Dear Investors,

The international media has given Vietnam a disproportionate level of negative press over the last few weeks. While some of the commentary may be justified, we are concerned by what we believe will eventually be seen as an exaggeration of the dangers facing the country.

There is no doubt that Vietnam is now facing a raft of economic challenges that would appear to threaten the considerable economic gains achieved over the last ten years. These are certainly alarming, but we strongly believe that they are a product of internal monetary policy issues and Vietnam's recent success, and much less a product of the international issues currently affecting much of the investment world. In light of these developments we would like to update you on these challenges and what they mean for our funds.

Vietnam is now seeing higher than usual inflation, a high trade deficit and a depreciating currency. These developments stand in stark contrast to the exceptional economic performance that the country has achieved over the last ten years.

Inflation year-on-year to May 2008 (announced 27 May 2008) is 25.2 percent; much higher than previously anticipated. This increase is a combination of both cost-push factors – such as energy and food prices, as experienced throughout Asia recently – and demand-pull factors, namely the significant monetary and credit expansion that occurred late last year.

Unfortunately, although the Government has implemented a number of fiscal and monetary tightening policies, it will take time for these to have an effect. As a consequence, given the high month-on-month inflation gains experienced over recent months, we believe that inflation is unlikely to top-out until it reaches over 30 percent in the fourth quarter of this year. For 2009, we believe inflation will quickly decline to less than 12 percent, possibly lower, as the Government's new policies are reflected in the annualised numbers.

The trade deficit for the first five months of 2008 is expected to surpass USD15 billion, seemingly on its way to over USD30 billion for the full year; a considerable increase on the 2007 deficit of USD12 billion. Whilst this is alarming, it is important to understand the details behind such statistics.

Vietnam's top import items are machinery and equipment ("M&E"), construction materials and refined fuel. We can all agree that the supply of M&E and construction materials is integral to the development of an emerging economy. In Vietnam's case many of these items must be imported, as the country simply does not have the factories to produce such equipment and materials locally. However, this is quickly changing. Much of the equipment being imported is building the factories and infrastructure needed for the country's development. For example, today Vietnam is a net importer of steel, but it will soon produce and refine sufficient amounts to satisfy domestic consumption.

It is also worth noting that unlike most countries, Vietnam is self-sufficient in terms of crude oil production, but unfortunately in the absence of an oil refinery it has to export 100 percent of production and then re-import it as refined fuel. This will also change very soon as the first refinery will come on-stream in 2009.

While the trade deficit will certainly be high in 2008, we do not believe it will extrapolate out to USD30 billion for the following reasons:

- a number of measures have been implemented to restrict imports of non-productive and non-essential goods;
- after the Government hinted at restrictive measures months ago there was an immediate importation of goods and hording of materials in advance of the implementation of the anticipated measures (ie. a temporary surge). The restrictive measures, including lower quotas and higher import tariffs, have now been implemented;
- we believe that further restrictive measures will be implemented;
- the cost of capital (particularly debt) has increased dramatically, which will dampen business activities and reduce imports.

The Vietnamese Dong ("VND") as at 30 May 2008 was trading at an official rate of VND16,086 plus/minus 1 percent against the United States Dollar ("USD"). In the unofficial market, however, the USD is buying VND17,200. This is a 7.3 percent depreciation since the beginning of the year. Clearly, some further downward movement must be expected, but where it eventually ends up depends, of course, on both economic factors and direct government policy.

A combination of the tightening monetary policies and distaste for negative real interest rates on debt paper has caused interest rates and bond yields to rise significantly. We are currently seeing interest rates of 14 to 18 percent for short-term VND deposits at local and international banks. Yields on long-term bonds have now surpassed 20 percent. This is expected to continue until inflation is under control.

High interest rates are obviously going to put pressure on those businesses that are already highly leveraged or require debt capital for growth. We can even expect that this will result in business failures, but view this as necessary "cleansing process" that the commercial sector must progress through if Vietnam is to continue to move forward. Over the last five years Vietnamese enthusiasm for business has simply lead to the establishment of too many companies that do not have the technical skill, management expertise, or capital to be sustainable. In a similar vein, a number of large conglomerates have over-diversified into non-core fields of business.

So clearly there are problems. But we strongly believe that the current situation is a consequence of major "growing pains" stemming from the exceptional economic growth achieved over the last 10 years, combined with weak monetary policies. One year ago, it was impossible for anyone in Vietnam to believe that an economy can grow too quickly. Today we have clear evidence that this is in fact the case. How long these "growing pains" will prevail depends on the extent to which the Government implements the right fiscal and monetary policies. Certainly, the country's leaders appreciate the seriousness of the situation. There have been many lessons since *doi moi* began on how to manage a market-based economy. Perhaps today is their biggest challenge to date, but few people that understand Vietnam can question the Vietnamese propensity to learn and overcome considerable challenges.

Impact on the Vietnam Opportunity Fund

During the second half of 2007 and into 2008 VOF was a net seller in the listed market. In the last six months of 2007 VOF liquidated more than USD120 million in equities and used the proceeds, and the funds raised in November 2007, for reinvestment into private equity deals.

Today the VOF portfolio has about 30 percent of its NAV in the listed market. The VN-Index has declined 16 days straight (as at 27 May 2008) and is currently at 420. This is a decline of 20 percent since 30 April 2008. VOF is also exposed to the OTC market by about 20 percent, and this market normally lags the VN-Index in valuation by about a month.

Given the continued decline in the VN-Index, and subsequent decline in the OTC market, the equity portfolio will have a negative impact on the valuation of the VOF portfolio at the end of the month. Also, in accordance with our valuation practices we will also review VOF's private equity investments and will consider write downs where we believe values have been impaired. With approximately 25% of the portfolio in direct real estate investments, there is expected to be a small offsetting gain.

VOF currently has very little uncommitted cash and therefore is not exposed to the devaluation of the currency. However, VOF's underlying assets are VND based and its reporting currency is USD and so the decline of the local currency will have an impact on VOF's NAV. The impact is minimal at this time since VOF can only convert VND to USD based on the official rate and sufficient funds have been available for conversion. VOF holds less than USD2 million in bonds and therefore is not exposed to the steep decline in bond values as a result of rising yields.

We are continuously reviewing hedging mechanisms and forward contracts to protect the portfolio against a falling VND. However, given the restrictive nature of the VND (for example, it cannot be traded outside of Vietnam), the availability of such contracts for material amounts is extremely low and very costly. Therefore, VOF has not resorted to entering into any such arrangements.

Impact on VinaLand Limited

The VNL real estate portfolio currently has 41 assets spread across all property sectors in Vietnam, including 24 percent in hospitality, 20 percent in residential, 15 percent in mixed-use office and retail, and 41 percent in large-scale township and land banking projects. Other than four operating hotels the majority of VNL investments are site acquisitions for real estate development.

The real estate market in Vietnam demonstrated strong growth through 2006 and 2007 across all sectors with exceptional increases in the residential sales markets in Hanoi and Ho Chi Minh City during the second half of 2007. During the first four months of 2008 we have experienced a slowing down in the market, in residential sales prices which have come down approximately 30-40 percent in some instances. We anticipate the residential market will continue to correct and then level off over the next few months. However the medium to long-term prospects for real estate are strong, particularly for hotels, residential/township developments and the retail sector.

VNL's entire portfolio consists of direct investments in real estate projects and subsequently the fund is not directly exposed to the Vietnamese stock market. Furthermore, as VNL participates in the wholesale market rather than the retail market, it is not heavily affected by the drop in the retail residential prices over Q1 2008 (the unrealistically high residential property valuations experienced last year were not significantly factored into any of our property valuations).

VNL has no borrowings at the fund level and less than 10 percent leverage over the fund at an individual project level. Our cash position at present is relatively small in both USD and VND and therefore not materially exposed to currency fluctuations on these holdings. Generally, speaking the underlying assets of the portfolio (property) continues to be valued locally in USD, and as such, currency falls do not have the same direct impact on valuations as VND denominated securities and other assets.

VNL's NAV increased USD 16 cents per share during Q1 2008 and the NAV as at 31 March was USD 735 million, or USD 1.47 per share (a 47 percent increase since inception). On 21 May 2008 VNL announced the sale of an equity stake in one of its projects that is expected to increase the NAV by a further 9 to 11 cents per share at the next valuation date.

Impact on Vietnam Infrastructure Limited
The VNI portfolio currently has 20 percent of its NAV in listed stocks. In addition, VNI also has 5 percent invested in OTC stocks and 11 percent in private equity investments.

The listed portion of the VNI portfolio has dropped since 30 April 2008, although considerably less that the VN-Index. Some of our investee companies in the infrastructure sector provide basic utilities such as electricity – which still has severe shortages in Vietnam – and so demand is generally inelastic. In addition, the intrinsic value of assets underlying these companies, such as the potential to develop major power plants, also helps to shield their stock prices from the general market downtrend. Furthermore, VNI's NAV is somewhat shielded as our listed shares were purchased at significant discounts to the market price at the time of entry.

VNI currently has more than USD 208 million in cash, of which 38 percent is held in USD and 62 percent in VND. The cash is kept in terms deposit with reputable banks. As the majority of VNI's underlying assets are VND denominated and its reporting currency is USD, a decline in the local currency will have an impact on it's NAV. Nevertheless, the impact to date has been quite minimal since VNI can only convert VND to USD based on the official rate, which has not materially changed. VNI holds less than USD 10 million in bonds and therefore is not heavily exposed to the steep decline in bond values as a result of rising yields.

VNI is currently focusing on private equity investments and greenfield projects. We have been highly selective in evaluating investment opportunities, taking into consideration the current Vietnamese economic situation.

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Today in Vietnam businesses are still growing, exports are increasing, construction cranes dot the skyline, traffic is getting worse, all the restaurants are packed, and at certain times of the day it is still impossible to get a taxi. Life continues on at a frantic pace, and most importantly the country's medium and long term fundamentals have not changed in the slightest way.

At VinaCapital we remain committed to executing our strategy of identifying and investing in the best investment opportunities the country has to offer. We do hope that you will continue to believe, as we do, in this country's very exciting future.

Yours sincerely

Don Lam
Chief Executive Officer
VinaCapital Investment Management Limited