

2014 OPERATIONAL REPORT OF SUPERVISORY COMMITTEE OF PHU NHUAN JEWELRY JOINT STOCK COMPANY

Based on:

- Organizing and Operating Charter of Phu Nuan Jewelry Joint Stock Company (PNJ);
- Administrative Regulation of PNJ;
- Operating Regulation of 3rd term (2012 – 2017) PNJ's Supervisory Committee;
- 2014 PNJ Separated and Consolidated Audited Financial Report.

Below is PNJ Overview Operational Report in 2013 Supervisory Committee (SC) respectfully sends to General Meeting of Shareholders (GM):

I. SUPERVISORY COMMITTEE'S PERFORMANCE STATUS

Supervisory Committee consists of 03 members; each member of the Supervisory Board continue to develop the ability to work independently as well as closely coordinate in necessary tasks.

Keeping closely in touch with PNJ's Board of Directors and Board of Management, SC has accomplished the tasks given by the shareholders.

SC has targeted at important matters, focused on controlling safety and efficiency level of information and operation of PNJ, details as following:

- Maintaining monitoring financial status of the Company, legality of activities of Board of Directors' members, Board of Management's members (BOM) and other managers.
- Monitoring the coordination between members in units such as Supervisory Committee, Board of Directors, Board of Management, shareholders and others as prescribed law.
- Monitoring the status and results of implementing the General Meeting of Shareholders' resolution (GM) in this term and in 2014, other resolutions, decisions and other directives of Board of Directors (BOD). Monitoring the implementation of PNJ's regulations and other provisions.
- Assessing the 2014 Financial Statement of PNJ.
- Performing other functions and responsibilities as prescribed by laws and PNJ's Regulations.

Salary and operational cost of SC in 2014:

- Head of SC : 11,300,000 Dong/Month
- Member of SC : 4,800,000 Dong/Month

II. OPERATIONAL PERFORMANCE

1. Monitoring the administration and management of Board of Directors and Board of Management

2014 is the third year of the 2012-2017 term, the economic situation as well as Vietnam and international market are still experiencing great difficulties with not many positive points. For PNJ, this is the third year deploying the strategic restructuring of the company. This is a very important phase, if the leadership of the Board has a slight mistake, it will lead to changing strategic objectives or prolong the restructuring process which creates huge waste. With those challenges, Board of Directors and Board of Management has:

- Implemented fully issues raised in the 2014 AGM's Resolution; objectives and measures outlined in the resolution of the term are reviewed, discussed and implemented uniformly in practical operation of PNJ.
- Each resolution of the Board of Directors has strictly comply rules, regulations and of PNJ and the laws.
- Evaluated correctly internal resources and potential of PNJ, scrutinized the business environment and operational environment of current and future PNJ, better positioned the vision, mission of PNJ, created breakthroughs for all strategic activities of the company.
- Strictly controlled other investments, efficiently divested investments when suitable. New and expanding investments focus on core jewelry producing and business operation.
- PNJ focused on reducing costs by greatly increasing proportion of the self-production to replace the import goods. Priorities are product lines with high efficiency and PNJ has production advantages.
- Efficiently divested the investment in SFC, brought 35.87 billion dong profit to the company.
- Strived to develop the distribution network, opened new stores under strict process.
- Investing in 2014 has been kept closely to the orientation approved by the General Meeting of shareholders, all investments are forecasted to achieving growth targets as oriented in medium and long-term strategies; some investments has promoted the efficiency immediately in the investment's process and contributed to create good business results in 2014.
- PNJ's separated EBT rose 40.7% over 2013, exceeded 16.2% of plan. EPS reached 3,396 dong – strongly rose 40.7% over 2013.

Conclusion: Through the monitoring, operation of the BOD, BOM and major businesses of PNJ have been fully and honestly reflected in the documents (files) of PNJ, compliance with rules, regulations of PNJ and the laws.

2. Examining 2014 profit distribution plan

According to the proposal of 2014 profit distribution plan of the BOD sending to the General Meeting of Shareholders, Supervisory Committee claims that the 2014 profit distribution plan complies with the provisions of laws and PNJ's Charter. Dividend payout plan of 25%/par value, exceeding 5% of the 20% plan approved by 2014 AGM, including issuing stock dividend

with payout ratio of 10%/par value to increase charter capital and reduce permanent loan to meet the development of distribution channels and production.

Profit to distribute: **255,871,804,695** dong

Includes:

- **Divident payout: 25%/par value, equal to 188,990,819,000 dong**

PNJ has paid phase 1 dividend in advance with payout ratio 12%/par value by cash in 2014. PNJ has expected to pay phase 2 dividend of 2014 with payout ratio 13%/par value with 10% by shares and 3% by cash.

- **Deduction for setting up funds: 63,587,181,000 dong, details:**

NORMS	Amount	Note
Financial Reserved Fund	-	
Investment – Development Fund	33,000,000,000	
Bonus – Welfare Fund	25,587,181,000	(10% earning after tax)
Operational fund of BOD – SC	2,000,000,000	
Operational fund of BOM	3,000,000,000	

- **Retained earning: 3,293,804,695 dong.**

3. Financial controlling

SC has evaluated the financial report of the Company, the 2014 auditted report of Ernst & Young Vietnam and other related document / records, SC agrees with data of 2014 PNJ Group Consolidated Financial Report and PNJ Separated Financial Report.

In our opinion, the financial situation of PNJ Group and PNJ in particular was reflected honestly and properly in all major aspects in other related document / records, in accordance with the Accounting Standards, Vietnam Corporate Accounting Regime and legal regulations relating to the preparation and presentation of financial report.

3.1 Figures about PNJ's equity, assets at 31/12/2014 and PNJ Group's business performance:

Unit: Million dong

Items	PNJ			PNJ Group		
	2014	2013	% Y/Y	2014	2013	% Y/Y
1. Total Assets	2,813,187	2,561,138	110	2,828,672	2,956,698	96
<i>Includes:</i>						
Cash and cash equivalents	269,739	292,923	92	272,305	507,822	54
Short-term receivables	76,313	64,341	118	71,325	76,021	94
Inventories	1,420,997	982,085	145	1,437,416	1,087,344	132
Fixed assets	452,200	435,780	104	452,468	550,009	82

Items	PNJ			PNJ Group		
	2014	2013	% Y/Y	2014	2013	% Y/Y
Financial investments	531,800	735,831	72	531,864	589,705	90
Other assets	62,138	50,178	124	63,294	60,808	104
Commercial advantages				0	84,989	
2. Total Equity	2,813,187	2,561,138	110	2,828,672	2,956,698	96
Includes:						
Short-term debts	1,408,893	1,157,012	122	1,394,565	1,415,480	99
Long-term debts	137,584	130,009	106	137,584	135,200	102
Authorized capital	1,266,710	1,274,117	99	1,296,523	1,318,220	98
Minor shareholders interest				-	87,798	
3. Business performance						
Sales revenue	7,294,174	7,603,581	96	9,297,810	8,973,965	104
Gross sales of Business	790,172	599,778	132	889,235	669,687	133
Financial sales	48,071	26,361	182	18,739	23,798	79
Other sales	1,510	1,485	102	2,668	3,181	84
Operational cost	(416,883)	(324,336)	128	(484,572)	(375,869)	129
Financial cost	(95,054)	(62,134)	153	(90,254)	(84,970)	106
Other costs	(1,026)	(1,149)	89	(1,586)	(2,240)	71
Earning before tax	326,790	240,005	136	335,034	233,007	144
Enterprise income tax	(70,308)	(57,832)	121	(79,455)	(64,190)	124
Deferred enterprise income tax	219	220	99	293	220	133
Earning after tax	256,701	182,393	142	255,871	169,037	151

Evaluating the fluctuation and growth of PNJ Group

- **Total assets: 2,828,672 million dong, declined 4% over the same period due to deinvestment from SFC. Total assets of PNJ particularly is 2,813,187 million dong, rose 10% over the same period, mainly due to increasing inventories (expanding the distribution channels and stocking products for peak occasions such as 14/2, 8/3...)**
- **Total equity: 2,828,672 million dong, declined 4% over the same period, in which short-term debt declined 1%, authorized equity declined 2%, shareholder interest declined 3% and long-term debt rose 2% over 2013. Total equity of PNJ particularly is 2,813,187 million dong, rose 10% mainly due to loans for business operation in the end of year.**
- **Authorized equity:** Authorized equity of PNJ particularly is 1,266,710 million dong, declined 7.4 billion dong (0.6%) over 2013 and accounted for 98.3% total authorized equality of PNJ Group.

PNJ's Chartered Equity is: 755,970,350,000VND, unchanged in 2014.

3.2 Evaluating some financial indexes (until 31/12)

Norms	PNJ Group				PNJ			
	2012	2013	2014	% change 2014-2013	2012	2013	2014	% change 2014-2013
Return on Equity ratio (ROE)	20,49%	12,82%	19,74%	6,91%	19,10%	14,32%	20,27%	5,95%
Return on Charterd Equity ratio ⁽¹⁾	40,38.%	23,38%	33,85%	10,47%	35,74%	25,23%	33,96%	8,73%
Return on Assets ratio (ROA)	10%	6,15%	8,85%	2,70%	9%	7,22%	9,55%	2,33%
Net Profit Margin	3,79%	1,90%	2,78%	0,88%	3,45%	2,42%	3,57%	1,15%
Gross Profit Margin (Sales and Services supplying) ⁽²⁾	8,91%	7,51%	9,67%	2,15%	8,60%	7,95%	10,98%	3,03%
Total Assets Turnover ⁽³⁾	2,46	3,24	3,18	(0,06)	2,46	2,99	2,68	-0,31
Inventory Turnover	6,95	8,78	6,58	(2,20)	6,75	7,87	5,33	-2,54
Fixed Assets Turnover	16,34	19,18	19,85	0,68	16,04	17,41	16,21	-1,20
Debt to Asset Ratio	51,17%	52,45%	54,16%	1,72%	52,65%	50,25%	54,97%	4,72%
Current Ratio	1,19	1,21	1,31	0,10	1,17	1,19	1,29	0,10
Quick Ratio ⁽⁴⁾	0,41	0,45	0,28	(0,16)	0,41	0,34	0,28	-0,06

Note:

- (1) Charter capital, calculated on weighted average.
- (2) Calculated separately for Sales and service rendering operation.
- (3) (Operating revenues for sales and service rendering)/(Total average assets).
- (4) Given characteristics of the inventory in the jewelry sector, quick ratio may include substantially gold (which is also inventory), so basically this ratio will be much higher.

In general, basic criterias used to evaluate the operational and financial efficiency of PNJ Group and PNJ in 2014 also show stability and safety, suggesting that PNJ has a good governance system and effective operations.

4. Evaluating the coordination of Supervisory with BOD, General Director, other managers and shareholders

In 2014, Supervisory Committee and Board of Directors, General Director and other managers has always closely collaborated for the benefit of the Company, shareholders and complied fully with the provisions of Internal Regulation, Company's Charter and laws. Board of Directors and General Director have always created favorable conditions for Supervisory Committee in implementing functions, duties and jurisdiction.

SC has not received any requests or complaints of shareholders in 2014. SC has also regularly monitored the disclosure of the Company to ensure shareholders receive information adequately, correctly and promptly.

III. CONCLUSION - RECOMMENDATION

Strategies of this term is being executed to BOM by BOD very well. This term is very important due to the effects of the company's restructuring strategies and it will significantly affect the development of PNJ in many coming years. There are many indexes exceeding the expectation and PNJ still has to go a long way to achieve its vision and missions while the 2012

– 2017 term has only 2 years left. In this situation, SC recommends BOD and BOM following things:

1. Recommendations for Board of Directors

- BOD should consider to announce the vision achieved and relocate what exactly has to be done, from that propose the unified strategy.
- BOD should focus on directing to achieve bigger success in building foundation and pillars to operate the company; completing the organizational and personnel structure; properly exploiting the smart IT administrating system; expanding the retail network and other sale channels; enhancing the producing and supplying capacity; controlling the finance, maintaining the cash in flow to profit; upgrading the integrated administrating system; enhancing the capacity of R&D department to develop new products and technologies.
- About the cultural orientation in the company: summarizing, announcing new corporate culture, PNJ is where the professionals and successfuls gather. PNJ is a creative and socially responsible company.

2. Recommendations for Board of Management

- Synchronously exploiting internal investments which formed existing resources, preventing waste after investing.
- Improving the efficiency of supply chain management, further reducing inventory costs.
- Increasing the efficiency of each process of PNJ through process measuring and improving; developing IT integrated software to exploit more effectively data warehouse of company.

Above is the 2014 PNJ Operational Supervising Report, Supervisory Committee respectfully sends to 2015 Annual General Meeting.

Supervisory Committee would sincerely like to thank PNJ's Shareholders, Board of Directors, Board of Management, subordinate units for trusting and closely cooperating effectively. We hope to get close cooperation in the future.

**ON BEHALF OF SUPERVISORY COMMITTEE
HEAD OF SUPERVISORY COMMITTEE**

(Signed and stamped)

MR. PHAM VAN TAN