Capital markets update

VN Index falls flat compared to region

After a brief rebound from a 52-week low in August, September proved to be another slow month for Vietnamese equities. The Vietnam Index was flat, falling 0.1 percent to close at 545.5 points on 30 September. Regional equity markets meanwhile had a strong run in September, with the MSCI Asia ex-Japan Index up 11.1 percent, one of the strongest one-month performances in several years. The rally in Asia reflects international optimism in the economic outlook of Asia in general, and the opportunities that a booming middle class brings to the region.

Short-term factors drag market down

Vietnam's underperformance is not due to underlying macro-economic or company earnings shortfalls, excluding a relatively weak external position, as described on the next page. The low trading volume in recent months is due mainly to four short-term factors, beginning with a recent government policy, Circular 13, that addresses risk management in the banking sector. The Circular will require banks to increase their reserves, thereby lowering the funds available to lend to retail margin traders.

Another factor is the current oversupply of shares given the high number of listings in 2010. Although privatisation of SOEs and the growth and listing of more SMEs is a positive long-term development for Vietnam, in the short term it has prevented a rise in the Index. A third factor is the 2.1 percent devaluation of the VND in August, which acted to maintain FX stability, but raised concern among investors that the government might continue to devalue the currency until the balance of payments situation improves. Finally, the Vinashin debt controversy emerged, raising questions over business practices at other large SOEs.

Institutional investors buying on low valuations

The result is that Vietnam's retail investors, typically accounting for 80 percent of market trading, remain on the sidelines. Institutional investors, however, were net buyers in September of USD34 million in shares. Year-to-date, foreign net investment in listed equities has risen steadily to reach USD394 million for the first nine months, substantially above the same period last year.

Vietnam has seen strong GDP growth of 6.5 percent and corporate earnings growth of around 12-15 percent on average year-to-date. At current index levels, Vietnamese equity markets continue to trade at approximately 9.8x 2010 earnings and 1.9x book value, roughly at the historical lows observed in 2008 and again in 2009. Compared to ASEAN peers, the VN Index is extremely cheap. Valuations in Thailand and Indonesia are at roughly 50 and 100 percent premiums to Vietnam, with PEs of 15.5x and 19.2x and P/B ratios of 2.3x and 4.7x, respectively. Portfolio investors with liquidity available are in a unique opportunity to build positions at low valuations.

Performance summary

Most recent NAV:	VOF (30 Sep 10)	VNL (30 Sep 10)	VNI (30 Sep 10)
NAV per share (USD)[1]	**2.37**	**1.41**	**0.59**
Return (%)[2]	(from Aug 10)	(from Jun 10)	(from Aug 10)
Previous NAV	1.7	-2.1	-1.7
YTD	-2.1	6.0	-11.0
Since inception	144.3 (30 Sep 03)	45.4 (22 Mar 06)	-29.4 (5 Jul 07)
Issued shares[3]	324,610,259	499,967,622	402,100,000
Total NAV (USDm)	769	705	238
Market cap (USDm)	508	405	142
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	30 Sep 10	31 Dec 09	52 wk low	52 wk high
Close	454.5	494.8	421.3	633.2
	M-o-M	*YTD*		
Change (%)	(0.1)	(8.2)	7.9	(28.2)
Trailing PER (x)	10.5	Est. PER 2010 (x)	9.8	
Trailing P/B (x)	1.9			

Govt bonds	1 yr	3 yr	5 yr	10 yr
Yield curve (%)	9.5	10.1	10.5	11.2

Source: VinaSecurities

Economy

GDP growth 7.2% for Q3 2010

Vietnam's GDP growth in Q3 2010 was 7.2 percent annualised, bringing the year-to-date figure to 6.5 percent year-on-year. September saw industrial production and retail sales up 13.8 and 26.4 percent year-on-year, respectively.

The VND was initially stable against the USD following the 2.1 percent devaluation in August, but depreciated slightly near the end of September to close the month at VND19,650 per USD, outside the upper limit of the official trading band. Gold traded at high prices over the month, in line with the world price increases due to weakness in several major currencies. Speculators buying gold for re-export to global markets are partly behind the rising price in Vietnam.

CPI up 1.3% on VND devaluation and seasonal shopping

The CPI rose by 1.3 percent month-on-month in September, bringing year-on-year inflation to 8.9 percent. The monthly rise is due to imported inflation after the VND devaluation, the rising gold price, growing credit activities, and high consumer purchases associated with the mid-Autumn festival and back-to-school shopping.

Bank liquidity improved after an amended version of Circular 13 was issued by the State Bank, easing the reserve requirements originally stipulated. Specifically, bank CAR was adjusted to nine percent and the restrictions on types of deposits that can be treated as capital were loosened. The Vietnam Bankers Association, a trade group of commercial banks, requested the amendments and is now urging members to comply with the circular, and to lower deposit rates to 11 from 11.2 percent.

Monthly deficit breaks USD1bn barrier

In September, the trade deficit rose to USD1.1 billion, breaking the one billion USD barrier for the first time in three months. The YTD trade deficit of USD8.6 billion is 16.6 percent of GDP. This is above the targeted level, but is still well offset by capital inflows, expected at USD12 billion.

Vietnam's economic prospects compare broadly to many ASEAN countries – strong GDP growth, driven by both export performance, and large and growing domestic consumption bases. The difference for Vietnam, in the short term, is a slightly weaker external position.

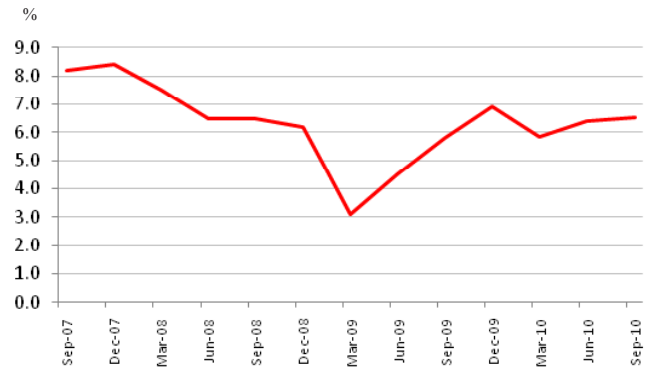
The foreign reserve base is reported in the domestic media at around USD15 billion, with import cover of five-to-seven weeks and a high sensitivity to rising energy and food prices. These issues are typical to many emerging markets, and as exports recover and the value added in the manufacturing sector improves, FX reserves and import cover should steadily improve. An improving balance of trade will alleviate depreciation risks and translate into greater domestic demand for the VND versus the traditional savings stores, gold and USD.

Macroeconomic indicators and forecast

	2009	Sep-10	YTD	Y-o-Y change
GDP growth[1]	5.3%	7.2%	6.5%	
Inflation	6.9%	1.3%	6.5%	8.9%
FDI (USDbn)	21.5	0.6	12.2	-12.7%
Imports (USDbn)	68.8	7.2	60.1	22.7%
Exports[2] (USDbn)	56.6	6.1	51.5	23.2%
Trade deficit (USDbn)	12.2	1.1	8.6	19.8%
Exchange rate[3] (USD/VND)	18,479	19,500	5.5%	5.5%
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.

GDP growth rate (YoY) by quarter, 2007-2010

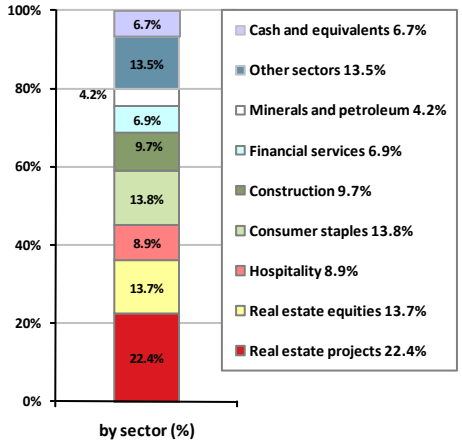


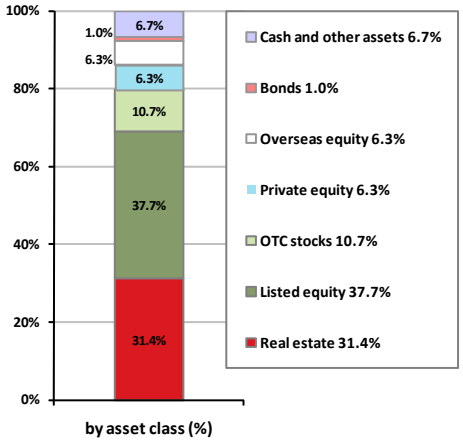
Portfolio developments

At the end of September 2010, VOF's NAV increased 1.7 percent to USD2.37 per share, from USD2.33 per share at the end of August 2010. The gain was due to the performance of the fund's overseas shares and hospitality assets. There were no significant changes to the remainder of the portfolio. The share price increased to USD1.57 at the end of September, from USD1.49 at the end of August.

VOF investees reporting Q3 2010 operating results recently include **Hoa Phat Group (HPG)**, which during the past quarter sold 25,000 tons of cast iron, with domestic sales of USD3.6 million and exports of USD6 million, primarily to Taiwan. Total iron output has reached 35,000 tons since HPG's integrated steel complex went into operation in February 2010. The cast iron plant at the complex has a capacity of 350,000 tons yearly. **Phuoc Hoa Rubber (PHR)** provided year-to-date guidance on revenue and gross profit, which reached USD70.3 million and USD21.1 million, respectively, or 132 and 118 percent of the company's 2010 plan. Given that peak tapping season is in the fourth quarter, and selling prices remain high, PHR is likely to soundly beat 2010 earnings forecasts.

VOF portfolio (30 Sep 2010)





Major holdings (listed and OTC)

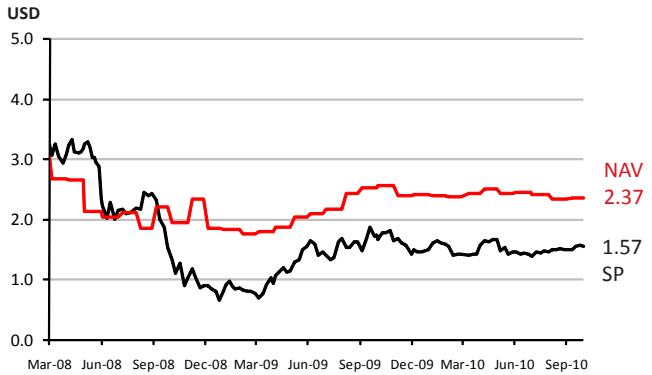
	Type	Sector	% NAV	Manager's comment
VNM	Listed equity	Food products	5.3	Dairy firm with dominant market share.
EIB	Listed equity	Financial services	5.3	One of Vietnam's top joint stock banks.
HPG	Listed equity	Industrial	3.6	Major steel manufacturer.
QCG	Listed equity	Real estate	2.8	Major real estate developer.
Halico	OTC	Food products	2.7	Spirits producer with top market share.

30 September 2010

NAV **2.37** per share (↑ 1.7%)

Total NAV: USD769 million

NAV and share price performance (30 Sep 2010)



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	-3.3%	12.2%	9.8%	0.0%	6.4%
Sep	1.7%	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	**-2.1%**	**29.7%**	**-46.6%**	**37.4%**	**64.9%**
VN Index	**-8.2%**	**56.7%**	**-66.0%**	**23.3%**	**144.5%**

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

Portfolio developments

VNL's NAV decreased to USD1.41 per share at the end of September 2010, from USD1.44 per share at the end of June 2010. The VNL share price reached USD0.85 in mid-September, before closing the month at USD0.81, a slight increase over the end-August close of USD0.80.

A total of 13 assets were appraised by six international valuation consultants during the quarter, with five properties increasing in value as a result of the review, two decreasing in value and the remainder retained at the same value. The result was an increase of USD12 million in the combined carrying values of these holdings. Most of the increase was in the operating hotel assets, which have improved their business operations as a result of recovering tourism numbers in 2010. The Sheraton Nha Trang Hotel and Spa opened recently, and the Movenpick Saigon Hotel re-opened after a substantial renovation.

The net USD0.03 decrease in NAV is due to an increase in the deferred tax provision, after a tightening of the rules in Vietnam pertaining to capital gains on divestments of assets; and the expensing of certain acquisition costs which under the revised financial reporting standards are no longer capitalisable. While the impact of these events is disappointing we are confident that the fund will recover most of these additional provisions when the assets are revalued or realised in the future.

During the three-month period ending September 2010, a total of 173 sales contracts and reservations were recorded at five projects in Danang and Ho Chi Minh City, representing a total value of almost USD59 million, comprising USD26 million in reservations and almost USD33 million in sales contracts. This compares to 136 sales contracts and reservations worth a total value of USD29 million (USD11 million in contracts) recorded during the quarter ending June 2010. VinaCapital continues to convert about 80 percent of reservations into sales contracts.

Fund manager

David Henry

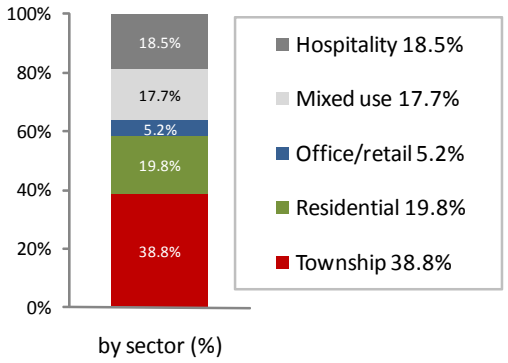
Fund background

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

VNL portfolio (30 Sep 2010)



Portfolio by geographic location

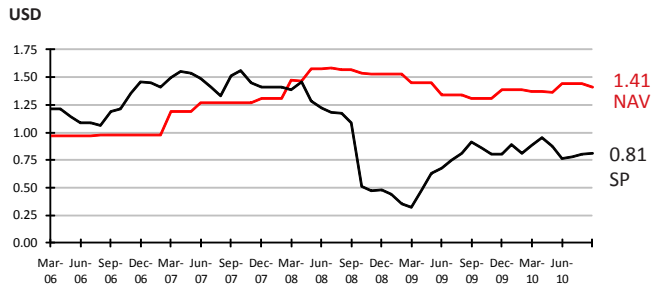
Hanoi	10%
Central provinces	26%
Ho Chi Minh City region	64%

30 September 2010

NAV **1.41** per share (↓ 2.1%)

Total NAV: USD705 million

NAV and share price performance (30 Sep 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	-2.1%	-2.2%	-0.4%	0.2%
Q4		1.5%	-2.5%	3.2%
YTD	6.0%	-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 September 2010, VNI's NAV declined 1.7 percent to USD0.59 per share, from USD0.60 per share at the end of August 2010, due to declines in the capital markets sector of the portfolio. The share price increased to USD0.36 at the end of September, from USD0.34 at the end of August.

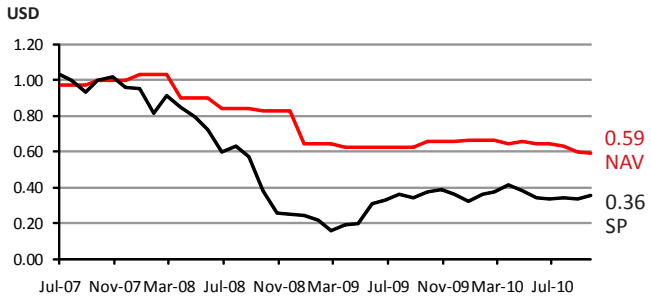
Among VNI investees reporting results recently was **Nam Viet Oil (NVO)**, which increased net profits to USD3.8 million and revenue to USD43.9 million in H1 2010. This compares to net profits of USD0.8 million and revenue of USD28.5 million in FY2009. The company will pay shareholders an interim dividend of USD0.05 per share in late October. VNI holds 20 percent stake in NVO, representing 4.4 percent of NAV. VNI private equity holding **Hanoi Electrical Equipment Mechanical Engineering JSC (HNEM)** reached a major milestone in September, with its first hydropower plant of 13.5MW starting operations. The company expects to generate operating profits in FY2011 following this event. VNI owns a 35 percent stake in HNEM.

30 September 2010

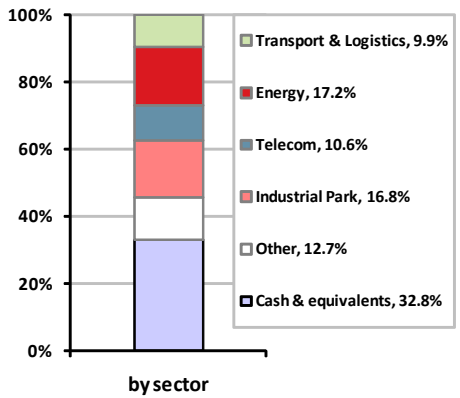
NAV **0.59** per share (↓ 1.7%)

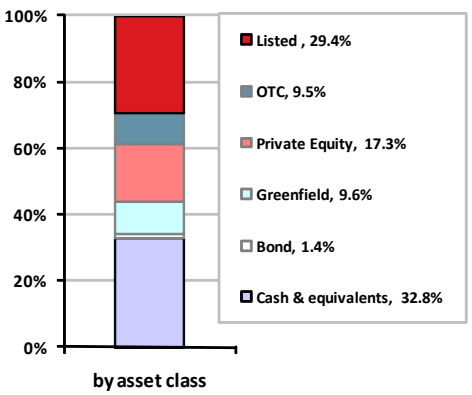
Total NAV: USD238 million

NAV and share price performance (30 Sep 2010)



VNI portfolio (30 Sep 2010)





Quarterly performance history (total return)*

	2010	2009	2008	2007
Q1	-3.0%	-0.5%	-12.8%	n/a
Q2	-0.3%	3.7%	-6.7%	n/a
Q3	-7.8%	1.5%	-1.0%	2.9%
Q4		0.8%	-12.0%	3.1%
YTD	-11.0%	5.5%	-29.1%	6.1%
Total return since inception: -29.4%				

* Assumes dividends/distributions reinvested. VNI paid a USD0.10 per share capital distribution on 16 January 2009 (ex date 17 Dec 2008).

Major holdings

Name	Sector	Asset class	NAV (%)
Long An S.E.A	IP	Greenfield	8.4
Tan Tao (ITA)	IP	Listed	5.9
Phu My Bridge	Transport	OTC	4.5
Nam Viet Oil	Energy	OTC	4.4
CII	Transport	Listed	3.8
PVD	Energy	Listed	3.8
VNC-55	Telecom	Private	3.6
VALC	Transport	OTC	3.4
MIDC	Telecom	Private	3.3
DIG	General	Listed	2.6

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

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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
Tony Hsun	Managing Director, Infrastructure
Nguyen Viet Cuong	Deputy Managing Director, Capital Markets
Dang T. Minh Loan	Deputy Managing Director, Capital Markets
Kenny Low	Deputy Managing Director, Infrastructure
David Henry	Managing Director, Real Estate
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