

No.: 002/2018/BC.DHĐCĐ

Cantho, 12th March, 2018**REPORT OF THE BOARD OF SUPERVISORY 2017****Kind Attn to: THE GENERAL MEETING OF SHAREHOLDERS OF DHG PHARMA**

- Pursuant to Enterprise Law No.68/2014/QH13 on 26 Nov 2014;
- Pursuant to Charter of Organization and Operation of DHG Pharmaceutical Joint Stock Company (DHG Pharma);
- Pursuant to Resolution of the Annual General Meeting of Shareholders (“AGM”) 2016 of DHG Pharma on 18 Apr 2017;
- Pursuant to operation regulation and working program 2017 of the Board of Supervisory,

The Board of Supervisory (BOS) of DHG Pharma respectfully reports to the Annual General Meeting of Shareholders results of inspection and supervision of DHG Pharma’s activities in 2017 as follows:

I. SUMMARY OF BOS MEETINGS

- In 2017, the BOS held quarterly meetings with participation of all members to summarize working results during the period, to make a plan for the next period and to write recommendation report to submit to the Board of Directors (BOD).
- In addition, the BOS fully participated in BOD meetings to grasp business situation, investment situation and to make suggestions, recommendations to the BOD and the Board of Management (BOM) within the scope of their responsibilities and powers.

Attendance rate of the BOS:

No.	BOS Members	Position	Meeting attendance	Rate
1.	Mr. Tran Quoc Hung	Head	4/4	100%
2.	Mr. Dinh Duc Minh (Resignation letter on 29 Dec 2017)	Member	4/4	100%
3.	Ms. Nguyen Phuong Thao	Member	4/4	100%

Meeting contents:

- Meeting contents on 19 Jan 2017: Evaluation of completed work as well as unfulfilled work of the BOS in 2016. Developing a work plan in Q1/2017.
- Meeting contents on 17 Apr 2017: Deploying the work plan in QII/2017. Unifying and recommending the BOD to select Pricewaterhouse Coopers Vietnam Ltd. (PwC) as its independent audit firm for fiscal year 2017.
- Meeting contents on 02 Jul 2017: Reviewing and recommending some unfulfilled

tasks under BOD Resolutions. Developing an implementation plan in QIII / 2017.

- Meeting contents on 26 Oct 2017: Unifying recommendation report to submit to the BOD. Assigning the work in QIV/2017.

Evaluation of each BOS member's activities

❖ Mr. Tran Quoc Hung - Head of the BOS

- Assigned tasks: Working directly at the Company and being in charge of overall responsibilities; Assigning tasks to each member, convening and presiding all BOS meetings; Collaborating with Internal Control Department - Internal Audit Committee to control production and business activities of subsidiaries and affiliates through capital representatives at units; Controlling remaining issues that are not assigned to any member.

Evaluation: Completing tasks.

❖ Ms. Nguyen Phuong Thao - Member.

- Assigned tasks: Checking and supervising the implementation of production and business plan. Monitoring and supervising the implementation of corporate restructuring of the Company (through inspection of subsidiaries and branches). Checking processes and regulations at the Company.

- Evaluation: Completing tasks.

❖ Mr. Dinh Duc Minh – Member

- Assigned tasks: Supervising financial and accounting activities, monitoring financial market, micro and macro factors that affect financial and accounting activities of the Company. Checking capital balance and managing cash flow. Evaluating financial statements.

- Evaluation: Completing tasks.

II. BOS OPERATION IN 2017

- In 2017, the BOS held the quarterly meetings with participation of all members.
- The BOS fully participated in BOD meetings to grasp business situation, investment situation and to make suggestions, recommendations to the BOD and BOM within the scope of their responsibilities and powers.
- Controlled and supervised the implementation and performance result of Resolutions of the Annual General Meeting of Shareholders 2016 for the BOD and BOM.
- Monitored and supervised the implementation of Resolutions in BOD meetings.
- Verified 6-month and annual financial statements to evaluate truthfulness and rationality of financial data in accordance with accounting standards, regimes and current financial policies. Simultaneously, collaborated with an independent audit firm to consider impact of material misstatement on financial statements, monitored implementation of the recommendations given by the independent audit firm.
- Supervised periodic and aperiodic information disclosure in a timely manner to the

shareholders of the Company;

- The BOS analyzed and proposed management and performance of some substantial fields as sales policies, activities of sales sector, sales supervision, inventory management, process of sales cum cashier... of the Company to the BOD and BOM to improve management and administration efficiency of the Company;
- Coordinated with functional units at the Company including Internal Audit Committee and simultaneously requested the Internal Control Department to inspect operation of affiliated units as branches and subsidiaries to strengthen management of the Company for these units.

III. SUPERVISION RESULT OF ACTIVITIES OF THE BOD AND BOM

- The BOD held quarterly periodic (and aperiodic) meetings in accordance with Company's Charter and the BOD's Operation Regulation. The BOS evaluated the BOD's operation within the year in accordance with provisions of law and the Company to timely satisfy requirements of the Company's production and business activities.
- The BOD issued several Resolutions and Decisions related to the Company's activities within the scope of the BOD's responsibilities and authority. The BOD's Resolutions and Decisions were issued with accurate order, accurate authority in accordance with Resolutions of the General Meeting of Shareholders, the Company's Charter, Law on Enterprises and other provisions of law.
- The BOD supervised operation of Executive Board in the implementation of Resolutions of the General Meeting of Shareholders and coordinated with the BOM to monitor, to run business and production activities of the Company in order to complete targets approved by Resolutions of the General Meeting of Shareholders 2016.
- The BOM had changes (New appointment of 01 Deputy General Director in charge of production) to ensure stability and development of the Company in 2017.
- The Company complied with laws of the State and the industry in business management and it is faithfully presented on the Company's six-month and annual financial statements.

IV. EVALUATION OF COORDINATION AMONG THE BOS, BOD AND BOM

- The BOD and BOM created favorable conditions for the BOS to provide sufficient information on the Company's production and business situation and financial situation in 2017.
- The BOS attended all BOD meetings, gave opinions in accordance with the BOS's functions and duties.
- Periodically, the BOS sent reports and recommendations in writing to the BOD and BOM. BOS's recommendations were recognized and were deployed to implement.

V. EVALUATION OF THE FINANCIAL STATEMENTS 2017

1. Preparation and audit of the financial statements

- The financial statements 2017 of the Company were prepared in accordance with Vietnamese Accounting Standards and System.
- The financial statements 2017 were audited by Pricewaterhouse Coopers Vietnam Ltd. (PwC) which is approved by the State Securities Commission of Vietnam for auditing listed companies.
- Auditors' opinion on the Company's consolidated financial statements 2017: The report reflected a true and fair presentation in all material respects.
- The BOS considered 6-month and annual financial statements in 2017, unanimously approve production and business performance 2017 and targets of financial statements. The report reflected a sufficient, clear and honest presentation on financial situation of the Company.

2. Business performance 2017

- Result of major production and business targets in 2017 in accordance with financial statements as follows:

Target	Figures in	Performance 2016	Target 2017	Performance 2017	Performance/Target 2017	Performance 2017/Performance 2016
Net revenue	VND Bn.	3,783	4,369	4,063	93%	107%
Profit before tax	VND Bn.	757	800	719	90%	95%

- Pursuant to the above table: The Company did not complete business targets in accordance with Resolution of the General Meeting of Shareholders 2016.

3. Company's financial situation on 31 Dec 2017

Target	2016	2017
1. Liquidity ratios		
- Current ratio	2.70	2.32
- Quick ratio	1.98	1.82
2. Capital structure ratios		
- Debt to Total assets ratio	27.26%	32.50%
- Debt to Owner's equity ratio	37.48%	48.15%
3. Operational capacity ratios		
- Inventory turnover	3.02	3.34
- Net revenue to Total assets ratio	95.89%	99.40%
4. Profitability ratios		
- Return on Sales (ROS)	18.20%	15.81%
- Return on Equity (ROE)	25.55%	22.82%
- Return on Assets (ROA)	18.84%	15.99%
- Earnings per share (VND)	4,485	4,367

VI. IMPLEMENTATION OF RESOLUTIONS OF THE GENERAL MEETING OF SHAREHOLDERS 2016

1. Profit distribution

- The Company deducted funds in accordance with profit distribution plan 2016 of the AGM Resolution 2016.

2. Share issuance to increase charter capital

- The Company issued shares to increase charter capital from owner's equity (also known as bonus share issuance) in 2017.
- Issued ratio: 2:1 (a shareholder holds two (02) DHG shares on the last registration date shall receive one (01) additional share). The total number of issued shares: 43,582,165 shares, the total issued value at par value: VND 435,821,650,000. The total number of outstanding shares after issuance: 130,746,071 shares, equivalent to VND 1,307,460,710,000 of charter capital.

3. Opening foreign ownership limit at the Company up to 100% (FOL)

- After being approved in writing by General Meeting of Shareholders, the BOD and BOM have established a project team to resolve issues related to opening foreign ownership limit (100%) in accordance with Vietnamese law, to utilize opportunities, strengths, limit challenges to have the lowest impact on strategic objectives to 2020, vision - missions - core values and brand of DHG Pharmaceutical Joint Stock Company.

4. Remuneration

- In 2017, the BOS received remuneration in accordance with Resolution of the General Meeting of Shareholders 2016. Detailed remuneration has been presented in BOD Report submitted to the General Meeting of Shareholders.

5. Independent audit firm

- The BOD collaborated with the BOS to select Pricewaterhouse Coopers Vietnam Ltd. (PwC) as an independent audit firm of financial statements for fiscal year 2017 of DHG Pharmaceutical Joint Stock Company and its subsidiaries.

VI. BOS RECOMMENDATIONS

- The Company changed personnel structure of the market sector in 2017. Hence, the BOS requested the BOD and BOM to evaluate in details after application of new model to make appropriate adjustments in accordance with actual situation.
- The Company restructured salary and bonus for all employees. Thus, the BOS requested the BOD and BOM to evaluate and analyze performance of this project in details, to review comments of all employees after application.
- Evaluating effectiveness of strategic products pursuant to reasonable cost allocation, thereby focusing on products with high profit margin, high revenue and high profit.

- Continuing to improve efficiency of inventory management; Reviewing and improving transportation and delivery process to avoid risks of quality, damage and law.
- Evaluating effectiveness of revenue and profits after implementation of advertising campaigns and sales programs.
- Continuing to strengthen the role of Internal Control Department.
- Recommending the completion of personnel as well as operation regulations of Internal Audit Committee.
- Suggesting the BOD to evaluate performance of Vinh Hao Algae Project and Fuji Medic and then report to the General Meeting of Shareholders 2018.

VII. BOS'S OPERATING PLAN IN 2018

- Pursuant to Decree No.71/2017/NĐ-CP dated 06 Jun 2017, effective from 01 Aug 2017 on the guidance of corporate governance for public companies, the Company has a plan to change its management structure from the BOS to Internal Audit Committee under Audit and Risk Management Subcommittee of the BOD in 2018.
- Therefore, in case there is no transformation of management model, the BOS sets out operating plan and objectives in 2018 to continuously inspect and supervise in accordance with functions and duties stipulated in Law on Enterprises and the Company's Charter. Understanding difficulties, proposing suggestions and solutions in management of branches and representative offices of the Company.
- Carrying out specialized topics in production and business activities as well as investment activities pursuant to major changes of the Company in 2017 such as assessment of change on remuneration structure, assessment of production and business efficiency related to the project of market cluster's change, etc.

Above is the report of the Board of Supervisory in 2017. Looking forward to receiving suggestions from the General Meeting of Shareholders to help us carry out our mission in the coming year.

Best regards./.

Recipients:

- As above;
- Archived: BOD Secretary, BOS

**ON BEHALF OF THE BOARD OF SUPERVISORY
HEAD OF THE BOARD**

Tran Quoc Hung

[NOTICE: This Convocation Notice is a translation of the Vietnamese language original for convenience purpose only, and in the event of any discrepancy, the Vietnamese language original shall prevail.]