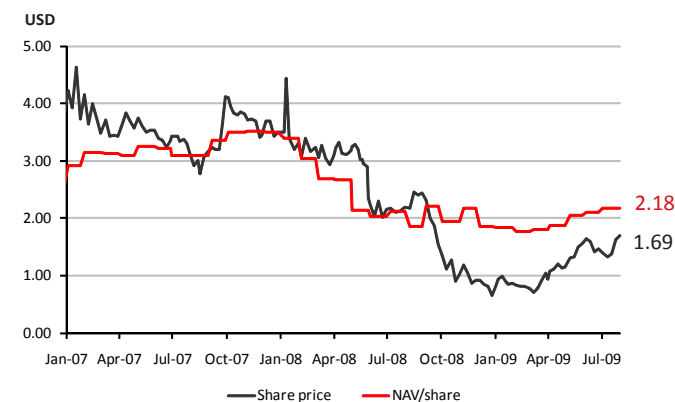
On 4 August, VOF announced its intention to invest in shares of VNL and other Vietnam-focused closed-end funds. Details are available at [www.vinacapital.com](http://www.vinacapital.com).

31 July 2009

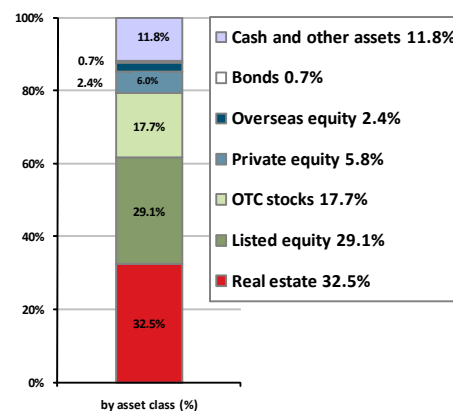
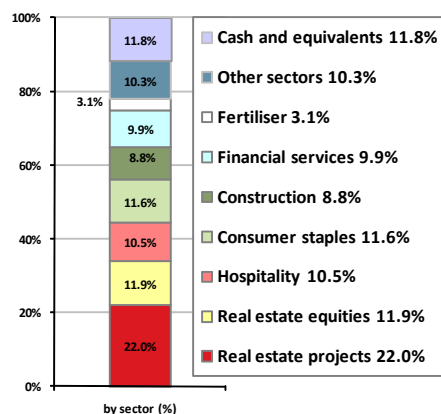
NAV **2.18** per share (↑ 3.8%)

Total NAV: USD706 million

## NAV and share price performance (31 July 2009)



## VOF portfolio (31 July 2009)



## Fund background

VinaCapital Vietnam Opportunity Fund Ltd ("Vietnam Opportunity Fund" or "VOF") is a closed-end fund trading on the London Stock Exchange's Alternative Investment Market (AIM).

VOF targets medium to long term capital gains with some recurring income and short term profit taking. Primary investment focus areas are: privately negotiated equity investments; undervalued/distressed assets; privatisation of state-owned enterprises; real estate; and private placements into listed and OTC-traded companies.

Download the VOF Factsheet at [www.vinacapital.com](http://www.vinacapital.com)

## Major holdings (listed and OTC)

Type	Sector	% NAV	Manager's comment
Eximbank	Financial services	7.6	One of Vietnam's top joint stock banks.
HPG	Manufacturing	5.3	Major steel and materials producer.
VNM	Food products	5.1	Dairy firm with dominant market share.
DIC	Real estate	3.0	Residential and industrial property.
DPM	Fertiliser	2.8	Top fertiliser firm on local market.

## Performance history (% change on NAV)

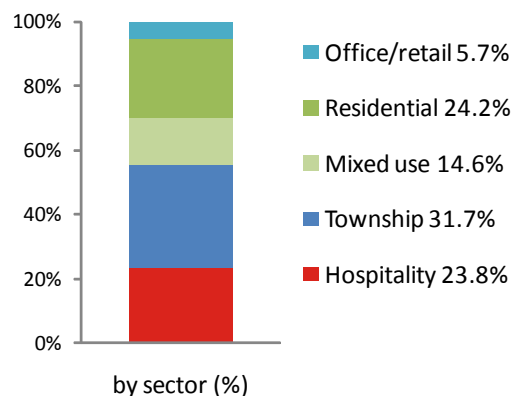
	2009	2008	2007	2006	2005
Jan	-1.3%	-2.9%	14.6%	3.9%	0.0%
Feb	-3.7%	-10.2%	8.3%	6.3%	4.4%
Mar	1.7%	-11.8%	-0.6%	8.8%	0.8%
Apr	4.4%	-0.8%	-1.3%	7.6%	1.7%
May	9.1%	-19.5%	5.1%	-1.0%	4.1%
Jun	2.2%	-4.7%	-0.8%	1.5%	0.0%
Jul	3.8%	5.7%	-3.8%	-6.5%	0.0%
Aug		9.8%	0.0%	6.4%	3.9%
Sep		-6.7%	8.1%	3.0%	4.5%
Oct		-12.4%	4.2%	1.0%	0.7%
Nov		-1.9%	0.6%	13.5%	5.7%
Dec		-2.1%	-0.6%	8.1%	4.1%
<b>YTD</b>	<b>16.8%</b>	<b>-46.6%</b>	<b>37.4%</b>	<b>64.9%</b>	<b>33.9%</b>
<b>VN Index</b>	<b>42.0%</b>	<b>-66.0%</b>	<b>23.3%</b>	<b>144.5%</b>	<b>28.5%</b>

## Portfolio developments

VNL's share price at the end of July 2009 was USD0.75 per share, up 10.3 percent from USD0.68 per share at the end of June 2009 and a 56.3 percent increase year-to-date. The discount to NAV is now 44.0 percent. Vietnam's real estate market is seeing diverging trends. The office and hospitality sectors continue to see declining demand and rental rates due to the global economic slowdown, while the residential market is much healthier, with stable demand for mid-range properties and prices that have risen in recent months.

The hotels in VNL's hospitality portfolio have seen gross operating profits decline on average 37.4 percent in H1 2009 from the same period last year, due to the impact of the global economic slowdown on international business and leisure travel. VinaCapital continues to press forward with improvements to its hotel properties, such as recently completing renovations on the landmark Metropole Hanoi, which in July became the world's first Sofitel Legend, Accor's new signature brand. In addition, the three-star, city centre Mercure La Gare Hanoi will open in September 2009. During the hospitality slowdown, mid-range city centre properties are expected to do comparatively well given their price advantage.

## VNL portfolio (30 June 2009)



### Portfolio by geographic location

Hanoi	19%
Central provinces	25%
Ho Chi Minh City region	56%

### Fund background

VinaLand Limited (VNL) is a closed-end fund trading on the London Stock Exchange's Alternative Investment Market (AIM).

VNL targets medium to long term capital gains with some recurring income through investment in the following real estate sectors: office; residential; retail; township/ industrial (large scale); and hospitality and leisure.

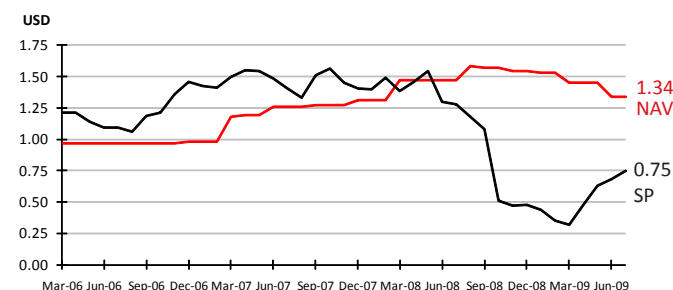
Download the VNL Factsheet at [www.vinacapital.com](http://www.vinacapital.com)

30 June 2009

NAV **1.34** per share (↓ 7.6%)

Total NAV: USD669 million

## NAV and share price performance (31 July 2009)



## Performance history (% change on NAV per share)

	2009	2008	2007	2006
Q1	-5.2%	12.5%	22.0%	
Q2	-7.6%	7.1%	6.1%	0.0%
Q3		-0.4%	0.2%	0.0%
Q4		-2.5%	3.2%	0.5%
YTD	-12.4%	17.1%	33.8%	0.5%

## Major holdings

Project	Type	Status
Aqua City (Long Hung)	Residential	Planning underway
Century 21	Mixed-use	Investment licence
Danang Beach Resort	Mixed-use	Under construction
Dai Phuoc Lotus	Mixed-use	Under construction
Fideco Binh Duong	Township	Investment licence
Hanoi Golden Westlake	Residential	Sales underway
Pavilion Square	Residential	Investment licence
VinaSquare Tower	Mixed-use	Investment licence
Vinh Thai Nha Trang	Township	Investment licence
WTC Danang	Mixed-use	Under construction

## Portfolio developments

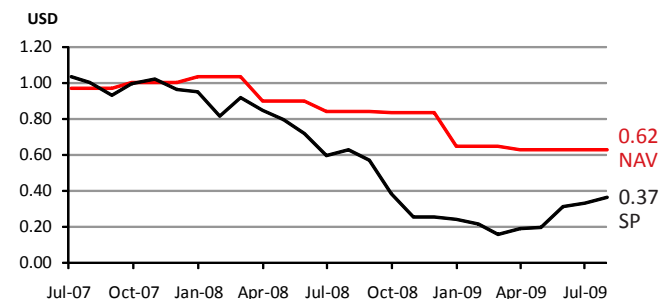
VNI's share price at the end of July was USD0.37, up 12.1 percent from USD0.33 at the end of June 2009. Operational updates during the month include the successful conversion at par of VNI's loan to Vietstar JSC, a solid waste treatment company, into equity. VNI's holding as of the publication date of this report amounted to a 34 percent equity stake, with half of its shares preferred and half common. Vietstar has secured USD36 million in financing from three European Development Banks and the facility is on track to begin operations in Q4 2009.

30 June 2009

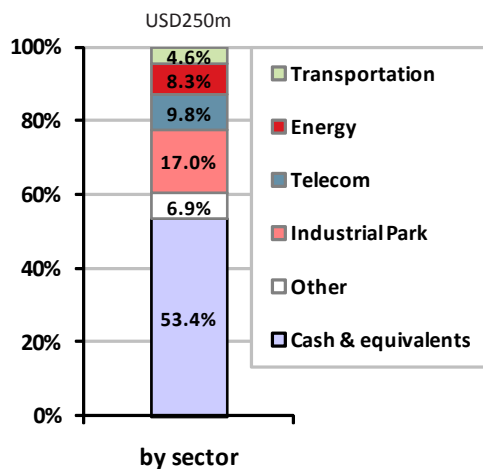
NAV **0.62** per share (↓0.4%)

Total NAV: USD250 million

## NAV and share price performance (31 July 2009)



## VNI portfolio by sector (30 June 2009)



## Portfolio by Asset Class

Listed companies	17.7%
OTC	2.1%
Private equity	16.2%
Greenfield projects	7.4%
Bonds	3.2%
Cash and equivalents	53.4%

## Fund background

Vietnam Infrastructure Limited (VNI) is a closed-end fund trading on the London Stock Exchange's Alternative Investment Market (AIM).

VNI targets medium to long term capital gains with some recurring income through investment in the following infrastructure sectors: energy; transportation; industrial parks; telecommunication; and water and environmental utilities.

Download the VNI Factsheet at [www.vinacapital.com](http://www.vinacapital.com)

## Performance history (total return)\*

	2009	2008	2007
Q1	-0.5%	-12.8%	n/a
Q2	-0.4%	-6.7%	n/a
Q3		-1.0%	2.9%
Q4		-12.0%	3.1%
YTD	-1.0%	-29.1%	6.1%

Total return since inception: **-25.5%**

\* Assumes dividends/distributions reinvested. VNI paid a USD0.10 per share capital distribution on 16 January 2009 (ex date 17 Dec 2008).

## Major holdings

Name	Sector	Asset class	NAV (%)
Tan Tao (ITA)	IP	Listed	8.7
Long An S.E.A.	IP	Greenfield	7.3
Pha Lai (PPC)	Energy	Listed	5.0
MIDC	Telecom	Private	4.0
VNC-55	Telecom	Private	3.7

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## VinaCapital Group

VinaCapital Investment Management Ltd (VCIM) is the BVI-registered investment manager of VinaCapital's three AIM-traded funds.

VinaCapital Real Estate Ltd (VCRE) is the development and advisory service for VOF and VNL-owned real estate assets.

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