

Monthly update 31 October 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 unaudited net asset value was USD727.0 or USD2.50 per share as at 31 October 2012. This represents a 1.9 percent increase from a net asset value of USD2.45 per share on 30 September 2012. The capital markets component within VOF increased 4.5 percent, largely due to shares of Vinamilk (VNM, 6.8 percent), Eximbank (EIB, 9.0 percent), Kinh Do Corporation (KDC, 11.6 percent) and Hoa Phat group (HPG, 15.6 percent) performing well, which collectively make up approximately 25 percent of total NAV.

According to LCF Edmond de Rothschild, year to date, VOF's NAV has increased 13.7 percent outperforming its comparable peer group (diversified investment funds) average of 10.1 percent. Additionally, VOF's capital markets component has increased 27.2 percent, well ahead of funds focus primarily on listed equity investments and the VN Index, which averaged a return of 16.8 percent during the same period.

VOF's share price closed at USD1.71 at the end of October, an increase of 4.8 percent compared to the end of September. Management and the Board's efforts to reduce the share price to NAV discount have continued into October and the discount declined to 31.8 percent from 33.7 percent last month. During October, VOF spent USD8.4 million repurchasing 4.9 million shares. As at 31 October 2012, VOF has spent USD53.3 million overall, repurchasing 33.9 million shares.

During the month, VOF executed a contract to sell 500,000 shares of Vinamilk (VNM) at VND155,000 per share, nearly a 24 percent premium over the market price. Despite only representing a small amount of the Fund's current holding of almost USD79 million in value (at market price), it shows investor appetite for high quality holdings within VOF's portfolio.

Capital markets

The VN Index continued its sell off, finishing the month at 388, down 1.1 percent in USD terms. Similarly, the MSCI Asia ex-Japan and MSCI Emerging Market indices decreased 0.3 and 0.7 percent, respectively.

During the month of October, trading volume increased 20 percent compared to the previous month, but trading value remained unchanged with only USD590 million on 1.3 billion shares changing hands. The combined market capitalisation for both of Vietnam's bourses was down slightly at USD34 billion with the VN Index trading at a trailing P/E of 9.5x and P/B of 1.5x.

In October, foreign investors continued to be net buyers, accounting for a net purchase of USD7.4 million compared to USD13.0 million in September. The top acquired companies were Masan Group (MSN), Dam Sen Water Park (DSN) and PetroVietnam Gas (GAS) while Eximbank (EIB), Sacombank (STB), Pha Lai Thermal Power (PPC), and Vincom Group (VIC) were sold off the most.

31 October 2012

NAV **2.50** per share (↑1.9%)

Total NAV: USD727 million

Performance summary

		Cumulative change:				
	31-Oct-12	3mth	1yr	3yr	5yr	
NAV per share	2.50	4.4%	9.8%	-2.5%	-28.3%	
Share price	1.71	9.9%	29.4%	3.0%	-55.4%	
Premium/(Discount)	(31.8%)					
Market cap	504m					
Total NAV	727m					

Performance history (% change on NAV)

	2012	2011	2010	2009	2008	2007	2006
YTD	13.7%	-7.6%	-1.6%	29.7%	-46.6%	37.4%	64.9%
VN Index	11.6%	-25.6%	-7.2%	47.7%	-68.6%	23.5%	142.4%

NAV and share price performance (30 Sep 2012)



USD391 million in government bonds were issued in October, an increase of 39 percent from September

Fixed income

Throughout October, the primary fixed income market in October improved, with USD391 million in State Treasury and Government Sponsored bonds issued, an increase of 39 percent from September. Although, with inflation fears creeping into the bond market, new issues were placed at higher rates, up approximately 20 to 30 bps on 2- and 3-year State Treasury bonds from the prior month.

The secondary market suffered as primary bond yields increased. In total, only USD291.7 million worth of government and Vietnam Development Bank (VDB) bonds traded during the month, a decline of nearly 50 percent from September. Secondary trading was also dominated by short-term tenors, with 53 percent of all trades involving 1- to 3-year bonds. However, according to Bloomberg, short to medium term bond yields remained unchanged in October.

Vietnam's bond rating received mixed reviews when Moody cut from B1 to B2 but S&P raised from negative to stable

Macroeconomic update

In late September, Vietnam's economy received a mixed review regarding its government backed bonds and the banking industry. Moody's cut foreign and local currency bond ratings from B1 to B2, citing the troubled banking sector, non performing loan balances and weak overall economic performance. However, Standard & Poor raised Vietnam's Banking Industry Country Risk Assessment (BICRA) from a score of 10 up to 9, based on improved macroeconomic stability and the government's implementation of Resolution 11.

CPI reached 7.0 percent year-on-year during October

During October, month-on-month inflation increased by 0.85 percent, much lower than the 2.2 percent booked in September. Thus, year-on-year CPI has now reached 7.0 percent. The monthly rise in CPI was again caused mostly from an increase in healthcare (5.6 percent) and education (1.9 percent). Notably, food and foodstuffs, which make up approximately 40 percent of the CPI figure, only rose 0.3 percent, pointing towards a continued slowdown in consumer demand.

October saw Vietnam's trade balance move to a USD500 million deficit on larger than expected imports

During the month, Vietnam's trade balance shifted to a USD500 million deficit from a surplus of USD175 million (originally reported a USD100 million deficit) in September. The deficit for October was mainly driven by a large increase in imports as companies begin to ramp up production and inventories ahead of the holiday season. Year to date, Vietnam has run a deficit of only USD357 million, far lower than approximately USD8.2 billion during the same period a year ago.

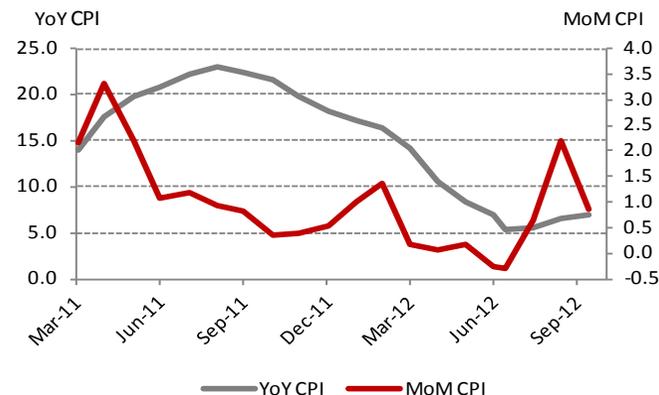
Macro-economic indicators and forecast

	2011	Oct-12	YTD	Y-o-Y change
GDP growth¹	5.9%	n/a	4.7%	-18.0%
Inflation	18.1%	0.85%	6.02%	7.0%
FDI (USDbn)	14.7	1.5	10.5	-24.7%
Imports (USDbn)	105.8	10.4	93.8	12.6%
Exports² (USDbn)	96.3	9.9	93.5	17.4%
Trade deficit (USDbn)	9.5	0.5	0.3	-98.6%
Exchange rate³ (USD/VND)	21,036	20,825	-0.6%	0.3%
Bank deposit rate (VND %)	12.0-14.0%	9.0%	-35.7%	-35.7%

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

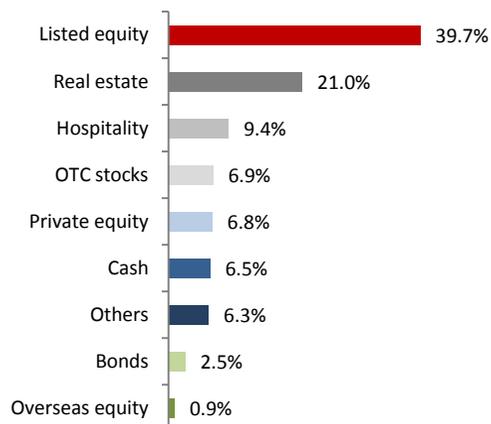
¹ Annualized rate. ² Includes gold. ³ State Bank central rate.

Inflation Rates

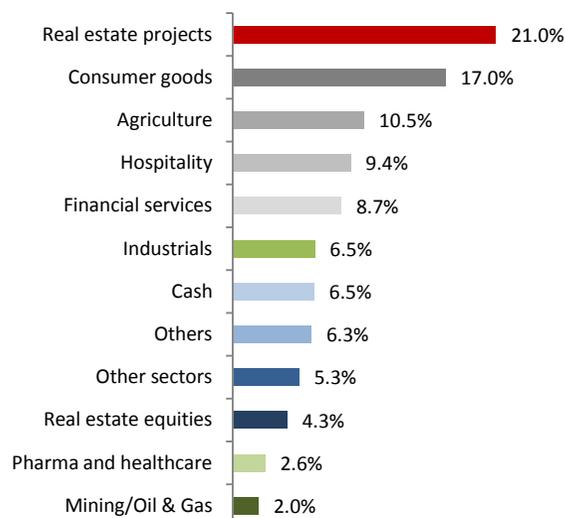


Monthly update 31 October 2012

Portfolio by asset class



Portfolio by sector



Top holdings at 31 October 2012

Top 5 listed investments

Name of Investee	% of NAV	Sector	Description
Vinamilk (VNM)	11.3	Consumer goods	Leading dairy company with dominant market share.
Eximbank (EIB)	6.4	Financial services	One of the top ten commercial banks.
Kinh Do Corp (KDC)	3.3	Consumer goods	Top confectionery manufacturer in Vietnam.
Hoa Phat Group (HPG)	2.5	Industrials	Major steel manufacturer.
Phu My Fertiliser	2.0	Agriculture	Vietnam's largest urea fertiliser producer.

Top 5 OTC investments

Name of Investee	% of NAV	Sector	Description
An Giang Plant Protection	5.4	Agriculture	Leading plant protection chemicals firm.
Nam Viet Oil	0.5	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 investments

Project	% of NAV	Sector	Description
Sofitel Metropole	8.2	Hospitality	Vietnam's top city-centre hotel.
Century 21	3.2	Real estate	HCM City residential development.
Dai Phuoc Lotus	2.6	Real estate	Residential developer with townhouse sales underway.
Danang Beach Resort	2.3	Real estate	Resort villa sales underway.
VinaLand Ltd (AIM: VNL)	2.2	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.
IBS	1.2	Industrials	Construction materials firm.
International School, HCMC	0.7	Education	Leading international school in Ho Chi Minh City providing world-quality education.
Hoan My Hospital	0.7	Pharmaceuticals & health care	Private hospital chain.
SSG- Saigon Pearl	0.7	Real estate	One of the biggest property developers in Vietnam.

Monthly update 31 October 2012

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)
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

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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

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.