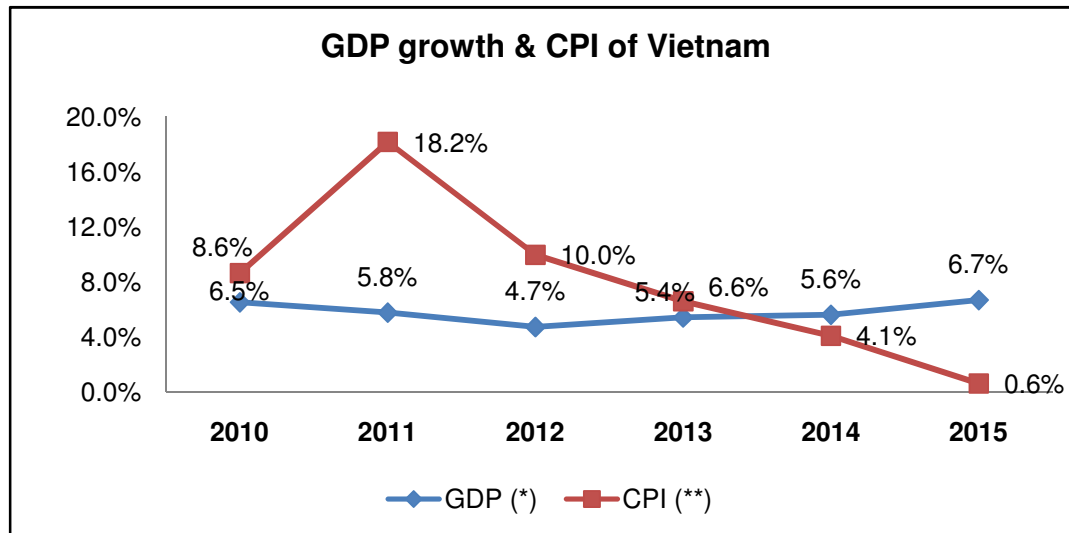


## REPORT OF THE MANAGEMENT BOARD ON THE BUSINESS OPERATION OF 2015

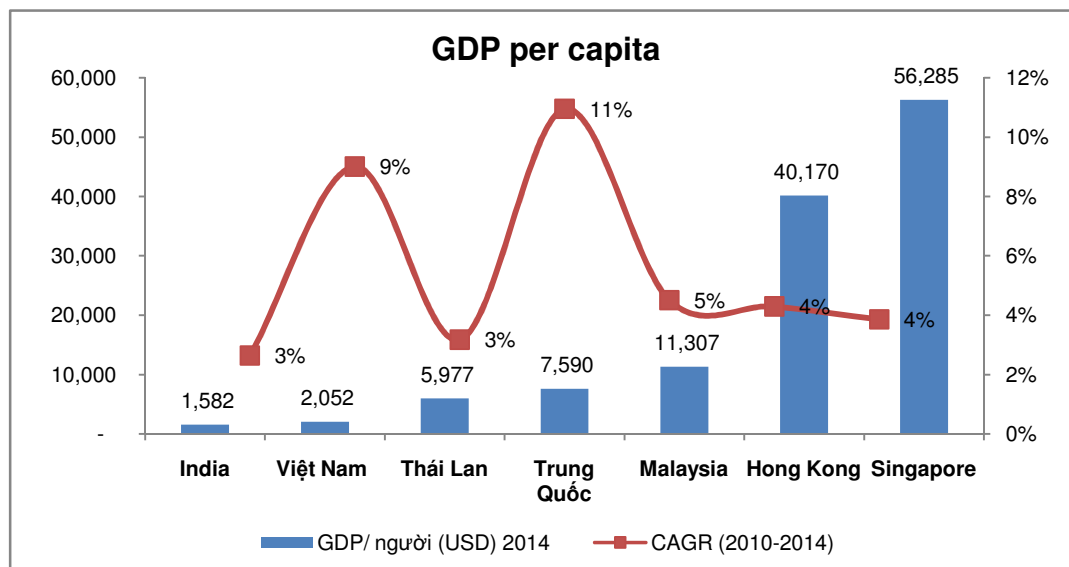
### VIETNAM JEWELRY MARKET – BIG OPPORTUNITY FOR LEADING BRANDS

In 2015, Vietnam was considered as a rare bright spot in bleak general picture of emerging countries as maintaining the stable growth, and controlling the inflation rate at a low level. (According to “Vietnam 2015 Economic Update Report”- ANZ).

The GDP of Vietnam to 2015 achieved 31 consecutive years of growth, which was only lower than the record of 39 years of China (Source: World Bank).



Compared with other countries in Southeast Asia and some countries with similar culture of gold consumption, the average growth of GDP per capita of Vietnam always belonged to the leading group, and it was forecasted to continue to grow rapidly in the future.



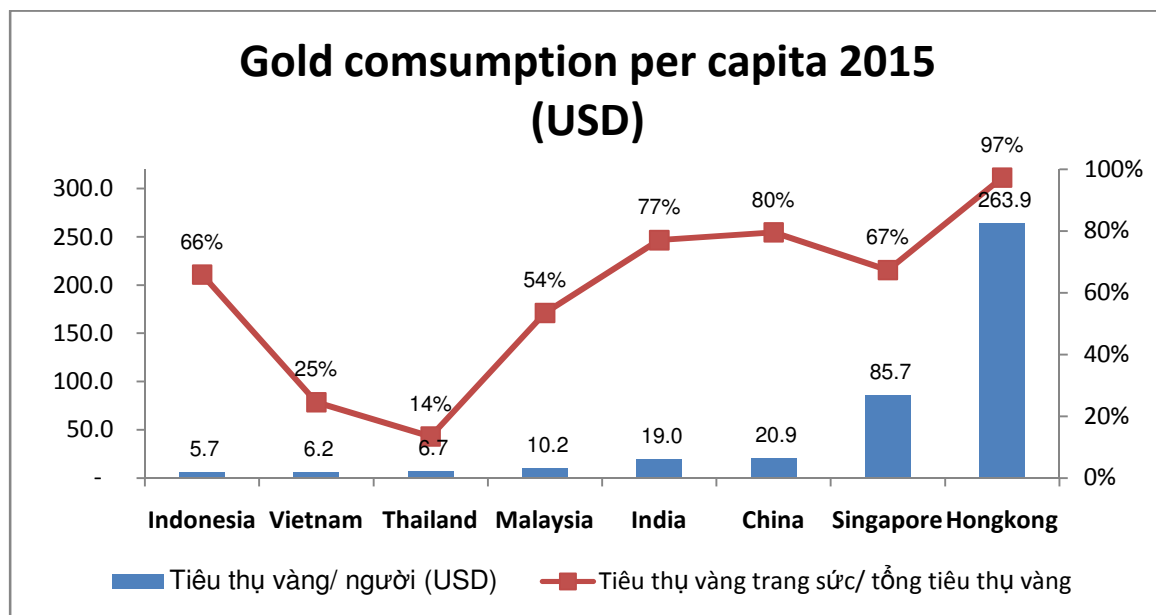
Along with the general development of the economy, demand for beauty and beyond this demand is to show personal social status, are increasingly interested by Vietnamese consumers. Therefore, Vietnam is now considered to be an attractive market for the medium and high class retail brands, in which the gold jewelry brands cannot be excluded.

It is not only promoted by the macroeconomic growth, the jewelry shopping demand is derived from the culture of “Gold reserve” from this generation to the other, and this is an important factor stimulating the sustainable development of the Vietnamese jewelry industry. The factors advantageous for the growth potential of the jewelry industry in general and PNJ in particular are:

**a. Abundant source of customers**

Vietnam is a country with more than 90 million people, with 70% of the population aged from 15 to 64, being in the working and consuming age. In which 51% of the population is female, creating an abundant force of jewelry shopping.

**b. The gold jewelry consumption per capita is low compared to that of other countries in the region**



According to calculation from the figures of the World Gold Council (WGC), the gold jewelry value per capita of Vietnam Nam in 2015 was 6.2 USD, only equal to 60% of Malaysia and 7% of Singapore. Besides, the consumption ratio of gold jewelry of Vietnam compared to the total gold consumption only accounted for 25%, while this rate in other countries in the region was over 50% (except Thailand: 14%).

Although Vietnam is one of 15 countries with most gold consumption in the world, the majority of people in Vietnam still have the habit of buying gold bar for speculation rather than for beauty. However, along with the stability of the economy, the trend to change from buying gold bar to gold jewelry is significantly occurring.

The amount of gold jewelry consumed in Vietnam continued to increase during the last 3 years, whereas the amount of gold bar strongly decreased respectively 33% and 15% in 2014 and 2015. This is the inevitable trend, suitable with the general development process of the country and it is also the forecasted potential of the domestic jewelry industry.

**c. It is an industry that needs the Government's concern**

Understanding the enormous potential of the industry, the Government is always concerned to create conditions for jewelry companies to have a favorable trading environment. One of the recent actions from the Government was Circular no. 22/2013/TT-BKHCN stipulating the quality of gold jewelry, which was valid from 01 June 2014. That the Circular no. 22 was issued contributes to increase the awareness of Vietnamese consumers on the quality of gold jewelry products. Besides, the production and circulation of gold jewelry is strictly controlled, ensuring the quality of gold jewelry products circulated in the market and creating the advantages for big and reputable brands.

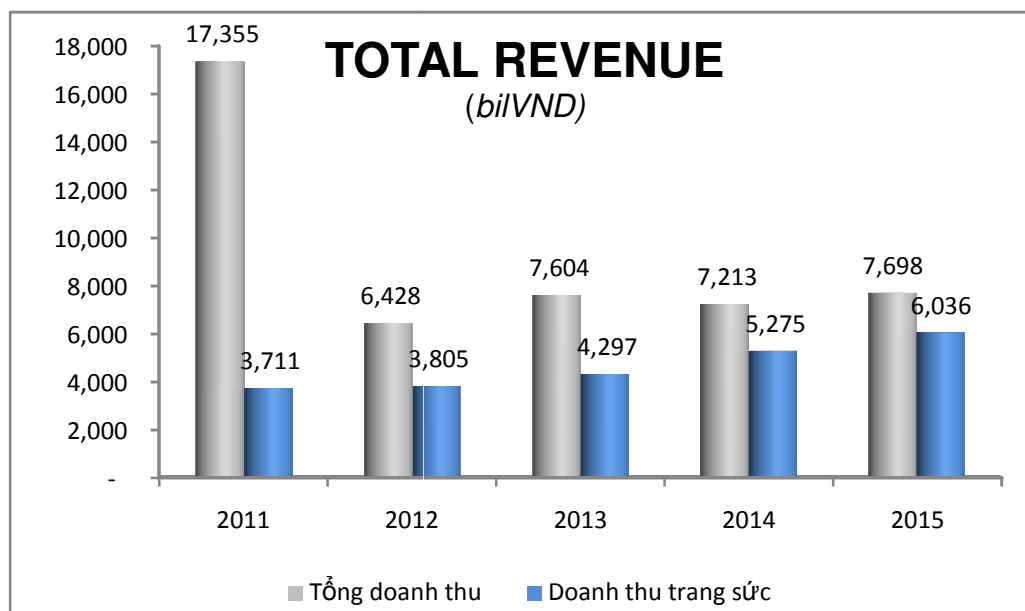
**d. The current Vietnamese jewelry market**

The current Vietnamese jewelry market is highly fragmented with the majority of market share belonging to small companies who invested limitedly in brand as well as long term orientation. Meanwhile, customers are more and more fastidious, so the demand on prestigious brand is considered to be indispensable, especially when the Vietnam's economy is developing rapidly as present.

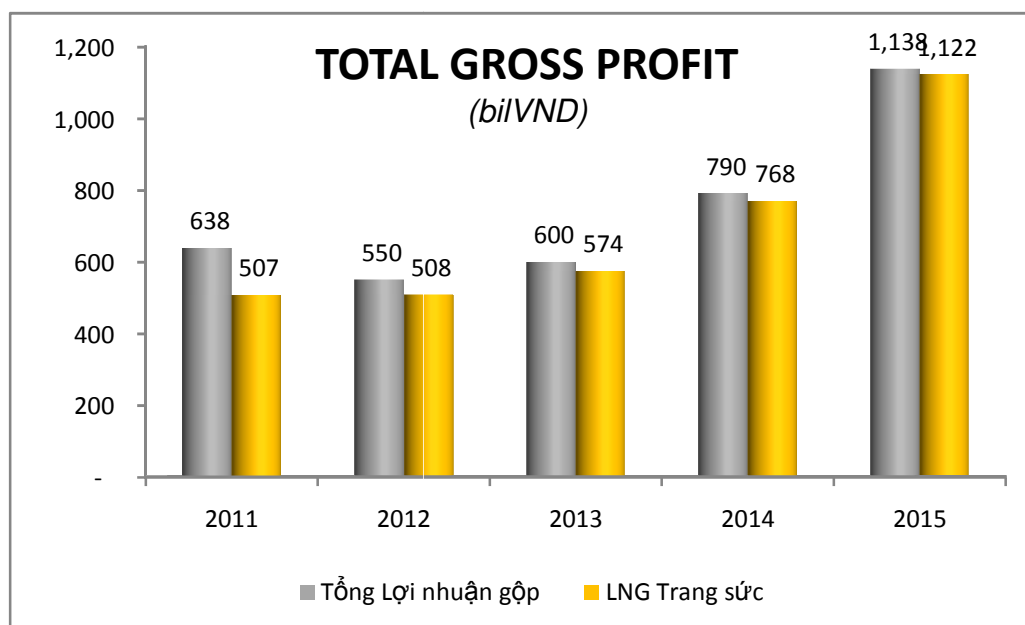
Therefore, PNJ emerges as a pioneer, creating a difference in brand and quickly has a firm foothold in the market. With the premise of brand prestige and large scale production, PNJ succeeds in the development of extensive network nationwide, then PNJ rapidly increases its market shares for several years. PNJ has proven the correctness of its long term vision by impressive growth figures and it is willing for the acceleration stage in the future.

The PNJ's retail market share is now estimated to be 25%, increased 4% compared to the same period which left its rivals far behind. Not only that, PNJ is also evaluated to be not inferior to any company in the region from the production scale, products' quality to the design and quality of service.

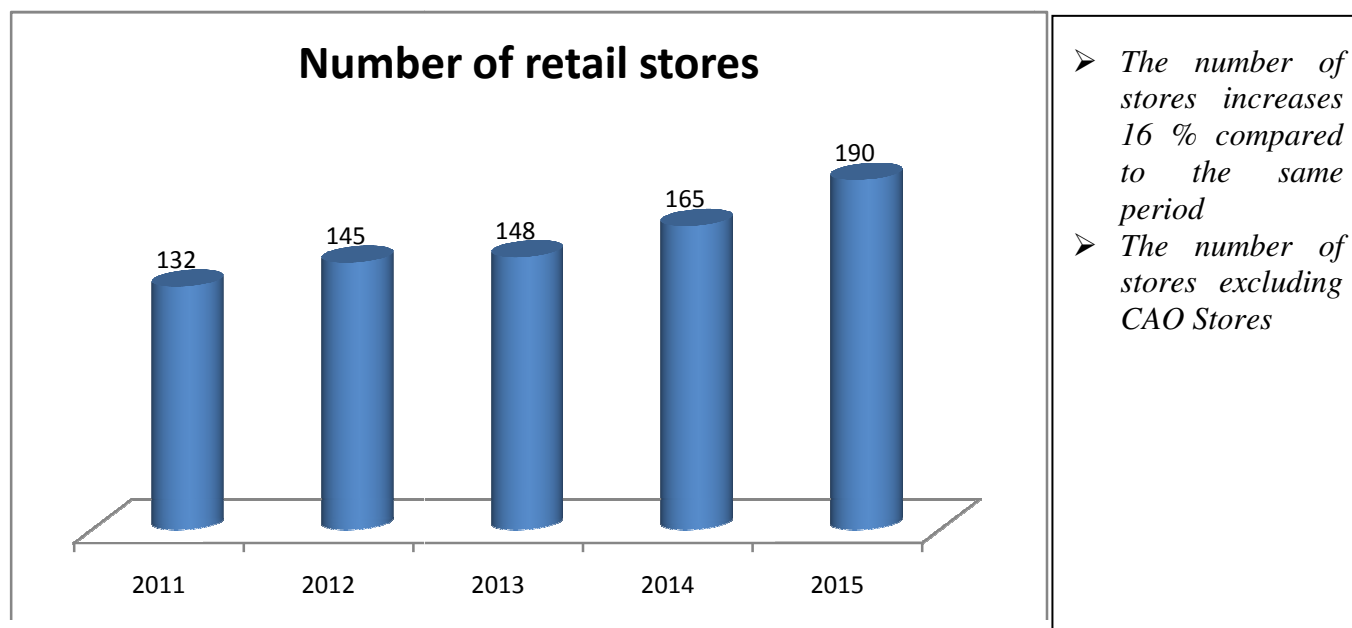
With the great potential from the market and the available advantages, PNJ will certainly continue to strongly develop. And the most important thing is that the company has fully equipped from the strategic orientation to the management system to be able to easily turn the advantages from the market into the growth launching platform at present and in the future.



- Revenue increase of 7%
- Jewelry revenue increase of 18%



- Gross profit increase of 44%
- Jewelry gross profit increase of 46%
- Jewelry profit accounting for 99% of Total gross profit



**Year 2015 has closed the first stage of 10-year development strategy with special events and impressive achievements in all aspects of PNJ. If 2013 – 2014 was the period of building up and consolidating management system as well as distribution network expansion, 2015 was the year to promote the strength from this innovation.**

Not only exceeding the revenue and gross profit target, the company also successfully completed the network expansion plan with 37% excess to the annual target. In addition, PNJ was honored to be the first and only Vietnamese Jewelry Company walking abreast with famous companies in the Asia about the size, reputation as well as important contributions to the jewelry industry of Vietnam, it was honored by the JNA prestigious award.

#### **BUSINESS RESULTS OF 2015 – PERFORMANCE VS PLAN**

NORMS	PLAN 2015	PERFORMANCE 2015	PERFORMANCE 2014	+ / - (%) Yoy	PERFORMANCE / PLAN (%)
Total revenue	8,227,568	7,697,947	7,213,329	7%	94%
Gross profit from goods sale and service supply	976,516	1,138,350	790,172	44%	117%
Revenue for financial activities	12,000	25,203	48,071	-48%	210%
Financial activities expenses	112,000	430,803	95,054	353%	385%
Selling expenses	373,676	414,552	310,940	33%	111%
Corporate management	122,714	115,421	105,944	9%	94%

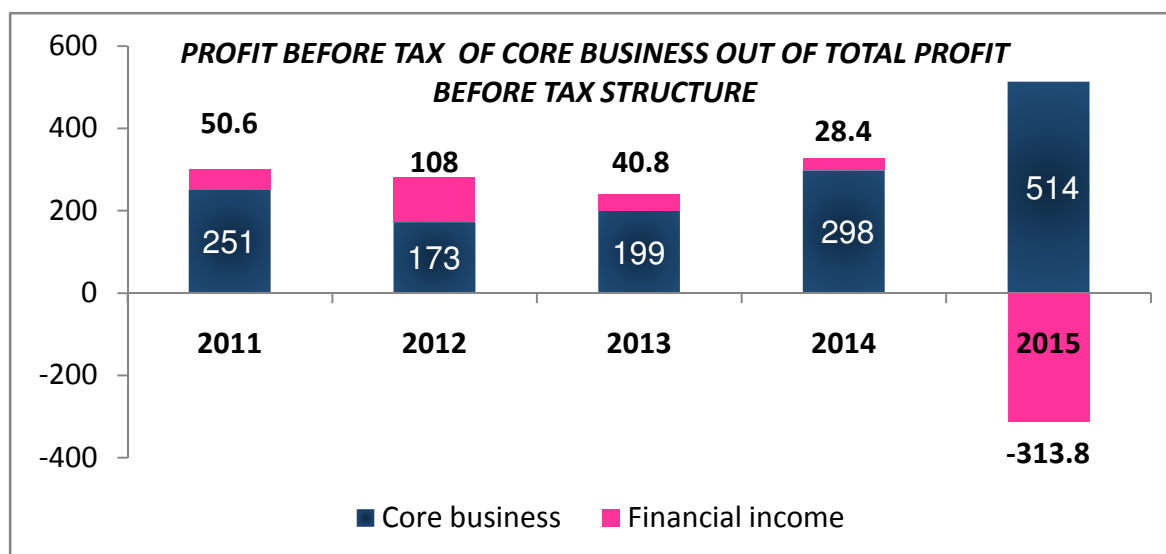
expenses					
Net profit from business activity	380,126	202,776	326,306	-38%	53%
Total profit before tax	380,126	200,173	326,791	-39%	53%
Profit after tax	300,000	159,619	256,571	-38%	53%
Development of retail system	35	48	18	67%	137%

*Note: Among 48 new stores, there were 18 upgraded stores and 5 closed stores*

Due to the influence from the provisions for financial investment, the profit before tax of the whole year of the Company recorded 200 billion VND, decreased 39% compared to the same period and it only reached 54% of the annual plan.

Excluding provision and income from received dividend, the profit before tax of core business of 2015 reached 514 billion VND, an increase of 72% compared to the same period. This growth rate not only reflected the impressive results of core business, but also showed the cost management effectiveness when the total operation costs only accounted for 53% of gross profit instead of 62% of the same period 2014. In which, the selling expenses increased 33% compared to the same period, aligned with network expansion speed and it was much lower than the growth of gross profit.

The maintaining of the growth of NPBT of the core business activities in 2014 and 2015 was 50% and 72%, the Board of Directors and Management Board has affirmed the correctness in the strategic orientation, and this was also the big achievement of the restructure process, paving the way for a stronger and more drastic new development stage.

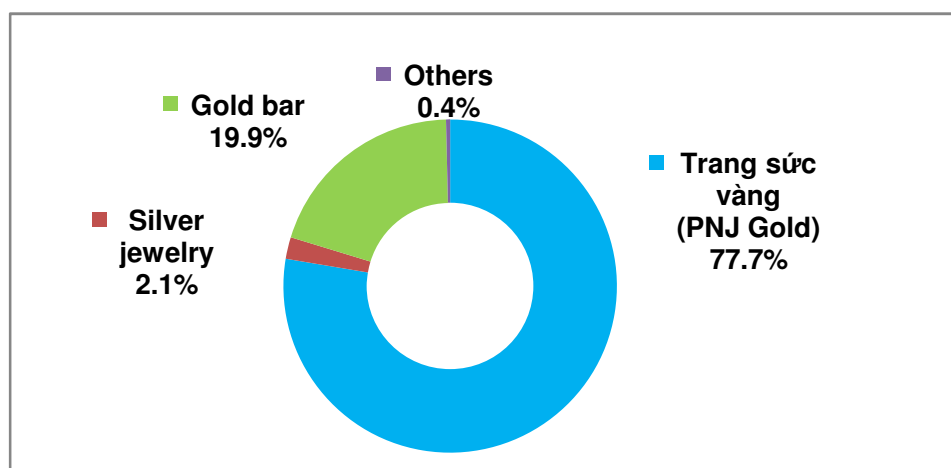


## I. THE STRUCTURE OF REVENUE AND GROSS PROFIT REFLECTED THE STRONG GROWTH OF CORE BUSINESS

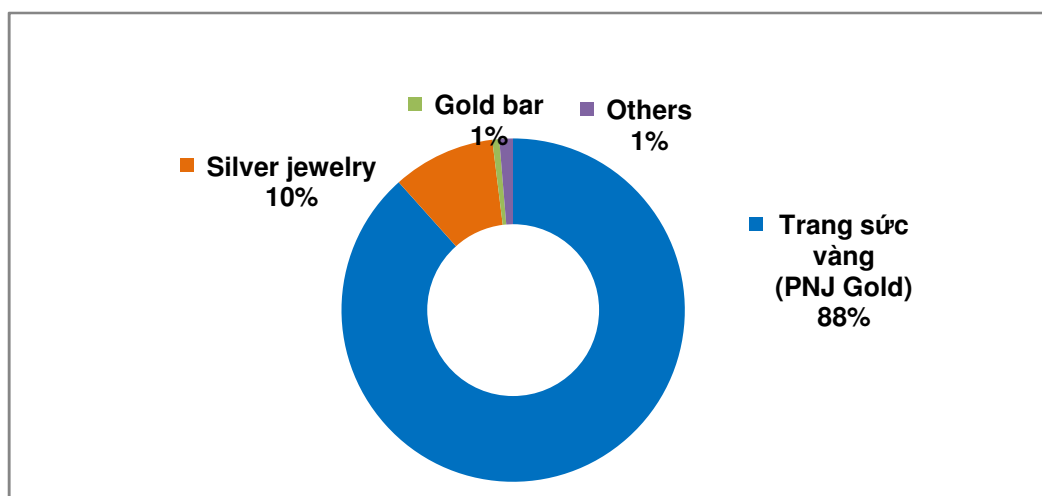
Revenue in 2015 reached 7,698 billion VND, an increase of 7% compared to that of 2014. However, the jewelry group brought 99% of gross profit of the company, an increase of 18%; the gross profit exceeded the norms of the year's plan.

In the period from 2011 to 2015, there was a clear change to the revenue structure. The revenue proportion of gold jewelry was 21% (2011) and it continuously increased, by the end of 2015, it accounted for 80% of the total revenue. This structure change explained the unstable growth of the total revenue, even it was lower than the previous years, but the gross profit still strongly increased, specially in 2015 the growth rate reached 43% compared to the same period.

### REVENUE ACCORDING TO TYPE OF PRODUCT 2015



### GROSS PROFIT OF TYPE OF PRODUCT 2015



The gross profit of the jewelry business activities accounted for 99% of the total gross profit of 2015, increasing from 79% in 2011. It can be said that the current growth rate of gross profit was also the growth rate of the core business activities – jewelry.

The business result of 2015 once again affirmed the strong message committed by the Management Board in the previous years: “PNJ shall focus on the strong development of core business activities, maintain its role as a pioneer, the leading jewelry brand in Vietnam”. With the consistency to pursue the set objectives and strategies, the achievements in 2015, especially the retail segment was not only the pride but also the motivation to the managers and employees of PNJ contributing for stronger development stage.

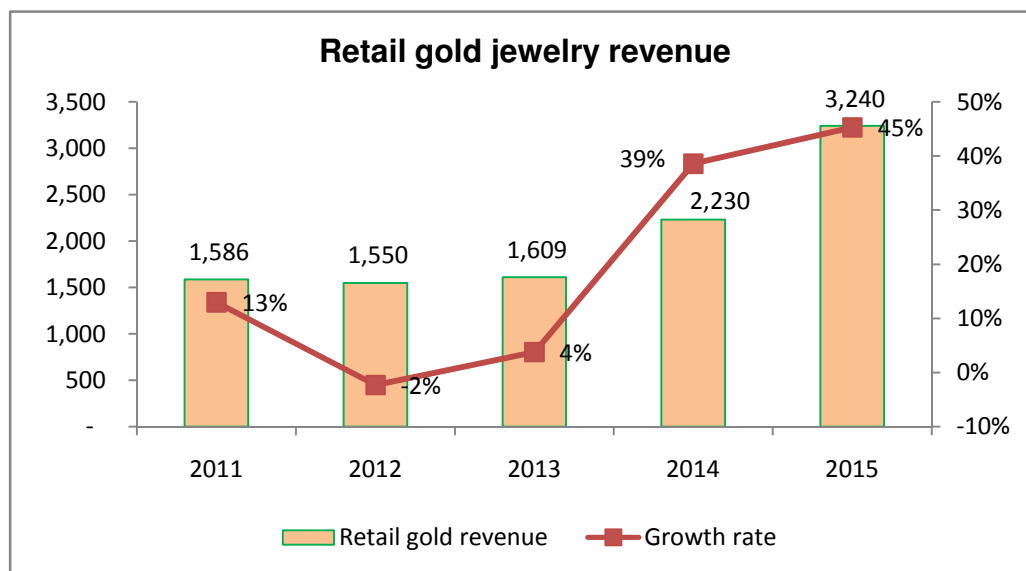
**1. GOLD JEWELRY (PNJ GOLD):** increased 19% of revenue and 43% of gross profit thanks to the focus on retail segment, network expansion, investment and production of high class product lines to replace the imported products.

The development of 3 sales channels including retail, wholesale and export brought many advantages to PNJ. However, retail was always identified as the key business activity, concentrating many resources and being the long term development objective of the company. The proportion of retail revenue accounted for 55% of the total revenue of Gold Jewelry (the proportion in 2014 was 45%) and it was expected to continue to increase in the future.

### 1.1 The retail of Gold Jewelry:

In 2015, the retail activity had a superior growth about revenue and the success in the orientation change to the development of medium and high class product lines.

The retail revenue of gold jewelry increased 45%, in which the current stores increased 21% compared to the same period.



Supported by the general recovery of Vietnam’s jewelry market, but it was undeniable that PNJ Gold Jewelry gained impressive result, much exceeding the average growth rate of the industry. This was not only the result of a foundation firmly built and strengthened for several years, but also the reflection of the strategic changes in the



development objective of the company. Instead of focusing on all product segments, since 2014, PNJ Gold has emphasized the development objective of “being the leading medium and high class jewelry brand of Vietnam”. This was one of the main reasons making the retail revenue increase in such an impressive way in 2014 and 2015, especially same store sales always maintained at over 20% growth rate.

The changes helped PNJ Gold maintain the great growth rate and immediately accelerate when the market tended to recover:

- **Diversified marketing strategy aiming at modern customers:**

PNJ used to aimed at traditional customers with the identify image full of Asian characteristics, now the messages and images were used in such a diversified way and arranged according to customer channels, taste... to optimize the marketing campaigns effectiveness.

Images of PNJ’ s brand ambassadors were fitted to the brand characteristics which was loved by customers (about the brand as well as the brand’s representative). There was not only changes in image, but also the careful selection of communication channels has helped to earn the highest effectiveness for each program. Besides traditional channels, the online channels were invested and developed, at the same time we cooperated with domestic and foreign prestige brands to increase brand identity.

The PR – Marketing campaigns focused on medium and high class product lines in accordance with the strategic objective proposed by the Management Board.



- **Product quality and design were the top priority**

PNJ always led the domestic fashion trend with unique collections both in style and processing technology.

In 2015, many large collections were launched with hundreds of designs and A Guinness record was established, confirming the superior advantage of creative capacity, products’ quality as well as processing techniques of PNJ.

Not only being outstanding in the domestic market, the designs of PNJ were welcomed by international markets, proven by the first prize of national design in the contest of ASEAN jewelry design 2015.

Apart from the design, products' quality was considered as the prerequisite factor creating the difference and reputation of PNJ brand compared to its competitors. The raw materials for production was carefully selected from big partners, modern technology, combined with a team of skilled craftsmen were the factors making PNJ jewelry products trusted by customers during the past years.

- **Standardization of service quality – focus on people:**

Besides the products' quality, the company gradually normalized service quality from consulting stage to after sale service.

To meet the network expansion speed from 20 to 40 stores each year, which required a huge the workforce supplement of 200 to 400 employees for the whole system. So the standardization of the service quality at all stores and branches was a major challenge for most of retail companies and PNJ was not an exception. However, by establishing the recruitment and training procedure in such an appropriate way and completing the KPI measurement standard for each individual, the company was successful in establishing a professional staff with even quality for the whole system.

PNJ Standards – the service quality standard established based on the international standards, focusing on customers, providing enjoyable experience to customers from the time coming to PNJ stores to the time customers own PNJ products, was highly appreciated by domestic and foreign customers as well as partners.

- **Acceleration of the network development:**

Although it was planned to open 35 new stores in 2015, doubled the new stores opened in 2014, it was realized that this was the favorable time for promoting the network expansion, the Management Board decided to open 48 new stores at 25 provinces and Cities nationwide, exceeding 37% of the plan. By the end of 2015, the whole system had 194 stores, including 125 gold stores, 65 silver stores and 4 CAO stores.

Last year was considered as the starting stage of the recovery of the general economy and the retail sector in particular, so many domestic and foreign brands were very active in competing and searching good locations. In this context, PNJ still succeeded in maintaining the stable network development speed and it increased over the years thanks to the advantages from the evaluation process of standardized selling points, combined with the foundation about human resources and strong management system built and strengthened for over the last 2 years.

**1.2 Wholesale business activities:** 2015 was an unfavorable year for wholesale business when the revenue decreased 3% compared to the same period. From the impact of reducing the demand on gold bars of the gold market, more and more companies were established specializing in trading jewelry with flexible business mode, and increasingly fiercer competition, although the revenue of the company decreased, the gross profit increased 35% compared to the same period.

**1.3 Export:** Being similar to the retail segment, currently, the export channel much focused on the high class product lines with high processing price instead of spreading many product

lines as before. This orientation brought the export activities the growth rate of 25% of the profit, although the revenue only increased 3% compared to the same period.

2. **SILVER JEWELRY:** the revenue increased 4%, but the gross profit increased 17% thanks to the pursuing on the high class product lines with high gross profit ratio.

In 2015, PNJ Silver launched many unique product lines, using new materials such as semi-precious stones, pearls combined with the interesting story, topic, then it attracted the concern of the young customers. After rebranding, PNJ Silver had changed brand image and brought a certain business result. The revenue maintained positive growth speed over the years, thought it has not reached expectation, it showed a positive change of the brand.

Along with the efforts, PNJ Silver is believed to be quickly successful in attracting fastidious customers and achieved the high growth rate of revenue and gross profit.

### THE FINANCIAL NORMS

NORMS	UNIT	2015	2015 (excluding financial expenses)	2014
Solvency ratios				
Current ratio	Time	1.50x		1.29x
Debt on owner's equity	Time	1.15x		1.22x
Inventory turnover	Turnover	3		4
Inventory days	Day	104		74
Operation efficiency ratios				
Gross profit margin / net revenue (GPM)	%	14.8%		10.9%
Net profit / revenue (ROS)	%	2%	6.7%	3.5%
Net profit / total assets (ROA)	%	5.5%	17.8%	9.5%
Net profit / owner's equity (ROE)	%	12%	38.9%	20%

- Norms about the current solvency were significantly improved compared to the same period, mainly thanks to the inventory increase and reduction of the loan. The strong cash flow from business activities contributed to supplement to the working capital and help the company not depending on the loan although the inventory increased to 461 billion VND, equivalent to 28% compared to the same period. By the end of 2015, the rate of liability / equity of PNJ was 1.15 times, there was a reduction compared to the rate of 1.22 times of the same period of 2014.
- There was increase to the inventory days, reflecting the change in the revenue structure when the jewelry group increasingly accounted for high proportion. This was an inevitable trend of

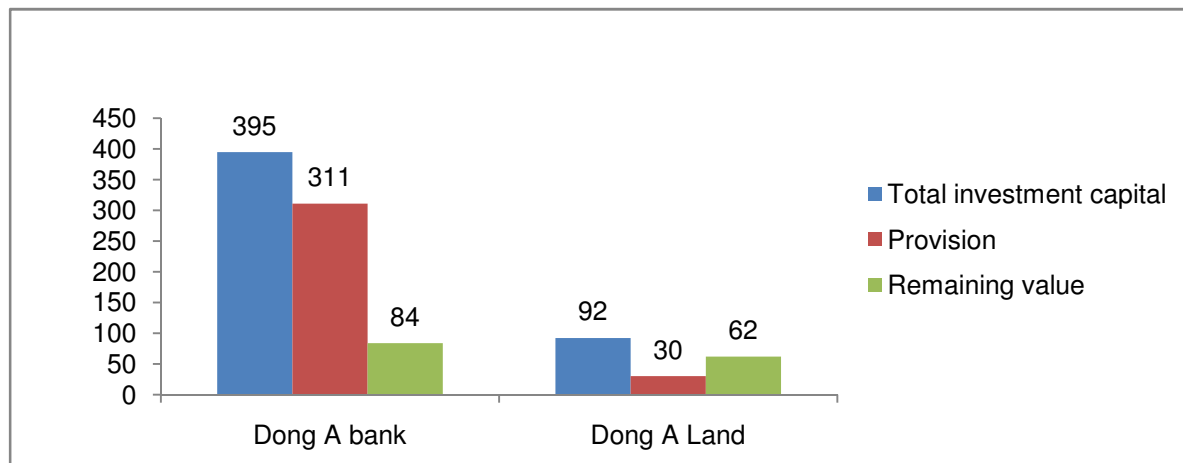
the Retail Company in general and jewelry in particular. The inventory days of each channel were strictly controlled and were in the lower level compared to its peers in the world.

- The change in the structure of product lines as well as the sales channels brought high gross profit ratios of 1.5 times compared to the same period and it shall continue to grow in the coming years.
- Though achieving impressive results about revenue and gross profit, the norms of net profit in 2015 reduced compared to the same period due to the impact from the financial provision costs. If the financial provision costs were excluded, ROS, ROA and ROE had an outstanding growth compared to the same period. In which, ROE reached 38.9%, an increase of 18.9% compared to 20% in 2014. These operation efficiency ratios clearly reflected the acceleration in the core business activities of the Company.

## FINANCIAL INVESTMENT AND THE OPERATION OF SUBSIDIARIES

The book value of the current financial investment of PNJ was 166 billion VND, accounting for 34% of the initial investment value.

### *THE FINANCIAL INVESTMENT VALUE OF PNJ AS OF 31 DECEMBER 2015 (bilVND)*



## THE OPERATION OF THE SUBSIDIARIES

**Cao Fine Jewelry:** Its charter capital was 10 billion VND, the revenue of the whole year was 100 billion VND, an increase of 144% compared to the same period, profit after tax was 10 billion VND. Though no new stores were opened, by its efforts, the growth rate of CAO was doubled compared to the same period. Realizing that this was the right time to strengthen the high class jewelry product lines, the Management Board strongly promoted the brand identity strategy as well as launched many Marketing programs aiming at luxury segment. The achieved result was the great motivation for the Management Board as well as all employees of CAO in the way of conquering the high class jewelry market in Vietnam.

**PNJ Laboratory Co., Ltd. (PNJL):** its charter capital was also 10 billion VND, the revenue of PNJL was 14 billion VND, increased 25% compared to the same period. Profit after tax was 6 billion VND, increased 23% compared to the same period.

It can be said that 2015 was a year full of success in all aspect of PNJ, not only the increase in revenue and profit from the business of the holding company, but also the outstanding growth of PNJL and CAO, significantly contributed to the consolidated result.

## **FACTORS CREATING THE SUCCESS AND THE SUSTAINABLE DEVELOPMENT OF PNJ IN 2015**

### **1. PRODUCTION CAPACITY**

The production capacity was strongly invested both in quantity and quality to bring more sophisticated products to consumers.

With the strength of technology and skillful goldsmiths, PNJ always led the market about product quality as well as production capacity. Understanding the importance of production, Board of Management always had the investment strategy to further improve the capacity of PNJ Jewelry Factory.

- About the technology: in 2015, the company continued to invest in modern machines to produce new product lines and shorten processing time.
- The quality of human resources: apart from the internal training programs, the senior staff of the Factory has attended training courses abroad to update modern processing techniques from leading experts in Europe. At the same time, the Factory also officially received the technology transfer from Italian partners, including intensive training programs about production techniques.
- Production capacity: Every year, Jewelry Enterprise of PNJ produced over 2 millions of products for both retail and wholesale business. In which the high-end products like diamond and gem-set jewelry required high processing workmanship as well as longer time production because it is passed more stages than. However, with the appropriate investment strategy, in 2015, the Factory has increased 75% of high-end jewelry capacity, this is also the key product lines of the company in the future.



## 2. FOCUS ON INVESTING IN HUMAN RESOURCES

The human resources was recognized as the superior advantage of the company during the past years, and especially reflected in 2015. In 2015, PNJ was honored to be selected as Top 100 Vietnam best working environment (evaluated by Nielsen & Anphabe).



With the orientation of considering human as the foundation for development, the Management Board established a dynamic, professional, and inspiring working environment for employees. The typical achievements gained last year were as follows:

- Complete the capacity dictionary for each position of employees.
- There was a comprehensive evaluation process about capacity of employees to assign suitably and create opportunities for the employees to promote their full capacity.
- There was a good treatment policy, attracting and retaining talents: The salary and bonus policy was considered annually to ensure the suitability and competitiveness compared to the general market.
- Training was considered as an important activity helping to develop and improve the capacity of employees. The training programs were designed periodically or unexpectedly according to the company's demand, and there was evaluation plan of the training program for improvement in the next periods.
- Create a professional and solidary working environment, the company's core value was considered as a striving objective for each individual.

## 3. BRAND WITH INTERNATIONAL STATURE

Not only a successful year in domestic, PNJ also confirmed its reputation in international market when becoming the only brand representing Vietnamese jewelry industry to be honored at the big and prestigious awards in the region.

- Within JNA Award 2015, PNJ has passed the caliber companies like Chow Tai Fook, Golden Dew, Pandora ... to win the award "Employer of the Year". This award honors companies with impressive development in recent years, and had many contributions to jewelry industry of the country.





- Also in 2015, the products and designs of PNJ were honored at the ASEAN Design Award, honoring the creativity and skilled processing techniques of the employees of PNJ.
- Not only that, even in the domestic market, PNJ presented the jewelry masterpiece “Phoenix Dress” – a new Guinness record – to the international friends within Vietnam International Fashion Week. This was also the focus of the Fashion Week, creating a deep impression to the domestic and foreign fashionista.

This masterpiece was made from 24 tael with more than 2,000 sophisticated details made by 30 jewelry artisans of PNJ for 240 hours, it was made entirely by the manual method.

With the vision of “Becoming one of the leading jewelry companies in Asia market”, with the achievements, PNJ was proud to initially achieve its vision, create the prerequisite for stronger development steps in the future.

#### **4. RISK MANAGEMENT**

##### **Risk management to the quality of products and services:**

To ensure that the product sold to consumers with best quality, PNJ built a close quality control process controlled by PNJL (PNJL was licensed by Directorate for Standards and Quality for identifying the gold content).

The production stage was focused on investment in both technology and workmanship of jewelry artisans: the Management Board regularly updated the modern technology trends of the world, and sent experts for training at the famous markets about jewelry processing such as Italy, Germany.... to apply and improve the production process.

For the team of jewelers, the training courses and competitions were held regularly to evaluate their capacity. Through these courses and competitions, the Company could find outstanding employees timely encouragement and support.

##### **Risk management to the quality of human resources**

PNJ recruits from 200 to 300 new employees every year for Jewelry Enterprise and the retail system nationwide. To ensure the equal quality and meet the standards of staff, the Company worked with many professional consultants to complete the process of recruitment, training and capacity evaluation of Employees. After nearly two years of application, this process has shown the high efficiency when after the probation period, all new employees meet the expected results.

Not only applied to new employees, during the time of working, the company always has appropriate training programs to improve the capacity of both old and new employees.

The 360-degree capacity evaluation was begun in the mid 2015 to help the Management Board have a comprehensive view about the workforce to have an appropriate development strategy. Besides, this project also helped employees to judge their strengths and weaknesses to have orientation for appropriate capacity practice.

### **Risk management to brain drain**

Being the leading company in the industry and famous for good training policy, that the employees of PNJ are always welcomed by its rivals is inevitable. To limit the risk of brain drain, the Company has had attractive salary and bonus policy, ensuring the competitiveness and equality to the employees. This policy is considered at the end of every year to ensure the suitability for the next year.

The Management Board always cared for the spiritual life of employees, through the union activities, family festivals, ... At jewelry enterprise, the company has invested the amusement park, library, area for having a break for workers. In addition, at the office of the Company there is gymnasium to serve the demand of staff.

The corporate culture is also an important factor retaining employees: PNJ is like a big family where the members not only work but also have a close friendship, they jointly try for the common objective. With the corporate culture of “big family”, the working environment at PNJ is really an inspiring place to help employees to best promote their capacity.

### **Risk management to finance**

#### **Credit risk:**

The Company had suitable credit policies and regularly supervised the fit situation to evaluate whether the Company suffered from any credit risk or not.

The debt / equity ratio was controlled at a safe rate and it tended to decrease.

#### **The risk of gold price fluctuation:**

PNJ controlled the average price of input and output in such a flexible way, helping the company to control the gross profit ratio at stable rate, according to the market demand and production costs instead of raw material price fluctuation.

The focus on the brand strengths and the difference in design also helped the company create higher surplus for the products, and limit the risk of price fluctuation.

Along with the orientation strongly focusing on the medium and high class segment, with the main product lines of diamond and gemstone, the gold proportion to the gold product value was likely to reduce because gemstone often had high value. Gemstone was also considered to have a more stable price cost price than gold.



## **CONCLUSION**

The year 2015 ended with impressive achievements, we can confirm the achieved objectives as follows:

Becoming the leading jewelry processor and retailer in Asia market and securing the number one position in the segment of medium and high class jewelry in Vietnam.

PNJ shall continue to develop in the coming years.

