

REPORT OF THE BOARD OF DIRECTORS
TERM III (2014 – 2018)

**Kind attention to: THE ANNUAL GENERAL MEETING OF SHAREHOLDERS
OF DHG PHARMACEUTICAL JSC**

- Pursuant to Enterprise Law No.68/2014/QH13 dated 26 Nov 2014;
- Pursuant to the Charter of Organization and Operation of DHG Pharmaceutical JSC (DHG Pharma) issued on 06 Aug 2018;

The Board of Directors (BOD) Term III (2014 - 2018) of DHG Pharmaceutical JSC (DHG Pharma) was elected at the Annual General Meeting of Shareholders (AGM) 2013 on 28 April 2014. At this General Meeting, the BOD respectfully submits to the AGM 2018 a report on the performance of the third term (2014 - 2018), as follows:

PART 1: REPORT ON THE PERFORMANCE OF TERM III (2014 – 2018)

1. Outstanding achievements :

- Retained the leading position in the Vietnamese pharmaceutical industry for 22 years in terms of revenue, profit, market share and production capacity.
- Completed the construction of the Non-Betalactam factory (come into operation from Apr/2014) and the Betalactam factory (come into operation from Oct/2016).
- Cooperated with Taisho – a strategic shareholder to upgrade the effervescent tablet production line and effervescent powder production line to meet PIC/s – GMP standard, as well as the tablet production line of the Non-Betalactam Factory to meet Japan – GMP standard. This is the first step for the Company to go further in upgrading the factory to meet high standards in accordance with global development trends.
- Completed Foreign Ownership Limit (FOL) lifting procedures from 49% to 100% to help the Company easily approach foreign partners with advantages in capital, technology, production and business experience and to increase the Company's value.
- Established and operated 3 Central Warehouse branches in the Mekong Delta Region, Northern Region and Ho Chi Minh City Region to ensure product quantity, quality and logical delivery.
- The modern channel developed strongly in terms of scale and quality. 139 SKUs have been sold to 11 supermarkets and major drugstore chains such as Aeon, Big C, Guardian, An Khang, Medicare, Pharmacity, VinFa, etc.

- Pioneered in promoting the image of the health sector through the gameshow “Special White Blouse Mission”.
- Strong financial potential, clear, transparent, accurate and timely information disclosure to shareholders and investors. Budget management and implementation of financial analysis, appraisal of investment projects to support the approved investment decisions have a strong basis and feasibility.
- Developing the application of information technology in the sales system and in all employees such as DHG Co-Prosperity App, DHG Family App, etc in order to convey information effectively as well as to save time, and training costs. As a result, trainings became more proactive and professional.

2. Honored awards and titles

- Being 01 of 97 typical brands of Vietnam honored as the National Brand in 2018.
- Being 01 of the 03 Vietnamese companies awarded Best Corporate Governance in ASEAN by Corporate Governance Organizations in ASEAN.
- 3 consecutive years – The only pharmaceutical enterprise in the Top 40 Most valuable brands in Vietnam voted by Forbes Vietnam.
- 7 consecutive years - Top 50 Vietnam’s Best Performing Companies voted by Nhip Cau Dau Tu Magazine.
- 5 consecutive years - Top 50 Best Vietnamese Listed Companies voted by Forbes Vietnam.
- 3 consecutive years – Top 5 Companies with Best Sustainable Reports.
- 11 consecutive years – Top 10 Large Cap with Best Annual Reports.
- Top 5 LargeCap with Best Corporate Governance contents.
- 23 consecutive years won the title of Vietnamese High Quality Goods – voted by consumers.
- First place in the Top 10 Reputable Pharmaceutical Companies in 2018 organized by Vietnam Report Joint Stock Company (Vietnam Report) in coordination with Vietnamnet Electronic Newspaper.

3. BOD personnel in Term III (2014 – 2018)

The BOD of DHG Pharma Term III (2014 – 2018) was elected at the AGM 2013 on 28 Apr 2014 with 7 members as follows:

No.	Full name	Title
1.	Mr. Hoang Nguyen Hoc	BOD Chairman
2.	Mr. Le Dinh Buu Tri	BOD Vice Chairman
3.	Mdm. Pham Thi Viet Nga	BOD member
4.	Mr. Doan Dinh Duy Khuong	BOD member
5.	Ms. Dang Pham Minh Loan	BOD member
6.	Mr. Tran Chi Liem	Independent BOD member
7.	Mr. Shuhei Tabata	Independent BOD member

During the term, the Board of Directors made the following changes:

No.	Full name	Appointment / Resignation
1.	Ms. Dang Pham Minh Loan	BOD member resigned from 20 July 2016
2.	Mr. Jun Kuroda	BOD member appointed from 15 Aug 2016
3.	Mr. Shuheji Tabata	Independent BOD member resigned from 24 Mar 2017
4.	Ms. Dang Thi Thu Ha	BOD member appointed from 28 July 2017
5.	Mr. Hoang Nguyen Hoc	BOD Chairman resigned from 25 Oct 2017
6.	Mr. Le Dinh Buu Tri	BOD Vice Chairman resigned from 25 Oct 2017
7.	Mr. Nguyen Chi Thanh	BOD Chairman appointed from 26 Oct 2017
8.	Mr. Phan Minh Tien	BOD member appointed from 28 Mar 2018

Since 28 Mar 2018, BOD members of Term III (2014 – 2018) are as follows:

No.	Full name	Title
1.	Mr. Nguyen Chi Thanh	BOD Chairman
2.	Mdm. Pham Thi Viet Nga	BOD member
3.	Mr. Doan Dinh Duy Khuong	BOD member
4.	Ms. Dang Thi Thu Ha	BOD member
5.	Mr. Jun Kuroda	BOD member
6.	Mr. Tran Chi Liem	Independent BOD member
7.	Mr. Phan Minh Tien	Independent BOD member

4. Summary of strategic implementation

- DHG Pharma has continued to retain the leading position in the Vietnamese pharmaceutical industry for 22 years in terms of revenue, profit and production capacity.
- After 5 years, DHG Pharma's market capitalization increased by 1.4 times, from VND 4,248 billion (02 Jan 2014) to VND 10.329 billion (28 Dec 2018); In comparison with 19 Mar 2019, the market capitalization reached VND 15,297 billion, up 2.6 times. Total assets and equity according to the financial statement FY 2018 increased by 1.2 times compared to 2014.
- DHG Pharma's ROS ratio has always remained at a high level 14% - 18% in the period 2014 - 2018 and placed the highest ROS in the Vietnamese pharmaceutical industry.
- Annual dividend payments are always 30% - 35% par value, higher than the average of the pharmaceutical industry and exceeded the plan.
- Established and operated 3 Central Warehouse branches in the Mekong Delta Region, Northern Region and Ho Chi Minh City Region to ensure product quantity, quality and logical delivery.
- In addition to traditional channels that are pharmacies, agents, hospitals, etc., DHG Pharma pioneered in developing modern distribution channels and increasing exports.
- DHG Pharma's product quality is always strictly complied with the regulations on ISO/IEC 17025, GMP-WHO, 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.

- The effervescent tablet production line and effervescent powder production line have been certified to meet PIC/s – GMP standard (Malaysia).
- The tablet production line of the Non-Betalactam Factory has been certified to meet Japan - GMP standard (Japan).
- As at 31 Dec 2018, 34 products were announced bioequivalent.
- Successfully connected scientific cooperation with the Institute of Biotechnology, Institute of Medicinal Materials, Can Tho University as well as domestic and foreign prestigious research centers, etc in order to cooperate in product research and development. Annually organized customer conferences, VIP conferences, Vu Lan for customers' parents, summer experience programs for customers' children. These programs were participated, supported and highly appreciated by many customers.
- Completed KPI (Key Performance Indicator) for all positions in the Company.
- Carried out many community programs, contributing to changing the face of the health sector in localities, as well as carried out many programs with deep humanity for Vietnamese.

(Please refer to the Annual Report 2018 for a detail report on the strategic implementation of DHG Pharma)

5. Several issues need to be improved

In addition to the above results, DHG Pharma still has several limitations, which are opportunities for the next term.

- Changes in macro environment, regulations on the use of electronic invoices, drug management according to the national unified software. The regulations on antibiotic products management and special control products have dramatically affected the business results of 2018. However, it is an opportunity to help reputable enterprises sustainably develop in the long term development.
- The risk management model of the Company is not as complete as projected. The Company is in the process of finalizing the system of risk management policy framework and measuring as well as risk management tools, aiming to international standards and practices.
- The operating frequency of subcommittees that are directly under the BOD is low. Subcommittees have not sufficiently acted as advisors of the BOD towards specialized issues.

PART 2: REPORT ON THE BOD PERFORMANCE IN 2018

1. Implementation result of the AGM Resolution in 2018

- Business results in 2018:

Target	2018F	2018 Actual	2017 Actual	% Actual/F 2018	Growth 2018/2017
Net revenue	4,017	3,882	4,063	96.6%	-4.4%
PBT	768	732	719	95.3%	1.7%
PAT	-	651	642		1.4%

The net revenue of 2018 is VND 3,882 billion, reaching 96.6% of the yearly target and experiencing a drop of 4.4% y.o.y. In which, the revenue of in-house goods increased by 3.8% while the revenue of others experienced a decrease of 29.5% due to discontinued trading of MSD (since Apr/2018) and Eugica (since June/2018) in order to implement FOL Lifting. The PBT of 2018 is VND 732 billion, reaching 95.3% of the yearly target and witnessing an increase of 1.7%.

The business result in 2018 did not reach projected targets due to the impact of new circulars and regulations of the pharmaceutical industry.

- Deducted funds in accordance with the AGM resolution 2017 and made dividend payment in 2017 for shareholders at the rate of 30% par value. Simultaneously, implemented advance dividend payment Phase 1/2018 at the rate of 10% par value.
- Signed an auditing agreement with Deloitte Vietnam Company Limited to audit financial statements FY 2018.
- Completed procedures merging DHG Printing and Packaging 1 Limited Company and DHG Pharmaceutical One Member Limited Company into DHG Pharmaceutical JSC. Signed the merger agreement on 29 Mar 2018. On 01 Apr 2018, DHG Pharmaceutical Plant and Printing and Packaging Plant operated as DHG Pharmaceutical Plant Branch in Hau Giang.
- Amended and supplemented the business lines of DHG Pharma. Amended and supplemented the Charter and internal corporate regulation of DHG Pharma.

2. Summary of BOD meetings and resolutions

In 2018, the BOD conducted 19 meetings, issued 19 Resolutions and 86 Decisions to solve issues under the functions and authorities of the BOD. In which, there were 06 face to face meetings and 13 meetings via email.

The BOS and BOM were invited to all of the BOD meetings in order to discuss and generate unanimity in the BOD's strategies, business directions over the Executive Board.

- Attendance rate of members

No.	BOD member	Title	Attendance	Rate	Reason for absence
1.	Mr. Nguyen Chi Thanh	BOD Chairman	19/19	100%	
2.	Mdm. Pham Thi Viet Nga	BOD Member	19/19	100%	
3.	Mr. Doan Dinh Duy Khuong	BOD Member Interim General Director	19/19	100%	
4.	Mr. Jun Kuroda	BOD Member	19/19	100%	
5.	Ms. Dang Thi Thu Ha	BOD Member	19/19	100%	
6.	Mr. Tran Chi Liem	Independent BOD Member	19/19	100%	
7.	Mr. Phan Minh Tien	Independent BOD Member	14/19	73.68%	Additional election since 28 Mar 2018

3. Transactions, remuneration, bonuses and benefits of the BOD, BOS and BOM in 2018

The AGM 2017 approved to allocate VND 6 billion, equivalent to 0.92% of PAT to the remuneration of the BOD and BOS in 2018.

Receipts/expenditures of the Remuneration and Bonus Fund

No.	Targets	Amount
1.	Balance at the beginning of the year (01 Jan 2018)	7,704,745,368
2.	Appropriation in 2018:	6,082,027,377
2.1	Remuneration of the BOD, BOS and collaborators	6,000,000,000
2.2	BOD Bonus from received from subsidiaries	82,027,377
3.	Total expenditures:	5,803,120,307
3.1	Remuneration and bonus of the BOD, BOS and collaborators in 2018	3,596,000,000
3.2	Bonus for projects in 2018	850,000,000
3.3	Expenses for other activities	1,357,120,307
4.	Balance as at 31 Dec 2018	7,983,652,438
5.	Appropriation plan for 2019 (projected)	6,000,000,000
6.	Balance after profit distribution in 2018 (projected)	13,983,652,438

Detailed distribution to each member of the BOD and BOS

No.	Name of member	Title	Remuneration and bonus in 2018 (amount before PIT) (VND)
I.	BOARD OF DIRECTORS		2,318,000,000
1	Nguyen Chi Thanh	BOD Chairman	440,000,000
2	Pham Thi Viet Nga	BOD Member	482,000,000
3	Doan Dinh Duy Khuong	BOD Member Interim General Director	448,000,000
4	Jun Kuroda	BOD Member	-
5	Tran Chi Liem	Independent BOD Member	374,000,000

No.	Name of member	Title	Remuneration and bonus in 2018 (amount before PIT) (VND)
6	Dang Thi Thu Ha	BOD Member	354,000,000
7	Phan Minh Tien	Independent BOD Member	220,000,000
II	BOARD OF SUPERVISORY		454,000,000
1	Tran Quoc Hung	Head of the BOS	204,000,000
2	Nguyen Phuong Thao	BOS member (resigned from 25 Oct 2018)	140,000,000
3	Tran Trung Kien	BOS member (appointed from 28 Mar 2018)	110,000,000
Total			2,772,000,000

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

- The BOD always monitors and directs the operations of the BOM, promptly resolves arising issues under the BOD's authority to create favorable conditions for BOM's performances.
- Facing challenges as well as fierce competition in the key activities of the Company, the BOM has been implementing most of the tasks in accordance with the Resolutions of AGM and BOD. Taking into consideration is to review and follow up the Company's development strategy for the period of 2016 - 2020 every quarter/year, to develop the strategy of 2019 - 2023 in order to strengthen the sustainable development foundation.
- Successfully organized the AGM 2017 on 28 Mar 2018. Strictly implemented the reporting regime of Financial Statements FY 2018, Quarterly Financial Statements and the Annual Report 2018.
- 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.
- Continued to appoint Mr. Doan Dinh Duy Khuong (born in 17 Sept 1974) to hold the position as Legal Representative, Interim General Director of DHG Pharma to the end of Term III (2014 – 2018) of the BOD.

Conclusion: During the year, Interim General Director and his managerial staff basically completed the assigned tasks. They 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: BUSINESS PLAN AND STRATEGY 2019 – 2023

1. Strategic orientation 2019 – 2023

The BOD continues to implement in accordance with strategic directions 2016 - 2020 approved by the AGM as follows:

- Maximizing the enterprise value and increasing the interests of all stakeholders
- Being the biggest generic pharmaceutical enterprise in Vietnam
- Being a pharmaceutical enterprise with the most professional, deepest, broadest, and diversified distribution channel
- Being the leading enterprise in science and technology application in operation (R&D, production, information and management)
- Becoming a symbol of humanity in contributing to the society and enhancing the quality of life
- Well-improving and developing crucial resources

2. Strategic solutions 2019 – 2023

- Promoting the utilization of production lines that meet PIC/s – GMP standard and Japan – GMP standard.
- Promoting research and development of new products for domestic and international markets.
- Implementing technical transfer activities to increase winning bid opportunities, to improve reputation with doctors and to create favorable conditions for exports. Implementing OEM for technical transfer enterprises.
- Distributing non-pharmaceutical products that strategic partners are selling in the market.
- Selecting production lines and strategic products to reach EU standard.
- Continuously restructuring the sales system in order to enhance governance efficiency so as to contribute to cost reduction and competitiveness in the domestic market.
- Focusing on media brand investments. Closely coordinating marketing with sales to effectively implement push and pull strategies with customers and consumers.
- Completing a professional, diverse and useful financial management model to quickly advise management levels.
- Continuing to invest in modern-oriented ERP system. Building an integrated system of effective Corporate Governance in order to provide timely, accurate and complete information.

3. Business plan 2019 – 2023:

The BOD is assigned to direct the development of business plan 2019 - 2023 and report at the closest AGM.

PART 4: ORIENTATION AND BUSINESS PLAN FOR 2019

1. Business targets of 2019

Categories	Unit	2019 Plan	2018 Actual	Growth
Net revenue	VND B	3,943	3,882	1.6%
<i>In which:</i>				
+ <i>In-house goods</i>	VND B	3,560	3,171	12.3%
+ <i>Others</i>	VND B	383	711	-46.1%
PBT	VND B	754	732	3.0%
Additionally allocating the operating for bonuses and welfares of employees in 2019 (*)	VND B	47.9		
PBT after additionally allocating the operating budget for bonuses and welfares of employees	VND B	706	732	-3.5%

(*) Since 2019, the Company has allocated 10% of PAT in 2019 for the Bonus and Welfare Fund. 7% shall be booked in the Company's expenses and 3% shall be allocated from the PAT. Accordingly, the profit distribution plan FY 2019 is as follows:

Target	Projected appropriation rate 2019
PAT	100% of PAT
Dividends in 2019	30% par value (by cash)
Allocation to the Bonus and Welfare Fund	3% of consolidated PAT
Bonus for BOD, BOS, Subcommittee's members under the BOD, BOD Secretariat in 2019	VND 6,000,000,000
The remaining profit shall be added to the Investment & Development Fund	The remaining

2. Strategic solutions for 2019

2019 is a meaningful year for DHG Pharma's activities - the 45th anniversary of its establishment, marking the journey of "For a more beautiful and healthier life". In order to mark the important historical milestone of DHG Pharma, the Executive Board continuously strives to overcome all difficulties and challenges to complete targets under the theme "**Increasing productivity and improving efficiency**". Therefore, DHG Pharma has proactively reviewed and proposed strategic solutions of the Market Division, Production Division, Financial - Accounting Division, HR – Back office Division in order for the Company's activities to be operated smoothly and achieved the highest efficiency.

2.1. Market Sector

- Shall operate highly profitable product portfolios.
- Sales of new products shall reach at least VND 100 billion.
- Shall maximize the capacity of the factory meeting PIC/s - GMP, GMP Japan. Shall invest in the Clinic channel. Shall focus on product introduction to professionals.
- Shall focus on media investment on brands. Marketing and sales shall closely coordinate to effectively implement the push and pull strategy with customers and consumers.

2.2. Production Sector

- Shall restructure the production system effectively.
- Shall expand batch size and reduce losses in production.
- Shall announce the tablet production line of Non – Betalactam Plant meeting Japan - GMP before Q3/2019.
- Shall implement automatic production lines.
- Shall study warehouse coding by QR code to help distribution center professionally and logically manage imports and exports.
- Shall develop at least 8 new generic products with high-standard API.

2.3. Finance – Accounting Sector

- Shall continue to design automatic financial accounting management system on BFO.
- Shall strengthen analysis and advice on effective use of CAPEX budget and OPEX budget of the Company.
- Shall increase financial income for the Company by effectively utilizing cash flow and financial leverage.
- Shall invest in ERP solution to overcome limitations of BFO.
- Shall add more value to customers through increased utility services.
- Shall revise and supplement financial management regulations and processes, aiming to build new frameworks which are implemented simply and quickly but still strictly controlled and effective.

2.4. HR – Back office Sector

- Shall apply technology, set up electronic office and reform administrative procedures.
- Shall establish, issue and control 100% of management and administration processes throughout the Company system.
- Shall organize emulation movement to increase productivity and reduce losses in all activities to celebrate the 45th anniversary of the Company.
- Shall promote the movement of innovations and initiatives to bring high feasibility initiatives into practice and to contribute in operating costs savings. Shall optimize the implementation duration of departments.

Above is the Report of the BOD on the evaluation of the BOD's performance in term III (2014 – 2018), BOD's performance in 2018, business orientation, plan and strategy of 2019 as well as the business plan 2019 – 2023.

Respectfully submit to the AGM for consideration and approval.

Best regards./.

Recipients:

- As above;
- Archived: BOD Secretary.

**ON BEHALF OF THE BOD
BOD MEMBER, INTERIM GENERAL DIRECTOR**

Doan Dinh Duy Khuong

[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.]