VinaCapital Vietnam Opportunity Fund AIM: VOF

VinaCapital

Investment Manager's quarterly report 31 December 2014

VinaCapital Vietnam Opportunity Fund AIM: VOF

VinaCapital

Investment Manager's quarterly report 31 December 2014

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 USD743.1 million or USD3.28 per share as at 31 December 2014, down 6.1% compared to NAV per share of USD3.49 as at 30 September 2014. The Company's share price closed the period at USD2.50, down 7.9% from a closing price of USD2.72 at the end of September 2014. VOF's share price to NAV discount expanded to 23.7% from 22.2% in the previous quarter. This decrease in NAV was attributable to VOF's capital markets portfolio which dropped 8.1% during the quarter, as weak performance of PetroVietnam Drilling (PVD), PetroVietnam Services (PVS), PetroVietnam Gas (GAS) and Vinamilk (VNM) which decreased 33.5%, 33.1%, 31.6% and 9.0%, respectively, a direct result of the sudden drop in global oil prices.

On 18 December 2014, VOF and Daiwa PI Partners (DPIP), a Tokyo-based leading financial investor, announced that it has acquired a majority stake in International Dairy Products JSC (IDP), one of Vietnam's leading dairy producers. After working with IDP for over a year, VOF and DPIP co-invested USD45.0 million making them the largest shareholders, with a combined 70.0% ownership stake in IDP. International Dairy Products JSC was established in 2004 with its first factory in Chuong My – Ha Noi. It later launched a second factory in Ba Vi, one of the largest fresh milk production hubs of Vietnam, in 2010. IDP specializes in producing and selling UHT milk, pasteurized fresh milk, spoon and drinking yogurt, using the latest technology from Europe to offer the best-quality dairy products to Vietnamese consumers. Currently, IDP is cooperating with over 2,000 farmers, collecting more than 75 tonnes of fresh milk per day for dairy production under such brands as Love'in Farm, Ba Vi, and Love'in Farm KUN. Management expects total revenue to exceed USD80.0 million for 2014.

Capital markets

The VN Index decreased by 9.7% in USD terms, closing the fourth quarter at 545.6, while the MSCI Asia ex-Japan and MSCI Emerging Markets indices decreased by 0.2% and 4.9%, respectively. Trading value and volume on Vietnam's stock exchanges was USD8.9 billion on 11.8 billion shares, an increase of 5.6% in terms of value while volume increased by 2.1% compared to the previous quarter. The combined market capitalization for both of Vietnam's bourses was USD52.6 billion compared to USD54.4 billion a quarter ago. As at 31 December 2014, the VN Index traded on a trailing P/E of 13.3x and P/B of 1.8x according to Bloomberg.

Foreign investors were net sellers of Vietnamese equities, accounting for net selling of USD97.8 million in the four quarter. The top acquired companies were Saigon Secutities Inc. (SSI), Mobile World Group (MWG), Becamex Infrastructure Development (IJC), Vinh Hoan Corporation (VHC) and Phu My Fertiliser (DPM) while Sacombank (STB), Hoang Anh Gia Lai Group (HAG), PetroVietnam Drilling (PVD), Hoang Anh Gia Lai Group (HAG) and Hoa Phat Group (HPG) were most actively divested.

Performance summary — 31 December 2014

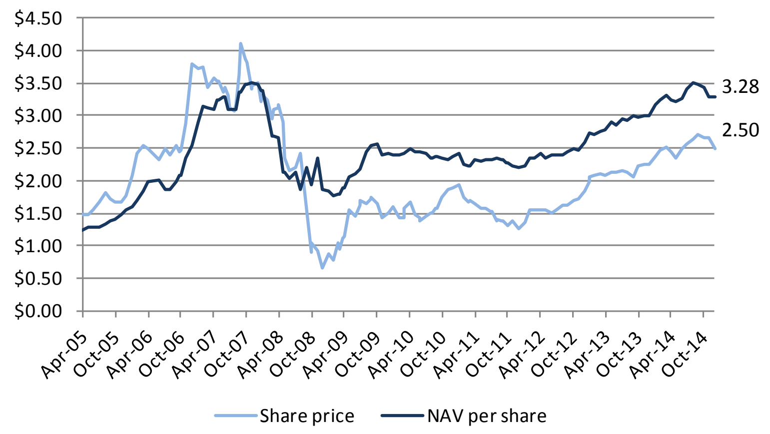
NAV per share (USD):	3.28
Change (Quarter-on-quarter)	-6.1%
Total NAV (USD 'm):	743.1
Share price (USD):	2.50
Market cap (USD 'm):	566.8
Premium/(discount)	-23.7%

Cumulative change (% change)

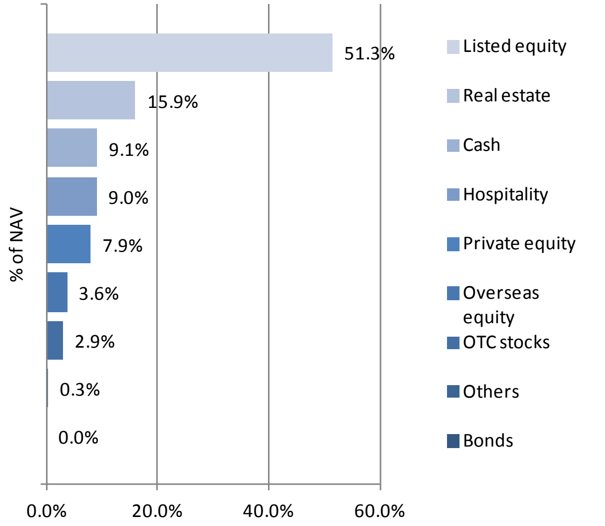
	3mth	1yr	3yr	5yr
NAV per share (USD)	-6.1	9.0	49.0	35.6
Share price (USD)	-7.9	10.6	97.6	66.1

Annual performance history (% change)

CY	2014	2013	2012	2011	2010
NAV per share (USD)	9.0	15.0	17.4	-7.6	-1.6
VN Index (USD terms)	6.6	20.4	18.9	-25.6	-7.2



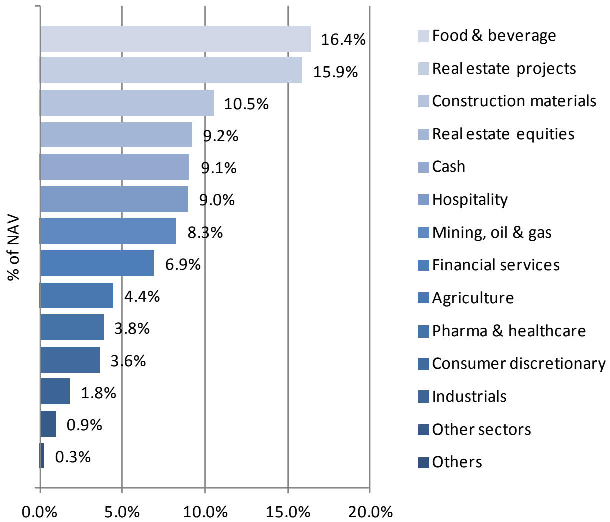
Portfolio by sector



Top ten holdings

Investee company	% of NAV	Sector	Description
Vinamilk (VNM)	9.8	Food & beverage	Leading dairy company with a dominant market share.
Sofitel Legend Metropole Hotel Hanoi	9.0	Hospitality projects	One of Vietnam premium hotels.
Hoa Phat Group (HPG)	8.6	Capital markets	Largest steel manufacturer.
Eximbank (EIB)	4.9	Financial services	One of the top ten commercial banks.
International Dairy Product (IDP)	4.6	Food & beverage	One of the top five dairy company with a lot of potential growth.
Hau Giang Pharmaceuticals (DHG)	3.8	Pharmaceuticals & health care	The largest domestic pharmaceutical producer in Vietnam.
PetroVietNam Drilling and Well Services JSC (PVD)	3.8	Mining, oil & gas	Leading drilling contractor in South East Asia.
Petrovietnam Technical Services Corporation (PVS)	3.5	Mining, oil & gas	Leading oil and gas technical service provider in Vietnam.
Century 21	3.2	Real estate projects	HCM City residential development.
VinaLand Ltd (AIM: VNL)	2.8	Real estate projects	VCIM-managed Vietnam real estate fund.
Total	54.1		

Portfolio by sector



Share buyback commentary

The Board and Investment Manager remain fully committed to the ongoing share buyback programme.

During the quarter, VOF bought back 9.1 million shares as part of the share buyback authority granted to the Company's Board of Directors.

Since the commencement of the programme, VOF has spent USD197.1 million overall repurchasing 97.9 million shares which are held as treasury shares and have reduced the total voting rights in the Company to 226,710,112 . The total number of shares acquired since November 2011 represents 30.2% of the Company's 324,610,259 ordinary shares in issue. As a result of the Company's share buyback programme, VOF has recorded USD0.38 in cumulative accretion, equating to a 13.2% benefit to VOF's net asset value per share.

Macroeconomic update

According to the General Statistics Office (GSO), Vietnam's gross domestic product (GDP) growth reached 6.9% in the fourth quarter of 2014, bringing full year 2014 GDP growth to 6.0%, exceeding the original government target of 5.8%. The final quarter of the year finished with strong economic growth mainly as a result of improvements in the manufacturing sector and rising exports.

Additionally, Vietnam's month-on-month consumer price index (CPI) declined 0.2% in December, the third consecutive month of deflation, bringing full year 2014 inflation to just 1.8%, marking the lowest annual rate in over 13 years. During the month, transportation costs plunged 3.1% as a result of numerous price cuts in gasoline. Going forward, we feel oil prices; consumer demand; and domestic inventories, specifically for food and foodstuffs, will have the largest impact on inflation. With inflation expected to remain at multi-year lows, the State Bank of Vietnam (SBV) could have more room to reduce interest rate caps further, thereby encouraging commercial banks to lower lending rates.

Vietnam's currency (VND) came under slight pressure in December with the official market exchange rate finishing the year at 21,450 per US Dollar, a depreciation of just 1.6% from a year ago and within the government's target of less that 2.0% each calendar year. The SBV should be able to maintain this continual goal despite any temporary monetary pressure, given Vietnam's trade surplus of approximately USD2.0 billion, foreign direct investment disbursements reaching USD12.5 billion in 2014, increasing overseas remittances and an overall balance of payments in an estimated surplus of USD10.0 billion at the year's end.

Fixed income

After selling USD1.0 billion worth of 10-year government bonds in 2014 at an average yield of 4.8% (below the offer rate of 5.1%), the government plans to issue an additional USD1.0 billion in 2015. Recent upgrades in Vietnam's sovereign debt ratings by Moody's and Fitch have allowed the government to successfully place more long term debt.

For the month of December, on the primary bond market, a total of USD1.49 billion worth of government and government-backed bonds were issued, representing an increase of 394% from November 2014 (USD302 million). On the secondary bond market, trading volume increased 31.4%, with USD4.49 billion worth of bonds transacted for the month. Secondary government bond yields increased between 10 and 39 basis points across the yield curve.

Media links

Below is a list of recent articles related to the investment environment in Vietnam and VinaCapital activity.

[VNC - Falling oil price and rising dollar: Impact on VND]

[VNC - Prospects for deflation in Vietnam]

[VNC - Vietnam's Economy: A review of 2014 and our 2015 outlook]

Macroeconomic indicators

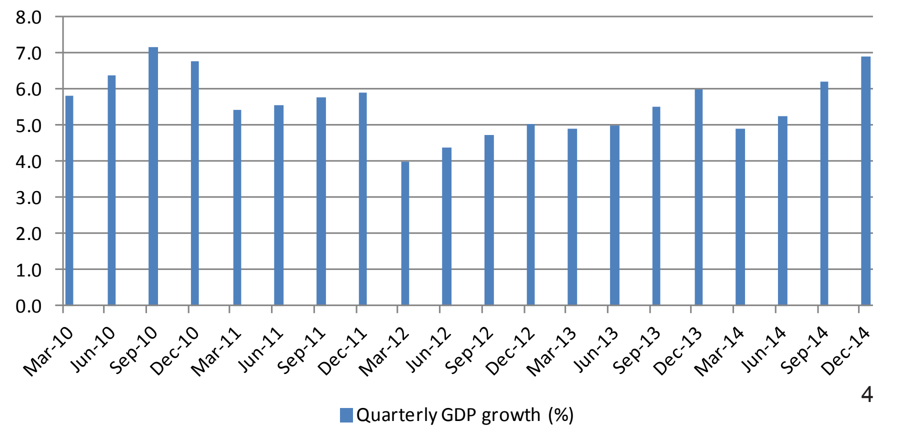
	2013	Dec-14	2014 YTD	Year-on-year
GDP growth[1]	5.4%	6.9%	6.0%	6.0%
Inflation	6.0%	-0.2%	1.8%	1.8%
FDI commitments (USDbn)	21.6	2.2	15.6	9.6%
Imports (USDbn)	131.3	14.0	148.0	12.1%
Exports (USDbn) [2]	132.2	13.1	150.0	13.6%
Trade surplus/(deficit)	0.9	-0.9	2.0	
Exchange rate (USD/VND) [3]	21,115	21,450	-1.6%	
Bank deposit rate (VND)	7.5%	6.0%	-150 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
December-14	4.76	5.04	5.22	6.23
November-14	4.37	4.73	5.08	5.84

Quarterly GDP growth (%)



Real estate industry's transformation with completions of new infrastructure

There were a number of new infrastructure projects that commenced in Ho Chi Minh City, Hanoi and Danang in 2014 which amounted to approximately USD600 million. Some of these projects were completed during the fourth quarter, notably, an upgrade of the Noi Bai International Airport in Hanoi and the Kieu Bridge in Ho Chi Minh City. Completed infrastructure works will continue to have a positive impact on the real estate industry.

A new housing law

New housing laws came into effect during the quarter that relaxed restrictions on foreign ownership of property.

On 25 November 2014, the Vietnamese government approved the amended Housing Law permitting foreign ownership of properties, effective from 01 July 2015. In particular, the new laws allow foreigners to lease landed properties in Vietnam with two restrictions; a 50 year leasehold tenure with option to extend to 70 years and a cap on the total number of units owned in a condominium tower by foreign buyers in aggregate.

The effect from global oil prices

According to CB Richard Ellis (CBRE) in Q4 2014, the down trend in global oil prices is expected to benefit the logistic sectors which might help improve the real estate market possibly through stronger consumption, cheaper construction costs, and lower building operational costs. More favourable market conditions such as low interest rates and new changes in housing law have supported the initial recovery in residential sales and improvements in the absorption rates of office and retail markets.

Condominium sector

The condominium sector saw the launch of several new projects in Hanoi and Ho Chi Minh City.

Numerous condominium projects were launched in the fourth quarter, specifically, 16 projects comprising 7,200 units in Hanoi and an additional 6,760 units in Ho Chi Minh City. While the launch of these new units reflects a more optimistic view for developers, the timely sales of the units could be a challenge.

Retail sector

As reported by CBRE, an increase of inventory in the retail space will be available in the near term. Moreover, with the continuing decline in global oil prices, associated operational costs such as transportation, raw material costs are decreasing which could help lower rental prices. Although lower rental prices may attract retailers, CBRE continues to see high retail tenant turnover. As well, there could still be a short term challenge due to the oversupply of retail space in Hanoi and Ho Chi Minh City.

Hospitality sector

An upgrade to Vietnam's two main international airports and improved visa requirements should help to improve tourism rates.

The fourth quarter is usually the start of the high season for the sector and operating hospitality assets witnessed some improvements in revenue per room on quarter-on-quarter basis as reported by CBRE. However, due to tensions with China during the summer, year-on-year revenue recorded a slight decline. Vietnam is currently in the process of upgrading its airports and has just recently waved visa requirement for an additional seven countries (Japan, Korea, Russia, Denmark, Norway, Finland and Sweden). Proactive planning and upgrading infrastructure and reducing the costs of travelling to Vietnam, should help to improve tourism rates going forward.

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 about 90% of total sales. Vinamilk started to operate its new factory in August 2013, a USD120.0 million facility that boasts the latest technology and will add another 400 million litres of capacity for liquid milk and will provide the foundation for the development of more value-added products in the future. In April 2013, Vinamilk began operating its Dielac 2 powdered milk plant, which has doubled its powdered milk capacity.

FY2014 revenue totalled USD1,634 million and net profit of USD284 million, up by 13.0% and down (7.0%) compared to FY2013. It has been a disappointing year for VNM with regards to gross and net profits. Revenue continued to grow with strength on the back of growing wealth per capita and higher consumption of dairy products. However, gross profit margin has contracted as VNM worked through the higher cost if powder milk purchased when prices were USD4000 per ton versus around USD2500 per ton currently. We have seen VNM gross profit margin expand in late 2014 as they started to use the lower cost powder milk. We expect VNM to continue growing the top and bottom lines in 2015 as retail growth continues in conjunction with GDP growth per capita.

VNM closed at VND 98,000 per share as at 31 December 2014, representing a market capitalization of USD4.6bn, a trailing PE of 15.8x. As at 31 December 2014, VOF held a stake in VNM of USD72.5 million.

Financial highlights

Profit and loss (VND bn)	FY11A	FY12A	FY13A	FY14A
Net revenue	22,544	26,562	30,954	34,976
Net profit	4,251	5,819	6,531	6,069
Net margin (%)	19.5%	21.9%	21.1%	17.4%
EPS (adjusted) (VND)	4,200	5,800	6,500	6,068
Balance sheet (VND bn)				
Total assets	15,582	19,698	22,875	25,770
Shareholders' equity	12,477	15,493	17,545	19,680
ROE (%)	41.3%	37.6%	39.5%	30.8%
Valuation				
PER (x)	11.2	12.5	17.2	15.8
P/B (x)	3.9	4.7	6.3	5.0
Dividend yield (%)	3.7%	3.1%	3.0%	4.9%

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.

Due to low cost production and new capacity from Phase II in operation since 2013, HPG has been able to increase its market share to 19.1% (No 1 in Vietnam), up from 17% as at the beginning of 2014 at the expense of other steel producers.

HPG announced impressive result for 2014, with revenue of VND26 trillion (+34% year-on-year) and net profit of VND3.2 trillion (+64% year-on-year). Growth drivers came from a 43% year-on-year sale volume increase in construction steel, lower input raw material and roughly VND600bn profit contribution from real estate - Mandarin project.

As of 31 Dec 2014, HPG was traded at VND53,000 per share, equivalent to a trailing PER of 8.0x and PBR of 2.2x.

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	6,556
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%	27.5%
Valuation (VND bn)				
PER (x)	9.4	15.3	8.8	6.9
P/B (x)	1.6	1.9	1.8	1.9
Dividend yield (%)	5.5%	5.5%	4.9%	2.2%

* Fourth quarter data not yet available

Sofitel Legend Metropole Hanoi Hotel (Sofitel Metropole)

The Sofitel Legend Metropole Hanoi Hotel, surrounded by various historical monuments and museums is located on 7,500 square meter of prime real estate in the center of Hanoi. It is arguably the best five star hotel in the city with the nearest comparable hotel, a newly built Lotte Hotel being more than 5 kilometers outside of the historical city center. The hotel, managed by Accor Group, boasts 364 rooms with over 27,000 square meters of gross floor area.

For the year to 31 December 2014, average occupancy rate was 67.7% (target 70.1%) with revenues of USD37.1 million and gross operating profit of USD20.1 million, meeting 95.6%, and 98.0% of the budget target, respectively. We had hope that the hotel would deliver performances above budget as it usually has in the past. However, Vietnam faced some difficulties in the middle of the year with the fall out between China and Vietnam over disputed waters and thus, led to a reduction of occupancy. Since then, the tensions between two nations have cooled and occupancy and room rates have recovered, but insufficient to meet 2014 budget. Having said the above, the hotel did outperform last year's gross operating profit (excluding retail rental) by delivering a higher average room rate and revenue per average room rate.

Management expects the financial results to improve for 2015, with a target of USD38.8 million in revenue and USD20.6 million in gross operating profit, a growth of 4.5% and 2.5% compared to 2014, respectively.

Financial highlights

Profit and loss (USD mn) *	FY11A	FY12A	FY13A	FY14A
Revenue	34.3	35.2	37.6	37.1
Gross profit	17.6	18.9	20.2	20.1
Gross margin	51.3%	53.4%	53.7%	54.2%
Net income	6.9	7.5	9.7	9.6
Net margin	20.1%	21.3%	25.8%	25.9%
Balance sheet				
Total assets	47.8	43.8	46.1	42.6
Shareholders' equity	32.2	33.2	38.0	29.8
ROE (%)	21.4%	22.6%	25.5%	32.2%

Eximbank (EIB)

2014 was a challenging year for banks in general as they work through resolving their debts created during the heady years if unreasonably high credit growth and then subsequent years of tightened credit. In other words, Vietnam banks provided too many loans against mostly real estate development projects that were not serviceable as real estate prices collapsed and liquidity dried up. These debts are now being worked out primarily through transferring them to the SBV's VAMC program and for consideration; the banks get a special bond amortizable over five years. This is part of the deleveraging cycle that most banks are going through with some further ahead than others. There is also concerted effort by the SBV to encourage mergers to reduce the number of joint stock banks from nearly 40 to around 25 banks by the end of 2017. Our bank specialist would be happy to discuss with our investors in more details if requested.

As for Eximbank, it is the eighth largest lender in Vietnam with a loan book of VND87 trillion representing 2.2% of total credit. The bank mainly focuses on corporate customers who account for 65% of loan book and 35% of deposit book. Credit growth was modest at 5% in 2014, lower than the sector average of 13%. Low credit growth is indicating of a difficult business environment for SME's. Further, Eximbank has revised its strategy to reduce low-interest loan for individuals to improve net-interest margin ("NIM"). Total assets declined by 5% in 2014 due to a 31-percent decline in low-margin lending via interbank market.

2014 result was weak with net profit of VND44bn, a 93% drop from VND660bn in 2013 due to high debt provision and large one-time write-offs. Provisions increased 160% year-on-year due to the amortisation the VAMC bond received in 2013. EIB share price closed at VND12.8k per share on 31 December 2014, representing a market capitalisation of USD739 million, a 2015 P/E of 19.7 and a P/B of 1.1.

Financial highlights

Profit and loss (VND bn)	FY11A	FY12A	FY13A	FY14E
Net interest income	5,363	4,901	2,736	2,550
Net profit	3,038	2,139	658	44
EPS (adjusted) (VND)	2,460	1,730	532	36
Balance sheet (VND bn)				
Total assets	183,567	170,156	169,913	161,000
Shareholders' equity	16,302	15,812	14,679	14,040
ROE (%)	20.4%	13.5%	3.6%	0.3%
Valuation				
PER (x)	8.7	8.3	23.5	353.8
P/B (x)	1.2	1.1	1.1	1.1
Dividend yield (%)	9.0%	9.4%	4.0%	0.0%

PetroVietnam Drilling (PVD)

PetroVietnam Drilling JSC (PVD) is the leading Vietnamese drilling-related services company. The State Owned PetroVietnam, currently owns a 51% stake. The company operates eleven drilling rigs including nine jack-up rigs, one tender assist drilling rig (TAD), and one land rig.

Management estimates FY14 revenue at VND30.5tn, an increase of 31% year-on-year and net profit reached VND2.3 – 2.4 trillion, an increase of 22 – 28% 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. Additionally, the well services segment achieved an increase in capacity due to higher demand for all supporting services.

We think recent decline in oil prices will have a negative effect on PVD with profit expected to decline by around 7% per annum in the next 2 years as owned rigs are not impacted (most contracts signed until 2016) but leased rigs and services will be impacted.

As at 31 December 2014, PVD closed at VND64,500 per share, implying a trailing P/E ratio of 8.1x and P/B ratio of 1.7x. PVD share price underperformed the VN Index (PVD +5.7% vs. VN Index +8.1%).

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%

* Fourth quarter data not yet available

PetroVietnam Technical Services Corporation (PVS)

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

For 2014, PVS announced consolidated results with revenue of VND31.4 trillion (+23% year-on-year) and profit after tax of VND1.76 trillion (+12% year-on-year), thanks to full year operation of floating storage and offloading unit (FSO) Bien Dong and the increase of income from associate and JV companies.

Similar to PVD, we think PVS profit will decline by around 10% per annum in the next 2 years if current low oil prices environment persists.

As at 31 December 2014, PVS closed at VND26,900 per share, implying a trailing P/E ratio of 7.8x and P/B ratio of 3.0x. PVS share price outperformed the VN Index (PVS +32.5% vs VN Index +8.1%).

Financial highlights

Profit and loss (VND bn)	FY11A	FY12A	FY13A	FY14A
Net revenue	24,310	24,590	25,390	31,373
Net profit	1,420	1,120	1,575	1,760
Net margin (%)	5.8%	4.6%	6.2%	5.6%
EPS (adjusted) (VND)	4,765	3,758	3,378	3,940
Balance sheet (VND bn)				
Total assets	15,980	15,050	16,070	26,226
Shareholders' equity	5,910	6,250	8,220	9,298
ROE (%)	24.0%	17.9%	19.2%	18.9%
Valuation				
PER (x)	3.2	3.7	6.0	6.8
P/B (x)	0.8	0.7	1.1	3.0
Dividend yield (%)	6.0%	4.0%	4.1%	4.5%

Hau Giang Pharmaceuticals (DHG)

Hau Giang Pharmaceutical is one of the leading domestic pharmaceutical manufacturers in Vietnam. DHG's manufactured products accounted for 91% total revenue in FY2014. The company's total production was doubled to eight billion units when its new non-betalactam factory began operations in June after a trial run earlier this year.

Management estimates FY2014 net revenue totalled USD183.3 million, an increase of 11.2% year-on-year. The largest revenue contributor, manufactured product recorded strong growth of 18.8%. FY2014 net income declined to USD24.8 million (-10.0% year-on-year) due to one-off profit of VND90bn from the sales of the Eugica brand in FY2013. Without this one-off profit, core net profit increased +7.5% year-on-year. Given that the company's old factory has been running beyond full capacity for the past two years, management expects DHG's new factory to double production capacity and increase sales volume by nearly 20% per annum over the next five years.

DHG closed at VND96,000 per share as at 31 December 2014, representing a market capitalization of USD392 million and a trailing P/E ratio of 15.8x. As at 31 December 2014, VOF held a 7.2% stake in the DHG valued at USD28.4 million.

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%

* Fourth quarter data not yet available

Century 21

Century 21 was acquired in 2006 because of its prime location, close to a new traffic corridor to the central business district (CBD). The Thu Thiem tunnel which was 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 planning parameters 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 the detailed 1:500 master plan approval was received in September 2014. The section of highway directly adjacent to the site is expected to be completed in Q1 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.

Should the project proceed to develop in the future 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 have created interest among domestic and foreign investors.

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 31 December 2014, VOF held a stake in VNL valued at USD21.1 million.

Project summary

AIM inception	22 March 2006
NAV (31 December 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)	Debt remains low, with only 18.6 percent of NAV on a consolidated basis.

International Dairy Product (IDP)

International Dairy Products JSC ("IDP") was established in 2004 with its first factory outside of Ha Noi. It later launched the second (2010) and third factory (2013) in Ba Vi (outside of Hanoi) and Cu Chi (outside of Ho Chi Minh City), the two largest fresh milk production areas in Vietnam (in 2010 and 2013, respectively). IDP specializes in producing and selling UHT milk, pasteurized fresh milk, spoon yogurt and drinking yogurt, using the latest technology from Europe. Currently, IDP is managing a co-op of over 2,000 farmers, collecting more than 75 tonnes of fresh milk per day to produce for brands as Love'in Farm, Ba Vi, and Love'in Farm KUN.

In 2014, the Company reported top-line growth of 60% compared to 2013, reflecting the highest growth among peers in the dairy segment thanks to a successful launch of the KUN brand (for kids) in the second half of 2014. Management expects IDP to continue growing rapidly in 2015 to the tune of 50% plus and over the next three years management expects the top line to deliver an average growth of 25% plus per annum. Vietnam's current average annual milk consumption is 14 litters per annum, far lower than the regional average of 30 litters per annum, and substantially lower than some countries like Japan, India and Australia with the average of 71, 83 and 106 litters per annum. With a population of 90 million people and growing and in addition to a growing GDP per capita, Vietnam is expected to see dairy consumption grow with strength in the coming years.

After negotiating with and advising the previous shareholders (and management) of IDP for over a year, VOF finally invested in IDP for a controlling stake in late 2014. At the time of the investment, we had expected revenue for 2014 to USD75 million and a small lost. Actual 2014 unaudited results indicate that revenue is above USD80 million with a slight lost of less than USD1.5 million. New management, led by Mr. Tran Bao Minh (one of the leading consumer product specialists in Vietnam) expects the bottom line to show a meaningful amount of profit after tax in 2015.

Since our investment, IDP has garnered significant amount of attention from leading consuming product companies in Vietnam as well as multinationals with and without operations in Vietnam. We hope to one day capitalize on this interest for our exit.

Financial highlights

Profit and loss (VND bn)	**FY12A**	**FY13A**	**FY14A**
Net revenue	925	1,065	1,706
Net profit	6	(9)	(37)
Net margin (%)	0.6%	n/a	n/a
Balance sheet (VND bn)			
Total assets	788	834	1,063
Shareholders' equity	230	235	419
ROE (%)	2.6%	n/a	n/a

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

Board of Directors

VOF's Board of Directors is composed entirely 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

Contact

David Dropsey	Investor Relations/ Communications ir@vinacapital.com +848-3821-9930 www.vinacapital.com
Brokers	Edmond de Rothschild Securities +44 (0)20 7845 5960 funds@lcfr.co.uk Numis Securities +44 (0)20 7260 1327 funds@numis.com

Important Information

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.