

### VN Index down sharply on inflation concerns

## Capital markets

The VN Index saw a dramatic one-month drop of 110 points in May, falling to 370 points from 480, before rebounding in the last week to close the month at 421 points. The 23 percent plunge was the biggest one-month decline since March 2008. Overall for the month, the VN Index lost 12 percent, compared to more modest declines for the MSCI Asia ex-Japan and Emerging Market indices of 1.7 and 3.0 percent, respectively.

The combined total trading value and volume on both Vietnam's stock exchanges was USD670 million and 916 million shares, up five and 18 percent month-on-month, respectively. As of 31 May, Vietnam's stock market capitalisation was USD25 billion, with an average 2011 P/E of 8.9x and P/B of 1.6x for the Ho Chi Minh City Stock Exchange (HOSE), while the Hanoi Stock Exchange (HNX) had a 2011 P/E and P/B of 6.5x and 0.9x, respectively.

### Even in sell-off, foreigners net buyers

Foreign investors were net buyers of USD19 million during the month, compared to USD33 million in April 2011. Selling value rose by 48 percent, with most activity seen in sales of SHB, STL, MSN, BVS and MIM. Foreign investor top buying was in PVX, PVS, VCG, KLS and FPT. Companies with significant news included Vinamilk (VNM) announcing it has raised USD67.3 million in a private placement, and Hoang Anh Gia Lai (HAG) posting Q1 2011 net profits of USD18.1 million, a 53 percent year-on-year gain.

Bond market activity picked up notably in May, as 40 percent of the VND8.8 trillion worth of sovereign bond issues were successfully auctioned. This is triple the figure achieved in April. The success was largely due to the 120 and 130 bps increases in ceiling rates for the five- and three-year issues. The secondary market continued to be slow, however, with most transactions being repos as bond holders continue to hold off from disposing of their holdings at a discount.

### Multiple brokerage accounts now possible

On 1 June, the market received positive news when the Ministry of Finance announced that securities traders can open multiple accounts (previously, only one brokerage account was permitted). The decision, effective 1 August, will allow investors to open accounts with different brokers and trade the same securities within a trading day. The decision was warmly welcomed and seemed to lift investor mood as liquidity improved and the market bounced back from its mid-month low.

## Performance summary

Most recent NAV:	VOF (31 May 11)	VNL (31 Mar 11)	VNI (31 May 11)
NAV per share (USD) <sup>1</sup>	<b>2.30</b>	<b>1.37</b>	<b>0.51</b>
Return (%) <sup>2</sup>	(from Apr 11)	(from Dec 10)	(from Apr 11)
Previous NAV	-1.0	0.1	-3.4%
2011 YTD	-3.5	0.1	-9.8%
Since inception	136.8 (30 Sep 03)	45.4 (22 Mar 06)	-38.7% (5 Jul 07)
Issued shares <sup>3</sup>	324,610,259	499,967,622	402,100,000
Total NAV (USDm)	745	687	206
Market cap (USDm)	510	420	125
Reuters	VOF.L	VNL.L	VNI.L
Bloomberg	VOF LN	VNL LN	VNI LN
ISIN	KYG9361Y1026	KYG936361016	KYG936121022

<sup>1</sup> Unaudited. VOF and VNI NAVs are updated monthly, VNL NAV is update 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	31-May-11	31-Apr-11	52 wk low	52 wk high
Close	421.4	480.1	371.0	529.2
	<i>M-o-M</i>	<i>YTD</i>		
Change (%)	-12.2	-13.1	13.6	-20.4
Trail P/E (x)	8.9	Est. P/E 2011 (x) 10.7		
P/B (x)	1.6			

Govt bonds	2 yr	3 yr	5 yr	10 yr
Yield curve (%)	12.8	12.8	13.0	12.8

**CPI growth nears 20% y-o-y**

**Economy**

High inflation and a widening trade deficit remained the top concerns in May. The CPI rose 2.2 percent, to reach a year-on-year rate of 19.8 percent, and imports topped exports by USD1.7 billion, compared to USD1.5 billion in April. The trade deficit is likely spurred by importers' easy access to USD, given the forced sale of USD by state banks and deposit cap rates on USD accounts. These actions have helped stabilise the VND, which gained 0.43 percent against the USD during the month and now trades on the open market within the official bands. Near the end of May, the State Bank announced it had purchased USD1.2 billion to increase its foreign currency reserves. The VND released into the market as a result was soaked up by sovereign bond issuances, as mentioned on the previous page. Most analysts feel the VND stability will continue as long as the fight against inflation keeps interest rates high.

**Lending rates likely to remain high**

With deposit rates at 17-18 percent, VND-denominated deposits have risen. Lending rates of 23-25 percent are squeezing businesses and property developers, and leaving smaller banks in a liquidity crisis. As government policy aims to slow credit growth, the situation is not expected to change in the coming months. Credit growth of 30 percent in 2010 is largely responsible for the current macro difficulties, with Vietnam's total credit/GDP ratio exceeding 120 percent, one of the highest among developing nations in the Asia-Pacific region.

**ODA and FDI disbursements both up**

Vietnam's Ministry of Planning and Investment (MPI) forecasts H1 2011 GDP growth of 5.6 percent annualised, down from 6.2 percent the previous year. GDP growth is being driven by industrial production, up 14.2 percent year-on-year over the first five months of 2011. Retail sales growth over has slowed, however, to 6.4 percent year-on-year, compared to 16.7 percent year-on-year growth during the first five months of last year.

Despite the poor trade numbers, the current account deficit is not in dire straits, as ODA disbursements in the first five months reached USD1.26 billion, up from USD0.84 billion in 2010, and FDI disbursements were USD4.5 billion, also slightly higher than last year.

The government's commitment to tackling the macro challenges was evident in an MPI report that said total state investment cutbacks over the first five months reached USD2.2 billion, with the total cutbacks for the year planned at USD3.9 billion. If the State Bank continues to add to its USD reserves, further bond issuances are likely to soak up excess liquidity. Analysts also anticipate the State Bank may increase the VND reserve requirement ratio in the next few of months, as well as potentially issue treasury bills to withdraw money from circulation.

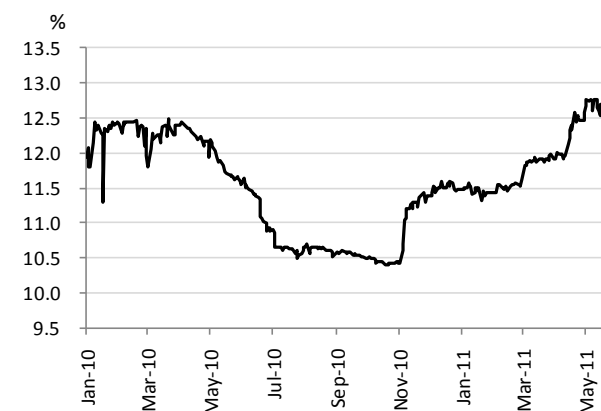
**Macroeconomic indicators and forecast**

	2010	May-11	YTD	Y-o-Y change
<b>GDP growth<sup>1</sup></b>	6.8%			5.4%
<b>Inflation</b>	11.8%	2.2%	12.1%	19.8%
<b>FDI (USDbn)</b>	18.6	0.7	4.7	-37.6%
<b>Imports (USDbn)</b>	84.0	9.2	41.3	29.7%
<b>Exports<sup>2</sup> (USDbn)</b>	71.6	7.5	34.7	32.8%
<b>Trade deficit (USDbn)</b>	12.4	1.7	6.6	22.2%
<b>Exchange rate<sup>3</sup> (USD/VND)</b>	19,500	20,700	6.2%	n/a
<b>Bank deposit rate VND (%)</b>	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.

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

**Yield on 5-yr Vietnam sovereign bonds**



## Portfolio developments

VOF's NAV declined slightly to USD2.30 per share at the end of May 2011, from USD2.32 per share at the end of April 2011. The decline is due to the VN Index performance, which declined by a considerable 12 percent in USD terms over the month. The VOF share price meanwhile dropped to USD1.57 at the end of May, from USD1.63 at the end of April.

During the month, VOF announced its acquisition of a minority stake in Yen Viet Joint Stock Company, a Vietnamese consumer goods firm that sells bird's nest nutritional products. Yen Viet last year had revenue and net profit of USD20 million and USD6 million, respectively. As a strategic partner, VinaCapital will assist the company in strengthening its distribution channels, production capabilities and product development. The month also saw VOF exit part of its stake in the International School of Ho Chi Minh City to a major international education group. ISHCMC was one of VOF's early private equity investments, and the deal involved a very high return on equity.

31 May 2011

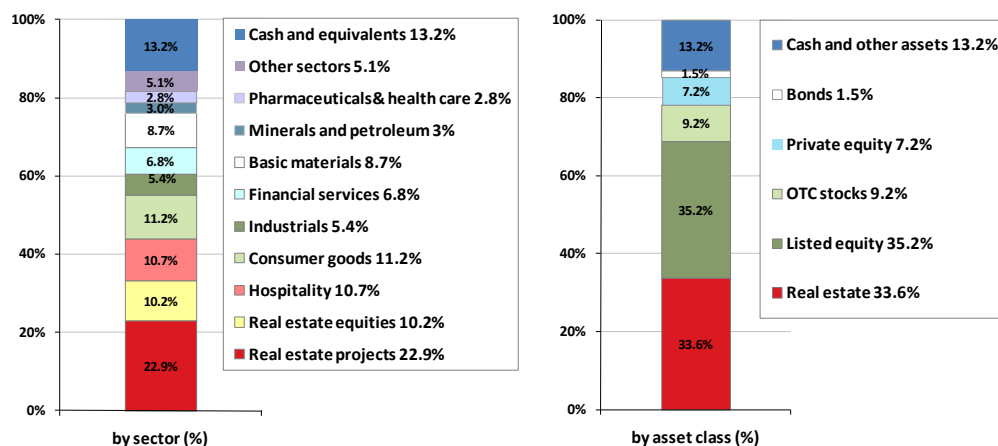
NAV **2.30** per share (↓ 1.0%)

Total NAV: USD745 million

## NAV and share price performance (31 May 2011)



## VOF portfolio (31 May 2011)



### Fund manager

Andy Ho

### 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](http://www.vinacapital.com/vof)

## Major holdings (listed and OTC)

	Type	Sector	% NAV	Manager's comment
VNM	Listed equity	Food products	6.0	Dairy firm with dominant market share.
EIB	Listed equity	Financial services	5.2	One of Vietnam's top joint stock banks.
VNL	Listed equity	Real estate	4.1	VCIM-managed Vietnam fund.
An Giang	OTC	Agriculture	3.6	Leading agricultural inputs producer.
HPG	Listed equity	Industrial	3.2	Major steel manufacturer.
Prime Group	OTC	Materials	1.9	Leading ceramics producer.

## Performance history (% change on NAV)

	2011	2010	2009	2008	2007
Jan	1.4%	-1.1%	-1.3%	-2.9%	3.9%
Feb	-7.1%	-0.3%	-3.7%	-10.2%	6.3%
Mar	-0.5%	1.9%	1.7%	-11.8%	8.8%
Apr	4.0%	3.0%	4.4%	-0.8%	7.6%
May	-1.0%	-2.5%	9.1%	-19.5%	-1.0%
Jun		0.6%	2.2%	-4.7%	1.5%
Jul		-1.6%	3.8%	5.7%	-6.5%
Aug		-3.3%	12.2%	9.8%	6.4%
Sep		1.4%	3.8%	-6.7%	3.0%
Oct		-0.8%	1.2%	-12.4%	1.0%
Nov		-0.7%	-6.5%	-1.9%	13.5%
Dec		2.1%	0.8%	-2.1%	8.1%
<b>YTD</b>	<b>-3.5%</b>	<b>-1.6%</b>	<b>29.7%</b>	<b>-46.6%</b>	<b>64.9%</b>
<b>VN Index*</b>	<b>-17.6%</b>	<b>-1.6%</b>	<b>31.0%</b>	<b>-47.1%</b>	<b>144.5%</b>

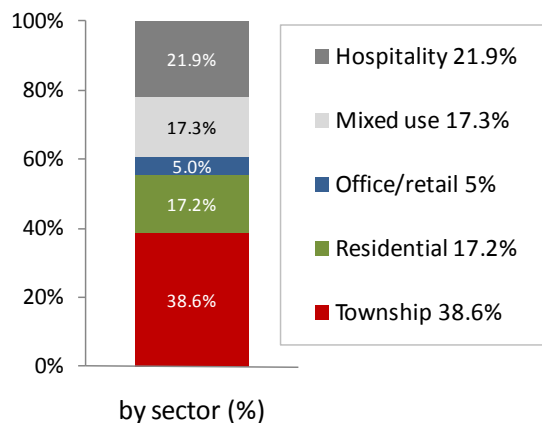
\* Expressed in USD terms.

## Portfolio developments

VNL's share price was USD0.84 at the end of May 2011, down from USD0.92 at the end of April 2011. The decline is likely related to the pullback from Vietnam equities as a result of broader market conditions. The month saw VinaCapital win the regional Asia Pacific Property Award for 'Best Golf Development', for the Danang Beach Resort. This follows winning at the country level for Best Golf Development and Best Project Marketing. With the regional award, the Danang Beach Resort is now entered in the World's Best awards, to be handed out in London, England at a ceremony in December.

May saw the official launch of the Norman Estates villa enclave, the latest component of the highly successful Danang Beach Resort to be brought to market under the VinaLiving brand. The launch event, attended by golf legend Greg Norman, resulted in an additional seven sales or reservations of the luxury villas. A total of 12 of the 37 villas available are now reserved or sold.

## VNL portfolio (31 Mar 2011)



### Portfolio by geographic location (% NAV)

Hanoi	8%
Central provinces	27%
Ho Chi Minh City region	65%

### Valuation breakdown (% NAV)

Assets held at cost	8%
Assets revalued	92%

### Holdings breakdown (% NAV)

Top 10 assets	62%
Remaining 28 assets	38%

### Development status (% NAV)

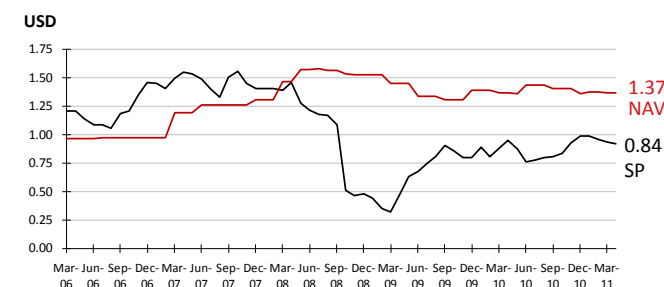
Landbanking assets	15%
Development stage assets	73%
Operating assets	12%

31 March 2011

NAV **1.37** per share (↑ 0.7%)

Total NAV: USD687 million

## NAV and share price performance (31 May 2011)



## Quarterly performance history (% change on NAV)

	2011	2010	2009	2008	2007
Q1	0.7%	3.0%	-5.2%	12.5%	22.0%
Q2		-0.7%	-7.6%	7.1%	6.1%
Q3		3.7%	-2.2%	-0.4%	0.2%
Q4		-3.5%	1.5%	-2.5%	3.2%
YTD	0.7%	2.3%	-11.3%	17.1%	33.8%

## Top holdings

Project	Location	Type	NAV%	Current status
Cambridge	South	Township	11%	Planning underway
Niagara	Centre	Township	10%	Sales underway
Jupiter	South	Township	9%	Sales underway
Nile	South	Mixed-Use	6%	Planning underway
Mekong	South	Mixed-Use	6%	Investment licence
Tiber	South	Mixed-use	5%	Under construction
Venus	Centre	Township	5%	Sales underway
Aquarius	South	Township	5%	Planning underway
Mars	South	Township	4%	Planning underway
Leo	South	Township	3%	Planning underway

### Fund manager

David Henry

### 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](http://www.vinacapital.com/vnl)

## Portfolio developments

VNI's NAV declined to USD0.51 per share at the end of May 2011, from USD0.53 per share at the end of April 2011. The share price fell to USD0.31 at the end of May, from USD0.35 the month prior.

During May, a groundbreaking was held for the Ba Thien 2 Industrial Park project, which has already seen the hand-over of the first 65ha of cleared land, of the total 308ha plot. Compensation of an additional 50ha is in progress and is expected to be completed in June 2011. The project company has signed one tenant for a 20-hectare parcel, and negotiations are underway with other potential tenants.

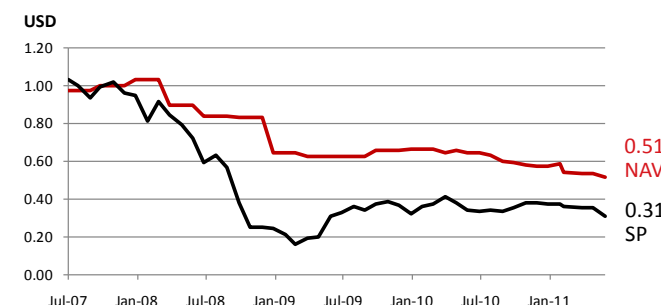
Another VNI investee, Phuoc Hoa Rubber (PHR), reported positive results for the first five months of 2011. Sales reached USD39.7 million and profit was USD16.6million, or 56 percent of the year's target. The strong 150 percent year-on-year gain in net income was driven by high rubber prices. The high prices should continue throughout 2011, allowing the company to beat its targets.

31 May 2011

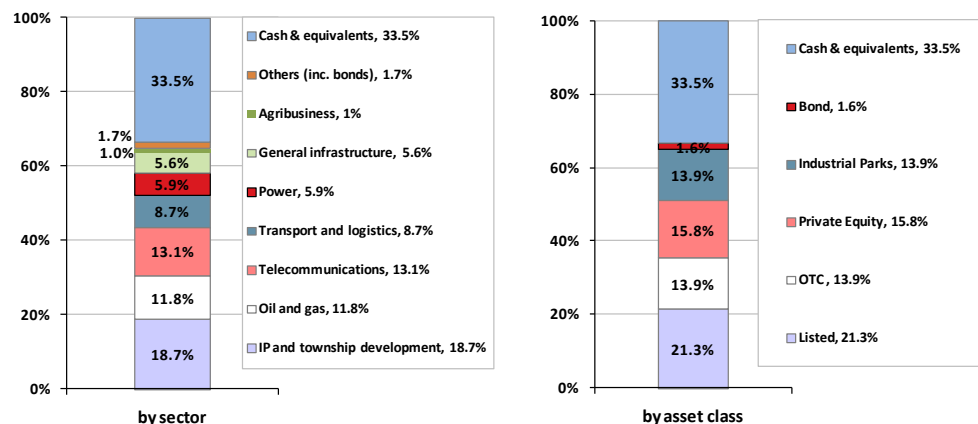
NAV **0.51** per share (↓ 3.4%)

Total NAV: USD206 million

## NAV and share price performance (31 May 2011)



## VNI portfolio (31 May 2011)



### Fund manager

Tony Hsun

### Fund background

Vietnam Infrastructure Limited (VNI) is a closed-end fund trading on AIM Market of the 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](http://www.vinacapital.com/vni)

## Quarterly performance history (total return)\*

	2011	2010	2009	2008	2007
Q1	-6.3%	-3.2%	-0.5%	-12.8%	na
Q2		-0.6%	3.7%	-6.7%	na
Q3		-7.5%	1.5%	-1.0%	2.9%
Q4		-3.7%	0.8%	-12.0%	3.1%
YTD	-6.3%	-14.3%	5.5%	-29.1%	6.1%

\* Total return since inception: -38.7% (assumes distributions reinvested).

## Major holdings

Name	Asset class	Sector	NAV (%)
Long An	Greenfield	IP and township	9.3%
Nam Viet	OTC	Oil and gas	5.1%
Ba Thien 2	Greenfield	IP and township	4.6%
PVD	Listed	Oil and gas	4.5%
VNC-55	PE	Telecomms	4.1%
VALC	OTC	Transportation	3.7%
MIDC	PE	Telecommunications	3.7%
Phu My	OTC	Transportation	3.4%
CII	Listed	General infra	3.2%
MIS	PE	Telecomms	2.6%
PVS	Listed	Oil and gas	2.2%
GII	PE	Telecomms	2.1%

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

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**Brook Taylor** Chief Operating Officer

**Andy Ho** Managing Director, Head of Investment  
**Tony Hsun** Managing Director, Infrastructure  
**David Henry** Managing Director, Real estate  
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**Nguyen Viet Cuong** Deputy Managing Director, Capital markets  
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