

DHG PHARMACEUTICAL JSC

288 Bis Nguyen Van Cu Str., Ninh Kieu Dist., Can Tho City.

Tel: 07103. 891433

Fax: 07103. 895209

Founded: 02/Sep/1974

Equitized: 02/Sep/2004

Listed: 21/Dec/2006

IR ACTIVITIES IN 2015

- Top 10 best annual reports
- Met 182 investment funds and securities organization directly
- Organized 5 shareholders and investors meetings to update the information of DHG Pharma.
- Represent DHG at the "Invest Asian Vietnam" seminar organized by Maybank KimEng held in HCM City.
- Restricted ESOP from 2012 was released.
- Purchased 212,500 treasury shares at an average price of 73,805 VND / share.

NOTABLE RESULTS IN 2015:

1. 107 registration number issued in 2015 (of which 39 registered was for the new plant and 14 was export registration => Benefits from tax incentives was 37 billion in 2015.

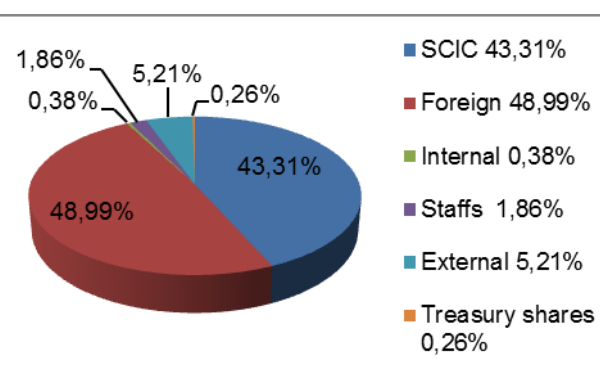
2. Implemented the project "Restructuring the distribution system - professional - efficient", helped stabilizing the market, increased coverage, and increased the number and quality of new customers.

3. Expand the exclusive distribution of foreign drugs to capitalize on the distribution system advantages, increased international cooperation, sales of this segment continued to achieve and exceed targets with total sales of about 273 billion, up 109.97% compared to 2014.

4. Complete the construction of new Betalactam plant with WHO GMP standards. The plant is expected to come into operation from the end of quarter 2/2016 with designed capacity of 01 billion unit of production, bring in more income tax incentives for the company.

5. Commence the Human Resources Management Project, consulted by EY with 5 components, forming the basis of policy on developing incentive compensation, evaluation, training, development, and nurturing future leaders at all levels to enhance the management hierarchy, promote quality of work from employees and measure efficiency.

Shareholder structure on 24/03/2016



Majority Shareholders: SCIC 43,31%; Franklin Templeton Investment Funds (9,44%), Portal Global Limited (7,20%)

INCOME STATEMENT FOR 2015:

Target	2014	2015	Tgt. 2015	% Tgt.	% Growth
Gross Profit	3.913	3.608	4.000	90,2%	-7,79%
Profit before Tax	722	701	-	-	-2,86%
Profit before Tax (excluding financial income)	687	671	729	92,0%	-2,37%
Profit after tax	534	593	-	-	11,04%

According to the audited figures, the Corporation's net revenue in 2015 was **3,608 billion**, down 7.8% from the previous period, met **90.2%** of the target in 2015. Marketing costs and staff expenses reduction were two key reasons for helping PBT fell only 2.86% over the same period, less than the decline in Revenues. Planned profit (EBT excluding financial revenue) reached 671 billion, meet 92.0% target in 2015. After-tax profit of the company grew 11.04% due to tax incentives at the new plant and the abortion of the 15% cost control ceiling, thus the company will not have to pay tax for the difference due to exceeding controlling cost.

BREAKDOWN ON REVENUES AND EXPENSES 2015:

Target	2015	Weight (%)	2014	Weight (%)	% Growth
Net Sales	3.608	100%	3.913	100%	-7,8%
DHG In-house products	2.672	74,05%	3.569	91,21%	-25,1%
Other products	916	25,38%	328	8,39%	179,0%
Services	21	0,57%	16	0,40%	30,7%
COGS	2.195	60,84%	1.782	45,55%	23,2%
Gross Profit	1.413	39,16%	2.131	54,45%	-33,7%
Selling expenses	458	12,68%	1.099	28,08%	-58,3%
G&A expenses	262	7,27%	313	7,99%	-16,1%
Operating Profit	637	17,65%	689	17,61%	-7,6%
Other Profit	64	1,79%	33	0,84%	95,3%
PBT	701	19,44%	722	18,45%	-2,9%
Income tax expense	109	3,01%	188	4,81%	-42,3%
PAT	593	16,43%	534	13,64%	11,0%

Breakdown on net sales:

From in-house drugs: declined 25% compared to 2014, with revenues from most drugs line and brands declined. This is the first time in 41 years of history DHG experienced negative revenues growth from in-house manufacturing drugs. This is due to both objective and subjective factors forecasted by DHG since the beginning of the year. The condition, however, was even worse than expected:

- Low CAGR from pharmaceuticals industry in recent years due to decline in purchasing power and more intense competition. Effects from Circular 19 re. controlling of addictive substances and codein; Circular 40 on Insurance drug list excluding vitamins combined drugs, Circular 200 of the Ministry of Finance regulating revenues and expenses recognition.
- Revenues growth in 2014 was particularly high in Q4 2014 (approximately 29% excluding the impact of outsourcing and distribution revenues of Eugica) negatively affected revenues in Q1 2015 due to customers still hold substantial inventory on hand.
- 63 of DHG products ran out of registration number or unable to re-register. Influence of Circular 01 on the bidding system: bidding volume decreased by 32.6%. Revenues from bidding contracts fell 24%. Circular 01 also affected many pharmaceutical companies so they focused more on commercial channels, thus further increasing competition.
- Unikids information crisis (November 2015): DHG had to handle returned goods worth 4 billion. On 12/01/2016 the investigating authorities concluded that the incidence does not related to DHG's products. Nevertheless, the damage has been done.

Other revenues: reaching 916 billion, up 179% compared to 2014. This is due to in 2015 DHG recorded 469 billion in sales promotion under the provisions of Circular 200; Distribution revenue for Eugica increased 119 billion (154 billion in 2015 vs. 34 billion in 2014) due to in 2014 DHG only started distributing Eugica in the last 3 months.

COGS increased **413 billion** (+23,2%), corresponding to the ratio of COGS / net sales increased by 15.3 percentage points due to (i) changes in the method of accounting in accordance with Circular 200 (promotional expenses are recorded in COGS instead of selling expenses as the previous year) and (ii) during the period the

share of distribution sales with lower gross profit margin than in-house drugs increased to: in 2015 contributed 25.4% of total sales, compared to only 8.4% in 2014 revenues. That affected the overall decline in gross profit margin on sales in 2015 compared to 2014 (2015: 39.2% vs. 2014: 54.5%).

Cost of sales decreased **641 billion** (-58.3%), corresponding to the ratio of cost of sales / net sales decreased by 15.4 percentage points. Cost of sales decreased mainly due to changes in the method of accounting in accordance with Circular 200: for commercial discounts previously recorded in selling expenses now is included in reductions in revenue. However, as DHG does promotion via actual goods, promotion expenses are recognized as COGS instead of selling expenses as before. In addition, marketing cost and sales compensation decreased due to unmet target contributed to the reduction in cost of sales in 2015 compared to 2014.

G&A expenses decreased **50 billion** (-16.1%), corresponding to the ratio of G&A expense / net sales decrease 0.7 percentage point. G&A expenses decreased mainly due to compensation deductions for office workers due to the Company did not meet the annual target. At the same time, the company implemented good cost control method via the "identify waste to reduce waste" project.

Other profit: 64 billion, an increase of **31 tỷ VNĐ** (+ 95.3%) due to increased in commission income from sales of **40 billion**, the reversal of the temporary promotion deduction cost of **13 billion** and increased in other earnings of **11 billion**.

Profitability of DHG:

Ratios	2014	2015
PAT / net sales (ROS)	13,6%	16,4%
Return on Assets (ROA)	15,3%	17,6%
Return on Equities (ROE)	23,3%	23,5%

PAT in 2015 increased 11,04% y.o.y thus profitability ratios in 2015 improved compared to 2014.

INVESTMENT ACTIVITIES, PROJECT PROGRESS IN 2015

1. DHG Pharmaceutical Factory and packaging printing plant project

- Hau Giang Pharmaceutical factory in Tan Phu Thanh Industrial Zone. Non Betalactam factory has been operating since April 2014, reaches 45% capacity in 2015, expected to be 70% in 2016. Betalactam factory was completed, qualified for GMP WHO in May 8/2015, pending registration number and isolated to build a PIC/S factory.

+ The value of approved investment: 676 billion (DHG PP1: 37.4 billion, Non Betalactam and Betalactam Pharmaceutical Factory: 638.6 billion (before VAT). The total value of the signed contract is 566.5 billion (before VAT: 515 billion)

+ Disbursed 528.4 billion (480.4 billion before VAT)

DHG PP1 factory: went into operation in January 2014. The approved investment is 94.7 billion (including VAT), already disbursed 87 billion (including VAT). The remaining disbursement for 2016 is 4.2 billion.

2. Substandard drugs effervescent packet with PIC/S-standard plant project:

According to the original plan, the effervescent factory standards PIC/S project timeline is:

No.	Tasks	Progress (tentative)
1	Design Ideas (CD)	Completed 11/2015
2.	Basic and detailed design, project feasibility studies, organize bidding and bid selection	11/2015 – 07/2016
3.	Construction, procurement and installation of equipment, evaluation, development of pharmaceutical quality systems and training	07/2016 – 08/2017
4	Prepare for PIC/S assessment	2018

The above estimation are made by Construction Consulting firm and agreed with by DHG. However the current project was suspended from 25/12/2015 due to review technology procedures and plant relocation. Suspension period is approximately 4-6 months.

Plant relocation reasoning: As recommended by Can Tho City leaders, DHG's Nguyen Van Cu land is located in residential areas, it is difficult in the long term to sustain a pharmaceutical factory with other issues such as waste water treatment ... New procedures for buying land and apply for permits in other areas for the project investment in Tan Phu Thanh Industrial Zone will slow down progress and increase costs. According to the latest opinion of the consultant, DHG can invest in building PIC/S factories on unoccupied land of DHG available at Tan Phu Thanh Industrial Zone if DHG can isolate Betalactam area. Therefore, the Company will consider isolating Betalactam zone to proceed quickly to build factories PIC/S.

3. Purchase land and build a representative office / branch in Hanoi

Suspended investment plans due to changes in direction: move Hanoi warehouses and offices to the Center North warehouse. For the purpose of having a representative offices, if needed, DHG will consider the option to rent space in office buildings in the city center.

4. Construction of headquarter in Cần Thơ

The Board of Director suspended and moves the plan to 2017, prioritizing on fixing current business issues.

5. Implementation of the Investment plan 2015 (items under the authority of the General Director)

ĐVT: tỷ đồng

No.	Categories	Cost Estimate	Disbursement plan 2015	Disbursement 2015	% disbursement
1.	Done , finished 2015 (1 st phase Microsoft software, transportation vehicle)	7,1	7,1	5,4	75,5%
2.	In process (Thai Nguyen branch building, Da Nang, Nghe An, Nha Trang, Tay Ninh, Bali Pharma subsidiary, finished products warehouse CMT8, raw materials warehouses at Nguyen Van Cu, machinery, manufacturing plant in Nguyen Van Cu and DHG)	PP1	83,7	12,3	14,7%
	Total	90,8	90,8	17,7	19,5%

2016 BUSINESS TARGETS (seeking approval at AGM on 28/04/2016)

Target	2015	Plan for 2016	Growth
- Net Revenue	3.608 billion	3.733 billion	3,5%
- Profit before tax	701 billion	750 billion	6,9%

QUICK UPDATE ON FIRST QUARTER INCOME STATEMENT Q1/2016 (unaudited)

Target	Q1/2014	Q1/2015	Q1/2016	+/- Q1 2016/2015	+/- Q1 2016/2014
- Net Revenue	728 billion	669 billion	815 billion	21,9%	12,1%
- Profit before tax	147 billion	135 billion	171 billion	26,5%	16,4%

PROFIT DISTRIBUTION IN 2015 (PRESENTING ON AGM 28/04/2016)

Target	Proposal for 2015	Amount (VNĐ)
PAT at parent company for distribution		542.991.263.137
Dividend for 2015	Plan: 25% par value (in cash) Suggestion: 35% par value (in cash)	304.296.825.000
Welfare bonus	As planned: 10% consolidated PAT	54.299.126.314
Remuneration for BOD, Supervisory Board and collaborators	As planned	5.000.000.000
Bonus for BOD, Supervisory Board, and collaborators. Management and key staff	Plan: 5% growth of consolidated PAT Suggestion: Omit because of failing to meet target in 2015	0
Remaining profit transfer to Development Investment Fund	As planned	179.395.311.823

PROFIT DISTRIBUTION PLAN IN 2016 (PRESENTING ON AGM 28/04/2016)

Profit distribution plan 2016	Proposal for 2016
Dividend ratio 2016	30% par value
Welfare bonus	10% PAT of mother company
Remuneration for BOD, Supervisory Board and collaborators	5.000.000.000 đồng
Bonus for BOD, Supervisory Board, and collaborators. Management and key staff.	5% growth in consolidated PAT
Remaining profit transfer to Development Investment Fund	The remainder

INVESTMENT DISBURSEMENT PLAN FOR 2016

Unit: Billion

No.	Categories	Approved investment plan (inc. VAT)	Disbursement 31/12/2015 (inc. VAT)	Carryforward 2016 (inc. VAT)	Estimate Disbursement 2016
1.	DHG Pharmaceutical plant and Packaging & Printing Factory	797,2	615,4	181,8	130,8
2.	Remainder of investment plan 2014	139,9	37,1	102,8	64,8
3.	Remainder of investment plan 2015	414,5	16,2	398,2	151,7
4.	New investment plan 2016	75,6			75,6
	Total	1.427	668,7	682,8	423

This newsletter is issued to provide quick updates for investor regarding status of production, operation, investment, project progress, important strategic decisions from the Board of Directors, Board of Management of Hau Giang Pharma (DHG).

At the same time, DHG wishes to share with investors' information regarding IR, in order to affirm the role of investors in the strategic direction of DHG's trident (investors – customers – employees).