

REPORT OF THE BOARD OF DIRECTORS

***(Re: Evaluation on the Company's performance in 2019;
Performance and remuneration of the Board of Directors in 2019;
Production and business plan for 2020)***

Kind Attn to: GENERAL MEETING OF SHAREHOLDERS OF DHG PHARMA

- Pursuant to Enterprise Law No.68/2014/QH13 dated 26 Nov 2014;
- Pursuant to the Charter of DHG Pharmaceutical Joint Stock Company (DHG Pharma) issued on 25 June 2019,

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

PART 1: PERFORMANCE OF THE COMPANY IN 2019**1. Overview of the pharmaceutical industry in 2019**

- Pursuant to IQVIA report in Q4/2019, Vietnam pharmaceutical market value reached VND 103 trillion, up 13%. The Hospital channel continued to be the driving force of the market growth, up 18% while the Pharmacy channel only witnessed an increase of 1%.
- Pursuant to the Government's report, in 2019, there were 85 million people having health insurance nationwide, reaching 89.8% and exceeding 1.7% of the target assigned by the National Assembly. The target is that 90% of population will have health insurance by 2020.
- The scheme to control the prescription, sale of prescription drugs and regulations on drug bidding are also factors that have strong impact on the performance of pharmaceutical enterprises. Accordingly, prescription drugs, especially antibiotics, are strictly controlled with priority given to high-quality medicines which are produced domestically.
- The M&A trend between domestic enterprises and foreign enterprises strongly takes place in the period 2016 - 2019. Domestic pharmaceutical enterprises expect that the cooperation with foreign enterprises will bring more capital, technology, high-quality human resources (HR), towards products achieving higher standards such as EU – GMP, Japan – GMP, PIC/s – GMP, etc. while the connection with major retailers will

help to improve the distribution chain, expand product consumption network, and effectively apply the 4.0 technology like nowadays.

2. Business performance in 2019:

Target	2019 Forecast	2019 Actual	2018 Actual	% Actual/2019 Forecast	Growth 2019/2018
Net sales	3,943	3,897	3,882	98.8%	0.4%
Profit before tax	706	713	732	101.0%	-2.5%
Profit after tax		631	651		-3.0%

- In 2019, pursuant to the AGM resolution, the Company changed the recognition method of Bonus and Welfare Fund to expenses instead of profit after tax so that the profit before tax, profit after tax and profitability ratios (ROS, ROA, ROE) slightly decreased compared to 2019. If this factor is excluded, profit before tax FY2019 will increase by 4% y.o.y and so will the profitability ratio.
- Net sales FY2019 reached VND 3,897 billion, equivalent to 98.8% of the yearly target, up 0.4% y.o.y. With the efforts of the Board of Management (BOM) in cost reduction, the profit before tax exceeded the target and reached VND 713 billion.
- Thanks to the business performance in 2019, DHG Pharma continued to maintain its leading position in Vietnam Pharmaceutical Industry for 23 consecutive years in terms of sales, profit and production capacity. DHG Pharma continued to hold the position of Top 10 pharmaceutical enterprises with the largest market share in Vietnam Pharmaceutical Industry (in accordance with IQVIA statistic in Q4/2019).

The above business performance shows that although the economy still faced many difficulties, DHG Pharma successfully achieved the business target FY2019 assigned by the General Meeting of Shareholders thanks to the efforts and determination of the BOD, the BOM and all staff. It created a solid foundation for the sustainable development of DHG Pharma in the following years.

3. Major implemented activities in 2019:

❖ Market activities

- Currently, DHG Pharma has 35 sales branches across the country with 3 central warehouses to ensure the number of goods, delivery time and good storage demand.
- Diversified marketing and sales activities such as seminars, healthcare sponsorships, customer care, etc. to increase sales of key brands.
- Staff capability has been improved through advanced training in product knowledge, sales skills, customer site management, training for sales representatives, etc.
- A number of DHG Pharma products were continued to be deployed on e-commerce channel, helping consumers access to qualified and healthy products from DHG Pharma easier.
- DHG Pharma continued to focus on promoting sales of key brands. Sales of in-house goods in 2019 reached VND 3,275 billion, up 3.3% y.o.y. This figure was

remarkable in the context of 2019, but it was still lower than the expectation of the BOM and the BOD.

- DHG Pharma boosted new product development activities. Each year, the sales of new products were about VND 100 billion.
- The number of DHG Pharma's club customers was more than 15,000 customers, up 7.1% compared to 2018.

❖ **Production, quality, R&D**

- The effervescent tablet production line and effervescent powder production line satisfying PIC/s – GMP standard, the tablet production line of Non-Betalactam factory achieving Japan – GMP certificate as well as strengthening automation of machinery and equipment contributed to timely supply goods to the market, increase export opportunities and create consumer confidence in the Company's products. In addition, other production lines at DHG Pharma continued to be certified in accordance with the requirements of WHO - GMP/GLP/GSP.
- Self-research and development of new products by internal resources, scientific cooperation with prestigious domestic and foreign institutes/schools/research centers for technology transfer contributed to increase the product differences for DHG Pharma, increase competitiveness so that the Company will continue leading the pharmaceutical market.
- Productivity project (batch size up) for 21 products was implemented.
- 35 products were announced bioequivalent as at 31 Dec 2019.

❖ **Other activities**

- The conversion of data reports from Vietnam Accounting Standards (VAS) to International Financial Report Standards (IFRS) after the merger was timely implemented.
- The 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.
- Many community programs with profound humanity were implemented for the citizen across the country as well as in the Company. The most outstanding program was #GoGreenDHG campaign for all employees of the Company based on three main orientations: reducing disposable waste, planting more trees to protect the environment, recycling and saving natural resources. Furthermore, DHG Pharma continued to accompany the volunteer doctor team of Can Tho Department of Health to carry out 43 free medical examinations and medicine delivery for 20,250 people nationwide and in Cambodia.

PART 2: PERFORMANCE AND REMUNERATION OF THE BOARD OF DIRECTORS IN 2019

In 2019, the BOD focused on working in accordance with the functions, duties and powers of the collective and individuals. The BOD complied with the Enterprise Law, the Company's Charter and the 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 the regulations.

1. Implementation result of the AGM Resolution 2018

No.	Resolution content	Implementation result
1.	Business targets in 2019: - Net sales: VND 3,943 billion. - Profit before tax: VND 706 billion.	The net sales reached 98.8% and the profit reached 101% of the yearly target.
2.	Profit distribution in 2018: - Dividend payment in 2018: 35% of par value - Allocation to the Bonus and Welfare Fund - Allocation to the BOD Remuneration Fund - Allocation to the Investment & Development Fund	- Dividend payment in 2018 through 3 phases: + Advance payment of the 1 st phase: 10%/par value, payment date: 31 Aug 2018. + Advance payment of the 2 nd phase: 20%/par value, payment date: 17 June 2019. + Last advance payment: 5%/par value, payment date: 17 July 2019. - Allocated 10% of profit after tax to the Bonus and Welfare Fund - Allocated VND 6 billion to the BOD Remuneration Fund - Allocated VND 122,368,879,236 (the remaining amount after dividend payment, allocation to funds) to the Investment & Development Fund
3.	Selection of Deloitte Vietnam Company Ltd. as the auditor of the financial statements FY 2019.	Signed an audit contract with Deloitte on 03 July 2019.
4.	Amendments and supplements of the business lines of DHG Pharma.	The 27 th business registration certificate dated 01 July 2019 was issued by Department of Planning and Investment of Can Tho City.
5.	Changing the organizational structure, management and control from the BOS model to the Audit Committee model under the BOD.	Established the Audit Committee model under the BOD. The number of the Audit Committee members is 3 members. In which: Head of the Audit Committee is an independent BOD member.

No.	Resolution content	Implementation result
6.	Amendments and supplements of the Charter of DHG Pharma.	The 22 nd amendments and supplements were issued on 25 June 2019.
7.	Amendments and supplements of the Internal Regulation on Corporate Governance.	The 2 nd amendments and supplements were issued on 29 July 2019.

2. Summary of the BOD meetings and resolutions

- In 2019, the BOD conducted 17 meetings, issued 17 Resolutions and 39 Decisions to solve issues under the functions and authorities of the BOD. In which, there were 05 face to face meetings and 12 meetings via email.
- 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:

The BOD members Term III (2014 – 2018): before 11 June 2019

No.	BOD members	Position	Meeting attendance	Rate	Reasons for absence
1.	Mr. Nguyen Chi Thanh	BOD Chairman	7/7	100%	
2.	Ms. Dang Thi Thu Ha	BOD Member	7/7	100%	
3.	Mdm. Pham Thi Viet Nga	BOD Member	7/7	100%	
4.	Mr. Doan Dinh Duy Khuong	BOD Member Interim General Director	7/7	100%	
5.	Mr. Jun Kuroda	BOD Member	7/7	100%	
6.	Mr. Tran Chi Liem	Independent BOD member	7/7	100%	
7.	Mr. Phan Minh Tien	Independent BOD member	7/7	100%	

The AGM 2018 dated 11 June 2019 conducted election of the BOD members Term IV (2019 – 2023), with members and positions as follows:

No.	BOD members	Position	Meeting attendance	Rate	Reasons for absence
1.	Ms. Dang Thi Thu Ha	BOD Chairwoman	10/10	100%	
2.	Mr. Jun Kuroda	BOD Member	10/10	100%	
3.	Mr. Masashi Nakaura	BOD Member (*)	9/10	90%	Absent - business trip
4.	Mr. Maki Kamijo	BOD Member	10/10	100%	
5.	Mr. Doan Dinh Duy Khuong	BOD Member Interim General Director (*)	10/10	100%	
6.	Mr. Phan Minh Tien	Independent BOD member	9/10	90%	Absent - business trip
7.	Mr. Do Le Hung	Independent BOD member	10/10	100%	

(*) Since 01 Jan 2020, Mr. Masashi Nakaura has become General Director (CEO), Mr. Doan Dinh Duy Khuong has become Chief Executive Officer (COO).

3. Transactions, remuneration, bonuses and benefits of the BOD, BOS and BOM in 2019

The AGM 2018 approved to allocate VND 6 billion, equivalent to 0.9% of profit after tax to the remuneration of the BOD in 2019.

Receipts/expenses of the Remuneration and Bonus Fund

No.	Target	Amount
1	Balance at the beginning of the year (01 Jan 2019)	7,983,652,438
2	Allocation from PAT FY 2018 in line with the AGM Resolution	6,000,000,000
3	Total expenses:	8,048,113,592
3.1	Remunerations and bonuses of the BOD and collaborators in 2019	4,756,000,000
3.2	Extraordinary bonuses for projects	380,000,000
3.3	Others	3,446,396,284
4	Balance as at 31 Dec 2019	5,935,538,846
5	Appropriation plan in 2020 (projected)	6,000,000,000
	Remunerations of the BOD and collaborators	6,000,000,000
6	Balance after profit distribution in 2019 (projected)	11,935,538,846

Detailed distribution to each member of the BOD, BOM

No.	Full name	Position	Salary	Remuneration	Total
1	Ms. Dang Thi Thu Ha	BOD Chairwoman	0%	100%	100%
2	Mr. Jun Kuroda	BOD Member Head of Strategic Committee	0%	100%	100%
3	Mr. Masashi Nakaura	BOD Member General Director	0%	100%	100%
4	Mr. Maki Kamijo	BOD Member	0%	100%	100%
5	Mr. Doan Dinh Duy Khuong	BOD Member Chief Executive Officer	88%	12%	100%
6	Mr. Phan Minh Tien	Independent BOD member Head of Nomination Committee	0%	100%	100%
7	Mr. Do Le Hung	Independent BOD member Head of Audit Committee	0%	100%	100%

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. The BOM has been implementing most of the tasks in accordance

with the Resolutions of AGM and BOD and developing the strategic orientation in order to strengthen the sustainable development foundation.

- 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. Successfully organized the AGM 2018 on 11 June 2019. Strictly implemented the reporting regime of Financial Statements FY 2019, Quarterly Financial Statements, the Annual Report and Sustainable Development Report FY 2019.
- Fulfilled processes/regulations/GOA in accordance with the operation situation of the Company.
- Continued to appoint Mr. Doan Dinh Duy Khuong (born on 17 Sept 1974) to hold the position as Legal Representative, Interim General Director of DHG Pharma until 31 Dec 2019.
- Appointed Mr. Masashi Nakaura to hold the position as General Director (CEO), Legal Representative and appointed Mr. Doan Dinh Duy Khuong to hold the position as Chief Executive Officer (COO) from 01 Jan 2020 to 31 Dec 2022.

Conclusion: During the year, the BOM and the managerial staff basically completed the tasks assigned by the AGM. 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: PRODUCTION AND BUSINESS PLAN FOR 2020

1. Business targets for 2020

Target	2019 Actual	2020 Forecast	+/- 2020/2019
Net sales	3,897	3,866	-0.8%
Profit before tax	713	720	1.0%

2. Strategic solutions in 2020

Market activities

- Enhance the quality of education and training for sales staff on competency, sales skills and sales management, compliance with regulations, products, sales programs, DHG Pharma Cultural Identity, etc.
- Increase investment in hospital channel, increase product launch activities to doctors and develop projects to monitor drug efficacy nationwide.
- Orientation of the sales portfolio by each channel, each region, ensuring advantages in 2020 and development of products to ensure the mid-term strategy until 2023.

- Focus on exporting high standard products to developed countries.
- A number of DHG Pharma products were deployed on e-commerce channels, helping consumers more easily access to qualified and healthy products.
- Enhance marketing activities, use appropriate and effective marketing strategies in current market conditions.

Production - Quality – R&D

- Reduce production costs: reduce loss, increase equipment efficiency, allocate personnel reasonably, save costs, etc. Improve efficiency in production by gradually implementing the Overall Equipment Evaluation (OEE) project for all production equipment of the packaging plant.
- Develop and implement training plans, transfer and swap jobs in accordance with the requirements to ensure personnel to meet production and management team.
- Improve the quality management system: Improve production quality, improve the personnel quality, etc. Develop training plans to improve professional knowledge about global GMP standards for related parties in the Company, through organizing visits or sending employees to train at domestic and foreign factories met Japan – GMP standards or FDA standards (U.S. Food and Drug Administration), etc.
- Pharmacovigilance system will be completed before Oct 2020.
- New products have been put into production. Cooperate with departments to continue implementing technology transfer projects.
- Find more sources of raw materials, packaging with quality, competitive prices to make a purchase plan that meets the Company's requirements. Build inventory plan, order with the optimal quantity to get preferential policies of the supplier; reduce input prices for production, reduce budget for purchasing raw materials and packaging.

Others

- Continue to effectively manage working capital when the domestic and international economic situation feature numerous changes. Focus on analyzing, evaluating, proposing and participating in projects to improve efficiency and the Company's performance.
- Improve the capacity of the accounting and finance team to meet the requirements of joining multinational corporations. Develop a roadmap for preparing Financial Statements in accordance with IFRS standards.
- Maintain and improve the quality of HR. The Company will focus on four main areas: ensuring the quality of HR properly, sufficiently and promptly; selecting, evaluating, investing in HR development to improve skills, knowledge and value; developing successors and career development roadmap for staff.

- Enhance the discipline and professionalism in the Company such as creating a working environment for staff to feel secure and realize their own values, promoting the effectiveness of the Key Performance Indicators (KPI), preserving and promoting DHG Pharma's culture, reforming administrative procedures through reviewing and cutting down on redundant procedures.

Above is the BOD Report on the evaluation of the Company's performance in 2019; Performance and remuneration of the BOD in 2019; production and business plan for 2020. Respectfully submit to the AGM for consideration and approval.

Best regards./.

Recipients:

- As above;
- Archived: BOD Secretary.

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

Masashi Nakaura

[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.]