

## **BUSINESS PEFROMANCE REPORT 2012**

### ***2012 – The year of reforms and internal strength gain.***

*The starting year to restructure the administrative system in order to premise for a new period of strong and sustainable development, focusing in jewelry manufacturing and selling - are core business and advantages of PNJ.*

### **Vietnam Macroeconomic and Gold Market Overview 2012**

The year 2012 was a hard year for the world and Vietnam. The European sovereign-debt crisis still has not solved thoroughly; political conflicts in the Middle East and disputes in island areas once again contribute to hinder the recovery of global economy. Beside common difficulties of the world, Vietnam also has to face with specific problems:

- CPI has only risen 6.81% compared to the 18.13% growth rate of 2011. CPI rised essentially because of the rising in price level of government-regulated fields such as health services, education and effect of electric and fuel price increasing. Purchasing power and consumer confidence decreasing are also the reason.
- From early 2012, the Government reset the target of focusing more on controlling inflation instead of economic growth. 2012's GDP growth rate is 5.03%, lower significantly than 6% of plan. This is also the lowest growth rate in the recent 20 years, just higher than 4.8% of 1999 – the year severely affected by the Asian financial crisis.

In particular about the gold jewelry market, global consumer demand in 2012 decreased 3%, corresponding to the decreased rate of 12% of Vietnam market (*source: WGC Q4/2012 report*). Moreover, changes in macroeconomic policies also affected significantly to consumers and firms in gold industry.

Besides challenges in business environment, 2012 is a pivotal year in 10-year strategy in order to premise to bring PNJ to a new level, develop more strongly and more sustainably, and approach to the international corporate standard. The company has focused resources on the corporate restructuring project. About the business operating result, gross consolidated revenue reached VND 6,777.8 billion. Parent company's revenue reached VND 6,428.4 billion (equivalent to 62% of plan) and consolidated profit after tax reached VND 254.4 billion (equivalent to 96% of plan). Gold bar business's revenue declined dramatically due to the effect of macroeconomic policies, the main reason of the declining revenue, yet, this part has a low profit margin, contributed only 4.5% to gross profit. Core business is gold jewelry business, which has still developed stably with revenue of VND 3,647 billion, raised by 3%.

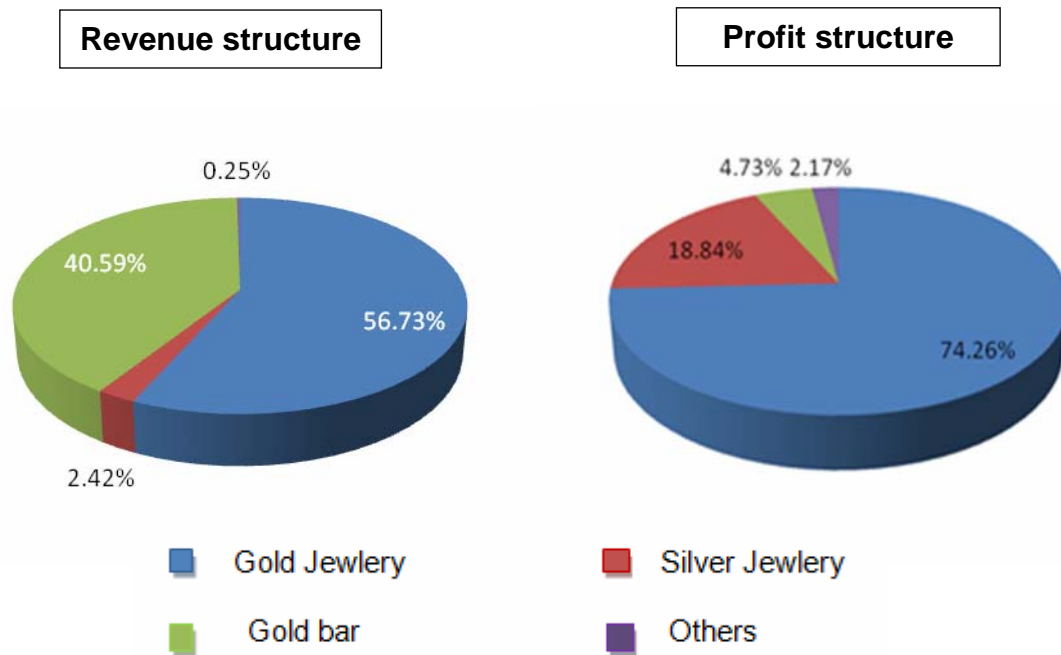
Overview of the implementation of the plan objectives:

Unit: billion VND

No.	Items	Plan of 2012	Implementation of 2012	% Implementation / Plan
I	Total Revenue	10.303	6.428	62%
II	Charter Capital	800	720	90%
III	Profit before tax (non-consolidated)	316	280	89%
IV	Profit after tax (non-consolidated)	252	225	89%
V	Profit before tax (consolidated)	326	310	95%
VI	Profit after tax (consolidated)	264	254	96%
VII	Dividend	23%	23%	

## Operating Activities – 2012

### I. REVENUE AND PROFIT BY BRAND:



**1. PNJ Gold:** occupied 57% total revenue and 74% gross profit

Unit: billion dong

	Plan	2012	2011	% Increase/ Decrease	% Implementation / Plan
Revenue	4,038	3.647	3.541	3%	90%
Gross Profit		409	376	9%	

- **Revenue:**

With 3 main sale channels such as: wholesale, retail and export, which contributed 55%, 43% and 2% of percentages respectively to PNJ Gold brand revenue.

In 2012, wholesale segment was a highlight for getting over the general downtrend of the market, reached the growth rate of 8%, the highest among channels. The next was retail segment, maintained the revenue compared to 2011.

Beside the advantage of a strong brand, PNJ goes beyond the competitors and this swimming upstream result is the crystallization of the tireless efforts of entire company's Board of Management and staff.

Realizing 2012 is the year of multi-faceted problems, turning advantages into profit requires flexible management in business policies. Board of Management regularly assessed market situation and issued newer and more appropriate sale policies and new marketing strategies with each market situation. Hence, while most fashion and luxury goods industries being declined in revenue, gold jewelry revenue of PNJ still grew stably.

Export segment, in particularly, due to the lasting predicament of European and American market, affected severely to business activities of large jewelry companies, which are PNJ's clients. However, with the company efforts, PNJ hasn't only kept traditional customers but also received many orders from new customers. In the end of 2012 and the early of 2013, number of orders increased, promising a more dynamic 2013.

- **Distribution system:**

Total PNJ Gold stores nationwide counted until December 31<sup>st</sup> 2012 are 57, increasing 2 stores compared to that of the end of 2011.

- **Gross profit:**

Grew 9%, higher than revenue growth rate.

Quick increasing profit somewhat reflects the result of company restructuring. Despite official application from Q3/2012, new administrative model began to reduce cost, improve profit margin from 10.6% in 2011 to 11.2% in 2012.

Thanks to the change of management procedure in manufacturing combining with scientifically general cost management method, profit margin of almost sale channels increased: wholesale segment grew 15%, retail segment grew 10%.

In August and September of 2012, jewelry workshop was moved from headquarter at Phan Dang Luu street to Duong Quang Ham street, Go Vap District with usable area of nearly 12,000 m<sup>2</sup>, 3 times larger than the old workshop. Although the manufacturing was interrupted, a new spacious and larger size workshop is needed for PNJ nowadays development and demand for the next 10 years plan.

With the large manufacturing area, closed manufacturing model is applied thoroughly, waste costs are reduced significantly, contributing to raise profit margin of most sale channels.

## 2. PNJ Silver:

*Occupied 2.4% revenue and 18.8% gross profit.*

*Unit: billion dong*

	Plan	2012	2011	% Increase/ Decrease	% Implementation / Plan
Revenue	231	156	165	-5%	68%
Gross Profit		104	129	-19%	

90% revenue came from domestic market and 10% from export business activities. In domestic market, there are 2 main important areas in HCMC and Northern area (includes Hanoi and neighbor provinces) with revenue ratios are 64% and 21%, respectively.

PNJ Silver products are fashion jewelry goods with target customers are students and medium income young adults. Economic downturn has affected greatly these people's income, so the shopping habits are also changed.

Latest report of Nielsen Vietnam shows that 63% of surveyed customers cut down expenditure for fashion goods in 2012. Customers focused only on essential products and considered expending more carefully.

Facing with great challenges from the business environment, Board of Management has observed closely, issued reasonable distribution system expansion plans combining with attractive marketing, PR and promotion plans in order to raise demand, attract customer, which resulted in gaining satisfactory results last year.

- **Gross profit:**

To stimulate demand and attract customers, promotion programs are necessary. Many promotion events with discount rate up to 20-30% attracted a lot of customers.

This is also a way for PNJ to share the difficulties with customers; therefore gross profit was inevitably affected.

- **Distribution system:**

Last year PNJ opened 11 stores, which concentrated in HCMC and northern provinces. As of December 31<sup>st</sup>, 2012, there are 88 PNJ Silver stores in nationwide.

### 3. **Gold bar:** occupied 40.6% revenue and 5.1% gross profit

*Unit: billion dong*

	<b>Plan</b>	<b>2012</b>	<b>2011</b>	<b>% Increase/ Decrease</b>	<b>% Implementation / Plan</b>
Revenue	6,000	2,609	8,640	-70%	43%
Gross Profit		26	85	-69%	

Gold bar business was considered as an unpredictable activity due to high sensitivity with macroeconomic policies. Last year, the policy of tightening manufacturing and selling gold bar activities (Government Decree 24/ND-CP) made many people worried about owning gold bar hence making the business investment demand declined. According to WGC Q4/2012 report, gold demand for investment last year in Vietnam market declined 24%, particularly in Q4 declined 38%.

However, because of low marginal profit, this business activity contributed insignificantly to total profit, only 4.7% of company's 2012 gross profit.

- **Gross profit:**

Marginal profit was relatively stable, total absolute value declined 67% corresponding to revenue decrease rate of 70%.

### 4. **Other business activities:**

*Occupied 0.25% revenue and 2.16% gross profit.*

*Unit: billion dong*

	<b>Plan</b>	<b>2012</b>	<b>2011</b>	<b>% Increase/ Decrease</b>	<b>% Implementation /Plan</b>
Revenue	34.2	16.1	22.5	-28%	47%
Gross Profit		11.9	18.8	-37%	

Concerning with other services and watches distribution of PNJ, contributed insignificantly to revenue and profit of the company.

## **II. TYPICAL FINANCIAL RATIOS:**

**2012 marked a renewal process with the completion of a larger and more modern jewelry workshop, completion of strategic consultant project and beginning to restructure the administrative system to increase the effectiveness of financial management.**

### **1. Liquidity:**

Quick Ratio and Current Ratio were always at safe level and Current Ratio is always higher than 1. Liquidity Ratios partly reflected the specific of a jewelry enterprise in which loans are virtually transformed into inventory - which occupies a large percentage in total short-term assets.

Quick Ratio is approximately equal to 0.5. However, the difference between PNJ and other jewelry companies was the high liquidity of inventory. More than 95% of inventory was gold products – a special kind of product that has higher liquidity than other common goods, especially in Vietnam market.

Company's debt situation was controlled well and appropriately. Budget department always dynamically looked for sources of equity at lowest cost. Company's capital structure was always approximately equal to 1, lower than the average level of the industry showing the stability and caution in PNJ's financial management model.

### **2. Profitability:**

<b>Items</b>	<b>2012</b>	<b>2011</b>
Gross Profit/ Net Revenue	8.6 %	3.7%
Profit before tax/ Net Revenue	4.4 %	1.7 %
Profit after tax/ Net Revenue	3.5 %	1.4 %
Profit after tax/Total asset (ROA)	9.0 %	9.0 %
Profit after tax/ Equity (ROE)	19.1 %	22.5 %

Despite the decline in revenue and profit, profitability indicators increased outstandingly. The percentage decrease of gold bar and increase of gold jewelry which has much higher marginal profit in revenue were the main reasons of the profit improvement to the company.

Percentage of gold bar and 24K gold in revenue reduced from 79% in 2011 to 41% in 2012, resulted in increasing strongly the percentage of gold jewelry in revenue (from 20.4% to 57%). Changing in revenue structure helped raised the gross profit 132%, reached 8.6%. Profit before taxes/ net revenue and Profit after taxes/ net revenue ratio also grew 2.5 times.

Profitability ratios' growing is an inevitable trend of PNJ's future when gold and silver jewelry business are bringing into play advantages and affirming the role of a core business of PNJ.

Profit after taxes on total assets ratio grew slightly. In particularly, Profit after taxes / equity ratio decreased due to the raising equity from VND 600 billion to 720 billion from capital reserves in Q4.

### III. INVESTMENT ACTIVITIES:

In 2012, PNJ conducted divestment from its subsidiary company named Dai Viet and earned VND 40.2 billion profit. Until December 31<sup>st</sup>, 2012 total investments in subsidiaries and financial investment activities of PNJ were 764 billion VND, decreased 4% compared to the same period in 2011.

*Unit: Million VND*

No.	Name	% ownership	31/12/2012	31/12/2011
<b>I</b>	<b>Subsidiaries</b>		<b>20,000</b>	<b>90,000</b>
	Vinagas	-	-	70,000
	CAO Fashion	100%	10,000	10,000
	PNJ Laboratory	100%	10,000	10,000
<b>II</b>	<b>Joint venture Company</b>		<b>230,475</b>	<b>230,475</b>
	SFC	49.99%	138,609	138,609
	Dong A Land	30.62%	91,866	91,866
<b>III</b>	<b>Others</b>		<b>513,242</b>	<b>474,745</b>
	Que Huong Liberty	2.6%	42,500	42,500
	Dong A Bank	7.7%	395,272	356,775
	Sai Gon M&C	5%	65,380	65,380
	Hoang Minh Giam		10,090	10,090
<b>IV</b>	<b>Reservation</b>		<b>(43,341)</b>	<b>(34,178)</b>
	<b>Total</b>		<b>720,376</b>	<b>761,042</b>

Investment activities did not have many changes. The total dividend earned in 2012 was VND 67.5 billion, mainly relating to investments in EAB, SFC and Que Huong.

#### \* Subsidiaries' business activities:

- **CAO Fashion Ltd. Co.:** VND 10 billion of charter capital; 2012 revenue reached VND 73 billion, decreased 12% compared to 2011 (VND 83 billion). Until late 2012, distribution system of CAO consisted of 23 stores, remained the same with 2011.
- **PNJ Laboratory Company Ltd.:** VND 10 billion of charter capital; 2012 revenue reached VND 6.9 billion; profit after taxes reached VND 972 million.

### IV. KEY MISSIONS IMPLEMENTATION:

#### **“Strengthening and increasing internal strength are stable steps”**

Instead of targeting an impressive growth in short-term, the restructuring of PNJ and performance improvement are considered as core basis for strong and sustainable growth in the future by the Board of Management.

With orientation of increasing value-added in long-term for shareholders, in 2012 after finishing the strategic consultant project, Board of Management and all staff of PNJ have embarked in restructuring the company in accordance with the approved plan.

## **1. Manufacturing Activities**

On 18/10/2012, new jewelry workshop was officially inaugurated with investment equity of nearly 120 billion VND, total usable area up to 12,500m<sup>2</sup>, which was one of the largest jewelry workshops in Asia. Official opening of the new jewelry workshop is not only an affirmation for the position of a leading enterprise in the industry; it also marks a new step of PNJ development on the way to the top.

Although the new jewelry workshop only operated in the last 4 months of 2012, it achieved many satisfactory results.

- Reducing operational cost; closed manufacturing procedure; increasing industrialized contents in manufacturing, hence reducing manufacturing cost and waste. Also, contributing to increasing gross profit
- Carrying on applying ERP system, a manufacturing module, to ease the managing process.
- Spacious working environment, convenient common activities and resting space makes employees feel comfortable, increasing productivity.
- In 2012, many training classes to increase working standard and awareness about change, working quality self-control were organized, helped increasing workshop workforce quality.

Despite determining the relocation of workshop is necessary, the progress of production and sales due to production interruptions during the two months of relocation was inevitably affected. This is also one of the causes for slow growth in revenue in 2012.

## **2. Administrative – Human Resources:**

Being one of the key goals in the company restructuring strategy, Administrative and Human resources activities in 2012 were improved a lot on the way to become an international standard company model.

- With the consultancy of strategic consultant company, new management model was approved and applied in 2012. Implementing new layout, re-appointing leadership positions and suitable job titles. Recruiting more personnel having long time experience working in senior management positions in multinational companies, contributing to the quality of human resources.
- Ratifying cooperation project with HAY GROUP workforce consultant to build a job description and assessing each position table, onward to build a set of capacity dictionary. Initially applying new KPIs in achievements management.
- Going on conducting awareness raising about change and core values program of company on all staff.

With high effort in restructuring and making PNJ developing far further, Board of Management considered workforce quality improving is a prerequisite factor to build and operate the system effectively. 2013 is premised with stronger reorganizing to bring into play people strength in PNJ operation system.

## **3. Distribution system developing:**

Until 31/12/2012, PNJ and CAO store system has 167 stores, including 57 PNJ Gold stores, 88 PNJ Silver stores and 22 CAO & Jemma stores.

System expanse was assessed carefully, focusing on the quality instead of the quantity of stores. In 2012, the company opened 2 PNJ Gold stores and 11 PNJ Silver stores. Thanks to carefully researching, almost newly opened stores reached expected revenue and operated effectively.

## **4. Financial management and IT:**

Management activities are pushed up; Management accounting and Financial analysis Department are developed.

Table of financial indicators about profitability, liquidity and operational capacity is tailored for each sale channel and each product range so supervision can be more closely. Many modern measurement methods are applied to count frequency of successful deal, inventory turnover...

ERP – Xman management program was built completely last year which was a big advantage for company's management activities. Almost relating personnel can use ERP proficiently in tasks, information accessing thus becomes more accurate and quick.

## **V. RISK MANAGEMENT:**

Facing with risks in corporate operation is inevitable. Understanding the nature and characteristic of risk is the key to prevent and deal with risk, ensure a sustainable development. With broad experience in jewelry field, PNJ's Board of Management aware that: "building risk management system for entire manufacturing and business activities and constantly improving the system which means self-building great strengths for the company."

### **1. Risk management in Business strategy:**

#### **Reducing risk through building appropriate operation model and development strategy.**

From the early days of the company, Board of Management saw the strong development potential of jewelry industry in Vietnam and global market when customers demand more and more increasing. Long-term strategy was issued with main targets: building a credible brand, capability to spread throughout every province in Vietnam, and reaching out to global market.

- To achieve this objective, must first build an appropriate business standard, this is becoming a both jewelry manufacturing and business enterprise. This model allows PNJ manage product quality strictly, take the initiative in management and increase value for shareholders. By the end of 2012, yield production and consumption per year reached over 2 million products. The company continues to maintain the position as a jewelry manufacturing and retailing company in Vietnam for many years.
- Appropriate business strategy for each development stage.
  - o Focus on brand building based on five core values: credibility - quality - responsibility - creativity - innovation.
  - o Take the initiative in training skilled workforce. Every year, beside training programs, PNJ also organizes competitions to motivate the staff to always self-train.
  - o Constantly improve manufacturing process
  - o Strategies to expand the distribution system are researched carefully, closely followed the market development. Efficiency is the top priority. In 2012, all 14 newly opened stores achieved sales expectations just after 2 to 3 months of operation.

Despite being stable with the position of a leading enterprise, beyond other business rivals, Board of Management doesn't therefore cease to learn. In late 2011, PNJ signed a consultant contract with strategic consultant partner to complete development plan for the next 10 years. With many years experience working with leading jewelry companies in the world, consultant company has come up with specific strategy for each stage and plan to re-evaluate after each stage of implementation.

### **2. Business environment risk:**

- Political risk: This is said to be the most unpredictable risk that has a major impact on business performance of the company. The company always follows the guidelines and policies of the Government to develop appropriate action plans

In 2012, the Government decree of 24/ND-CP (applied from 25/05/2012) stated that Central Bank monopoly in producing gold bar, affecting the business of gold bar including the PNJ, but did not affect the main product of the company – jewelry gold. To meet customer demand, the company



has flexibly launched packed smooth ring products, ensuring that people buy gold rings not to worry about the quality.

The gold market management policies focus on gold, particularly jewelry gold is considered a mere commodity and has always been encouraged to develop by the Government. Especially products with prestigious brands like PNJ.

- Risk of gold price fluctuations affect the company's input costs:
  - o PNJ has a team of experienced analysts to predict gold price trend, not misdirects into speculation, but focuses on the hedge risks tools.
  - o To minimize the risk of fluctuations in raw material prices, partially PNJ borrow gold from the bank in order to ensure the balance between inventory and gold loans.
  - o On the other hand volatility is calculated safely with relatively stable margin.
- Risk of supply and demand:
  - o Always research, evaluate new markets in order to expand the system, increases revenue.
  - o Always strengthen, enhance brand value, increase market share.
  - o Appropriate marketing strategy with each customer segment. In each region PNJ also has distinct strategies to better suit customer tastes here.

### **3. Financial risk:**

- Liquidity risk: As indicated in the financial indicators, ratio of PNJ debt/capital quite balanced is at safe levels, expressing caution in the view of Board of Management.
- Risk of capital expenditure: control well interest rate of loans. Review all bank and bank products to ensure the lowest interest. In 2012, VND interest rate on average is 10%.

### **4. Risk in Compliance with process and regulation:**

- Every activity of PNJ complies with rigorous process, always under assessment control and continuous improvement after ISO 9001.
- With ERP software, the control becomes easier. All management processes are gradually being standardized and automated.
- Internal control department is responsible for checking compliance with the regulations of PNJ as well as the implementation of provisions and policies of the Government. In addition to the inspection, periodic assessment, the control department also conducts spot checks.

## **VI. INVESTORS RELATION IN 2012:**

Investor relation board welcomed more than 80 domestic and foreign investors visit and work at the headquarters of PNJ in 2012. In addition PNJ also attended major conferences which bring together many investors organized by Viet Capital Securities, Dragon Capital, SSI Securities, and Kim Eng Securities.

Compared to 2011, 2012 IR activities are invested more methodically.

- During 2012, PNJ has added personnel in charge of investor relations department.
- Update the information on changes in the operation of PNJ through e-mail, press releases, and website.
- Complete IR activity plan for 2013.

Thanks to the orientation about ensuring transparency and timely disclosure, IR activities has brought a more comprehensive picture of PNJ's situation for the investors.

In the future the company will hold more activities connecting with investors to increase the effectiveness of investor relations.

## **VII. CONCLUSION:**

In 2012, all PNJ staff has strived to build a strategy for 10-year (From 2012 to 2022), carried on restructuring, enhanced professionalism, strived in all manufacturing and business activities. Although sales and profits PNJ did not achieve as plan, but revenue and operating profit in the core jewelry gold business still grew over the same period proving the internal value within the brand value of PNJ.

### Recipients of this document:

- Board of Directors, Supervisory Board
- Board of Management
- PNJ Shareholders
- Archived by the Board
- Electronic archival

**ON BE HALF OF BOARD OF MANAGEMENT  
CHIEF EXECUTIVE OFFICER**

*(Signed and sealed)*

**CAO THI NGOC DUNG**