

# The Distinction of Excellence

## ANNUAL REPORT 2011

These exciting photographs capture the moments of our People and narrate the story behind our excellent performance and growth to become the strongest and most professionally managed securities firm in Vietnam.





Distinction

Strategy

Excellence

#### **The Distinction of Excellence**

2011 continued to be another year of exceptional challenges to the securities markets. Many securities firms struggled with severe losses as a result of dwindling brokerage income or bad debts from their reckless margin programs. The good news is that HSC not only weathered the storm but also achieved the distinction of delivering yet another excellent financial performance despite the extreme market difficulties. Staying close to our prudent strategy and driving excellence across all aspects of our business, HSC has emerged as a stronger and more professional organization, well-placed to tap on growth opportunities in the future.

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## HSC Profile

### Vision

We aim to lead the securities industry and capital markets in Vietnam, to become the country's most admired, trusted, and valued financial institution, and to be a major contributor to the sustainable development of Vietnam's capital markets.

### Mission

In order to attain our ambition, we set ourselves apart, in a class of our own, and raise the standard for professionalism, innovation, ethics and human interaction.



*Photo: BOD meeting for the plan 2012 dated Feb 29<sup>th</sup>, 2012*

### Core Values

At HSC, we strive to be true to our corporate values and to apply them in everything we do.

#### **HIGH LEVEL OF INTEGRITY**

To build a high level of trust from our clients, investors and those in the securities business in Vietnam and beyond.

#### **HIGH STANDARD OF WORK ETHICS**

At all levels, our staff are dedicated to providing the best service to our clients, going the extra mile for our partners, and forging strong relationships with all our stakeholders.

#### **HIGH LEVEL OF PROFESSIONALISM**

Constantly developing and adopting best practices; upgrading our expertise and processes to execute all transactions in the best interest of our valued clients.

### Overview

HSC is a prominent and award-winning professional securities brokerage and equity firm in one of the fastest growing Asian economies, Vietnam. HSC delivers a comprehensive list of financial products for Private and Institutional Clients, providing professional investment advisory backed by solid, trusted research. For Investment Banking Clients, HSC has established an exceptional track record of connecting businesses to investors and creating long-term partnerships.

Established in April 2003, HSC was borne of a partnership between two financial powerhouses, the Ho Chi Minh City Investment Fund for Urban Development (HIFU), currently Ho Chi Minh City Finance and Investment State-owned Corporation (HFIC), the investment arm of the government, and Dragon Capital Group, a UK-based integrated investment group centered on the emerging financial markets of Vietnam.

Listed on the Hochiminh City Stock Exchange on May 19<sup>th</sup>, 2009 under the ticker HCM, HSC's total shareholders' equity of VND 2,029 billion (approximately US\$ 96.5 million), makes it one of the biggest securities companies in the country with a strong financial base and investment capacity.

HSC continuously hones its core competencies in Research, Technology and Human Capital to enable the development of new and improved financial services such as equity financing, mergers & acquisitions and underwriting capabilities. We continue to place emphasis on relationship building and providing value-added products, growing our scope of business based on clients' growing needs.

# Corporate Milestones

## 2003

- Officially started operations after receiving Business Registration Certificate No. 4103001573 from Department of Planning and Investment of Ho Chi Minh City issued on April 23<sup>rd</sup> 2003, and Business License No. 11/SSC-GPHDKD from State Securities Commission issued on April 29<sup>th</sup> 2003.
  - HSC commenced operations with initial capital of VND 50 billion, which at that time was one of the largest capital in the securities sector in Vietnam.
  - Inaugural CEO: Mr. Do Hung Viet.
  - Inaugural head office: 27 Pasteur Street, Hochiminh City.
- 

## 2006

- Increased charter capital to VND 100 billion.
  - Relocated head office and transaction office to Capital Place Building, 6 Thai Van Lung Street, District 1, Hochiminh City.
  - Second CEO: Mr. Nguyen Huu Nam.
- 

## 2007

- Raised charter capital to VND 200 billion.
  - Established Hanoi branch at 6 Le Thanh Tong, Hoan Kiem District.
  - Issued shares to strategic shareholders HDBANK and IDICO.
  - Current CEO: Mr. Johan Nyvene.
- 

## 2008

- Further increased charter capital to VND 394.634 billion.
  - Secured strategic partnership with DAISHIN, one of the three leading securities companies in Korea.
  - Launched the Call Center PBX support system and VI-Trade system that enables trading over the Internet.
  - Established Hau Giang transaction office in Hochiminh City.
- 

## 2009

- Officially listed on Hochiminh City Stock Exchange (HOSE) with the stock ticker HCM.
  - Upgraded internet trading platform (VI-Trade system) and launched VIP-Trade, a more advanced version of the portal that allows real-time transactions.
  - Established Lang Ha transaction office in Hanoi.
  - Recognized as one of the top 4 securities companies with the largest market share compared to more than 100 securities firms across the country.
- 

## 2010

- Increased charter capital to VND 600 billion.
  - Established 4 transaction offices: Tran Hung Dao, 3 Thang 2 in Hochiminh City and Ba Trieu, Kim Lien in Hanoi.
  - Renamed and relocated Hau Giang transaction office to 3 Thang 2 transaction office in Hochiminh City.
  - Recognized as the No.1 securities firm in Vietnam and one of the top 20 leading securities firms in Asia - 2010 Extel Awards by Thomson Reuters.
  - Received Platinum Award - the best Annual Report worldwide in Financial - Capital market by US-based LACP.
  - Ranked No.3 in the brokerage market share out of more than 100 securities firms across the country.
- 

## 2011

- Increased charter capital to nearly VND 1,000 billion.
- Relocated head office and IT Data Center to new corporate head quarters at AB Tower, 76 Le Lai, District 1, Hochiminh City.
- Closed 3 Thang 2 transaction office in Hochiminh City.
- Voted as “Best Brokerage Firm in Equity Research in Vietnam”, 14<sup>th</sup> in Asia - awarded by Institutional Investor.
- Voted as “The Best Local Brokerage in Vietnam 2011”, “The Best Analyst in Vietnam” together with 15 other major accolades awarded by AsiaMoney.
- Voted as “Rising Star Domestic Investment Bank in Vietnam” - The Asset Triple A Country Awards 2011 by The Asset magazine, marking the development of investment banking activities in HSC.
- Received “Gold Award” for annual report in Financial - Capital markets by US-based LACP.
- Ranked 194 out of 1,000 companies contributing most to national budget.
- Ranked No. 2 in the brokerage market share out of 105 securities firms across the country.
- Ended 2011 as the most profitable firm out of 105 securities firms (of which 63 firms reported losses).

## CEO Review



Photo: Johan Nyvene, CEO

### DEAR FELLOW SHAREHOLDERS AND CUSTOMERS,

It has been a fast moving five years since some of my senior colleagues and I first stepped into the door of a relatively small, obscured, and perhaps even chaotic securities house in a market that was basically a feeding frenzy at that time. While the Vietnam stock market has been evolving, oscillating, but mostly tumbling downhill since then, we have seen our firm HSC steering through the turbulence of the industry and surpassing the crowd to become a top ranking securities firm today. We have emerged stronger year after year, delivering yet another solid financial performance in 2011 as well as winning recognition as the most professionally managed securities firm in Vietnam. Although our achievement has been outstanding as you can see, our path has been anything but smooth sailing.

### SURVIVAL OF THE FITTEST

2011 can probably be viewed as the second year in a test of endurance for Vietnam's already much battered securities markets, and closer to home, for the securities companies themselves. "Financial strength" is no longer a marketing description boasted on the websites of many firms but can now be realistically deciphered by investors into how many trillions of dong in shareholders' equity and how many hundred billions of dong in net profit. With the story of firms like MF Global Holdings' bankruptcy unfolding in the US and the case of insolvency at a number of securities firms in Vietnam, investors in the country are beginning to come to terms with the concept of "intermediary risk" in addition to market risks that they have just in the last few years begun to embrace.

Similar to and alongside with the banking industry in Vietnam where the question of any institution's balance sheet health, capital adequacy and solvency is now seriously posed, Vietnam's securities industry is showing that imprudent financial and risk management has exposed a significant number of firms to losses, and the depletion of their capital. While formal bankruptcy is not normally carried out in Vietnam due to many factors, insolvency in operating cash flow has revealed that a number of securities firms are now in great financial difficulty.

The theme urgently directed by the regulators currently is the "restructuring" of the securities industry. With roughly 70% of the securities firms (most are not listed) estimated to be operating at a loss as at end of 2011, investors, market watchers, as well as regulators have shown sentiment that only 25 to 30 securities firms are expected to remain in business in the near future; and rightfully so, given the fact that the top five firms are controlling approximately 40% of market share. With daily trading value averaging only VND 1 trillion per day in 2011, HSC as a top securities firm with about a 7.2% market share generated only VND 61 billion in net fee income for all brokerage activities in the year. Smaller firms with only a fraction of a percent in market share cannot possibly generate sufficient income from brokerage to cover basic operating costs in 2011's market environment.

## CEO Review

As brokerage activities and fee income dwindled, firms with a small capital base or those who depleted their capital on proprietary trading losses also have less or no interest income from margin and repo businesses. Given the high interest rate environment, interest income from margin activities, or even from cash deposit at banks, was a significant and important part of total income in 2011. In addition, margin accounts became an integral and intertwined part of the brokerage business and those firms that cannot support their clients with leverage capabilities gradually lost their market shares as well as their fee income further.

Ironically however, some securities firms with large brokerage market shares and ample funding from their allied banks got in trouble also because of their leverage activities when they handed out margin accounts and limits generously and aggressively. Risk management became the “buzz word” of 2011 when regulators formalized the margin lending concept and imposed certain parameters in which securities firms need to operate in order to maintain their margin programs. But some of the damages had already been done as many of both large and small securities firms were stuck with trillions of dong in margin positions they were unable to unwind fast enough. HSC’s risk management system firmly stood the test of turbulence when markets sold down and we continued to be able to margin call and maintain all of our margin positions above the maximum lending limit threshold. The key ingredients to us were nothing more than the basic rule of risk assessment and recognition, and in applying best practices in our procedures, systems, and discipline in risk mitigation.

### THE DISTINCTION OF EXCELLENCE

In the space of five years, and particularly in 2011, HSC has evolved to be known in the market as the strongest and most professionally managed securities company in Vietnam. This is not a subjective description as we have been recognized and commended by regulators, investors, and customers. We have been celebrated by the media, and awarded by industry surveyors. Actually, the most convincing proofs of our market leadership are our financial performance and market share expansion.

#### **Growing business, revenue, and profitability in a year of extreme challenges and turbulence**

In a year when many of our industry peers struggled with losses from bad debts, provisions, and write-offs, and a few had to forfeit their brokerage license, we feel extremely proud of our very good financial performance in 2011.

With a net revenue growth of 12% and a net profit increase of 7% over 2010 which reached VND 194 billion in absolute terms, HSC registered as the most profitable securities firm in Vietnam in 2011. This translated into an ROAE of 10.7% and a fully diluted EPS of 2,920 per share

for 2011. While a high interest rate environment helped enhance our profitability as a significant part of our revenue base was in interest income from both margin/repo activities as well as from bank deposits, we would like to recognize the fact that our margin program was/is the most prudent and efficient program in the industry as there has been no report of bad debt, provision, or losses in the portfolio, and we continue to secure our capital base and shareholders’ equity one hundred percent. While total market trading value dropped by 60% and our own processing volume dropped by 40%, and despite the high interest rate environment, our margin portfolio balance continued to maintain an average of VND 610 billion. This margin portfolio yielded a return rate of 21% in 2011 and contributed 32% of our total revenue.

Profitability throughout the last 5 years has steadily increased our book value per share despite the fact that we continue to pay out good dividend rates. For 2011 we have already advanced a 10% dividend (on face value) and we are confident that shareholders will approve a total dividend payout rate close to last year’s rate of 17%.

#### **Gaining bigger market shares in both institutional and retail segments**

Our capability and strength in both the institutional and individual investor segments have resulted in market share expansion in both customer segments for us. On the institutional side, our strongest competitive edge continues to be our award winning research work and our ability to provide access to investors for direct interaction with investee companies through teleconferences as well as company visits. Although foreign investors represented a relatively small percentage of day to day trading volumes, we have garnered about 25% of total foreigners’ trading on any given day, which represented mostly institutional trading. At this rate, we have achieved a market ranking of being either number one or number two in any given month as the securities firm with the largest market share of the foreign institutional segment. While it depends on the percentage of foreigners’ trading over total market trading, we have basically expanded our market share from 1.7% in 2010 to 2.6% in 2011.

With the opening of the Le Lai Transaction office at our new Head Quarters building, our total Retail market share has expanded from 4.2% in 2010 to 4.6% in 2011. An intricately developed network of brokers aided by an efficiently run margin lending program and advanced technology in trading and market information platforms have secured a stable and fast growing number of active retail accounts for us, especially during a time when many of our peers have had to cordon off and review their risk management functionality. The consolidation in the securities industry in Vietnam has probably begun in 2011 and I anticipate that it will be progressing in our favor as it will be very challenging to many of the small firms who have inadequate resources to continue servicing their customers effectively.

## CEO Review (cont'd)

### Linking buyers and sellers for corporate growth strategies and exit opportunities

Megastar which you will see featured in this annual report was one of the biggest transactions in the M&A space in Vietnam in 2011. Besides Megastar, we also closed a number of other notable deals where foreign investors were brought to local businesses whom we represented and raised capital for. Valuation was considered favorable to sellers in these deals and therefore besides aligning strategic investors' interest to Vietnamese companies' development needs, we also provided attractive exit opportunities to financial investors as well as founding investors through these transactions.

I believe Vietnam's corporate finance environment has entered a new phase of development when it has been recognized that there is a serious dearth of medium and long term funding and the practice of using short term bank financing to finance corporate expansion has been carried out to its limitation. With the tight liquidity situation and high interest rate environment in the banking system, bank loans can no longer be considered solutions, even in "quick fixes". The bond market has not reached a maturity level where corporate bonds can be a viable or effective option for capital raising. The public equity market was in a downward spiral in both valuation and liquidity for more than two years. Although markets have improved recently, it is probably still very challenging for IPOs to achieve results as good as they can be in private equity placement as in the deals we have done in 2011.

We will probably not find a niche market in the IPO of large state-owned enterprises or in mega M&A deals given our independent profile. However, our track record has demonstrated that our distribution network can be tapped in effectively to link both strategic and private equity investors and sellers to one another. We will continue to aim at creating value to high growth medium size companies in which entrepreneurial investors now need both capital and expertise for further growth. This is the future of Vietnam.

### Increasing capital to feed a bigger balance sheet

In October, we proceeded with the capital raising exercise which was planned a year back. Although we were not short of capital in 2011 given the slow markets and the ample cash accounts we continued to maintain in bank term deposits, we have anticipated and forecast that 2012 can be a turning point year where markets can begin a new phase of growth and in which opportunities in both equity and debt markets might appear. In the first three months of 2012, this prediction has materialized to a certain extent as market trading value has increased and our margin loan book has grown from about VND 620 billion at the end of 2011 to about VND 1,300 billion currently. We anticipate that with the current rate of market trading, our margin loan book might grow to a new record

level of VND 1,800 billion at some point in 2012. We should still be able to accommodate this credit level with our current capital base but any further increase in margin activities might put a strain on our current balance sheet. There is some leverage capability in the market and we have lined up some bank credit facilities in case of need but it might still be a "patchy" arrangement and not a comprehensive solution and not yet sustainable in this credit environment on a larger scale.

### Winning accolades

After winning **The Best Brokerage Firm and Best Equity Research Firm in Vietnam** award (The 2010 Extel Survey, awarded by Thomson Reuters), in 2011 our service quality and capability received further recognition in the international arena through a number of prestigious awards bestowed to us. I would like to take this opportunity to thank our customers and the industry experts who voted for us for **The Best Local Brokerage in Vietnam** (The 2011 AsiaMoney Brokers Poll, awarded by AsiaMoney), **The Best Analyst in Vietnam** (The 2011 All - Asia Research Team Survey, First Team in Vietnam awarded by Institutional Investor), and **The Rising Star Domestic Investment Bank in Vietnam** (The 2011 Triple A Country Awards, awarded by The Asset). We are committed to continue relentlessly improving our processes, technology, and products, to meet your standard and investment needs in Vietnam.

### Sharing the knowledge and showing our market leadership

Vietnam's capital markets are still relatively unsophisticated and our role as a market leader has been fulfilling but also full of responsibility as we are called upon from time to time as a sounding board to add value to a new guideline or a new market practice. On the bond side, we have co-founded and are an active member of the Vietnam Bond Market Association (VBMA) where we are currently represented in the Standing Committee. This is the first professional association of its kind in Vietnam which has actively contributed to the Ministry of Finance and the State Securities Commission in defining new concepts and parameters to shape Vietnam's developing bond market. Some of the current projects which are being undertaken by VBMA include the establishment of a primary bond dealers' network, and laying the infrastructure for a market maker environment. On the equity capital market, we were a member of the VN30 Index Committee which was organized by the Hochiminh City Stock Exchange to produce a new index in 2011 as a better yard stick to gauge the market. We have also actively contributed our knowledge to the State Securities Commission, the stock exchanges, and the Vietnam Securities Depository in projects to bring new products to the market including current products like margin accounts and future products like securities borrowing and lending and derivatives.



## CEO Review (cont'd)

### THE GAME PLAN HAS CHANGED SLIGHTLY BUT OUR POSITION IS EVEN MORE SOLID

#### Increasing profitability in 2012

By now, I believe we have seen indications that 2012 is emerging as the first year in a new phase of development in Vietnam's securities market. Market liquidity has increased by an average 50% since the end of 2011 and on some days we have seen total trading value of more than VND 3 trillion. The sentiment is clearly for a new market cycle. With this increased level of market activities and with continued growth in our brokerage market share, we are very hopeful that our 2012 operating plan can take the assumptions of the best case scenario. This means that for 2012 we can aim at a growth in the bottom line profitability of between 20% and 50%. The variable here is in the upside potential of the market versus a lower interest rate environment. With about half a trillion VND of cash on our balance sheet, we will need to critically consider if it's better economic profit to use our shareholders' capital to fuel the growth of the brokerage business further or to take selective opportunities in the equity markets. To us, the answer will always be to find the right balance to maximize shareholders value with a reasonable and manageable risk appetite.

#### Usage of shareholders' capital

Besides the margin lending business and the equity investment opportunities, we will also need to consider using our balance sheet in other strategic opportunities including the bond market and in corporate finance mezzanine lending. With developments in the bond market which are under the VBMA's steering, we will seek to play a major role as a primary bond dealer and at one point with ample capital, become a market maker in the bond business. To be a primary bond dealer and then a market maker will require at least between VND 600 billion to VND 1.5 trillion. This means our capital size will probably gradually need to nearly double at one point in the future.

With IPO and M&A activities finding their way into markets more regularly and in more complex structures, including convertibles or "exchangeable" debts, it has become advantageous for corporate finance advisors who have strong balance sheets to use their financing capabilities to secure and execute deals more swiftly and with enhanced rates of return. Mezzanine financing is a tool and a product we aim to selectively offer in our suite of corporate finance solutions. Although we have completed one such deal in 2010, the high interest rate and low liquidity environment of 2011 did not reveal any viable opportunity for mezzanine financing. With interest rates cooling off and market liquidity improving in 2012, we might consider earmarking between VND 100 billion and VND 300 billion for such financing activities in conjunction with our IPO and M&A advisory activities.

All of the above mentioned potential business opportunities in newly developed areas suggest that we have tremendous room to grow our balance sheet in order to become a sizeable full service securities house in the future. The question of where capital resources will come from in the future is a constant issue for us at the top management level to contemplate despite the comfort zone we currently enjoy with having some cash balances. In perspectives, our current capital size is still smaller than one third the size of our biggest competitor in this market, and unlike many of our competitors, we are not part of a banking group or financial conglomerate where intragroup financing is an option.

#### Continuing the pursuit of strategic partnerships

At this time last year I had shared with you our thought and aim of cooperating with strategic partners on various fronts to add depth and width to our capabilities. The reality in 2011 was not only challenging to the securities industry but also particularly difficult for the fund management industry given the slow formation of a new regime for open ended funds to be established. We still maintain our shareholding in Viet Fund Management (VFM) but throughout 2011 we did not deliver our plan on cooperating with VFM to introduce new fund products to the market.

Our strategy to further strengthen our capital base, to extend our reach beyond borders, and to increase our access to additional businesses and customer targets will likely require us to continue the pursuit of a strategic partner. While HSC is certainly a very attractive proposition for many potential partners and we have contemplated a few dialogues, we have determined that the roadmap to this endeavor will be a three to five year roadmap in order for us to both build the maximum value in our company for shareholders, as well as incorporate as much value as possible that the strategic partner can add.

#### Nurturing and engaging future generations

By saying "future generations" here I mean both the future leaders at HSC and the citizens who will take Vietnam forward in her path to become a developed country. At HSC we have begun to engage our colleagues in a new culture on leadership, with specific roadmaps in measuring leadership competency, building career paths, learning of technical and soft skills, and identifying high caliber and competent personalities. The ultimate goal is to prepare the future leadership and instill a succession planning mentality at all levels in our organization. I anticipate that it will take us about three years to prepare the next generation of function heads, perhaps longer for the next generation of managing directors. But our preparation from 2011 onward has been ongoing and the leadership culture which we have begun building will probably be more progressive after we have established the infrastructure this year.

## Feature on our Partner: Auerbach Grayson & Co



### AUERBACH GRAYSON

**“HSC has a mutually exclusive agency partnership with AGCO since 2008.”**

Auerbach Grayson & Co (abbr: AGCO) is a global broker founded in 1993 and based in New York City, USA. AGCO deals predominantly in emerging markets, catering to institutional investors. HSC forms part of AGCO’s network of partners in 128 countries, providing it a platform to distribute research produced by local analysts to clients and market data providers in the US.

Additionally, the company offers direct access to foreign analysts and company management, through investor-conferences and roadshows, and on an individual basis using conference calls and by taking clients on trips to meet with foreign analysts and the management of investee companies.

AGCO provides research, trade execution, and settlement services in equities, derivatives, and fixed-income instruments to US-based institutional investors. It specializes in emerging market securities trading. The company also provides and implements hedging and arbitrage strategies and offers its services online as well as through their network of brokers worldwide.

HSC has a mutually exclusive agency partnership with AGCO since 2008. We provide AGCO with our co-branded research products and our institutional sales services, while AGCO’s clients maintain their accounts directly with HSC and we manage all trading and execution requirements for them in Vietnam.

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*HSC forms part of AGCO’s network of partners in 128 countries, providing it a platform to distribute research produced by local analysts to clients and market data providers in the US.*

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## CEO Review (cont'd)

### Nurturing and engaging future generations (cont'd)

Not just looking inward to prepare for our future, we also aim to incorporate into our CSR activities elements of career orientation, coaching and mentoring to help Vietnam's future university graduates gain better real life knowledge, work experience, confidence, and an understanding of a career path in the finance industry and related fields. In addition to giving out annual scholarships to economic and finance students, we continue to be the main sponsor for an educational virtual stock trading annual contest organized by students at the University of Economics and Law of Hochiminh City. Besides students from domestic universities, HSC also aims to attract and provide opportunities to Vietnamese students at overseas universities in the hope to bring back talents that might otherwise stay overseas after their study. For three consecutive years, we have maintained support for the SEO Vietnam (Sponsors for Educational Opportunity) Program where we provide their member students with summer internship opportunities at HSC.

### CONCLUSION

By the time this annual report gets in your hand, we will have already finished the first quarter of 2012. Personally, I judge that it will continue to be a year of hope, even if there are still hurdles to overcome in the second and/or third quarters. What I hope for, like what many investors, and no doubt you our shareholders hope for, is a new beginning in Vietnam's capital and securities markets. At the annual Securities Market Conference organized by the Ministry of Finance and the State Securities Commission in early March, the message from the Finance Minister was strongly supportive of a revamping and further development of Vietnam's capital and securities markets. This message was enthusiastically received by the audience and I recall that the markets also reacted very positively that day. I believe that like the evolution of all living things, the challenges and difficulties in any environment will most likely reveal and produce stronger and fitter entities. After five years through an evolution, HSC has emerged significantly stronger and is here to stay. I thank you, and hope that you will continue to stay with us for the future.



**Johan Nyvene**  
Chief Executive Officer



*"I believe that like the evolution of all living things, the challenges and difficulties in any environment will most likely reveal and produce stronger and fitter entities".*

*- Johan Nyvene, CEO*

## 2012 Strategy & Macro Report

# HSC is comfortable predicting a 2-H recovery in the underlying economy



*Photo: Fiachra Mac Cana - Managing Director of Research Department - Co-head of Institutional Division and Saigon Times reporter - at HSC's seminar "The tough times are over" dated Sep 9<sup>th</sup>, 2011*

### 2012 STRATEGY & MACRO REPORT AND OUTLOOK - GOOD FUN SO FAR AND IT'S NOT OVER YET

- Year to date the VN index has risen by 26% and indeed from the January 9<sup>th</sup> bottom it has risen by 33.9%.
- Recent consolidation was heralded by the 10% increase in petrol prices last month and inspections of margin trading activities in brokerages.
- However April & May CPI are likely to see fairly mild increases m/m with the y/y trend still down.
- Meanwhile HSC predicts that the VND deposit cap may drop to 12% soon.
- While average lending rates may fall another 200 bps to 16.5% this quarter.
- We think interest rate sensitive stocks will have another run up soon.
- So it's too early to take profits there.
- The macro picture suggests that lower interest rates are not having any effect on the economy so far.
- Imports are weak; Q1 GDP was sluggish while YTD credit growth is down.
- However it takes time for better liquidity to feed through.
- Hence HSC is comfortable predicting a 2-H recovery in the underlying economy.
- And we expect equities will continue to rise but at a gentler pace.

### STRATEGY BRIEF - EQUITIES WILL CONTINUE TO RISE IN Q2 BUT AT A GENTLER PACE

- Vietnam has raced out of the gate this year becoming the top performing market in Asia. Which, given what happened last year should not surprise us much. Year to date the VN index has risen by 26% and indeed from the January 9<sup>th</sup> bottom it has risen by 33.9%. It did reach a recent high of 468.15 on 6<sup>th</sup> of March (up 40% from the bottom) before correcting over the past few weeks. Most high beta stocks doubled in value while the top 40 stocks by market capitalization have seen an average 39.1% increase as at 4<sup>th</sup> April.
- The current extended period of consolidation was heralded by the 10% increase in petrol prices announced last month and then more recent moves by the SSC to inspect brokers to ensure compliance with margin trading rules. This has resulted in lower market volumes as brokers become a little more cautious in offering funding to investors. The effects of the inspection period may last for a number of weeks.
- In a sense this is welcome as it has allowed for some distribution of shares from short term to medium term investors. Indeed one important & positive characteristic of this year's market rally has been the frequent periods of consolidation sandwiched in between sharp rallies. In contrast the two rallies we saw last year were vertical movements with no real pit stops along the way. Hence the current movement looks a lot healthier and should also ensure its longevity.
- For the time being however, market sentiment is also being kept in check by fears that April CPI may spike as a consequence of the fuel price hike. Then we also

## 2012 Strategy & Macro Report (cont'd)

- understand that electricity prices will likely rise by 5% or more in May/June. However given falling rice and pork prices and a generally weak economy there are some important offsetting factors here. But these are hard to measure hence we are seeing a great deal of short term uncertainty about what the next two monthly inflation numbers will look like. And this matters as market sentiment in Vietnam really depends on one overriding key factor; inflation expectations and what that means for medium term market liquidity.
- Even so it's looking increasingly likely that inflation may come at the lower end of expectations as the month progresses (perhaps even below 1% m/m). It's also clear the authorities are staggering price increases so as to minimize the impact of any given's months numbers. This allows y/y CPI to continue to drop mainly due to the base effect and thereby puts downward pressure on market interest rates also. We suspect the SBV may lower the deposit rate cap by another 1% to 12% in the near future also which should lead to another sympathetic round of cuts in lending rates.
  - It is HSC's view that the inflation and interest rate cycle won't bottom out until August or so where we expect y/y inflation to drop towards 10% while we expect average lending rates to hit 16.5% (down from 18.5% currently) while average deposit rates drop well below 12%. This leaves another 200 bps more room to cut average lending rates over the next few months. And that has not been fully priced in to equities yet in our opinion.
  - Hence we think that interest rate sensitive stocks still have some upside potential despite the strong gains seen YTD. The moment of transference from high beta to more fundamentally driven stocks will come at some point during the summer. And at that point we are likely to see a more prolonged period of correction & consolidation as the market changes gears and looks for a new focus. But this is some way ahead of us and in the meantime we believe the current liquidity driven rally still has some life left in it.

Ticker name	Current price	12 month low	FY2012 low	Foreign ownership ratio	Gain YTD	Gain from 12 month low	250 day MA	50 MA	25 MA	Gap from 250 day MA	Gap from 50 day MA
VCB Joint Stock Commercial Bank for Foreign Trade of Vietnam	28,900	19,400	19,800	11.76	46.0%	49.0%	25,547	26,174	28,448	13.1%	10.4%
BVH Bao Viet Holding	72,000	36,300	36,900	25.09	95.1%	98.3%	66,305	58,362	64,140	8.6%	23.4%
MSN Ma San Group Corporation	114,000	78,000	82,500	22.09	38.2%	46.2%	106,936	109,180	114,960	6.6%	4.4%
VNM Vietnam Dairy Product Co	93,000	59,333	79,500	49.00	17.0%	56.7%	81,335	89,300	92,060	14.3%	4.1%
VIC Vincom JSC	93,000	79,500	94,000	11.34	-1.1%	17.0%	108,714	107,060	105,120	-14.5%	-13.1%
CTG Vietnam Joint Stock Commercial Bank for Industrial and Trade	22,200	16,000	17,000	2.49	30.6%	38.8%	23,155	24,302	25,652	-4.1%	-8.6%
HAG Hoang Anh Gia Lai JSC	27,700	17,300	17,500	33.10	58.3%	60.1%	31,656	25,816	29,672	-12.5%	7.3%
ACB Asia Commercial Bank	24,800	19,000	19,000	30.00	30.5%	30.5%	21,593	23,102	24,908	14.9%	7.4%
EIB Vietnam Export Import Commercial JSC	17,400	11,795	13,500	30.00	28.9%	47.5%	13,620	16,420	17,728	27.8%	6.0%
FPT FPT Corp	58,000	41,300	48,200	48.99	20.3%	40.4%	51,372	53,774	56,740	12.9%	7.9%
DPM Petrovietnam Fertilizer & Chemicals JSC	29,900	22,300	22,500	25.73	32.9%	34.1%	30,929	28,688	30,296	-3.3%	4.2%
STB Sacombank (Saigon Thuong Tin Commercial JSB)	23,000	11,089	15,500	13.34	48.4%	107.4%	14,828	20,450	21,992	55.1%	12.5%
HPG Hoa Phat Group JSC	23,000	13,818	14,091	37.25	63.2%	66.4%	24,325	20,300	22,856	-5.4%	13.3%
PVF Petrovietnam Finance Joint Stock Corporation	12,600	6,400	6,500	15.17	93.8%	96.9%	13,879	9,962	11,720	-9.2%	26.5%
PVD Petrovietnam Drilling and Well Services Joint Stock Co	39,500	29,300	30,000	35.08	31.7%	34.8%	40,580	38,436	39,612	-2.7%	2.8%
KBC Kinh Bac City Development Share Holding Corporation	13,700	9,900	10,300	22.96	33.0%	38.4%	15,557	13,642	15,000	-11.9%	0.4%
HBB Hanoi Building Joint Stock Bank	7,000	3,900	4,000	10.40	75.0%	79.5%	6,922	5,532	6,484	-1.1%	26.5%
VPL Vinpearland Joint Stock Company	0	49,000	0	0.00	0.0%	0.0%	72,365	0	0	0.0%	0.0%
POM Pomina Steel Corporation	12,000	8,900	9,400	6.63	27.7%	34.8%	14,252	11,710	13,108	-15.8%	2.5%
SJS Songda Urban & Industrial Zone Investment & Dev. JSC	31,000	15,300	22,700	20.77	36.6%	102.6%	28,918	27,104	30,164	7.2%	14.4%
KDC KinhDo Corp	40,000	23,100	24,700	46.69	61.9%	73.2%	34,301	33,898	37,744	16.6%	18.0%
PVS Petroleum Technical Services JSC	16,500	12,100	12,500	13.00	32.0%	36.4%	16,091	14,656	15,976	2.5%	12.6%
PPC Pha Lai Thermal Power	10,300	5,400	6,600	13.00	56.1%	90.7%	7,588	8,532	9,276	35.7%	20.7%
DIG Development Investment Construction JSC	17,200	9,200	9,400	26.32	83.0%	87.0%	14,666	14,606	17,248	17.3%	17.8%
DHG DHG Pharmaceutical JSC	63,000	43,333	54,000	49.00	16.7%	45.4%	57,818	61,410	62,800	9.0%	2.6%
PHR Phuoc Hoa Rubber Joint Stock Company	25,500	22,400	25,600	13.71	-0.4%	13.8%	29,353	27,624	27,428	-13.1%	-7.7%
PVI Petrovietnam Insurance JSC	18,100	11,700	17,800	15.60	1.7%	54.7%	16,983	18,792	19,032	6.6%	-3.7%
NTP Tien Phong Plastic JSC	47,000	25,100	27,000	46.60	74.1%	87.3%	32,533	35,640	41,328	44.5%	31.9%
REE Refrigeration Electrical Engineering Corp	14,700	9,200	11,300	44.65	30.1%	59.8%	11,983	13,270	13,584	22.7%	10.8%
GMD General Forwarding & Agency Corp	25,300	16,000	16,700	24.32	51.5%	58.1%	23,028	20,644	22,996	9.9%	22.6%
CII HCM City Infrastructure Investment Joint Stock Co	29,200	15,200	19,600	32.13	49.0%	92.1%	24,352	24,614	27,188	19.9%	18.6%
DPR Dong Phu Rubber JSC	53,500	38,200	44,000	35.76	21.6%	40.1%	51,903	50,516	52,504	3.1%	5.9%
PVT Petrovietnam Transportation Corp	4,600	2,900	3,200	3.92	43.8%	58.6%	4,630	3,974	4,360	-0.6%	15.8%
VSH Vinh Son - Song Hinh Hydropower Joint Stock Co	11,300	7,800	8,000	25.60	41.3%	44.9%	9,575	9,646	10,888	18.0%	17.1%
VHC Vinh Hoan Corporation	36,000	22,000	25,900	25.84	39.0%	63.6%	30,425	31,996	34,664	18.3%	12.5%
NLT Tu Liem Urban Development JSC	17,200	10,900	11,100	18.20	55.0%	57.8%	19,398	15,010	16,932	-11.3%	14.6%
PNJ Phu Nhuan Jewelry JSC	38,900	19,500	37,000	43.20	5.1%	99.5%	32,726	38,840	39,308	18.9%	0.2%
BCI Binh Chanh Construction Investment shareholding company	19,200	13,500	13,600	32.03	41.2%	42.2%	17,840	16,656	18,356	7.6%	15.3%
TRC Tay Ninh Rubber Co	40,600	31,000	31,600	28.99	28.5%	31.0%	39,612	36,608	39,728	2.5%	10.9%
TDH Thu Duc Trade and Development Joint Stock Company	14,200	10,900	11,300	31.41	25.7%	30.3%	16,564	13,664	14,940	-14.3%	3.9%
simple unweighted average					39.1%	56.1%				7.4%	9.8%

\*VPL has been merged with VIC

## 2012 Strategy & Macro Report (cont'd)

- If we look at the performance of the top 40 stocks we can observe several distinct groups. YTD we can see that the standout performances from the YTD lows in early January have been in BVH; PVF and DIG. BVH is the index play par excellence and tends to be actively sought once a market run begins. It dropped off badly in Q4 on some institutional selling setting it up nicely for a sharp recovery this year. Then PVF and DIG are classic high beta plays whose prices were plummeted last year and were ripe for a rebound.
- A large group of middle ranked performers have seen gains ranging from 40-65% from the year's lows. These include most banks; real estate companies and some cyclicals such as HPG. These are typical interest rates sensitives plays and tend to do very well in a liquidity driven rally.
- PVI; PNJ; VIC; FPT; VNM and PHR have ranked amongst the worst performers so far. Once again they didn't do too badly last year. PVI recovered well from lows; PNJ had an excellent run as gold prices soared while FPT & VNM with foreign room already full tend to be steady rather than spectacular performers. Then rubber companies such as PHR and to a lesser extent DPR and TRC have underperformed the top 40 average. Here a chronic lack of liquidity; high state ownership and low midterm growth prospects until new plantations come on stream may explain why higher rubber prices are being ignored.
- The market hit a plateau in early March. The easy gains which were driven by the fact that many high beta stocks were heavily oversold in Q4 last year are already behind us. The initial liquidity driven rally on falling interest rates caused many high beta stocks to double in price from mid-January. While cyclicals have followed suit.
- However in the weeks since we have seen fairly deep corrections in most of these early performers. And while a look at the daily chart might suggest some stocks have moved as far as they can a quick look at the weekly charts would show the rally could in fact still be in its fairly early stages.
- For example a look at stocks relative to the 250 day MA makes for interesting analysis; out of the top 40 stocks 27 are higher than the line while 13 are still below. And just 7 stocks have moved 15% or more above that line. The table below shows the most significant out & under performers relative to the 250 day line.

### Over and underperformers amongst top 40 relative to 250 MA line

Stocks more than 15% above the 250 day MA line					
Ticker	Price as at April 4 <sup>th</sup>	% gain from low	Gap from 250 day MA	Forward FY2012 PE	FY2012 expected EPS growth
EIB	17,400	28.9%	27.8%	7	10.4%
STB	23,000	48.4%	55.1%	13	-1.8%
PPC	10,300	56.1%	35.7%	10	N/A
DIG	17,200	83.0%	17.3%	16	27.6%
NTP	47,000	74.1%	44.5%	6	22.2%
CII	29,200	49.0%	19.9%	8	158.1%
VHC	36,000	39.0%	18.3%	4	10.6%

Stocks more than 10% below the 250 day MA line					
Ticker	Price as at April 4 <sup>th</sup>	% gain from low	Gap from 250 day MA	Forward FY2012 PE	FY2012 expected EPS growth
HAG	27,700	58.3%	-12.5%	23	-50.4%
POM	12,000	27.7%	-15.8%	5	-14.7%
PHR	25,500	-0.4%	-13.1%	3	-23.9%

- Indeed of the interest rates sensitive stocks have already corrected in the past few weeks and are now trading 15-20% below their YTD peaks in many cases. With interest rates still having lots of room to fall, we suggest that the peak of the rally has not been reached and that these stocks still have some way to go.
- This was possibly confirmed by news on 5<sup>th</sup> of April that the CAR risk weighted ratio of real estate and securities lending may be reduced in a proposed draft amendment to Circular 13. While not officially approved yet this is the kind of news that is manna to high beta stocks.
- Hence while we would be looking to switch out of interest rate sensitive sometime over the summer and perhaps into some laggard issues (read take some profit) that time has not yet come in our opinion.

### Outperforming stocks and laggards YTD amongst top 40

Outperforming stocks YTD (up more than 50% from the January low)					
Ticker	Price as at April 4 <sup>th</sup>	YTD gain	FY2012 EPS growth %	Forward PE	PB
BVH	72,000	95.1%	3.6%	52	1.6
HAG	27,700	58.3%	-50.4%	23	1.9
PVF	12,600	93.8%	16.6%	14	2.4
HBB	7,000	75.0%	-61.3%	22	2.5
KDC	40,000	61.9%	67.6%	10	0.9
DIG	17,200	83.0%	27.6%	16	1.5
NTP	47,000	74.1%	22.2%	6	1.1
NTL	17,200	55.0%	77.8%	7	2.8

Lagging stocks YTD (up 20% or less from the January low)					
Ticker	Price as at April 4 <sup>th</sup>	YTD gain	FY2012 EPS growth %	Forward PE	PB
VNM	93,000	17.0%	17.8%	10	1.3
VIC	93,000	-1.1%	116.1%	19	1.9
FPT	58,000	20.3%	11.7%	6	0.9
DHG	63,000	16.7%	4.6%	9	1.2
PVI	18,100	1.7%	-3.6%	9	1.2
PNJ	38,900	5.1%	10.5%	8	1.7

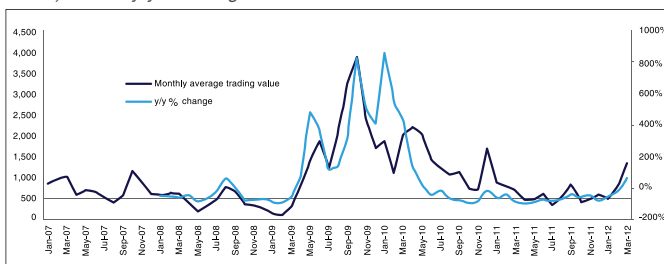
- So we would stay overweight in banks; brokers and real estate stocks for the time being in anticipation of another upside leg to the current rally over the next few weeks and into early summer. However if the VNI index breaks through 500 or so we would contemplate taking some money off the table and reinvesting in some of the laggard names we have listed in our table.

## 2012 Strategy & Macro Report (cont'd)

- Then over the summer we anticipate a more prolonged period of consolidation as interest rate sensitive stocks lose momentum and the market looks for a new direction. We expect that once this period of consolidation is over, cyclical stocks & blue chips will come to the fore in anticipation of improving fundamentals in the 2-H and into FY2013.

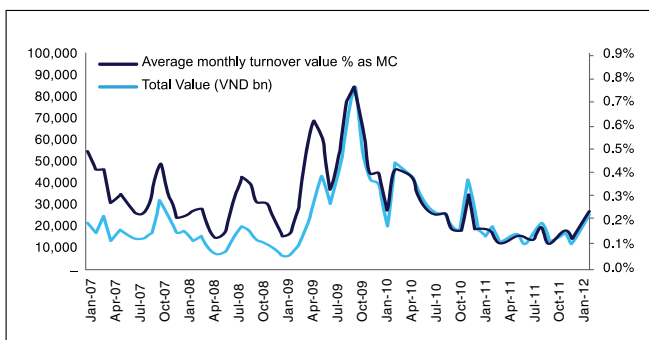
### Equity trading values surge on afternoon trading and improved liquidity

Market trading values (average daily volumes on a monthly basis in VND billion) versus y/y % change



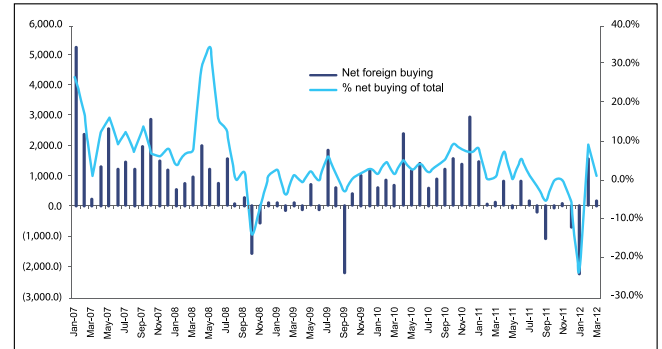
- Turnover has improved dramatically in the past few months partially as a result of the introduction of the afternoon trading session since March 5<sup>th</sup> and the general improved access to liquidity on the part of market players.
- Its hard to disentangle one factor from the other but its noticeable on the daily chart that the first VND 1,000 billion volume day for the market this year occurred on February.
- Market turnover is running at about 0.22% of daily turnover MTD in March which is just below the long term average of 0.26%. Hence whilst trading has clearly recovered we could say that there is no evidence of over trading at this stage, which makes an interesting contrast to the 2009 market rally when over trading of equities was clear after a number of months. Once again this points to a healthier and more sustainable market movement.

Total HOSE market turnover value versus turnover as % of market capitalization



### Foreigners are in but are not driving the market

HOSE Net foreign buying vs net buying as % of total



- Foreigners have become more active since Tet as turnover has picked up but they are clearly not driving the market. In fact foreigners were heavy net sellers as recently as January 2012 and while they jumped in again in February their recent stance since the beginning of March has been more cautious.
- Having been very active buyers in 2010 foreigners have not returned in force since. They were heavy net sellers in the last months of FY2011 to the tune of VND 1,950 billion from August until the end of the year. Then because of their heavy selling in January foreigners have sold VND 555.3 billion YTD despite being net buyers for the last two months to the tune of VND 1,667.37 billion.
- Of course we have to be a little cautious in our interpretation here. We have seen large blocks of stock such as VIC and STB being traded through the foreign side in recent months. These look like ownership blocks changing hands and hence are not related to investment flows per se. However it's hard to exclude them entirely as we cannot distinguish exactly which blocks are for what purpose despite our suspicions. Anyway the net effect of this would be to reduce foreign investment activity levels even further.

- In recent months on average we estimate that foreigners have accounted for about 15% of the daily activity on the exchange which is only a slight pick-up on 2011. However as the chart below shows we cannot say that foreign net buying is either a reliable predictor or driver of the market with any degree of consistency. In fact for every occasion like a September 2009 where they appeared to sell at the top of a rally there is another occasion like January 2012 where they sold at the bottom of the bear market.

## Feature on our Partner: Megastar

**“HSC represented Megastar Media Company (“MSM”) and its shareholders to spearhead the effort to find a suitable strategic investor for the company.”**

Established in 2004, MSM was formed as a joint venture between a local partner, Phuong Nam Culture Corporation (PNC - 20%), and a foreign partner, Envoy Media Partners (EMP - 80%). Since its inception, the company quickly positioned itself as the market leader in the cinema theater business and has developed a prominent presence in major cities in terms of outlets throughout the country. And as the early mover in this relatively new entertainment space in Vietnam, MSM played an instrumental role in transforming the public perception of cinema entertainment and in raising the standard for the entire industry.

Megastar opened its first cinema in central Hanoi’s Vincom City Towers in April 2004, which quickly became (and remains) the highest grossing cinema complex in Vietnam. Subsequent locations soon opened across the country to replicate the success of the VCT location. Within a few years, Megastar has announced its presence in Haiphong, HCM City (Hung Vuong Plaza, CT Plaza, and Saigon Paragon), Bienhoa and Danang. By the end of 2011, the company operates 53 screens with more than 7,000 seats nationwide.

Along with the launch of its cinema operations, in 2006 the company also launched Megastar Distribution (MSD), a captive local theatrical movie distribution unit of MSM. Since mid - 2006 MSD has successfully released over 150 titles in Vietnam for both international and domestic film companies. MSM has also been able to secure many exclusive distribution rights from the leading studios in the world, which effectively give the company another advantage over the late comers. As a result, the majority of the top 10 all-time grossing pictures released in Vietnam were released by the company’s MSD unit.

The cinema exhibition business was changed once again in December of 2009, when the company successfully introduced state-of-the-art 3D cinema screens to Vietnam in its Hanoi’s Vincom City Tower and HCM City’s Hung Vuong Plaza locations. This new technology was an instant success and quickly popularized by major film titles, such as “Avatar”, and set a new standard for Vietnam’s cinema entertainment industry. The overwhelming interest and quick acceptance of the 3D cinema technology by the audience



*MSM's recognition of HSC's investment banking services*

have compelled the company to further introduce 3D screens to its Haiphong, Danang and Bienhoa locations by late 2010. To the end of August of 2011 the Company has screened nine 3D movies at its key locations, far surpassing any other competitors in the market. In this engagement, HSC represented Megastar Media Company (“MSM”) and its shareholders to spearhead the effort to find a suitable strategic investor for the company. As the sole advisor to the transaction, HSC provided a full and complete solution for the company and its shareholders through a comprehensive scope of work that includes: Corporate Equity Valuation, Debt Valuation, Deal Structuring, and Negotiation Strategy and Support. It was also a pioneering deal of its kind as both the seller and the buyer are foreign investors and the transfer of shares in Envoy Media Partners took place offshore. In July of 2011, HSC has successfully executed the transaction and has performed to exceed expectations of the company and its shareholders.



## 2012 Strategy & Macro Report (cont'd)

### Supply side won't pick up until late Q2 while the IPO calendar looks fairly empty

FY2010 & FY2011 actual and planned supply into the equity market

	VND FY2010 actual	VND FY2011 plan	% y/y change	US\$	Completed at end December 2011	US\$	Not executed	% completed of FY2010 plan	% completed of FY2011 plan
IPO (new capital raised)	8,411,989,778,611	11,074,072,664,582	32%	527,211,267	5,209,030,734,582	247,990,037	5,865,041,930,000	53%	47.0%
IPO total market cap	84,688,826,322,912	73,418,016,684,676	-13%	3,495,263,827	55,276,574,224,676	2,631,591,251	18,141,442,460,000	77%	75.3%
Listings*	73,470,290,777,900	24,759,901,884,150	-66%	1,178,762,289	19,569,881,847,300	931,677,308	5,190,020,036,850	80%	79.0%
Estimated capital raising (non-bank)	38,320,252,510,627	33,110,567,593,164	-14%	1,576,318,381	24,500,676,929,580	1,166,421,182	8,609,890,663,584	77%	74.0%
Estimated capital raising (banks)	66,017,669,675,275	49,994,789,420,000	-24%	2,380,137,559	21,439,837,610,000	1,020,701,624	28,554,951,810,000	78%	42.9%
Total (excluding listings)	112,749,911,964,513	94,179,429,677,746	-16%	4,483,667,207	51,149,545,274,162	2,435,112,843	43,029,884,403,584	75%	54.3%

- Last year's capital raising by corporates fell far short of plan. Corporates had hoped to raise about US\$ 4,483 million but by the end of December they managed to raise only US\$ 2,435 million (54.3%). Hence HSC believes that the balance of US\$ 2,048 million will in most cases simply be represented to this year's AGMs and be rolled over into this year.
- Capital raising in Vietnam follows the weather and we are currently coming to the end of the dry season. From the end of December until the AGM season is over we tend to see little by way of new issuance. However from the end of Q2 until the end of the year capital raising activity comes to life as corporates return to the hustings.
- Every year since 2008 we start off with a list of the year's large SOE IPO prospects and then by the end of the 1-H the list has thinned down to virtually nothing. This year is a little different. The thinning out has finished earlier than usual and already by the end of March we are struggling to think of a single big IPO that may actually happen this year.
- We had some hopes for the Mobiphone IPO but with the recently announced proposed merger with Vinaphone this looks like it is unlikely to happen for the time being. While we also recall Vietnam Airlines management pushing their IPO date into next year at the earliest. Viettel is a dark horse candidate but it's very hard to pin down any timetable for them either.
- Other possibilities such as Vinatex (the textiles holding company) and Vinapaco (state owned paper company) are more promising at least in terms of execution. However they are unlikely to create the same buzz a telco IPO would. On a slightly different note we are fairly optimistic that Sabeco will list perhaps later this year (they had an IPO back in 2007 but never followed up with an actual listing). Now they look to be getting back on track.
- Where we have powerful vested interest at the corporate management or shareholder level it has proven to be very time consuming for the government to push large SOEs into committing to a firm timetable. Which is one reason why forcing SOEs to take on a strategic partner has proved so useful as it gives the equitization process a life of its own. Hence for signs of real progress we would look to see which SOEs are taking on a strategic partner as that tends to allow us to put some kind of finite timetable on the subsequent IPO schedule.

#### Valuations look reasonable still although not super cheap anymore

- Our FY2012 earnings forecast for the top 40 stocks generates an aggregate weighted average EPS of VND 4,030 (this is based on the weighted average outstanding shares) which currently values them at a forward PE of 10.7. This is more expensive than the broader market as the top 40 contains all the heavy weight valuation outliers such as BVH & VIC with fewer cheaper stocks to balance it out.
- And with the aggregate FY2012 book value per share of VND 20,139 forward PB comes to 1.6.
- Given the 26.2% rise in the VN index YTD valuations no longer look as cheap as they did. Bear in mind however that our valuations best reflect core earnings forecasts and take no account of gains or reversals from stock market gains. Hence as mentioned elsewhere our forecasts are low-balled in that respect.

## 2012 Strategy & Macro Report (cont'd)

### Top 40 FY2012 earnings prospects are improving

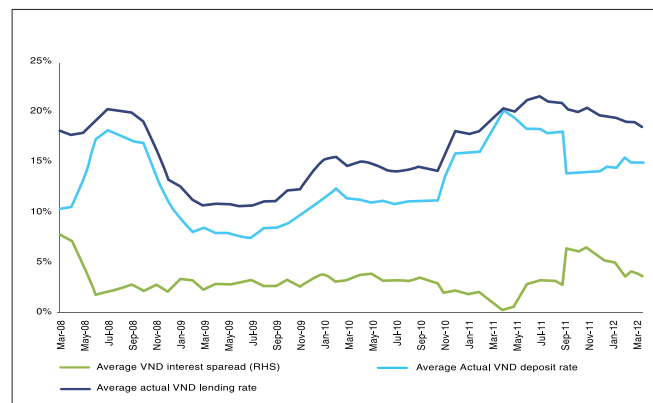
- HSC forecasts that the top 40 stocks will see net profit growth of 21.6%; EPS growth of 12% on sales growth 22.8%. While top line growth will slow mainly as consumer price inflation decelerates we expect a slight pickup below the line on improving financial net income. However we have trimmed our FY2012 EPS growth rate slightly from the previous exercise at the end of last year (down from 12.7%) on dilution.
- Our aggregate model (not shown here) is built on 40 individual earnings models created by our analysts. Please note that as a rule HSC models do not forecast either provision losses or reversals of losses made against equity investments.
- HSC also forecasts a slight improvement in gross margins as COGS grows slower than sales. This is a typical feature of a point in the economic cycle where CPI is decelerating. Manufacturers are no longer hit as badly by rising raw material costs (in Vietnam given the fragmented nature of many industries pricing power is low) and hence can claw back some lost margins.
- Then further margin gain below the line might be expected to come from lower lending interest rates translating into lower financial expenses. However it's not that simple in practice. Looking at the top 40 and eliminating banks from the equation we forecast that in FY2012 total borrowings are expected to increase by 6% to VND 97.84 trillion (this covers both short term and long term borrowings). And then we further forecast that total interest expense are expected to rise by 13% from VND 4.79 trillion to VND 5.4 trillion over the same period.
- That may appear counter intuitive. However interest expenses as a line item is driven by (1) changes in borrowing balances, (2) changes in average interest rates, (3) transfer of interest expense into the P&L on completion of projects (which means those interest expenses are charged directly and no longer being capitalized). Alas it's hard to break this down from the given information. But the third factor is a very important one and can often appear to offset the benefits of lower interest rates when we look at actual interest expenses. Hence the benefits of lower interest rates will crop up in terms of improved cash flow rather than in the P&L.
- However using average balances (the opening and closing debt balance divided by two) we estimated that average lending interest rates will fall from 18.1% to 17.6% this year. In HSC's view then most of the gains in financial income will come from (1) reversals of equity provisions taken last year, (2) gain on sales of investments. And as mentioned above already we don't forecast either in our models (as they are too unpredictable as they change every day with the markets) so this means that there is decent upside potential in the net profit and EPS numbers relative to HSC forecasts.

- All told then the fundamental picture calls for solid top line growth; some margin expansion; improvement in financial income and low double digit EPS growth with some dilution. And the likelihood of further gains based on the stock market's own performance.

### MARCH MACRO BRIEF - INTEREST RATE FALLING BUT CREDIT GROWTH STILL DOWN YTD AS THE ECONOMY REMAINS SOFT

#### Interest rates continue to fall steadily

VND actual average interest & deposit rates



- HSC conducted its most recent fortnightly interest rate survey at the end of March to gauge where market lending and deposit rates are. The previous survey took place on March 8<sup>th</sup> the results of which we reported in a previous report. Our interest rate survey looks at 9 banks on the lending side (4 SOCBs and 5 large private sector banks) and then 24 banks on the deposit side before taking the weighted average rates (the rates are weighted by their individual lending or deposit market share in the previous financial year).
- We have seen an acceleration in VND lending rate declines in the past few weeks as banks fell under increasing pressure from the SBV to keep pace with the downward trend in annualized CPI. Hence aggregate VND lending rates as calculated by HSC is now approaching 18.5% with some preferential rates as low as 16.5%.
- Official rates were of course cut by 100 bps on the 12<sup>th</sup> of March reflecting a clear intent to guide rates lower in the 1-H. Of course we all know that policy rates are a lagging indicator to market interest rates as the SBV prefers using administrative guidance through the OMO and refinancing window to adjust market rates as needed.
- Even so we note that posted aggregate VND deposit rates have dropped to a range from just below 12% to just over 13% depending on the tenor. This marks a 100 bps plus drop on the previous survey and reflects the official rate drop over that period.

## 2012 Strategy & Macro Report (cont'd)

- Meanwhile further restrictions on both US\$ lending and deposit have been announced leading to a fairly sharp decline in recent months first in US\$ credit and now more recently in US\$ deposits. This bears watching as so far this year VND credit growth has not taken up the slack pushing down overall credit growth for Q1, something we have not seen before (at least not as far back as our records go).

### Official interest rates were cut 100 bps on 12<sup>th</sup> of March. More cuts to come in Q2

- The SBV cut official interest rates on the morning of 12<sup>th</sup> of March by 100 bps across the board as had been largely pre-announced the previous week. The markets accordingly did not react at the time as official rates don't play the same key role in monetary policy in Vietnam as they do elsewhere.
- To recap the refinance rate was cut from 15% to 14%; the OMO was cut to 13% for the 14 day and 28 day window; the discount rate was dropped from 13% to 12% while the dong deposit cap (for terms of one month or above) was reduced from 14% to 13%. All these cuts were made effective from March 13<sup>th</sup>.
- The role of official policy rates in Vietnamese monetary policy is the subject of much misunderstanding to offshore economists and commentators who are used to official rates elsewhere playing a central role. In Vietnam we have a monetary regime that operates primarily through adjustments in liquidity valves (OMO and refinance window net injections) and active administrative guidance.
- And under this monetary regime official policy rate movements are fairly infrequent and used more to set a psychological tone or to reinforce changes already seen in actual market rates. As a result rate hikes or cuts are not the market changing events they might be elsewhere although they do generate their share of newspaper headlines.
- Having said that with actual market lending rates and the official deposit cap likely to fall further it's a fair bet that official rates will follow suit with another 100 bps cut likely in Q2 we think.

### VND posted & actual deposit rates

- Aggregate VND deposit rates fell 109 basis points compared to our previous survey following the official rate cuts. The drop was fairly even across the board and interestingly at the long end deposit rates for deposits over 18 months have now been dropped to 12% with only a few exceptions.
- Deposits between 1-6 months still attract the highest rates of around 12.96% or so on average before tailing off at the long end. Some SOCBs are offering slightly higher deposit rates than the JSCBs but then

they are also unlikely to offer preferential rates to depositors.

- The media reported that one bank in Hanoi was still offering deposit rates above the current deposit cap as recently as last week. According to this a depositor with VND1 billion to deposit could get a rate of up to 17% for a 1-month term and 14% for maximum 3 month term. The additional income would be paid as a cash bonus deposited in a separate account with the same tenor (held by the bank and then released on maturity).
- Then some credit institutions might offer 1-day deposit rates at a higher rate, resulting in compound interest rates above 13% per annum. In this way however depositors must open a new savings accounts every day which is technically complicated for banks. Alternatively banks can pay the interest to depositors on the first day of the deposit term instead of at the end. And with this sum added to the principal amount they can enjoy effective higher deposit interest rates.
- In our experience some banks are still prepared to pay around 14-15% deposit rates for preferential customers although these cases have become fewer as the pressure on all interest rates is downward. And then with credit demand sluggish and liquidity fairly plentiful the need for additional funds has tailed off somewhat at most banks.



## Feature on our Partner: PXP

“ Vietnam Lotus fund was merged with Vietnam Emerging Equity Fund in an effort to stream-line the fund offerings.”



Photo: PXP Vietnam Asset Management

*The Firm was established in 2002 and currently has more than USD 100M in assets under management with a focus on fundamental quality and long term investments.*

PXP's initials stand for Phan Xi Pan, the tallest and a legendary mountain in Vietnam. PXP Vietnam Asset Management is a specialized investment management house who manages equity funds dedicated to Vietnam. The Firm was established in 2002 and currently has more than USD 100M in assets under management with a focus on fundamental quality and long term investments. The investment objectives of PXP Vietnam Fund is to seek long-term capital appreciation of its assets by investing in a portfolio of the equity securities of Vietnamese companies, whether established with domestic or foreign ownership.

PXP currently manages two Cayman Islands domiciled funds, namely; PXP Vietnam Fund (a London Stock Exchange Main Market listed closed

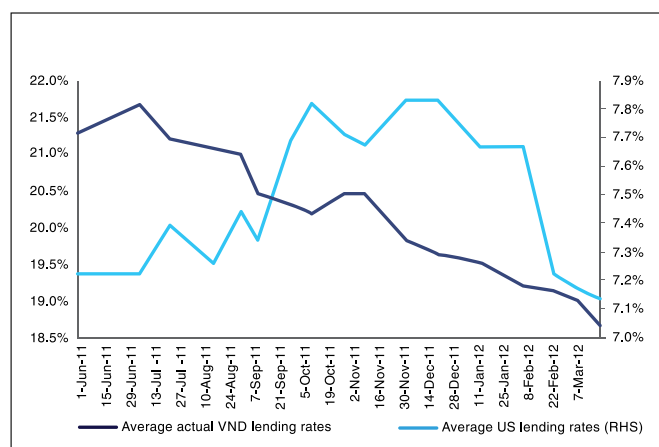
end fund, launched in December 2003); and Vietnam Emerging Equity Fund (a mutual fund launched in November 2005 as a closed end fund which was converted into an open ended fund in January 2010). In December 2010, their third fund, Vietnam Lotus fund was merged with Vietnam Emerging Equity Fund in an effort to stream-line the fund offerings. This allows investors the choice of funds to suit their investment preferences.

HSC provides PXP with a comprehensive brokerage service supported by research capability and efficient IT execution platform. We provide PXP with useful insights and in-depth analysis on macro trend and sector overviews, which are important variables for their short-term and long-term investment strategies.

## 2012 Strategy & Macro Report (cont'd)

### VND lending rates

VND versus US\$ actual aggregate lending rates



- Our survey also found that average VND lending rates dropped by 36bps from 19.01% to 18.65% over the past two weeks. This is driven mainly by lower interest rates offered by three out of four state-owned banks we track. BIDV cut their lending rates sharply by 1% across all types while VCB and CTG followed with 25-50bps cuts across the board.
- Meanwhile ACB was the only JSCBs that followed suit and has lowered their rates by 50bps so far. Agribank and then the other JSCBs have kept their lending rates unchanged during the period in question.
- Despite the drop in lending rates, several credit officers we spoke to have said that their banks have not eased their credit policies at all. We remind you that credit lines to non-productive sectors are still restricted under the government guidance while very few agricultural sector companies for example can actually take advantage of the posted preferential lending rates of 15-16.5%. However with the proposed amendments to Circular 13 & 19 this may change soon.

### US\$ lending rates

- Average US\$ lending rates have dropped slightly by 3bps to 7.14% since the previous survey. This does not indicate any major change in US\$ lending rates at the moment. However we note that in the previous survey the drop was far sharper reflecting in part a lack of demand for US\$ loans due to the restrictions recently announced which have been well signaled in advance.
- As you will have seen already the SBV has recently issued new restrictions under Circular 03 on the type of corporates who still qualify for US\$ loans with a view to limiting US\$ credit. Accordingly only corporates that can prove to have sufficient US\$ incomes from their production activities can borrow in US\$. In practice only corporates who export products

and receive regular income in US\$ can borrow in US\$. So this new restriction will cut off most corporates from the foreign currency lending markets.

- As the new restriction will be effective from May 2<sup>nd</sup>, some banks reported a short term rise in demand for US\$ loans from local importers in the past two weeks anxious to get loans approved to borrow US\$ in the next two to three months ahead of the new rules. Banks can still accept these requests as long as they meet all of the current requirements under Circular 07 (issued on March 2011). US\$ lending rates are being offered at 6-8% for maximum tenors of 6-9 months.
- Currently the SBV does not specify limits for different currency denominated loans so banks still have room to increase their US\$ credit growth as long as their total credit growth is still below the limit. The new circular will only impact importers that do not have US\$ income to borrow from banks. And this group only accounts for 5% of the market share.

### The carry trade is in long term decline

- From an investment standpoint the carry trade looks healthy. The interest rate differential between VND and US\$ deposit rates has held steady at about 780-790 basis points for months while the forex rate shows mild VND appreciation.
- However we believe that the carry trade is in decline and it's a good thing. With the new restrictions on US\$ lending it's hard for speculators to get access to US\$ loans to put on the carry trade. However banks are also active in the carry trade and they will still be eligible to borrow US\$. So while the carry trade will decline in importance by no means will it come to an end.

### SBV is withdrawing VND liquidity from the banking system

- On March 15<sup>th</sup> the SBV started to sell new Treasury bills to selected local banks as part of its program to withdraw excess liquidity. This program is in addition to the MOF's own treasury bill issuance program. The bills were auctioned in the OMO market. Banks register their bidding values everyday and the SBV then decides on the amount to issue for each.
- The initial plan consists of an issuance schedule of VND 40 trillion with offered yields at 11.5% for 1-month bills, 12% for 3-month bills, and 12.5% for 6-month bills. Currently the MOF is also issuing VND1 trillion of 1Y bills at 11.4% but seeing weak demand for obvious reasons as the SBV bills offer far better returns.
- So far the SBV has successfully issued a total value of VND 23.38 trillion with strongest supply for 1-month bills, accounting for 40% of the total volume. Demand for these bills is strong given their attractive yields but the central bank has accepted only 87% or so of the total bidding.

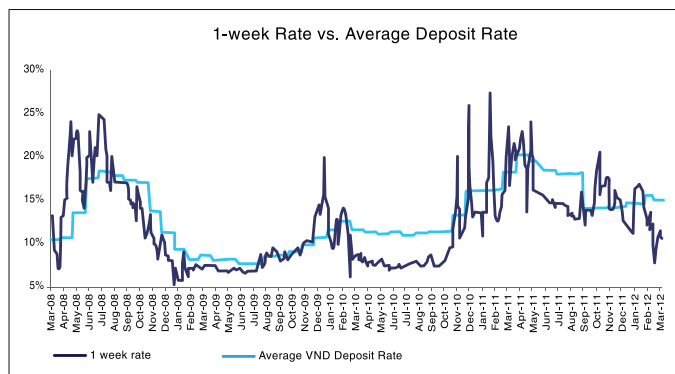
## 2012 Strategy & Macro Report (cont'd)

### SBV is withdrawing VND liquidity from the banking system (cont'd)

- The first bills will mature on April 12<sup>th</sup> and we don't know whether the SBV will roll over these short-term debts or not. However under the current plan, the SBV will continue issuing these bills until it achieve its initial target of VND 40 trillion, which could finish in the next few weeks.
- The main effect of this so far has been to push interbank rates higher again after a post Tet collapse saw short term rates drop below 10% for almost a month.

### As a result interbank rates have moved up somewhat

Interbank rates - overnight and 1 week



- Overnight interest rates in the interbank market bottomed out at 6% at the end of February having declined from a January high of 16% and have moved back up to 9% recently. These rates are notoriously volatile but still a good indication of liquidity and sentiment within the banking system.
- One week rates which normally move in a more deliberate fashion fell from 17% to 7.5% over the same period before moving back up to 10.5% recently. These moves reflect the SBV's efforts to drain liquidity through the OMO and more recently by issuing short term treasuries (at higher coupons than offered by the MOF for similar tenors).
- Having said that there is no sign that liquidity in the banking system is anything less than ample at the moment. Albeit it's also no longer excessive as was the case perhaps in February.

### New regulations restricting US\$ credit growth are having a major impact however

- In a further step to de-dollarize the economy, the SBV announced on its website on March 21<sup>st</sup> that it would limit commercial banks' exposure in foreign currency to a maximum 20% of their capital down from 30%

effective as of May 2<sup>nd</sup>. The central bank has also issued instructions limiting dollar lending to those companies who can prove they have dollar revenues to make repayments without resorting to the forex market (interbank or black market).

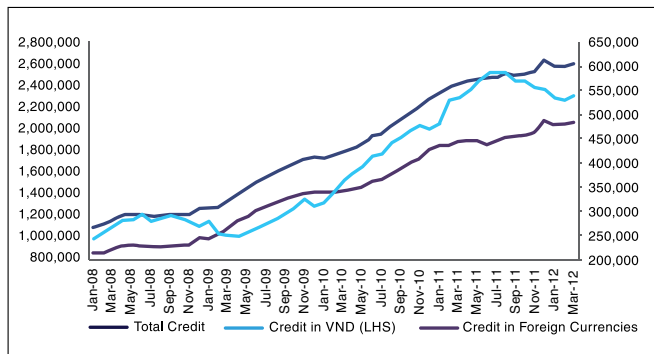
- Under the new rules several categories of borrowers are removed from the approved list for US\$ loans. These include enterprises that want to borrow FX to import (1) materials used to manufacture goods for domestic demand; (2) goods for domestic demand; (3) processing exports using domestic raw materials cannot borrow FX loans from May 2<sup>nd</sup>. The new lending rules will affect most US\$ loans because now only certain categories of exporters will be allowed to borrow in US\$. Specifically only those exporters who use imported materials to process exports. For example, furniture makers; most FDI industries or textile & garment enterprises.
- This could affect more than 70-75% of total current FX loans according to HSC rough estimates. Some banks are ready to design new products for exporters that use domestic materials to process exports. However, this product is complicated and they may have to take soundings from the SBV before launching such products.
- Because of the narrow scope of the new regulations some bankers may argue that this policy may not be sustainable in the long run. The other change which limits US\$ positions is more straightforward. In fact HSC believes that banks easily covered their excess short positions down from 30% to 20% over a couple of days. Anyway both measures were well signaled in advance and banks have been working to comply with them for some time already.
- These moves are part of a long term attempt to reduce and eventually eliminate the speculative or arbitrage energies of the past which dominated the gold and forex markets. Corporates and many credit institutions habitually borrowed in US\$ to convert into VND in order to take advantage of the interest rate differential. Then of course when the loan came due they had to scramble to collect US\$ for repayment purposes. This type of activity affected the currency in the 2-H of both FY2010 and FY2011.
- And the government's gold monopoly should be viewed in the same light.
- As a result of bank preparations for this new regulatory regime US\$ loan balances have already dropped 10% from the peak of last summer and now account for just over 20% of total loans. The trend has accelerated in Q1 and the short term effect is to reduce overall credit growth as corporates scrambled to repay US\$ loans to banks that are now applying the new rules.

## 2012 Strategy & Macro Report (cont'd)

- Then on the foreign currency deposit side, the Economic Committee of Vietnam's National Assembly (ECNA) is proposing the exclusion of foreign currency deposits from the deposit insurance scheme leaving those deposits completely unprotected in the case of a bank failure. And while that approach may become more nuanced in practice given the activist nature of the central bank it does increase the risk of holding foreign currency deposits at smaller banks.
- Even so the National Assembly is discussing the draft law on deposit insurance which stipulates that gold and dollar-denominated deposits would not be insured in the event of a banks' insolvency. And the ECNA has already agreed on the latest draft of the law, meaning it is likely to be passed more or less in its current form.
- Hence we may be seeing something of a flight to quality with foreign currency depositors unwilling to take the risk of keeping such deposits except at the larger banks. And as it has happened before (we saw a similar flight in VND deposits in late Q3 & Q4 last year) the net effect is a decline in deposits as some people simply withdraw money from the system altogether.

### Which is why credit growth is still moving in the wrong direction

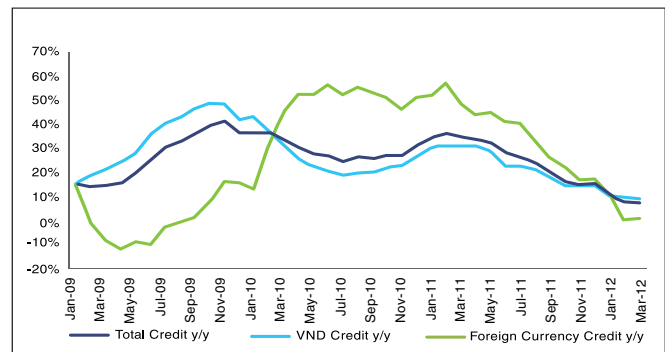
Credit growth in Vietnam



- Although March lending & deposit numbers are not yet out we can see the results for the first half of the month which show the slightest pick-up in overall credit growth. It appears according to our estimates that at that time MTD credit growth was up around 0.8% led actually by foreign currency loans which have recovered by 1.5% while VND credit growth was estimated to be up around 0.6% m/m.
- This means that YTD overall credit growth is still down about 1.4% while VND credit is down 1.2% YTD and foreign currency lending is down 2.4% YTD. Even so the most interesting thing here is the pick-up in foreign currency lending which is the opposite to what we have expected given the very tight new restrictions announced recently.

- However as we have written elsewhere it appears that some of these restricted categories under the new rules may be taking advantage of the closing window of opportunity to lock in some US\$ loans ahead of the rules coming into effect on May 2<sup>nd</sup>. And then banks who for their part may have been reluctant to lend US\$ ahead of the new rules being announced may also temporarily be relaxing their stance now that both the new rules and the effective date are known.
- Uncertainty about future rule changes often acts as a bigger check on credit growth than the actual restrictions themselves. Even so this recovery in foreign currency credit growth is likely to be very temporary although of course it's an interesting trend given that it is seemingly counter-intuitive.

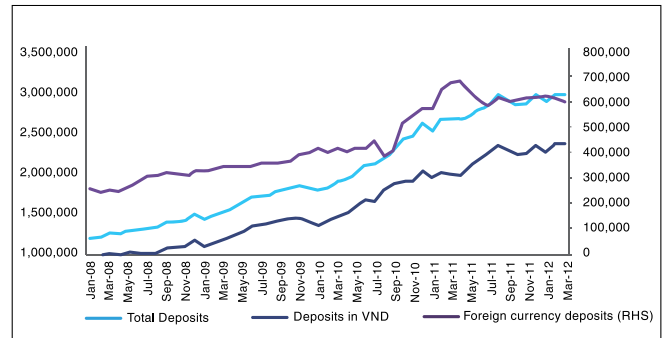
Overall bank credit growth y/y



- However with this apparent bounce overall credit growth is up just 7.4% y/y; VND credit growth is up 9.2% while foreign currency lending is up just 1.1% y/y albeit having risen from just 0.3%y/y/ growth at the end of February.
- Of course these are not the full Q1 figures yet although the trend suggests that credit growth is showing some signs of mild recovery after an unexpected decline in the first two months of the year. Remember the SBV has estimated credit growth of 15% this year while HSC was always more conservative at 12%.

### Even deposit growth is very sluggish

Overall bank deposit growth in Vietnam



## 2012 Strategy & Macro Report (cont'd)

### Even deposit growth is very sluggish (cont'd)

- Looking at the same mid-month results on the deposit side we estimate that overall deposits are flat MTD while VND deposits have risen by 0.4% MTD even as foreign currency deposits have dropped quite sharply by 1.54% MTD. Foreign currency deposits have been very volatile since last November; falling in December; then rising again in January before falling back again since February.
- Since the beginning of the year we estimate that overall deposits are up 0.1% YTD with VND deposits up 0.6% YTD while foreign currency deposits have dipped 1.7% YTD. With deposit growth so tepid even in VND terms even a mild acceleration in credit growth would lead to a rapid tightening of liquidity in the banking system.

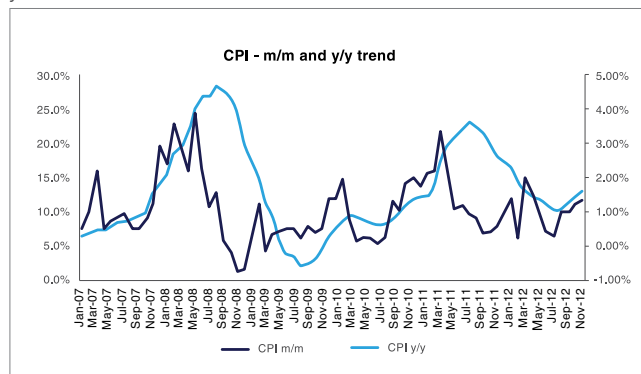
Deposit growth in the first three months of the year

	FY2009	FY2010	FY2011	FY2012
YTD	2.3%	4.1%	2.0%	0.1%

- In previous years we have seen deposits drop in the lead up to Tet before recovering quite quickly thereafter. Indeed looking at deposits trends in Q1 over the last few years we note that this year has seen by far the weakest pick-up in deposits. To be fair we don't have the final March numbers yet. Even so the trend is obvious at this point and clearly not well explained only by seasonal factors.
- Like the credit side a decline in foreign currency deposit formation is dragging down the numbers. And the common factor is regulatory change with the central bank anxious to reduce the level of foreign currency deposits and loans in the entire banking system. This goal was laid down since last year as part of the de-dollarization trend but only now with liquidity in the banking system on the mend have they seemed fit to impose some new restrictions.
- This will have a secondary effect on foreign currency credit growth also as the LDR for foreign currencies at 90.7% leaves little room for a major re-expansion of foreign currency credit there later on. And of course if foreign currency deposits continue to decline this pressure will only rise. In general this is to be welcomed although it is likely to have the effect of dampening overall credit growth in the 1-H this year.

### Meanwhile CPI continues to decelerate

Consumer price inflation - y/y & m/m trend with HSC forecasts until FY2012 year-end



Source: GSO and HSC calculation

- The nationwide March CPI came in at 0.16% m/m. This was quite a bit lower than we expected (HSC called for about 0.8% m/m) but of course doesn't take the recent 10% petrol price hike into account.
- Based on this m/m number however the y/y number for March came down to 14.25% from 16.44% in February and is giving moves to cut interest rates a further impetus. In fact for the time being this low number effectively restores the deceleration of inflation argument to the forefront of the market's mind.
- The main reasons behind the extremely low number were two unrelated factors; a drop in rice prices due to an inventory buildup following the recent harvest and a drop in pork prices as demand collapsed on food safety concerns. However with the government already stockpiling rice to support prices this is likely to stabilize from now.
- Pork is a different issue with concerns over the type of supplements some farmers have allegedly been giving pigs. This has scared away demand and driven down pork prices. Food safety has been an issue in neighboring China for several years and intermittently also in Vietnam and should be seen as a more medium term problem. Pork demand and prices may take some time to recover.
- However we shouldn't forget that the 10% hike in petrol prices came too late to have an impact this month (the month ends on 15<sup>th</sup>). But that will likely accelerate April m/m inflation. HSC currently forecasts a jump of 1-1.5% m/m next month based mainly on the petrol price effects. This is proving hard to estimate given the two offsetting factors; a petrol price hike and soft demand for key items in the basket. Most recently sentiment seems to be hinting that the April might even come in below 1% m/m which would be very well received by the markets.
- Anyway please note that our full year CPI outlook was last month raised from 12% to 13.5%. In this context then the March numbers were very good and also viewed by the markets as positive news.



## Institutional Investor Award

Institutional Investor (New York) is a leading financial magazine known for its innovative journalism and sharp writing style that provide valuable information to readers all over the world.

The monthly periodical is a flagship publication of financial publisher Euromoney Institutional Investor.

Established nearly 50 years ago, targeted at readers from world leading financial enterprises, government organizations, and fund management firms, Institutional Investor is published in 2 versions (American and international version) with a global circulation of 115,000 copies. The separate international edition of the magazine was established in 1976 for readers in Europe and Asia.

Institutional Investor magazine publishes global research and rankings throughout the year. These include:

- II 300 - the annual biggest asset managers
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- All-Europe Executive Team - Europe's best executives
- All-Asia Executive Team - Asia's best executives
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- All-Europe Research Team - Europe's best analysts
- All-Asia Research Team - Asia's best analysts
- The World's Best Hotels

The All-Asia Research Team, which is one of the largest and most prestigious in the field of finance and brokerage, is annually held by Institutional Investor in the form of surveys and votes from customers who are professional investment institutions and experts.

The results of The 2011 **All-Asia Research Team** are based on the votes of nearly 3,000 analysis and investment specialists from 935 investment institutions and fund management companies, which a collectively manage approximately USD 1.6 trillion in equities in Asia (excluding Japan).

Within the framework of this prestigious award, HSC is honored to be voted by customers as number 1 in Vietnam and number 14 in Asia in the field of market research and analysis, rubbing shoulders with leading global financial institutions such as BofA Merrill Lynch Global Research, Morgan Stanley, J.P. Morgan, Deutsche Bank, Goldman Sachs, etc.

By winning the 2011 **All-Asia Research Team awards**, HSC has put Vietnam on the global map, for the first time, being included in the rankings list of Institutional Investor - the prestigious global magazine. This underlines HSC's role in connecting Vietnam to the world, significantly enhancing the visibility of the Vietnam market to global investors.

Following the Extel 2010 accolade, the unprecedented award from Institutional Investor marked a strong progress of HSC in building trust, enhancing reputation as well as quality of brokerage products and services. This is the most eminent recognition from our customers and business partners on the international arena last year, which also saw us won other prestigious international awards from awards from AsiaMoney, The Asset, LACP, etc.



*By winning the 2011 All-Asia Research Team awards, HSC has put Vietnam on the global map, for the first time, being included in the rankings list of Institutional Investor - the prestigious global magazine.*

## 2012 Strategy & Macro Report (cont'd)

### CRY international commodity prices

- Of course with the currency stable and not under threat for the time being, while money supply growth has stalled the only threats on the horizon for CPI appears to come from two sources; rising international commodity prices and latent domestic inflation.
- Rising international commodity prices as illustrated by the international commodity CRY composite index. This index bottomed out on 304.48 on 9<sup>th</sup> of January and has risen 4.7% since then. And of course some of its components such as oil prices have risen faster than that.
- The feed-through has already been seen in the recent 10% petrol price rise which according to MOF officials is still not passing on the full effect of the international price increase to consumers. Hence the risk of a further price hike later this year cannot be ruled out. Vietnam's petrol subsidy has been largely although not completely unwound in recent years and it's fair to say that petrol prices now reflect international price movements albeit with a time lag.

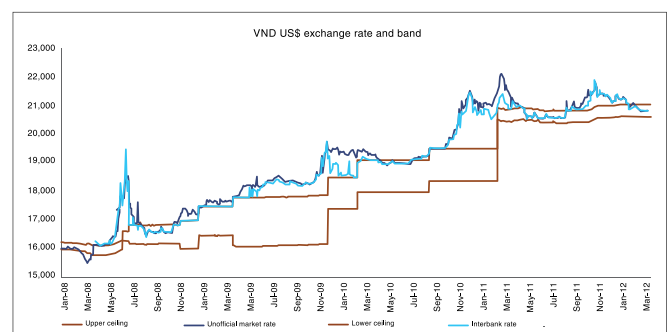
### Latent inflationary pressures for utilities and healthcare a factor for inflation

- The other CPI swing factor is latent inflation. Here pricing pressures that build up over months and in some cases years are unwound as the relevant government authority receives permission to hike prices. This mainly refers to key items such as utilities and healthcare that are still subject to a complex system of subsidies, which in the case of the former is also gradually being unwound.
- Electrical prices were already subject to a 5% price hike last December 20<sup>th</sup> and we expect another 5-10% price hike between now and the year-end. Most likely the next tranche will come in May or June. However it's important to note that electricity input prices don't fluctuate as much as petrol prices. The key inputs for electricity are coal and gas, which are both supplied by large state owned producers, namely Vinacomin and Petrovietnam.
- And the price of coal and gas for EVN is fixed once a year by negotiation. Any change must be proposed to and finally approved by the MOF. And even prices of imported electricity are fixed for one year at a time. Currently the COGS of electricity from coal is about VND 650 per KW. So if coal price increases by 26% which is likely in April, the COGS of electricity from coal will come to VND 710 - VND 715 or up by 9% or so.

- By source, electricity from coal now accounts for 28% of total domestic electricity output; electricity from hydropower accounts for 32% and electricity from gas accounts for 40%. The overall COGS of electricity in VN is about VND 952 per KW currently. Electricity generated from gas is more expensive than that generated from coal. So if the COGS of electricity from coal increases by 9%, the effect on the overall COGS would be a rise of just 2%.
- Furthermore the only key input whose price can fluctuate freely throughout the year is oil. Yet in Vietnam as oil-burned electricity account for less than 5% of total electrical output, the cost of oil accounts for less than 1% of total COGS.
- Hence, we believe there's little danger that the overall COGS will fluctuate by more than 5% this year. However that is not the end of the story. EVN is still effectively loss making on a per KW basis this year. And then we also note that even after the price rise key inputs such as coal are still being subsidized. The government wants to reduce the subsidy and charge market prices for all inputs. And also push up the average per KW price so that EVN can actually start generating a surplus, which would revive the whole sector and allow the private sector to build power plants to serve the network at a profit.
- Hence we forecast that electricity prices will rise 10% this year as the government takes advantage of decelerating inflation to claw back more of its subsidy.

### Currency is rock steady with ample US\$ recycling

VND - US\$ forex exchange rate



Source: HSC

- The VND forex rate has seen its longest period of stability since FY2010 except on this occasion the authorities are not having to spend US\$ to maintain the rate. Quite the opposite; currency reserves have risen steadily so far this year. HSC roughly estimates that currency reserves have increased by around US\$ 2.5 billion YTD and now total US\$16.5-17 billion.

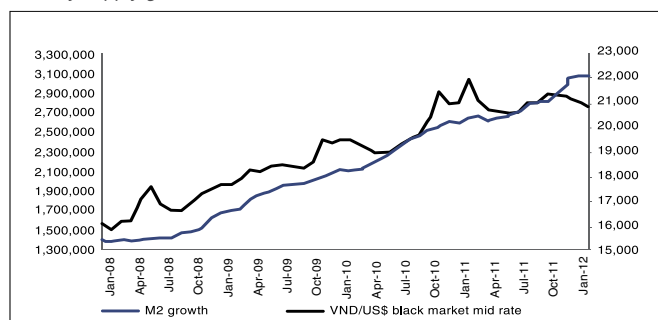
## 2012 Strategy & Macro Report (cont'd)

- By creating a deeper interbank forex market; curtailing the black market; reducing the categories of borrowers eligible for US\$ lending the authorities have virtually eliminated the speculative elements that plagued the currency markets in recent years. Of these reducing the categories of those eligible to borrow in US\$ to just one (exporters who need to import raw materials) is perhaps the most significant as it ensures that most US\$ earned through trade finance will be recycled directly through the interbank market.
- We would point out that traditionally at this time of year given the increased flow of remittances and the seasonal lull in economic activity the pressures on the VND are always at their lowest. However this year we can add to that the above mentioned determination of the central bank to de-dollarize the economy and the sharp cyclical drop in demand for dollars from importers.
- Add to that recent moves to reduce the allowed band for banks holding foreign exchange from +/- 30% of their capital to +/-20% effective from May 2<sup>nd</sup> under Circular No. 07/2012/TT-NHNN issued on March 20<sup>th</sup>, 2012. This did lead to a short term drop in the exchange rate as some banks reduced their US\$ short positions to move towards compliance with the new rules. But this was just temporary. And other than that the forex markets have been very calm for many months already.
- In fact as our early warning model below illustrates all the indicators suggest the currency will remain stable for some time. Our model keeps a close eye on foreign currency LDR which in the past has been a reliable indicator of a build-up in currency pressure. In fact this has predicted every currency movement since FY2007. The LDR has fallen steadily since peaking last August although it is likely to rise slightly again this month. However short term blips aside it indicates little or no pressure on the dong at the moment.
- In HSC's view the main medium term influence on the currency's direction is M2 money supply growth. Or more specifically the gap between money supply and nominal GDP growth. And while nominal GDP growth is slowing somewhat in contrast money supply is hardly growing at all.
- Hence the incremental supply of dong remains in check relative to the level of economic activity which is a state of affairs that is conducive to a flat or even appreciating currency over the medium term.
- HSC concurs with the SBV's medium to long term view that we may see some mild depreciation of the currency by year-end back to a level around VND 21,500 or so. However the historical factors that drove the currency steadily lower in the past

five years have all lost their impetus. Money supply growth is now constrained; the trade deficit is shrinking year by year while gold and currency speculation have been curbed.

- So while the VND may go through future periods of relative weakness we are unlikely to return to the past. The commitment to rebuild reserves up towards US\$ 30 billion or more is clear and one we take seriously. Which means the prudent policy mix necessary to achieve that goal will continue for another year or two at least.

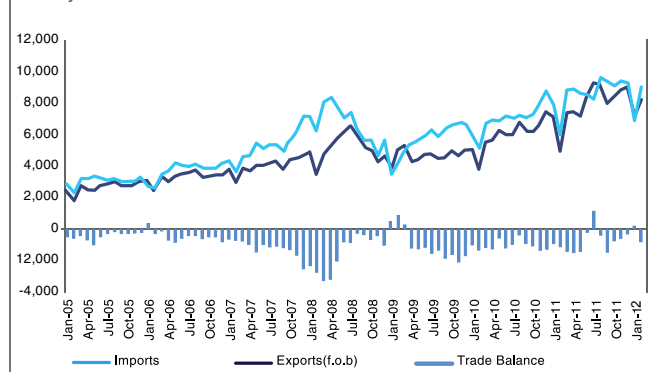
Monthly supply growth versus the VND /US\$ black market rate



Source: SBV, HSC

### Trade deficit narrows in Q1 as import growth slows

Monthly trade numbers



Source: SGC, HSC

- The trade deficit in Q1 this year at US\$ 897 is down 73.5% y/y and the narrowest we have seen since the trade surplus posted in Q1 FY2009. The reasons behind it appear the same; a steady slowdown in imports.
- Of course in FY2009 the movement was far more extreme with a sharp drop in imports whereas what are seeing currently is more of a slowdown in growth rates albeit virtually to a half judging by the March numbers.
- Meanwhile export growth remains steady with Q1 exports rising 25.8% y/y even as import growth slowed to just 11% y/y. More alarming perhaps was the fact that March imports were up just 1.6% y/y. This suggests that whatever is happening to imports is cyclical and definitely not seasonal. Which is a conclusion you can also draw from the overall Q1 numbers.

## 2012 Strategy & Macro Report (cont'd)

### Trade deficit narrows in Q1 as import growth slows (cont'd)

Q1 trade (FY2008-2012)

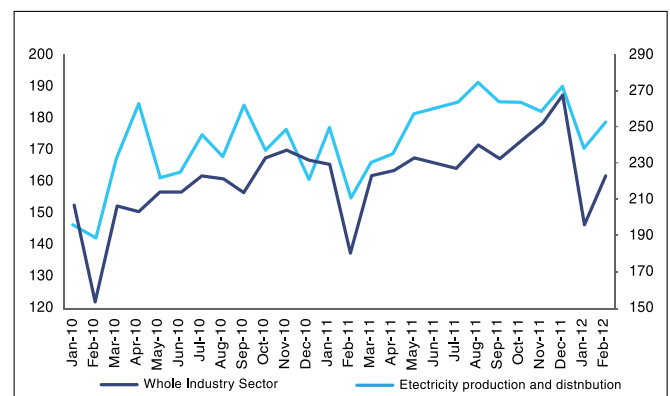
Trade	US\$ million				y/y			
	January	February	March	Q1	January	February	March	Q1
2008 Exports (fob)	3,415	4,834	5,088	13,337	-9.2%	65.3%	31.1%	26.2%
Imports (cif)	6,194	8,118	8,307	22,619	43.0%	134.1%	85.5%	84.2%
Trade surplus (deficit)	-2,779	-3,284	-3,219	-9,282				
2009 Exports (fob)	3,719	5,028	5,312	14,060	8.9%	4.0%	4.4%	5.4%
Imports (cif)	3,329	4,188	5,043	12,560	-46.3%	-48.4%	-39.3%	-44.5%
Trade surplus (deficit)	390	840	269	1,499				
2010 Exports (fob)	5,080	3,740	5,592	14,412	36.6%	-25.6%	5.3%	2.5%
Imports (cif)	6,061	5,070	6,747	17,878	82.1%	21.1%	33.8%	42.3%
Trade surplus (deficit)	-981	-1,331	-1,155	-3,466				
2011 Exports (fob)	7,091	4,848	7,447	19,386	39.6%	29.6%	33.2%	34.5%
Imports (cif)	7,968	5,960	8,856	22,783	31.5%	17.5%	31.3%	27.4%
Trade surplus (deficit)	-877	-1,112	-1,409	-3,397				
2012 Exports (fob)	9,087	7,095	8,200	24,382	28.1%	46.4%	10.1%	25.8%
Imports (cif)	9,356	6,923	9,000	25,279	17.4%	16.2%	1.6%	11.0%
Trade surplus (deficit)	-269	172	-800	-897				

Source: GSO and HCS calculation

- The slowdown in imports is general and can be seen whether we look at key imports by value or by volumes. This strongly suggests a slowdown in economic activity is behind it.
- However given the fact that export growth is holding up very well suggests that (1) it's related to a working down of inventories in the system (2) that domestic demand is quite weak. The industrial production data also support the argument that manufacturing industries are producing less at the moment. In fact a working down of inventories and slower domestic demand are not mutually exclusive and as we discuss later there is clear evidence of both.
- HSC argues however that with lower interest rates and continued solid export growth a pick-up in imports can be expected from late Q2 onwards. We saw something similar in FY2009 and this time is not nearly so pronounced.

### Industrial production is weak due to the cyclical slowdown in the 2-H FY2011

Industrial production index verses electricity output index

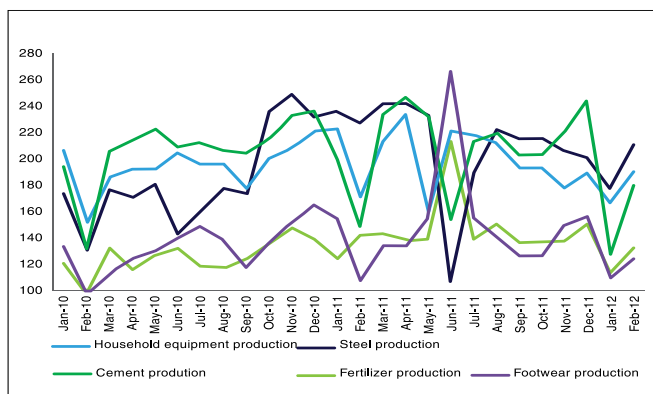


Source: GSO and HSC calculation

## 2012 Strategy & Macro Report (cont'd)

- With a new industrial production index (IP) launched in January 2010 we have limited data points. Add to that the seasonal drop in Q1 every year and it leaves us with not enough data points for a meaningful interpretation. Back to reasoned guesswork then I suppose. We have added the electricity index also to help us with the trend. Electricity output is a great IP proxy and the numbers suggest that the electricity output index didn't rise much in the 2-H of last year even as IP rose.
- In fact what is interesting here is the 2-H divergence between the two indices. IP continued to rise steadily while the electricity index fluctuated in a narrow range. The message is inconclusive but suggests a slowdown or stagnation in economic activity in the 2-H as the full impact of higher interest rates coupled with sluggish credit growth hit the economy.

### Key industrial production segment indices

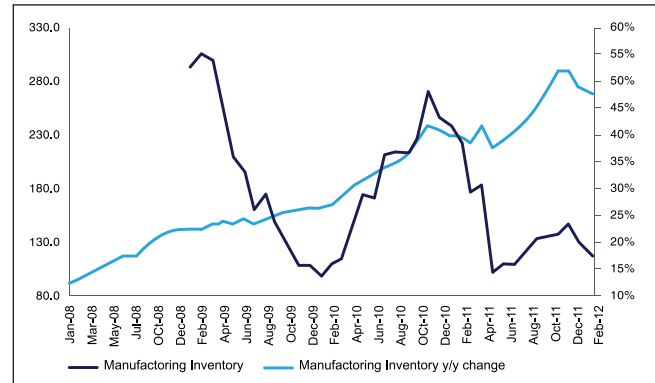


Source: GSO and HSC calculation

- We also looked at some of the individual series to help is a little. The message is broadly similar. 2-H FY2011 activities across all these sectors tended to stagnate or drop off. And this stands in contrast to the buildup in activity seen in FY2010.
- Of course there is heavy seasonality at play here hence it does not do to over interpret the numbers. But it tends to fit a general pattern seen from the IP and electricity output indices above. We can conclude as follows. There wasn't much going on in the 2-H of FY2011.
- We have of course seen a bounce in February which is to be expected after the holiday. However it's worth keeping a close eye on the numbers for the next few months to see whether or not manufacturing activity accelerates. It is HSC's thesis that we will see a cyclical pick-up from Q2 as the effect of lower interest rates and improving liquidity feed through but slowly.
- However there are some complications such as the fact that credit growth is down YTD. So the angle of recovery needs to be closely watched as it may be more gradual than what we have seen in the past.

### Despite talk of an inventory overhang in fact manufacturing stocks are falling

#### Manufacturing inventory versus y/y % change



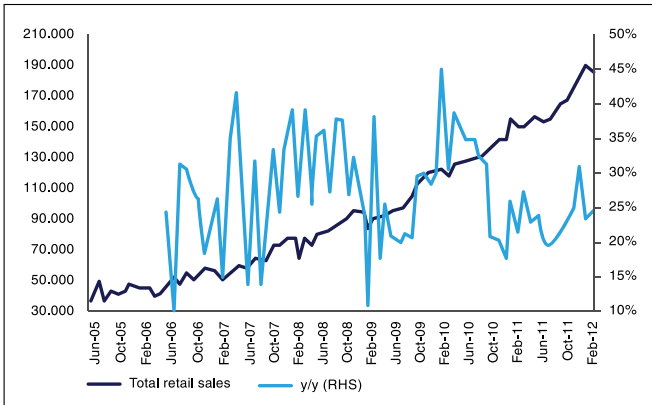
Source: GSO and HSC calculation

- There has been some talk of rising inventories amid fears that manufacturers were accumulating too much finished product given cumulative evidence of weakening demand in the 2-H of last year.
- With the limited nature of the inventory numbers (there is no breakdown between raw material and finished goods inventories) it's harder to interpret the numbers. After all a rise or a fall in overall inventories can viewed in different ways. Then we should also not lose sight of the fact that in a fast growing economy inventories will increase steadily over time.
- What we can conclude is that inventories peaked in late Q4 FY2011 and have fallen steadily since then. Most likely as manufacturers reduce stockpiles on fears of faltering demand. We say this based on anecdotal evidence from corporates we talk to regularly. And also because it stands to reason.
- In fact from the December 2011 peak inventories have dropped 7.9%. Last year from November until May 2011 inventories also dropped on that occasion by 9% from the peak. Both pullbacks look remarkably similar. Of course without data going back a long way it's hard to draw anything conclusively. In fact the motives behind last year's inventory index pullback and what we are seeing now could be very different. Or we may be witnessing something of a seasonal trend. We simply don't know.
- Finally HSC argues that while the inventory overhang argument carried water a couple of months ago the steady drop in Q1 this year suggests that companies have already made a significant adjustment. Even so if the previous downturn is anything to go this adjustment is likely to last another month or two. We would however predict a turnaround from late Q2 onwards as lower interest rates begin to boost corporate confidence once again.

# 2012 Strategy & Macro Report (cont'd)

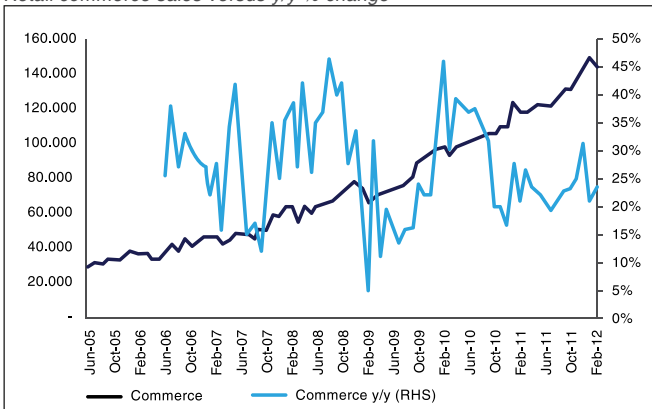
## While retail sale trends appear largely unchanged recently

Retail sales versus y/y % change



Source: GSO and HSC calculation

Retail commerce sales versus y/y % change



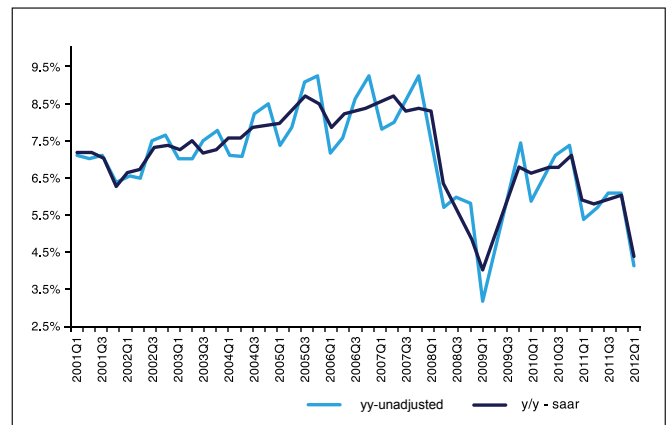
Source: GSO and HSC calculation

- The retail sales series is a bit like the IP series; the closer you look the less it reveals. Whether you take retail sales itself or its subdivision which is retail commerce sales the conclusion is the same. Sales slowed down in the 2-H of FY2010 and seem to have grown at about 25% y/y since then.
- Of course the blip in Q4 and slowdown in January is most likely seasonal but then as a series it bounces around a bit. And is clearly in need of some seasonal adjustment and also for some allowance to be made for nominal price trends. What is perhaps remarkable is that the recent slowdown in inflation does not appear to have had much effect on what is a nominal series. We don't get it. Suggestions in the post please.

- Arguably with little by way of consumer credit higher interest rates have only an indirect effect on consumption. But over the medium term a slowdown in corporate activity will eventually hit retail activity as workers have less money in their pockets. Hence this series is one of the more unsatisfactory ones we look at in that it rarely tells us anything useful.
- Hence for now all we dare say is that consumption as represented by retail sales appears to be chugging along. Nicely.

## Q1 GDP was very weak and 1-H GDP won't be much to write home about either

GDP growth y/y and SAAR y/y

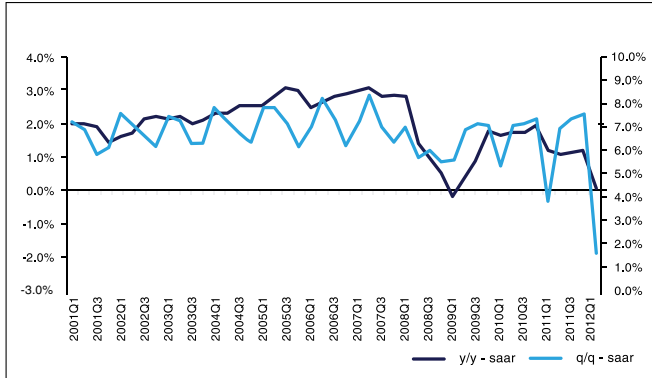


Source: GSO and HSC calculation

- Vietnam's Q1 GDP was up 4.1% y/y which is the slowest pace of growth since Q1 2009 when it expanded by just 3.4%. The seasonally adjusted growth rate was marginally higher at 4.4% (we use multiplicative X12 to calculate the SAAR). While marking a dramatic slowdown on the previous quarter this is due to a combination of both seasonal and cyclical factors. And actually was somewhat higher than what HSC was predicting.
- The seasonal slowdown in Q1 GDP relative to the previous year's Q4 occurs every year. However stripping this out we still note that this year the q/q SAAR growth rate fell by -1.9% which is only the second negative number we have seen since our records begin in 2001. Even Q1 2009 still saw a positive 0.9% SAAR q/q number although last's year's Q1 SAAR q/q number was also negative at -0.3%.
- Clearly then the cyclical impact of last year's monetary & fiscal tightening have only now begun to affect the underlying economy. This 6-9 month delay is considered fairly normal. And HSC predicts that the sluggish GDP growth will continue into Q2 FY2012 also.

## 2012 Strategy & Macro Report (cont'd)

GDP - q/q & y/y SAAR change

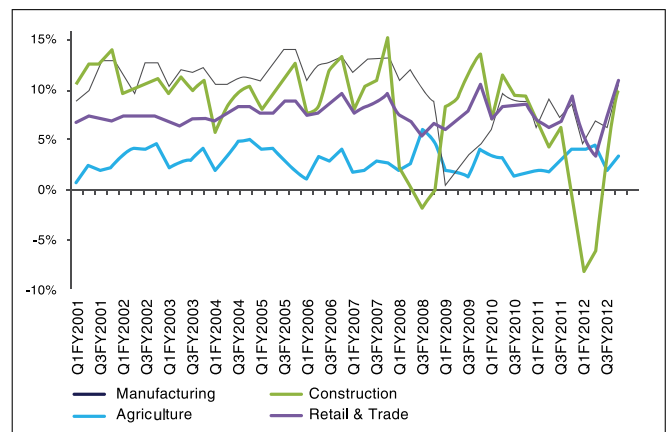


Source: GSO and HSC calculation

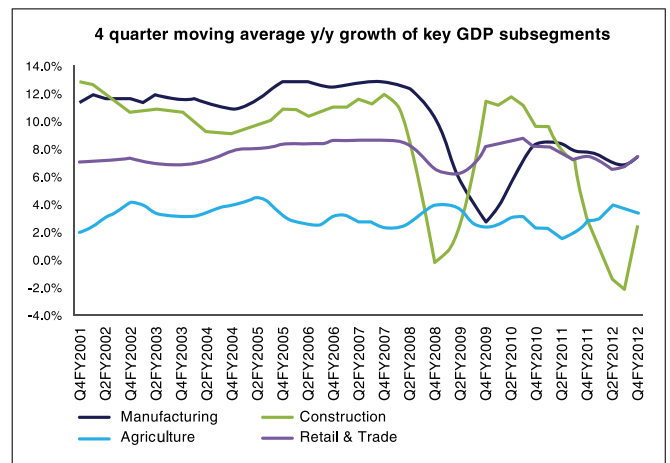
- Some commentators may be surprised by this but we had predicted worse. HSC Q1 GDP forecast was just 3.4%. Hence based on the posted Q1 number HSC is actually revising up our FY2012 GDP forecast slightly from 5.6% to 5.7%. All we have done is to add the actual Q1 numbers to our existing forecast model.
- And indeed our Q2 GDP forecast number is still rather low-balled at 4%. Hence if we see any semblance of an early recovery in Q2 the FY2012 forecast number may even be revised up further. For the record we predict 5.6% GDP growth for Q3 and then 8.1% for Q4.
- Looking at the actual GDP numbers by segment it's that the two principal factors dragging down the numbers was a collapse in the construction sub segment which saw deep negative growth y/y plus a slowdown in the manufacturing sector growth rate y/y. The second chart below which shows the same numbers using a 4 quarter moving average cleans them up a little for better viewing.
- The slowdown on the manufacturing side is far less pronounced than in the 1-H FY2009. However on this occasion it is accompanied by a very sharp slowdown in construction activity whereas in contrast back in FY2009 the construction sector was recovering from a collapse the previous year. Hence supporting the overall GDP number back then.
- The reasons are clear. In the current cycle because of the restrictions on non-productive loans last year which included all loans to the real estate sector (which were steadily reduced to 16% of total loans by year-end) the construction sector was utterly starved of capital. In contrast as we have pointed out before the manufacturing sector appears to have benefitted from this by increasing their share of overall lending.

- The result is that while annualized growth in the manufacturing sector almost halved from 8.9% in Q4 2011 to 4.5% in Q4 FY2012 annualized growth in the construction sector dropped from -1.5% in Q4 2011 to -8.3% over the same period.
- Other key segments such as agriculture and retail held up relatively well showing annualized growth of 4% and 9.3% over the same period. The later number is quite interesting as it supports the conclusion seen in the retail sales series which is that consumption seems to be holding up rather well.
- As with the other key macroeconomic indicators HSC feels comfortable in predicting a 2-H recovery in the GDP. Liquidity is a tide that lifts all boats in the sea after all. So don't fret.

GDP y/y growth by key sub segments plus HSC forward forecasts



Source: GSO and HSC calculation



Source: GSO and HSC calculation

## Board of Directors



1. **Mr. DO HUNG VIET - CHAIRMAN**
  - 2011 - present : Chairman of the Board of Directors of Ho Chi Minh City Securities Corporation (HSC)
  - 2007 - 2011 : Vice Chairman of the Board of Directors of HSC
  - 2003 - 2006 : Director of HSC
  - 1998 - 2002 : Fund Manager of HCMC Investment Fund for Urban Development (HIFU)
  
2. **Mr. LE ANH MINH - VICE CHAIRMAN**
  - 2010 - present : Deputy Director cum CFO of Dragon Capital Group (DCG)
  - 2002 - 2010 : Director of Dragon Capital Group (DCG)
  - 1998 - 2002 : CFO of Coca Cola South East Asia Inc.
  - 1993 - 1996 : Deputy Managing Director of Dai Nam Commercial J.S Bank
  - 1991 - 1993 : Project Director of Peregrine Vietnam Company
  
3. **Mr. NGUYEN THANH LIEM - VICE CHAIRMAN**
  - 2010 - present : Deputy Director of Ho Chi Minh City Finance and Investment State-owned Corporation (HFIC)
  - 2007 - 2009 : Deputy Director of HIFU
  - 2006 - 2007 : Head of Pricing, State Department of Finance
  - 2005 - 2006 : Director of Property Evaluation and Auction Center
  - 1994 - 2004 : Head of District budget management, Head of Asset, Head of Budget, State Department of Finance

## Audit Committee

1. **Mr. VO VAN CHAU - HEAD**
  - 2009 - present : Consultant to the Board of Management of TrustBank
  - 2002 - 2009 : General Director of Phuong Dong Commercial Bank
  - 1993 - 2002 : Branch Director of Asia Commercial Bank
  
2. **Mr. DOAN VAN HINH - MEMBER**
  - 2007 - present : Chief Financial Officer of Saigon Co.op J.S Investment and Development Company
  - 1997 - 2007 : Chief Accountant of Saigon Co.op
  
3. **Ms. NGUYEN THI THANH VAN - MEMBER**
  - 2003 - present : Chairwoman and CEO of Thien Phu Company
  - 1996 - 2003 : Vice Chairwoman of VPBank



## Board of Directors



4



5



6



7

4. **Mr. PHAM NGHIEM XUAN BAC - MEMBER**

- 1999 - present : CEO of Vision & Associates Company
- 1989 - 1999 : Deputy Director of InvestConsult Group Vietnam

5. **Mr. HOANG DINH THANG - MEMBER**

- 2003 - present : Manager of Planning Department at HFIC
- 1997 - 2003 : Deputy Manager of Planning Department at HIFU
- 1993 - 1997 : Investment Specialist, IMC Company
- 1990 - 1993 : Deputy Head of Investment Department, Liksin Company

6. **Mr. JOHAN NYVENE - MEMBER**

- 2007 - present : CEO of HSC
- 2005 - 2007 : Branch Manager of HSBC in Hanoi
- 1998 - 2005 : Director of Global Banking at HSBC in HCMC
- 1990 - 1998 : Director of International Banking at Corestates - First Union Bank, Philadelphia, USA

7. **Mr. TRINH HOAI GIANG - MEMBER**

- 2007 - present : Deputy CEO - COO of HSC
- 2005 - 2007 : Corporate Finance Associate Director of Dragon Capital Markets Limited (DC)
- 2003 - 2005 : Studied MBA in the US, Fulbright Scholarship
- 2001 - 2003 : Credit Officer of Vietcombank
- 1995 - 2001 : Foreign Exchange Dealer of Vietcombank Treasury



1



2



3

## Management Team



1. **Mr. JOHAN NYVENE - CHIEF EXECUTIVE OFFICER**

- 2007 - present : CEO of HSC
- 2005 - 2007 : Branch Manager of HSBC in Hanoi
- 1998 - 2005 : Director of Global Banking at HSBC in HCMC
- 1990 - 1998 : Director of International Banking at Corestates - First Union Bank, Philadelphia, USA

2. **Mr. TRINH HOAI GIANG - DEPUTY CEO - CHIEF OPERATING OFFICER**

- 2007 - present : Deputy CEO - COO of HSC
- 2005 - 2007 : Corporate Finance Associate Director of Dragon Capital Markets Limited (DC)
- 2003 - 2005 : Studied MBA in the US, Fulbright Scholarship
- 2001 - 2003 : Credit Officer of Vietcombank
- 1995 - 2001 : Foreign Exchange Dealer of Vietcombank Treasury

3. **Mr. LE CONG THIEN - DEPUTY CEO - MANAGING DIRECTOR - HEAD OF BROKERAGE AND SALES, PRIVATE CLIENTS DIVISION**

- Present : Deputy CEO - Managing Director - Head of Brokerage and Sales, Private Clients Division of HSC
- 2010 - 2012 : Managing Director - Head of Brokerage and Sales, Private Clients Division of HSC
- 2008 - 2010 : Head of Small to Medium Enterprise Banking of ANZ Vietnam
- 2007 - 2008 : General Manager of Cho Lon Securities J.S Company
- 2004 - 2007 : Head of Commodity and Trade Finance/Chief Manager of ANZ Vietnam
- 1998 - 2004 : Trade Sales Manager/Assistant Vice President;  
Relationship Manager of Citigroup/Citibank N.A, HCMC, Vietnam
- 1996 - 1998 : Relationship Manager - Deutsche Bank AG HCMC, Vietnam
- 1992 - 1996 : Credit Officer - Vietcombank, HCMC, Vietnam

4. **Mr. FIACHRA MAC CANA - MANAGING DIRECTOR - CO-HEAD OF INSTITUTIONAL DIVISION**

- 2008 - present : Managing Director of Research Department - Co-head of Institutional Division of HSC
- 2007 - 2008 : Head of Research and Brokerage Division of VinaSecurities
- 2006 - 2007 : Head of Research Department of VinaCapital
- 2003 - 2004 : Co - Founder of JCN Network - a leader in Japanese corporate news
- 1997 - 2003 : Head of Research for Japanese Equities at WestLB

## Management Team



5. **Mr. TRINH THANH CAN - MANAGING DIRECTOR - HEAD OF INVESTMENT BANKING DIVISION**

- 2011 - present : Managing Director - Head of Investment Banking Department of HSC
- 2007 - 2011 : Head of Research, Head of Investment of Viet Capital Securities
- 2006 - 2007 : Investment Manager of Viet Capital Asset Management
- 2005 - 2006 : Corporate & Institutional Banking Relationship Manager of HSBC Vietnam
- 2003 - 2005 : Investment Associate of VinaCapital
- 2002 - 2003 : Wholesale Mortgage Account Manager at Downey Saving and Loan, USA
- 2000 - 2002 : Research Analyst at Tower Asset Management, USA

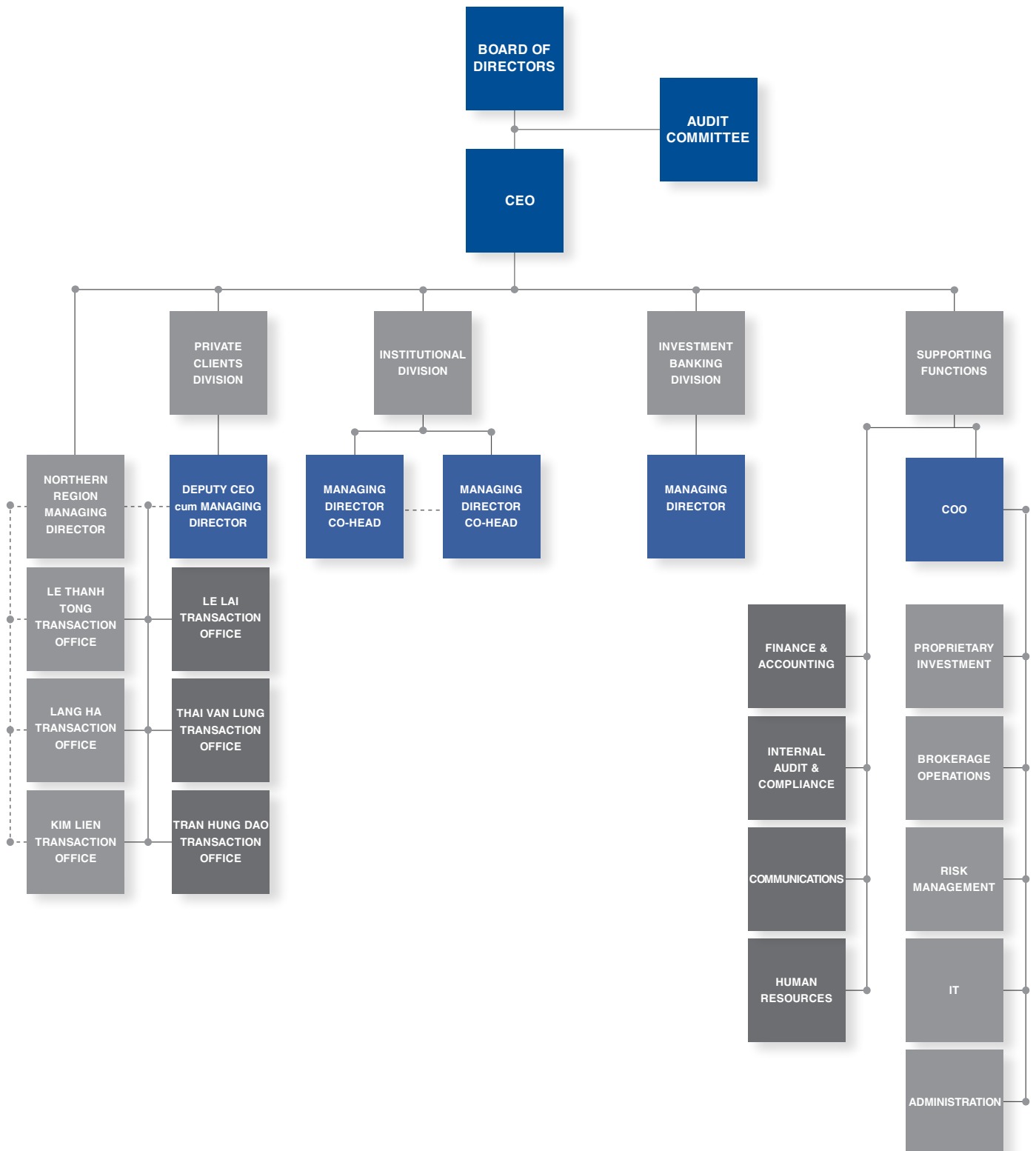
6. **Mr. JOHAN KRUMER - MANAGING DIRECTOR - CO-HEAD OF INSTITUTIONAL DIVISION**

- 2007 - present : Managing Director - Co-head of Institutional Division of HSC
- 2005 - 2007 : Deputy Director of Krediet Bank Luxembourg (KBL), Monaco
- 2000 - 2005 : Senior Private Banker ABN at AMRO Bank N.V., Monaco
- 1995 - 1999 : Founder and Managing Director Institutional Clients at Asian Pacific Partners B.V. Amsterdam
- 1994 - 1995 : Senior Sales Manager (Europe) Institutional Clients at Mees Pierson Securities Asia N.V., Amsterdam
- 1988 - 1993 : Senior Investment Advisor Institutional Clients at Pacific Basin Invest Securities B.V. Amsterdam

7. **Mr. BACH QUOC VINH - MANAGING DIRECTOR - HEAD OF NORTHERN REGION**

- 2007 - present : Managing Director - Head of Northern Region of HSC
- 2000 - 2007 : Unit Manager of Northern branch and Branch Manager of General Agency franchise of Prudential at Nghe An and Ha Tinh
- 1997 - 2000 : Sales Manager - Coca Cola Hanoi

# Organizational Chart



## Review of Operations

HSC closed the year with a top ranking position in the market on a number of financial as well as business benchmarks, including profitability, and overall gains in market shares in the brokerage business for both customer segments.

Despite a generally downward spiraling bear market, HSC managed to achieved an NPAT for 2011 at VND 194 billion, an increase of nearly 7% over the year before and a surplus of 10% over targets. This level of profitability translated into a diluted EPS of VND 2,920 which is almost comparable to 2010's EPS of VND 3,044.

On the Retail side HSC's market share increased from 4.2% to 4.6% for the year. On the Institutional side, the ratio improved from 1.7% to 2.6% of total markets. In overall combined markets and combined customer segments, HSC's total brokerage market share grew from 5.9% in 2010 to 7.2% in 2011. However given the fact that the overall market was significantly less active than in the prior year, our brokerage fee income dropped considerably in absolute terms, albeit at a slower rate than the market's trading value. This means our fundamental business model of generating sufficient fee income to cover all operating expenses was not achieved in 2011.

With deposit interest rates averaging 17% in 2011 and margin lending interest rates rising to around 21%, our interest income enjoyed a tremendous boost over the year and contributed to 69% of total revenue. Of total interest income, the margin lending business contributed 27% of total revenue and the 42% was from treasury activities, which comprised of bond repo transactions and term deposits. The contribution from total interest income was more than sufficient to cover the shortfall in fee income and resulted in our net profitability.

### HSC snapshot

(VND mil)	FY2008	FY2009	%y/y	FY2010	%y/y	FY2011	%y/y
Total revenues	285,597	491,278	72.0%	470,848	-4.2%	480,491	2.0%
Operating expenses	201,488	131,127	-34.9%	170,486	30.0%	156,587	-8.2%
Administration expense	60,564	38,273	-36.8%	72,532	89.5%	86,385	19.1%
Total expenses	262,223	169,399	-35.4%	243,018	43.5%	243,705	0.3%
Pretax profit	23,543	336,313	1,328.5%	227,901	-32.2%	236,889	3.9%
Net profit	23,543	278,119	1,081.3%	182,312	-34.4%	194,420	6.6%
Gross margin	29%	73%	148.9%	64%	-13.0%	67%	5.7%
Pretax margin	8%	68%	730.4%	48%	-29.3%	49%	1.9%
Net margin	8%	57%	586.7%	39%	-31.6%	40%	4.5%
Average Outstanding Shares	39,200,372	39,415,855		59,900,668		66,584,584	
Current Outstanding Shares	39,441,900	39,398,772		59,999,686		99,848,637	
Market price (end of period)	-	55,000		30,100		14,000	
Market Capitalization (end of period)	-	2,166,932		1,805,991		1,397,881	
EPS (VND)	601	7,056		3,044		2,920	
BVPS (VND)	33,367	39,049		26,486		20,320	
P/E at year end price	-	7.79		9.89		4.79	
P/E at current price	-	-		-		6.37	
P/B at year end price	-	1.41		1.14		0.69	
P/B at current price	-	-		-		0.92	

## Review of Operations (cont'd)

### FY2011 HIGHLIGHTS

- HSC saw a slight 2% increase in revenues last year and managed to show single digit growth in the bottom line. Revenues from key frontline divisions such as retail brokerage and investment banking fell by double digits y/y. However Institutional division posted single digit growth. And then the Treasury division made large gains as deposit interest rates rose sharply enabling interest income to surge.
- Expenses rose by just 0.3% y/y although there were wide variances by division. In general however the sharp drop in expenses in the principal investment division offset increases in expenses elsewhere.
- Pretax profits rose 3.9% y/y as revenues expanded faster than overall expenses. However we saw a decline in EPS due to the dilution factor following an increase in capital.
- Closing the year, HSC finished with a leading position among peers in the highest absolute numbers in NPAT and book value per share, and with ROAE of 10.7%, one of the highest ratios in the industry in Vietnam.

### REVENUE BREAKDOWN BY SEGMENT

HSC revenues and profits by segment

HSC revenues and profits (VND mil)	2010				2011				FY2010	FY2011	y/y
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Revenues</b>											
Retail brokerage	60,962	79,215	62,808	56,843	51,137	43,739	41,500	42,478	259,828	178,854	-31.2%
Institutional brokerage	12,574	8,961	11,520	13,934	9,377	11,208	13,739	17,321	46,989	51,645	9.9%
Investment banking	718	21,230	13,239	12,518	2,138	442	21,005	1,871	47,704	25,455	-46.6%
Principal investment	13,321	15,800	5,890	1,403	2,976	2,184	2,226	693	36,413	8,078	-77.8%
Treasury	18,753	16,023	17,384	27,826	30,880	47,766	63,617	74,298	79,985	216,562	170.8%
<b>Total revenues</b>	<b>106,328</b>	<b>141,228</b>	<b>110,840</b>	<b>112,523</b>	<b>96,507</b>	<b>105,339</b>	<b>142,086</b>	<b>136,661</b>	<b>470,919</b>	<b>480,593</b>	<b>2.1%</b>
<b>Expenses</b>											
Retail brokerage	23,888	31,390	30,104	30,845	27,269	27,747	29,425	31,884	116,227	116,325	0.1%
Institutional brokerage	6,385	7,326	11,411	8,412	7,160	9,708	12,975	13,361	33,534	43,205	28.8%
Investment banking	2,894	3,067	3,411	5,905	2,691	3,298	6,701	4,472	15,278	17,161	12.3%
Principal investment	4,664	15,156	16,262	21,988	6,510	3,984	3,313	1,642	58,070	15,449	-73.4%
Treasury	0	226	10,126	9,557	1,412	2,607	21,409	26,136	19,909	51,565	159.0%
<b>Total expenses</b>	<b>37,831</b>	<b>57,166</b>	<b>71,314</b>	<b>76,708</b>	<b>45,042</b>	<b>47,344</b>	<b>73,823</b>	<b>77,496</b>	<b>243,019</b>	<b>243,705</b>	<b>0.3%</b>
<b>Pretax profits</b>											
Retail brokerage	37,075	47,826	32,703	25,997	23,868	15,992	12,074	10,594	143,601	62,529	-56.5%
Institutional brokerage	6,189	1,634	109	5,522	2,217	1,500	764	3,960	13,455	8,440	-37.3%
Investment banking	(2,177)	18,162	9,828	6,613	(553)	(2,856)	14,304	(2,601)	32,426	8,294	-74.4%
Principal investment	8,657	644	(10,373)	(20,586)	(3,535)	(1,800)	(1,087)	(950)	(21,658)	(7,372)	-66.0%
Treasury	18,753	15,797	7,257	18,269	29,468	45,159	42,208	48,162	60,076	164,997	174.6%
<b>Total pretax profits</b>	<b>68,497</b>	<b>84,062</b>	<b>39,525</b>	<b>35,816</b>	<b>51,465</b>	<b>57,995</b>	<b>68,263</b>	<b>59,165</b>	<b>227,900</b>	<b>236,888</b>	<b>3.9%</b>

## Review of Operations (cont'd)

### RETAIL BROKERAGE DIVISION

HSC's retail business has weathered the storm of the last two years very well and seen a steady increase in market share over the period. And while revenues have fallen by 31.2%, this is entirely due to the sharp decline in overall market turnover which were down by 60%. Operating 7 retail outlets in both HCMC and Hanoi and boasting a network of more than 300 brokers which is one of the most elaborate brokerage networks in the country, the division is still the largest contributor to HSC's revenues and earnings.

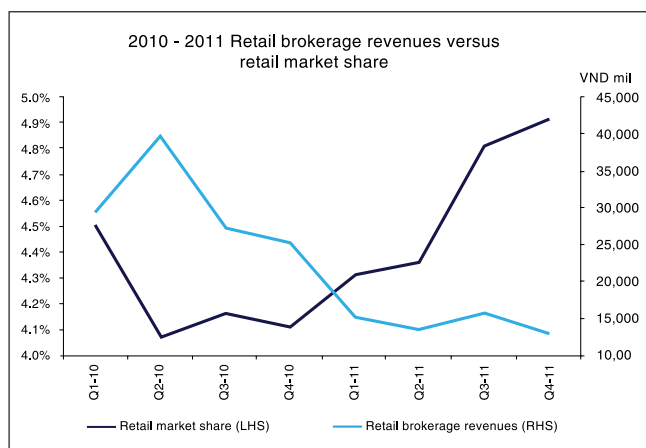
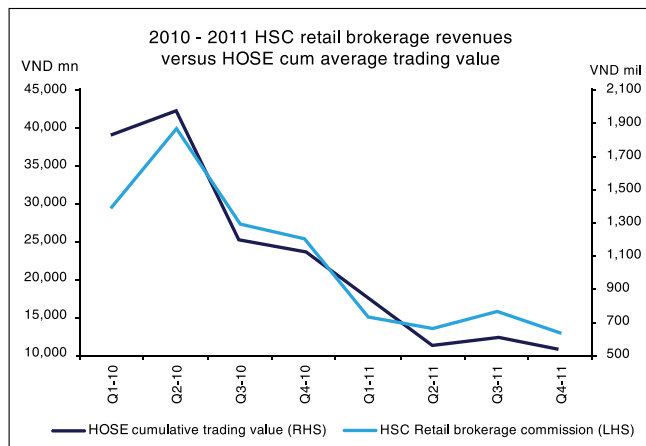
#### Retail key numbers

Retail (VND mil)	2010				2011				FY2010	FY2011	y/y
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Total revenues</b>	<b>60,962</b>	<b>79,215</b>	<b>62,808</b>	<b>56,843</b>	<b>51,137</b>	<b>43,739</b>	<b>41,500</b>	<b>42,478</b>	<b>259,828</b>	<b>178,854</b>	<b>-31.2%</b>
Brokerage	29,396	39,744	27,536	25,168	15,043	13,614	15,657	13,021	121,845	57,335	-52.9%
Credit income	33,005	41,324	36,613	32,892	35,894	29,836	25,555	29,100	143,834	120,386	-16.3%
Subtotal	62,401	81,068	64,149	58,060	50,937	43,450	41,213	42,120	265,679	177,720	-33.1%
Other income	(1,439)	(1,853)	(1,342)	(1,217)	200	289	287	357	(5,851)	1,133	-119.4%
Direct Expense	18,537	25,063	25,063	22,942	19,863	19,840	20,361	22,179	91,605	82,242	-10.2%
Indirect Expense	5,351	6,327	5,041	7,903	7,406	7,907	9,064	9,705	24,622	34,083	38.4%
<b>Total expense</b>	<b>23,888</b>	<b>31,390</b>	<b>30,104</b>	<b>30,845</b>	<b>27,269</b>	<b>27,747</b>	<b>29,425</b>	<b>31,884</b>	<b>116,227</b>	<b>116,325</b>	<b>0.1%</b>
<b>Profit before tax</b>	<b>37,075</b>	<b>47,826</b>	<b>32,703</b>	<b>25,997</b>	<b>23,868</b>	<b>15,992</b>	<b>12,074</b>	<b>10,594</b>	<b>143,601</b>	<b>62,529</b>	<b>-56.5%</b>
<b>Total revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
Brokerage	48.2%	50.2%	43.8%	44.3%	29.4%	31.1%	37.7%	30.7%	46.9%	32.1%	
Credit income	54.1%	52.2%	58.3%	57.9%	70.2%	68.2%	61.6%	68.5%	55.4%	67.3%	
Direct Expense as % of income	30.4%	31.6%	39.9%	40.4%	38.8%	45.4%	49.1%	52.2%	35.3%	46.0%	
Indirect Expense	8.8%	8.0%	8.0%	13.9%	14.5%	18.1%	21.8%	22.8%	9.5%	19.1%	
Total expense	39.2%	39.6%	47.9%	54.3%	53.3%	63.4%	70.9%	75.1%	44.7%	65.0%	
<b>Pretax profit margins</b>	<b>60.8%</b>	<b>60.4%</b>	<b>52.1%</b>	<b>45.7%</b>	<b>46.7%</b>	<b>36.6%</b>	<b>29.1%</b>	<b>24.9%</b>	<b>55.3%</b>	<b>35.0%</b>	
<b>Total HSC revenue</b>	<b>106,328</b>	<b>141,228</b>	<b>110,840</b>	<b>112,523</b>	<b>96,507</b>	<b>105,339</b>	<b>142,086</b>	<b>136,661</b>	<b>470,919</b>	<b>480,593</b>	
<b>Retail as a% of total revenue</b>	<b>57.3%</b>	<b>56.1%</b>	<b>56.7%</b>	<b>50.5%</b>	<b>53.0%</b>	<b>41.5%</b>	<b>29.2%</b>	<b>31.1%</b>	<b>55.2%</b>	<b>37.2%</b>	

- Looking over the FY2010-2011 period retail income streams which include brokerage fees and credit income have declined from 57.3% of total revenues to just 31.1% by Q4 FY2011. And have declined also in absolute terms. This reflects the overall decline in market turnover over the same period.
- In FY2011 overall revenues dropped 31.2% driven by a sharp decline in brokerage revenues. Of this decrease, brokerage fee income decreased 52.9% and margin lending income decreased 16.3%. Despite the steady rise in interest rates (or perhaps because of it) the decline in credit revenues was slight compared to fee income.
- Retail brokerage income streams have closely tracked cumulative trading volumes closely suggesting that average brokerage fee per transaction has remained fairly stable over the period in question. However the sharp decline in overall market turnover has resulted in a steady decline in brokerage fees over the last two years. Even as the retail division's market share has increased steadily from 4.5% in Q1 FY2010 to 4.9% by Q4 FY2011.

## Review of Operations (cont'd)

### RETAIL BROKERAGE DIVISION (cont'd)



- Meanwhile the brokerage division has come to rely more on credit income as a key revenue stream. Its contribution to total revenues rose from 54.1% in Q1 FY2010 to 68.5% of the total in Q4 FY2011. Given the intense competition in the retail brokerage space availability of credit is a key competitive advantage. And HSC access to a healthy balance sheet enabled us to offer this service to clients.
- Even the credit income revenue stream is not immune to the market cycle and has declined in absolute terms over the past 8 quarters albeit at a much slower pace than brokerage fees.
- The margin lending portfolio's average outstanding balance was VND 560 billion for 2011, a 28% contraction from the average balance of VND 780 billion the year before. However, margin lending interest rate increased from an average of 18% in 2010 to an average of 21% in 2011. The portfolio's balance ended at VND 620 billion at the close of 2011. The entire margin portfolio is clean. The highest margin ratio on any stock was 50% and there is absolutely no bad debt or provision required as all margin accounts are strictly maintained with the margin value always exceeding the outstanding debt.
- Both direct and indirect expenses edged up just 0.1% y/y last year. We note that most but not all costs are (1) fixed (2) subject to inflationary effects and that total expenses as a % of income rose from 39.2% of total income in Q1 FY2010 to 75.1% by Q4 FY2011. The brokerage business by nature is very cyclical given the large fixed investment costs such as IT (the new data center), office rental (the new Le Lai transaction office and the new headquarters offices), and full time staff salaries associated with running it. However there are some variable costs such as exchange fees and agency costs which vary with turnover.
- Hence pretax profits for this division has also declined with pretax margins dropping steadily from 60.8% in Q1 FY2010 to 24.9% in Q4 FY2011 which coincided with the low point of the stock market. In FY2011 the retail brokerage division's pretax profits then fell 56.5% y/y as the sharp drop in revenues fed through to the bottom line despite excellent cost controls. And as a result pretax profit margins fell also from 55.3% to 35%.

### INSTITUTIONAL BROKERAGE

The Institutional sales division encompasses both brokerage and research functions and sells to both foreign and domestic institutional investors. It includes a team of sales traders; dedicated sales people and then a research team with both sector and macro analysts. In 2011 this division won both the Institutional Investor and AsiaMoney awards for best research team in Vietnam as well as best brokerage.

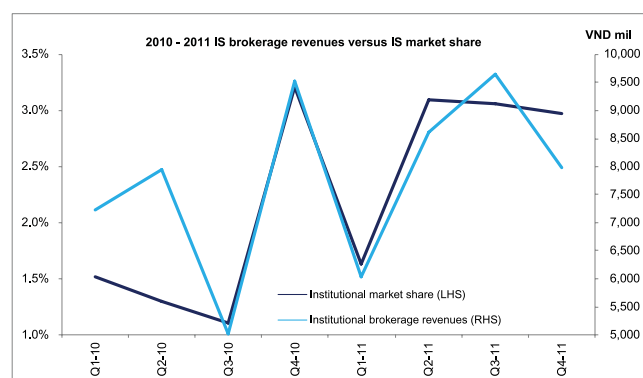
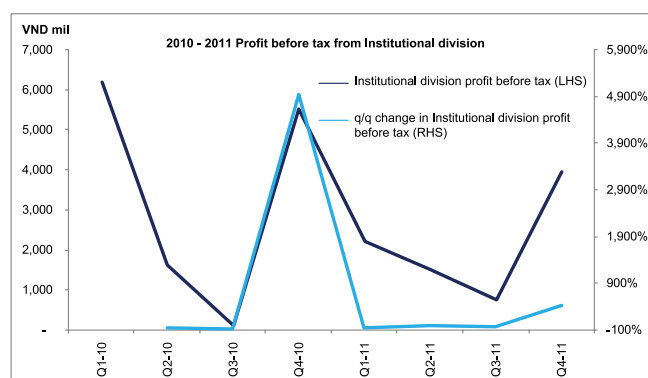


## Review of Operations (cont'd)

### Institutional Brokerage key numbers

Institutional Brokerage (VND mil)	2010				2011				FY2010	FY2011	y/y
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Total revenues</b>	<b>12,574</b>	<b>8,961</b>	<b>11,520</b>	<b>13,934</b>	<b>9,377</b>	<b>11,208</b>	<b>13,739</b>	<b>17,321</b>	<b>46,989</b>	<b>51,645</b>	<b>9.9%</b>
Brokerage	7,223	7,936	5,013	9,512	6,039	8,603	9,639	7,984	29,684	32,264	8.7%
Credit income	3,961	694	1,300	3,734	2,853	681	867	6,806	9,689	11,207	15.7%
Income from using capital	923	194	5,138	190	467	1,921	315	2,174	6,445	4,877	-24.3%
Investment Banking Advisory	-	-	-	488	-	4	2,917	5	488	2,926	500.1%
Services	468	136	69	10	18	-	-	353	683	371	-45.7%
Direct Expense	5,220	5,882	10,170	7,378	5,821	8,160	10,612	10,699	28,650	35,292	23.2%
Indirect Expense	1,166	1,445	1,240	1,034	1,339	1,548	2,363	2,662	4,884	7,913	62.0%
<b>Total expense</b>	<b>6,385</b>	<b>7,326</b>	<b>11,411</b>	<b>8,412</b>	<b>7,160</b>	<b>9,708</b>	<b>12,975</b>	<b>13,361</b>	<b>33,534</b>	<b>43,205</b>	<b>28.8%</b>
<b>Pretax profit</b>	<b>6,189</b>	<b>1,634</b>	<b>109</b>	<b>5,522</b>	<b>2,217</b>	<b>1,500</b>	<b>764</b>	<b>3,960</b>	<b>13,455</b>	<b>8,440</b>	<b>-37.3%</b>
Total revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Brokerage	57.4%	88.6%	43.5%	68.3%	64.4%	76.8%	70.2%	46.1%	63.2%	62.5%	
Credit income	31.5%	7.7%	11.3%	26.8%	30.4%	6.1%	6.3%	39.3%	20.6%	21.7%	
Income from using capital	7.3%	2.2%	44.6%	1.4%	5.0%	17.1%	2.3%	12.6%	13.7%	9.4%	
Investment Banking Advisory	0.0%	0.0%	0.0%	3.5%	0.0%	0.0%	21.2%	0.0%	1.0%	5.7%	
Services	3.7%	1.5%	0.6%	0.1%	0.2%	0.0%	0.0%	2.0%	1.5%	0.7%	
Direct Expense	41.5%	65.6%	88.3%	53.0%	62.1%	72.8%	77.2%	61.8%	61.0%	68.3%	
Indirect Expense	9.3%	16.1%	10.8%	7.4%	14.3%	13.8%	17.2%	15.4%	10.4%	15.3%	
Total expense	50.8%	81.8%	99.0%	60.4%	76.4%	86.6%	94.4%	77.1%	71.4%	83.7%	
<b>Pretax profit margins</b>	<b>49.2%</b>	<b>18.2%</b>	<b>1.0%</b>	<b>39.6%</b>	<b>23.6%</b>	<b>13.4%</b>	<b>5.6%</b>	<b>22.9%</b>	<b>28.6%</b>	<b>16.3%</b>	
<b>Total HSC revenue</b>	<b>106,328</b>	<b>141,228</b>	<b>110,840</b>	<b>112,523</b>	<b>96,507</b>	<b>105,339</b>	<b>142,086</b>	<b>136,661</b>	<b>470,919</b>	<b>480,593</b>	
<b>IS as a% of total revenue</b>	<b>11.8%</b>	<b>6.3%</b>	<b>10.4%</b>	<b>12.4%</b>	<b>9.7%</b>	<b>10.6%</b>	<b>9.7%</b>	<b>12.7%</b>	<b>10.0%</b>	<b>10.7%</b>	

- Institutional division (ID) revenues are more varied than retail coming as they do from up to five different streams. However by far the most important stream is brokerage itself or commission fees. This has ranged from 43.5% to 88.6% on a quarterly basis. Despite average daily trading value of the total market losing 60% compared to the year before, ID's brokerage revenues increased 8.7% y/y driven by market share gains as new clients signed up. ID's market share of the total market increased more than 50% from an average of 1.7% in 2010 to an average of 2.6% in 2011.
- The credit income stream is more volatile but also registered a 15.7% y/y gain last year. This income stream is driven by occasional institutional client requirements for repo type products and hence tends to have fixed time period. The other income streams are also quite volatile and come under the general umbrella of client facilitation.
- Expenses rose 28.8% last year mainly driven by a sharp increase in indirect expenses. Expenses both direct and indirect mostly consist of line items such as salaries; rental and overhead; exchange fees and of course IT expenses. In this respect the composition is very similar to the retail brokerage side.
- However unlike the retail side the fixed cost component (salary) on the Institutional side is much higher hence its harder to reduce costs when revenues fall short. On the other hand the more varied nature of institutional revenues make it less cyclical in nature.
- As a result of this FY2011 pretax profits for the ID division fell 37.3% as expenses rose faster than revenues. Given the highly cyclical nature of the business this is unsurprising perhaps. And pretax profit margins fell from 28.6% to 16.3%.



## Review of Operations (cont'd)

### INVESTMENT BANKING

The investment banking division handles both investment advisory and M&A projects for both international and local clients. In 2011, the division closed and delivered a number of M&A deals including those of Megastar and Vien Thong A (both featured in this annual report). Of the deals that were billed the Megastar transaction contributed the bulk of the revenue, which was accounted for in Q3 2011.

#### Investment Banking key numbers

Investment Banking (VND mil)	2010				2011				FY2010	FY2011	y/y
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Total Revenues</b>	<b>718</b>	<b>21,230</b>	<b>13,239</b>	<b>12,518</b>	<b>2,138</b>	<b>442</b>	<b>21,005</b>	<b>1,871</b>	<b>47,704</b>	<b>25,455</b>	<b>-46.6%</b>
Investment Banking Advisory	718	1,160	546	1,550	2,046	442	20,959	1,871	3,974	25,317	537.1%
Income from using capital	-	20,069	12,693	10,969	-	-	-	-	43,731	-	-100.0%
OTC brokerage					92				-	92	
Services	-	-	-	-	-	-	46	-	-	46	
Direct Expense	1,577	1,697	2,275	4,979	2,070	2,665	4,813	2,572	10,528	12,120	115.1%
Indirect Expense	1,317	1,371	1,135	926	621	632	1,888	1,900	4,750	5,041	6.1%
<b>Total expenses</b>	<b>2,894</b>	<b>3,067</b>	<b>3,411</b>	<b>5,905</b>	<b>2,691</b>	<b>3,298</b>	<b>6,701</b>	<b>4,472</b>	<b>15,278</b>	<b>17,161</b>	<b>12.3%</b>
<b>Pretax profit</b>	<b>(2,177)</b>	<b>18,162</b>	<b>9,828</b>	<b>6,613</b>	<b>(553)</b>	<b>(2,856)</b>	<b>14,304</b>	<b>(2,601)</b>	<b>32,426</b>	<b>8,294</b>	<b>-74.4%</b>
<b>Total Revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
Investment Banking Advisory	100.0%	5.5%	4.1%	12.4%	95.7%	100.0%	99.8%	100.0%	8.3%	99.5%	
Income from using capital	0.0%	94.5%	95.9%	87.6%	0.0%	0.0%	0.0%	0.0%	91.7%	0.0%	
OTC brokerage	0.0%	0.0%	0.0%	0.0%	4.3%	0.0%	0.0%	0.0%	0.0%	0.4%	
Services	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.2%	
Direct Expense	219.8%	8.0%	17.2%	39.8%	96.8%	603.5%	22.9%	137.4%	22.1%	47.6%	
Indirect Expense	183.6%	6.5%	8.6%	7.4%	29.0%	143.2%	9.0%	101.6%	10.0%	19.8%	
<b>Total expenses</b>	<b>403.4%</b>	<b>14.4%</b>	<b>25.8%</b>	<b>47.2%</b>	<b>125.9%</b>	<b>746.7%</b>	<b>31.9%</b>	<b>239.0%</b>	<b>32.0%</b>	<b>67.4%</b>	
<b>Pretax profit margins</b>	<b>-303.4%</b>	<b>85.6%</b>	<b>74.2%</b>	<b>52.8%</b>	<b>-25.9%</b>	<b>-646.7%</b>	<b>68.1%</b>	<b>-139.0%</b>	<b>68.0%</b>	<b>32.6%</b>	
<b>Total HSC revenue</b>	<b>106,328</b>	<b>141,228</b>	<b>110,840</b>	<b>112,523</b>	<b>96,507</b>	<b>105,339</b>	<b>142,086</b>	<b>136,661</b>	<b>470,919</b>	<b>480,593</b>	
<b>Retail as a% of total revenue</b>	<b>0.7%</b>	<b>15.0%</b>	<b>11.9%</b>	<b>11.1%</b>	<b>2.2%</b>	<b>0.4%</b>	<b>14.8%</b>	<b>1.4%</b>	<b>10.1%</b>	<b>5.3%</b>	

- Investment banking is by nature very lumpy and also cyclical with fewer projects generally during a bear market. And last year top line revenues fell by 46.6% y/y. The main two revenue lines are investment advisory and then income from using capital.
- Investment advisory can be described as fee income from either advisory or M&A. In FY2011 this surged by 537.1% on successful completion of one substantial and a couple of smaller M&A transactions during the year. Typically in recent years these have involved foreign corporates buying into local companies.
- The second major income stream is income from using own capital. Besides the typical underwriting activities, capital usage in IB also includes mezzanine finance type facilities offered to clients who are often in the last stages before offering an IPO or going public. Frequently these types of companies have limited access to banks for short to medium term capital and can instead come to brokers such as HSC who are willing to take shares as collateral.
- However in FY2011 there were no such transactions. The last two income streams are occasional services or OTC related transactions but they are unimportant in size.
- Expenses in FY2011 increased sharply with direct expenses moving up from 22.1% to 47.6% of revenues. This was followed by total expenses which accounted for 67.4% of revenues last year up sharply also. With revenues falling and expenses rising pretax profit for the IB division collapsed by 74.4%. At the same time pretax margins more than halved from 68% to 32.6%.
- With almost all costs fixed and highly variable income streams the investment banking division is arguably the most volatile of the three client focused revenue streams of HSC. Investment banking is a fairly young business in Vietnam and the fees offered are low by international standards. However by adopting a flexible approach and being willing to take small as well as larger deals the investment banking division is more than holding its own.

## Review of Operations (cont'd)

### PRINCIPAL INVESTMENT

More than two years ago HSC took the decision to deactivate its principal investment activities. These consisted of proprietary trading activities and investments in both listed and OTC stocks. Some were active positions whilst others were legacy investments left over from the 2006-2007 market boom. Partly as the division was suffering steady losses in a down market and partly to avoid the impression of competing against clients in an illiquid market HSC took the important position to discontinue this activity. However as some of the positions are in OTC stocks which rarely trade the exits have been long drawn out.

#### Principal investment

Principal investment (VND mil)	2010				2011				FY2010	FY2011	y/y
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Total revenues</b>	<b>13,321</b>	<b>15,800</b>	<b>5,890</b>	<b>1,403</b>	<b>2,976</b>	<b>2,184</b>	<b>2,226</b>	<b>693</b>	<b>36,413</b>	<b>8,078</b>	<b>-77.8%</b>
Income from using capital	13,321	15,800	5,890	1,403	2,870	2,141	2,213	687	36,413	7,911	-78.3%
Brokerage	-	-	-	-	105	43	13	6	-	167	
Direct expenses	4,112	14,431	15,691	21,453	6,285	3,735	2,603	872	55,687	13,495	-75.8%
Indirect Expense	551	725	571	535	225	249	709	771	2,383	1,954	-18.0%
<b>Total expenses</b>	<b>4,664</b>	<b>15,156</b>	<b>16,262</b>	<b>21,988</b>	<b>6,510</b>	<b>3,984</b>	<b>3,313</b>	<b>1,642</b>	<b>58,071</b>	<b>15,449</b>	<b>-73.4%</b>
<b>Pretax profits</b>	<b>8,657</b>	<b>644</b>	<b>(10,373)</b>	<b>(20,586)</b>	<b>(3,535)</b>	<b>(1,800)</b>	<b>(1,087)</b>	<b>(950)</b>	<b>(21,658)</b>	<b>(7,372)</b>	<b>-66.0%</b>
<b>Total revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
Income from using capital	100%	100%	100%	100%	96.5%	98%	99.4%	99.2%	100%	97.9%	
Brokerage	0%	0%	0%	0%	3.5%	2%	0.6%	0.8%	0%	2.1%	
Direct Expenses	30.9%	91.3%	266.4%	1,529.4%	211.2%	171%	117%	125.8%	152.9%	167.1%	
Indirect Expenses	4.1%	4.6%	9.7%	38.2%	7.6%	11.4%	31.9%	111.3%	6.5%	24.2%	
<b>Total Expenses</b>	<b>35.0%</b>	<b>95.9%</b>	<b>276.1%</b>	<b>1,567.5%</b>	<b>218.8%</b>	<b>182.4%</b>	<b>148.8%</b>	<b>237.1%</b>	<b>159.5%</b>	<b>191.3%</b>	
<b>Pretax profits margins</b>	<b>65.0%</b>	<b>4.1%</b>	<b>-176.1%</b>	<b>-1,467.5%</b>	<b>-118.8%</b>	<b>-82.4%</b>	<b>-48.8%</b>	<b>-137.1%</b>	<b>-59.5%</b>	<b>-91.3%</b>	
<b>Total HSC revenue</b>	<b>106,328</b>	<b>141,228</b>	<b>110,840</b>	<b>112,523</b>	<b>96,507</b>	<b>105,339</b>	<b>142,086</b>	<b>136,661</b>	<b>470,919</b>	<b>480,593</b>	
<b>Principal as a % of total revenue</b>	<b>12.5%</b>	<b>11.2%</b>	<b>5.3%</b>	<b>1.2%</b>	<b>3.1%</b>	<b>2.1%</b>	<b>1.6%</b>	<b>0.5%</b>	<b>7.7%</b>	<b>1.7%</b>	

- Revenue in the principal division has always consisted of net gains on exits from positions. These consisted of either short term positions mainly in listed stock or longer term positions held in OTC stock.
- The latter was often taken as part of full payment for investment banking activities where clients offered shares rather than cash. In a rising market environment at that time it seemed like a good deal. However once the market started falling on the 2-H of 2007 many of these positions proved difficult to exit.
- Much of the activity of this division then over the past two years has consisted of negotiated exits from legacy positions on a one on one basis. These positions are generally worth less than book value. However due to the tax laws companies are unable to provision against OTC positions unless the OTC company itself is loss making. And then only to the extent of the decline in shareholders capital (due to the drop in retained profits).
- Hence exits trigger losses rather than gains although as you can see these have dropped by 66% y/y as the number of positions held have dwindled.
- By the end of 2011, we still held VND 96 billion worth (after provision) of principal investment on our books, which consisted of VND 84 billion in OTC positions and VND 12 billion in listed positions.
- In addition to the OTC and short term investment positions, we also held VND 103 billion worth of VFMVF1 as a long term investment. The objective in this investment is to take an opportunity at VFMVF1's deeply discounted NAV which was about 50% and hold it long term in order to receive the full value of it at maturity when the fund is unraveled in 2014.

## Review of Operations (cont'd)

### TREASURY

Treasury activities as the name implies consists of all activities related to treasury operations which controls the balance sheet of HSC. Other divisions may make use of capital but have to pay a WACC to the treasury division.

#### Treasury

Treasury (VND mil)	2010				2011				FY2010	FY2011	y/y
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Total Revenues</b>	<b>18,753</b>	<b>16,023</b>	<b>17,384</b>	<b>27,826</b>	<b>30,880</b>	<b>47,766</b>	<b>63,617</b>	<b>74,298</b>	<b>79,985</b>	<b>216,562</b>	<b>170.8%</b>
Interest Income	17,624	16,756	15,476	18,788	28,314	44,240	58,605	37,105	68,646	168,264	145.1%
Income from using capital	1,129	-790	1,893	10,590	542	548	555	15,912	12,821	17,558	36.9%
Credit income	-	-	-	(586)	1,986	2,721	3,795	21,361	(586)	29,863	
Investment Banking Advisory	-	-	-	(488)	0	0	0	(304)	(488)	(304)	-37.7%
Brokerage	-	-	-	(478)	0	235	635	176	(478)	1,047	
Services	-	56	15	-	0	(0)	28	4	71	32	-54.9
Other income	-	-	-	-	37	21	0	44	0	102	
Direct expense	-	226	10,126	9,557	1,412	2,607	21,409	26,136	19,909	51,565	159.0%
Indirect expense	0	0	0	0	0	0	0	0	0	0	
Total expense	-	226	10,126	9,557	1,412	2,607	21,409	26,136	19,909	51,565	159.0%
<b>Profit before tax</b>	<b>18,753</b>	<b>15,797</b>	<b>7,257</b>	<b>18,269</b>	<b>29,468</b>	<b>45,159</b>	<b>42,208</b>	<b>48,162</b>	<b>60,076</b>	<b>164,997</b>	<b>174.6%</b>
<b>Total revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
Interest Income	94.0%	104.6%	89.0%	67.5%	91.7%	92.6%	92.1%	49.9%	85.8%	77.7%	
Income from using capital	6.0%	-4.9%	10.9%	38.1%	1.8%	1.1%	0.9%	21.4%	16.0%	8.1%	
Credit Income	0.0%	0.0%	0.0%	-2.1%	6.4%	5.7%	6.0%	28.8%	-0.7%	13.8%	
Investment Banking Advisory	0.0%	0.0%	0.0%	-1.8%	0.0%	0.0%	0.0%	-0.4%	-0.6%	-0.1%	
Brokerage	0.0%	0.0%	0.0%	-1.7%	0.0%	0.5%	1.0%	0.2%	-0.6%	0.5%	
Services	0.0%	0.3%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	
Other income	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	
Direct Expense	0.0%	1.4%	58.3%	34.3%	4.6%	5.5%	33.7%	35.2%	24.9%	23.8%	
Indirect Expense	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Total expense	0.0%	1.4%	58.3%	34.3%	4.6%	5.5%	33.7%	35.2%	24.9%	23.8%	
Profit before tax margins	100.0%	98.6%	41.7%	65.7%	95.4%	94.5%	66.3%	64.8%	75.1%	76.2%	
Total HSC revenue	106,328	141,228	110,840	112,523	96,507	105,339	142,086	136,661	470,919	480,593	
Treasury as a % of total revenue	17.6%	11.3%	15.7%	24.7%	32.0%	45.3%	44.8%	54.4%	17.0%	45.1%	

- The Treasury division has more income streams than other divisions and these have expanded steadily so that by Q4 FY2011 the treasury department was receiving income from six out of seven possible streams. The largest stream by far consists of interest received on HSC cash balance which accounted for 77.7% of treasury income in FY2011. This income stream surged 145.1% on a combination of higher deposit rates and also a higher cash balance.
- Then credit income was the second major income stream last year although it tends to be very volatile. This mostly consists of repo transactions that have fixed terms and are non recurring. Year-end is often a good time to arrange repos when system liquidity runs short and demand is high. At the end of 2011, total bond repos came to about VND 900 billion mostly with banks. And so we see that this income stream occurred mostly in Q4.
- Income from the use of capital was the third main income stream and can be explained by fixed income investment. This is mainly due to the purchase of government bonds for either trading or investment purposes.
- Other income streams were less important and contributed little. Expenses surged 159% on additional salary expenses due to a ramp up in personnel as its activities expand. The treasury department has also been allocated a higher percentage of overhead and other expenses as a result. We would note that total expenses in the treasury division consist only of direct expenses.

## Review of Operations (cont'd)

### EXPENSES

Cost to income ratio tables

Fee income (VND mil)	2010				2011				FY2010	FY2011	y/y
	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011			
Retail Brokerage	29,396	39,744	27,536	25,168	15,043	13,614	15,657	13,021	121,845	57,335	-52.9%
IS Brokerage	7,223	7,936	5,013	9,512	6,039	8,603	9,639	7,984	29,684	32,264	8.7%
Investment banking	718	21,230	13,239	12,518	2,138	442	21,005	1,871	47,704	25,455	-46.6%
<b>Total Fee Income</b>	<b>37,337</b>	<b>68,910</b>	<b>45,788</b>	<b>47,199</b>	<b>23,219</b>	<b>22,658</b>	<b>46,301</b>	<b>22,876</b>	<b>199,233</b>	<b>115,054</b>	<b>-42.3%</b>
<b>Expenses</b>											
Retail Brokerage	23,888	31,390	30,104	30,845	27,269	27,747	29,425	31,884	116,227	116,325	0.1%
IS Brokerage	6,385	7,326	11,411	8,412	7,160	9,708	12,975	13,361	33,534	43,205	28.8%
Investment banking	2,894	3,067	3,411	5,905	2,691	3,298	6,701	4,472	15,278	17,161	12.3%
<b>Total Expenses</b>	<b>33,167</b>	<b>41,783</b>	<b>44,926</b>	<b>45,162</b>	<b>37,119</b>	<b>40,753</b>	<b>49,101</b>	<b>49,718</b>	<b>165,039</b>	<b>176,691</b>	<b>7.1%</b>
<b>Cost to income ratio</b>											
Retail Brokerage	81.3%	79.0%	109.3%	122.6%	181.3%	203.8%	187.9%	244.9%	95.4%	202.9%	
IS Brokerage	88.4%	92.3%	227.6%	88.4%	118.6%	112.9%	134.6%	167.4%	113.0%	133.9%	
Investment banking	403.4%	14.4%	25.8%	47.2%	125.9%	746.7%	31.9%	239.0%	32.0%	67.4%	
Cost to income ratio	88.8%	60.6%	98.1%	95.7%	159.9%	179.9%	106.0%	217.3%	82.8%	153.6%	

- We have talked about expenses above in the various sections. However another way at looking at expenses is to look at the cost to income ratio (CIR). This compares how much of the direct and indirect expenses are covered by fee income. CIR in the brokerage industry is not directly comparable to the banking sector as it covers some but not all regular income streams. Ideally a cost to income ratio of 100% or less is desirable.
- However in practice given the importance of non fee income streams in the brokerage industry in Vietnam this can be hard to achieve on a regular basis. Hence in FY2011 due to tough conditions HSC's CIR increased from 82.8% to 153.6%. This was mostly due to the sharp drop in fee income in the retail brokerage division.
- Secondly we also saw an acceleration in the CIR in both the IS & IB divisions also. In the case of IS this was higher expense driven while in the case of IB similarly to retail it can be traded mostly to lower incomes.

## Shareholders' Information

### Percentage of and changes in share ownership by members of the Management Team, Audit Committee, Board of Directors and those concerned:

Name	Position	Number of shares owned as of 24/02/2011				Number of shares owned as of 15/03/2012			
		Quantity	%	Increase in shares	Decrease in shares	%	Quantity	%	
<b>Board of Directors</b>									
Do Hung Viet	Chairman	86,625	0.00087	57,750	0.00058			144,375	0.00145
Le Anh Minh	Deputy Chairman	21,105	0.00021	14,070	0.00014			35,175	0.00035
Nguyen Thanh Liem	Deputy Chairman	0	0.00000					0	0.00000
Pham Nghiem Xuan Bac	Member, BOD	378,324	0.00379	252,216	0.00253			630,540	0.00631
Hoang Dinh Thang	Member, BOD	0	0.00000					0	0.00000
Johan Nyvene	Member, BOD, CEO	135,200	0.00135	90,133	0.00090			225,333	0.00226
Trinh Hoai Giang	Member, BOD	95,825	0.00096	63,883	0.00064			159,708	0.00160
<b>Audit Committee</b>									
Vo Van Chau	Head, Audit Committee	43,315	0.00043	5,543	0.00006	35,000	0.000351	13,858	0.00014
Doan Van Hinh	Member, Audit Committee	2,250	0.00002	1,500	0.00002			3,750	0.00004
Nguyen Thi Thanh Van	Member, Audit Committee	47,139	0.00047	31,426	0.00031			78,565	0.00079
<b>Management Team</b>									
Johan Nyvene	CEO	135,200	0.00135	90,133	0.00090			225,333	0.00226
Trinh Hoai Giang	Deputy CEO	95,825	0.00096	63,883	0.00064			159,708	0.00160
Le Cong Thien	Deputy CEO	7,500	0.00008	37,800	0.00038			45,300	0.00045
<b>Chief Financial Officer</b>									
Lam Huu Ho	Chief Financial Officer	55,250	0.00055	36,833	0.00037	32,000		60,083	0.00060

## Shareholders' Information

### 1. Ownership Structure

Category	Domestic Shareholders		Foreign Shareholders		Total	
	Value	Percentage (%)	Value	Percentage (%)	Value	Percentage (%)
Total Equity Capital	508,795,810,000	50.9567	489,690,560,000	49.0433	998,486,370,000	100.0000
State-owned Shareholders with above 5% ownership	300,000,000,000	30.0455	-	-	300,000,000,000	30.0455
Shareholders with above 5% ownership	-	-	314,244,000,000	31.4720	314,244,000,000	31.4720
Shareholders with 1% to 5% ownership	33,780,860,000	3.3832	132,925,240,000	13.3127	166,706,100,000	16.6959
Shareholders with less than 1% ownership	172,659,540,000	17.2921	42,521,320,000	4.2586	215,180,860,000	21.5507
Treasury Shares	2,355,410,000	0.2359	-	-	2,355,410,000	0.2359

### 2. Shareholder's Equity Ratio

Category	Stocks	Percentage	Number of shareholders	Shareholder Structure	
				Organization	Individual
Total number of shares	99,848,637	100.00	2,743	90	2,653
1 Major Shareholders (above 5% ownership)	61,424,400	61.52	2	2	-
Domestic	30,000,000	30.05	1	1	-
Foreign	31,424,400	31.47	1	1	-
2 Securities Companies (above 5% ownership)	19,897,218	19.93	32	32	-
Domestic	3,447,116	3.45	13	13	-
Foreign	16,450,102	16.48	19	19	-
3 Other Shareholders	18,291,478	18.32	2,709	56	2,653
Domestic	17,196,924	17.22	2,636	52	2,584
Foreign	1,094,554	1.10	73	4	69
4 Treasury Shares	235,541	0.24			

### 3. Shareholders with more than 5% ownership

Name of Organization/Individual	ID/Passport/ Business Registration no.	Address	Number of stocks	Percentage of Ownership %
Major Shareholders (with above 5% ownership)				
1 HCMC Finance and Investment State-owned Company (HFIC)	0300535140 dated 13/04/2010	33- 39 Pasteur, District 1, HCMC	30,000,000	30.0455
2 Dragon Capital Markets Limited (DC)	C00001 dated 27/07/2000	Unit 1901, 19F Me Linh Point, 02 Ngo Duc Ke St., District 1, HCMC	31,424,400	31.4720
<b>TOTAL:</b>			<b>61,424,400</b>	<b>61.5175</b>

## Risk Management

# Applying international standards management and in-depth understanding of the market



*Photo: Hoang Ha - Manager of Risk management, Bui Thi Ngoc Thao - Manager of Internal Audit and Pham Thanh Van - Manager of Transaction & Service*

2011 was a year full of difficulties and challenges, especially for securities firms in Vietnam. The tough business environment has filtered and eliminated weak intermediary financial institutions, and led to many securities firms facing bankruptcy to scale down or give up their main operations. In this environment, HSC still maintains its steady growth momentum and has risen up to be a leading securities firm in Vietnam with the highest profit amongst 105 securities firms nationwide. The key to success is the combination of applying international best practice in corporation governance and an in-depth understanding of the market. HSC aims to bring maximum conveniences for customers while strictly controlling workflow, and ultimately manage and limit arising risk affecting business performance of the firm as well as customers' investment results.

The risk management system established in HSC includes market risk management, operational risk management, credit risk management and regulatory risk management. This proved to be a strong citadel to control risks from various aspects and to protect HSC's achievements over past few years.

- Market risk management on proprietary trading: in HSC, every investment has to estimate the probability of loss within the permitted limit and absolutely abide by the limit. The investments are hierarchically allocated by level of authorization with the ultimate level being the Investment committee which comprises the CEO, COO, and members of the Board of Directors. Investments proposed by the functional divisions will be submitted to the appropriate management level for authorization according to the value of the deal. Our well organized and highly disciplined investment model helps HSC avoid heavy losses from proprietary trading as what other securities firms faced recently when the market was falling sharply for a long period.
- Operational risk management: HSC regularly holds meetings between the Trading Unit and Supporting Functions to review and analyze the probability of risks arising through the procedures of securities trading such as money transfer, withdrawal, securities trading, margin trading, call options, etc.



## Risk Management

- Credit risk management: being regularly adjusted according to market conditions. The IT system in HSC is equipped with effective tools to detect and warn possible risks which is updated according to market movements. The system could automatically control the credit limit and credit balance of every customer and every equity stock. Besides, HSC has a team to supervise and appraise special transactions such as huge block put-through, margin trading, trading of illiquid and high risk securities ,etc. The HSC system categorizes all the extraordinary transactions and refers them to the supervisory team for authorization. Issues related to credit of high value payment according to regulations must be approved by Credit Committee comprising the CEO, COO, and members of Boards of Directors.
- Regulatory risk management: The Internal Audit and Compliance Department's function is to review regulations and policy on risks, and to inspect, supervise to ensure that all divisions of HSC adheres to the procedure and regulations regularly and correctly. Besides, the function of Internal control is not under governing of any other divisions including trading units and supporting functions. The Internal Audit and Compliance has the right to inspect even the risk management of other functions such as treasury, accounting, transaction services. They report directly to CEO and regularly updates inspection results to the CEO.

The fundamental principles of HSC risk management system are built on international best practice to ensure no conflicts of interest arising among the divisions:

- Separating operations of trading unit and supporting unit.
- Separating proprietary trading, brokerage and underwriting services.

- The Credit Risk Management operates independently without any influence from the trading unit. The credit limit for customers is adjusted according to market movement and objective risk assessments of independent divisions, not just based on proposals from brokerage division.
- Applying a consistent standard of risk management on every customer nationwide.

The risk management system in HSC together with a strong support from advanced IT system has two outstanding features which are "hierarchy" and "centralization". The hierarchy allows a clear management by functions, from the highest level to brokers, and ensures system safety and information security. The centralization shows the ability to control and manage risks throughout the system from a highest hub. These two features combine unifiedly together to create a safe, active and flexible mechanism.

HSC recognizes that risk management is one important factor for the development of the company. It also helps customers to minimize losses that brings best benefits to shareholders, customers and staff, all of them being stakeholders who accompany with the development of HSC.



*The risk management system in HSC together with a strong support from advanced IT system has two outstanding features which are "hierarchy" and "centralization".*

## Feature on Human Capital

# Building leadership culture - Strengthening leadership succession team



Photo: Team briefing for Quarter III, 2011 at Head Office

Having identified human capital and succession planning as key drivers for future business growth, HSC has embraced a build-from-within leadership culture, creating a conducive environment to inspire and nurture future leaders.

In 2011, HSC kicked off a key initiative to embody the leadership culture which is used as “a compass” for building Leadership Succession Team. The company has partnered with CBE Vietnam to establish its Leadership Competency Framework in this project.

CBE Group was established in the Netherlands in 1987. CBE Vietnam is a member of CBE Group. It was established to develop business consulting services in Business Strategy, Human Resources Management, and High Performance focus in a global context. Its advantage lies in the highly qualified and professional consultants, both national and international, as well as the extensive international network within the CBE Group.

Notably, CBE Vietnam is the only institution in Vietnam with a lecturer qualified in leadership training skills accredited by Zenger Folkman. The aforesaid lecturer is Ms. Hoang Thi My Dung, Business Development Manager of CBE. The US-based Zenger Folkman is at the forefront of leadership training programs for some of the world’s biggest companies. Zenger Folkman training programs are packed with action-oriented information grounded in hard science and proven to increase leadership effectiveness, aiming to help clients boost employee productivity, strengthen employee commitment, and improve bottom-line profitability.

With economies of scale, strong capabilities and professional track record of CBE Vietnam, HSC

## Feature on Human Capital

positively believes in its partnership with CBE in the HSC Leadership Development Framework project. The project was first implemented in the beginning of Q4/2011, and officially rolled out across the entire company towards the beginning of Q2/2012.

The HSC Set of Leadership Competency Framework is grouped into three clusters comprising seven behavioral competencies. The Framework helps to align company targets, schedule a roadmap of succession building

and succession development, draft suitable trainings of leadership building/ development for talents/ potentials, as well as build up Leadership Awareness and Succession Build-up Awareness from different levels of management. In short, the Framework sets the platform for sustainable development in the future.



*Photo: Trinh Huyen Anh - HR Director,  
Truong Thi Anh Huong - Senior C&B Officer and  
Diep The Anh - IT Director*

“Hoang Thi My Dung - Lead Consultant for Phase 1 of HSC Leadership Competency Framework Development Project - said: “HSC is the first securities firm in Vietnam that attaches special importance to strategically build a future leadership succession team through training and development. CBE Vietnam is honored to partner with HSC - the leading securities firm, to implement the strategy of developing the Leadership Competency Framework and communicate it to every employee. With practical input and strong support from HSC management and director boards, CBE Vietnam has completed the first phase of the project and expects to continue to support HSC in the next phases. Sincere thanks to HSC Management and Director Boards”.

### LEADING PEOPLE

- Develops others
- Communicates powerfully and prolifically

### LEADING SELF

- Displays self-discipline, high integrity and honesty
- Takes initiative

### LEADING BUSINESS

- Drives for results
- Solves problems and analyzes issues
- Develops strategic perspective

## Feature on Human Capital (cont'd)

# Empowering our People to support growth strategies



*Photo: Tran Thi My Linh - Associate who obtained the Chartered Financial Analyst (CFA) Certificate - Level 3 in 2011 and colleagues of Investment Banking Division*

### TALENT RETENTION

The HSC Employee Stock Ownership Plan (ESOP) is an employee benefit program which allows our qualified employees and managers to own HSC shares as part of their performance bonus reward or at preferential price in recognition of their significant contribution to the company. The ESOP motivates our people to take pride in “taking the ownership” in what they do, in going the extra mile for our customers and other stakeholders, not just because it is their job, but because HSC is their enterprise and they are passionate to make HSC the most enterprising concept business it can be.

HSC is a pioneer in the ESOP in Vietnam, having implemented it since 2007. It is a key strategic HR program to attract, engage and retain talent based on employee’s work capabilities and career development plan.

In 2012, HSC issued 1 million bonus shares with a total worth of VND 10 billion at par value, for the 2011 ESOP program. Up till now, HSC has implemented our third ESOP program, which has been an effective tool in retaining talent, rewarding performance and enhancing employee engagement.

### ENSURING WELLNESS OF EMPLOYEES AND THEIR FAMILY

Employee welfare, especially employee health and wellness programs, have always been a key priority of the company.

HSC constantly seeks professional services that provide superior healthcare benefits to our employees and their direct family. On top of the mandatory national health insurance policy required under the Labor Law, HSC also provides our employees with additional health insurance

coverage from reputable insurance companies and carries out annual health screening for employees.

In 2011, following a review on our health insurance program, HSC chose Gras Savoye Willis, which proposed a solution from Groupama to enhance health insurance benefits for our employees. Gras Savoye Willis, is a merger of Gras Savoye (largest in France) and Willis (3<sup>rd</sup> largest worldwide).

The new partnership with Gras Savoye Willis and Groupama has enhanced the health insurance coverage, providing extensive benefits for HSC employees and their family. It helps to reduce their high healthcare expenses by emphasising on coverage, especially for severe accidents and serious illnesses which often carry higher costs.

In addition, HSC also carries out annual health screening for our staff at reputable hospitals known for quality and service with the aim of promoting health among all HSC employees through wellness and prevention activities.

HSC has also set up and sponsored a number of sports activities including football, badminton, yoga, etc. to encourage healthy living through physical activities and enhance teamwork among our employees. These sports activities provide an opportunity for HSC employees to show their athletic side and compete with their counterparts from partners like Dragon Capital, Ho Chi Minh City Finance and Investment State-owned Company (HFIC), VietFund Management (VFM), Vietnam Securities Depository (VSD), HOSE and HNX, as well as the Press, and our customers.

## Feature on Human Capital (cont'd)

### BUILDING EFFECTIVE COMMUNICATION AND EFFECTIVE TEAMS

HSC organizes regular activities such as luncheon meetings with the Board of Management, quarterly Team Briefing session, Team-building events, Year-end Party and other social and recreational activities celebrating the birthday of employees, International Women's Day, Children's Day, Mid-Autumn festival, etc. Such activities promote collaboration and camaraderie among the team, provide opportunities for them to meet and dialogue with Senior Management, allow them to align their targets, exchange ideas on developing the company, and create a conducive working environment to maximize the team's abilities, and allow them to contribute to the company's as well as their self development.



Photo: Athletes of HSC, Dragon Capital, HFIC at HSC Tour Finals 2011 - December 17<sup>th</sup>, 2011

### PERSONNEL STRUCTURE

At HSC, nearly 90% of our employees hold at least a Bachelor Degree. We encourage our management and staff to constantly upgrade themselves, enhance their professionalism and widen their knowledge. They have received recognition and accolades, including international awards such as the #1 and #3 Best Analyst in Vietnam awarded by AsiaMoney, ACCA certificate, CFA level 3, etc.

In 2011, despite weakness in the stock market, HSC's headcount is 330 permanent employees as well as many others on a project basis, who are awaiting to join the company on a permanent basis when the market recovers. The turnover rate of employees who resign from the job after 3 years of service is kept at just 8%, which is very low in the industry.



Photo: HSC staff participated in Team Building "Set fire - Conquer Index" 2011 at Dalat

#### Staff statistics:

Years	2007	2008	2009	2010	2011
Number of Employees	112	171	212	416	330

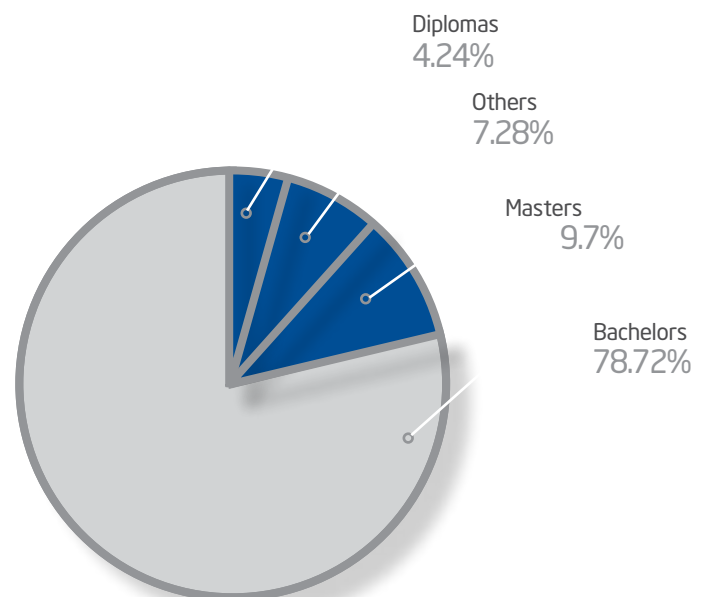


Chart of education level

## Feature on our Partner: VietNam Holding

**“VietNam Holding’s objective is to generate high risk-adjusted returns by combining rigorous financial analysis with interactive sustainability research.”**



*VietNam Holding Ltd. (VNH)*

VietNam Holding Ltd. (VNH) is an investment company dedicated to sustainable investments in Vietnamese equities. Its shares are listed on AIM Market of London Stock Exchange and Entry Standard of Frankfurt Stock Exchange.

Founded in June of 2006, the majority of VNH shares are held by Swiss investors, as well as a significant following by U.K. institutions and German retail investors.

VietNam Holding’s objective is to generate high risk-adjusted returns by combining rigorous financial analysis with interactive sustainability research. VNH is a value investor, incorporating environmental, social and corporate governance (ESG) factors in its investment analysis and decision-making processes. Its investment portfolio adheres to the general principle of diversification. At the same time, the portfolio reflects a disciplined asset allocation approach. As of June 30, 2011, domestic consumption and agricultural investment theme each represented nearly 1/3 of the total portfolio. The Fund continues to seek sector and industry allocations that stand to benefit from these and other macroeconomic trends. Over the last years VNH has outperformed the benchmark Vietnam Index as well as other comparable Vietnam

country funds and index trackers by a commendable margin.

Through VNH Forum events and its own practices, VNH promotes acceptance and implementation of ESG principles within the investment industry in Vietnam. In 2010 VNH performed a comprehensive sustainability rating, covering 84% of its investment portfolio in 14 sectors. The rating was based on data gathered and assessed by the Investment Manager in partnership with the Swiss rating agency Inrate.

The company’s investment portfolio is managed by VietNam Holding Asset Management Ltd. (VNHAM), an investment management firm with offices in Hochiminh City and Hanoi, and a service subsidiary in Zurich. The Vietnam team manages the portfolio, with the board of VNHAM having primary responsibility over investment approvals, policies and strategies. The Zurich office focuses on investor relations, board administration and financial controlling as well as corporate development.

VietNam Holding is an active and engaged investor dedicated to the successful performance of its portfolio companies and the sustainable development of Vietnam. The board members of both VNH as well as VNHAM are actively

involved in the portfolio company’s engagement activities as well as in the VNH Forum events.

VNHAM is a professional investment management company currently focused exclusively on developing and managing the VNH Fund of Vietnamese equities. The portfolio of the VNH Fund consists of the traded equity shares of Vietnamese companies or companies doing a significant portion of their business in Vietnam. VNH Fund’s size of investments is defined as a percentage of NAV, with no single investment being over 10% of NAV. The target total number of investee companies is under forty. Portfolio companies represent a broad range of industries and businesses with emphasis on those dependent on domestic consumption and agriculture. Financial analysis and sustainability considerations are equally dominant factors in investment decisions.

HSC provides VNH with comprehensive brokerage services combined with strong research capability and efficient IT execution platform. HSC also advises VNH on asset allocation and stock selections. Backed by in-depth knowledge of macro trends as well as sector and company specific information, HSC assists VNH to identify their best short-term and long-term investment strategies.

## Feature on Technology

# Launching new online features to better serve clients' need



*Photo: Doan Chi Trung - IT Manager, Ta Trung Dung - IT Executive, Head Office*

Based on HSC statistics, the volume of online transactions grew 35% in 2009, 50% in 2010, and now nearly 60%. This reflects the shift in transaction trends towards electronic trading platform via internet. At the same time, the extension of trading hours into the afternoon session aligns local trading time frame with that of other bourses in the region. Hence, HSC expects demand for remote access trading to increase, and has focused on launching new online features to better serve the needs of institutional and private clients both domestic and international.

### For Institutional clients:

Complete order flow management and automation in settlement for global Institutional clients:

- Order Management System with built-in FIX connections with Bloomberg EMSX and Thomson Reuters ATR networks.
- HSC understands that FIX connectivity is an integral part of the electronic trading offering. We have dedicated resources to address the needs of our clients across technology, operations and vendor relations to create a truly comprehensive offering.

HSC leverages seamless interaction between each area of our business to provide clients with creative and complete FIX-based solutions.

- Automated trade allocation and confirmation with Omgeo integrated Back Office System.
- **Reduce costs and trade failures** by eliminating errors inherent in manual and verbal communications, such as faxes, telex and phone calls.
- **Simplify communications with counterparties** by electronically comparing trade details to facilitate same-day trade affirmation and dramatically reducing the risk and cost of failed trades.
- **Streamline trade processing** by integrating our in-house systems and Omgeo solutions to extract higher levels of business value from our current systems.
- Electronic earmarking service with custodian banks via SWIFT network.
- Through a combination of secure, standardized messaging and solutions to support all aspects of asset servicing, SWIFT can provide us with a single, standard, global platform for communication of financial information with all our

customers – both domestic and international. Leveraging SWIFT and its global community enables us to grow our international reach and tap into the global marketplace for our services.

### For Private clients:

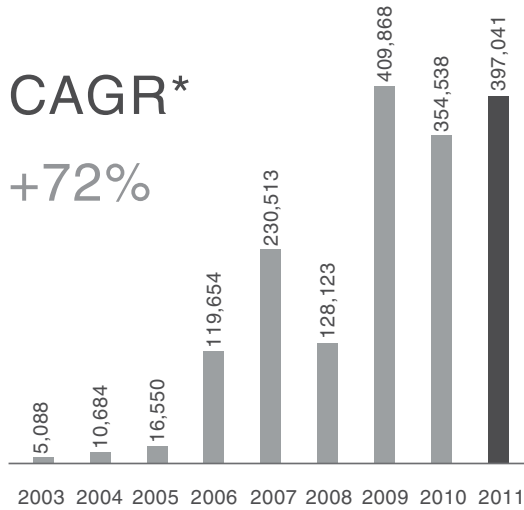
Fully integrated online services for Private clients with Vi-Trade platform:

- Well-designed user interface for professional traders.
- Security-proven technology to safeguard all the transactions.
- Access to a variety of services anywhere anytime.

# Financial Highlights

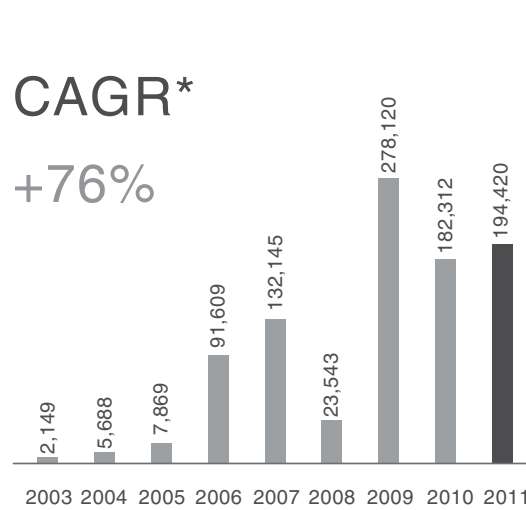
Revenue (VND million)

CAGR\*  
+72%



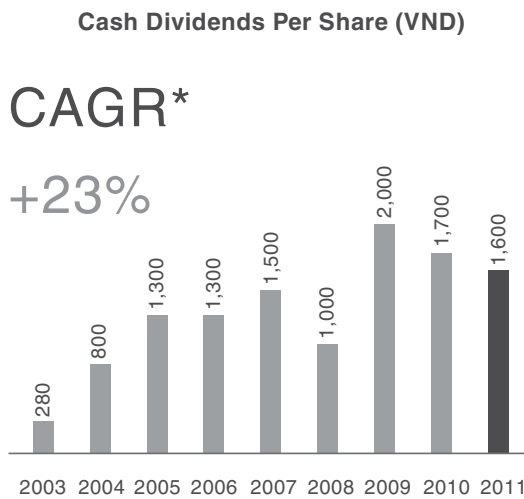
Net Profit After Tax (VND Million)

CAGR\*  
+76%



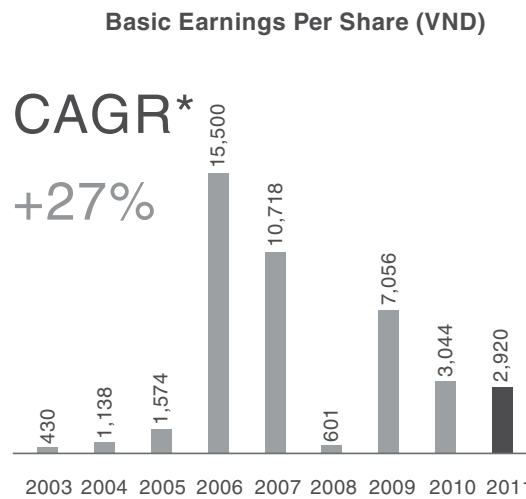
Cash Dividends Per Share (VND)

CAGR\*  
+23%



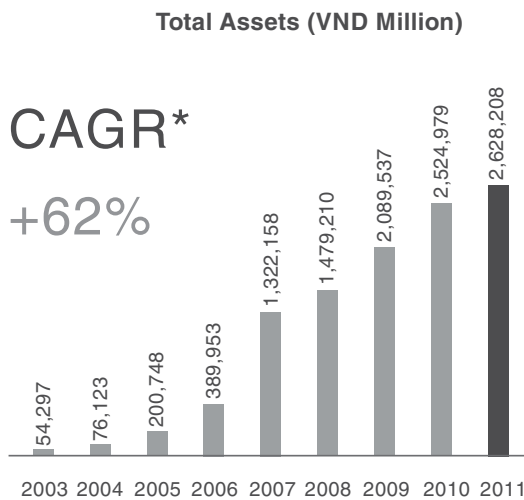
Basic Earnings Per Share (VND)

CAGR\*  
+27%



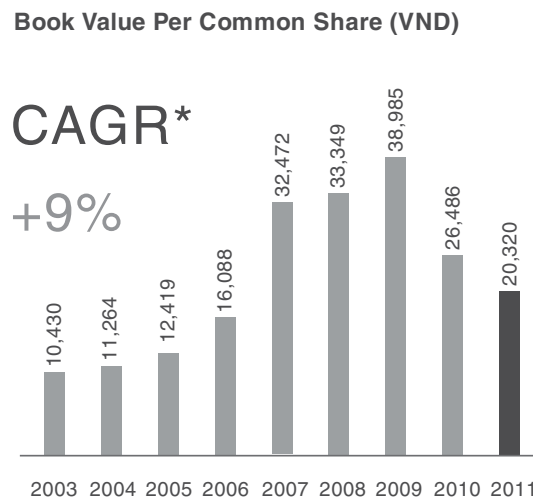
Total Assets (VND Million)

CAGR\*  
+62%



Book Value Per Common Share (VND)

CAGR\*  
+9%



CAGR\*: 9 years compounded annual growth rate



## Financial Highlights

Statement of income (VND million)	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenue (net)	5,088	10,684	16,550	119,654	230,513	128,123	409,868	354,538	397,041
<i>In which:</i>									
- Brokerage and sales (net)	99	509	706	7,650	33,517	32,601	91,736	109,171	63,590
- Principal investment (net)	926	7,932	12,380	103,033	174,179	(6,676)	216,514	(13,566)	(377)
- Private placement investment	-	-	-	-	-	-	-	39,986	-
- Investment banking	1,396	1,182	2,054	2,897	3,543	8,719	3,039	4,576	25,422
- Credit income	-	-	457	4,886	13,301	30,547	43,296	153,015	163,306
- Interest income	2,667	1,061	953	1,188	5,973	62,932	55,283	61,355	145,100
Operating expenses (net)	2,915	3,328	10,065	18,313	50,275	71,922	85,361	127,509	160,163
Provision/(reversal) for doubtful debts	-	-	-	-	32,082	32,654	(11,807)	(872)	(10)
Operating profit	2,173	7,356	6,485	101,341	148,156	23,547	336,314	227,901	236,889
Extraordinary profit/(loss)	(24)	(1,668)	1,872	(135)	(58)	(4)	-	-	-
Profit before tax	2,149	5,688	8,357	101,206	148,098	23,543	336,314	227,901	236,889
Profit after tax	2,149	5,688	7,869	91,609	132,145	23,543	278,120	182,312	194,420

BALANCE SHEET (VND MILLION)									
Total assets	54,297	76,123	200,748	389,953	1,322,158	1,479,210	2,089,537	2,524,979	2,628,208
Shareholders' equity	52,149	56,318	62,094	160,881	649,443	1,316,046	1,538,496	1,589,171	2,028,968

FINANCIAL INDICATORS									
Return on average equity (ROAE)	4%	10.3%	11.4%	50.7%	25.4%	1.8%	19.5%	11.7%	10.7%
Return on average assets (ROAA)	4%	8.7%	5.7%	31.0%	15.4%	1.7%	15.6%	7.9%	7.5%

EQUITY VALUE									
Number of issued shares	5,000,000	5,000,000	5,000,000	10,000,000	20,000,000	39,463,400	39,463,400	59,999,686	99,848,637
Weighted average number of ordinary shares	5,000,000	5,000,000	5,000,000	5,910,334	12,329,627	39,200,372	39,415,855	59,900,668	66,584,584
Basic earning per share - VND	430	1,138	1,574	15,500	10,718	601	7,056	3,044	2,920
Adjusted earning per share - VND	30	78	108	1,253	1,821	329	3,863	2,499	2,920
Book value per common share - VND	10,430	11,264	12,419	16,088	32,472	33,349	38,985	26,486	20,320
Dividends - VND	280	800	1,300	1,300	1,500	1,000	2,000	1,700	1,600 (*)

(\*): Estimated for Y2011 and subject to final approval

## Feature on Corporate Finance

*With one the most impressive track records of M&A Deals in 2011, mobilizing over US\$ 200 million*

March 2011  
US\$40mn



**Ho Chi Minh City Infrastructure Investment JSC**  
Infrastructure Industry  
Debt Capital Market  
International Convertible  
Bond Co-Advisor

July 2011  
VND 140bn



**NAM LONG**  
Nam Long Investment Corporation  
Real Estate Industry  
Debt Capital Market  
Sole Bond Advisor

December 2011  
\$ undisclosed



**Vienthong A**  
Mobile Device Retailer  
Retail Industry  
M&A  
Sole Sell-side Advisor

June 2011  
\$ undisclosed



**Saigon Post & Telecom Services Corporation**  
Telecommunications Industry  
M&A  
Sole Sell-side Advisor

December 2011  
US\$ 15mn



**DOMESCO**  
Domesco Medical  
Import Export JSC  
Pharmaceutical Industry  
M&A  
Sole Sell-side Advisor

July 2011  
US\$78.3mn



**Megastar Media Company Ltd.**  
Multi Media Industry  
M&A  
Sole Sell-side Advisor

## Feature on our Partner: Vien Thong A



Photo: Vien Thong A

Established in 1997, Vien Thong A (“VTA”) is a pioneering mobile retailer in Vietnam with an extensive distribution network of over 70 showroom and customer service locations nationwide. As one of the market leaders, VTA aims to offer more than just merchandise. It is VTA’s strategy to package the sales of products with different content services as well as bundling different network offerings to create a unique shopping experience for customers. In addition, the Company also offers various value-added services to enhance customer satisfaction and loyalty. The main product categories include mobile phones, laptops, cameras, phone accessories and other value-added products and services (SIM card, SIM servicing, repair and maintenance, etc.).

After 13 years of operation, the Company has successfully developed and implemented its strategic roadmap, which is structured around three core values: to provide quality and affordable products, to offer a wide range of selection and to ensure excellence in service quality to all customers.

These values have helped the Company to gain substantial market share and build up its brand as one of the leading mobile retail chains in Vietnam. According to recent market research conducted by GFK Group, current market share of VTA is about 10% in the country and 30% specifically in the HCMC market. Having taken the initiative to restructure its current operations and implement a new development roadmap for the next five years, VTA expects to exceed 17% market share in Vietnam by 2014.

Being a fast-growing company, the board of VTA wanted to find a suitable strategic partner, who would bring strong synergies to the operation of the business and provide additional growth capital for the future expansion of VTA. HSC was chosen as the lead advisor to spearhead this strategic undertaking and to assist the company in all aspects of the placement process.

HSC played a key role in this transaction by conducting a comprehensive corporate valuation, preparing marketing materials,

**“HSC was chosen as the lead advisor to spearhead this strategic undertaking and to assist the company in all aspects of the placement process.”**

identifying potential strategic investors, facilitating due diligence process for interested investors, and assisting in negotiating and closing the transaction. Through this placement, the Company found a well-suited strategic partner for its long term development perspective and the shareholders of VTA were able to cash out on part of their initial investments. Overall, HSC has bridged the needs of the parties and assisted them in navigating the complex legal environment especially true for the consumer retail sector to successfully close the transaction.

## Support Services



Photo: Le Thanh Tong Transaction Office - Hanoi

HSC is the leading financial and investment services firm in Vietnam, trusted by customers and voted as “the best securities firm in Vietnam”. HSC leverages its market insights to develop great value-added products and services support customers and investors in opening accounts in HSC.

### MARGIN TRADING PRODUCT

With shareholder’s equity exceeding VND 2,000 billion, HSC has ample capital to offer margin trading customers access to additional funds that allow them to capitalize on investment opportunities timely and without having to depend on bank financing. HSC is able to instantly process the funding request for large transactions. Implementing a highly-disciplined customer account management system, the HSC Margin Trading product not only ensures fairness but also enhances security of investment for all customers. The HSC Margin Trading product provides outstanding conveniences such as:

## Extensive range of value-added support services

- Strong capital base for funding margin trading at HSC.
- Flexible credit limit to satisfy customer’s need.
- Wide selection of designated margin stocks, and in compliance with the law.
- Fast procedure to activate margin account.
- Automatically calculates the available balance before the bid order is matched.
- Proceeds from sold securities instantly added to available balance, need not to apply for cash advance.
- Available balance instantly updated with call options that are exercised and bonus stocks awaiting be added to the account.
- Manage Margin account according to margin loan ratio.
- Changes to margin loan ratio will be notified by SMS to update movements in margin position within the day.

### INVESTOR DEPOSIT MANAGEMENT SERVICE

HSC considers clarity of investors’ accounts and investment safety as top priority in order to maintain the company’s high ethical standard and build trust of customers. At HSC, investors have two options of maintaining funds for investments. They may open an account with HSC (should there be a need to facilitate margin trading) or open a deposit account with a bank. The majority of customers choose to open a general account with HSC to conduct margin trading and because they trust HSC.

Currently, HSC is one of the securities firms with the highest CAR in the market. The firm has clearly separated access to HSC’s capital and investor’s capital by maintaining several designated accounts in the banks. It is ensured that total HSC deposits are always higher than investors’.

## Support Services

With the investors, HSC operates as a credit institution where the investors deposit their funds into a general account managed by HSC. With the financial strength and transparency of HSC as well as the clear separation in using capital, HSC is well trusted by customers. By using HSC's general account, customers enjoy the convenience of having fast transaction matching and incorporating access to margin trading services of HSC.

In line with our long-term strategy, HSC is implementing a cooperation with well-known banks such as BIDV and Eximbank to develop software to manage personal deposit accounts of HSC's customers in those banks. The systems of HSC, BIDV and Eximbank will be connected to promptly provide information on account balances, clearing payment for customers as currently being performed in HSC. With this service, customers in the future will open deposit accounts at BIDV and Eximbank and still enjoy benefits of transaction speed as well as HSC products like our margin products.

### OTHER VALUE ADDED PRODUCTS AND SERVICES

With institutional investors, HSC has introduced a specialized system to service the offices of global investment funds directly by connecting to major international trading systems. Institutional investors will enjoy the convenience and advantages of placing transactions through their own systems such as Bloomberg, Reuters, etc. and those transactions will be connected and directly processed through DMA systems of HOSE and HNX. This direct order placing will minimize the intervention of dealers in securities firms and enhance the information security as well as improving quality of corporation governance. Besides, to prepare for the trend of Vietnam's equity market adopting international standards, HSC has been readily equipped with the SBL system for securities borrowing and lending services. As in margin trading services recently conducted in 2011 as well as securities borrowing and lending service in the future, as soon as it is allowed by the SSC, HSC will meet the trading needs of customers.

*With institutional investors, HSC has introduced a specialized system to service the offices of global investment funds directly by connecting to major international trading systems.*

### Feature on our Partner: Nam Long Group

**"Throughout the process of service, HSC has shown a top quality commitment and an excellent dedication in every aspects of the service they rendered."**



*NLG's recognition of HSC's investment banking services*

## Private Clients Division

# Focusing on prudence and excellence



*Photo: Tran Tu Ngoc - Tran Hung Dao  
Transaction Office and HSC's Client*

*By implementing the key initiatives, the Private Clients Division strives to gain an additional 1% market share, from 4.58% in 2011 to 5.5% in 2012, which translates into a 20% growth year-on-year.*

### MARKET OVERVIEW

#### External environment

The Private Clients Division experienced yet another year of tough domestic and global economic conditions in 2011.

The vicious cycle of high inflation, punitive interest rates and volatile forex and gold markets not only caused uncertainty and dragged VN-Index to new lows but also diverted funds to other investment channels. This contracted the average daily trading value on the stock market by nearly 60% (down from VND 2,400 billion per day in 2010 to VND 980 billion per day in 2011).

The government could possibly address part of the domestic issues through tight monetary policies. But the securities market was at the mercy of the volatility of the gold and oil markets that threatened energy security. It also bore the brunt of the debt crisis in Europe, political unrest in North Africa, and tension between Middle-east and Western countries.

#### Internal initiatives

Daily trading value or market liquidity dwindled in the face of market uncertainty. Despite ample funding, HSC credit committee prudently scaled down the risky margin trading programs for private clients. We reduced the number of stocks for margin trading, and cut back the margin ratio of each stock. As a result, margin trading dropped from approximately VND 800 billion in early 2011 to VND 400 billion in the middle of the year before recovering to VND 600 billion in late 2011. Thanks to a prudent compliance and risk management policy, HSC did not have to become an "investor by default" and was able to mitigate the loss impact on customers as the market trended down. This has allowed HSC to avoid financial losses that affected many securities firms that went aggressive on margin trading. On the flip side, the initiative to control margin trading curtailed transactions of existing customers and discouraged some new customers from opening accounts at HSC. That held back our market share gain as well as sale revenue growth of the Division, especially in

## Private Clients Division

the face of fierce competition from other securities firms that resorted to attracting customers by expanding margin trading activities.

### Focus on service quality and professionalism

The market slowdown provided HSC the opportunity to intensify our focus on the following initiatives to enhance professionalism, strengthen service quality and rationalize our transaction network:

- Conducted an analysis on the projected revenue versus the cost to serve current customers and acquire new customers at each transaction branch. The exercise helped us to make an informed decision in closing the Ba Thang Hai transaction office and opening a new transaction office at Le Lai Street.
- Conducted a Train-the-Trainer program on soft skills to middle managers. This allowed the middle managers to train the team to assess their own functional skills, passion, suitability, and likelihood of succeeding in brokerage jobs. The program also provided the middle managers an useful assessment tool during recruitment of new consultants. At the same time, it helped the company to identify those employees who are not suitable for brokerage jobs so they may make the necessary plan for new roles or new jobs.
- Established a strong analyst team for Private Clients Division, providing concise and updated reports for brokers as reference when they advise their customers on timely and effective investment decisions.

With the prudent strategy, robust credit policy, enhanced service quality and effective cost control, the Private Clients Division achieved a market-share gain of 0.39%, or a 9% growth - from a 4.19% market-share in 2010 to 4.58% in 2011 despite the tough business environment.

Positive signs in late 2011 and early 2012 suggested that the economy is gradually recovering. The restructuring of equity and securities firms sends a positive message to investors. And this sets the stage for new investment products to boost transaction value, which is at the lowest level in the past 2 years.

Encouraged by the achievements and staying close to the strategy, the Private Clients Division will continue to focus on service quality, the necessary restructuring, effective cost control as well as offering competitive remuneration to attract and retain talents. HSC will also further enhance our customer service through the following initiatives:

1. Enhance the capabilities of and scale up the Private Client Division. In addition to the daily market commentary, we will provide our consultants with 'flash reports' during trading hours as a supplementary tool to help our clients analyze intra-day movements and make informed investment decisions.
2. Review and improve work flow, standardize and develop online forms, send updates on transaction statement, account balance and portfolio balance through SMS, process digital signature and transfer of funds via internet banking, etc. The



*Photo: Pham Thi Suong - Lang Ha Transaction Office*

objective is to enable customers to open accounts within the legal framework, and without having to visit the HSC transaction offices. At the same time, it allows the customers to obtain regular updates on their transaction history, and access related information on HSC services.

3. Provide additional functions for online trading, such as online money transfer, portfolio management, and group account management, etc. In particular, HSC will hold events to build awareness on those value-added features to increase customers' satisfaction and support their investment activities.

By implementing the key initiatives, the Private Clients Division strives to gain an additional 1% market share, from 4.58% in 2011 to 5.5% in 2012, which translates into a 20% growth year-on-year.

## Investment Banking Division

# HSC IBD is awarded The Rising Star Investment Bank for Vietnam by The Asset Triple A

As the country's premier advisory and securities company, HSC provides clients with expert advice, innovative solutions, professional execution and unparalleled access to the world's capital markets through our Investment Banking services.

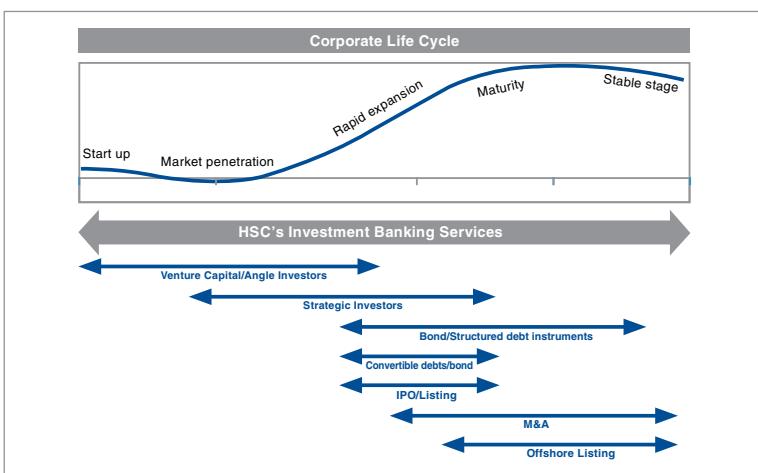
HSC Investment Banking Division (IBD) works closely with each of our clients to thoroughly understand their needs, their current stage in the corporate life cycle and their growth potential in order to provide tailored solutions that best meet their specific requirements. Whether our clients need to raise additional growth capital, to find strategic or financial investors, or to capitalize on their investment through private placement or IPO/Listing, we have the required competencies and industry experience to meet their strategic objectives.

And as the leading full-service securities house in the country, we combine exceptional technical expertise with extensive access to the largest pool of both institutional and retail investors and a dedication to deliver the highest level of service quality with effective results. Through our proven distribution platform, we are committed to provide expedited placement solutions that promote competitive offering and better pricing. In recent years, we have led some of the largest and most complex transactions in the country and have a proven track record of advising innovative structures and delivering best-suited solutions to our clients.

Our full range Investment Banking services include: Equity Capital Markets (IPO/Listing, equity and equity-linked), M&A Advisory (buy and sell-side), Private Placement (primary and secondary securities), Debt Capital Markets (fixed income and complex structured debt), and General Corporate Finance Services (restructuring and capital planning).



Photo: Nguyen Hoang Viet, Do Thi Nguyet Nga, Le Anh Minh - Hanoi Investment Banking Division





## Investment Banking Division

At whichever stage of corporate life cycle, HSC IBD stands ready to help our clients achieve their financial objectives in the most effective and efficient manner.

At HSC, our clients will have personal attention at every level and will be able to access a large pool of talent with years of industry knowledge and professional experience from different areas of expertise. The HSC Investment Banking team proudly comprises professionals with exceptional qualifications and experience working at leading global financial institutions, such as HSBC, J.P Morgan, AIG, Dragon Capital and VinaCapital. Together with the extensive distribution platform, this unique pool of talent allows HSC IBD to consistently deliver outstanding results and exceed expectations of our clients.

Year 2011 closed with much difficulties for business across sectors, especially financial. Both the commercial banking system and securities market have failed to play their main role as efficient funding channels for business. During this difficult time, HSC IBD once again had proved its innovative competency by topping the chart of strategic investment and M&A advisory, bringing strategic investors from all over the globe to invest in local businesses in various sectors.

With such impressive performance, HSC IBD was awarded The Rising Star Investment Bank for Vietnam by The Asset Triple A.

### Feature on our Partner: BaoViet Fund

Established in 2005, BaoViet Fund Management Company (BaoViet Fund) is a wholly owned subsidiary of BaoViet Holdings, one of the leading finance-sector conglomerates in Vietnam, which is backed by sound financial capacity, diverse product offerings, extensive business network and strong support from strategic partner HSBC Insurance (Asia-Pacific) Holdings Limited.

Driven by robust governance and strong capabilities in managing large investments, BaoViet Fund coped well with the financial turmoil in the market to emerge as one of the leading fund managers in Vietnam.

In 2011, BaoViet Fund maintained its enviable position as one of the top fund management companies in Vietnam by asset size (USD 900 million). BaoViet equity investment fund (BVF1), which is managed by BaoViet Fund, is one of the five largest investment funds in the market. BaoViet Fund's extensive service offerings include portfolio management services, fund management.

BaoViet Fund aspires to be the enduring market leader in Vietnam. It is striving towards a level of efficiency and professionalism consistent with international best practice to allow the company to compete with international fund management companies. To do so, BaoViet Fund seeks a professional partner to develop and implement a sound investment strategy.

To support the investment strategy of BaoViet Fund, HSC provides them with a comprehensive securities brokerage service combined with its research capability and efficient IT execution platform.



Photo: BaoViet Fund Management Company

**BaoViet Fund aspires to be the enduring market leader in Vietnam. It is striving towards a level of efficiency and professionalism consistent with international best practice to allow the company to compete with international fund management companies.**

Working closely with BaoViet Fund, the Institutional Client Division of HSC assists them to identify the best investment strategies for the short term and more importantly, for the long term. Backed by in-depth knowledge and understanding of macro trends and sector as well as company specific information, HSC assists BaoViet Fund in implementing their investment strategy.

## CSR Activities



Photo: Johan Nyvene - CEO of HSC, presented the gold sponsor placard to Napoleon Ta - CEO of SEO at the conference attended by HSC managers and SEO interns dated June 28<sup>th</sup>, 2011



Photo: Le Cong Thien - Deputy CEO - Managing Director of Private Clients Division attended the talk "CEO and CFO - A perspective"



Photo: HSC partnered with the Finance & Banking Expo 2011 - HCMC University of Economics and Law dated April 23<sup>th</sup>, 2011

### INVESTING IN THE FUTURE GENERATION: NURTURING VIETNAMESE TALENTS

#### Partnering with SEO-IIV 2011 as Gold Sponsor

SEO-IIV (Sponsors for Educational Opportunities – Interns in Vietnam) is a non-profit organization founded in 2009 with the aim of building an effective network and developing leadership capacity for talented students earmarked as future leaders, thereby making a real difference for Vietnam. Over 3 years of operating, the main activities of SEO-IIV are to bring outstanding Vietnamese students from prestigious universities all over the world to do 8 to 10 weeks of internship at leading businesses, through which they have an opportunity to develop practical understanding of business environment in Vietnam.

On June 28<sup>th</sup>, 2011, a delegation comprising 30 interns and volunteers of SEO-IIV 2011 visited the HSC head quarters and attended the conference on "Business leadership". The students had the opportunity to discuss with HSC managers and share their career aspirations. Besides financial support and sharing of experiences, this was the second year that HSC accepted talented students nominated by SEO-IIV to do their internship in the Investment Banking Division and Research Department - Institutional Clients Division.

#### Sponsoring the 4<sup>th</sup> "Discovering the future CEO" Competition, 2011-2012 – HCMC University of Economics

Organized by HCMC University of Economics, supported by corporate sponsors and closely followed by the public, the "Discovering the future CEO" Competition provides students

with the opportunities to hone their leadership skills and challenges them to demonstrate their potential as future outstanding managers. The competition comprises 4 rounds that evaluate the contestants in the areas of Knowledge (human resource, sales, marketing, finance, manufacturing, supply chain) and Skills (emotion control, attitude towards life, planning and time management skills, workplace communication, PR, proactive brand building).

Other than supporting a series of kick-off activities and being a co-sponsor for the Competition, HSC has been partnering with the organizing committee in developing the contest agenda, and has also been actively involved in various activities, such as participating in the dialogues, creating business scenarios for contestants, etc.

### PARTNERING WITH THE FINANCE & BANKING EXPO 2011 - HCMC UNIVERSITY OF ECONOMICS AND LAW

The Finance & Banking Expo is an important event held annually by the HCMC University of Economics and Law. It gathers many leading economists, researchers, managers and policy-makers from government departments and financial institutions in Vietnam. The Expo addresses and figures out solutions to improve the effectiveness of fiscal and monetary policies to stabilize and develop the financial market in Vietnam for the 2011-2020 horizon. The event also provides the opportunity for students to learn about the working environment in the banking and finance sector, corporate culture and brand names of participating enterprises through discussions with them.

## CSR Activities

Joining Finance and Banking Expo 2011, there were representatives from local and central government authorities, leaders of financial institutions, banks and media. About 15 enterprises set up pavilions and more than 4,000 students from HCMC UEL and other universities in Ho Chi Minh City participated in the event.

During the event, HSC set up a pavilion to introduce our company as well as carry out recruitment activities to offer job opportunities to students; HSC representatives also participated in two conferences with interesting topics of “Corporate integration” and “Investor’s capability”.

### CONFERENCE: KNOWLEDGE AND EXPERIENCE IN BUSINESS LEADERSHIP - HCMC UNIVERSITY OF ECONOMICS

This is an activity of the “Vietnam Future Leadership Program” jointly organized by The Wall Street Journal and a well-known fund management firm - Dragon Capital, with the participation of the HCMC University of Economics and HSC. The conference provides an opportunity for students from HCMC University of Economics and other universities to gain knowledge and experience about leadership shared by CEOs of major corporations.

### “TOUCHING HEARTS ON NEW YEAR” PROGRAM - VISIT TO THANH TAM DISABLED SCHOOL AND DORMITORY IN CAN GIO

Thanh Tam School for the Disabled and Dormitory is located in An Thoi Dong Commune, Can Gio District. The school is currently providing care and support for 95 children among which 40 are physically disabled by Down Syndrome, cerebral palsy, deaf, retardation, etc., as well as 55 underprivileged pupils studying in the school.

### RESPONDING TO EARTH HOUR - FOR A GREEN LIVING

The Earth Hour program organized by the World Wildlife Fund encourages people to raise awareness in protecting the environment and planet Earth. The message is delivered through turning off the lights and other idle electronic appliances for one hour from 20:30 to 21:30 (local time) on every last Saturday of March. Started in Australia in 2007, the inaugural “Earth Hour” was supported by 2.2 million people and 2,100 businesses in Sydney. One year later, the program escalated into a global activity with more than 50 million participants from 35 countries. In 2010, a record was set as 128 countries all over the world joined the Earth Hour.

Vietnam first joined the “Earth Hour” in 2009, with major cities like Hanoi, Hue and Ho Chi Minh City turning off the lights for one hour, saving 140 MW, equivalent to VND 132 million. Beyond energy saving, and not only about turning off the lights for one hour, Earth Hour has risen the awareness amongst people, and is calling upon people to act across 365 days to respond to threats from climate change. Millions of people all over the world have been supporting the program, creating a message to call upon every individual, all businesses and the government to work in tandem to reduce CO<sub>2</sub> emission in the air.



Photo: Johan Nyvene - CEO of HSC, shared experience with students from University of Economics at the conference on “Knowledge and experience in business leadership” dated April 28<sup>th</sup>, 2011



Photo: Pham Thi Phuong Lan - Head of Communications of HSC, visited Thanh Tam School for the Disabled and Dormitory in the charity program “Touching hearts on New Year 2012”



Photo: Phan Quang Bao Tram - Operations Department and Pham Thi Thuy Hang - Private Clients Division joined together with children at Thanh Tam School for the Disabled and Dormitory



Photo: HSC staff responded to Earth Hour 2011 to protect the environment

## FESE Virtual Stock Exchange

*Photo: Johan Nyvene - CEO of HSC presented the sponsor placard to Nguyen Tien Dung - Director of the UEL during the Grand Opening of new Head Office of HSC dated May 27<sup>th</sup>, 2011*



**“FESE is already in its 8<sup>th</sup> year in 2011 and has so far attracted 20,000 supporters and 3,000 students from 10 major universities.”**

### FESE VIRTUAL STOCK EXCHANGE – REAL LEARNING, REAL PLAYING AND REAL EXPERIENCING

The University of Economics and Law (HCMC-UEL), became a member university of Ho Chi Minh City National University in 2010 on the decision of the Prime Minister. It was formerly established as the Faculty of Economics under the authority of Ho Chi Minh City National University. The main campus spreads over 16.3 hectare in Linh Xuan Ward, Thu Duc District, Ho Chi Minh City. UEL is an undergraduate and postgraduate academic center; as well as a premier research and technology transfer center in the advanced fields of Economics, Finance and Banking, Law, Business and Management. It aims to meet the needs of socio-economic development in the process of industrialization, modernization and globalization.

The FESE virtual stock exchange program is an outstanding academic activity of the UEL taking place annually in November. Since inception in 2004, FESE has been held 8 times and has played an important role in enhancing the reputation of academic activities of UEL students. The main organizers of FESE are students who possess deep knowledge in economics and finance as well as strong capacities in teamwork and organizational skill.

FESE is a model that simulates the stock market. It creates a virtual marketplace for students who are interested in finance and securities to apply financial theories into practice, and to keep up with real market movements. Moreover, FESE creates a platform for members of the organizing committee to improve themselves in terms of knowledge, professional management skill and other soft skills.

The FESE virtual stock exchange program has attracted more and more players over time. FESE is already in its 8<sup>th</sup> year in 2011 and has so far attracted 20,000 supporters and 3,000 students from 10 major universities in Ho Chi Minh City directly opening virtual trading accounts. Compared to previous FESE programs, FESE 8 made a significant leap in scale and proliferation of the program as well as the activities. Taking part in FESE 8, budding investors and aspiring investment fund managers gained real learning, real playing and real experiences in online trading with price database extracted from real database of HSX, making the participants feel as though they were really trading under actual market volatility. Over the past 8 seasons, different generations of the organizing committee members and budding investors coming through the FESE program have succeeded in the stock market, and some of them are



*Photo: Trinh Huyen Anh - HR Director, represented HSC to present the awards during the Closing Ceremony of FESE 8 dated November 26<sup>th</sup>, 2011*

holding key management positions in financial institutions in Vietnam.

From its modest beginning as a simple virtual trading game in 2004, FESE has gradually developed into a large scale and premier academic activity, earning a good reputation and being highly recognized by employers and major enterprises. HSC is proud to be a major sponsor and a companion of FESE in sharing practical knowledge, where our specialists have supported the FESE program since the beginning. Many FESE members of all generations from the 1<sup>st</sup> to 8<sup>th</sup> Program have since been working and contributing to the growth of HSC, including individuals playing significant roles in HSC. For instance, Mr. Nguyen Canh Thinh - a founder of FESE 1 is currently a young, capable and promising director of HSC in charge of Le Lai Transaction Office, one of the most modern offices in Vietnam.

## Awards & Accolades

### Awards in the year

- The Best Securities Company for equity research in Vietnam
- Top 15 leading securities firms in Asia for equity research
- The Best Local Brokerage in Vietnam
- The Best in Sales Trading in Vietnam
- The Best Research Coverage for Strategy in Vietnam
- The Best Research Coverage for Small Caps in Vietnam
- The Best Research Coverage for Energy in Vietnam
- The Best Research Coverage for Food and Staples Retailing in Vietnam
- The Best Research Coverage for Tech Hardware and Equipment in Vietnam
- Best analysis in #1 and #3 in Vietnam
- #2 Best overall sales services in Vietnam
- #2 Best Execution in Vietnam
- #2 Best for events and/or conferences in Vietnam
- #2 Best for road shows and company visits in Vietnam
- #2 Most independent research brokerage in Vietnam
- #2 Best Research Coverage for Macroeconomics in Vietnam
- #2 Best Research Coverage for Banking in Vietnam
- #2 Best Research Coverage for Materials in Vietnam
- Rising Star Domestic Investment Bank in Vietnam
- Gold award as The Best Annual Report worldwide
- Top 10 Vietnamese Annual Report
- Best Annual Report in Vietnam
- #194 among Top 1,000 enterprises in tax contribution to national budget

### Awarded by

Institutional Investor  
 Institutional Investor  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
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 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 AsiaMoney  
 Asset Triple A  
 LACP Vision 2010  
 LACP Vision 2010  
 HOSE and VIR  
 Vietnam Report



Photo: Johan Kruimer - Managing Director & Co-Head of Institutional Division, Tran Tan Dat - Head of Broker Transaction of Institutional Division and Truong Thu My - Analysis of Hanoi Branch, Best analysis in #3 in Vietnam received the awards at AsiaMoney Awards 2012, in Hongkong



Photo: Investment Banking Team received the "Rising Star Domestic Investment Bank in Vietnam" award from The 2011 Triple A Country Awards

## 2011 Financial Statements



# 2011

## Audited Financial Statements

## General Information

### THE COMPANY

Ho Chi Minh City Securities Corporation (“the Company”) is a joint stock company incorporated under the Law on Enterprises of Vietnam pursuant to Business Registration Certificate No. 4103001573 issued by the Ho Chi Minh City Department of Planning and Investment on 23 April 2003 and Business License No. 11/UBCK-GPHDKD issued by the State Securities Commission on 29 April 2003.

The principal activities of the Company are brokerage services, securities trading, underwriting for share issues, custodian services, finance and investment advisory services.

The Company’s head office is located at Floor 5 and 6, AB Tower, 76 Le Lai Street, Ben Thanh Ward, District 1, Ho Chi Minh City, and its two branches are located in Ho Chi Minh City and Hanoi, and transaction offices in Ho Chi Minh City and Hanoi.

### BOARD OF DIRECTORS

Members of the Board of Directors during the year and at the date of this report are:

Mr. Do Hung Viet	Chairman	Appointed on 08 April 2011
Mr. Le Anh Minh	Vice Chairman	Reappointed on 08 April 2011
Mr. Nguyen Thanh Liem	Vice Chairman	Appointed on 08 April 2011
Mr. Pham Nghiem Xuan Bac	Member	Reappointed on 08 April 2011
Mr. Hoang Dinh Thang	Member	Reappointed on 08 April 2011
Mr. Johan Nyvene	Member	Reappointed on 08 April 2011
Mr. Trinh Hoai Giang	Member	Appointed on 08 April 2011
Ms. Ngo Kim Lien	Chairwoman	Resigned on 08 April 2011
Mr. Do Hung Viet	Vice Chairman	Resigned on 08 April 2011
Mr. Nguyen Quyet Chien	Member	Resigned on 08 April 2011

### BOARD OF SUPERVISION

Members of the Board of Supervision during the year and at the date of this report are:

Mr. Vo Van Chau	Supervisory Chief	Reappointed on 08 April 2011
Mr. Doan Van Hinh	Member	Reappointed on 08 April 2011
Ms. Nguyen Thi Thanh Van	Member	Reappointed on 08 April 2011

### BOARD OF MANAGEMENT

Members of the Board of Management during the year and at the date of this report are:

Mr. Johan Nyvene	Chief Executive Officer	Appointed on 15 May 2007
Mr. Trinh Hoai Giang	Deputy Chief Executive Officer	Appointed on 15 May 2007
Mr. Johan Kruimer	Managing Director	Appointed on 26 July 2007
Mr. Fiachra Mac Cana	Managing Director	Appointed on 01 March 2008
Mr. Bach Quoc Vinh	Managing Director	Appointed on 01 February 2010
Mr. Le Cong Thien	Managing Director	Appointed on 22 February 2010
Mr. Trinh Thanh Can	Managing Director	Appointed on 12 July 2011
Mr. Pham Minh Phuong	Deputy Chief Executive Officer	Resigned on 03 August 2011
Mr. Kelly Wong	Managing Director	Resigned on 05 August 2011

### LEGAL REPRESENTATIVE

The legal representative of the Company during the year and at the date of this report is Mr. Johan Nyvene, Chief Executive Officer.

### AUDITORS

The auditors of the Company are Ernst & Young Vietnam Limited.

# Report Of The Board Of Management

Management of Ho Chi Minh City Securities Corporation (“the Company”) is pleased to present its report and the financial statements of the Company as at and for the year ended 31 December 2011.

## MANAGEMENT’S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

Management is responsible for the financial statements of each financial year which give a true and fair view of the state of affairs of the Company and of the Company’s results and cash flows for the year. In preparing those financial statements, management is required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgments and estimates that are reasonable and prudent;
- ▶ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue its business.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and to ensure that the accounting records comply with the registered accounting system. It is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management confirmed that it has complied with the above requirements in preparing the accompanying financial statements for the year ended 31 December 2011.

## STATEMENT BY MANAGEMENT

Management does hereby state that, in its opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2011 and of the results of its operations and its cash flows for the year then ended in accordance with the Vietnamese Accounting Standards and System and accounting policies applicable to securities companies as set out in Circular No. 95/2008/TT-BTC dated 24 October 2008 and Circular No. 162/2010/TT-BTC dated 20 October 2010 on the amendment and supplement of Circular No. 95/2008/TT-BTC issued by the Ministry of Finance and comply with relevant statutory requirements.

For and on behalf of Management:



*Johan Nyvene*

**Mr. Johan Nyvene**  
Chief Executive Officer

Ho Chi Minh City, Vietnam

29 February 2012



Reference: 60790272/15008153

## INDEPENDENT AUDITORS' REPORT

**To: The Shareholders of  
Ho Chi Minh City Securities Corporation**

We have audited the financial statements of Ho Chi Minh City Securities Corporation ("the Company") as set out on pages from 72 to 112 which comprise the balance sheet as at 31 December 2011, the income statement and the cash flow statement for the year then ended and the notes thereto.

The preparation and presentation of these financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audit.

### **Basis of opinion**

We conducted our audit in accordance with Vietnamese Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, and of the results of its operations and its cash flows for the year then ended in accordance with the Vietnamese Accounting Standards and System and accounting policies applicable to securities companies as set out in Circular No. 95/2008/TT-BTC dated 24 October 2008 and Circular No. 162/2010/TT-BTC dated 20 October 2010 on the amendment and supplement of Circular No. 95/2008/TT-BTC issued by the Ministry of Finance and comply with relevant statutory requirements.



  
Ernst & Young Vietnam Limited



Nguyen Xuan Dai  
Deputy General Director  
Certificate No. 0452/KTV

Ho Chi Minh City, Vietnam

29 February 2012



Vo Xuan Minh  
Auditor  
Certificate No. 0923/KTV

# Balance Sheet

as at 31 December 2011

B01-CTCK

Currency: Vietnam dong

CODE	ASSETS	NOTES	ENDING BALANCE	BEGINNING BALANCE
<b>100</b>	<b>A. CURRENT ASSETS</b>		<b>2,356,188,301,551</b>	<b>2,336,386,799,783</b>
110	I. Cash and cash equivalents	4	673,986,246,531	1,239,484,828,799
111	1. Cash		673,986,246,531	1,239,484,828,799
112	2. Cash equivalents		-	-
120	II. Short-term financial investments	6.1	96,376,022,545	176,894,977,382
121	1. Short-term investments		149,036,992,866	246,027,552,048
129	2. Provision for short-term investments		(52,660,970,321)	(69,132,574,666)
130	III. Short-term receivables		1,580,920,549,820	916,024,962,385
131	1. Trade receivables	7	2,113,187,100	1,187,219,000
132	2. Advances to suppliers		1,842,733,528	249,323,003
133	3. Short-term internal receivables		-	-
135	4. Receivables from securities trading activities	7	646,507,726,523	846,655,755,480
138	5. Other receivables	7	948,936,737,564	86,767,393,297
139	6. Provision for doubtful debts	7	(18,479,834,895)	(18,834,728,395)
140	IV. Inventories		-	-
150	V. Other current assets		4,905,482,655	3,982,031,217
151	1. Short-term prepaid expenses		4,519,574,259	3,447,856,603
152	2. Value added tax deductible		-	-
154	3. Tax and other receivables from the State		-	-
158	4. Other current assets	8	385,908,396	534,174,614

# Balance Sheet

as at 31 December 2011

B01-CTCK

Currency: Vietnam dong

CODE	ASSETS	NOTES	ENDING BALANCE	BEGINNING BALANCE
<b>200</b>	<b>B. NON-CURRENT ASSETS</b>		<b>272,019,581,286</b>	<b>188,592,026,079</b>
<b>210</b>	<b>I. Long-term receivables</b>		-	-
211	1. Long-term trade receivables		-	-
212	2. Paid-in capital in wholly-owned subsidiaries		-	-
213	3. Long-term internal receivables		-	-
218	4. Other long-term receivables		-	-
219	5. Provision for doubtful long-term receivables		-	-
<b>220</b>	<b>II. Fixed assets</b>		<b>15,792,823,557</b>	<b>27,047,265,840</b>
221	1. Tangible fixed assets	9	12,208,871,467	15,989,696,602
222	Cost		35,345,260,910	30,850,717,382
223	Accumulated depreciation		(23,136,389,443)	(14,861,020,780)
224	2. Financial leases		-	-
225	Cost		-	-
226	Accumulated depreciation		-	-
227	3. Intangible fixed assets	10	3,583,952,090	8,374,447,148
228	Cost		19,223,427,883	17,258,224,280
229	Accumulated amortization		(15,639,475,793)	(8,883,777,132)
230	4. Constructions in progress		-	2,683,122,090
<b>240</b>	<b>III. Investment properties</b>		-	-
241	Cost		-	-
242	Accumulated amortization		-	-
<b>250</b>	<b>IV. Long-term investments</b>		<b>123,484,427,755</b>	<b>20,596,836,384</b>
251	1. Investments in subsidiaries		-	-
252	2. Investments in associates, jointly controlled entities		-	-
253	3. Long-term securities		123,484,427,755	20,596,836,384
254	- Available-for-sale securities	6.2	123,484,427,755	20,596,836,384
255	- Held-to-maturity securities		-	-
258	4. Other long-term investments		-	-
259	5. Provision for long-term investments		-	-
<b>260</b>	<b>V. Other long-term assets</b>		<b>132,742,329,974</b>	<b>140,947,923,855</b>
261	1. Long-term prepaid expenses	11	122,701,592,237	132,596,758,965
262	2. Deferred tax assets		-	-
263	3. Advance to Settlement Assistance Fund	12	7,041,030,873	4,286,134,881
268	4. Other long-term assets	13	2,999,706,864	4,065,030,009
<b>270</b>	<b>TOTAL ASSETS</b>		<b>2,628,207,882,837</b>	<b>2,524,978,825,862</b>

## Balance Sheet (cont'd)

as at 31 December 2011

B01-CTCK

Currency: Vietnam dong

CODE	RESOURCES	NOTES	ENDING BALANCE	BEGINNING BALANCE
<b>300</b>	<b>A. LIABILITIES</b>		<b>599,240,181,832</b>	<b>935,807,516,076</b>
<b>310</b>	<b>I. Current liabilities</b>		<b>387,444,406,832</b>	<b>933,987,026,498</b>
311	1. Short-term loans and borrowings		-	-
312	2. Trade payables		135,723,861	15,596,861
313	3. Advances from customers		-	-
314	4. Statutory obligations	14	11,479,966,802	12,537,710,692
315	5. Payables to employees		-	-
316	6. Accrued expenses	15	22,829,411,059	12,300,881,597
317	7. Short-term internal payable		-	-
320	8. Payables for securities trading	16	216,946,754,347	819,534,999,561
321	9. Dividend, principal and interest payables		3,458,781,310	5,755,863,307
322	10. Payables to securities issuers		-	-
323	11. Bonus and welfare fund		25,417,863,603	15,960,699,468
327	12. Buying/selling Government bonds payable		-	-
328	13. Other payables	17	107,175,905,850	67,881,275,012
329	14. Short-term provision		-	-
<b>330</b>	<b>II. Non-current liabilities</b>		<b>211,795,775,000</b>	<b>1,820,489,578</b>
331	1. Long-term trade payables		-	-
332	2. Long-term internal payables		-	-
333	3. Other long-term liabilities		-	-
334	4. Long-term loans and debts	18	210,000,000,000	-
335	5. Deferred tax liabilities		-	-
336	6. Provision for severance allowances		1,795,775,000	1,820,489,578
337	7. Long-term provision		-	-
339	8. Provision for compensation of investors		-	-
<b>400</b>	<b>B. OWNERS' EQUITY</b>	<b>19</b>	<b>2,028,967,701,005</b>	<b>1,589,171,309,786</b>
<b>410</b>	<b>I. Capital</b>		<b>2,028,967,701,005</b>	<b>1,589,171,309,786</b>
411	1. Share capital		998,486,370,000	599,996,860,000
412	2. Share premium		560,834,915,000	560,834,915,000
413	3. Other capital belonging to owners' equity		-	-
414	4. Treasury shares		(4,648,924,200)	(3,971,077,360)
415	5. Asset revaluation reserve		-	-
416	6. Foreign exchange differences reserve		-	-
417	7. Investment and development fund		3,961,374,994	3,961,374,994
418	8. Financial reserve		91,771,047,055	72,329,004,753
419	9. Other funds belonging to owners' equity		-	-
420	10. Undistributed earnings		378,562,918,156	356,020,232,399
<b>440</b>	<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>2,628,207,882,837</b>	<b>2,524,978,825,862</b>

## Balance Sheet (cont'd)

as at 31 December 2011

B01-CTCK

### OFF BALANCE SHEET ITEMS

Currency: Vietnam dong

CODE	ITEMS	ENDING BALANCE	BEGINNING BALANCE
001	1. Fixed assets under operating lease	-	-
002	2. Goods, valuable certificates held under trust	-	-
003	3. Assets held by the Company on consignment	-	-
004	4. Bad debts written off	-	-
005	5. Foreign currencies	117,631,056	55,770,975
006	6. Custody securities	7,694,602,910,000	4,827,682,100,000
	<i>Included:</i>		
007	6.1. Trading securities	6,684,728,410,000	4,253,557,280,000
008	6.1.1. Trading securities of custody investors	1,040,191,390,000	37,135,900,000
009	6.1.2. Trading securities of local investors	5,449,168,350,000	4,058,588,990,000
010	6.1.3. Trading securities of foreign investors	195,368,670,000	157,832,390,000
011	6.1.4. Trading securities of other investors	-	-
012	6.2. Temporarily unprocessed securities	115,876,460,000	177,678,660,000
013	6.2.1. Temporarily unprocessed securities of custody investors	1,582,900,000	515,900,000
014	6.2.2. Temporarily unprocessed securities of local investors	113,249,960,000	176,212,760,000
015	6.2.3. Temporarily unprocessed securities of foreign investors	1,043,600,000	950,000,000
016	6.2.4. Temporarily unprocessed securities of other investor	-	-
017	6.3. Mortgaged securities	766,803,100,000	252,500,000,000
018	6.3.1. Mortgaged securities of custody investors	-	-
019	6.3.2. Mortgaged securities of local investors	766,803,100,000	252,500,000,000
020	6.3.3. Mortgaged securities of foreign investors	-	-
021	6.3.4. Mortgaged securities of other investors	-	-
022	6.4. Temporarily blocked securities	-	-
023	6.4.1. Temporarily blocked securities of custody investors	-	-
024	6.4.2. Temporarily blocked securities of local investors	-	-
025	6.4.3. Temporarily blocked securities of foreign investors	-	-
026	6.4.4. Temporarily blocked securities of other investors	-	-
027	6.5. Securities awaiting settlement	106,243,080,000	122,503,600,000
028	6.5.1. Securities awaiting settlement of custody investors	4,434,000,000	14,900,000
029	6.5.2. Securities awaiting settlement of local investors	95,072,380,000	122,428,200,000
030	6.5.3. Securities awaiting settlement of foreign investors	6,736,700,000	60,500,000
031	6.5.4. Securities awaiting settlement of other investors	-	-

## Balance Sheet (cont'd)

as at 31 December 2011

B01-CTCK

### OFF BALANCE SHEET ITEMS (continued)

Currency: Vietnam dong

CODE	ITEMS	ENDING BALANCE	BEGINNING BALANCE
032	6.6. Blocked securities waiting for releases	-	190,000,000
033	6.6.1. Blocked securities waiting for releases of custody investors	-	-
034	6.6.2. Blocked securities waiting for releases of domestic investors	-	190,000,000
035	6.6.3. Blocked securities waiting for releases of foreign investors	-	-
036	6.6.4. Blocked securities waiting for releases of other investors	-	-
037	6.7. Securities waiting for trading	20,951,860,000	21,252,560,000
038	6.7.1. Securities waiting for trading of custody investors	-	315,620,000
039	6.7.2. Securities waiting for trading of domestic investors	20,892,280,000	19,263,390,000
040	6.7.3. Securities waiting for trading of foreign investors	59,580,000	1,673,550,000
041	6.7.4. Securities waiting for trading of other investors	-	-
042	6.8. Securities mortgaged for a loan	-	-
043	6.8.1. Securities mortgaged for a loan of custody investors	-	-
044	6.8.2. Securities mortgaged for a loan of local investors	-	-
045	6.8.3. Securities mortgaged for a loan of foreign investors	-	-
046	6.8.4. Securities mortgaged for a loan of other investors	-	-
047	6.9. Securities related to error transactions	-	-
<b>050</b>	<b>7. Custody securities of unlisted public companies</b>	<b>193,758,100,000</b>	<b>79,918,980,000</b>
	Included:		
051	7.1. Trading securities	184,987,280,000	78,082,700,000
052	7.1.1. Trading securities of custody investors	73,932,410,000	3,978,190,000
053	7.1.2. Trading securities of local investors	109,660,770,000	74,104,510,000
054	7.1.3. Trading securities of foreign investors	1,394,100,000	-
055	7.1.4. Trading securities of other investors	-	-
056	7.2. Temporarily unprocessed securities	8,686,820,000	172,500,000
057	7.2.1. Temporarily unprocessed securities of custody investors	354,000,000	-
058	7.2.2. Temporarily unprocessed securities of local investors	8,332,820,000	172,500,000
059	7.2.3. Temporarily unprocessed securities of foreign investors	-	-
060	7.2.4. Temporarily unprocessed securities of other investors	-	-
061	7.3. Mortgaged securities	-	-
062	7.3.1. Mortgaged securities of custody investors	-	-
063	7.3.2. Mortgaged securities of local investors	-	-
064	7.3.3. Mortgaged securities of foreign investors	-	-
065	7.3.4. Mortgaged securities of other investors	-	-

## Balance Sheet (cont'd)

as at 31 December 2011

B01-CTCK

### OFF BALANCE SHEET ITEMS (continued)

Currency: Vietnam dong

CODE	ITEMS	ENDING BALANCE	BEGINNING BALANCE
066	7.4. Temporarily blocked securities	-	-
067	7.4.1. Temporarily blocked securities of custody investors	-	-
068	7.4.2. Temporarily blocked securities of local investors	-	-
069	7.4.3. Temporarily blocked securities of foreign investors	-	-
070	7.4.4. Temporarily blocked securities of other investors	-	-
071	7.5. Securities waiting for settlement	34,000,000	75,000,000
072	7.5.1. Securities waiting for settlement of custody investors	-	-
073	7.5.2. Securities waiting for settlement of local investors	34,000,000	75,000,000
074	7.5.3. Securities waiting for settlement of foreign investors	-	-
075	7.5.4. Securities waiting for settlement of other investors	-	-
076	7.6. Blocked securities waiting for releases	50,000,000	1,588,780,000
077	7.6.1. Blocked securities waiting for releases of custody investors	-	-
078	7.6.2. Blocked securities waiting for releases of domestic investors	50,000,000	1,588,780,000
079	7.6.3. Blocked securities waiting for releases of foreign investors	-	-
080	7.6.4. Blocked securities waiting for releases of other investors	-	-
081	7.7. Securities related to error transactions	-	-
<b>082</b>	<b>8. Non-custody securities held of investors</b>	<b>-</b>	<b>-</b>
<b>083</b>	<b>9. Non-custody securities held of securities companies</b>	<b>-</b>	<b>-</b>
<b>084</b>	<b>10. Securities held on trust for offering</b>	<b>-</b>	<b>-</b>

# Income Statement

for the year ended 31 December 2011

B02-CTCK

Currency: Vietnam dong

CODE	ITEMS	NOTES	CURRENT YEAR	PREVIOUS YEAR
<b>01</b>	<b>1. Revenue</b>		<b>480,490,832,437</b>	<b>470,848,569,151</b>
	In which:			
01.1	Revenue from brokerage services		90,904,405,174	151,050,984,169
01.2	Revenue from securities investments		30,345,199,021	59,435,391,796
01.3	Revenue from underwriting services		-	-
01.4	Revenue from securities issuance services		-	32,375,137
01.5	Revenue from finance advisory services		27,942,808,132	3,973,594,730
01.6	Revenue from custodian services		-	-
01.7	Revenue from public offering on trust services		73,663,518	-
01.8	Revenue from assets for lease		-	-
01.9	Other revenue	20	331,224,756,592	256,356,223,319
<b>02</b>	<b>2. Deductions</b>		<b>-</b>	<b>-</b>
<b>10</b>	<b>3. Net revenues from operating activities</b>		<b>480,490,832,437</b>	<b>470,848,569,151</b>
<b>11</b>	<b>4. Operating expenses</b>	<b>21</b>	<b>(156,586,839,181)</b>	<b>(170,485,886,322)</b>
	In which:			
	Operating expenses		(186,924,311,997)	(203,792,408,530)
	Reversal of provision for a decline in value of investments		30,337,472,816	33,306,522,208
<b>20</b>	<b>5. Gross profit from operating activities</b>		<b>323,903,993,256</b>	<b>300,362,682,829</b>
<b>25</b>	<b>6. General and administrative expenses</b>	<b>22</b>	<b>(86,385,202,417)</b>	<b>(72,532,012,678)</b>
	In which:			
	General and administration expenses		(86,411,702,417)	(74,552,250,178)
	Reversal of provision for doubtful debts		26,500,000	2,020,237,500
<b>30</b>	<b>7. Net profit from operating activities</b>		<b>237,518,790,839</b>	<b>227,830,670,151</b>
<b>31</b>	<b>8. Other income</b>		<b>102,261,831</b>	<b>70,196,144</b>
<b>32</b>	<b>9. Other expenses</b>		<b>(732,503,820)</b>	<b>-</b>
<b>40</b>	<b>10. Other (loss)/profit</b>		<b>(630,241,989)</b>	<b>70,196,144</b>
<b>50</b>	<b>11. Profit before tax</b>		<b>236,888,548,850</b>	<b>227,900,866,295</b>
<b>51</b>	<b>12. Current corporate income tax expense</b>	<b>23.1</b>	<b>(42,468,125,830)</b>	<b>(45,589,168,642)</b>
<b>52</b>	<b>13. Deferred income tax expense</b>	<b>23.2</b>	<b>-</b>	<b>-</b>
<b>60</b>	<b>14. Net profit after tax</b>		<b>194,420,423,020</b>	<b>182,311,697,653</b>
<b>70</b>	<b>15. Earnings per share</b>	<b>24.4</b>		
	Basic (VND/share)		2,920	3,044



# Cash Flow Statement

for the year ended 31 December 2011

B03-CTCK

Currency: Vietnam dong

CODE	ITEMS	NOTES	CURRENT YEAR	PREVIOUS YEAR
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>01</b>	<b>1. Net profit before tax</b>		<b>236,888,548,850</b>	<b>227,900,866,295</b>
	<b>2. Adjustments for:</b>			
02	- Depreciation and amortization	9, 10	15,605,982,801	11,523,528,011
03	- Provisions	21, 22	(16,481,438,845)	(13,970,665,185)
04	- Unrealized foreign exchange (gains)/losses		-	-
05	- Profits from investing activities		(211,363,527,520)	(266,609,598,299)
06	- Interest expense		23,152,661,786	-
<b>08</b>	<b>3. Operating profit/(loss) before changes in working capital</b>		<b>47,802,227,072</b>	<b>(41,155,869,178)</b>
09	- Increase in receivables		(667,233,652,617)	(17,420,872,255)
10	- Decrease in short-term investments		96,990,559,182	102,568,632,570
11	- (Decrease)/ increase in payables (other than interest, corporate income tax)		(666,265,955,851)	439,219,937,390
12	- Decrease/ (increase) in prepaid expenses		8,823,449,072	(110,468,355,908)
13	- Interest paid		(15,462,908,753)	-
14	- Corporate income tax paid	23.1	(39,574,562,256)	(69,381,901,196)
15	- Other cash inflows from operating activities		1,213,589,363	-
16	- Other cash outflows from operating activities		(2,047,000,546)	(11,678,194,827)
<b>20</b>	<b>Net cash flows (used in)/from operating activities</b>		<b>(1,235,754,255,334)</b>	<b>291,683,376,596</b>
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES</b>				
21	1. Purchase and construction of fixed assets and other long-term assets		(4,636,982,436)	(20,382,993,832)
22	2. Proceeds from disposals of fixed assets and other long-term assets		102,261,831	48,594,858
23	3. Loans to other entities and payments for purchase of debt instruments of other entities		-	(493,714,200,000)
24	4. Collections from borrowers and proceeds from sale of debt instruments of other entities		-	532,528,995,372
25	5. Payments for investments in other entities		(102,887,591,371)	-
26	6. Proceeds from sale of investments in other entities		-	-
27	7. Interest and dividends received		211,139,711,297	254,075,271,277
<b>30</b>	<b>Net cash outflows from investing activities</b>		<b>103,717,399,321</b>	<b>272,555,667,675</b>

## Cash Flow Statement (cont'd)

for the year ended 31 December 2011

B03-CTCK

Currency: Vietnam dong

CODE	ITEMS	NOTES	CURRENT YEAR	PREVIOUS YEAR
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES</b>				
31	1. Capital contribution and issuance of shares	19	398,489,510,000	8,369,000,000
32	2. Capital redemption		(21,566,840)	(1,234,008,460)
33	3. Drawdown of borrowings		825,000,000,000	-
34	4. Repayment of borrowings		(615,000,000,000)	-
35	5. Payment of finance lease liabilities		-	-
36	6. Dividends paid to equity holders	19	(41,929,669,415)	(158,704,190,250)
<b>40</b>	<b>Net cash flows from/(used in) financing activities</b>		<b>566,538,273,745</b>	<b>(151,569,198,710)</b>
<b>50</b>	<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(565,498,582,268)</b>	<b>412,669,845,561</b>
<b>60</b>	<b>Cash and cash equivalents at the beginning of the year</b>	<b>4</b>	<b>1,239,484,828,799</b>	<b>826,814,983,238</b>
<b>61</b>	<b>Impact of exchange rate fluctuation</b>		<b>-</b>	<b>-</b>
<b>70</b>	<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	<b>673,986,246,531</b>	<b>1,239,484,828,799</b>

### NON-MONETARY TRANSACTION

Currency: Vietnam dong

ITEMS	CURRENT YEAR	PREVIOUS YEAR
Increase in share capital from share premium	-	196,993,860,000

# Statement Of Changes In Equity

for the year ended 31 December 2011

B05-CTCK

Currency: Vietnam dong

ITEMS	NOTES	OPENING BALANCE		INCREASE/DECREASE				CLOSING BALANCE	
		PREVIOUS YEAR	CURRENT YEAR	PREVIOUS YEAR	INCREASE	DECREASE	CURRENT YEAR	PREVIOUS YEAR	CURRENT YEAR
1. Share capital	19	394,634,000,000	599,996,860,000	205,362,860,000	-	398,489,510,000	-	599,996,860,000	998,486,370,000
2. Share premium	19	757,828,775,000	560,834,915,000	-	(196,993,860,000)	-	-	560,834,915,000	560,834,915,000
3. Other owners' capital		-	-	-	-	-	-	-	-
4. Treasury shares	19	(1,941,442,200)	(3,971,077,360)	(2,029,635,160)	-	(677,846,840)	-	(3,971,077,360)	(4,648,924,200)
5. Asset revaluation reserve		-	-	-	-	-	-	-	-
6. Foreign exchange differences reserve		-	-	-	-	-	-	-	-
7. Investment and development fund	19	3,961,374,994	3,961,374,994	-	-	-	-	3,961,374,994	3,961,374,994
8. Financial reserve	19	54,097,834,988	72,329,004,753	18,231,169,765	-	19,442,042,302	-	72,329,004,753	91,771,047,055
9. Other funds belonging to owners' equity		1,110,411,526	-	-	(1,110,411,526)	-	-	-	-
10. Undistributed earnings	19	328,805,412,265	356,020,232,399	182,311,697,653	(155,096,877,519)	194,420,423,020	(171,877,737,263)	356,020,232,399	378,562,918,156
<b>TOTAL</b>		<b>1,538,496,366,573</b>	<b>1,589,171,309,786</b>	<b>403,876,092,258</b>	<b>(353,201,149,045)</b>	<b>611,674,128,482</b>	<b>(171,877,737,263)</b>	<b>1,589,171,309,786</b>	<b>2,028,967,701,005</b>

Strategy

Distinction

Excellence

Financials

# Notes To The Financial Statements

as at and for the year ended 31 December 2011

B09-CTCK

## 1. CORPORATE INFORMATION

Ho Chi Minh City Securities Corporation is a joint stock company incorporated under the Law on Enterprises of Vietnam pursuant to Business Registration Certificate No. 4103001573 issued by the Ho Chi Minh City Department of Planning and Investment on 23 April 2003 and Business License No. 11/UBCK-GPHDKD issued by the State Securities Commission on 29 April 2003.

The principal activities of the Company are brokerage services, securities trading, underwriting for share issues, custodian services, finance and investment advisory services.

The Company's head office is located at Floor 5 and 6, AB Tower, 76 Le Lai Street, Ben Thanh Ward, District 1, Ho Chi Minh City. At 31 December 2011, the Company has two branches located in Ho Chi Minh City and Hanoi, and transaction offices in Ho Chi Minh City and Hanoi.

### Charter Capital

Initial charter capital of the Company was VND 50,000,000,000. As at 31 December 2011, the total charter capital of the Company was VND 998,486,370,000.

### Board of Directors

Members of the Board of Directors during the year and at the date of this report are:

Mr. Do Hung Viet	Chairman	Appointed on 08 April 2011
Mr. Le Anh Minh	Vice Chairman	Reappointed on 08 April 2011
Mr. Nguyen Thanh Liem	Vice Chairman	Appointed on 08 April 2011
Mr. Pham Nghiem Xuan Bac	Member	Reappointed on 08 April 2011
Mr. Hoang Dinh Thang	Member	Reappointed on 08 April 2011
Mr. Johan Nyvene	Member	Reappointed on 08 April 2011
Mr. Trinh Hoai Giang	Member	Appointed on 08 April 2011
Ms. Ngo Kim Lien	Chairwoman	Resigned on 08 April 2011
Mr. Do Hung Viet	Vice Chairman	Resigned on 08 April 2011
Mr. Nguyen Quyet Chien	Member	Resigned on 08 April 2011

### Board of Supervision

Members of the Board of Supervision during the year and at the date of this report are:

Mr. Vo Van Chau	Supervisory Chief	Reappointed on 08 April 2011
Mr. Doan Van Hinh	Member	Reappointed on 08 April 2011
Ms. Nguyen Thi Thanh Van	Member	Reappointed on 08 April 2011

### Board of Management

Members of the Board of Management during the year and at the date of this report are:

Mr. Johan Nyvene	Chief Executive Officer	Appointed on 15 May 2007
Mr. Trinh Hoai Giang	Deputy Chief Executive Officer	Appointed on 15 May 2007
Mr. Johan Kruimer	Managing Director	Appointed on 26 July 2007
Mr. Fiachra Mac Cana	Managing Director	Appointed on 01 March 2008
Mr. Bach Quoc Vinh	Managing Director	Appointed on 01 February 2010
Mr. Le Cong Thien	Managing Director	Appointed on 22 February 2010
Mr. Trinh Thanh Can	Managing Director	Appointed on 12 July 2011
Mr Pham Minh Phuong	Deputy Chief Executive Officer	Resigned on 03 August 2011
Mr Kelly Wong	Managing Director	Resigned on 05 August 2011

### Employee

The number of the Company's employees as at 31 December 2011 was 552 persons (31 December 2010: 512 persons).

# Notes To The Financial Statements

as at and for the year ended 31 December 2011

B09-CTCK

## 2. BASIS OF PREPARATION

### 2.1 Accounting Standards and System

The financial statements of the Company, which are expressed in Vietnam dong (“VND”), are prepared in accordance with the Vietnamese Accounting System, accounting policies applicable to securities companies according to Circular No. 95/2008/TT-BTC issued on 24 October 2008, Circular No. 162/2010/TT-BTC dated 20 October 2010 issued by the Ministry of Finance and Vietnamese Accounting Standards issued by the Ministry of Finance as per:

- ▶ Decision No. 149/2001/QD-BTC dated 31 December 2001 on the Issuance and Promulgation of Four Vietnamese Standards on Accounting (Series 1);
- ▶ Decision No. 165/2002/QD-BTC dated 31 December 2002 on the Issuance and Promulgation of Six Vietnamese Standards on Accounting (Series 2);
- ▶ Decision No. 234/2003/QD-BTC dated 30 December 2003 on the Issuance and Promulgation of Six Vietnamese Standards on Accounting (Series 3);
- ▶ Decision No. 12/2005/QD-BTC dated 15 February 2005 on the Issuance and Promulgation of Six Vietnamese Standards on Accounting (Series 4); and
- ▶ Decision No. 100/2005/QD-BTC dated 28 December 2005 on the Issuance and Promulgation of Four Vietnamese Standards on Accounting (Series 5).

The accompanying balance sheet, income statement, cash flow statement and related notes, including their utilization are not designed for those who are not informed about Vietnam’s accounting principles, procedures and practices and furthermore are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than Vietnam.

### 2.2 Registered accounting documentation system

The Company’s applied accounting documentation system is the General Journal system.

### 2.3 Fiscal year

The Company’s fiscal year starts on 01 January and ends on 31 December.

### 2.4 Accounting currency

The Company maintains its accounting records in VND.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Change in accounting policies and disclosures

The accounting policies adopted by the Company in preparation of the financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the financial year ended 31 December 2010, except for the changes in accounting policies in relation to the following:

Circular No. 210/2009/TT-BTC provides guidance for the adoption in Vietnam of the International Financial Reporting Standards on presentation and disclosures of financial instruments

On 06 November 2009, the Ministry of Finance issued Circular No. 210/2009/TT-BTC providing guidance for the adoption in Vietnam of the International Financial Reporting Standards on presentation of financial statements and disclosures of financial instruments (“Circular 210”) which is effective from financial years beginning on or after 01 January 2011.

The adoption of Circular 210 results in additional disclosures in the financial statements as shown in Note 24.5 and 24.6.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

B09-CTCK

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks, investors' deposits for securities trading and short-term, highly liquid investments with an original maturity of less than three months that are readily convertible into known amounts of cash and that are subject to an insignificant risk of change in value.

Cash and cash equivalents also include investors' deposits for securities trading.

#### 3.3 Receivables

Receivables are initially recorded at cost and subsequently always presented at cost in the following periods.

Receivables are subject to review for impairment based on overdue periods of the receivables or estimated loss arising from undue debts of which the indebted economic organizations fall bankrupt or are undergoing dissolution procedures; debtors are missing, have fled, are prosecuted, detained or tried by law enforcement bodies, are serving sentences or have deceased. Increases or decreases to the provision balance are recorded as "General and administrative expenses" in the income statement.

The Company has made provision for doubtful receivables in accordance with Circular No. 228/2009/TT-BTC dated 07 December 2009 issued by the Ministry of Finance. Accordingly, the provision rates for overdue receivables are as follows:

OVERDUE PERIOD	PROVISION RATE
From six (06) months to less than one (1) year	30%
From one (01) year to less than two (2) years	50%
From two (02) years to less than three (3) years	70%
From three (03) years and above	100%

#### 3.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

The cost of a tangible fixed asset comprises of its purchase price and any directly attributable costs of bringing the tangible fixed asset to working condition for its intended use.

Expenditures for additions, improvements and renewals are added to the carrying amount of the assets and expenditures for maintenance and repairs are charged to the income statement as incurred.

When tangible fixed assets are sold or retired, their costs and accumulated depreciation are removed from the balance sheet and any gain or loss resulting from their disposal is included in the income statement.

#### 3.5 Intangible fixed assets

Intangible fixed assets are stated at cost less accumulated amortization.

The cost of an intangible fixed asset comprises of its purchase price and any directly attributable costs of preparing the intangible fixed asset for its intended use.

Expenditures for additions, improvements are added to the carrying amount of the assets and other expenditures are charged to the income statement as incurred.

When tangible fixed assets are sold or retired, their costs and accumulated amortization are removed from the balance sheet and any gain or loss resulting from their disposal is included in the income statement.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

B09-CTCK

### 3.6 Depreciation and amortization

Depreciation and amortization of tangible fixed assets and intangible assets are calculated on a straight-line basis over the estimated useful life of each asset as follows:

Transportation vehicles	6 years
Office equipments	3 - 5 years
Computer software	3 - 4 years

### 3.7 Operating lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

### 3.8 Prepaid expenses

Prepaid expenses are reported as short-term or long-term prepaid expenses on the balance sheet and amortized over the period for which the amount are paid or the period in which economic benefit are generated in relation to these expenses.

The following types of expenses are recorded as long-term prepaid expense and are amortized to the income statement over two (2) to forty years (40) years:

- ▶ Office renovation costs;
- ▶ Office rentals; and
- ▶ Office equipment costs.

### 3.9 Investments in securities

According to Circular No. 95/2008/TT-BTC issued by the Ministry of Finance on 24 October 2008, securities companies are allowed to recognize investments in securities at either cost or fair value. Accordingly, the Company has applied the cost model to recognize investments in securities.

#### 3.9.1 Short-term investments in securities

They are securities which either have recovery period of within one year or held for trading purposes. These securities are initially recorded at cost, including purchased costs plus (+) transaction costs (if any) such as brokerage and transaction fee, information fee, taxes, levies and banking fees.

Accrued interest income is recognized as a deduction in carrying value of trading securities for the portion incurred before the purchasing date and as an investment income for the amount incurred since the purchasing date.

Trading securities are subject to review for impairment at each balance sheet date. Provision for impairment of trading securities is made when their carrying value is higher than market value. Provision for impairment loss is recognized in "Operating expenses" in the income statement.

#### 3.9.2 Long-term investments in securities

Long-term investments in securities comprise of available-for-sale securities and held-to-maturity securities.

Held-to-maturity securities are non-derivative and have predetermined cash flows and fixed maturities and the Company has intention to hold these securities until the maturity date.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.9 Investments in securities (continued)

##### 3.9.2 Long-term investments in securities (continued)

Securities shall not be classified in held-to-maturity category if during the current year or recent two years, a substantial volume of securities is sold or reclassified earlier than their maturities, unless these sales and reclassification are:

- ▶ Close to the maturity date;
- ▶ The Company recovered a majority of cost of securities according to repayment schedule or received earlier than the maturity date; or
- ▶ Subject to a non-controllable event of the Company and this event incurred one time only and incurred unpredictably.

Available-for-sale securities are non-derivative which are not classified as neither held-to-maturity securities nor trading securities.

Long-term investment securities are measured at cost. Provision for impairment is recognized in the income statement when there is sufficient objective evidence of the long-term diminution of the investments.

##### 3.9.3 Other long-term investments

Other long-term investments include investments in other entities in which the Company has less than 20% of voting rights. These investments are measured at cost. Provision for impairment is recognized in the income statement when there is sufficient objective evidence of the long-term diminution of the investments.

#### 3.10 Provision for impairment of investment securities

##### 3.10.1 Provision for impairment of trading securities and long-term investment securities

Provision for impairment of investment securities is made for individual stocks when the market values are lower than original costs. Provision amount for transferable securities is the difference between the original cost and market value of those securities at the balance sheet date in accordance with Circular No. 228/2009/TT-BTC issued by the Ministry of Finance on 07 December 2009. Any increase or decrease in balance of provision is recognized to operating expenses for the year.

The market prices of listed securities are determined based on the quoted prices on the stock markets (which are the average prices on the Hanoi Stock Exchange and the closing prices on the Ho Chi Minh City Stock Exchange) as at 31 December 2011.

The market values of unlisted shares which have been registered on the unlisted public companies market (UPCom) are the average prices of the trading market at the date of provision.

The market values of unlisted shares which have not been registered on the unlisted public companies market (UPCom) are the average public price quotations of at least three (3) reputable and large securities companies in the market.

Other securities that have no quoted prices are carried at cost.

##### 3.10.2 Provision for impairment of other long-term investments

Provision for impairment of other long-term investment is made in accordance with Circular No. 228/2009/TT-BTC by the Ministry of Finance dated 07 December 2009 when the investees incur losses (except for the expected loss identified in the business plan before the investment). Accordingly, provision is the difference between the actual capital contributions of all owners in the investee and the actual equity of the investee multiplied (x) by the ratio of the Company's investment compared with total investments of all owners.



# Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 3.11 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (“repos”) are not derecognized from the balance sheet. The corresponding cash received is recognized in the balance sheet as a “repurchase agreements” (if any), reflecting its economic substance as a loan to the Company. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the straight-line method.

Conversely, securities purchased under agreements to resell at a specified future date (“reverse repos”) (if any) are not recognized in the balance sheet. The corresponding cash paid is recognized in the balance sheet as a “reverse repurchase agreements” (if any). The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the straight-line method.

### 3.12 Payables and accruals

Payables and accruals are recognized for amounts to be paid in the future for goods and services received, whether or not billed to the Company.

### 3.13 Employee benefits

#### 3.13.1 Post employment benefits

Post employment benefits are paid to retired employees of the Company by the Social Insurance Agency which belongs to the Ministry of Labor and Social Affairs. The Company is required to contribute to these post employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 16% of an employee’s basic salary on a monthly basis. The Company has no further obligation to fund the post employment benefits of its employees, other than the liability to pay the Social Insurance Agency on a monthly basis.

#### 3.13.2 Severance pay

The severance pay to employees is accrued at the end of each reporting year for all employees who have more than 12 months in service up to 31 December 2008 at the rate of one-half of the average monthly salary for each year of service up to 31 December 2008 in accordance with the Labour Code, the Law on Social Insurance and related implementing guidance. Commencing 01 January 2009, the average monthly salary used in this calculation will be revised at the end of each reporting year following the average monthly salary of the 6-month period up to the reporting date. Any changes to the accrued amount will be taken to the income statement.

#### 3.13.3 Unemployment benefits

According to Circular No. 04/2009/TT-BLĐTBXH and Decree No. 127/2008/NĐ-CP, since 01 January 2009, the Company is required to pay unemployment insurance at the rate of 1.00% of salary budget of employees joining severance and deduct 1.00% from each employer’s basic salary.

### 3.14 Foreign currency transactions

At the end of the year, monetary assets and liabilities denominated in foreign currencies are translated at inter-bank exchange rates ruling at the balance sheet date. Revenue or expenses in foreign currencies are converted into VND at exchange rates ruling at the transaction date. All foreign exchange differences arising from spot rates at transaction date and revaluation at balance sheet date are charged to the income statement.

### 3.15 Treasury shares (buy-back shares)

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss upon purchase, sale, issue or cancellation of the Company’s own equity instruments.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.16 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discount, rebate and sales return. The following specific recognition criteria must also be met before revenue is recognized:

##### Revenue from brokerage services

Where the contract outcome can be reliably measured, revenue is recognized by reference to the stage of completion. Where the contract outcome cannot be reliably measured, revenue is recognized only to the extent of the expenses recognized which are recoverable.

##### Revenue from securities trading

Revenue from securities trading is recognized on the basis of the difference between cost-of-sale and selling price.

##### Revenue from securities repurchase and reverse repurchase agreements

Revenue from securities repurchase and reverse repurchase agreements is recognized over the life of the agreement using straight-line method.

##### Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

##### Dividend

Income is recognized when the Company's entitlement as an investor to receive the dividend is established, except for dividend received in shares which is monitored by number of shares only.

#### 3.17 Cost of securities sold

The Company applies the moving weighted average method to calculate cost of equity securities sold and the specific identification method to calculate cost of debt securities sold.

#### 3.18 Taxation

##### Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted as at the balance sheet date.

Current income tax is charged or credited to the income statement, except when it relates to items recognized directly to equity, in which case the current income tax is also dealt with in equity.

Current income tax assets and liabilities are offset when there is a legally enforceable right for the Company to set off current tax assets against current tax liabilities and when the Company intends to settle its current tax assets and liabilities on a net basis.

##### Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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Deferred tax liabilities are recognized for all taxable temporary differences, except:

- ▶ where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the related transaction affects neither the accounting profit nor taxable profit or loss.
- ▶ in respect of taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credit and unused tax losses, to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward unused tax credit and unused tax losses can be utilized, except:

- ▶ where the deferred tax asset in respect of deductible temporary difference which arises from the initial recognition of an asset or liability which at the time of the related transaction, affects neither the accounting profit nor taxable profit or loss.
- ▶ in respect of deductible temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Previously unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset realized or the liability is settled based on tax rates and tax laws that have been enacted at the balance sheet date.

Deferred tax is charged or credited to the income statement, except when it relates to items recognized directly to equity, in which case the deferred tax is also dealt with in the equity account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxable entity and the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### 3.19 Statutory reserves

According to Circular No. 11/2000/TT-BTC issued by the Ministry of Finance on 01 February 2000, securities companies are required to make appropriation of profit after tax to the following reserves:

	PERCENTAGE OF PROFIT AFTER TAX	MAXIMUM LEVEL
Charter capital supplementary reserve	5%	10% of share capital
Compulsory reserve	5%	10% of share capital

Other reserves are created in accordance with the Resolution of the Company's Annual General Meeting.

### 3.20 Appropriation of net profits

Net profit after tax is available for appropriation to investors after approval by the Annual General Meeting, and after making appropriation to reserve funds in accordance with the Company's Charter and Vietnam's regulatory requirements.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 4. CASH AND CASH EQUIVALENTS

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Cash on hand	284,612,036	294,714,979
Cash at banks	673,701,634,495	1,239,190,113,820
In which:		
<i>Cash of the Company</i>	476,476,839,148	936,151,158,259
<i>Cash of depositors</i>	197,224,795,347	303,038,955,561
<b>TOTAL</b>	<b>673,986,246,531</b>	<b>1,239,484,828,799</b>

### 5. VALUE AND VOLUME OF TRADING RESULTS IN THE YEAR

	TRADING VOLUME IN THE YEAR (unit)	TRADING VALUE IN THE YEAR (Vietnam dong)
<b>1. Trading results of the Company</b>		
- Shares	37,670,959	1,019,031,801,170
- Bonds	10,600,000	995,544,400,000
<b>2. Trading results of the investors</b>		
- Shares	2,123,236,902	13,219,294,835,293
- Bonds	78,350,000	7,563,876,950
<b>TOTAL</b>	<b>2,249,857,861</b>	<b>15,241,434,913,413</b>

### 6. FINANCIAL INVESTMENTS

Currency: Vietnam dong

	QUANTITY		COMPARED TO THE MARKET VALUE		TOTAL MARKET VALUE
	(UNIT)	COST	Increase	Decrease	
<b>Short-term investments</b>					
- Listed shares	2,180,171	22,896,233,364	137,432,469	(10,833,509,121)	12,200,156,712
- Unlisted shares	5,400,910	126,140,759,502	-	(41,827,461,200)	84,313,298,302
<b>TOTAL</b>		<b>149,036,992,866</b>	<b>137,432,469</b>	<b>(52,660,970,321)</b>	<b>96,513,455,014</b>
<b>Long-term investments</b>					
<i>Available-for-sale securities</i>					
- Fund certificates	10,059,740	102,887,591,371	-	-	102,887,591,371
- Bonds	200,000	20,596,836,384	-	-	20,596,836,384
<b>TOTAL</b>		<b>123,484,427,755</b>	<b>-</b>	<b>-</b>	<b>123,484,427,755</b>

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 6.1 Short-term investments

Detail of short-term investments of the Company is as follows:

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Short-term investments in securities	149,036,992,866	246,027,552,048
Provision for impairment of investments	(52,660,970,321)	(69,132,574,666)
<b>Net value of short-term investments</b>	<b>96,376,022,545</b>	<b>176,894,977,382</b>

Movements of provision for impairment of investments:

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
Balance at the beginning of the year	69,132,574,666	81,090,730,512
Add: Provision for impairment of investments	13,865,868,471	21,348,366,362
Less: Reversal of provision for impairment of investments	(30,337,472,816)	(33,306,522,208)
<b>Balance at the end of the year</b>	<b>52,660,970,321</b>	<b>69,132,574,666</b>

### 6.2 Available-for-sale securities

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Government bonds	20,596,836,384	20,596,836,384
Fund certificates	102,887,591,371	-
<b>TOTAL</b>	<b>123,484,427,755</b>	<b>20,596,836,384</b>

## Notes To The Financial Statements (cont'd)

as at and for the financial year ended 31 December 2011

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### 6. FINANCIAL INVESTMENTS (CONTINUED)

#### 6.3 Details of provision for short-term investments:

ITEMS	CARRYING VALUE		DECREASE COMPARED WITH MARKET VALUE		MARKET VALUE	
	ENDING BALANCE	BEGINNING BALANCE	ENDING BALANCE	BEGINNING BALANCE	ENDING BALANCE	BEGINNING BALANCE
	VALUE		VALUE		VALUE	
						Currency: Vietnam dong
<b>Shares</b>	<b>114,619,091,526</b>	<b>149,142,924,196</b>	<b>(47,614,606,321)</b>	<b>(68,282,574,666)</b>	<b>67,031,403,812</b>	<b>80,860,305,043</b>
<i>Listed shares</i>	<i>10,281,890,326</i>	<i>14,937,934,996</i>	<i>(5,787,145,121)</i>	<i>(3,129,437,799)</i>	<i>4,521,663,812</i>	<i>11,808,452,710</i>
Viettronics TanBinh Joint Stock Company (VTB)	8,560,710,211	8,532,469,611	(5,620,012,711)	(2,260,147,611)	2,940,697,500	6,272,322,000
Hanoi Education Investment and Development Joint Stock Company (EID)	510,968,749	-	(26,528,749)	-	484,440,000	-
Vietnam Tanker Joint Stock Company (VTO)	320,508,441	10,339	-	(1,439)	331,525,700	8,900
Hoang Mai Cement Joint Stock Company (HOM)	293,162,448	-	(26,762,448)	-	266,400,000	-
Song Hong Construction Joint Stock Company (ICG)	259,967,402	1,282,804	(13,229,402)	-	246,738,000	1,722,000
Song Da No.5 Joint Stock Company (SD5)	2,415,469	651,571,672	(1,301,569)	(203,145,172)	1,113,900	448,426,500
Southern Seed Joint Stock Company (SSC)	173,032	419,718,323	-	(35,284,623)	224,000	384,433,700
Vietnam Sun Corporation (VNS)	174,023	2,859,592,372	(68,023)	(370,144,372)	106,000	2,489,448,000
Khang An Investment Real Estate Joint Stock Company (KAC)	-	2,242,500,000	-	(213,900,000)	-	2,028,600,000
Other stocks	333,810,551	230,789,875	(99,242,219)	(46,814,582)	250,418,712	183,491,610
<i>Unlisted shares</i>	<i>104,337,201,200</i>	<i>134,204,989,200</i>	<i>(41,827,461,200)</i>	<i>(65,153,136,867)</i>	<i>62,509,740,000</i>	<i>69,051,852,333</i>
Lac Viet Joint Stock Company	30,750,000,000	30,750,000,000	(4,350,000,000)	(4,350,000,000)	26,400,000,000	26,400,000,000
Dong A Commercial Joint Stock Bank	16,464,248,200	16,464,248,200	(9,662,618,200)	(9,662,825,867)	6,801,630,000	6,801,422,333
Tan Binh Real Estate Joint Stock Company	11,925,000,000	11,925,000,000	(3,825,000,000)	(3,825,000,000)	8,100,000,000	8,100,000,000
Ca Mau Seafood Joint Stock Company	10,950,030,000	10,950,030,000	(6,562,530,000)	(6,562,530,000)	4,387,500,000	4,387,500,000
Minh Hai Jostoco	8,000,000,000	8,000,000,000	(6,350,000,000)	(6,350,000,000)	1,650,000,000	1,650,000,000
Special Aquatic Products Joint-Stock Company	7,549,983,000	7,549,983,000	(3,229,983,000)	(3,229,983,000)	4,320,000,000	4,320,000,000
Vietnam Ocean Shipping Agency Corporation	6,000,000,000	6,000,000,000	(4,000,000,000)	(4,000,000,000)	2,000,000,000	2,000,000,000
Viendong Assurance Corporation (Vass)	5,235,000,000	5,235,000,000	(15,000,000)	(15,000,000)	5,220,000,000	5,220,000,000
Can Tho Import-Export Seafood Joint Stock Company	4,900,000,000	4,900,000,000	(3,313,800,000)	(3,313,800,000)	1,586,200,000	1,586,200,000
Vinh Tuong Industrial Corporation	2,562,940,000	2,000,000,000	(518,530,000)	(800,000,000)	2,044,410,000	1,200,000,000
Nam A Commercial Joint Stock Bank	-	30,430,728,000	-	(23,043,998,000)	-	7,386,730,000
<b>Fund certificates</b>	<b>10,186,858,000</b>	<b>10,150,000,000</b>	<b>(5,046,364,000)</b>	<b>(850,000,000)</b>	<b>5,140,494,000</b>	<b>9,300,000,000</b>
Vietnam Active Fund (VFA)	10,186,858,000	10,150,000,000	(5,046,364,000)	(850,000,000)	5,140,494,000	9,300,000,000
<b>TOTAL</b>	<b>124,805,949,526</b>	<b>159,292,924,196</b>	<b>(52,660,970,321)</b>	<b>(69,132,574,666)</b>	<b>72,171,897,812</b>	<b>90,160,305,043</b>

# Notes To The Financial Statements (cont'd)

as at and for the financial year ended 31 December 2011

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## 7. SHORT-TERM RECEIVABLES

### 7.1 Short term receivables

Currency: Vietnam dong

ITEMS	BEGINNING BALANCE			MOVEMENT			ENDING BALANCE		
	TOTAL	OVERDUE	DOUBTFUL	INCREASE	DECREASE	TOTAL	OVERDUE	DOUBTFUL	PROVISION
1. Trade receivables	1,187,219,000	-	129,867,100	31,012,109,653	(30,086,141,553)	2,113,187,100	-	129,867,100	129,867,100
- Receivables from advisory services	1,057,351,900	-	-	31,012,109,653	(30,086,141,553)	1,983,320,000	-	-	-
- Receivables from securities investments	129,867,100	-	129,867,100	-	-	129,867,100	-	129,867,100	129,867,100
2. Receivables from securities trading	846,655,755,480	-	15,788,918,795	17,743,305,483,654	(17,943,453,512,611)	646,507,726,523	-	15,443,859,795	15,443,859,795
- Receivables from foreign investors	559,255,401	-	-	31,361,508,061	(31,535,286,946)	385,476,516	-	-	-
- Receivables from advances to investors (*)	39,974,320,673	-	15,788,918,795	1,105,679,193,411	(1,098,529,598,938)	47,123,915,146	-	15,443,859,795	15,443,859,795
- Receivables from margin	806,033,372,146	-	-	16,509,610,135,981	(16,716,645,173,266)	598,998,334,861	-	-	-
- Receivables from investors for OTC shares trading	88,807,260	-	-	96,654,646,201	(96,743,453,461)	-	-	-	-
3. Other receivables	86,767,393,297	2,915,942,500	-	1,526,599,100,606	(664,429,756,339)	948,936,737,564	2,906,108,000	-	2,906,108,000
- Bond interest	2,640,908,672	-	-	46,829,126,482	(31,462,090,914)	18,007,944,240	-	-	-
- Interest of deposit	3,104,528,120	-	-	13,596,260,503	(13,189,264,193)	3,511,524,430	-	-	-
- Receivables from reverse repurchase agreements of bonds (**)	61,686,667,000	-	-	1,429,321,346,320	(590,369,013,320)	900,639,000,000	-	-	-
- Receivables from reverse repurchase agreements of stocks	18,906,998,855	2,915,942,500	-	30,823,022,709	(28,479,259,291)	21,250,762,273	2,906,108,000	-	2,906,108,000
- Receivables from custody center	-	-	-	5,521,470,000	(116,508,301)	5,404,961,699	-	-	-
- Other short term receivables	428,290,650	-	-	507,874,592	(813,620,320)	122,544,922	-	-	-
<b>TOTAL</b>	<b>934,610,367,777</b>	<b>2,915,942,500</b>	<b>15,918,785,895</b>	<b>19,300,916,693,913</b>	<b>(18,637,969,410,503)</b>	<b>1,597,557,651,187</b>	<b>2,906,108,000</b>	<b>15,573,726,895</b>	<b>18,479,834,895</b>

(\*): Overdue debt related to purchasing shares of Bien Hoa Confectionery Joint Stock Company in which investors were unable to settle. Those transactions were incurred in 2008 and provision for overdue debt was also recognized in that year. According to the current regulations, overdue debt of which provision has been made is required to be monitored separately with the receivable amounts, without being written off.

(\*\*): Detail of accounts receivable purchase agreements and commitments to sell bonds as at 31 December 2011 as following:

## Notes To The Financial Statements (cont'd)

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### 7. SHORT-TERM RECEIVABLES (continued)

#### 7.1 Short term receivables (continued)

NO	BOND	QUANTITY	AMOUNT (VND)	BUYING DATE	COMMITTED SELLING DATE	INTEREST RATE/ANNUUM	COUNTER PARTY
1	VDB111003	2,000,000	178,000,000,000	08/11/2011	31/01/2012	18.80%	ACB Securities Limited Company
2	QHB1013027	1,000,000	94,968,000,000	15/11/2011	15/05/2012	17.45%	Housing Development Commercial Joint Stock Bank
3	VDB110024	3,000,000	284,850,000,000	24/11/2011	24/02/2012	18.00%	Maritime Commercial Joint Stock Bank
4	VDB110029	3,000,000	286,821,000,000	25/11/2011	28/02/2012	18.00%	Maritime Commercial Joint Stock Bank
5	TCB39-0107	70	56,000,000,000	14/12/2011	16/01/2012	16.50%	An Binh Commercial Joint Stock Bank
			<b>900,639,000,000</b>				



## Notes To The Financial Statements (cont'd)

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### 7. SHORT-TERM RECEIVABLES (continued)

#### 7.2 Provision for doubtful receivables:

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
Beginning balance	18,834,728,395	20,847,237,734
Use of provision	(345,059,000)	-
Provision charged for the year	16,665,500	7,728,161
Reversal of provision for the year	(26,500,000)	(2,020,237,500)
<b>Ending balance</b>	<b>18,479,834,895</b>	<b>18,834,728,395</b>

### 8. OTHER CURRENT ASSETS

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Advances	345,509,796	322,576,014
Shortage of assets awaiting resolution	-	166,200,000
Deposits of house rentals and software	40,398,600	45,398,600
<b>TOTAL</b>	<b>385,908,396</b>	<b>534,174,614</b>

### 9. TANGIBLE FIXED ASSETS

Currency: Vietnam dong

	TRANSPORTATION VEHICLES	OFFICE EQUIPMENTS	TOTAL
<b>Cost:</b>			
As at 01 January 2011	3,219,787,884	27,630,929,498	30,850,717,382
Newly purchased	-	5,354,900,923	5,354,900,923
Disposed	-	(860,357,395)	(860,357,395)
As at 31 December 2011	3,219,787,884	32,125,473,026	35,345,260,910
<i>In which:</i>			
<i>Fully depreciated</i>	-	9,535,009,826	9,535,009,826
<b>Accumulated depreciation:</b>			
As at 01 January 2011	1,959,458,037	12,901,562,743	14,861,020,780
Charge for the year	534,357,978	8,315,926,162	8,850,284,140
Disposed	-	(574,915,477)	(574,915,477)
As at 31 December 2011	2,493,816,015	20,642,573,428	23,136,389,443
<b>Net carrying amount:</b>			
As at 01 January 2011	1,260,329,847	14,729,366,755	15,989,696,602
As at 31 December 2011	<b>725,971,869</b>	<b>11,482,899,598</b>	<b>12,208,871,467</b>

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 10. INTANGIBLE FIXED ASSETS

Currency: Vietnam dong

<b>COMPUTER SOFTWARE</b>	
<b>Cost:</b>	
As at 01 January 2011	17,258,224,280
Newly purchased	1,965,203,603
As at 31 December 2011	19,223,427,883
<i>In which:</i>	
<i>Fully depreciated</i>	559,878,110
<b>Accumulated amortization:</b>	
As at 01 January 2011	8,883,777,132
Amortization for the year	6,755,698,661
As at 31 December 2011	15,639,475,793
<b>Net carrying amount:</b>	
As at 01 January 2011	8,374,447,148
As at 31 December 2011	<b>3,583,952,090</b>

### 11. LONG-TERM PREPAID EXPENSES

Currency: Vietnam dong

	<b>ENDING BALANCE</b>	<b>BEGINNING BALANCE</b>
Office rentals (*)	119,664,733,794	126,866,386,442
Office renovation costs	3,036,858,443	4,895,378,141
Prepaid expenses of office equipments	-	834,994,382
<b>TOTAL</b>	<b>122,701,592,237</b>	<b>132,596,758,965</b>

(\*) This included unamortized portion of the full prepayment for lease of 1,802 square meters in AB Tower for the period of 40 years amounting to VND 109,532,648,736.

### 12. ADVANCE TO SETTLEMENT ASSISTANCE FUND

Advance to Settlement Assistance Fund represent deposits at the Ho Chi Minh City Stock Exchange.

According to Decision No. 60/2004/QĐ-BTC dated 15 July 2004 and Decision No. 72/2005/QĐ-BTC dated 21 October 2005 issued by the Ministry of Finance and Decision No. 17/2005/QĐ-TTLK dated 02 April 2008 issued by the Custody Centre of State Securities Commission, the Company is required to deposit an initial amount of VND 120 million at each stock exchange and make an annual additional contribution of 0.01% of total value trading of dealing and brokered securities in prior year.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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Movements of advance to Settlement Assistance Fund during the year were as follows:

Currency: Vietnam dong

Opening balance	120,000,000
Interest income in 2006 and 2007	25,487,076
Interest received in 2009	52,901,505
Additional contribution in 2009	2,140,647,805
Interest received in 2010	201,994,487
Additional contribution in 2010	1,745,104,008
<b>Balance as at 31 December 2010</b>	<b>4,286,134,881</b>
Additional contribution in 2011	2,260,023,743
Interest received in 2011	494,872,249
<b>Ending balance as at 31 December 2011</b>	<b>7,041,030,873</b>

### 13. OTHER LONG-TERM ASSETS

This represents long-term deposits for the leases of the Company's offices.

### 14. STATUTORY OBLIGATIONS

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Corporate income tax (Note 23.1)	10,269,846,948	7,376,283,374
Personal income tax of investors	544,475,005	3,571,877,473
Corporate income tax of investors	208,877,050	907,566,132
Personal income tax of the employees	412,064,572	616,717,535
Foreign contractor withholding tax	27,893,333	-
Value added tax	16,809,894	65,266,178
<b>TOTAL</b>	<b>11,479,966,802</b>	<b>12,537,710,692</b>

Currency: Vietnam dong

NO.	ITEMS	BEGINNING BALANCE	PAYABLE IN THE YEAR	PAID IN THE YEAR	ENDING BALANCE
1	Corporate income tax	7,376,283,374	42,468,125,830	39,574,562,256	10,269,846,948
2	Personal income tax of investors	3,571,877,473	13,541,725,339	16,569,127,807	544,475,005
3	Corporate income tax of investors	907,566,132	4,115,750,397	4,814,439,479	208,877,050
4	Personal income tax of the employees	616,717,535	7,474,212,494	7,678,865,457	412,064,572
5	Foreign contractor withholding tax	-	2,497,302,507	2,469,409,174	27,893,333
6	Value added tax	65,266,178	2,879,840,700	2,928,296,984	16,809,894
7	Business registered tax	-	10,000,000	10,000,000	-
		<b>12,537,710,692</b>	<b>72,986,957,267</b>	<b>74,044,701,157</b>	<b>11,479,966,802</b>

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 15. ACCRUED EXPENSES

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Allowance for working performance payable to employees	12,000,000,000	9,000,000,000
Accrued interest for issued bonds (Note 18)	7,689,753,033	-
Brokerage fee payables to Stock Exchange	865,049,402	2,795,224,947
Other accrued expenses	2,274,608,624	505,656,650
<b>TOTAL</b>	<b>22,829,411,059</b>	<b>12,300,881,597</b>

### 16. PAYABLES FOR SECURITIES TRADING

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Investors' deposits for trading of securities	197,224,795,347	303,038,955,561
Payable to HNX and HOSE	16,695,959,000	513,321,240,000
Deposits from investors for trading of OTC stocks	3,026,000,000	3,026,000,000
Other payables	-	148,804,000
<b>TOTAL</b>	<b>216,946,754,347</b>	<b>819,534,999,561</b>

### 17. OTHER PAYABLES

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Dividend payables to shareholders (*)	103,028,407,894	3,461,084,209
Trade union fee	1,803,473,147	1,072,567,944
Social insurance	286,929,725	233,043,258
Health insurance	188,089,792	126,927,209
Unemployment insurance	97,346,397	90,252,260
Payables for repurchase agreements	-	61,686,667,000
Other payables	1,771,658,895	1,210,733,132
<b>TOTAL</b>	<b>107,175,905,850</b>	<b>67,881,275,012</b>

(\*) Dividends payable to shareholders include the 2011 interim declared dividend amounting to VND 99,617,517,000, equivalent to VND 1,000/share.

## Notes To The Financial Statements (cont'd)

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### 18. LONG TERM LOANS AND DEBTS

On 24 August 2011, the Company successfully issued VND 600,000,000,000 private placement bonds according to Resolution No. 09/2011/NQ-HDQT of the Board of Directors with the following information:

ITEMS	VOLUME (UNIT)	FACE VALUE (VND)	TOTAL VALUE (VND)	INTEREST RATE	TERM
Straight bonds	600	1,000,000,000	600,000,000,000	14% p.a.	5 years

Interest of straight bonds is paid annually. From the second month onwards, the bonds can be repurchased by the Company at any time until the maturity date.

As at 31 December 2011, the outstanding balance of the above mentioned issued bonds was VND 210,000,000,000 and the accrued interest payable was VND 7,689,753,033.

### 19. OWNERS' EQUITY

#### 19.1 Detail of share capital

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Contributed by shareholders	998,486,370,000	599,996,860,000
Share premium	560,834,915,000	560,834,915,000
Treasury shares	(4,648,924,200)	(3,971,077,360)
<b>TOTAL</b>	<b>1,554,672,360,800</b>	<b>1,156,860,697,640</b>

#### 19.2 Capital transactions with share capital and distribution of dividends

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
<b>Share capital</b>		
Beginning balance	599,996,860,000	394,634,000,000
Increase (*)	398,489,510,000	205,362,860,000
<b>Ending balance</b>	<b>998,486,370,000</b>	<b>599,996,860,000</b>
<b>Dividends paid</b>	<b>41,929,669,415</b>	<b>158,704,190,250</b>

(\*): Resolution No. 01/2011/NQ/DHDCD on 08 April 2011 of the Annual General Meeting ratified the proposal plan of issuing 39,894,627 additional shares to existing shareholders at the ratio of 3:2 (2 new shares for 3 existing shares with the issuing price of VND 10,000 per share).

On 28 July 2011, the Company received Decision No. 77/UBCK-GCN from the State Securities Commission of Vietnam approving new number of shares offered to the public amounting to 39,894,627 shares.

On 31 October 2011, the Company successfully issued 39,848,951 shares to the public and collected the share proceeds of VND 398,489,510,000 from the issuance. Accordingly, the Company recorded the increase of owners' equity to VND 998,486,370,000 at 31 October 2011.

On 29 November 2011, the Company received Decision No. 172/2011/QD-SGDHCM from Ho Chi Minh Stock Exchange approving the listing and trading of the additional new shares issued. Accordingly, the Company is allowed to list and trade additional 39,848,951 shares issued at Ho Chi Minh Stock Exchange equivalent to the value of VND 398,489,510,000. The official trading date was at 09 December 2011.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 19. OWNERS' EQUITY (continued)

#### 19.3 Dividends

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
<b>Dividends declared and paid during the financial reporting period</b>		
Dividends on ordinary shares		
Dividends for 2008: VND 1,000 per share	6,859,800	9,457,900
Dividends for 2009: VND 2,000 per share	37,456,000	99,015,910,000
First dividend for 2010: VND 1,000 per share	23,215,150	59,678,822,350
Final dividend for 2010: VND 700 per share	41,862,138,465	-
<b>TOTAL</b>	<b>41,929,669,415</b>	<b>158,704,190,250</b>

#### 19.4 Shares

	ENDING BALANCE	BEGINNING BALANCE
	Share	Share
<b>Authorized shares</b>	99,848,637	59,999,686
<b>Issued shares</b>		
<i>Issued and paid-up shares</i>		
Ordinary shares	99,848,637	59,999,686
<b>Treasury shares</b>		
<i>Held by the Company</i>		
Ordinary shares	231,120	157,745
<b>Outstanding shares</b>		
Ordinary shares	99,617,517	59,841,941

#### 19.5 Funds belonging to owners' equity

According to Circular No. 11/2000/TT-BTC issued by the Ministry of Finance on 01 February 2000, securities companies are required to make appropriation of profit after tax to the following reserves:

	PERCENTAGE OF PROFIT AFTER TAX	MAXIMUM LEVEL
Charter capital supplementary reserve	5%	10% of share capital
Compulsory reserve	5%	10% of share capital

In 2011, the Company has made an allocation to the supplementary capital reserve and financial reserve amounting to VND 9,721,021,151 and VND 9,721,021,151, respectively, subject to final approval by the shareholders at the Company's Annual General Meeting.

#### 19.6 Other funds belonging to owners' equity

Other funds belonging to owners' equity are created in accordance with the Resolution of the shareholders at the Annual General Meeting of the Company.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 20. OTHER REVENUE

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
Interest income from bank deposits	168,264,099,245	61,358,304,486
Revenue from margin	128,195,520,769	142,024,807,424
Revenue from reverse repurchase agreements	31,356,937,981	6,978,194,112
Revenue from advances to investors	1,903,133,293	3,386,786,569
Other revenue (*)	1,505,065,304	42,608,130,728
<b>TOTAL</b>	<b>331,224,756,592</b>	<b>256,356,223,319</b>

(\*): Other revenue in 2010 included income from the breach of a stocks purchasing contract signed on 04 January 2010 between the Company and an individual. Accordingly, the Company received the interest on the deposit with the interest rate of 10% p.a. and compensation for damage.

### 21. OPERATING EXPENSES

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
Cost of securities trading (*)	47,115,531,903	84,677,908,119
Staff cost	43,405,050,704	44,217,570,457
Interest of issued bonds	23,152,661,786	-
Brokerage expenses	16,968,825,008	31,457,876,288
External services	15,515,280,468	12,412,296,519
External management consultancy fee	13,968,624,759	-
Depreciation and amortization	9,158,238,741	6,940,634,484
Material and tool expenses	293,504,292	270,311,410
Other expenses	3,480,725,865	2,467,444,891
Provision for impairment of investments	13,865,868,471	21,348,366,362
<b>Operating expenses</b>	<b>186,924,311,997</b>	<b>203,792,408,530</b>
Reversal of provision for impairment of investments	(30,337,472,816)	(33,306,522,208)
<b>TOTAL</b>	<b>156,586,839,181</b>	<b>170,485,886,322</b>

(\*): According to Circular No. 95/2008/TT-BTC dated 24 October 2008 issued by the Ministry of Finance guiding the accounting policies for securities companies, gains (selling price is higher than purchased cost) on securities investment trading are recognized in revenue from securities investment and losses (selling price is less than purchased cost) are recognized in securities investment expenses.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 22. GENERAL AND ADMINISTRATIVE EXPENSES

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
Staff cost	37,999,090,146	32,133,113,098
Office rental	21,584,686,481	18,409,277,071
External services	14,030,957,832	12,390,962,169
Office renovation expenses	4,528,852,532	4,443,009,255
Depreciation and amortization	6,447,744,060	4,582,893,527
Taxes and other fees	405,772,577	595,550,149
Office supplies	106,682,998	284,370,590
Other expenses	1,291,250,291	1,705,346,158
Provision for doubtful debts	16,665,500	7,728,161
<b>General and administration expenses</b>	<b>86,411,702,417</b>	<b>74,552,250,178</b>
Reversal of provision for doubtful debts	(26,500,000)	(2,020,237,500)
<b>TOTAL</b>	<b>86,385,202,417</b>	<b>72,532,012,678</b>

### 23. CORPORATE INCOME TAX (CIT)

The Company has the obligation to pay CIT with the rate of 20% of taxable profits for the period of the five (5) years since 2008 and 25% thereafter.

#### 23.1 Current corporate income tax expense

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
CIT expense at rate of 20%	40,954,583,296	44,958,466,123
Adjustment for under accrual of tax from prior period	1,513,542,534	630,702,519
<b>TOTAL</b>	<b>42,468,125,830</b>	<b>45,589,168,642</b>

The current tax payable is based on taxable profit for the period. The taxable profit of the Company for the period differs from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the ended balance sheet date.

The Company's tax reporting will be subject to inspection by the tax authorities. Because the application of laws and regulations on taxes on different types of transactions can be interpreted in different ways, the tax amounts are presented on the financial statements can be changed by the final decision of the tax authorities.



## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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The CIT expense for the year is computed as follows:

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
<b>Profit before tax</b>	<b>236,888,548,850</b>	<b>227,900,866,295</b>
<b>Adjustments to increases/(decreases) accounting profit</b>		
<i>Adjustments to increases:</i>		
Non-deductible expenses	935,506,013	355,949,072
<i>Adjustments to decreases:</i>		
Non-taxable dividend income	(9,725,670,382)	(3,464,484,750)
Reversal of provision for impairment of unlisted securities	(23,325,468,000)	-
<b>Current taxable profit</b>	<b>204,772,916,481</b>	<b>224,792,330,617</b>
CIT expense at rate of 20%	40,954,583,296	44,958,466,123
Under provision of tax in prior years	1,513,542,534	630,702,519
<b>Estimated current CIT</b>	<b>42,468,125,830</b>	<b>45,589,168,642</b>
<b>CIT payable at the beginning of the period</b>	<b>7,376,283,374</b>	<b>30,716,234,517</b>
Under provision of tax in prior years	-	452,781,411
CIT paid during the year	(39,574,562,256)	(69,381,901,196)
<b>CIT payable at the end of the period</b>	<b>10,269,846,948</b>	<b>7,376,283,374</b>

### 23.2 Deferred corporate income tax

There was no deferred tax recognized as at 31 December 2011 since there are no significant identified temporary differences between the carrying value and the tax base of assets and liabilities in the financial statements.

## Notes To The Financial Statements (cont'd)

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### 24. OTHER INFORMATION

#### 24.1 Transactions with related parties

Significant transactions with related parties during the period were as follows:

Currency: Vietnam dong

RELATED PARTIES	RELATIONSHIP	TRANSACTIONS	AMOUNTS
Dragon Capital Markets Limited (DC)	Strategic shareholder	Dividend	13,198,248,000
		Purchasing securities	737,443,115,000
		Selling securities	1,146,101,870,640
		Brokerage fee	2,841,869,864
		Purchasing bonds (repo)	91,632,000,000
		Selling bonds (repo)	79,697,817,777
		Issued bonds	475,000,000,000
		Buy-back issued bonds	265,000,000,000
		Interest income from HSC's bonds	5,247,500,607
Advisory expense	11,638,577,759		
Ho Chi Minh City Fund and Investment Corporation (HFIC)	Strategic shareholder	Dividend	12,600,000,000
Vietnam Debt Fund SPC (VDF)	Related party	Issued bonds	50,000,000,000
		Buy-back issued bonds	50,000,000,000
		Interest expenses paid for issued bonds	3,814,494,998
		Purchasing bonds (repo)	185,717,700,000
		Selling bonds (repo)	164,704,389,796
Vietnam Enterprise Investments Limited (VEIL)	Related party	Issued bonds	300,000,000,000
		Buy-back issued bonds	300,000,000,000
		Interest expenses paid for issued bonds	6,400,913,148
		Purchasing securities	219,962,741,490
		Selling securities	38,299,049,400
		Brokerage fee income	387,392,697
Amersham Industries Limited (Amersham)	Related party	Purchasing bonds (repo)	48,145,136,018
		Purchasing securities	230,588,622,600
		Selling securities	314,150,999,000
		Brokerage fee income	790,516,483

Amounts due to and due from related parties at the balance sheet date were as follows:

Currency: Vietnam dong

RELATED PARTIES	RELATIONSHIP	TRANSACTIONS	PAYABLE
Dragon Capital Markets Limited (DC)	Strategic shareholder	Dividend	31,424,400,000
		Interest income from HSC's bonds	7,689,753,033
		HSC's bonds issue	210,000,000,000
Ho Chi Minh City Fund and Investment Corporation (HFIC)	Strategic shareholder	Dividend	30,000,000,000
		Deposits for trading securities	50,355,422

#### Transactions with other related parties

Remuneration to members of the Board of Management and Board of Directors

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
Salaries and bonus	6,714,260,046	6,567,864,743

# Notes To The Financial Statements (cont'd)

as at and for the financial year ended 31 December 2011

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## 24. OTHER INFORMATION (continued)

### 24.2 Segment information

#### Business segment

Currency: Vietnam dong

	BROKERAGE AND CUSTOMER SERVICES	TRADING	TREASURY ACTIVITIES	OTHER SEGMENTS	UNALLOCATED	TOTAL
<i>For the financial year ended 31 December 2011</i>						
1. Revenue from operating activities	90,904,405,174	30,345,199,021	329,719,691,288	29,521,536,954	-	480,490,832,437
2. Direct costs	26,104,909,000	13,977,863,329	47,047,430,746	140,235,855,722	-	227,366,058,797
3. Depreciation and amortization	2,625,196,958	27,609,891	7,283,184,892	5,669,991,060	-	15,605,982,801
4. Other income	-	-	-	(630,241,989)	-	(630,241,989)
<b>Profit before tax</b>	<b>62,174,299,216</b>	<b>16,339,725,801</b>	<b>275,389,075,650</b>	<b>(117,014,551,817)</b>	<b>-</b>	<b>236,888,548,850</b>
<i>As at 31 December 2011</i>						
1. Segment assets	14,944,277,397	96,376,022,545	2,256,168,521,413	4,926,417,565	-	2,372,415,238,920
2. Allocated assets	97,901,562,399	471,814,759	2,123,166,413	29,724,329,789	-	130,220,873,360
3. Unallocated assets	-	-	-	-	125,571,770,557	125,571,770,557
<b>Total assets</b>	<b>112,845,839,796</b>	<b>96,847,837,304</b>	<b>2,258,291,687,826</b>	<b>34,650,747,354</b>	<b>125,571,770,557</b>	<b>2,628,207,882,837</b>
1. Segment liabilities	220,086,412,373	-	217,689,753,033	390,224,040	-	438,166,389,446
2. Unallocated liabilities	-	-	-	-	161,073,792,386	161,073,792,386
<b>Total liabilities</b>	<b>220,086,412,373</b>	<b>-</b>	<b>217,689,753,033</b>	<b>390,224,040</b>	<b>161,073,792,386</b>	<b>599,240,181,832</b>

#### Geographical segment

All operations of the Company are taken place within Vietnam territory.

## Notes To The Financial Statements (cont'd)

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### 24. OTHER INFORMATION (continued)

#### 24.3 Operating lease commitments

The Company leases offices under operating lease agreements are as follows:

##### At Ho Chi Minh City:

- Head office at floor 5 & 6, AB Tower at 76 Le Lai, Ben Thanh Ward, District 1
- Branch office at floor 1, 6 Thai Van Lung, Ben Nghe Ward, District 1
- Transaction office at 569-571-573 Tran Hung Dao, Cau Kho Ward, District 1

##### At Hanoi:

- Branch office at 6 Le Thanh Tong, Hoan Kiem District
- Transaction office at 19 Lang Ha, Ba Dinh District
- Transaction office at 193C Ba Trieu, Hai Ba Trung District
- Transaction office at floor 2, B14 Building, Kim Lien Ward, Dong Da District

The minimum lease commitment as at 31 December 2011 under the operating lease agreements is as follows:

Currency: Vietnam dong

	ENDING BALANCE	BEGINNING BALANCE
Less than 1 year	8,991,190,595	8,372,033,312
From 1 - 5 years	24,844,582,069	17,842,028,911

#### 24.4 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit after tax for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computations:

Currency: Vietnam dong

	CURRENT YEAR	PREVIOUS YEAR
Net profit after tax attributable to ordinary equity holders for basic earnings - VND	194,420,423,020	182,311,697,653
Weighted average number of ordinary shares for basic earnings per share	66,584,584	59,900,668
Basic earnings per share - VND	2,920	3,044

## Notes To The Financial Statements (cont'd)

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### 24.5 Financial risk management objectives and policies

The Company implements risk management framework as comprehensive:

#### **Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risks: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits and available-for-sale investments.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments in foreign currencies are all constant.

In calculating the sensitivity analyses, management assumed that the statement of the balance sheet relates to available-for-sale debt instrument; the sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2011 and 31 December 2010.

#### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rate relates primarily to the Company's cash and short-term deposits. These investments are mainly short term in nature and they are not held for speculative purposes.

The Company manages interest rate risk by looking at the competitive structure of the market to obtain rates which are favorable for its purposes within its risk management limits.

A sensitivity analysis is not performed for interest rate risk as the Company's exposure to interest-rate risk is minimal at reporting date.

#### **Interest rate sensitivity**

A sensitivity analysis is not performed for interest rate risk for the year ended 31 December 2011 as the Company's exposure to interest-rate risk is minimal or payables have fixed interest rate at reporting date.

#### **Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a different currency from the Company's accounting currency).

#### **Foreign currency sensitivity**

Risk due to exchange rate's fluctuation of the Company is not significant.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 24. OTHER INFORMATION (continued)

#### 24.5 Financial risk management objectives and policies (continued)

##### ***Equity price risk***

The Company's listed and unlisted equity securities are susceptible to market price risk arising from uncertainty about future values of the investment securities. Company management of the stock price risk by setting limits on stock investments. Board of Directors of the Company also review and approve all investment decisions on stock.

At the reporting date, the exposure to listed equity securities at fair value was VND 115,087,748,083 (at 31 December 2010: VND 22,506,740,513). A decrease of 10% on the stock market index could have an impact of approximately VND 11,508,774,808 (at 31 December 2010: VND 2,250,674,051) on the Company's profit after tax, depending on whether or not the decline is significant or prolonged. An increase of 10% in the value of the listed securities would increase Company's profit after tax by VND 1,220,015,671 (at 31 December 2010: VND 2,250,674,051).

##### ***Credit risk***

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks, foreign exchange transactions and other financial instruments.

##### **Trade receivables**

Customer credit risk is managed by the Company based on its established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored. The requirement for impairment is analyzed at each reporting date on an individual basis for major clients. The Company has maintained strict control over its outstanding receivables and has a credit control department to minimize credit risk. The margin call is conducted on time and complies with the nature of the margin product.

In view of the aforementioned and the fact that the Company's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

##### **Bank deposits**

The Company's bank balances are mainly maintained with well-known banks in Vietnam. Credit risk from balances with banks is managed by the Company's treasury department in accordance with the Company's policy. The Company's maximum exposure to credit risk for the components of the balance sheet at each reporting dates are the carrying amounts as illustrated in Note 4. The Company evaluates the concentration of credit risk in respect to bank deposit is as low.

##### ***Liquidity risk***

The liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligation due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of maturities of financial assets and liabilities.

The Company monitors its liquidity risk by maintain a level of cash and cash equivalents and bank loans deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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The table below summarizes the maturity profile of the Company's financial liabilities based on contractual discounted payments:

Currency: Vietnam dong

	ON DEMAND	LESS THAN 1 YEAR	FROM 1 TO 5 YEARS	TOTAL
<b>Ending balance</b>				
Issued bond	210,000,000,000	-	-	210,000,000,000
Payables to securities transactions	216,946,754,347	-	-	216,946,754,347
Accrued expenses	8,983,907,375	-	-	8,983,907,375
Other short-term payables	106,471,205,999	-	-	106,471,205,999
	<b>542,401,867,721</b>	-	-	<b>542,401,867,721</b>
<b>Beginning balance</b>				
Payables to securities transactions	819,534,999,561	-	-	819,534,999,561
Accrued expenses	3,300,881,597	-	-	3,300,881,597
Other short-term payables	70,795,511,741	-	-	70,795,511,741
	<b>893,631,392,899</b>	-	-	<b>893,631,392,899</b>

The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

### Collateral

The Company does not deposit any of its assets as collateral for loans and borrowings the reporting date.

The Company holds customers' securities as collaterals for the trade receivables from customers as at 31 December 2011 and 31 December 2010.

### 24.6 Financial assets and financial liabilities

The following shows the additional presentation and disclosure of financial instruments as required by Circular No. 210/2009/TT-BTC:

#### Financial assets

Financial assets of the Company under the Circular No. 210/2009/TT-BTC comprise cash, deposits at credit institutions, trading and investment securities, receivables and other assets under monetary derivative contracts.

According to Circular No. 210/2009/TT-BTC, financial assets are classified appropriately, for the purpose of explanation in the financial statements, into one of the following categories:

- ▶ *Financial asset recognized at fair value through an income statement:*  
is one that satisfies either of the following conditions:
  - a) Being classified as held for trading. A financial asset will be classified as securities held for trading if:
    - It is purchased or created mainly for the purpose of resale/redemption in a short term;
    - There is an evidence that such instrument is traded for the purpose of gaining short-term profits; or,
    - It is a derivative financial instrument (except derivative financial instruments identified as financial guarantee contracts or effective hedging instruments).
  - b) Upon initial recognition, the entity categorizes the financial asset as such reflected at fair value through an income statement.

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

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### 24. OTHER INFORMATION (continued)

#### 24.6 Financial assets and financial liabilities (continued)

- ▶ *Held-to-maturity investments:*  
are non-derivative financial assets with fixed or identifiable payments and fixed maturity periods which an entity has the intent and ability to hold until the date of maturity, with the exceptions of:
  - a) Financial assets that, upon initial recognition, were categorized as such recognized at fair value through income statements;
  - b) Financial assets already categorized as available for sale;
  - c) Financial assets that meet the definitions of loans and receivables.
- ▶ *Loans and receivables:*  
are non derivative financial assets with fixed or identifiable payments and not listed on the market, with the exceptions of:
  - a) The amounts the entity has the intent to immediately sell or will sell in a near future which are classified as assets held for trading and like those which, upon initial recognition the entity categorized as such recognized at fair value through income statements;
  - b) The amounts categorized by the entity as available for sale upon initial recognition; or
  - c) The amounts whose holders cannot recover most of the initial investment value not due to credit quality impairment and which are categorized as available for sale.
- ▶ *Available-for-sale assets:*  
are non-derivative financial assets determined as available for sale or not classified as :
  - a) Loans and receivables;
  - b) Held-to-maturity investments;
  - c) Financial assets recognized at fair value through income statements.

#### Financial liabilities

Financial liabilities of the Company under the Circular No. 210/2009/TT-BTC consist of borrowings, payables and other liabilities under monetary derivative contracts.

According to Circular No. 210/2009/TT-BTC, financial liabilities are classified appropriately, for the purpose of explanation in the financial statements, into one of the following categories:

- ▶ *Financial liabilities recognized at fair value through income statements*  
are ones that meet either of the following conditions:
  - a) Being classified as held for trading. A financial liability will be classified as securities held for trading if:
    - It is purchased or created mainly for the purpose of resale/redemption in a short term;
    - There is an evidence that such instrument is traded for the purpose of gaining short-term profits; or
    - It is a derivative financial instrument (except derivative financial instruments identified as financial guarantee contracts or effective hedging instruments).
  - b) Upon initial recognition, the entity categorizes the financial liability as such reflected at fair value through an income statement.
- ▶ *Financial liabilities determined at the fair amortized cost*  
Financial liabilities not categorized as such recorded at fair value through income statements will be classified as such determined at the fair amortized cost.



# Notes To The Financial Statements (cont'd)

as at and for the financial year ended 31 December 2011

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## 24. OTHER INFORMATION (continued)

### 24.6 Financial assets and financial liabilities (continued)

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements.

Currency: Vietnam dong

	CARRYING AMOUNT		FAIR VALUE	
	ENDING BALANCE	BEGINNING BALANCE	ENDING BALANCE	BEGINNING BALANCE
<b>Financial assets</b>				
<b>Financial assets at fair value through profit and loss</b>				
- Held for trading investments				
Listed shares	22,896,233,364	26,450,842,546	12,200,156,712	22,506,740,513
Unlisted shares	126,140,759,502	219,576,709,502	84,313,298,302	154,423,572,635
- Held to maturity investment				
Short term deposit	633,800,000,000	1,188,000,000,000	633,800,000,000	1,188,000,000,000
Trade receivable and other receivables	1,737,048,197,344	1,079,789,645,852	1,718,568,362,449	1,060,954,917,457
Available for sales financial assets				
- Available for sale securities				
Fund certificates	102,887,591,371	-	102,887,591,371	-
Bonds	20,596,836,384	20,596,836,384	20,596,836,384	20,596,836,384
Cash and cash equivalents	40,186,246,531	51,484,828,799	40,186,246,531	51,484,828,799
<b>Total</b>	<b>2,683,555,864,496</b>	<b>2,585,898,863,083</b>	<b>2,612,552,491,749</b>	<b>2,497,966,895,788</b>
<b>Financial liabilities</b>				
Loans and borrowings	210,000,000,000	-	210,000,000,000	-
Payables to securities transactions	216,946,754,347	819,534,999,561	216,946,754,347	819,534,999,561
Accrued expenses	8,983,907,375	3,300,881,597	8,983,907,375	3,300,881,597
Other short-term payable	106,471,205,999	70,795,511,741	106,471,205,999	70,795,511,741
<b>Total</b>	<b>542,401,867,721</b>	<b>893,631,392,899</b>	<b>542,401,867,721</b>	<b>893,631,392,899</b>

## Notes To The Financial Statements (cont'd)

as at and for the year ended 31 December 2011

B09-CTCK

### 24. OTHER INFORMATION (continued)

#### 24.6 Financial assets and financial liabilities (continued)

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following method and assumption were used to estimate the fair values:

- ▶ Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- ▶ Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2011, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values.
- ▶ Fair value of bonds is based on price quotations at the reporting date. The fair value of unquoted instruments and other financial liabilities as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. As at 31 December 2011, the carrying amounts of bonds and other financial liabilities are not materially different from their calculated fair values. As at 31 December 2011, the carrying amounts of such bonds and other financial liabilities, are not materially different from their calculated fair values.
- ▶ Fair value of available-for-sale financial assets is derived from quoted market prices in active markets, if available.
- ▶ The market values of unlisted shares which have not been registered on the unlisted public companies market (UPCom) is the average of public price quotations of at least three (03) reputed and large securities companies in the market. Other securities that have no quoted prices are carried at cost.

#### 24.7 Other event during the year

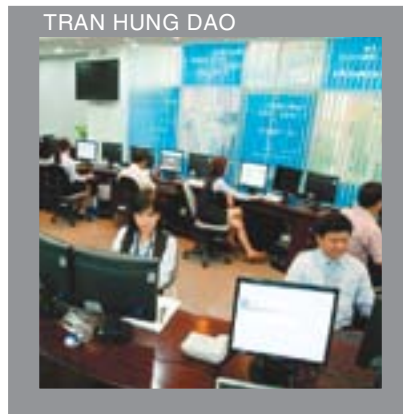
On 22 December 2011, the Company announced the issuance of bonus shares for key employees according to the Employee Stock Option Plan (ESOP) as ratified in Resolution No. 01/2011/NQ-DHDCD on 8 April 2011 of the Annual General Meeting regarding the issuance of bonus shares for key employees under the ESOP and summarized the Resolution No. 12/2011/NQ-HDQT on 21 December 2011 of the Board of Directors, regarding the definition of key employees, price of stocks, and time of the program. Accordingly, the expected number of shares issued was 1,000,000 shares with the total face value of VND 10,000,000,000. The expected time of the issuance will be the first quarter of 2012.

#### 24.8 Events after the balance sheet date

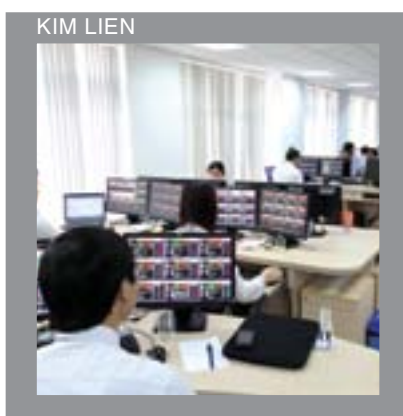
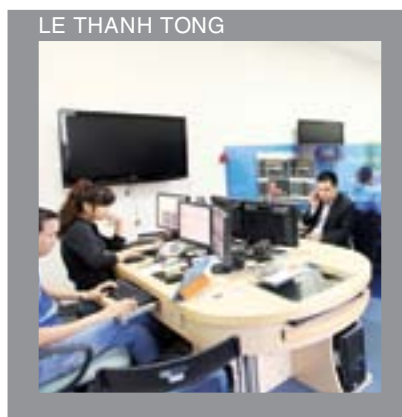
There have been no significant events occurring after the balance sheet date which would require adjustments or disclosures to be made in the financial statements.

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