

Monthly update 31 July 2012

## Fund background

VinaCapital 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 four member Internal Investment Committee.

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

## Manager comment

VOF's net asset value fell by 1.7 percent to USD737 million as at 31 July 2012 from USD749.9 million as at 30 June 2012. During the month, the capital markets component within VOF declined 1.5 percent, largely due to shares of Khang Dien House (KDH), Phu Nhuan Jewelry (PNJ) and Kinh Do Corp (KDC) falling 11.0, 8.0 and 6.0 percent, respectively.

During the month, VOF spent USD7.0 million repurchasing 4.7 million shares. As at 31 July 2012, VOF has spent USD24.9 million overall, repurchasing 16,734,663 shares which are held as treasury shares. The total number of shares acquired since November 2011 represents 5.16 percent of the Company's 324,610,259 Ordinary Shares in issue and as a result, total voting rights in the Company have been reduced to 307,875,596.

VOF's NAV per share remained unchanged at USD2.40 as at 31 July 2012, from the prior month. However, the share price closed at USD1.55 per share in July, an increase of 4.7 percent from USD1.48 at the end of June. Investors have been buying shares as global market conditions improve and the Vietnamese economy continues to show signs of stability. Additionally, efforts to reduce the share price to NAV discount have taken shape, partially due to the share buyback program. The current discount has declined to 35.4 percent, lower than the 42 percent recorded as at 31 December 2011.

Additionally, investee company, Vinamilk (VNM) reported its results for Q2 2012 and consolidated results for H1 2012. According to the company, net profit was USD71.7 million for the second quarter, up 36 percent compared to a year ago, bringing the total profit to USD132.2 million for the first half of 2012. Revenue was reported at USD333.8 million for Q2 2012, up 29.3 percent compared to same period last year.

## Capital markets

In July, the VN Index closed at 414 points, falling 1.9 percent in USD terms from a month ago, while the MSCI Asia ex-Japan and MSCI Emerging Market indices rose 2.2 and 1.6 percent, respectively.

Both trading volume and value continued to decline in July, with only USD830 million in value on 1.54 billion shares changing hands, a decline of 17 and 14 percent, respectively. Combined market capitalisation on both of Vietnam's bourses was USD36.4 billion with the VN Index trading at a trailing P/E of 10.2x and P/B of 1.4x.

Foreign investors were net buyers of USD7.0 million throughout July, compared to net selling of USD25 million the previous month. The top acquired companies were FPT Corp (FPT), PetroVietnam Gas (GAS) and Refrigeration Electrical Engineering Corp (REE) while Bao Viet Holding (BVH), and VinGroup JSC (VIC), were sold off the most.

31 July 2012

NAV **2.40** per share (unchanged m-o-m)

Total NAV: USD737 million

## Performance summary

	31-Jul-12	Cumulative change:			
		3mth	1yr	3yr	5yr
NAV per share	2.40	-0.9%	3.6%	9.9%	-22.7%
Share price	1.55	-0.1%	2.0%	-7.8%	-50.1%
Premium/(Discount)	(35.4%)				
Market cap	492m				
Total NAV	737m				

## Performance history (% change on NAV)

	2012	2011	2010	2009	2008	2007	2006
YTD	8.9%	-7.6%	-1.6%	29.7%	-46.6%	37.4%	64.9%
VN Index	18.9%	-25.6%	-7.2%	47.7%	-68.6%	23.5%	142.4%

## NAV and share price performance (31 July 2012)



**Bond activity picked back up in July 2012 to USD419 million in new issues, an increase of 178 percent from last month**

## Fixed income

In July, new issues of State Treasury bonds rebounded significantly, with bids rising by 178 percent to USD419 million, compared with June. However, long term bond activity disappeared during the month, as only 2- to 5-year bonds were issued, a sign investors continue to worry about possible inflation pressures later in the year. Yields on 2-year bonds increased 30 bps to 9.10 percent. Additionally, the Vietnam Bank for Social Policy (VBSP) bond auction failed to attract any buyers during the month of July.

On the secondary market, more than USD632 million worth of government and Vietnam Development Bank (VDB) bonds traded in July, of which, 74 percent was in tenors of less than 3 years. As a result, short term bond yields dropped between 10 and 80 bps for the month, while long term bond yields rose by 10 to 35 bps.

## Macroeconomic update

**CPI declined for the second straight month, down 0.29 percent, equivalent to 5.4 percent year-on-year**

For the month of July, month-on-month inflation declined by 0.29 percent, the second month in a row of negative CPI, which is equivalent to 5.4 percent year-on-year. All major inflation drivers from the past, namely food and food stuffs, fuel and gasoline have remained stable while demand for other consumer items has waned. Companies have lost the ability to raise prices and in certain industries, such as construction materials tied to real estate development, are offering discounts in order to reduce inventory levels.

**The VND remained stable for yet another quarter, closing at VND20,828 in July**

For nearly a year now, the exchange rate for the VND has remained stable at just under 21,000 per USD, finishing July at 20,828. Much of this is due to the trade deficit which has only reached USD158 million over the first seven months of the year, compared to USD7.0 billion in 2011, coupled with foreign direct investment disbursements and overseas remittances remaining stable. The State Bank of Vietnam (SBV) reserves have now reached approximately USD20 billion, equivalent to ten weeks of imports, and is expected to reach three months by year end. Additionally, adding to the currency stability is the 7.0 percent spread between VND and USD deposit rates. As this spread remains extensive, investors are more willing to hold their cash deposits in VND currency instead of converting to USD.

**The SBV has started to bring pressure on banks to lower loan rates to 15 percent**

Additionally, the SBV's directive to bring down loan rates on outstanding loans to 15 percent has recently been implemented. There is now heavy pressure on banks to bring rates down to these levels, which could lead to an increase in non-performing loans in the future. The SBV has taken these measures following two straight quarters of lack luster GDP growth and private sector complaints that borrowing costs are too restrictive for their businesses to grow.

## Macro-economic indicators and forecast

	2011	Jul-12	YTD	Y-o-Y change
<b>GDP growth<sup>1</sup></b>	5.9%		4.4%	
<b>Inflation</b>	18.1%	-0.29%	2.2%	5.4%
<b>FDI (USDbn)</b>	14.7	1.6	8.0	-33.1%
<b>Imports (USDbn)</b>	105.8	9.5	63.0	7.3%
<b>Exports<sup>2</sup> (USDbn)</b>	96.3	9.6	62.9	19.0%
<b>Trade deficit (USDbn)</b>	9.5	-0.1	0.2	-90.9%
<b>Exchange rate<sup>3</sup> (USD/VND)</b>	21,036	20,828	-0.9%	1.6%
<b>Bank deposit rate (VND %)</b>	12.0-14.0%	11.0%	-21.4%	-21.4%

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

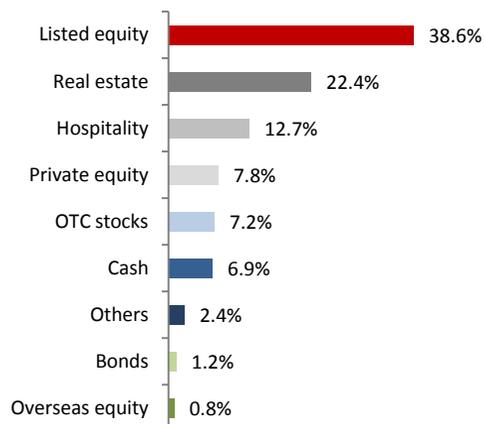
<sup>1</sup> Annualized rate. <sup>2</sup> Includes gold. <sup>3</sup> State Bank central rate.

Govt Bonds	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr
Yield (%)	9.15%	8.78%	9.49%	9.80%	10.05%	10.35%

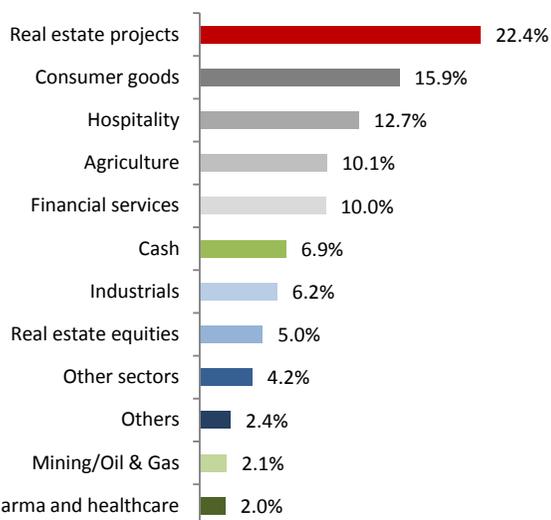
Source: Bloomberg

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## Portfolio by asset class



## Portfolio by sector



## Top holdings at 31 July 2012

### Top 5 listed investments

Name of investee	% of NAV	Sector	Description
Vinamilk (VNM)	7.9	Consumer goods	Leading dairy company with dominant market share.
Eximbank (EIB)	7.6	Financial services	One of the top ten commercial banks.
Kinh Do Corp (KDC)	3.5	Consumer goods	Top confectionary manufacturer in Vietnam.
Hoa Phat Group (HPG)	2.5	Industrials	Major steel manufacturer.
Phu Nhuan Jewelry	1.9	Consumer goods	The largest jewelry manufacturer and distributor in Vietnam.

### Top 5 OTC investments

Name of investee	% of NAV	Sector	Description
An Giang Plant Protection	5.6	Agriculture	Leading plant protection chemicals firm.
Nam Viet Oil	0.6	Mining/Oil & Gas	Major gasoline producer.
Binh Dien Fertiliser	0.4	Agriculture	The largest NPK fertiliser producer.
Tam Phuoc Industrial	0.2	Infrastructure	An industrial park, a subsidiary of Tin Nghia, Dong Nai's biggest state corporation.
Minh Hai Jostoco	0.1	Agriculture	One of Vietnam's largest shrimp processors and exporters

### Top 5 real estate and hospitality investments

Project	% of NAV	Sector	Description
Sofitel Metropole	8.0	Hospitality	Vietnam's top city-centre hotel.
Century 21	3.7	Real estate	HCM City residential development.
Legend hotel	3.6	Hospitality	One of the leading 5 star hotels in Ho Chi Minh City.
Dai Phuoc Lotus	2.8	Real estate	Residential developer with townhouse sales underway.
VinaLand Ltd (AIM: VNL)	2.4	Real estate	VCIM-managed Vietnam real estate fund.

### Top 5 private equity investments

Name of investee	% of NAV	Sector	Description
Prime Group	1.8	Industrials	Ceramics producer with dominant market share.
Yen Viet	1.1	Consumer goods	Produces birds nest nutritional products.
IBS	1.0	Industrials	Construction materials firm.
International School, HCMC	0.7	Education	Leading international school in Ho Chi Minh City providing world-quality education.
Indochina Food	0.7	Consumer goods	The leading sugar and ethanol manufacturer in Vietnam and Cambodia.

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## 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.

<b>William Vanderfelt</b>	Chairman (Independent)
<b>Michael G. Gray</b>	Director (Independent)
<b>Martin Glynn</b>	Director (Independent)
<b>Don Lam</b>	Director

## VinaCapital

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

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

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## 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](http://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 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; Privatization of state-owned enterprises; Real estate; and Private placements into listed and OTC-traded companies.

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