

VinaCapital Vietnam Opportunity Fund AIM: VOF

Investment Manager's quarterly report 30 September 2014



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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; privatization of state-owned enterprises; real estate; and private placements into listed and OTC-traded companies.

[Click here for VOF's website.](#)

Fund managing director

Andy Ho

Investment manager

VOF is managed by VinaCapital Investment Management Ltd (VCIM) and requires investment approvals from a six member internal Investment Committee.

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

Manager comment

VOF's unaudited net asset value was USD823.1 million or USD3.49 per share as at 30 September 2014, up 6.8% compared to the audited NAV per share of USD3.27 as at 30 June 2014. The Company's share price closed the period at USD2.72, up 8.5% from a closing price of USD2.50 at the end of June 2014. VOF's share price to NAV discount narrowed to 22.2% from 23.5% in the previous quarter. This increase in NAV was attributable to VOF's capital markets portfolio which gained 8.5% during the quarter, thanks to strong performance of PetroVietnam Services (PVS), PetroVietnam Drilling (PVD), Khang Dien Housing (KDH) and Kinh Do Corporation (KDC) which increased 42.7, 32.0, 28.6 and 21.0%, respectively.

During the third quarter, the Company bought back 2.4 million ordinary shares, which are held in Treasury. Since the onset of the share buyback programme, the Company has spent USD172 million in total, to buy back 88.8 million shares, representing 27.1% of the Company's ordinary shares in issue. Both the Board and Manager believe that this ongoing share buyback programme is the best method to distribute capital to shareholders and narrow the Company's share price to NAV per share discount.

Capital markets

The VN Index increased by 4.1% in USD terms, closing the third quarter at 598.8, while the MSCI Asia ex-Japan and MSCI Emerging Markets indices decreased by 2.5% and 4.3%, respectively. The VN Index, which reached its year-to-date peak at 640 at the beginning of September adding to a 7% rally from the previous month, fell to 598.8 to close the quarter. Trading value and volume on Vietnam's stock exchanges was USD8.5 billion on 11.6 billion shares, an increase of 48.6% in terms of value while volume increased by 27.4% compared to the previous quarter. The combined market capitalization for both of Vietnam's bourses was USD57.4 billion compared to USD53.7 billion a quarter ago. The VN Index traded on a trailing P/E of 15.0x and P/B of 2.0x according to Bloomberg.

Foreign investors were net sellers of Vietnamese equities, accounting for net selling of USD5.9 million in the third quarter. The top acquired companies were PetroVietnam Drilling (PVD), FLC Group JSC (FLC), Pha Lai Thermal Power (PPC), Mobile World Group (MWG) and Da Nang Rubber (DRC), while Vincom Group (VIC), Masan Group (MSN), Kinh Do Corporation (KDC), Hoang Anh Gia Lai Group (HAG) and Hoa Phat Group (HPG) were most actively divested.

Performance summary

30 September 2014

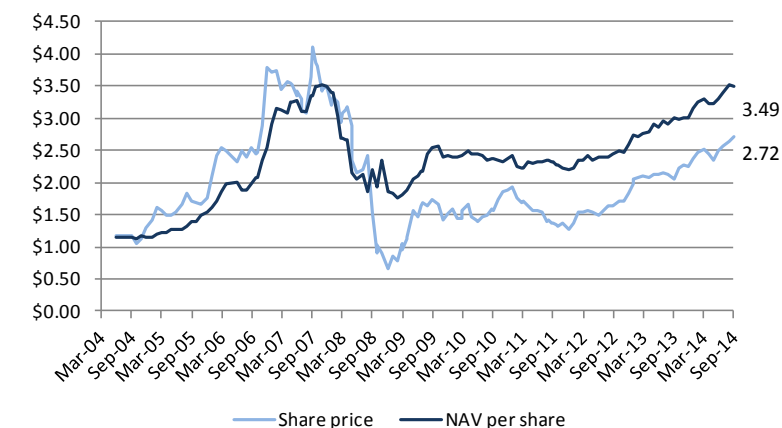
| | |
|-----------------------------|--------|
| NAV per share (USD): | 3.49 |
| Change (Quarter-on-quarter) | 6.8% |
| Total NAV (USD 'm): | 823.1 |
| Share price (USD): | 2.72 |
| Market cap (USD 'm): | 640.3 |
| Premium/(discount) | -22.2% |

Cumulative change (% change)

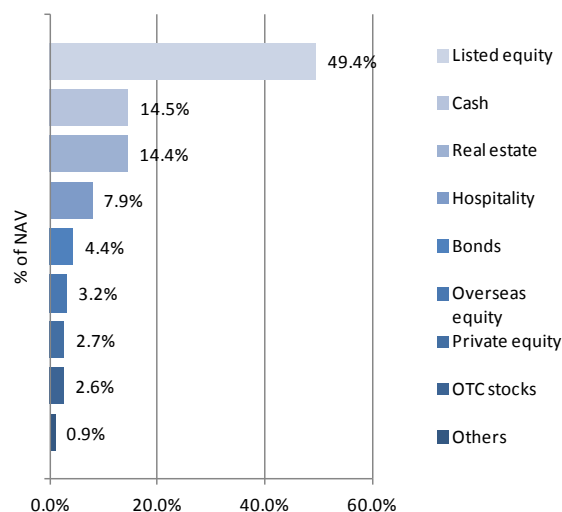
| | 3mth | 1yr | 3yr | 5yr |
|---------------------|------|------|------|------|
| NAV per share (USD) | 6.8 | 16.2 | 50.0 | 37.7 |
| Share price (USD) | 8.5 | 31.8 | 97.5 | 56.0 |

Annual performance history (% change)

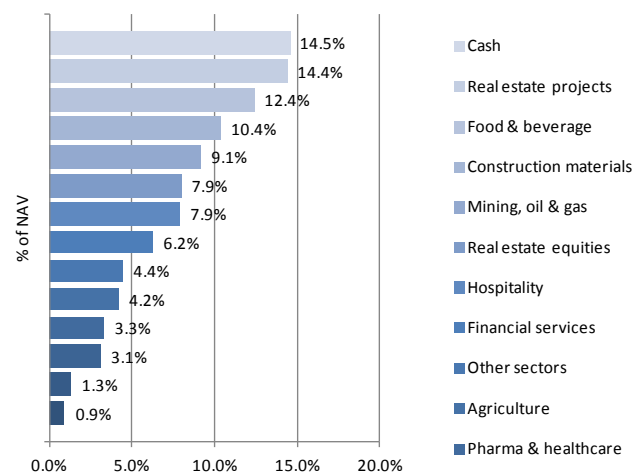
| | 2014 | 2013 | 2012 | 2011 | 2010 |
|----------------------|------|------|------|-------|------|
| NAV per share (USD) | 16.1 | 15.0 | 17.4 | -7.6 | -1.6 |
| VN Index (USD terms) | 18.0 | 20.4 | 18.9 | -25.6 | -7.2 |



Portfolio by asset class



Portfolio by sector



Top five holdings by asset class

| Listed equity | % of NAV | Sector | Description |
|---|----------|------------------------|--|
| Vinamilk (VNM) | 9.8 | Food & beverage | Leading dairy company with dominant market share. |
| Hoa Phat Group (HPG) | 8.4 | Construction materials | Largest steel manufacturer. |
| Eximbank (EIB) | 4.3 | Financial services | One of the top ten commercial banks. |
| PetroVietNam Drilling and Well Services JSC (PVD) | 4.0 | Mining, oil & gas | Leading drilling contractor in South East Asia. |
| Petrovietnam Technical Services Corporation (PVS) | 3.9 | Mining, oil & gas | Leading oil and gas technical service provider in Vietnam. |

Over the counter (OTC)

| | | | |
|------------------------------|-----|----------------------------|--|
| Vinatex | 0.9 | Consumer discretionary | Largest textile & garment producer & exporter in Vietnam. |
| South Basic Chemical Company | 0.5 | Industrials | The largest basic chemical producer in Vietnam. |
| Binh Dien Fertiliser | 0.5 | Agriculture | The largest NPK fertiliser producer. |
| Cienco 4 | 0.4 | Real estate & construction | One of leading contractors in transportation infrastructure construction. |
| Tin Nghia Industrial Park | 0.1 | Infrastructure | An industrial park, a subsidiary of Tin Nghia, Dong Nai's biggest state corporation. |

Real estate & hospitality

| | | | |
|--------------------------------------|-----|----------------------------|---|
| Sofitel Legend Metropole Hotel Hanoi | 7.9 | Hospitality | Vietnam's top city-centre hotel. |
| Century 21 | 2.9 | Real estate & construction | HCM City residential development. |
| Danang Beach Resort | 2.2 | Real estate & construction | Resort villas with sales underway. |
| Dai Phuoc Lotus | 1.7 | Real estate & construction | Residential developer with townhouse sales underway. |
| Hung Vuong Plaza | 1.4 | Real estate & construction | The best shopping mall in Chinatown district of HCM City. |

Private equity

| | | | |
|-----------------------------|-----|----------------------------|--|
| American Home Vietnam (IBS) | 1.0 | Construction materials | Construction materials firm. |
| Cau Tre Enterprise | 0.6 | Food & beverage | The leading frozen food producer in Vietnam. |
| SSG- Saigon Pearl | 0.5 | Real estate & construction | One of the biggest property developers in Vietnam. |
| Mai Linh JSC | 0.3 | Consumer discretionary | One of leading taxi services in Vietnam. |
| Yen Viet | 0.2 | Food & beverage | Leading producer of birds nest nutritional products. |

Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's gross domestic product (GDP) growth reached 6.2% in the third quarter of 2014, bringing year-to-date 2014 GDP growth to 5.6%. We are starting to see some positive effects from the lowering of the corporate income tax rate from 25 to 22% at the beginning of the year. The government continues to support its target of 5.8% GDP growth for 2014.

Vietnam's month-on-month consumer price index (CPI) increased 0.4% in September, bringing the year-on-year inflation rate to 3.6%. Price changes were driven by an increase in education costs (6.8%), due to the beginning of the school year. Petroleum prices fell 1.9% during the month, reflecting several price cuts over the past several weeks.

Foreign direct investment (FDI) disbursements, an important capital inflow and major source of support for the VND, reached USD8.9 billion as of September 2014, up 3.2% over the same period last year, while new FDI commitments over the same period fell 17.8% behind last year's record, albeit the comparison is skewed as several large commitments were signed late in 2013 for major projects like Samsung's mobile phone and electronics factories.

Year-to-date to September 2014, South Korea remains the leading contributor to FDI with USD3.6 billion registered, followed by Hong Kong, Japan and Singapore. Samsung has the largest investment project registered in 2014 at USD1.0 billion, followed by Dai An Vietnam-Canadian International Hospital worth USD225.0 million and Texhong Hai Ha Industrial Park from China worth USD215.0 million. To date, Samsung has a total registered investment capital of USD8.0 billion for the manufacturing of mobile phones and electronic devices and produces 120 million smart phones, or 30% of their worldwide sales, from factories located in Vietnam.

After a short period of heightened tensions, China related anxieties have subsided especially after the oil-rig removal one month ahead of schedule. The visit to China by a high-ranking Vietnamese official also contributed to a normalization of relations. The economic effects have been muted as major indicators such as bilateral trading, investment flows, and state to state contacts, have remained uninterrupted. Latest figures showed that trade flows between the two countries have remained on track and stayed on a par with 2013. Chinese investments in Trans-Pacific Partnership related industries such as fabrics and textiles have shown no signs of being scaled back. We believe the bilateral economic and financial relationships between Vietnam and China are of mutual benefit and sustainable going forward.

Fixed income

The primary bond market witnessed weaker demand during September, with a total of just USD600 million worth of government and government-backed bonds issued, representing a decline of 42.2% from August (USD1.04 billion). New bond issues were limited in September and no bonds were offered with less than a five year tenor, given the government has achieved 81% of its annual target. The secondary bond market rebounded from last month with trading volume increasing 29.1% to USD2.88 billion worth of bonds transacted. Secondary government bond yields continued their decline, falling between 32 and 96 basis points across the yield curve.

Macroeconomic indicators

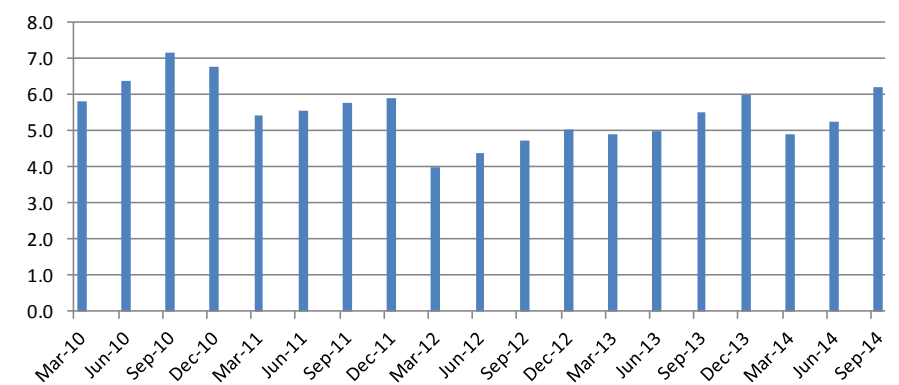
| | 2013 | Sep-14 | 2014 YTD | Year-on-year |
|--------------------------------------|--------|--------|----------|--------------|
| GDP growth ¹ | 5.4% | 6.2% | 5.6% | |
| Inflation | 6.0% | 0.4% | 2.2% | 3.6% |
| FDI commitments (USDbn) | 21.6 | 0.4 | 7.6 | -17.80% |
| Imports (USDbn) | 131.3 | 13.0 | 107.2 | 11.1% |
| Exports (USDbn) ² | 132.2 | 12.4 | 109.6 | 14.1% |
| Trade surplus/(deficit) | 0.9 | -0.6 | 2.4 | |
| Exchange rate (USD/VND) ³ | 21,115 | 21,245 | -0.6% | |
| Bank deposit rate (VND) | 7.5% | 6.5% | -100 bps | |

Sources: GSO, SBV, VCB | 1. Annualized rate, updated quarterly 2. Includes gold 3. (-) Denotes a devaluation in the currency, Vietcombank ask rate

Government bond yields (%)

| | 1yr | 2yr | 3yr | 5yr |
|--------------|------|------|------|------|
| August-14 | 4.65 | 5.11 | 5.43 | 6.42 |
| September-14 | 4.33 | 4.67 | 4.92 | 5.46 |

Quarterly GDP growth (%)



New infrastructure development driving the real estate market

In an effort to ease traffic congestion and support commercial and residential real estate growth, Ho Chi Minh City (HCMC), Vietnam's largest economic hub, has recently embarked on significant infrastructure development. CB Richard Ellis (CBRE) has reported that over USD600 million is being invested to develop new bridges and flyovers in Hanoi, Danang, and HCMC, with the latter accounting for over two-thirds of total investment capital. In 2013, the completion of infrastructure developments in HCMC, including the Saigon 2 Bridge, the Kinh Thanh Da Bridge, Binh Loi highway which links the city with the airport, and six steel flyovers, have considerably improved traffic conditions. Additionally, since the beginning of 2014, progress has been made for HCMC's first metro lines and the Long Thanh Dau Giay Highway. Both of these will contribute greatly in urban development as well as improve access to suburban areas outside the main districts. As these projects are complete, surrounding area real estate should experience uplift in demand.

According to the HCMC Urban Railway Management Authority, the metro system will comprise of six lines running over 110km. Metro Line 1 (20km, connecting Districts 1, 2, 9 and Thu Duc) and Line 2 (11km, connecting Districts 1, 3, Phu Nhuan, Tan Binh and Tan Phu) are currently under construction.

The Long Thanh-Dau Giay is an important infrastructure development for HCMC, which will shorten travelling time to surrounding provinces such as Dong Nai and Ba Ria Vung Tau. The highway will also connect HCMC with the new Long Thanh International Airport. Traffic was officially allowed on the first 20km in August 2014, with a target for full completion of the entire 55km by the end of 2015. Upon completion, the Long Thanh Dau Giay Highway could positively impact surrounding real estate projects, including VNL's Century 21 project, which will have direct access to the highway.

Condominium sector

During the quarter, there was evidence of some improvement with more condominium launches and transactions. The market driver is the low-end and affordable segments which accounted for the majority of transactions. It is also noteworthy that project designs and unit layouts have changed notably to favour smaller unit sizes to meet buyers' budgets.

Landed property sector

Developers have restricted their price cuts and continued to offer flexible payment terms and sales incentives. There were cautious launches in anticipation of future infrastructure development. Landed townhouses at the price range of US\$100,000 to US\$150,000 per unit are more sought after by Vietnamese who prefer owning land.

Retail sector

The forecast is for more supply to come online by late 2014 and into 2015. Rentals were stable in HCMC while trending down in Hanoi, indicating short term challenges due to over supply. Upcoming legislation changes including reduced tariffs and simpler market entry under WTO obligations as well as a potential 'Vietnam-EU' free trade agreement, which should provide some positive impact on the retail sector.

Hospitality sector

The Vietnam hospitality sector was significantly impacted by the political tension with China during the previous quarter however it is now recovering. As the tension between the two countries eases, performance in the hospitality sector is expected to steadily improve as Chinese tourists visit Vietnam. According to the General Statistics Office of Vietnam, foreigner arrivals reached 6.1 million year to date September 2014, representing an increase of 10.4 percent year on year. That said, the room rates and occupancy levels are under considerable downwards pressure due to new room supply versus demand.

Vietnam has moved forward on several key infrastructure developments, including Ho Chi Minh's first metro line, which should help real estate projects in the surrounding areas.

The condominium sector witnessed some improvement related to transactions and launches.

According to CBRE, retail supply will come online by late 2014 and into 2015 in Ho Chi Minh City, while rates remain stable.

Vinamilk (VNM)

Vinamilk (VNM) is the leading dairy products manufacturer and distributor in Vietnam. The company offers a wide range of products, from fresh and powdered milk to condensed milk, yogurt, and coffee, with more than 30% of the total dairy market, and 90% market share of the yogurt segment. The domestic market accounts for approximately 90% of total sales. VNM is the first Vietnamese company to be one of Asia's Top 200 Small and Midsize Companies, according to Forbes, ranked 18th among the Top 200 in terms of profit and 31st in overall market value. Vinamilk commenced operation of its new factory in August 2013, a USD120.0 million facility that boasts the latest technology which will add another 400 million litres of capacity for liquid milk as well as provide the foundation for the development of more value-added products in the future.

Q3 2014 net revenue totaled USD413 million (+9% year-on-year), while net profit came in at USD65 million (-18% year-on-year). Domestic sales growth was 15.5% year-on-year while export growth was less than expected. Revenue for the first nine months of 2014 totaled USD1.2 billion and net profit was USD205 million, up 12.0% and down 14.0% respectively compared to same period last year. Net margin tightened to 16.9% versus 22.1% a year ago due to a 43.7% increase in selling, general and administrative expenses and higher input materials, namely milk powder. VNM's advertising and promotion expenses increased approximately 50% over the first nine months of 2014 compared to the same period a year ago, as the company aims to maintain its dominant market share while increasing the utilization rate of its aforementioned new factory. Notably, milk powder prices have declined by more than 50% since the end of 2013 and we expect VNM to begin seeing these lower input prices in higher profit margins in the coming quarters.

VNM closed at VND105,000 per share as at 30 September 2014, representing a market capitalization of USD5 billion and a trailing P/E ratio of 18.3x. As at 30 September 2014, VOF held a stake in VNM valued at USD80.4 million.

Hoa Phat Group (HPG)

Hoa Phat Group (HPG) is a leading industrial manufacturer in Vietnam. Established in 1992 as a trading company, HPG has evolved into a holding group with thirteen subsidiaries, specializing in construction materials such as steel, steel pipe, furniture, refrigerators, construction and mining equipment, real estate and industrial park operations. HPG has a well established nationwide distribution and sales network, with a strong platform for future product expansion and diversification. The company currently holds 18.6% market share in terms of steel sales volume, up from 17% as at the end of 2013, due to new capacity from Phase II of its steel integrated complex which came into operation in October 2013. HPG has outgrown Pomina (POM) to become the leading construction steelmaker in Vietnam.

HPG announced impressive result for Q3 2014, with revenue of USD270 million (+37% year-on-year) and net profit of USD40 million (+72.8% year-on-year). Growth drivers came from a 43% year-on-year sale volume increase in construction steel, lower input raw material and profit contribution from real estate, namely the Mandarin project. For the first nine months of 2014, HPG's revenue reached USD889 million (+52% year-on-year) while net profit was USD125 million (+82% year-on-year), surpassing 25% of the company's profit guidance. For 2014, the proposed dividend is VND3,000 per share, implying a dividend yield of 5.2%.

HPG closed at VND57,500 per share as at 30 September 2014, representing a market capitalization of USD1.3 billion and a trailing P/E ratio of 8.8x. As at 30 September 2014, VOF held a 5.3% stake in HPG valued at USD69.1 million.

Financial highlights

| Profit and loss (VND bn) | FY11A | FY12A | FY13A | 9M 2014 |
|--------------------------|--------|--------|--------|---------|
| Net revenue | 22,544 | 26,562 | 30,954 | 25,640 |
| Net profit | 4,251 | 5,819 | 6,531 | 4,340 |
| Net margin (%) | 19.5% | 21.9% | 21.1% | 16.9% |
| EPS (adjusted) (VND) | 7,741 | 6,976 | 7,839 | 4,300 |
| Balance sheet (VND bn) | | | | |
| Total assets | 15,582 | 19,698 | 22,875 | 23,907 |
| Shareholders' equity | 12,477 | 15,493 | 17,545 | 18,244 |
| ROE (%) | 41.3% | 37.6% | 39.5% | 23.8% |
| Valuation | | | | |
| PER (x) | 11.2 | 12.5 | 17.2 | 18.2 |
| P/B (x) | 3.9 | 4.7 | 6.3 | 5.8 |
| Dividend yield (%) | 3.7% | 3.1% | 3.0% | 4.6% |

Financial highlights

| Profit and loss (VND bn) | FY11A | FY12A | FY13A | 9M 2014 |
|--------------------------|--------|--------|--------|---------|
| Revenue | 17,852 | 16,827 | 18,934 | 18,944 |
| Net income | 1,236 | 994 | 1,954 | 2,671 |
| Net margin | 6.9% | 5.9% | 10.3% | 14.1% |
| EPS (adjusted) | 2,951 | 2,372 | 4,663 | 5,542 |
| Balance sheet (VND bn) | | | | |
| Total assets | 17,525 | 18,957 | 22,961 | 21,054 |
| Shareholders' equity | 7,414 | 8,085 | 9,498 | 11,475 |
| ROE (%) | 16.7% | 12.3% | 20.6% | 23.3% |
| Valuation (VND bn) | | | | |
| PER (x) | 9.4 | 15.3 | 8.8 | 8.8 |
| P/B (x) | 1.6 | 1.9 | 1.8 | 2.5 |
| Dividend yield (%) | 5.5% | 5.5% | 4.9% | 5.2% |

Sofitel Legend Metropole Hanoi Hotel (Sofitel Metropole)

Acquired in 2005, the Sofitel Legend Metropole Hanoi Hotel is located on 7,500 sqm in the prime location of Hanoi's central business district (CBD), surrounded by various historic monuments and museums. Managed by the Accor Group, the hotel operates 364 rooms over 27,289 sqm gross floor area.

For the year to 30 September 2014, average occupancy rate was 66.4% (target 69.1%) with revenues of USD25.2 million and gross operating profit of USD12.7 million, meeting 94.1%, and 95.2% of the budget target, respectively. While there was some softening in the business and corporate markets this year as compared to last year, management expects the financial results to improve for the remainder of 2014, with a target of USD37.6 million in revenue and USD19.4 million in gross profit, a growth of 4.0% and 2.9% compared to FY2013, respectively.

Financial highlights

| Profit and loss (USD mn) * | FY11A | FY12A | FY13A | 9M 2014 |
|----------------------------|-------|-------|-------|---------|
| Revenue | 34.3 | 35.2 | 37.6 | 25.2 |
| Gross profit | 17.6 | 18.9 | 20.2 | 12.7 |
| Gross margin | 51.3% | 53.4% | 53.7% | 50.4% |
| Net income | 6.9 | 7.5 | 9.7 | 6.6 |
| Net margin | 20.1% | 21.3% | 25.8% | 26.2% |
| Balance sheet | | | | |
| Total assets | 47.8 | 43.8 | 46.1 | 45.6 |
| Shareholders' equity | 32.2 | 33.2 | 38.0 | 35.0 |
| ROE (%) | 21.4% | 22.6% | 25.5% | 18.9% |

Eximbank (EIB)

Eximbank (EIB) is the eighth largest lender in Vietnam with the loan book representing 2.2% of total credit in the banking system. In recent years, the bank has diversified from its original focus of financing import/export operations to become a retail bank. The bank currently has one of the largest retail branch networks with 207 locations nationwide.

EIB credit growth was weak with a 4.0% year-on-year decline (or 2.0% decline if including corporate bonds) in the first nine months of 2014. The decline in loans was due to a reduction in low-margin retail loans while the decline in total assets was due to a 47.0% cut in low-margin interbank lending balances. The reduction in low-margin lending and a high loan-to-deposit ratio helped EIB improve its net-interest margin to 2.5% (from 2.0% in 2013).

Net profit declined 16.0% year-on-year in the first 9 months of 2014 due to a decline in non-interest income (down 32.0%) and an increase in provision expense for bad debts (up 56.0%). Lower non-interest income was due to low cash dividends received from Sacombank. Higher provision expense was due to higher non-performing loans (3.4% of total loans in September compared to 2.0% in December) as the bank prepared for the full adoption of Circular 2/9 in 2015. Operating cost declined 5.0% in the first 9 months of 2014.

EIB's closed at VND12,100 per share as at 30 September 2014, representing a market capitalization of USD710 million, a trailing P/E of 29.0x and a P/B of 1.0x. As of 30 Sep 2014, VOF held a 5.0% stake in Eximbank valued at USD35.8 million.

Financial highlights

| Profit and loss (VND bn) | FY11A | FY12A | FY13A | 9M 2014 |
|-------------------------------|---------|---------|---------|---------|
| Net interest income | 5,363 | 4,901 | 2,736 | 2,235 |
| Net profit | 3,038 | 2,139 | 658 | 733 |
| EPS (adjusted) (VND) | 2,460 | 1,730 | 532 | 596 |
| Balance sheet (VND bn) | | | | |
| Total assets | 183,567 | 170,156 | 169,913 | 141,132 |
| Shareholders' equity | 16,302 | 15,812 | 14,679 | 14,769 |
| ROE (%) | 20.4% | 13.5% | 3.6% | 4.0% |
| Valuation | | | | |
| PER (x) | 8.7 | 8.3 | 23.5 | 29.0 |
| P/B (x) | 1.2 | 1.1 | 1.1 | 1.0 |
| Dividend yield (%) | 9.0% | 9.4% | 4.0% | 4.5% |

PetroVietnam Drilling (PVD)

PetroVietnam Drilling JSC (PVD) is a leading Vietnamese drilling-related services company with its parent company, PetroVietnam, owning a 51% stake. The company owns and operates five drilling rigs including three jack-up rigs, one tender assist drilling rig (TAD), and 1 land rig, in addition to a fleet of six leased jack-up rigs.

For Q3 2014, the company reported revenue of USD261 million, an increase of 30.2% year-on-year and net profit of USD91 million, an increase of 4% year-on-year. For the first nine months of 2014, PVD achieved USD734 million in revenue, an increase of 47% year-on-year and net profit of USD91 million, an increase of 36% year-on-year. The key growth drivers were a 10% increase in the average day-rates for PVD's own jack-up rigs and a higher utilization rate for both owned and leased rigs. In addition, the services segment achieved an increase in capacity due to higher demand for all supporting services.

PVD closed at VND97,000 per share as at 30 September 2014, representing a market capitalization of USD1.4 billion and a trailing P/E ratio of 10.4x. As at 30 September 2014, VOF held a 2.4% stake in PVD valued at USD32.9 million.

PetroVietnam Technical Services Corporation (PVS)

PetroVietnam Technical Services Corporation (PVS) is a leading oil and gas services company in Vietnam with its parent company, PetroVietnam, owning a 51 percent stake. The company owns and operates five main services, including ships servicing offshore operation, floating production storage and offloading (FPSO) vessels, port, seismic survey, construction (oil platform) and maintenance service offshore platform and vessels.

PVS reported Q3 2014 earnings with net revenue of USD449 million (+24% year-on-year) and net profit of USD17million (-24% year-on-year).

Except for the remotely operated vehicle (ROV) segment, most of PVS' business segments experienced strong revenue growth year-on-year in Q3 2014, especially the operation and maintenance segment (+518% year-on-year) as a result of the new operation of the FPSO vessel Lam Son in 2014. However, the decrease in gross margins across all segments, along with the losses in the ROV segment of USD4.8 million (due to a sharp decline in Q3 2014 for ROV contracts) affected PVS' third quarter net profit.

For the first nine months of 2014, net revenue totaled USD1.1 billion (+19% year-on-year) and net profit was USD79 million (+14% year-on-year), exceeding PVS' 2014 plan by 41%, mainly due to impressive earnings results in H1 2014.

PVS closed at VND40,200 per share as at 30 September 2014, representing a market capitalization of USD848 million and a trailing P/E ratio of 10.3x. As at 30 September 2014, VOF held a stake in PVS valued at USD32.5 million.

Financial highlights

| Profit and loss (VND bn) | FY11A | FY12A | FY13A | 9M 2014 |
|---------------------------------|--------------|--------------|--------------|----------------|
| Net revenue | 9,211 | 11,929 | 14,867 | 15,489 |
| Net profit | 1,067 | 1,322 | 1,883 | 1,923 |
| Net margin (%) | 11.7% | 12.1% | 13.5% | 12.4% |
| EPS (adjusted) (VND) | 3,521 | 4,363 | 6,215 | 6,347 |
| Balance sheet (VND bn) | | | | |
| Total assets | 18,535 | 19,084 | 21,492 | 22,953 |
| Shareholders' equity | 6,202 | 6,992 | 9,838 | 11,066 |
| ROE (%) | 17.2% | 18.9% | 19.1% | 17.4% |
| Valuation | | | | |
| PER (x) | 6.3 | 6.0 | 8.0 | 12.3 |
| P/B (x) | 1.1 | 1.1 | 1.7 | 2.4 |
| Dividend yield (%) | 6.0% | 4.0% | 1.6% | 2.1% |

Financial highlights

| Profit and loss (VND bn) | FY11A | FY12A | FY13A | 9M 2014 |
|---------------------------------|--------------|--------------|--------------|----------------|
| Net revenue | 24,310 | 24,590 | 25,390 | 22,923 |
| Net profit | 1,420 | 1,120 | 1,510 | 1,168 |
| Net margin (%) | 5.8% | 4.6% | 5.9% | 5.1% |
| EPS (adjusted) (VND) | 4,765 | 3,758 | 3,378 | 2,615 |
| Balance sheet (VND bn) | | | | |
| Total assets | 15,980 | 15,050 | 16,070 | 26,949 |
| Shareholders' equity | 5,910 | 6,250 | 8,220 | 8,706 |
| ROE (%) | 24.0% | 17.9% | 18.4% | 13.4% |
| Valuation | | | | |
| PER (x) | 3.2 | 3.7 | 6.0 | 10.8 |
| P/B (x) | 0.8 | 0.7 | 1.1 | 4.5 |
| Dividend yield (%) | 6.0% | 4.0% | 4.1% | 3.0% |

Hau Giang Pharmaceuticals (DHG)

Hau Giang Pharmaceutical (DHG) is one of the leading domestic pharmaceutical manufacturers in Vietnam. DHG's self-manufactured products accounted for 91.7% of total revenue in the first nine months of 2014. The company's total production doubled to eight billion units after the new non-betalactam factory began operations in June 2014 after a trial run earlier this year.

Net revenue for the first nine months of 2014 totaled USD122.7 million, an increase of 13.1% year-on-year. The largest revenue contributor – self-manufactured products – grew at a healthy 16.6%. Net income for the first nine months declined to USD19.5 million (-8.8% year-on-year) due to a one-off profit of USD4.5 million from the sales of its Eugica brand in the third quarter of 2013. Without this one-off profit, core net profit increased 13.7% year-on-year. Given that the company's old factory has been running at full capacity for the past two years, management expects sales volume to increase by nearly 20 percent per annum over the next five years.

DHG closed at VND91,500 per share as at 30 September 2014, representing a market capitalization of USD376 million and a trailing P/E ratio of 14.5x. As at 30 September 2014, VOF held a 7.2% stake in DHG valued at USD27.1 million.

Century 21

Century 21 was acquired in 2006 because of its prime location, close to a new traffic corridor to the city's CBD. The Thu Thiem tunnel which is part of the Ho Chi Minh City East-West Highway, running from the South-West to the North-East of the city, opened in November 2011. The opening of the tunnel has made the site much more accessible to the city's CBD. The project site is 100% compensated and cleared. In Q4 2011, the Century 21 Nam Rach Chiec project received a 1:500 master plan approval and Investment Licence. The Long Thanh Dau Giay Highway running in front of the site is currently underway with completion and opening for traffic expected in early 2015. The revised 1:500 master plan in-principal approval was received in Q2 2014 and VNL received the detailed 1:500 master plan approval in September 2014. The section of highway directly adjacent to the site is expected to be completed in H1 2015 which will significantly improve access.

The strategy is to divest the commercial land parcel and secure co-investors to develop the residential component. An alternative is to divest the entire land parcel to another developer over the next 12 months as this avoids the complicated process of splitting land licenses and ownership.

If the continuing strategy is to proceed with the development of this site, then on-site work will not commence until a co-investment partner is secured or market conditions improve. The surrounding District 2 area has seen improvements to infrastructure, which has created strong interest among domestic and foreign investors.

Financial highlights

| Profit and loss (VND bn) | FY11A | FY12A | FY13A | 9M 2014 |
|---------------------------------|--------------|--------------|--------------|----------------|
| Revenue | 2,491 | 2,931 | 3,527 | 2,601 |
| Net income | 420 | 497 | 589 | 414 |
| Net margin | 16.9% | 17.0% | 16.7% | 15.9% |
| EPS (adjusted) | 4,824 | 5,708 | 6,765 | 4,732 |
| Balance sheet (VND bn) | | | | |
| Total assets | 1,996 | 2,377 | 3,074 | 3,157 |
| Shareholders' equity | 1,382 | 1,693 | 1,982 | 2,187 |
| ROE (%) | 30.4% | 29.4% | 32.1% | 18.9% |
| Valuation (VND bn) | | | | |
| PER (x) | 8.8 | 9.7 | 12.7 | 14.5 |
| P/B (x) | 2.6 | 2.8 | 3.8 | 3.7 |
| Dividend yield (%) | 3.6% | 3.9% | 2.2% | 2.9% |

Project summary

| | |
|-----------------------------|---|
| Sector | Residential and retail |
| Area | 30ha; approved GFA 511,203 sqm |
| Location | District 2, Ho Chi Minh City |
| History | Acquired in June 2006 Site cleared and compensated in June 2008 Revised 1:500 master plan in-principal approval received in Q2 2014 Received detailed 1:500 master plan approval in September 2014 |
| Investment rationale | A 30ha site located along new infrastructure corridor in a new desirable suburban area. |

VinaLand Limited (AIM: VNL)

VNL is a real estate investment fund also managed by VinaCapital. VOF has previously invested in a 25:75 ratio with VNL on real estate projects such as top holdings Dai Phuoc Lotus and Century 21. However, when VNL began trading at a significant discount, the VOF Board initiated share purchases of VNL, to provide VOF with greater liquidity than investing directly in real estate projects. VNL has one of the largest portfolios of real estate assets among foreign investment funds or developers, acquired between 2006 and 2009. The fund is now in a divestment phase that will see realisation of these assets, via the sale of homes to end users, as well as co-investment and divestment of projects.

As at 30 September 2014, VOF held a stake in VNL valued at USD20.3 million.

Danang Beach Resort

The Danang Beach Resort project was acquired in mid 2006. Following a partial divestment of a sub site, the project now comprises two parcels, a 28.5ha beachfront and a 220ha inland lot separated by the coastal highway. The project broke ground in January 2008 with construction of an 18-hole golf course, The Dunes, designed by golf legend Greg Norman. The golf course and clubhouse opened in April 2010 and has since received international acclaim including awards for "Best Golf Development in Vietnam and in Asia Pacific 2011" at the Bloomberg's Asia Pacific Property Awards, the "Best Golf Course in Vietnam 2013" and "Top 10 Golf Course Asia Pacific 2013" awarded by the Asian Golf Summit. Anchored by the award winning golf course, a number of residential projects have been successfully developed including The Ocean Villas, The Dune Residences, and the first phase of The Beachfront Enclave, premium beach front residences enjoying direct frontage to the pristine Danang coastline. These initial residential phases are now completed and sold out.

In Q3 2014, Danang Beach Resort was able to capitalise on the improving sentiment of the Danang property market with 17 new sales at the recently-launched Ocean Apartments project, making the total sales at this project now 74%. In addition, 79% of the 162 villas launched have signed sales and purchase agreements. The next phase of residential villas with frontage to the golf course, The Point villas, is targeted for launch in Q4 2014. The continuing strategy is to proceed with the development and sale of villa land, and seek investment partners for a partial or full exit of future development parcels.

Project summary

| | |
|---|---|
| AIM inception | 22 March 2006 |
| NAV (30 September 2014) | USD 410.0 million |
| Acquisition phase | VNL had acquired 46 investments at its peak, diversified by geography and real estate sector |
| Development and divestment phase | VNL has fully divested 19 projects, achieved one partial exit since inception and continued its programme of residential unit sales |
| Total Assets | 27 |
| Leverage (Bank Debt) | Fund level (ZDP Shares): 6.5% of NAV Project level (Bank): 17.7% of NAV |

Project summary

| | |
|-----------------------------|--|
| Sector | Residential (integrated resort residential) |
| Area | 248.3 ha |
| Location | Danang, Central Vietnam |
| History | Acquired in June 2006, cleared site, under development Investment licence received in December 2006 Ground breaking in January 2008 Dunes Golf course opened in April 2010 Beach resort parcel: 1:500 master plan received in June 2011, revised in December 2013 Golf course parcel: 1:500 revised master plan received in December 2012 |
| Investment rationale | A unique mixed used, seaside integrated resort with golf course well located along the coastal road of Danang City, the third largest city in Vietnam. Plan to develop a golf course and other amenities to assist with marketing of residential properties. |

The manager update section provides investors with information on the policies and practices of VinaCapital Investment Management, Ltd. (VCIM), as well as updates on VinaCapital relevant to the performance of its investment funds.

Valuation and NAV calculation

The accurate and fair valuation of assets held in fund portfolios is a central component of successful fund management. VOF follows international best practices whenever possible in its valuations process.

Relevant dates

VOF's fiscal year ends 30 June. Audited annual results must be announced within six months of this date. Interim results on 31 December receive a review from auditors and must be announced within three months of this date. VOF calculates its unaudited NAV monthly and this is announced within ten days of month's end. Updated reports on the fund's performance are issued on a monthly and quarterly basis in addition to an annual report with the audited final results.

The methods used to value different assets:

Listed equities

The value of listed securities is based on the security's most recent price on the stock exchange where it trades, or if there is more than one stock exchange on which the security trades, that which is considered the principal stock exchange for that security.

OTC equities

The market price of OTC equities is determined based on a sample of closing prices obtained from a minimum of three leading securities companies in Vietnam. The price used is the average of the sample with outlying prices removed to avoid bias.

Private equities

Unquoted securities are valued at cost. Revaluations of unquoted investments are conducted annually on 30 June in accordance with the guidelines issued by the British Investment Fund Association.

Real estate holdings

Real estate projects are valued at cost. Once an investment license is obtained, or by way of other arrangements VOF has a legal entitlement to an investment property, the investment property is revalued. Investment properties are revalued annually and may be revalued more often if the investment manager or valuation committee believes there has been a material change in the value of a property. The valuation process consists of obtaining two or more valuations for each property from independent, third-party valuation companies. The valuations are reviewed by the valuation committee as the basis for the final valuation approved by the board. At the end of each quarter, the manager also reviews all real estate investments for possible impairment based on internal calculations. If there is evidence of impairment an independent valuation will be obtained to assess the need for any adjustment in the value of the property.

All other assets and liabilities are recorded at their respective fair value or cost as required by the International Financial Reporting Standards set out in the Notes to the Consolidated Financial Statements.

More information on valuation is available on the Investing policy page of the VOF website:

[VOF investing policy.](#)

Audit and Valuation committees

VOF has both an audit and valuation committee composed of independent, non-executive members of the board of directors of the Fund, and chaired by an independent director. The committees meet quarterly.

VOF Audit and Valuation Committee

Michael G. Gray (Chairman)

Steve Bates

Martin Adams

Thuy Dam

Historical financial information

| Years ended 30 June | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|---------|---------|---------|---------|---------|
| Statement of Income (USD'000) | | | | | |
| Total income from ordinary activities | 134,263 | -8,420 | 54,556 | 120,750 | 119,487 |
| Total expenses from ordinary activities | -29,047 | -27,214 | -25,424 | -29,515 | -35,921 |
| Operating profit before income tax | 105,216 | -35,634 | 29,132 | 90,724 | 82,628 |
| Income tax expense | -211 | -545 | -700 | -672 | -1,201 |
| Profit for the year | 105,005 | -36,179 | 28,432 | 90,052 | 81,427 |
| Minority interests | 311 | 106 | - | -202 | -239 |
| Profit attributable to ordinary equity holders | 104,694 | -36,285 | 28,432 | 90,254 | 81,666 |
| Statement of financial position (USD'000) | | | | | |
| Total assets | 793,820 | 764,603 | 775,455 | 771,843 | 805,488 |
| Total liabilities | 11,319 | 12,697 | 9,810 | 19,400 | 26,533 |
| Net assets | 782,501 | 751,906 | 765,645 | 752,443 | 778,955 |
| Share information | | | | | |
| Basic earnings per share (cents per share) | 32 | -11 | 9 | 31 | 33 |
| Share price as 30 June | 1.40 | 1.57 | 1.50 | 2.13 | 2.50 |
| Ordinary share capital (thousand shares) | 324,610 | 324,610 | 312,536 | 261,376 | 238,255 |
| Market capitalization at 30 June (USD'000) | 455,428 | 509,313 | 468,803 | 556,731 | 595,638 |
| Net asset value per ordinary share (USD) | 2.41 | 2.32 | 2.45 | 2.88 | 3.27 |
| Ratio | | | | | |
| Return on average ordinary shareholder's funds | 17.0% | -6.0% | 4.0% | 14.8% | 14.6% |
| Total expense ratio (% of NAV) | 2.16% | 2.13% | 2.13% | 2.13% | 2.89% |

Board of Directors

VOF's Board of Directors is composed of a majority of independent non-executive directors.

| Member | Role |
|-----------------|--------------------------------------|
| Steven Bates | Non-executive Chairman (Independent) |
| Martin Adams | Non-executive Director (Independent) |
| Michael G. Gray | Non-executive Director (Independent) |
| Thuy Dam | Non-executive Director (Independent) |

VinaCapital Investment Management Ltd (VCIM)

| Member | Role |
|-------------------|---|
| Don Lam | Chief Executive Officer |
| Brook Taylor | Chief Operating Officer |
| Andy Ho | Chief Investment Officer |
| Duong Vuong | Deputy Managing Director, Capital Markets |
| Dang P. Minh Loan | Deputy Managing Director, Private Equity |

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Fund summary

Fund launch: 30 September 2003

Term of fund: Five years subject to shareholder vote for liquidation (next vote to be held in 2018)

Fund domicile: Cayman Islands

Legal form: Exempted company limited by shares

Investment manager: VinaCapital Investment Management Ltd

Structure: Single class of ordinary shares trading on the AIM market of the London Stock Exchange plc.

Auditor: PricewaterhouseCoopers (Hong Kong)

Nominated adviser: Grant Thornton UK LLP

Custodian and Administrator: HSBC Trustee

Brokers: Edmond de Rothschild Securities (Bloomberg: LCFR), Numis Securities (Bloomberg: NUMI)

Lawyers: Wragge Lawrence Graham & Co (UK), Maples and Calder (Cayman Islands)

Base and incentive fee: Base fee of 1.5% of NAV. Incentive fees are based on two separate pools of investments: direct real estate and all other investments. The incentive fee paid equates to 15% of the increase in the NAV of each pool during the year over a hurdle of 8%. The total amount of incentive fees paid in any one year is capped at 1.5% of the pool's NAV.

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%), Cambodia, Laos, and southern China.