

**REPORT OF THE BOARD OF DIRECTORS****Kind attention to: THE GENERAL MEETING OF SHAREHOLDERS OF  
DHG PHARMACEUTICAL JOINT STOCK COMPANY**

- Pursuant to the Law on Enterprises No.59/2020/QH14 dated 17 June 2020;
- Pursuant to the Charter of DHG Pharmaceutical JSC issued on 19 Apr 2021,

The Board of Directors (BOD) Term IV (2019 - 2023) of DHG Pharmaceutical Joint Stock Company (DHG Pharma) respectfully submits to the Annual General Meeting of Shareholders (AGM) the Company's performance in 2021; Performance and remuneration of the BOD in 2021; Production and business plan 2022 with the following main contents:

**PART 1: PERFORMANCE OF THE COMPANY IN 2021****1. Overview of the pharmaceutical industry in 2021**

2021 is a very special year with many ups and downs of the Vietnamese economy under the impact of the pandemic. Due to the fourth wave of Covid-19, many localities applied social distancing, causing manufacturing stagnation, disrupted supply chains and reduced key economic indicators. People's purchasing power decreased sharply, life was severely affected, and unemployment rate increased. Vietnam has drastically implemented a roadmap for safe adaptation, pandemic control, and accelerated vaccination. Vietnam is among six countries with highest vaccine coverage rate and promptly supports employers and employees.

Several highlights of the socio-economic situation in 2021 are as follows: (1) GDP in 2021 increased by 2.6% and this is the lowest growth rate in the past 10 years, severely affecting all sectors of the economy (2) Total import and export turnover of goods reached USD 668.5 billion, up 22.6%, putting Vietnam in the group of 20 leading countries in terms of international trade. The trade balance is estimated to have a trade surplus of USD 4 billion; (3) Vietnam ranked among "World's Top 10 Emerging Logistics Markets".

The strong outbreak of Covid-19 shows the importance of healthcare and pharmaceuticals in ensuring global security. During the pandemic, the pharmaceutical industry also faces certain challenges, including supply chain disruptions, rising raw material and transportation prices, changes in drug habits and demand, and regulatory requirements. The business picture of the pharmaceutical industry in 2021 also reflects a very clear differentiation with only about 50% of enterprises having sales and profit growth compared to 2020. However, despite the undeniable negative

impact, the pandemic also helps pharmaceutical companies restructure their operations and supply chains, digitize processes, strengthen risk management, and prepare for the new normal. According to IQVIA's 3Q/2021 report, the value of Vietnam's pharmaceutical market in 2021 reached VND 148,097 billion, witnessing an increase of 3% yoy. Of which, the Pharmacy channel grew by 11% and the Hospital channel saw a negative growth of 8% yoy.

According to the General Department of Customs, the import turnover of pharmaceuticals to Vietnam in 2021 reached over USD 4 billion, up 21.4% yoy. The pharmaceutical supply market is quite rich, in which many enterprises imported from Germany, the US, China, France, Belgium, India, etc. Import turnover of pharmaceutical materials and auxiliary materials reached USD 419 million, up 1.7% yoy. The cooperation progress between Vietnamese pharmaceutical enterprises and foreign partners continued to be delayed due to travel restrictions, hindering the progress of high-standard factory evaluation and approval of the technology transfer process. In addition, M&A activities in the pharmaceutical industry continued to be active, as shown by the presence of big names in the world pharmaceutical industry in most domestic enterprises.

## 2. Business performance in 2021

Target	2021 Budget	2021 Actual	2020 Actual	% Actual/ Budget 2021	Growth 2021/2020
Net sales	3,970	<b>4,003</b>	3,756	100.8%	6.6%
Profit before tax	821	<b>864</b>	821	105.3%	5.2%
Profit after tax		<b>776</b>	739		5.1%

- Thanks to the sustainable development foundation and flexible strategies, DHG Pharma has made a spectacular breakthrough in the midst of the pandemic and achieved the best business result in the Company's history of foundation and development. The total net sales in 2021 of DHG Pharma was closely monitored by the Board of Management, reaching VND 4,003 billion, equivalent to 100.8% of the yearly target, up 6.6% yoy.
- The profit before tax in 2021 reached 105.3% of the yearly plan, up 5.2% over the same period, equivalent to VND 864 billion. This is the highest profit in 47 years of the Company's operation thanks to the assurance of reserve raw materials sources, stable supply chain, transportation and production activities. All these activities were supported by an information technology system that helps to keep all operations running smoothly during the pandemic and costs are used optimally.
- The business results in 2021 help DHG Pharma continue to retain its leading position in the Vietnam Pharmaceutical Industry for 25 consecutive years in terms of sales and profit. 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 3Q/2021).

The complicated and difficult-to-control Covid-19 pandemic has significantly impacted all economies worldwide. Despite the far-reaching costs of economic disruption, the

Covid-19 pandemic can provide a long-term boost to productivity and sustainable growth by forcing companies to adapt and adopt new technologies. Faced with numerous opportunities and challenges, with the efforts, determination, courage, solidarity, and consensus of the Board of Directors, Board of Management, and all employees of the Company, DHG Pharma has surpassed the business plan targets FY2021 assigned by the General Meeting of Shareholders. Hence, it has created a solid foundation for the development of DHG Pharma in the coming years.

### **3. Highlights in the production and business activities in 2021.**

- **DHG Pharma continues to maintain its leading position in Vietnam's pharmaceutical industry for 25 years in terms of sales and profit.**
  - + Net sales: VND 4,003 billion
  - + Profit before tax: VND 864 billion
  - + Profit after tax: VND 776 billion
  - + Profit attributable to parent company: VND 777 billion
  - + Total volume: 4,056 million units of products
  - + Production value: VND 4,657 billion
- **The distribution channel is increasingly expanding to all regions and affirming its position in the domestic market, reaching out to the world.**
  - + Domestic business recorded a net sales of VND 3,348 billion, up 6.9% over the same period, accounting for 84% of the total consolidated net sales. The distribution system was expanded. The frequency of interactions with drugstores was boosted along with products meeting Japan-GMP standard, which is increasingly trusted by professionals and consumers to drive sales growth.
  - + DHG Pharma exported its products to 16 countries including Cambodia, Peru, Yemen, Malaysia, Ukraine, Afghanistan, Myanmar, Taiwan, Laos, Mongolia, Singapore, Turkey, Indonesia, Nigeria, and Uzbekistan. In 2021, countries having good sales growth trends are Cambodia, Yemen, Malaysia, Afghanistan, Myanmar, and Laos.
  - + Modern channel: DHG Pharma takes the leading position in developing the modern channel through supermarket chains, the e-commerce channel, etc. DHG Pharma's products are available at more than 1,480 pharmacies of 5 major pharmacy chains (including Trung Son, Pharmacity, An Khang, Long Chau, Matsumoto Kiyoshi, etc.) nationwide. Amid the pandemic, consumers tend to buy pharmaceutical products from the modern channel due to its convenience, safety and speed, and it is seen that this channel has a great growth potential in the coming period.
- **Interests for stakeholders are always guaranteed and optimized:**
  - + **Shareholders and investors:** Dividends are attractive, higher than the average of the pharmaceutical industry average, and stable at > 30% of par value along with solid growth prospects. Those are the Company's long-term commitments to shareholders and investors. Dividends are always fully and timely paid as

announced. Information was disclosed to shareholders, investors, partners, customers and the community in a transparent and timely manner, helping DHG Pharma maintain its reputation.

- + **Employees:** The fourth wave of Covid-19 is complicated and unpredictable, causing many businesses to suffer heavy consequences such as production stagnation, broken supply chains, and labor shortages. In such context, DHG Pharma strived to maintain continuous production through the "three on-site" campaign to meet the market demand while maintaining income for employees. To keep employees' mind on their work, all employees received over 2 doses of vaccines. Simultaneously, DHG Pharma also paid more attention to employees' health by providing nutritious meals and the Company's products to enhance their resistance. The Company has also strictly followed pandemic prevention procedures to avoid spreading the pandemic. In order for the employees to always feel secure, devote themselves and bring true value to their work, the Company has also developed a good remuneration policy, diverse welfare works, training programs, periodical training, etc. for them. Such policies help the employees trust and stay with the Company for a long time.
- + **Supplier:** DHG Pharma ensures fair, equal, transparent and effective competition among suppliers. Simultaneously, DHG Pharma conducts annual assessment of all suppliers to ensure the quality of input materials and satisfaction on environmental and working conditions of the suppliers' employees.
- + **Government agencies:** DHG Pharma contributed billions of dong to the government budget and many social and community activities. Total payment to the government budget in 2021 is VND 311 billion. In which, payable to Cantho government is VND 145 billion and payable to Hau Giang is VND 51 billion.
- + **Customers:** With the mission "*DHG Pharma always provides high quality products and services to satisfy the aspiration for a more beautiful and healthier life*", DHG Pharma constantly invests in high-quality human resources, researches new technologies, ensures a stable source of raw materials, improves production and quality management systems, and procures modern equipment to thereby bringing the best products and services to customers.
- + **Community:** DHG Pharma has always been the leading enterprise in social activities for community with plentiful programs featuring humanity values and creating widespread impact for all objects. In 2021, the Company spent VND 20.5 billion for community activities to overcome the pandemic and social security activities across the country.
- **Science and technology are applied and innovated continuously in all activities of the Company (R&D, production, information, administration)**
  - + The tablet and film-coated tablet production lines meeting Japan-GMP standard are under three-shift operation with optimal production plan to reduce product transition period and to fully exploit the plant capacity.

- + DHG Pharma put 5 new products into production; upgraded 4 products to achieve in-vitro; 4 products were granted domestic registration numbers and 25 products were issued export registration numbers.
- + DHG Pharma's product quality is always strictly complied with the regulations on ISO/IEC 17025, WHO - GMP, GLP, GSP, GDP, GPP in the process of production, storage and distribution. It is also complied with the regulations of the Ministry of Health, Drug Administration of Vietnam, Food Safety and Hygiene Department and local health departments.
- + DHG Pharma continuously considers to choose strategic products to upgrade to EU standard, Japan standard, etc. and strongly facilitate technology transfer cooperation projects with Taisho and partners.
- **Platform resources are constantly being improved and well-developed**
  - + The internal control system in the whole system was operated in accordance with the instructions of COSO. The policies/processes/regulations/job descriptions were perfected.
  - + In the context of the Covid-19 pandemic, the Business Continuity Plan (BCP) was effectively implemented to minimize the impact of the pandemic on business operations and ensure the safety of employees, customers, and partners.
  - + Developing and maintaining high-quality human resources: DHG Pharma constantly fosters and trains high-quality personnel to meet the market development requirements. Therefore, the Company's employees are increasingly creative, and their work skills are fulfilled, especially grasping and mastering technology.

## **PART 2: PERFORMANCE AND REMUNERATION OF THE BOARD OF DIRECTORS IN 2021**

In 2021, 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 Internal Regulation on Corporate Governance. The Minutes, Resolutions, and Decisions of the BOD were based on the unanimity of the members and were archived in accordance with regulations.

### **1. Evaluation of the BOD performance in 2021**

- In 2021, the BOD held 1 AGM 2020 on 19 Apr 2021 and 9 BOD meetings to discuss and approve several issues under the functions and authorities of the BOD. 9 Resolutions and 26 Decisions were issued.
- All meeting contents were prepared in detail and informed to each member before the meeting. 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.

- The BOD members fully participated in the BOD meetings and provided timely instruction, contributing to achieving the business results in 2021 assigned by the AGM. The contents under the responsibility and authority of the BOD on governance, risk management, compliance, audit supervision on strategies, and human resources were strictly implemented. The BOD members were assessed to successfully complete their assigned tasks with a high sense of responsibility.

## 2. Activities of Committees under the Board of Directors

The BOD Term IV (2019 - 2023) has established 03 Committees, comprising of Strategy Committee, Nomination Committee and Audit Committee. Quarterly, the Committees hold meetings and send reports to the BOD in accordance with their assigned scope of work.

- Strategy Committee: Developed strategic development of production and business in 2021; Developed business strategies 2021 – 2025; Advised the BOD on dividends; Consulted the BOD on short, medium and long-term investment projects under the BOD's authority; evaluated the implementation of the strategies every quarter.
- Nomination Committee: Proposed and advised the BOD to develop human resources; appointment/ dismissal of senior managerial staff; Oriented and supervised the development of training programs, developed salary, bonus and remuneration policies of the Company; Prepare quarterly and annual HR performance reports.
- Audit Committee: Inspected the internal control system and the compliance with operating and management principles, compliance with laws, financial and accounting regimes, policies, resolutions and decisions of the Company and its affiliated units. Monitored compliance in management, business operations, organization of accounting work, statistics and the preparation of financial statements.

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

### Receipts/expenses of the BOD Remuneration Fund in 2021

*Unit: VND*

No.	Target	Amount
1	Balance at the beginning of the year (01 Jan 2021)	4,350,961,280
2	Allocation from the PAT 2020 in line with the AGM Resolution	6,000,000,000
3	<b>Total expenses:</b>	<b>8,273,884,316</b>
3.1	Remunerations and bonuses of the BOD & collaborators in 2021	2,964,000,000
3.2	Donation to buy Covid-19 vaccine in Vietnam	2,000,000,000
3.3	Supporting employees during the Covid-19 pandemic	2,000,000,000

No.	Target	Amount
3.4	Supporting anti-pandemic supplies	499,859,456
3.5	Other expenses	810,024,860
<b>4</b>	<b>Balance as at 31 Dec 2021</b>	<b>2,077,076,964</b>
<b>5</b>	<b>Appropriation plan from the PAT in 2021 (projected)</b>	<b>6,000,000,000</b>
<b>6</b>	<b>Balance after profit distribution in 2021 (projected)</b>	<b>8,077,076,964</b>

The BOD Remuneration in 2022:

The BOD submits the AGM for approving the BOD remuneration in 2022 to be VND 7 billion. In which, VND 5 billion shall be recognized in the Company's expense and VND 2 billion shall be appropriated from the profit after tax 2022.

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

- 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 to be disclosed sufficiently, transparently and promptly in accordance with regulations of Ho Chi Minh Stock Exchange and State Securities Commission. The AGM 2020 was successfully organized on 19 Apr 2021. The reporting regime of the Financial Statements FY 2021, the Quarterly Financial Statements, the Annual Report and Sustainable Development Report FY 2021 were strictly implemented.
- The BOD directed the BOM to constantly strengthen and perfect the organizational structure, focusing on risk management to promptly detect, handle and gradually improve corporate governance capacity.
- The BOD supervised and directed the Company's investment projects to be implemented effectively.
- Processes/regulations/policies were fulfilled in accordance with the operation situation of the Company.

**General assessment:** During the year, the BOM and the managerial staff have exceeded the tasks and business targets assigned by the AGM. The BOD highly appreciates non-stop efforts of the BOM for conquering opportunities and challenges. The BOM was also determined to overcome all difficulties to maintain all activities of the Company smoothly during the Covid-19 pandemic and strictly complied with regulations, internal regulations, and laws.

## PART 3: PRODUCTION AND BUSINESS PLAN IN 2022

**I. Orientation:** Building a business towards international standards and sustainable development of DHG Pharma's products

### II. Business plan in 2022

+ Net sales: VND 4,220 billion

+ Profit before tax: VND 853 billion

### III. Key strategies:

No.	Key strategies	Solutions
1.	Increasing sales	<ul style="list-style-type: none"> <li>❖ Strengthening corporate branding and brands for key products.                             <ul style="list-style-type: none"> <li>+ Promoting DHG Pharma's branding and developing communication platforms for the Company.</li> <li>+ Building brands for key products and consumer-oriented marketing campaigns.</li> <li>+ Continuing to improve the image and increasing stakeholders' trust with regards to products meeting Japan-GMP standard.</li> </ul> </li> <li>❖ Enhancing product portfolio and promoting new product development.</li> <li>❖ Expanding markets, increasing loyal customers and improving sales performance in big cities.</li> <li>❖ Upgrading production lines according to global GMP standards.</li> </ul>
2.	Maintaining high gross profit margin	<ul style="list-style-type: none"> <li>❖ Well control gross profit margin of in-house goods, especially high standard products trusted and used by customers and consumers.</li> <li>❖ Optimizing the Company's operating costs</li> </ul>
3.	Human Development	Developing and improving the quality of human resources with high qualifications, professional working style and readiness for the globalization process. Developing a promotion roadmap for each position and completing the missing senior personnel.
4.	Sustainable development	<p>Being a symbol of humanity in contributing to the society in order to improve the quality of life of each individual amid the complicated context of the pandemic.</p> <ul style="list-style-type: none"> <li>+ With the locality: always accompanies the locality with practical sponsorship programs, especially in the fields of health and education.</li> </ul>



No.	Key strategies	Solutions
		+ With people: always care and help them to actively improve their awareness of health care for themselves and their families in a scientific and economic way.

Above is the Report of the Board of Directors on the Company's performance in 2021; Performance and remuneration of the BOD in 2021; and the Production and business plan 2022.

Kindly submit to the AGM for consideration and approval.

Best regards./.

**Recipients:**

- Ditto;
- Archived: BOD Secretary

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

**Masashi Nakaura**

*Note: For more information, please refer to the Annual Report 2021 posted on the Company's website via <https://www.dhgpharma.com.vn/vi/quan-he-co-dong/bao-cau-thuong-nien>*