



## REPORT

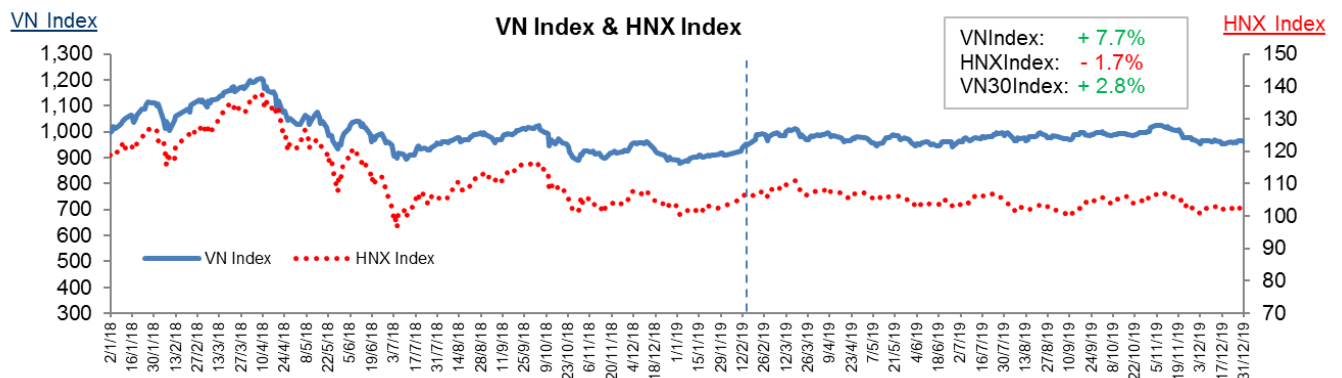
### 2019 ANNUAL GENERAL MEETING

Re: 2019 Business and Financial Performances

#### A. 2019 MARKET REVIEW

##### The underlying stock market

In 2019, the Vietnamese stock market surprised investors as its movements did not reflect the strong performance of the Vietnamese economy and the excitement of the global stock market. Both major indices, VN-Index and HNX-Index, moved in relatively tight ranges of 946-1,028 and 100-107, respectively. The sideways market in 2019 was characterized by a crisscross of healthy gains in some trading days and sharp falls in the following days and a 30% fall in trading value compared to 2018.



The US Federal Reserve (the “Fed”) and US-China trade negotiation were the two biggest stories in the global stock market in the 2019. In October, the Fed continued to cut its benchmark rate the third time in 2019 to stimulate the economy as recession concern mounted and to bring inflation rate back up to the 2% target. In December, the first phase trade agreement between the world’s two largest economies helped relieve some of the pressures on the global economy and re-energize the stock market.

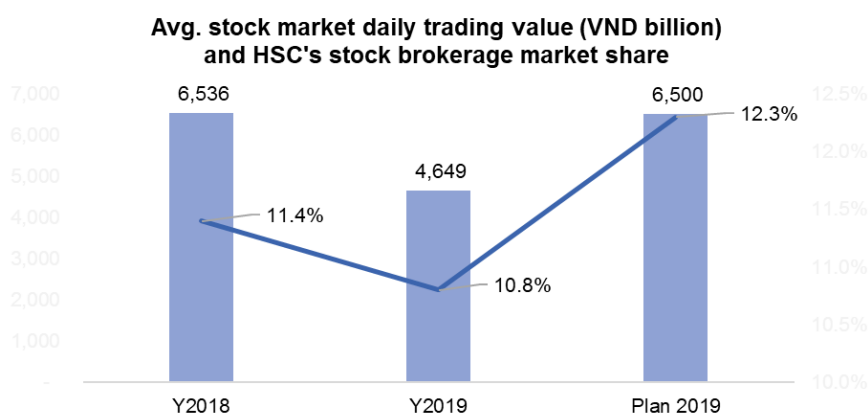
In addition to the global factors, the Vietnamese stock market and securities sector in 2019 were also impacted by the following major events in the local market:

- The removal of the floor transaction fee (0.15%) in February 2019 led to a fierce price war among securities companies. That coupled with the penetration of foreign securities companies, mostly from Korea, further intensified the race for market share.
- The covered warrant which was officially launched in June 2019 provides foreign investor an effective means to have exposure to full-room stocks and helps local investors leverage. Investor demand for covered warrant is expected to pick up in stable and bull markets.

- In September 2019, the State Bank of Vietnam cut four key policy rates by 25 basis points while kept its prime rate unchanged. The monetary policy should help commercial banks lower cost of capital and then enhance profitability if their lending rates would remain the same.
- The information that VFM was setting up new ETFs targeting full-room and financial stocks was a spotlight as traders were tempted to accumulate the stocks ahead of the ETF launch. However, the ETFs had not been approved by the end of 2019.
- On November 18<sup>th</sup>, the Ho Chi Minh City Stock Exchange (HOSE) launched three new indices: (1) the Vietnam Diamond Index (VN DIAMOND), which consists of stocks that have no remaining room for foreign investors, and (2) the Vietnam Financial Select Sector Index (VN FIN SELECT) and the Vietnam Leading Financial Index (VN FIN LEAD), which consist of financial stocks. The indices are expected to help foreign investors passively invest in stocks that reached full foreign ownership limit and accordingly attract foreign capital to the market.
- In late November, the amended Securities Law was passed by the National Assembly. The new law will help enhance market quality, which will be beneficial for Vietnam's endeavor towards market upgrade.

In 2019, the banking, real estate and consumer goods sectors posted strong performance, hence well attracted investors' attention and capital. The sectors are mainly comprised of large cap stocks.

The average daily trading value in 2019 was VaveND4,649 billion, a sharp fall of 29% from last year. The trading value was at 72% of HSC's expectation.



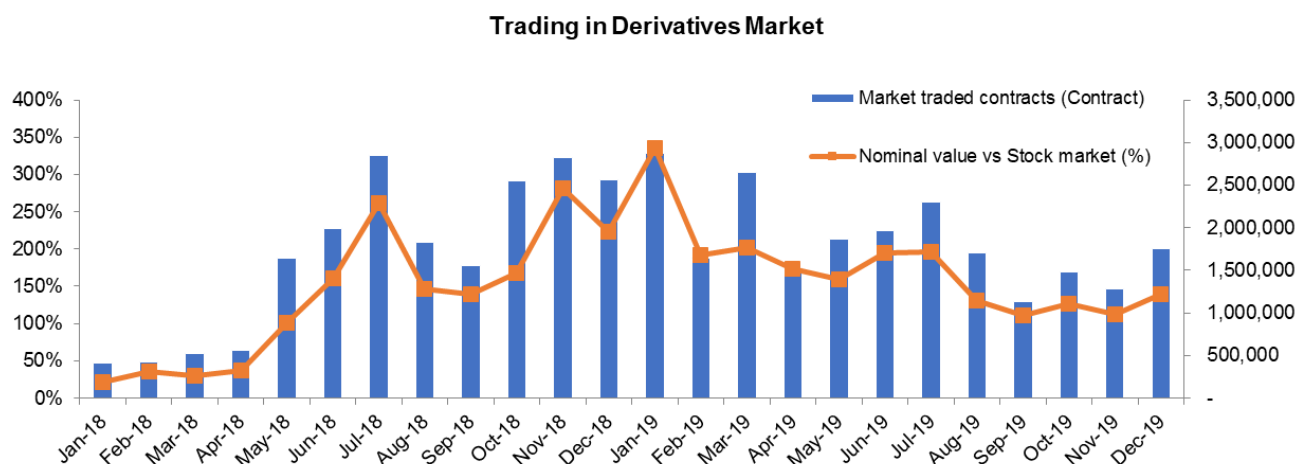
Local investors still dominated the trading activity in 2019 as their trading value accounted for 85.3% of the market. Their total trading value was VND1,982 trillion, which translated to a decrease of 28% from last year. The stocks that were traded the most by local investors included ROS, VHM, VNM, HPG, VRE, VIC and VJC.

Foreign investors accounted for 14.7% of market trading value, which was lower than the 16% in the year before. In term of absolute value, their total trading value decreased by 35% to VND342 trillion. The investors traded the most at VNM, VRE, VHM, VIC, MSN, HPG, and VCB stocks, which are also the major stocks in foreign ETFs.

In 2019, foreign investors posted a net-buying position of VND7.5 trillion, which was mainly attributed to their trading values at VIC, E1VFN30, PLX, VCB, MSN and VRE securities. In 2018, the investors bought net VND44 trillion, which included large put-through transactions of VHM (VND28 trillion) and MSN (VND13 trillion) stocks.

## The derivatives market

The derivatives market had a buoyant year in 2019 as the number of contracts reached 87,000, an increase of 10% from last year (79,000 contracts). Monthly trading values in the last two years are summarized in the table below:



Trading values in Q3 and Q4 2019 were lower than the previous months as market moved sideways in the last two quarters. Generally, investors were reluctant to trade in the derivatives market when the underlying stock market showed no clear trend.

## B. HSC 2019 BUSINESS PERFORMANCE

BUSINESS PERFORMANCE	FY2019	FY2018	% change	2019 Plan	% Completion
<b>Income statement (VND million)</b>					
Revenue (*)	1,262,261	1,702,011	-26%	1,666,107	76%
Operating expenses (*)	730,950	859,927	-15%	814,716	90%
<b>Profit before tax</b>	<b>531,406</b>	<b>842,186</b>	<b>-37%</b>	<b>851,391</b>	<b>62%</b>
<b>Profit after tax</b>	<b>432,565</b>	<b>675,480</b>	<b>-36%</b>	<b>681,113</b>	<b>64%</b>
<b>Balance sheet (VND million)</b>					
Total Assets	7,488,678	5,256,305	42%	5,600,944	134%
Total Equity	4,304,143	3,060,536	41%	3,873,960	111%
<b>Financial indicators</b>					
Number of outstanding shares (million shares)	306	130	136%	309	99%
Return on Average Equity (ROAE)	11.7%	23.1%		17.6%	
Earnings Per Share (EPS) – VND	1,596	5,214	-69%	2,450	65%
Book Value Per Share – VND	14,088	23,624	-40%	12,535	112%

*In accordance with the accounting policies of securities companies, incomes from proprietary trading activities (when selling prices are higher than investment cost) are recorded as revenue and losses from trading activities (when selling prices are lower than investment cost) are recorded as operating expenses in the income statement. Therefore, the effective performance of proprietary trading activities should be measured as the net of revenue and operating expenses of these activities. Accordingly, for the purpose of comparison, revenue and operating expenses in 2019 and 2018 were restated by subtracting proprietary trading losses of VND650 billion and VND158 billion, respectively.*

HSC posted VND1,262 billion of revenue and VND432 billion of net profit in 2019, which translated to 26% and 36% decreases from last year, respectively.

The return on equity (ROE) ratio was 11.7% in 2019. The decrease of ROE was attributable to the issuances of bonus shares and new shares to shareholders in June 2019 and the decline in profit. Earnings per share and book value per share in 2019 were VND1,596 and VND14,088, respectively. The y-o-y declines of the indicators were due mainly to the two factors mentioned above.

The sharp fall of 30% in trading value as well as the sluggish market condition led to the decline in profit and the miss of expectation in 2019.

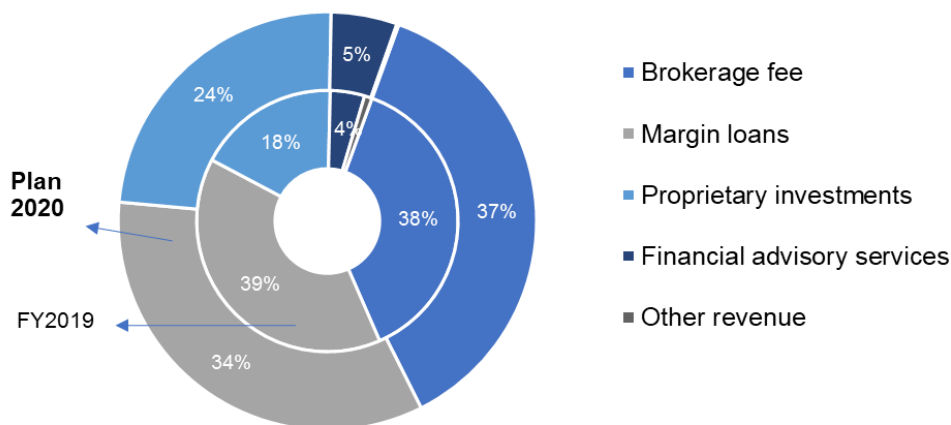
### I. 2019 Revenue

Revenue (VND million)	2019	2018	% change	2019 Plan	% Completion
Brokerage fee	478,283	758,849	-37%	818,697	58%
Margin loans	495,989	523,064	-5%	520,000	95%
Proprietary investments	222,453	278,344	-20%	209,760	106%
Financial advisory services	53,628	119,217	-55%	105,000	51%
Other revenue	11,908	22,536	-47%	12,650	94%
<b>Total revenue</b>	<b>1,262,261</b>	<b>1,702,011</b>	<b>-26%</b>	<b>1,666,107</b>	<b>76%</b>

Total revenue in 2019 was VND1,262 billion, decreased 26% y-o-y, in which:

- Revenue from securities brokerage fees was VND478 billion, which translated to a decrease of 37% y-o-y and a 38% proportion of total revenue. Revenue declined for the same reasons explained above. On the positive side, HSC was able to maintain its leading position in terms of brokerage market share on both stock exchanges in 2019.
- Revenue from margin loans was VND496 billion, accounting for 39% of total revenue. The 5% revenue decline was mainly attributable to lower lending rate amid competition as the average margin balance almost unchanged y-o-y.
- Revenue of the proprietary investment decreased by 20% y-o-y to VND222 billion, which translated to a contribution of 16% to total revenue. Amid the sluggish stock market in 2019, HSC pursued a low-risk investment strategy all year round to protect shareholders' capital and to prudently capture opportunities.
- Revenue of the financial advisory services was VND53 billion, a half of what the business delivered in last year. Merger and acquisition and corporate bond issuance advisory transactions contributed the most to the revenue in 2019.

**Revenue Structure**



## 1. Brokerage fee

Brokerage fee (VND million)	(%)	FY2019	FY2018	% change	2019 Plan	% Completion
<b>Retail Clients</b>	<b>56%</b>	<b>268,487</b>	<b>485,956</b>	<b>-45%</b>	<b>577,019</b>	<b>47%</b>
Stock brokerage		243,568	409,766	-41%	495,207	49%
Derivatives brokerage		24,919	76,190	-67%	81,812	30%
<b>Institutional Clients</b>	<b>44%</b>	<b>209,796</b>	<b>272,893</b>	<b>-23%</b>	<b>241,679</b>	<b>87%</b>
Stock brokerage		208,924	272,893	-23%	241,679	87%
Derivatives brokerage		872	-	-	-	-
<b>Total brokerage fee</b>	<b>100%</b>	<b>478,283</b>	<b>758,849</b>	<b>-37%</b>	<b>818,697</b>	<b>58%</b>

Securities brokerage has always been HSC's core business in which the Company has solid competitive advantages of people, technology, and capital.

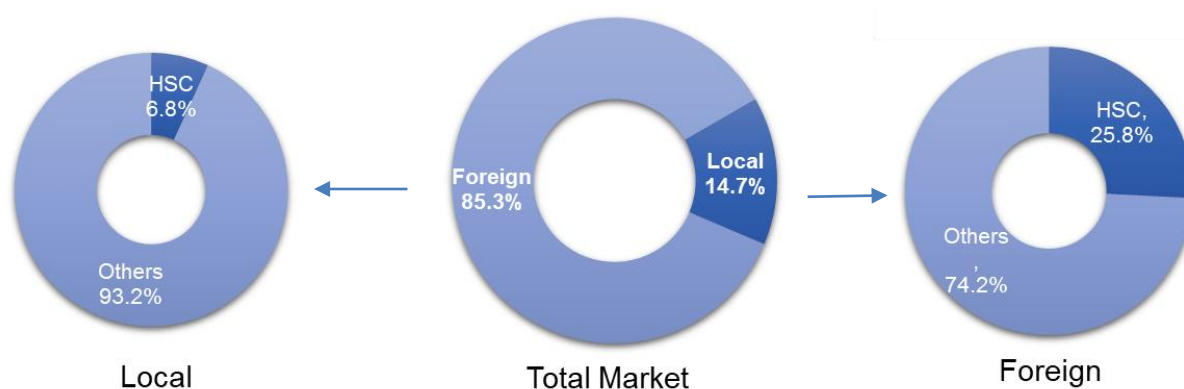
### HSC's securities brokerage market share

HSC's brokerage market share	FY2019	FY2018	2019 Plan
<b>By Exchange</b>			
HOSE	11.5%	12.2%	
HNX	6.8%	8.3%	
UpCom	7.9%	6.4%	
<b>Total HSC's market share</b>	<b>10.8%</b>	<b>11.4%</b>	<b>12.3%</b>
<b>By client</b>			
% HSC's Retail Client / Local Investors	6.8%	7.9%	9.0%
% HSC's Institutional Client / Foreign Investors	25.8%	23.1%	25.0%

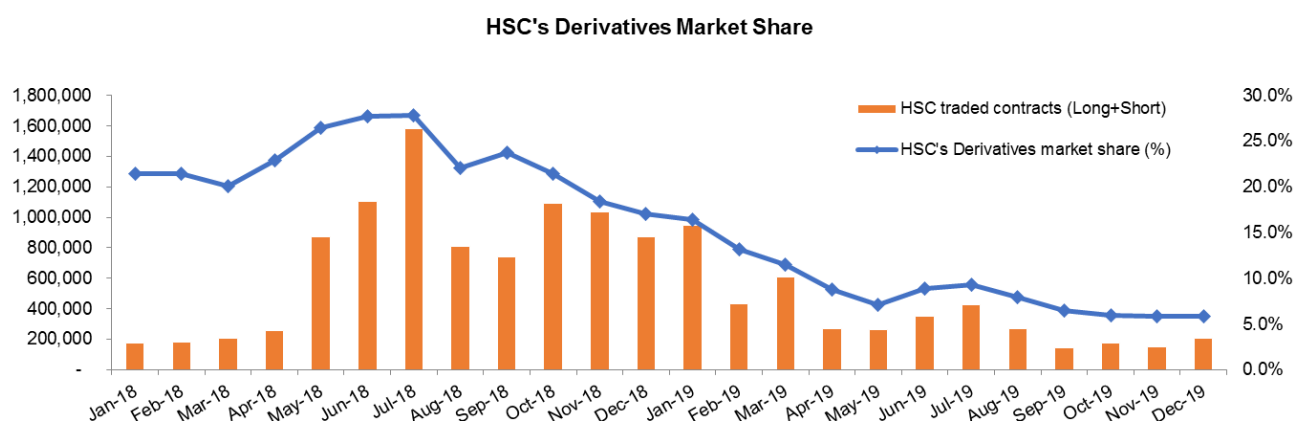
In 2019, HSC's brokerage market share in the underlying stock market was 10.8%, which was slightly lower than last year of 11.4% and the 2019 target of 12.3%.

The decline in market share in 2019 was primarily because HSC proactively advised its clients not to execute trades in some stocks including ROS, NVL, etc. due to concern on risk, while trading of these stocks accounted for a significant proportion in total trading value of local investors.

HSC's brokerage market shares by client group in the underlying stock market in 2019 are illustrated below.



## HSC's derivatives brokerage market share



The number of index futures contracts executed at HSC witnessed a downtrend since the beginning of 2019. The key reason causing both volume decline and market share loss was the intense price competition from many other securities companies. Although HSC has been pursuing several strategies including fee cut, its market share in the derivatives market has not been out of declining trend since the second half of 2018.

### a. Retail clients

Brokerage revenue from retail clients was VND268 billion in 2019, translating to a decline of 45% from last year. Retail clients' trading value at HSC in 2019 reduced by 37% y-o-y, which was attributable to the overall market trading value decrease and the factors explained above.

The group of retail client's 30 most traded stocks in 2019 accounted for nearly 54% of the total trading value of local investors. This group included ROS, VHM, VJC, VIC, EIB, NVL, etc. Some stocks in the group, however, were not eligible for margin lending or were considered too risky for HSC to provide margin loans. Therefore, to prevent credit risks and to comply with HSC margin lending risk management policy, HSC proactively stopped providing or reduced margin loans to trades in these stocks even though the decisions impacted HSC's market share and margin loan balance in 2019.

### b. Institutional clients

Revenue from institutional clients fees in 2019 was VND210 billion, a 23% y-o-y decrease. The fall of 26% in trading value of institutional investors at HSC was the main reason causing the revenue decline.

On the positive side, HSC was able to increase its market share in the segment to 25.8% from 23.1% in 2018 as HSC's institutional investor trading value declined at a lower pace than that of the whole market.

The ability to provide investors access to listed companies is pivotal to the success of brokerage business. Therefore, HSC's Institutional Brokerage team has tirelessly organized a large number of corporate meetings to serve its clients. The most notable event is the annual Emerging Vietnam Conference, which offers unparalleled opportunities for major global investors to connect and explore investment opportunities in the leading companies in Vietnam. The success of the event in 2019 once again enhanced HSC's reputation in both global and local capital markets.

## 2. Margin loans

Revenue from margin loans (VND Million)	Y2019	Y2018	% change	Plan 2019	% Plan 2019
Average margin loan balance	4,225,094	3,932,842	7%	4,000,000	106%
<b>Revenue from margin loans</b>	<b>495,989</b>	<b>523,064</b>	<b>-5%</b>	<b>520,000</b>	<b>95%</b>

Revenue from margin loans was VND496 billion, which translated to a decrease of 5% y-o-y. HSC's stable margin loan balance and rigorous risk management approach allowed the business to maintain its solid performance and increase its proportion in total revenue to 39% in 2019 from 31% from 2018.

Also, the business had no bad specific debts in 2019 as HSC consistently followed its prudent margin lending approach and regularly reviewed and assessed securities that are eligible for margin lending. The current portfolio consists of 80 securities after HSC removed illiquid and non-qualified names.

### 3. Proprietary investments

<b>Proprietary investments (VND million)</b>	<b>FY2019</b>	<b>FY2018</b>	<b>% change</b>	<b>2019 Plan</b>	<b>% Completion</b>
Listed equity	55,122	125,285	-56%	60,568	91%
Derivatives	45,290	49,270	-8%	60,000	75%
Corporate bonds	23,329	8,453	176%	4,682	498%
Covered warrants	11,550	-		5,000	231%
ETFs	3,609	4,085	-12%	10,000	36%
Deposit interests	83,553	91,251	-8%	69,510	120%
<b>Total revenue</b>	<b>222,453</b>	<b>278,344</b>	<b>-20%</b>	<b>209,760</b>	<b>106%</b>

The business generated VND222 billion of revenue and contributed to 18% of HSC's total revenue in 2019. That was considered a good performance given the fact that the Vietnamese stock market moved sideways in most of 2019 and posted a modest gain of 7.7% y-o-y.

2019 revenue decreased by 20% y-o-y but exceeded HSC's guidance by 6%. The revenue decline was attributable to most to the performance of the stock portfolio. Revenues from executing trades for ETF funds and derivatives were relatively stable. Especially, through the offering of covered warrant products to investors in 2019, HSC was able to capture substantial profit from market making and risk hedging activities in addition to a modest brokerage fee income.

### 4. Financial advisory service

2019 was a challenging year for the Vietnamese stock market as analyzed above. Also, foreign investors, the most active and potential investors in financial advisory transactions, scaled back their trading quite significantly. These factors pressured the financial advisory business in 2019. It is also worth to note that the business records revenue upon completion of transaction. The uncertainty in timing of revenue recording can cause large revenue fluctuations between years and makes revenue in a specific financial year less reflective of the business's true performance.

The business recorded VND54 billion of revenue in 2019, accounting for 4% of total revenue of HSC. Transactions that contributed the most to the revenue included the public offering advisory service provided to Vinamilk in acquiring GTN shares, the advisory service provided to Taseco, the bond issuance agent service provided to Vietjet, BIDV and Phu My Hung Development Corporation.

## II. OPERATING EXPENSES IN 2019

Operating expenses (VND million)	FY2019	FY2018	% change	2019 Plan	% Completion
<b>Variable expenses</b>	<b>294,776</b>	<b>465,006</b>	<b>-37%</b>	<b>259,548</b>	<b>114%</b>
Securities trading fee	115,228	158,121	-27%	134,714	86%
Brokerage commission	65,978	152,585	-57%	56,933	116%
Interest expense	137,144	164,358	-17%	64,033	214%
Reversal of margin loan provision	(23,573)	(10,058)	134%	3,869	-609%
<b>Fixed expenses</b>	<b>436,174</b>	<b>394,921</b>	<b>10%</b>	<b>555,169</b>	<b>79%</b>
Payroll expenses	232,269	223,767	4%	351,233	66%
Office rental expenses	53,472	44,853	19%	63,792	84%
IT related expenses	68,203	53,316	28%	63,338	108%
External service expenses	24,204	11,689	107%	10,836	223%
Other expenses	58,027	61,297	-5%	65,969	88%
<b>Total operating expenses</b>	<b>730,950</b>	<b>859,927</b>	<b>-15%</b>	<b>814,716</b>	<b>90%</b>

Operating expenses in 2019 were well managed and accordingly reduced by 15% from last year and was only at 90% of budget. Operating expenses are classified into two categories:

- Variable expenses that are driven by revenue generating activities. In 2019, the expenses reduced by 37% y-o-y while exceeded the budget by 14%.
- Fixed expenses that incur regardless of the level of business activities. The expenses increased 10% y-o-y but well controlled, hence were only at 79% budget.

### 1. Variable expenses

#### a. Securities trading fees

Fee payable to stock exchanges declined by 27% from last year primarily due to lower trading value executed at HSC (34% decrease y-o-y). The fee and trading value did not change proportionally partly because the stock exchanges started to charge derivatives trading fee since February.

#### b. Brokerage commission

Commission expense is fee payable to brokers based on their brokerage revenue contribution. The expense decreased by 57% in 2019 largely due to lower brokerage fee revenue as explained above. Besides, in 2019, HSC carried out a comprehensive review and re-evaluation of performance of all retail brokers based on its KPI system. That initiative led to a higher profit per broker and saved the company expenses.

#### c. Interest expense

Interest expense declined by 17% from last year as HSC successfully raised additional shareholders' equity in 2019 and as the company used more short-term loans which had lower cost of fund.

#### d. Reversal of general provision for margin loans

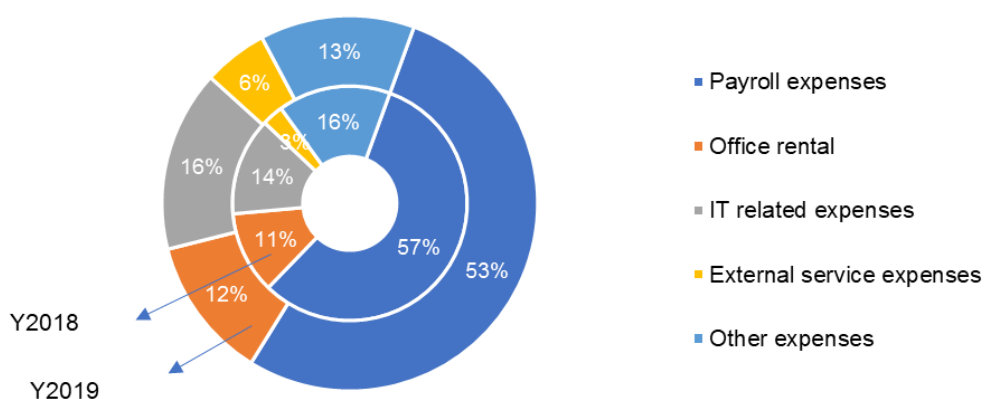
HSC's strong risk culture continued to prove its effectiveness as the company record no bad loan in 2019. The reversal of general provision of VND23.5 billion was recorded at the end of 2019 to align with the current regulations.

### 2. Fixed expenses

In 2019, fixed expenses increased by 10% from last year. Fixed expense structures in the last two years are illustrated below:



### Fixed expenses structure



- Payroll expenses accounted for the major proportion of 59% in the total fixed expenses in 2019 (2018: 57%). The expenses increased approximately 4% y-o-y as HSC adjusted employee salary, recruited more senior executives and expanded its broker team.
- Office rental expenses in 2019 increased by 19% y-o-y, which was mainly attributable to the new office spaces in mid-2018 and early 2019 including the South Saigon transaction office, the transaction office at the second floor of the AB tower, and the enlarged office space in the VCCI building in Hanoi.

In 2019, HSC also comprehensively reviewed its network and accordingly closed several inefficient transaction offices and renovated major transaction offices. The initiative will be continued in 2020 and will help HSC save a substantial amount of annual rental expense post 2020.

- In 2019, IT upgrading and IT depreciation expenses increased by 28% y-o-y. Investing in IT has long been a strategic priority of HSC. Having a solid IT platform will help HSC maintain its leading position in the industry and cope with the increased competition, especially from foreign-owned securities companies, which usually have strong technology capability.
- Expenses for external services increased two-fold in 2019 primarily due to the fee to management consulting firm which helped HSC develop a comprehensive five-year development strategy.
- Other operating expenses such as public relation and travel expenses were all well managed in 2019, hence reduced by 5% from last year.

### III. FINANCIAL POSITION

Items (VND Million)	31/12/2019	31/12/2018	% Change
<b>A. CURRENT ASSETS</b>	<b>7,295,764</b>	<b>5,065,175</b>	<b>44%</b>
I. Financial assets	7,275,687	4,949,942	47%
1. Cash and cash equivalents	906,543	117,332	673%
2. FVTPL financial assets	1,286,633	851,840	51%
3. Margin loans	4,696,713	3,262,015	44%
4. Other receivables	385,798	718,755	-46%
II. Other current assets	20,077	115,233	-83%
<b>B. NON-CURRENT ASSETS</b>	<b>192,914</b>	<b>191,131</b>	<b>1%</b>
I. Fixed assets	41,889	47,422	-12%
II. Construction in progress	13,597	4,447	206%
III. Other non-current assets	137,428	139,261	-1%
<b>TOTAL ASSETS</b>	<b>7,488,679</b>	<b>5,256,305</b>	<b>42%</b>
<b>A. LIABILITIES</b>	<b>3,184,536</b>	<b>2,195,769</b>	<b>45%</b>
I. Short-term liabilities	3,184,536	2,195,769	45%
1. Short-term loans	2,393,727	1,554,132	54%
2. HSC's bonds	-	150,000	-100%
3. Other liabilities	790,808	491,637	61%
<b>B. OWNER'S EQUITY</b>	<b>4,304,143</b>	<b>3,060,536</b>	<b>41%</b>
I. Owner's equity	4,304,143	3,060,536	41%
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>7,488,679</b>	<b>5,256,305</b>	<b>42%</b>

Total assets as at December 31, 2019 increased by 42% y-o-y to VND7,488 billion, largely due to the surge in margin loan balance of VND1,400 billion during the end of the year; investors took more leverage amid positive signals in the stock market. The financial asset balance increased by VND435 billion at the end of 2019 as HSC invested in corporate bonds. The margin loan and financial assets were the two major asset items as of the end of 2019, accounting for 63% and 17% of the total assets, respectively.

The owner's equity of HSC as at 31/12/2019 increased significantly by VND1,244 billion to VND4,304 billion, primarily due to the proceeds from share issuance in 2019 and 2018 retained earnings post 2018 dividend and 2019 interim dividend.

HSC's financial health remained very robust and stable. HSC's financial safety ratio as at the end of 2019, which was reported following the guidance of the Ministry of Finance, was 556%, 3 times higher than the 180% level required by the State Securities Commission of Vietnam.

Key financial ratios	2019	2018
<b>Liquidity ratios</b>		
Quick ratio	2.3	2.3
Current assets turnover	0.2	0.3
Total assets turnover	0.2	0.3
<b>Leverage ratios</b>		
Total debts/ Total equity	0.7	0.7
Total debts/ Total assets	0.4	0.4
Financial safety ratio	556%	502%
<b>Profitability ratios</b>		
Net profit margin	34%	40%
ROAE	11.7%	23.1%

The Vietnamese stock market in 2019 did not move in the way it was expected, causing profound challenges to HSC's performance. However, HSC's efforts paid off as it was able to build a stronger foundation for future growth, maintain its solid financial position and protect and enhance shareholders' capital.

Above is the business performance of HSC in 2019 for the consideration and approval of the shareholders at the 2019 Annual General Meeting.

**Chief Executive Officer  
TRINH HOAI GIANG**

