

## **REPORT OF THE BOARD OF DIRECTORS**

### **I. EVALUATION OF THE BOARD OF DIRECTORS ON THE OPERATION OF THE COMPANY IN 2015**

According to the set strategy, 2015 was a started year of PNJ's acceleration stage in both scale and business performance, creating the momentum for a stronger development stage. Last year achievements were the pride and the tremendous momentum for Board of Directors's efforts in the past years. Although there was unexpected impacts from the investment in Dong A Bank, this event did not affect the core business of PNJ.

#### **1. EVALUATION ON THE BUSINESS RESULTS**

In 2015, PNJ was successful in promoting the medium and high class product lines, which is the company's advantage as compared to its competitors. This product lines not only brings higher profit but also raise the brand of PNJ in Vietnam and International jewelry market. Besides, the Board of Directors (BOD) had advocated to reduce the proportion of gold bar in the revenue to highlight the role of the core business- jewelry. That was also the reason for continuously improvement of gross profit margin over years, as gold bar was the lowest gross profit margin segment.

In 2015, revenue increased 7%, while gold bar reduced 23%, gold jewelry increased 19%, and silver increased 4%. Gross profit increased 44%, exceeding 17% as planned. All significant norms related to core business operation exceeded the plan. Profit before tax was 200 billion VND, if excluding financial income and provision, net profit before tax reached 514 billion VND, increased of 72% compared to the same period.

Not only reaching the profit target, the Company also successfully completed network expansion target with 48 newly opened and upgraded stores. With the policy of fast retail network expansion, earning market shares, new opened stores mainly had large scale, with strong media investment to quickly dominate the target market.

Comprehensive strategy, together with suitable organizational structure, thorough research on network expansion, as well as the sharp branding strategy, PNJ is firmly on the way to conquer its vision of "Becoming the leading jewelry processor and retailer in Asia and securing the number one position in medium and high class jewelry segments in Vietnam".

#### **2. IMPLEMENTATION RESULTS OF THE SET ORIENTATIONS AND STRATEGIES**

##### **a. Create a platform to achieve outstanding dominance on Human resources and organization:**

Human resources is identified as a key factor creating the difference and decision on the success of an institution, the Board of Directors established human resources management and training system based on the "Fairness – Reasonableness – Efficiency – Sustainability".

The salary and bonus policy was based on the performance with KPI for each individual to ensure the fairness to the employee. The capacity evaluation programs were performed periodically to have suitable assigns as well as aspiration for employees. At the same time, to improve the working efficiency and creating the best foundation for sustainable growth , periodical and intensive training programs were also carried out in 2015.

With comprehensive human resources policy, PNJ was proud to be ranked in Top 100 Vietnam best working environment 2015 – announced by Nielsen and Anphabe Vietnam.

**b. Strong development of retail network and improvement of customers' satisfaction, continuously affirming the leading position in the core business field:**

Not only expanding the distribution network, the company also focused on improving the quality of products and services to improve the customers' satisfaction.

The design of products was invested from materials to style and it was more and more diversified. PNJ customers not only trusted in the quality but also being proud of owning an exquisite and unique jewelry product that is not inferior to any famous brand in the world. Besides, the quality of services was also improved, from the consulting to after sale service which helped to enhance customers' satisfaction.

**c. Consolidation and increase of production capacity:**

Last year, the company imported machines with new modern production process to produce Italian technology product lines; At the same time, the existed production process was continuously reviewed to improve and shorten the processing time.

Combining the technology and training for workers' skill improvement, now PNJ Jewelry Factory has increased the proportion of high-end products, especially doubled the productivity in some product lines compared to the same period.

Not only increasing the productivity, the wasted cost ratio also decreased significantly and controlled at low level. Currently, the wasted ratio at PNJ Jewelry Factory is at the lowest level compared to its peers in the world.

### **3. IMPLEMENTATION OF 2015 ANNUAL GENERAL MEETING RESOLUTIONS**

Board of Directors, 3<sup>rd</sup> term (2012 – 2017) officially started on 14 April 2012 according to the Resolution of the Annual General Meeting of Shareholders in 2012.

- In 2015, the Board of Directors held 36 periodical meetings, issued 41 minutes, resolutions, and decisions on implementing the tasks according to the resolutions of the General Meeting of Shareholders / Board of Directors in 2015 as follows:
- Carry out the dividend payment by cash in 2014 (3%), dividend payment by shares (10%) and payment of bonus shares from the increase in owner's equity (20%).
- Increase the charter capital from 755,970,350,000 VND to 982,745,770,000 VND due to the dividend payment by shares (10%) and payment of bonus shares from the increase in owner's equity (20%).
- Advance of dividend by cash for the 1<sup>st</sup> time in 2015 (5%) and extract funds according to Article 5 of the Resolution of the General Meeting of Shareholders.
- Choose Deloitte Vietnam Co., Ltd. as an auditing company the fiscal year of 2015.
- Amend the Charter of organization and operation of Phu Nhuan Jewelry Joint Stock Company to be suitable to the Enterprise Law 2015 and suitable to the operation of the Company.

- On 15 April 2015, the Annual General Meeting of Shareholders 2015 approved to increase the number of the Board of Directors' members from 7 to 8 people and additionally elected Mr. Phan Quoc Cong to be member of the Board of Directors, term 3 (2012 – 2017). The term of Mr. Phan Quoc Cong is the remaining time of term 3.
- Dismissal of title of member of the Board of Directors according to personal aspiration of Mr. Andy Ho and Mr. Phan Quoc Cong; at the same time appointed Mr. Le Huu Hanh and Mr. Le Quang Phuc to be members of the Board of Directors of Phu Nhuan Jewelry Joint Stock Company with the term of 5 years and shall submit to the latest General Meeting of Shareholders for approval.
- On 28 September 2015, Head of the Supervisory Committee, Mr. Pham Van Tan resigned because of his personal reasons and the Supervisory Committee nominated Mr. Tran Van Dan to be Head of the Supervisory Committee until a new member of the Supervisory Committee is nominated at the latest General Meeting of Shareholders.
- Successfully issue non-convertible bonds with guaranteed assets.
- Although the norms of revenue and business profit exceeded, due to the extraction of provision for finance investment, PNJ did not carry out the issuance of shares for key leaders and excellent employees according to Article 9 of the Resolution of the General Meeting of Shareholders.

#### **4. ORGANIZATION OF THE BOARD OF DIRECTORS' MEETINGS**

- In 2015, the Board of Directors held 36 meetings; issued 41 minutes, resolutions, and decisions of the Board of Directors of the Company. The meetings were held in accordance with the orders and procedures as stipulated by the Enterprise Law and Charter of the Company.
- The meetings' minutes of the Board of Directors were fully prepared with the signatures of the attending members of the Board of Directors, ensuring the correct forms as stipulated by law; documents were fully sent to the members of the Board of Directors for reference, and consideration as stipulated in the Charter.

#### **5. THE SUPERVISION RESULTS TO THE CEO AND OTHER MANAGERS**

- In 2015, the Board of Directors well implemented the supervision to the management work of the CEO and Managers. The members of the Board of Directors concurrently holding the executive titles in the Management Board took responsibility for attending the periodical meetings of the Management Board. Then, the Board of Directors always clearly knew about the operation situation of the Company and had a good coordination with the Management Board to make the right policy decisions, solve the difficulties, and try to achieve the set plans.
- In general, the supervision to the CEO and other managers was regularly and closely maintained, ensuring the stable and safe operation of the company in accordance with the law, to achieve the plan set by the Board of Directors and General Meeting of Shareholders.

## **II. OPERATION, REMUNERATION AND OPERATION EXPENSES OF THE BOARD OF DIRECTORS**

### **1. HUMAN RESOURCES OF THE BOARD OF DIRECTORS**

- On 15 April 2015, the 19<sup>th</sup> Annual General Meeting of Shareholders – year 2015 was held, the Board of Directors of 3<sup>rd</sup> term (2012 - 2017) had eight members, in which Ms. Cao Thi Ngoc Dung was Chairwoman and Mr. Nguyen Vu Phan is Vice Chairman of the Board of Directors.

## **2. OPERATION OF THE BOARD OF DIRECTORS**

- The members of BOD has the spirit of solidarity, showing the spirit of high responsibility and well implements the rights, obligations of the members of the BOD as stipulated in the Charter.
- During the term, the BOD had well implemented the Annual General Meeting of Shareholders resolutions, rightly implemented the rights and obligations of the BOD as stipulated in the Charter of the Company and Enterprise Law.

## **3. OPERATION EXPENSES OF THE BOARD OF DIRECTORS**

- Chairman of the Board of Directors is 26,600,000 VND / month
- Vice Chairman of the Board of Directors is 20,600,000 VND / month
- Member of the Board of Directors is 16,600,000 VND / month

## **4. SALARY, BONUS OF MEMBERS OF THE BOARD OF DIRECTORS CONCURRENTLY HOLDING THE EXECUTIVE TITLES OF THE COMPANY**

Currently, PNJ has three members of the Board of Directors concurrently holding the executive titles of the Company:

- Chairwoman and CEO was paid 130,000,000 VND / month and paid the bonus with the amount of 2.5 times of monthly salary.
- Vice Chairman and Vice General Director is paid 79,800,000 VND / month and paid the bonus with the amount of 2.5 times of monthly salary.
- Member of the BOD and Standing Vice General Director is paid 92,500,000 VND / month and paid the bonus with the amount of 2.5 times of monthly salary.

In addition, the PNJ has no member of the Board of Directors concurrently holding the executive title of subsidiaries. The remaining members of the Board of Directors do not manage the Company and the subsidiaries.

## **III. PLAN AND ORIENTATION OF THE BOARD OF DIRECTORS IN 2016**

2016 shall be a year of effective development from the stores and program launched in 2015. The main objectives set by the Board of Directors to the Management Board are as follows:

### **1. CREATING THE FOUNDATION FOR SUSTAINABLE DEVELOPMENT**

Focusing on three main fields:

#### **a. Ensuring the quality of human resources:**

- Establish and control the individual KPI system associated with the company targets, ensuring the fair evaluation of staff capacity, optimizing the existing human resources.
- Fully and timely supplementing people for retail systems. Ensuring that the Human resources meet the expertise, attitude and skills through the specialize training courses.

**b. Evaluation, measurement and improvement of the procedures:**

- Enhance the effectiveness of the procedure measurement and improvement, associate the measurement activities, improvement with the operational control of each departments.
- Improve the control of compliance at the units, help the system to have a stable operation and close control under 2 levels.
- Apply the information technology as a lever for the development of operation work, management of the Company through the schedule promotion of projects: Business Intelligence (BI), Management the design – modeling process, tools...

**c. Completion and effective operation of SB software:**

It is a software about integrated report, which help the leaders easily monitoring the changes of each targeted data group.

**2. CREATING OUTSTANDING ADVANTAGES OF PRODUCTION:**

**Including**

- a. Improving the production capacity: Through the effective control of the production procedure and improve the skills of employees; promote the production of strategic product lines.
- b. Optimizing new technologies and equipment which was imported in 2015.
- c. Investing and developing the R&D activities to new products and technologies.

**3. IMPROVEMENT OF CUSTOMERS' SATISFACTION**

**a. Increase the coverage of retail stores:**

In 2016, 25 new stores shall be opened, mainly stores selling both gold and silver. With the rapid expansion of network, the company can quickly dominate the market in almost all provinces and Cities nationwide and increase the brand identity level.

**b. Increase the customers' satisfaction ratio:**

The evaluation reports on the customers' satisfaction level shall be made to measure the customers' satisfaction. Besides, many norms about successful purchase rate, rate that customers come back are included in the study plan to have an overview of customers' attitude to the brand.

**4. INCREASE OF FINANCIAL EFFICIENCY**

- This is considered as an important objective, quantifying the general efforts relating to the organization structure and development strategy.
- Revenue is expected to increase 15% compared to the same period, in which it focuses on gold jewelry retail group, the gross profit increases 14%.
- The operation expenses continue to increase corresponding to the investment in network development as well as communication promotion and brand advertisement.
- The control of debt norm on owner's equity, control of the number of inventoried days of goods according to KPI.

- For the financial investment activities, a provision of 115 billion VND shall be extracted to the two investments that are Dong A Bank and DAL. Find opportunity for withdrawal of the investment at Dong A Real Estate Joint Stock Company.

Unit: million VND

<b>NORMS</b>	<b>PERFORMANCE 2015</b>	<b>PLAN 2016</b>	<b>GROWTH (%)</b>
Net revenue	7,697,947	8,781,963	114%
Gross profit from goods sale and service supply	1,138,350	1,296,376	114%
Revenue of finance activities	25,203	12,000	48%
Expenses of finance activities	430,803	229,000	53%
In which: Interest expenses	81,049	114,000	141%
Selling expenses	414,552	490,724	118%
G&A expenses	115,421	128,697	111.5%
Net profit from the operating activities	202,776	459,955	227%
Net Profit before tax	200,173	459,955	230%
Net Profit after tax	159,619	361,405	226%
Gross profit / Revenue	15%	15%	
Net Profit after tax / Revenue	2%	4%	
Dividend	15%	18%	

#### **IV. CONCLUSION**

According to the development created in 2015, 2016 is expected to be an dynamic year of PNJ, especially the gold jewelry retail activity.

The Board of Directors shall closely supervise to ensure that the strategic objectives are going to be implemented by the Management Board as well as ensure the implementation schedule of these objectives. The Board of Directors trusts in the correctness and conformity of the long term strategy which is not only proved in the last years but also continues to effectively promote in the future.