

**REPORT OF THE BOARD OF DIRECTORS****Kind Attn to: THE GENERAL MEETING OF SHAREHOLDERS OF DHG PHARMA**

- Pursuant to Enterprise Law No. 59/2020/QH14 dated 17 Jun 2020;
- Pursuant to the Charter of DHG Pharmaceutical Joint Stock Company (DHG Pharma) issued on 06 Jul 2020,

The Board of Directors (BOD) Term IV (2019 - 2023) of DHG Pharma respectfully submits to the Annual General Meeting of Shareholders (AGM) the Company's performance in 2020; Performance and remuneration of the BOD in 2020; Strategic orientation 2021 – 2025 and business plan 2021 with the following main contents:

**PART 1: PERFORMANCE OF THE COMPANY IN 2020****1. Overview of the pharmaceutical industry in 2020**

- The year 2020 is seen as a year of great difficulties and challenges for the world economy, including Vietnam. The world economy is forecasted to be the most serious recession in history. The growth of major economies has declined sharply due to the negative effects of the Covid-19 pandemic. However, Vietnam's economy recorded a positive year at the midst of difficult situation. The GDP growth rate reached 2.91%, which has become a highlight in the global economic growth; however, this is the lowest growth rate in the past 10 years.
- In Vietnam, similar to other industries, the pharmaceutical industry has been affected by the pandemic from the beginning of the year. However, the most remarkable point was at the peak time when the whole country imposed social-distancing order from the Government in Apr/2020, when the outbreak began in Jul – Aug in Da Nang and many neighboring provinces. All of these led to difficulties in transportation, low purchasing power, increases in prices of imported raw materials. Also, some products were in stock while some were in serious shortage, etc.
- Despite the impact of the pandemic, Vietnamese enterprises were still able to see opportunities to develop and improve their capacity. The anti-pandemic response of the Government and the Ministry of Health of Vietnam was very effective. Vietnam was praised by the World Health Organization and the international community as one of the few countries with effective anti-pandemic activities, especially in the context of a low-middle-income country, where investments in health are still limited.
- According to IQVA's report of Quarter 4/2020, the value of Vietnam's pharmaceutical market in 2020 reached VND 103,912 billion, up 2% over the same period.

- According to the Drug Administration of Vietnam - Ministry of Health, the total value of domestic pharmaceutical production reached USD 2.8 billion in 2020. Currently, domestic production only meets about 47% of demand, the rest must be imported. According to the General Department of Customs, Vietnam imported more than USD 3.3 billion of pharmaceuticals, up 7.4% over the same period. Drug import markets are mainly from countries such as France, Germany, India, the United States, Italy, Korea, Belgium, etc.
- Vietnam still depends on imported raw materials from China and India, accounting for about 85% of the total import turnover of raw materials. In 2020, the Covid-19 outbreak caused a serious shortage of raw materials, which made the average price of most raw materials imported to Vietnam increased.
- The cooperation progress between Vietnam pharmaceutical enterprises and foreign partners continued to be delayed because the travel restriction impeded the progress of high-standard factory assessment and technology transfer approval.
- M&A activities in the pharmaceutical industry were highly active, reflected in the fact that big names in the world pharmaceutical industry have been present in most domestic enterprises.

## 2. Business performance in 2020

Target	2020 Budget	2020 Actual	2019 Actual	% Actual/ Budget 2020	Growth 2020/2019
<b>Net sales</b>	<b>3,867</b>	<b>3,756</b>	<b>3,897</b>	<b>97.1%</b>	<b>-3.6%</b>
Sales of in-house goods	3,334	3,310	3,275	99.3%	1.1%
Other sales	533	443	621	83.6%	-28.4%
<b>Profit before tax</b>	<b>720</b>	<b>821</b>	<b>713</b>	<b>114.0%</b>	<b>15.1%</b>
<b>Profit after tax</b>		<b>739</b>	<b>631</b>		<b>17.0%</b>

- Net sales FY2020 reached VND 3,756 billion, equivalent to 97.1% of the yearly target, down 3.6% over the same period. The reason why the total net sales witnessed a decline over the same period is because the Company followed the Board of Management's policy from the beginning of the year to reduce the proportion of other sales, namely sales of promotional goods with zero gross profit margin. The net sales of in-house goods and high gross profit margin products which were managed closely by the Board of Management reached VND 3,310 billion (99.3%), up 1.1% over the same period.
- Profit before tax in 2020 reached 114% of the yearly plan, up 15.1% over the same period, equivalent to VND 821 billion. This is the highest profit in 46 years of operation of the Company thanks to the concentration on the sales of high-profit margin products, well implementation of projects increasing productivity - efficiency and optimizing costs in the midst of the Covid-19 pandemic.

- The business results in 2020 help DHG Pharma continue to retain its leading position in the Vietnam Pharmaceutical Industry for 24 consecutive years in terms of sales, profit, and production capacity. DHG Pharma continued to present in the Top 10 pharmaceutical enterprises with the largest market share in Vietnam Pharmaceutical industry (according to IQVIA's statistics in Quarter 4/2020).

The COVID-19 pandemic has damaged comprehensively and deeply to all countries in the world and it continues to grow very complicatedly. The global economy falls into a serious recession, and Vietnam is not an exception. However, in the midst of difficulties, with the efforts, determination, and bravery of the Board of Directors, the Board of Management, and all employees, DHG Pharma successfully achieved the business targets for 2020, which were assigned by the General Meeting of Shareholders, creating a solid foundation for the development of DHG Pharma in the coming years.

### **3. Key activities carried out in 2020**

#### **❖ Sales and Marketing activities**

- DHG Pharma has 34 branches distributing goods nationwide from city to countryside (distributing to 3 stages: City, District and Commune) with more than 30,000 customers in 3 channels (Pharmacy channel, Hospital channel and Modern channel).
- DHG Pharma is at the forefront in developing the modern channel through supermarket chains, e-commerce channel, etc. DHG Pharma's products have been available at more than 860 drug stores of 7 major drugstore chains nationwide.
- The Company closely and seriously implemented sales activities, sales schedule, money collection, customer care, good compliance, serious working spirit, compliance with the Company's regulations, etc.
- The export channel has exported to 15 countries in Asia, Central Asia & Middle East, Europe, America, etc. The export sales recorded at VND 108 billion in 2020, grew 36.2% over the same period and reached 111% of the yearly target. Several typical markets such as Singapore, Cambodia, Laos, Myanmar, Moldova, Mongolia, Yemen, Indonesia, Malaysia, etc. In 2020, DHG Pharma has approached, offered, and developed several new markets, namely Uzbekistan, Kazakhstan, Turkey, Taiwan, Libya, etc.

#### **❖ Production, quality, and research**

- Nearly 100 products manufactured on the tablet and film-coated tablet production lines were certified Japan-GMP by the Drug Administration Department of Vietnam on 07 Dec 2020.
- The Management Board of Tan Phu Thanh Industrial Zone issued the investment decision and certificate for the project "Expanding Investment in the Pharmaceutical Plant and DHG Printing and Packaging".
- The Company implemented projects increasing productivity and reducing costs such as expansion of batch size, volume reduction for sachet products, etc. The Company

also assessed the overall performance of the equipment at the pharmaceutical factories in Can Tho and Hau Giang.

- DHG Pharma newly invested in high-tech production equipment to help increase productivity, decrease labor force, and improve product quality.
- As at 31 Dec 2020, 40 products achieved bioequivalence.

#### ❖ **Effective corporate governance**

- The Company coordinated with Deloitte - Consulting Firm to implement the project strengthening the internal control system.
- In 2020, DHG Pharma continued to assess the corporate governance situation in accordance with the Vietnamese Corporate Governance Principles, which DHG Pharma met 147/172 criteria, equivalent to 85.5%. In addition, DHG Pharma also satisfied the ASEAN corporate governance scorecard by meeting 159/184 criteria, equivalent to 86.4%.
- At the "Vietnam Listed Enterprise Award in 2020", DHG Pharma's Corporate Governance Report continued to win the First Prize in 2 consecutive years (2019: large cap group and 2020: mid cap group) and awarded Top 10 Best Annual Report in the Mid-cap group and Top 5 Best Sustainable Development Report for many years.

#### ❖ **Developing DHG Pharma to become a symbol of humanity:**

Although activities were limited during the pandemic, DHG Pharma still carried out Corporate Social Responsibility (CSR) campaigns to contribute to the community's interests with a total value of nearly VND 12 billion for the following activities:

- + Accompanying with the Health Sector and the Education Sector in supporting the anti-pandemic expenses for hospitals, anti-pandemic units, schools (sponsoring anti-pandemic equipment, Bioskin antibacterial hand sanitizer, Cozz candy, Bocalex, etc.).
- + Providing knowledge on boosting resistance for pandemic prevention through the media (alobacsi, online newspapers such as cafef.vn, vnexpress.vn, dantri.com.vn, tuoitre.vn, ... and major newspapers such as Thanh Nien, Suc Khoe Doi Song, etc.)
- + Accompanying with Thanh Nien Newspaper Office in Can Tho to carry out care activities for people in quarantine areas - Returned from Covid 19 pandemic area.
- + Taking care of employees' health through the donations of masks, Bocalex, Anomin Gold, Pimum to employees' children, etc. and other activities such as measuring employees' body temperature at the Company, spraying sterilization at the office, etc.
- + Accompanying with the Team of Voluntary Doctors of Can Tho Department of Health to carry out 23 free medical examination and medicine programs for nearly 10,000 people nationwide, including 2 flood support programs in Hue, Quang Ngai, Quang Nam, and Phu Yen.

### ❖ Other activities

- The Company effectively managed costs, payables to ensure the professionalism of the management system and enhance the Company's value.
- DHG Pharma effectively implemented the Business Continuity Planning (BCP) in the midst of Covid-19 pandemic, which can solve jobs for employees and ensure stable income.
- The Key Performance Indicators (KPI) system was more effective and it was implemented 100% on BFO software, towards the specific measurable criteria, creating fairness and encouraging employees to improve their productivity. Employees are guaranteed to enjoy health care policies; effective welfare programs for employees; remuneration and incentive policies for the employees and their relatives.
- The Company strictly complied with the regulations on labor safety and hygiene, fire prevention, and environmental protection.

## PART 2: PERFORMANCE AND REMUNERATION OF THE BOARD OF DIRECTORS IN 2020

In 2020, the BOD focused on working in accordance with the functions, duties and powers of the collective and individuals and in compliance with the Enterprise Law, the Company's Charter, and applicable laws. The BOD meetings were held and conducted in accordance with the Company's Charter. The Minutes, Resolutions, and Decisions of the BOD were based on the unanimity of the members and were archived in accordance with regulations.

### 1. Implementation result of the AGM Resolution 2019

No.	Resolution content	Implementation progress
1.	Business plan of 2020: <ul style="list-style-type: none"><li>- Net sales: VND 3,867 billion</li><li>- PBT: VND 720 billion</li></ul>	Results of 2020: <ul style="list-style-type: none"><li>- Net sales: VND 3,756 billion, reaching 97.1% of the yearly target</li><li>- PBT: VND 821 billion, reaching 114.0% of the yearly target</li></ul>
2.	Profit distribution in 2019: <ul style="list-style-type: none"><li>- Dividend payment in 2019: 40% of par value</li> <li>- Allocation to the Bonus and Welfare Fund, the BOD Remuneration Fund, and the Investment &amp; Development Fund</li></ul>	Implemented <ul style="list-style-type: none"><li>- Advance payment of Phase 1: 30% of par value, payment date: 05 Jun 2020.</li><li>- Last phase: 10% of par value, payment date: 30 Jul 2020.</li></ul> Allocated in accordance with the AGM's resolution.
3.	Selecting Deloitte Vietnam Company Ltd. as the auditor of the financial statements FY 2020.	Signed an audit contract with Deloitte on 30 Jun 2020

No.	Resolution content	Implementation progress
4.	Amendments and supplements to the business lines of DHG Pharma.	Completed procedures adding the business lines.
5.	Amendments and supplements to the Charter of DHG Pharma.	Supplemented and amended the 23 <sup>rd</sup> version of the Charter, which was issued on 6 Jul 2020

## 2. Summary of the BOD meetings and resolutions

- In 2020, the BOD conducted 14 meetings, issued 14 Resolutions and 30 Decisions to solve issues under the functions and authorities of the BOD.
- The BOM was invited to all of the BOD meetings in order to discuss and generate unanimity in the BOD's strategies, business orientation and directions over the BOM.
- Attendance rate of members:

No.	BOD members	Title	Starting date to become BOD Member	Meeting attendance	Rate
1.	Ms. Dang Thi Thu Ha	BOD Chairwoman Non-executive BOD Member	28 Jul 2017	14/14	100%
2.	Mr. Jun Kuroda	Non-executive BOD Member	15 Aug 2016	14/14	100%
3.	Mr. Masashi Nakaura	Executive BOD Member General Director (CEO)	11 Jun 2019	14/14	100%
4.	Mr. Doan Dinh Duy Khuong	Executive BOD Member Chief Operating Officer (COO)	29 Apr 2010	14/14	100%
5.	Mr. Maki Kamijo	Non-executive BOD Member	11 Jun 2019	14/14	100%
6.	Mr. Phan Minh Tien	Independent BOD member	28 Mar 2018	14/14	100%
7.	Mr. Do Le Hung	Independent BOD member	11 Jun 2019	14/14	100%

## 3. Remuneration, bonuses, and benefits of the BOD and BOM

It is projected to submit to the AGM 2020 in Apr/2021 the appropriation rate of the BOD remuneration to be VND 6 billion, equivalent to 0.9% of the PAT.

### Receipts/expenses of the Remuneration and Bonus Fund

No.	Target	Amount
1	Balance at the beginning of the year (01 Jan 2020)	5,935,538,846
2	Allocation from PAT 2019 in line with the AGM Resolution	6,000,000,000
3	<b>Total expenses:</b>	<b>7,584,577,566</b>
3.1	Remunerations and bonuses of the BOD and collaborators in 2020	3,596,000,000
3.2	Covid-19 donation	3,135,000,000
3.3	Other expenses	853,577,566

No.	Target	Amount
4	Balance as at 31 Dec 2020	4,350,961,280
5	Appropriation plan in 2021 (projected)	6,000,000,000
6	Balance after profit distribution in 2020 (projected)	10,350,961,280

### **Detailed distribution to each member of the BOD and BOM**

No.	Full name	Title	Salary	Remuneration	Total
<b>I. The BOD</b>					
1	Dang Thi Thu Ha	BOD Chairwoman	0%	100%	100%
2	Jun Kuroda	BOD Member Head of Strategic Committee	0%	100%	100%
3	Masashi Nakaura	BOD Member General Director	94%	6%	100%
4	Maki Kamijo	BOD Member	0%	100%	100%
5	Doan Dinh Duy Khuong	BOD Member Chief Operating Officer	86%	14%	100%
6	Phan Minh Tien	Independent BOD member Head of Nomination Committee	0%	100%	100%
7	Do Le Hung	Independent BOD member Head of Audit Committee	0%	100%	100%
<b>II. The BOM</b>					
1	Masashi Nakaura	BOD Member General Director	94%	6%	100%
2	Doan Dinh Duy Khuong	BOD Member Chief Operating Officer	86%	14%	100%
3.	Tomoyuki Kawata	Deputy General Director in charge of Production, Supply Chain and Technology Transfer Member assisting Strategic Committee	100%	0%	100%
4.	Nguyen Ngoc Diep	Deputy General Director in charge of Production and Supply Chain	100%	0%	100%
5.	Pham Chi Truc	Deputy General Director In Charge of Finance	100%	0%	100%

#### 4. Monitoring results with regards to the General Director, Managers and Executives of the Company

##### Monitoring methods

- The BOD always monitored the completion of key targets during the year that the General Director and the BOM committed in accordance with Resolutions of the AGM and the BOD.
- The BOD frequently directed the operations of the BOM, promptly resolved arising issues under the BOD's authority to create favorable conditions for the BOM's performances.
- The BOD supervised, directed and ensured information is disclosed sufficiently, transparently and promptly in accordance with regulations of Ho Chi Minh Stock Exchange and State Securities Commission. The AGM 2019 was successfully organized on 29 Jun 2020. The reporting regime of Financial Statements FY 2020, Quarterly Financial Statements, the Annual Report and Sustainable Development Report FY 2020 was strictly implemented.
- Processes/regulations were fulfilled in accordance with the operation situation of the Company.

**General assessment:** During the year, the BOM and the managerial staff successfully completed the tasks and business targets assigned by the AGM. The BOD highly appreciates the efforts and determination of the BOM to steadily overcome all difficulties and challenges during the Covid-19 pandemic. At the same time, the BOM and the managerial staff also strictly abided by rules and regulations in management activities, decentralized their management in accordance with the Charter, Corporate regulation and internal regulation of DHG Pharma as well as the BOD's decisions.

### PART 3: STRATEGIC ORIENTATION 2021 – 2025 & BUSINESS PLAN 2021

#### I. Goals for 2021 – 2025

Continuing to expand DHG Pharma's business to retains its position as Vietnam's largest Generic pharmaceutical company.

#### II. Business plan for 2021 – 2025:

Targets for 2021	2020 Actual	2021 Budget	+/- 2021/2020	% 2021/2020
Net sales	3,756	3,970	215	6%
Profit before tax	821	821	0	0%

- + Average growth from 2022 to 2025: 8% - 10%/year
- + Striving to reach VND 5,500 billion in net sales and VND 1,000 billion in profit before tax in 2025.
- + The yearly dividend policy shall maintain from 30%/the charter capital.



### **III. Theme for 2021 - 2025:**

#### **INTEGRATED DEVELOPMENT – SCIENTIFIC DEVELOPMENT – SUSTAINABLE DEVELOPMENT**

- ❖ **Integrated development**
  - + Cultural integration
  - + Technical integration
  - + Global production standard integration
- ❖ **Scientific development**
  - + Improvement of product value
  - + Quality of product research
  - + Transfer of technology and products
- ❖ **Sustainable Development**
  - + Professional management process
  - + Compliance of 3C principles (Compliance, Communication, Change)
  - + Community responsibility

### **IV. Message for 2021: QUALITY BUILDS TRUST**

#### **Strategic solutions:**

- ❖ Upgrading production lines to meet global GMP standards
  - + Upgrading or investing in the new factory to meet global GMP standards
  - + Improving labor productivity
  - + Transferring technology and expanding exports
  - + Effectively managing inventories
  
- ❖ Enhancing the value & competitiveness of DHG Pharma as a multinational pharmaceutical company
  - + Increasing investments in research and development of Generic products with high potential and high value
  - + Continuously improving the distribution system, increasing the coverage of key products, and increasing coverage in major markets
  - + Increasing investments, branding and brands
  
- ❖ Strengthening the organization and development of internal governance platform
  - + Developing and improving the quality of human resources with high qualifications, professional working style and being ready for globalization. Perfecting missing senior positions.
  - + Improving internal control and risk management in accordance with international standards.
  - + Adjusting the management system based on 3C criteria: Compliance - Change - Communication
  - + Continuously updating and completing current processes/regulations.
  - + Promoting digital transformation in production and business activities.
  - + Assessing risks and confidentiality of information technology.

- ❖ Being a symbol of humanity in contributing to the society and enhancing the quality of life.
  - + With the locality: always accompanying the locality with practical sponsorship programs during pandemic seasons, especially in the field of health and education.
  - + With the inhabitants: always caring for and helping them to proactively heighten the healthcare awareness for themselves and their families in a scientific and economic manner.

Above is the BOD Report on the evaluation of the Company's performance in 2020; Performance and remuneration of the BOD in 2020; Business orientation 2021 – 2025, and business plan 2021.

Respectfully submit to the AGM for consideration and approval.

Best regards./.

**Recipients:**

- As above;
- Archived: BOD Secretary.

**OBO. THE BOARD OF DIRECTORS  
BOD MEMBER, GENERAL DIRECTOR**

**Masashi Nakaura**

Note: Please kindly see more details on the annual report FY2020 which was disclosed on the website of the Company via the link: <https://www.dhgpharma.com.vn/en/investor-relations/annual-report>  
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