

REPORT OF SUPERVISORY BOARD PHU NHUAN JEWELRY JOINT STOCK COMPANY

Pursuant to:

- Charter of Phu Nhuan Jewelry Joint Stock Company (abbreviation: PNJ);
- Regulations of the Company's Administration;
- Regulations of the activities of Supervisory Board, term 2012 – 2017;
- Audited separate and consolidated financial statements of 2016 of PNJ.

Supervisory Board presents to the Shareholders' General Meeting report on activities of Supervisory Board in 2016. The main information is stated as follows:

I. ACTIVITIES OF SUPERVISORY BOARD:

1. List of three (03) members in supervisory board:

- Tran Van Dan: Member of the Board, resigned from the Head of Supervisory Board from July 01st, 2016
- Nguyen Thanh Du: Member of the Board since April 02nd , 2016; Head of Supervisory Board since July 01st, 2016
- Nguyen Ngoc Hue: Member of the Board

All members are assigned to supervise activities of functional divisions in accordance with professional responsibility to closely monitor the actual operations, and promote the effectiveness of the Supervisory Board.

2. Main activities of Supervisory Board:

- Monitoring and checking the legality and rationality of the implementation of business plan, which declared by the BOD and the BOM in compliance with resolutions of shareholder's annual general meeting 2016.
- Checking the rationality, honesty and level of caution in organizing accounting system. Reviewing financial statements (audited by Deloitte Vietnam Co., Ltd.).

3. Salary and operating expense for Supervisory Board in 2016:

- Head of Supervisory Board: VND 8.000.000 per month
- Member of Supervisory Board: VND 4.000.000 per month

II. RESULTS OF SUPERVISORY BOARD'S ACTIVITIES:

1. Supervised management and operating activities of of BOD, BOM:

Supervisory Board performed tasks of supervising the BOD and BOM in the forms of reading documents and attending meetings of BOD; monitoring and inspecting the Company's activity of information disclosure in order to ensure that information is delivered to the shareholders and relevant parties; supervising the Company's producing - trading management (by using the reports and activities of internal control).

In 2016, BOD and BOM focused on implementation of:

- Implemented and executed synchronously the objectives and solutions declared in resolutions of shareholder's general meeting. Developed annual goals, targets for divisions, strategic departments, and functional departments.
- Evaluated the internal strength, potential of PNJ, the competitive situation in the market, made appropriate decisions on developing production technology, strategies of products, restructure of products, creative activities (particularly creativity in marketing activities), improving the quality of customer service, etc., As the results, PNJ had significant growth in financial index, increased competitive abilities in jewelry industry, leveled up PNJ's competitive advantages in Vietnam market.
- Continuously taking actions and suggesting solutions in building the organizational structure as well as developing human resource to build foundation for the sustainable development of PNJ.
- Making effort to develop the distribution channel, open new stores to keep up with the demand of the market, effectively and efficiently manage business operation (opened 30 stores, compared to the plan of 25 stores).
- The Company has signed commercial contracts with organizations who are related to the members of the Board of Directors, and the Company has completely divested from Dong A Real Estate Joint Stock Company.
- Separate net profit after tax of PNJ was 470 billion VND and 279 million VND; completed 130% plan of 2016, and increased to 568% compared to the same period of 2015.

Through the process of monitoring activities of BOD and BOM in 2016, Supervisor Board concludes that BOD and BOM complied with all the rules, regulations and resolutions issued by Shareholder's General Meeting, current law on disclosure of information on the stock market (as an evidence, PNJ provided full and honest documents as request)

2. Examining the profit distribution plan for 2016

According to 2016 profit distribution plan prepared and would be submitted to General Meeting of Shareholders by BOD, Supervisory Board concludes that 2016 distribution plan complied with the law and the Charter of PNJ. Dividend payment of 18% of par value approved by the 2016 Shareholder's Annual General Meeting.

Profit distribution: VND 450,488,049,260; in which:

- Dividend Payment (18% of par value): VND 176,892,962,000
- Fund Allocations: VND 139,950,000,000

- Retained Earnings: VND 133,645,087,260

3. Financial Control

- After examining the Company's financial statements for 2016, examining audited financial reports issued by Deloitte Vietnam Co., Ltd, Supervisory Board agreed on financial information reported on consolidated financial statements of PNJ, and separate audited financial statements of PNJ for 2016.
- In our opinions, information in PNJ consolidated financial statements and PNJ financial statements expressed honestly and reasonably all material aspects of related documents and records, complied with accounting standards, business accounting system of Vietnam, and other regulations related to preparing and presenting accounting reports.

3.1. Data of total owner's equity, total assets, and profit/loss from operating activities of PNJ:

Unit: million VND

Categories	PNJ (consolidated)			PNJ (separate)		
	SS 16/15 (%)	2016	2015	SS 16/15 (%)	2016	2015
Total Assets	121%	3.587.987	2.975.891	121%	3.591.055	2.958.202
Total Owner's Equity	121%	3.587.987	2.975.891	121%	3.591.055	2.958.202
Net Profit Before Tax	316%	590.628	187.112	320%	608.069	189.962
Net Profit After Tax	596%	450.488	75.546	568%	470.279	82.862

- **Consolidated total assets** for 2016 was VND 3,587,987, increased by 21% compared to the same period of 2015 (separate total assets of PNJ was VND 3,591,055, increased by 21% compared to the same period of 2015). Specifically, inventory impacts by the increase of 23.7%, fixed assets impacts by the decrease of 2.4%, and long-term financial investment impacts by the decrease of 4.9% (due to provision for long-term investment and divestment)
- **Consolidated total resources** was **VND 3,587,987, increased 21% compared to the same period of 2015** (separate total resource of PNJ was VND 3,591,055; increased 21% compared to the same period of 2015). Majorly, short-term liabilities impact by the increase of 15%, owner's equity impacts by the increase of 6.9%, and long-term liabilities impact by the decrease of 0.5% (due to the restructure of financial capital)
- **Owners' equity:** separate owners' equity of PNJ weights for 99.9% of consolidated owners' equity. In 2016, separate charter capital of PNJ was 982,745,770,000 VND, no change in 2016.

3.2. Evaluations of several financial ratios (as of December 31st every year):

No	Indicators	PNJ (Consolidated)			PNJ (Separate)			Unit
		2015	2016	2016-2015	2015	2016	2016-2015	
1	After-tax profit/Owners' equity (ROE)	5.74%	30.03%	24.29%	6.40%	31.38%	24.98%	%

No	Indicators	PNJ (Consolidated)			PNJ (Separate)			Unit
		2015	2016	2016-2015	2015	2016	2016-2015	
2	After-tax profit/ Charter capital	7.69%	45.84%	38.15%	8.43%	47.85%	39.42%	%
3	After-tax profit/Total Assets (ROA)	2.54%	12.56%	10.02%	2.80%	13.10%	10.30%	%
4	After-tax profit/Total Revenues	0.98%	5.26%	4.28%	1.08%	5.52%	4.44%	%
5	Gross Profit/Net Revenues (from sale of products and services rendered)	15.16%	16.48%	1.32%	14.83%	16.22%	1.39%	%
6	Asset Turnover	2.66	2.61	-0.05	2.66	2.60	-0.06	times
7	Inventory Turnover	3.43	2.88	-0.55	3.46	2.89	-0.57	times
8	Fixed Asset Turnover	16.43	18.99	2.56	16.37	18.95	2.58	times
9	Total Liabilities/Total Assets	55.80%	58.18%	2.38%	56.26%	58.26%	2.00%	%
10	Current Ratio	1.43	1.53	0.10	1.42	1.53	0.11	times
11	Quick Ratio	0.08	0.13	0.05	0.08	0.14	0.06	times

Note:

(1) Charter capital, calculated on weighted average.

(2) Particularly for sales and service provision.

(3) (Net revenue from goods sales and services) / (Total assets on average).

(4) Inventory on average.

(5) Fixed assets on average.

(6) In case of taking into account the sector's inventories, the ability to pay quickly may consist of a large part of the value of gold inventory. As a result, the real number will be higher than report number.

In our opinion, the main operational and financial indicators showed that PNJ (separate) and PNJ (consolidated) performed effectively in 2016. However, it is important to pay attention on the total asset turnover, inventory and debt/total assets (Inventories increased sharply in 2016 due to the increase in use of loan, but inventory turnover decreased; thus, it needs to be controlled to increase efficiency in the use of goods).

4. Evaluating the coordination between the SB and the BOD, CEO and shareholders

- The Board of Directors and the General Director always create favorable conditions for the SB to perform its tasks, always have close, independent and objective cooperation in principle for the benefit of the Company, shareholders, and full compliance with the provisions of the Internal Regulations, the Company Charter and related law.
- SB did not receive any shareholder's requests or complaints in 2016.

III. CONCLUSION – RECOMMENDATION:

- Through the supervision and inspection, SB found that the BOD, BOM deployed and implemented in accordance with the spirit of the resolution of the 2016 Shareholders General Meeting, the Company's management regulations, the Company's charter, based on the interests of the Company, of the Shareholder.
- In the current context and the fierce competition, SB recommends BOD and BOM some contents to continue and improve the Company's performance as below:

1. Recommendation to the BOD

- Operate organizational and personnel structure, prioritize training and evaluation after training.
- Implement information technology strategy (according to the strategy set up in 2016), connecting throughout every production, business and management operation at all levels (ensuring good operation and confidentiality of information).
- Assessing financial effectiveness of each phase in parallel with developing the retail network.
- Effectively exploit the system of modern machinery and equipment already invested to increase the efficiency of production and business.

2. Recommendation to BOM

- Develop a risk management policy system based on ISO 9001: 2015.
- Building the decentralized system for unit levels under the new model and locking points of control on software for operations.
- Continue to improve the efficiency of supply chain management in terms of: business forecasting, ordering, improving the connection of the production-supply-store system, further reducing intermediary inventory cost and that of sale stores, increasing inventory turnover.
- Accelerate the measurement and improvement of key activities for high efficiency.
- Research to launch new products/services; enhance customer care services to more effectively exploit the retail system.
- Maintain the checking and control of the system in two levels (self-control and checking) and improve the application on the software to increase the efficiency of the operation.

This is the Report on supervisory activities of PNJ in 2016 issued by SB. We kindly submit this report to the 2017 Annual General Meeting of Shareholders. SB sincerely thanks Shareholders, BOD, BOM, other departments for your trust and

cooperation. SB is looking forward to continue to receive close cooperation in the coming time.

Recipients:

- *BOD, Supervisory Board*
 - *BOM*
 - *Shareholders of PNJ*
 - *Archived: Office of BOD*
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**ON BEHALF OF SUPERVISORY BOARD
HEAD OF SUPERVISORY BOARD**

(Signed)

NGUYEN THANH DU