

VN Index lags Asia region

Capital markets update

The Vietnam Index fell 2.7 percent in July as market liquidity and trading volumes were weak. Vietnam fared worse than the Asia region, with the MSCI Asia ex-Japan and Emerging Market indices up by 7.6 and 8.4 percent for July, respectively.

Liquidity has been on downward trend for some time. Trading volumes on the VN Index averaged only 50 million shares per day in Q2 2010, down from 136 million shares per day in Q1 2010. The combined total trading value and volume for July on the Hanoi and Ho Chi Minh City stock exchanges was USD2.7 billion and 1.8 billion shares, down 12.4 and 5.8 percent, respectively, compared to June. Foreign buying was down 50 percent in July, with net buying of USD29.2 million.

Low liquidity behind market slowdown

There are several factors behind the poor market performance. Overall system liquidity is low as credit growth over the first seven months of 2010 is 13 percent and net interest margins have been under pressure, with banks resorting to buying low-risk instruments (chiefly government bonds) instead of undertaking riskier lending activities. Additionally, given the tight credit environment, some companies and brokerages have resorted to selling short-term investments to raise working capital previously funded through short-term loans or retained earnings.

Earnings remain strong; forward P/E 10.8x

Despite the stock market doldrums, corporate earnings have been strong. Consumer goods companies such as Vinamilk and Masan both reported strong Q2 results, with Vinamilk earnings up over 50 percent. Energy services firm PVS raised both revenue and earnings guidance, while Eximbank delivered earnings growth of over 15 percent for H1 2010.

Valuations as a result are very reasonable. The market is priced at just over 10.8x FY10E earnings and 2.2x book value. PEG ratios are below 1.0x for the market as a whole, and for several companies below 0.5x. In fixed income, the yield curve is poised to break into the single digit range in the coming weeks. Three- and five-year yields are only 10bp and 60bp above 10 percent. As bond yields and deposit rates in Vietnam fall further, current valuations in Vietnamese equity markets will look increasingly compelling. Current investment conditions have moved Vietnam into a true 'value opportunity' as investors are able to buy stocks at attractive PEG ratios. Those buying on a medium to long-term timeframe should see positive returns when the market reverts to the mean, which can be expected over the latter half of 2010 and 2011.

Performance summary			
Most recent NAV:	VOF	VNL	VNI
	(31 Jul 10)	(30 Jun 10)	(31 Jul 10)
NAV per share (USD) ¹	2.41	1.44	0.63
Return (%) ²	(from Jun 10)	(from Mar 10)	(from Jun 10)
Previous NAV	-1.6	5.1	-2.0
YTD	-0.2	8.3	-5.4
Since inception	148.5	48.5	-24.9
	(30 Sep 03)	(22 Mar 06)	(5 Jul 07)
Issued shares ³	324,610,259	499,967,622	402,100,000
Total NAV (USDm)	783	720	252
Market cap (USDm)	474	390	138
Reuters	VOF.L	VNL.L	VNI.L
Bloomberg	VOF LN	VNL LN	VNI LN
ISIN	KYG9361Y1026	KYG936361016	KYG936121022

¹ Unaudited. VOF and VNI NAVs are updated monthly, VNL NAV is update quarterly.

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

³ VNI holds 930,700 shares in a treasury facility.

VN Index	31 Jul 10	31 Dec 09	52 wk low	52 wk high
Close	493.9	494.8	427.1	633.2
	<i>M-o-M</i>	<i>YTD</i>		
Change (%)	(2.7)	(0.2)	15.7	(22.0)
Trailing PER (x)	10.8	Est. PER 2010 (x)	10.3	
Trailing P/B (x)	2.1			

Govt bonds	1 yr	3 yr	5 yr	10 yr
Yield curve (%)	9.5	10.1	10.6	11.1

Source:  VinaSecurities

Fitch downgrade widely panned

Economy

Fitch Ratings downgraded Vietnam’s foreign debt during July from BB- to B+ (four steps below investment grade), while Moody’s and S&P maintained their ratings for Vietnam. Fitch cited a weak banking system, rising trade deficit and inconsistent macro policy as reasons for the downgrade. Many international analysts have been highly critical of the Fitch action, as it failed to take a full view of Vietnam’s economic performance and its ability to handle macro issues, or its growth potential.

Industrial production stands at 12.3 percent year-on-year, led by the foreign-invested sector’s 15.8 percent year-on-year growth. Retail sales are up 26.4 percent year-on-year, and the revival of the tourism sector is evident in 32.5 percent year-on-year growth. The Ministry of Planning and Investment expects H2 2010 real GDP growth at 6.9-7.2 percent annualised. Inflation of the CPI was a modest 0.06 percent, and the government has forecast inflation at 7.0-8.0 percent for the full year.

State Bank needs to ease credit crunch

The State Bank has turned its attention to easing credit pressures on the financial system. Credit growth reached 13.0 percent for the year to July, from 10.5 percent a month earlier. Nonetheless, many analysts predict the 25 percent credit growth target for the year will not be achieved. One obstacle is a State Bank regulation that funds raised in the interbank market cannot exceed by 20 percent those raised in the primary market (deposits from businesses and individuals). Another regulation stipulates that only 30 percent of short-term funds can be used for medium and long-term lending. A removal of these and similar impediments would help increase the flow of credit.

In July, the trade deficit was USD1.15 billion, up 55.4 percent from USD740 million the previous month. The monthly deficit crossing the USD1.0 billion mark is cause for concern, although it is adequately covered by FDI and remittance inflows. The year-to-date deficit is USD7.4 billion, with MPI now projecting a full-year trade shortfall of USD14 billion.

Slight gap in VND rates re-appears in July

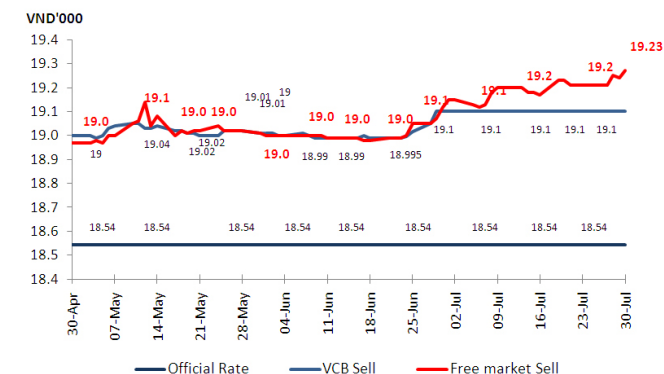
Depreciation pressures re-appeared during July, causing the open market and official rates to diverge after five months of parity. The gap is a moderate, however, at less than 1.0 percent. Some banks have reserved foreign exchange sales to long-standing customers only. Reserve holdings are not in jeopardy, as the capital account surplus can be used to cover the current account shortfall. The gold price on domestic and international markets also diverged in July, with some traders buying dollars to import gold and generate arbitrage profits. In the last days of July, the exchange rate stabilised at around VND19,150 per USD.

Macroeconomic indicators and forecast				
	2009	Jul-10	YTD	Y-o-Y change
GDP growth¹	5.3%	n/a	6.2%	
Inflation	6.9%	0.1%	4.8%	8.2%
FDI (USDbn)	21.5	0.7	9.1	-19.1%
Imports (USDbn)	68.8	7.0	45.7	25.5%
Exports² (USDbn)	56.6	5.8	38.3	17.5%
Trade deficit (USDbn)	12.2	1.2	7.4	206.2%
Exchange rate³ (USD/VND)	18,479	19,100	3.4%	3.4%
Bank deposit rate (VND %)	9.8-10.5%	11.0-11.2%	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.

VND/USD open market rate fluctuates in July



Portfolio developments

At the end of July 2010, VOF's NAV decreased 1.6 percent to USD2.41 per share, from USD2.45 per share at the end of June 2010. The share price meanwhile increased to USD1.46 at the end of July, from USD1.40 at the end of June.

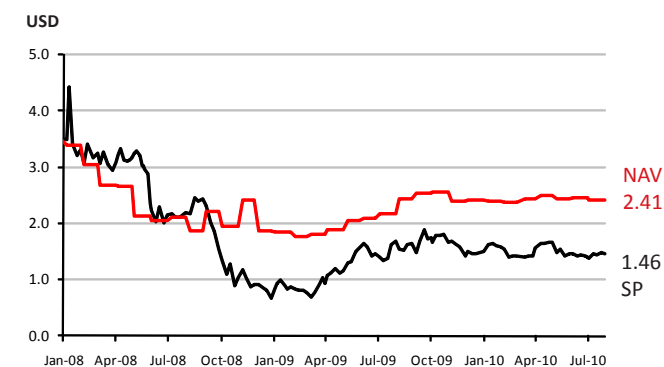
Top five equity holding Quoc Cuong Gia Lai (QCG) listed its entire charter capital of 60.2 million shares on the Ho Chi Minh Stock Exchange on 9 August 2010 at an opening price of VND42,500 per share. QCG was established in 1994 as a private company. In addition to real estate development, the company has substantial investments in rubber production and hydropower development. QCG's residential properties target the low- to mid-range of the market, expected to remain profitable for the next several years due to high demand. QCG had net profits of VND86 billion (USD4.5 million) and net revenues of VND236 billion (USD12.4 million) in the first half of 2010. The firm targets net profits of VND360 billion (USD18.9 million) on revenues of VND1.1 trillion (USD56.7 million) this year, increases of 187.8 and 283.5 percent year-on-year, respectively. VOF at 31 July held a 13.5 percent stake in QCG valued at USD17.2 million.

31 July 2010

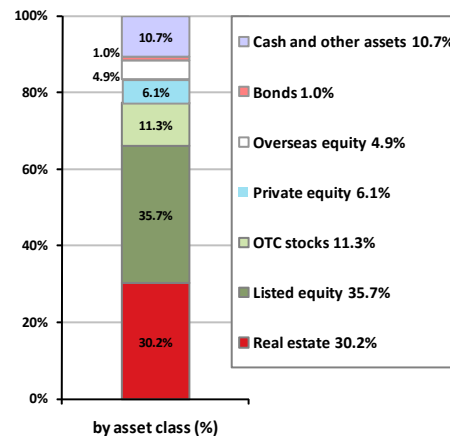
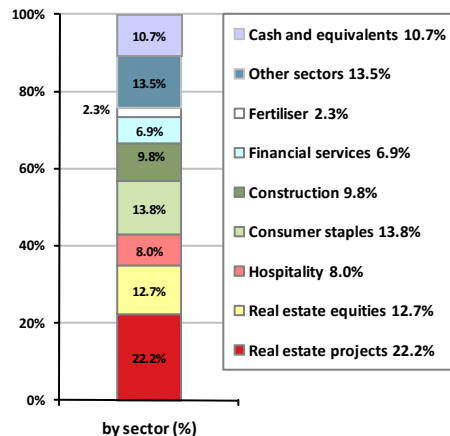
NAV **2.41** per share (↓ 1.6%)

Total NAV: USD783 million

NAV and share price performance (31 Jul 2010)



VOF portfolio (31 Jul 2010)



Major holdings (listed and OTC)

Type	Sector	% NAV	Manager's comment
EIB	Listed equity	5.6	One of Vietnam's top joint stock banks.
VNM	Listed equity	5.5	Dairy firm with dominant market share.
HPG	Listed equity	3.4	Major steel manufacturer.
DIG	Listed equity	2.7	Residential and industrial property.
QCG	Listed equity	2.2	Major real estate developer.

Fund background

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.

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/vof

Performance history (% change on NAV)

	2010	2009	2008	2007	2006
Jan	-1.1%	-1.3%	-2.9%	14.6%	3.9%
Feb	-0.3%	-3.7%	-10.2%	8.3%	6.3%
Mar	1.9%	1.7%	-11.8%	-0.6%	8.8%
Apr	3.0%	4.4%	-0.8%	-1.3%	7.6%
May	-2.5%	9.1%	-19.5%	5.1%	-1.0%
Jun	0.6%	2.2%	-4.7%	-0.8%	1.5%
Jul	-1.6%	3.8%	5.7%	-3.8%	-6.5%
Aug		12.2%	9.8%	0.0%	6.4%
Sep		3.8%	-6.7%	8.1%	3.0%
Oct		1.2%	-12.4%	4.2%	1.0%
Nov		-6.5%	-1.9%	0.6%	13.5%
Dec		0.8%	-2.1%	-0.6%	8.1%
YTD	-0.2%	29.7%	-46.6%	37.4%	64.9%
VN Index	-0.2%	56.7%	-66.0%	23.3%	144.5%

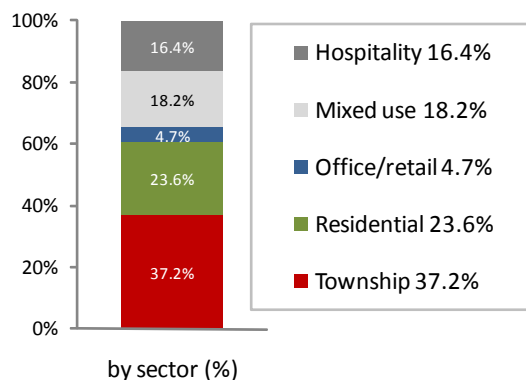
Portfolio developments

VNL's share price rose slightly to USD0.78 at the end of July, from USD0.77 at the end of June. The fund continues to benefit from the establishment of VinaProjects, VinaCapital's project and construction management joint venture that provides a growing number of services to VNL-invested real estate projects and operating assets. As announced in February 2010, the purpose of the JV is to ensure the availability of experienced project managers to deliver world-class real estate projects on behalf of the VNL's investment manager.

VinaProjects has grown from 38 staff in September 2009 to 115 staff at present, including 71 in HCM City and 44 in Danang. VinaProjects now has five core divisions: 1) Project and Construction Management, 2) Urban Planning, 3) Facilities Management, 4) Sourcing and Procurement, and 5) Technical Services – Hospitality. The Facilities Management division has launched the VinaResort and Property Management brand to serve upcoming residential development projects, starting with The Ocean Villas @ Danang Beach Resort.

Safety initiatives are of central importance to the VinaProjects' standard of delivery, and during June, Managing Director Paul James made supervision visits to all construction sites to ensure safety standards were being respected. ISO Certification is a key part of VinaProjects' commitment to quality, and the company is committed to ISO 9001-2008 certification for all its core services, starting in 2010 with project and construction management, urban planning, and back office functions, and continuing in 2011 with the other core service divisions.

VNL portfolio (30 Jun 2010)



Portfolio by geographic location

Hanoi	13%
Central provinces	25%
Ho Chi Minh City region	62%

Fund background

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

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.

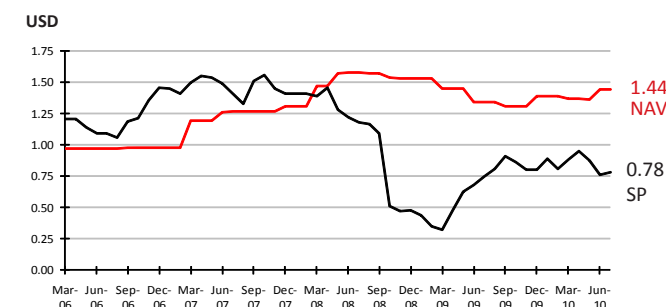
Download the VNL Factsheet at www.vinacapital.com/vnl

30 June 2010

NAV **1.44** per share (↑ 5.1%)

Total NAV: USD720 million

NAV and share price performance (31 Jul 2010)



Quarterly performance history (% change on NAV)

	2010	2009	2008	2007
Q1	3.0%	-5.2%	12.5%	22.0%
Q2	5.1%	-7.6%	7.1%	6.1%
Q3		-2.2%	-0.4%	0.2%
Q4		1.5%	-2.5%	3.2%
YTD	8.3%	-11.3%	17.1%	33.8%

Major holdings

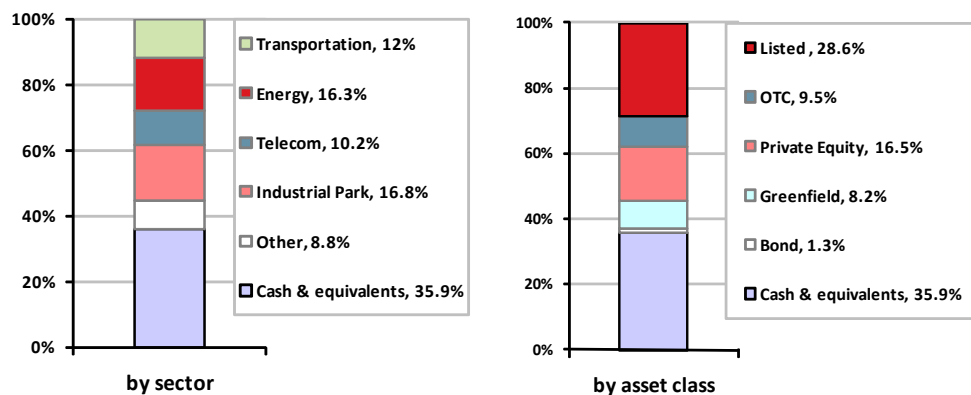
Project	Type	Status
Aqua City (Long Hung)	Residential	Planning underway
Century 21	Mixed-use	Under construction
Danang Beach Resort	Mixed-use	Sales underway
Dai Phuoc Lotus	Mixed-use	Under construction
Fideco Binh Duong	Township	Investment licence
HUD	Township	Planning underway
Pavilion Square	Residential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

Portfolio developments

At the end of July 2010, VNI's NAV declined 2.0 percent to USD0.63 per share, from USD0.64 per share at the end of June 2010, due to declines in the capital markets sector of the portfolio. Shortly after the month ended, VNI's investment manager purchased four million shares at a price of USD0.35 per share. The managing director of VNI's investment team, Tony Hsun, comments: "This share purchase reflects the investment manager's confidence in VNI and our belief that the traded price does not reflect the intrinsic value of the fund's holdings."

VNI on 8 August saw the groundbreaking of its largest holding, the Long An International Port, Industrial Park and Service Area. The project is located in a booming industrial region close to Ho Chi Minh City. VNI will hold a 50 percent stake in the port and a 37.5 percent stake in the IP and industrial service area, while VOF and VNL will hold a 50 percent stake in the residential area and 12.5 percent stakes in the IP and industrial service areas.

VNI portfolio (31 Jul 2010)



Quarterly performance history (total return)*

	2010	2009	2008	2007	
Q1	-3.0%	-0.5%	-12.8%	n/a	* Assumes dividends/distributions reinvested. VNI paid a USD0.10 per share capital distribution on 16 January 2009 (ex date 17 Dec 2008).
Q2	-0.3%	3.7%	-6.7%	n/a	
Q3		1.5%	-1.0%	2.9%	
Q4		0.8%	-12.0%	3.1%	
YTD	-3.5%	5.5%	-29.1%	6.1%	

Total return since inception: -24.9 to July 2010

Fund background

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

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.

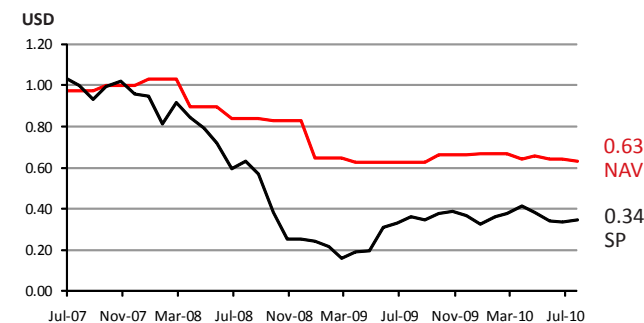
Download the VNI Factsheet at www.vinacapital.com/vni

31 July 2010

NAV **0.63** per share (↓ 2.0%)

Total NAV: USD252 million

NAV and share price performance (31 Jul 2010)



Major holdings

Name	Sector	Asset class	NAV (%)
Long An S.E.A	IP	Greenfield	7.9
Tan Tao (ITA)	IP	Listed	7.2
Phu My Bridge	Transport	Private	4.4
Nam Viet Oil	Energy	OTC	4.3
VNC-55	Telecom	Private	3.4
VALC	Transport	Private	3.2
CII	Transport	Listed	3.1
PPC	Energy	Listed	3.1
MIDC	Telecom	Private	3.1
PVD	Energy	Listed	2.9

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VinaCapital Group

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

Don Lam	Chief Executive Officer, VinaCapital Group
Brook Taylor	Chief Operating Officer, VinaCapital Group
Stacy Kincaid	Managing Director, Fund portfolio

VCIM

Andy Ho	Managing Director, Head of Investment
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