

Vietnam Opportunity Fund AIM: VOF



Monthly update 31 December 2011

Fund background

Vietnam Opportunity Fund (VOF) is a closed-end fund trading on the AIM Market of the London Stock Exchange.

ISIN KYG9361Y1026
Bloomberg VOF LN
Reuters VOF.L

Investment objective

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.

View [VOF details](#).

Download [VOF factsheet](#).

Fund managing director

Andy Ho

Manager

VOF is managed by VinaCapital Investment Management Ltd (VCIM) and requires investment approvals from a three member Investment Committee.

More information about VCIM is [available here](#).

Manager comment

VOF's NAV fell 2.3 percent to USD2.18 per share at the end of December 2011, from USD2.23 per share at the end of November. The drop was largely attributable to the 7.1 percent decrease of real estate projects revaluation. The listed equities component lost 2.3 percent mainly due to a widespread selloff in Vietnamese stocks, which dragged down securities such as Kinh Do (KDC), VinaMilk (VNM), and VinaLand (VNL). During the month, management sold a 17.5 percent stake of Hoan My Hospital to Fortis Healthcare, reducing current ownership to 4.9 percent. The resulting transaction, earned an IRR of over 50 percent and a multiple of over 2.2 times.

VOF's share price, meanwhile, dropped 8.0 percent to USD1.27 at the end of December, from USD1.38 at November's end, increasing the fund's trading discount to 42.0 percent of its NAV. December saw VOF continue its share buyback programme, with a total of 2.1 million shares repurchased, bringing the number to 3,588,000 in total since the commencement of the programme. All shares purchased under the buyback programme will be held as treasury shares and can only be resold at the current NAV/share.

Macro and capital markets update

Following a weak November, the VNIndex declined by another 30 points in the month of December, closing at nearly 350, representing a 7.8 percent drop in USD terms, the fourth-worst performing month this year. In contrast, for the month, the MSCI Asia ex-Japan index rose slightly by 0.5 percent and the MSCI Emerging Market index fell by just 1.3 percent. For the entire year, the VN Index declined 32.8 percent while the HN Index fell 50.0 percent in USD terms, much weaker than the average 20.0 percent decline in the two MSCI comparable indices.

Trading volume on both Vietnamese stock exchanges increased 3.6 percent month-on-month in December with 1.1 billion shares changing hands, however, trading values decreased 5.2 percent to USD570 million. As of 31 December, the VN Index traded at a trailing P/E of 7.1x, with a combined market cap of USD25.5 billion on Vietnam's two exchanges.

Bond investors maintained their elevated risk appetite at auctions in December, given interest rates are expected to ease in 2012. A total USD240 million worth of 3- and 10-year treasury and VDB bonds were issued over the month, an increase of 6.7 percent compared to the USD225 million raised in November.

31 December 2011

NAV **2.18** per share (↓ 2.3%)

Total NAV: USD703 million

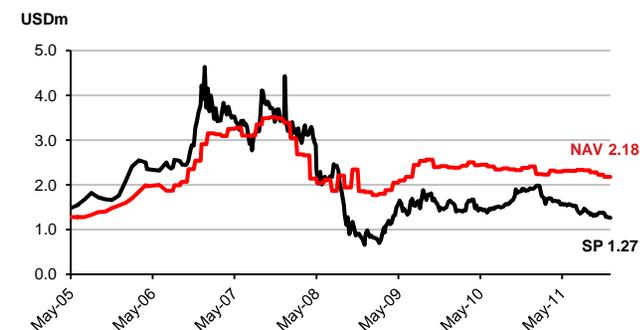
Performance summary

		Cumulative change:				
	31-Dec-11	3mth	1yr	3yr	5yr	
NAV per share	2.18	-6.3%	-8.4%	17.3%	-14.1%	
Share price	1.27	-8.0%	-32.8%	91.7%	-66.6%	
Premium/(Discount)	(42.0%)					
Market cap	408m					
Total NAV	703m					

Performance history (% change on NAV)

	2011	2010	2009	2008	2007	2006
YTD	-8.4%	-1.6%	29.7%	-46.6%	37.4%	64.9%
VN Index	-32.8%	-7.2%	47.7%	-68.6%	23.5%	142.4%

NAV and share price performance (31 Dec 2011)



Macro and Capital market update (continued)

Bond yield remains unchanged

The bond yield curve did not change in December, with 3-year and 10-year yields remaining unchanged at 12.10 and 11.5 percent respectively. Additionally, the secondary market was active with total USD438 million of treasury and VDB bonds trading. However, much of this activity is from repo transactions, as financial institutions increased borrowing activity in order to maintain liquidity.

GDP grew 5.9 percent in 2011

The country's real GDP in Q4 grew 6.1 percent year-on-year, closing a volatile 2011 with growth of 5.9 percent, a slight slowdown in growth from the 6.8 percent recorded in 2010. This represents the second lowest annual growth in GDP over the past decade, following 5.3 percent earned in 2009. The industrial sector was the largest drag in GDP with a drop of 1.0 percent year-on-year compared to an increase of 10.1 percent in 2010, which is largely attributable to the depressed housing markets negative impact on the construction sector.

Lower inflation and currency depreciation expected this year versus 2011

For 2011, macroeconomic headlines were dominated by high inflation, driven mainly from the devaluation of the Vietnam Dong, increased food prices, the removal of subsidies for consumer gas and electricity, and very high credit growth over the last several years. December CPI increased 0.5 percent compared to 0.39 percent in November, resulting in full year inflation of 18.1 percent. Going forward, we view the State's inflation target of sub-10 percent as challenging, given the need to remove additional utility based subsidies by an expected 10-50 percent for gas, electricity and water, which would inevitably put pressure on companies to pass those costs onto the end consumer. In December the Ministry's of Finance approved for Electricity of Vietnam (EVN) to raise electricity prices by 5 percent from 5.9c per kWh to 6.2c per kWh. However, we do not believe inflation will be as severe in 2012 as it was in 2011 and forecast a target range of between 10 and 15 percent for the year.

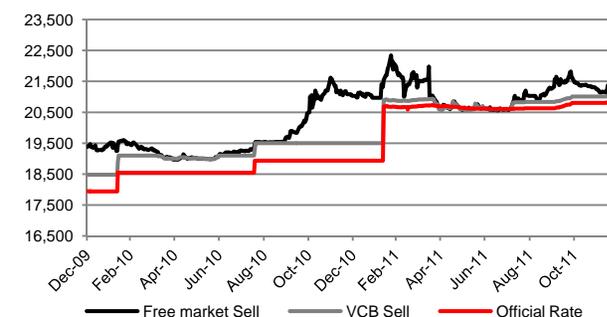
The Vietnamese Dong remained stable throughout December with an open market rate of VND21,300, which is less than one percent above the top end of the official band. We noted a surplus position of Balance of Payment estimated by the SBV of USD2 billion, supported by strong FDI disbursement of USD11 billion as well as foreign remittance of approximately USD8.5 billion. However, there remains speculation that the currency will depreciate more throughout the year. We expect the VND will rise nearly 5.0 percent to approximately 22,500 per USD by the end of 2012.

Macroeconomic indicators and forecast				
	2010	Dec-11	YTD	Y-o-Y change
GDP growth¹	6.8%		5.9%	5.9%
Inflation	11.8%	0.5%	18.1%	18.1%
FDI (USDbn)	18.6	3.4	14.7	-21.0%
Imports (USDbn)	84	9.6	105.8	24.7%
Exports² (USDbn)	71.6	8.9	96.3	33.3%
Trade deficit (USDbn)	12.4	0.7	9.5	-23.4%
Exchange rate³ (USD/VND)	19,500	21,036	7.9%	7.9%
Bank deposit rate (VND %)	12.0-14.0%	12.0-14.0%	n/a	n/a

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

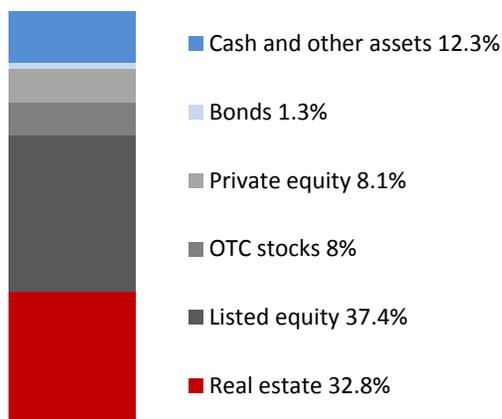
¹ Annualised rate. ² Includes gold. ³ State Bank central rate.

USD/VND foreign exchange rate

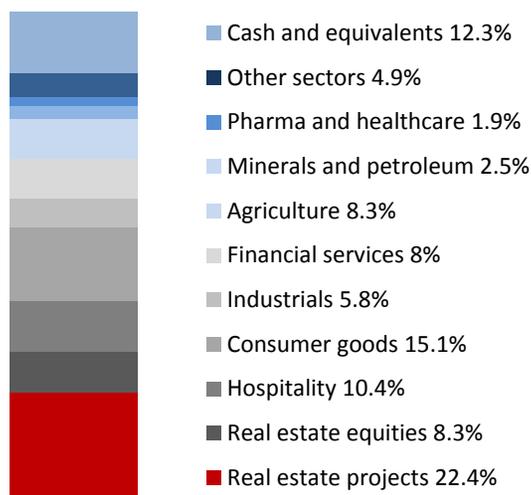


Monthly update 31 December 2011

Portfolio by asset class



Portfolio by sector



Top holdings at 31 Dec 2011

Top 5 listed investments

Name of investee	% of NAV	Sector	Description
Vinamilk (VNM)	8.0	Consumer goods	Leading dairy company with dominant market share.
Eximbank (EIB)	6.0	Financial services	One of top ten commercial banks.
VinaLand Ltd (AIM: VNL)	3.5	Real estate	VCIM-managed Vietnam fund.
Kinh Do Corp (KDC)	2.9	Consumer goods	Top confectionary manufacturer in Vietnam
Phu Nhuan Jewelry	1.9	Consumer goods	The largest jewelry manufacture and distributor in Vietnam.

Top 5 OTC investments

Name of investee	% of NAV	Sector	Description
An Giang Plant Protection	4.0	Agriculture	Leading plant protection chemicals firm.
Halico	1.4	Consumer goods	Liquor producer with popular brands.
Nam Viet Oil	0.9	Mining	Major gasoline producer.
Lam Thao	0.5	Agriculture	Major fertiliser producer.
Binh Dien Fertiliser	0.4	Agriculture	Largest NPK fertiliser producer.

Top 5 real estate investments

Project	% of NAV	Sector	Description
Sofitel Metropole	8.1	Hospitality	Vietnam's top city-centre hotel.
Century 21	4.2	Real estate	HCM City residential development.
Dai Phuoc Lotus	3.3	Real estate	Townhouse sales underway.
Danang Beach Resort	2.0	Real estate	Resort villa sales underway.
Hung Vuong Plaza	2.0	Real estate	The best shopping mall in China town of HCM City.

Top 5 private equity investments

Name of investee	% of NAV	Sector	Description
Prime Group	1.9	Industrials	Ceramics producer with dominant market share.
Yen Viet	1.2	Agriculture	Produces birds nest nutritional products.
IBS	0.8	Industrials	Construction materials firm.
International School, HCMC (Pioneer)	0.7	Education	Leading international school in Ho Chi Minh City providing world-quality education
Indochina Food	0.6	Consumer goods	The leading sugar and ethanol manufacturer in Vietnam and Cambodia.

VOF Board of Directors

VinaCapital Vietnam Opportunity Fund Ltd (VOF) is led by a Board of Directors composed of a majority of independent non-executive directors.

William Vanderfelt	Chairman (Independent)
Horst Geicke	Director
Michael G. Gray	Director (Independent)
Martin Glynn	Director (Independent)
Don Lam	Director

VinaCapital

VinaCapital Investment Management Ltd (VCIM) is the BVI-registered investment manager of VOF.

Don Lam	Chief Executive Officer
Brook Taylor	Chief Operating Officer
Andy Ho	Managing Director, Head of Investment
Nguyen Viet Cuong	Deputy Managing Director, Capital markets
Dang P. Minh Loan	Deputy Managing Director, Private equity

Contact	
David Dropsey	Investor Relations/Communications ir@vinacapital.com +848-3821-9930 www.vinacapital.com

Brokers	LCF Edmond de Rothschild Securities +44 (0)20 7845 5960 or funds@lcf.co.uk Numis Securities + 44 (0)20 7260 1327, www.numiscorp.com
----------------	--

Important Information

This document, and the material contained therein, is not intended as an offer or solicitation for the subscription, purchase or sale of securities in Vietnam Opportunity Fund Limited, VinaLand Limited or Vietnam Infrastructure Limited (each a "Company"). Any investment in any of the Companies must be based solely on the Admission Document of that Company or other offering document issued from time to time by that Company, in accordance with applicable laws.

The material in this document is not intended to provide, and should not be relied on for accounting, legal or tax advice or investment recommendations. Potential investors are advised to independently review and/or obtain independent professional advice and draw their own conclusions regarding the economic benefit and risks of investment in either of the Companies and legal, regulatory, credit, tax and accounting aspects in relation to their particular circumstances.

The securities of the Companies have not been and will not be registered under any securities laws of the United States of America nor any of its territories or possessions or areas subject to its jurisdiction and, absent an exemption, may not be offered for sale or sold to nationals or residents thereof.

No undertaking, representation, warranty or other assurance, express or implied, is given by or on behalf of either of the Companies or VinaCapital Investment Management Limited or any of their respective directors, officers, partners, employees, agents or advisers or any other person as to the accuracy or completeness of the information or opinions contained in this document and no responsibility or liability is accepted by any of them for any such information or opinions or for any errors, omissions, misstatements, negligence or otherwise.

No warranty is given, in whole or in part, regarding the performance of either of the Companies. There is no guarantee that investment objectives of any of the three Companies will be achieved. Potential investors should be aware that past performance may not necessarily be repeated in the future. The price of shares and the income from them may fluctuate upwards or downwards and cannot be guaranteed.

This document is intended for the use of the addressee and recipient only and should not be relied upon by any persons and may not be reproduced, redistributed, passed on or published, in whole or in part, for any purposes, without the prior written consent of VinaCapital Investment Management Limited.

Fund summary

VinaCapital Vietnam Opportunity Fund Ltd ("Vietnam Opportunity Fund" or "VOF") is a closed-end fund trading on the AIM Market of the London Stock Exchange. Download the VOF factsheet at www.vinacapital.com

Fund launch
30 September 2003

Term of fund
Five years subject to shareholder vote for liquidation

Fund domicile
Cayman Islands

Legal form
Exempted company limited by shares

Structure
Single class of ordinary shares trading on the AIM market of the London Stock Exchange plc.

Auditor
PricewaterhouseCoopers (Hong Kong)

Nominated advisor (Nomad)
Grant Thornton Corporate Finance

Custodian and Administrator
HSBC Trustee

Brokers
LCF Edmond de Rothschild Securities (Bloomberg: LCFR)
Numis Securities (Bloomberg: NUMI)

Lawyers
Lawrence Graham (UK)
Maples and Calder (Cayman Islands)

Management and performance fee
Management fee of 2 percent of NAV. Performance fee of 20 percent of total NAV increase after achieving the higher of an 8 percent compound annual return and the high watermark

Investment manager: VinaCapital Investment Management Ltd

Investment policy: 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.

Investment focus by geography:
Greater Indochina comprising: Vietnam (minimum of 70 percent), Cambodia, Laos, and southern China.