

**Traphaco**<sup>◆</sup>  
The way of green health

TRAPHACO - ANNUAL REPORT 2017



**READY FOR THE  
NEW JOURNEY**

**Traphaco**<sup>◆</sup>  
The way of green health

**TRAPHACO JOINT STOCK COMPANY**

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ANNUAL REPORT



### ***“Believe in the vision and the Sustainable Development Strategy of Traphaco for the 2017-2020 period”***

The Annual General Meeting in 2017 unanimously approved the **“Sustainable Development Strategy of Traphaco for the 2017-2020 period”**. The strategy of business development was widely introduced and received the support of the entire staff and employees of Traphaco as well as clients and investors.

According to the survey result of Anphabe Company, when being asked about the company’s strategy, 92% of Traphaco employees have the same belief in the **FUTURE** and **DIRECTION** that Traphaco has chosen to set the target for.

That strong belief has transformed into a spirit of determination, consensus in the entire Traphaco, the breakthroughs in creating new values: The “smart” pharmaceutical factory 4.0; The most prestigious brand in pharmaceutical industry in Vietnam, Good business management system with “double” award for Annual Report, etc., and stock value increased nearly 30% year-on-year.

The enterprise foundation based on the business performance indicators of 2017 and the corporate culture which has been nurtured over the past 45 years will help Traphaco get the successful breakthroughs in 2018 - **“Actualization of strategic goals”**. Traphaco will be a solidarity group, drastically pursue and implement challenging indicators: growth rates of sales and profit are 20% and 25% respectively. Traphaco people will create and construct a long and widely-spread The Path of Green Health together, contributing to the prosperity of the country.

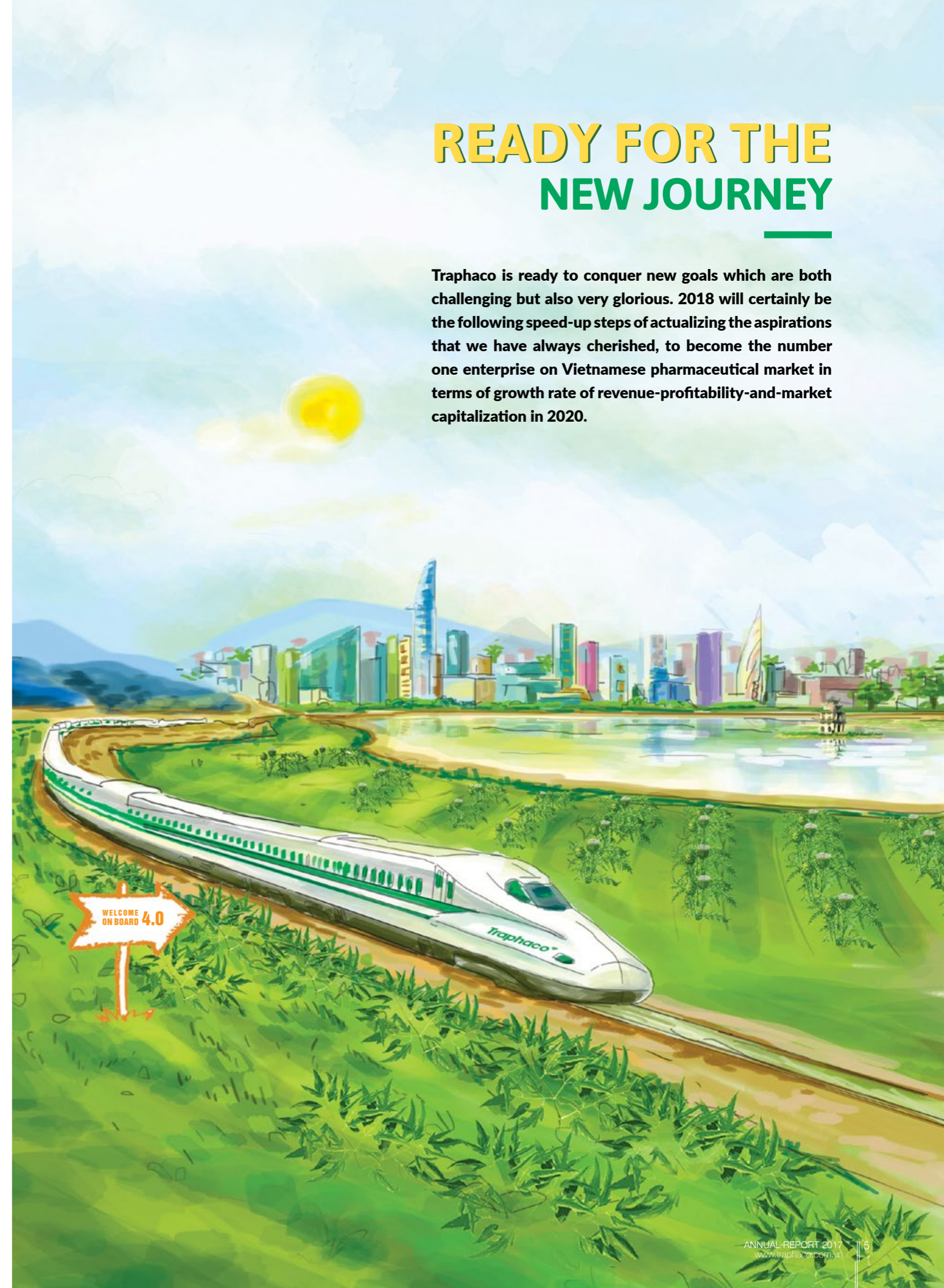
***Inheriting the tradition, sharing a common belief, Traphaco is ready for a new journey!***

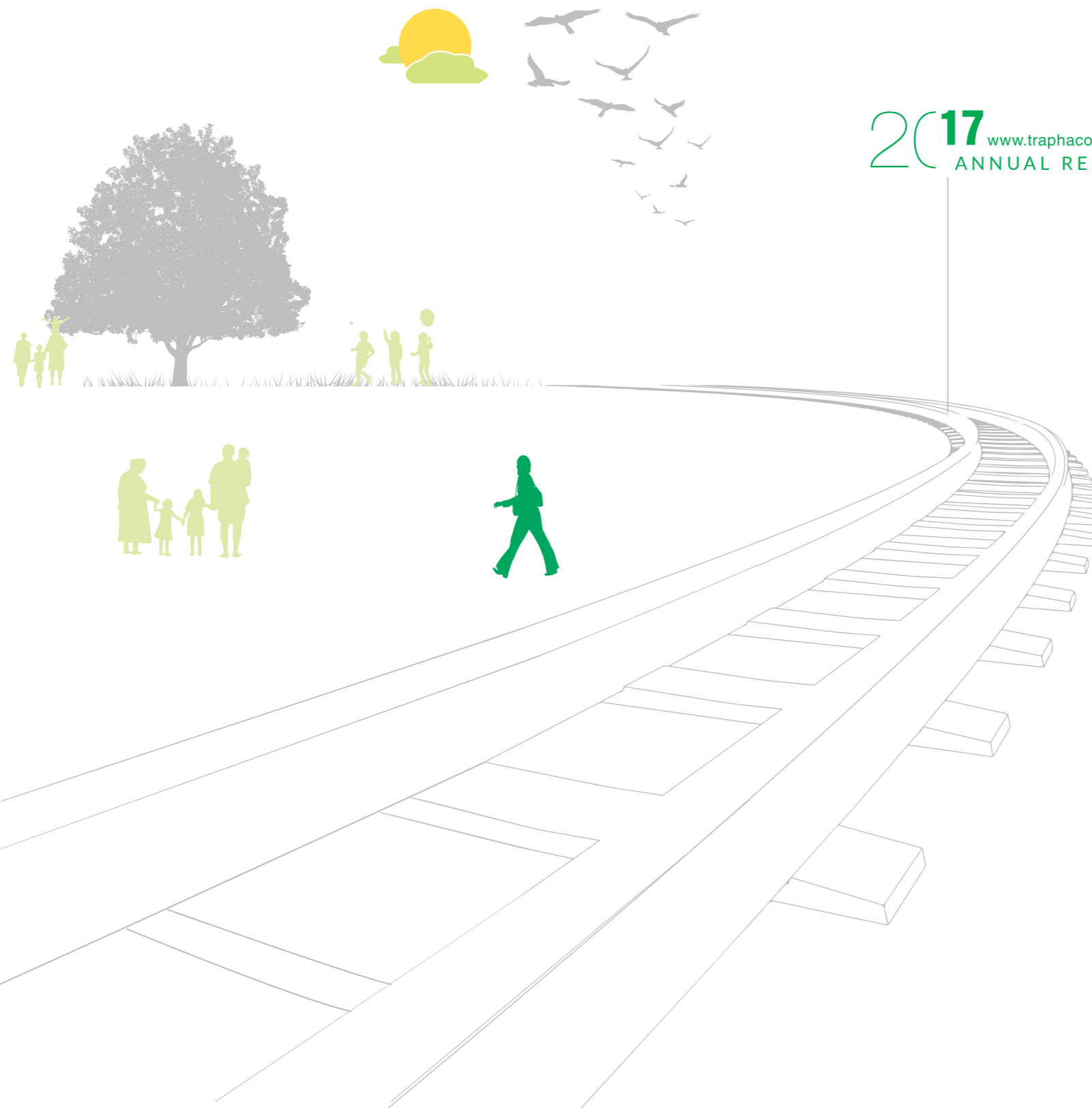
## List of abbreviation

3Ps	: Paying salary based on positions - personal capacity and performance
AGM/GSM	: Annual General Meeting/ General Shareholders Meeting
JSC	: Joint Stock Company
BA	: Business Administration
BOD	: Board of Directors
COGS	Cost of goods sold
DMS	: Distribution management system
ERP	: Enterprise Resource Planning
ETC	: Ethical
GAS	General Assembly of Shareholders
GACP-WHO	: Good Agricultural and Collection Practices as recommended by the World Health Organization
GMP-WHO	: Good Manufacturing Practices as recommended by the World Health Organization
GMP-EU	: Good Manufacturing Practices according to European standards
GRI G4	: Global Report Initiative 4 <sup>th</sup> Generation
ICOR	: Incremental Capital - Output Ratio
IT	: Information Technology
KPI	: Key Performance Indicators
OTC	: Over-the-counter (OTC) medicine retail sales
Ltd	: Limited
PC	: People's Committee
QA	: Quality assurance
QI	: Quality Inspection
QM	: Quality Management
SCIC	: State Capital Investment Corporation
WEF	: World Economic Forum
WIPO	: World Intellectual Property Organization

# READY FOR THE NEW JOURNEY

**Traphaco is ready to conquer new goals which are both challenging but also very glorious. 2018 will certainly be the following speed-up steps of actualizing the aspirations that we have always cherished, to become the number one enterprise on Vietnamese pharmaceutical market in terms of growth rate of revenue-profitability-and-market capitalization in 2020.**





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ANNUAL REPORT

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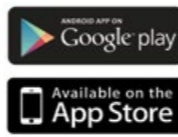
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## HIGHLIGHTS OF THE REPORT



**MISSION**

**Pioneering in creating Green Pharmaceutical products to protect human health.**

**VISION**

**BY 2020, BECOMING THE NUMBER ONE PHARMACEUTICAL COMPANY IN VIETNAM IN TERMS OF GROWTH RATE OF REVENUE-PROFITABILITY-AND-MARKET CAPITALIZATION.**

**CORE VALUES**



**PIONEERING**

& leading in green value chain management, creativity and application of new technologies and knowledge.



**CREATIVITY**

Creating products and services with perfect quality bearing the Traphaco knowledge hallmarks.



**RESPONSIBILITY**

Committing and performing commitment of responsibility to society, shareholders, clients, partners and employees on the principle of mutual benefit.



**IDENTITY**

Identity of Traphaco culture and people: desire, passion, dedication.

*Green Pharmaceuticals: is pharmaceutical produced on the basis of green supply chain from raw materials to clean production technology, environment friendly service and distribution system.*



# HIGHLIGHTS IN 2017

# 1

## 45<sup>th</sup> ANNIVERSARY OF TRADITIONAL DAY



Over 45 years of establishment and development, Traphaco has brought traditional medicine to a new height with modern technology by Vietnamese intelligence people. Outstanding in vision - Bold in strategy - Conserving traditions - Breakthrough in technology and always putting the human element in leading priority are the core values, the source of strength which have brought Traphaco to become the leading brand in pharmaceutical sector.

# 2

## IMPLEMENTATION OF THE SUSTAINABLE DEVELOPMENT STRATEGY OF TRAPHACO FOR THE 2017- 2020 PERIOD



The Sustainable Development Strategy of Traphaco for the 2017 - 2020 period is developed on a thorough analysis of internal and external factors, opportunities - challenges, strengths and weaknesses of enterprise. The strategy is planned in details annually with specific objectives for each stage. The Chief Executive Officer is also Head of Strategy Drafting Committee and Head of the Strategy Implementation Committee in order to successfully implement the Company Strategy for 2017-2020; guaranteeing benefits for shareholders and employees.

# 3

## PRIME MINISTER NGUYEN XUAN PHUC VISITED TRAPHACO SAPA



Prime Minister Nguyen Xuan Phuc, Deputy Prime Minister Vu Duc Dam, Minister of Health Nguyen Thi Kim Tien and leaders of local departments and officials have visited the artichoke glue production and processing process at Traphaco Sapa Co., Ltd. Throughout the visit, the Prime Minister has praised

Traphaco's "four partners" medicinal herbs growing area development model which has contributed to the preservation and expansion of precious medicinal herbs in the locality and also improved income and living conditions for farmers.

# 4



## OFFICIALLY ANNOUNCED THE TRAPHACO HAPPY INDEX



Traphaco identifies human as key factor which determines the success of the enterprise. Paying attention to the living of staff and employees is also caring and preserving the enterprise's priceless assets. Therefore, Traphaco, in collaboration with Anphabe Company, has conducted a human resources survey with the participation of 827 staff including both senior manager and employees in all sectors. According to the overall result, the Traphaco's happy index reached 82.7 points, standing in Excellent level which far higher than the average index of the sector and the whole market.

# 5

## TRAPHACO - TO BE HONORED IN TOP 10 SUSTAINABLE DEVELOPMENT ENTERPRISE FOR THE 2<sup>nd</sup> TIME



On 6<sup>th</sup> December, 2017 in Hanoi, the announcement ceremony of "Top 100 Sustainable Development Enterprise of Vietnam in 2017" was organized. At this ceremony, Traphaco was honored as one of the Top 10 Sustainable Development Enterprise for the 2<sup>nd</sup> time consecutively in the Chart of stable enterprises in 2017 in production area. This award also strongly affirmed that the Traphaco's "The Path of Green Health" strategy is a convincing demonstration of sustainable development, combining business interests with environmental and social benefits.

6

**TRAPHACO MADE THE "HAT-TRICK" FOR ANNUAL REPORT AWARD**



Passing 600 reports of listed companies in Vietnam, Traphaco's 2016 Annual Report was the only report that covers all three categories of the 10<sup>th</sup> Best Annual Report Awards vote with such criteria as "Standard - Transparency - Professional - Creative - Sustainable development".

Top **10** Best Annual Report.

The annual report with best content of **Corporate Governance**.

**Adequate explanation and calculation** for Sustainable Development Report.

7

**TRAPHACO HAS SUPPORTED THE BIG SHAREHOLDERS TO DIVEST**



In order to guarantee the interests of shareholders, Traphaco has actively cooperated with the divesting shareholder group and consulting companies, provided large volumes of materials, had meeting with potential investors.

By November 2017, the big shareholders group has successfully divested. Traphaco and the new group of shareholders have unified the direction in the future, ensuring the implementation of Traphaco's sustainable development strategy and the interests of other shareholders as well as employees.



**THE INAUGURATION OF THE SMART PHARMACEUTICAL FACTORY**

The Club of Vietnam's Journalists of Science and Technology has voted the inauguration ceremony of the most modern western medicine manufacturing factory in Vietnam of Traphaco in Hung Yen is one of the 10 most outstanding scientific and technological events in 2017. The factory is built on an area of 46,288 m<sup>2</sup> with a total investment of nearly 500 billion VND, capacity of 1.2 billion product units per year. This is an important step actualizing Traphaco's sustainable development strategy 2017-2020.

9

**THE MOST PRESTIGIOUS PHARMACEUTICAL COMPANY IN VIETNAM: THROUGH THE SURVEY, ASSESSMENT OF PHARMACIES AND FINANCIAL POINT, MEDIA**



Traphaco JSC is honored to stand at the highest position in the Top 10 prestigious pharmaceutical companies in Vietnam in 2017 for the second time consecutively, as published by Vietnam Report Co. (Vietnam Report). The credibility of the company is assessed based on: (1) financial capacity as presented in the latest financial statement; (2) Media credibility is assessed by Media Coding method; (3) Expert survey in the pharmaceutical industry; survey of pharmacists/pharmacies and Enterprise survey conducted in December 2017 in terms of capital size, market, labor, revenue growth, profit and business plan in 2017.

8

10

**BOGANIC IS HONORED AS ONE OF THE "TOP 10 EXCELLENT VIETNAMESE BRAND PRODUCTS" FOR SECOND TIME CONSECUTIVELY.**



Being the only representative brand of the pharmaceutical industry which is awarded, Traphaco and Boganic continues to be recognized as the typical Vietnamese brand, with great efforts in production technology investment, improving product quality and obtaining high growth. The award also recognized the contribution of Traphaco in the successful implementation of the campaign "Buy Vietnamese" after 08 years of implementation.





**Vietnam Value**

**3 CONSECUTIVE TIMES**

**VIETNAMESE NATIONAL BRAND**

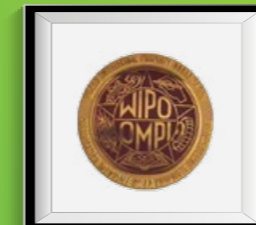
**VALUE**  
(2012, 2014, 2016)



Labor Hero Title  
(2010)



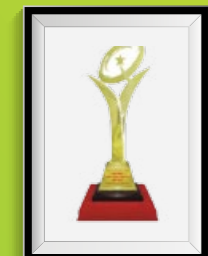
First Class Labor Medal  
(2012)



WIPO Awards  
(2010)



Asia Pacific International  
Quality Award (2013)



National Quality Golden Award  
(2012, 2015)



Top **10** Most Prestigious Pharmaceutical  
Companies in Vietnam  
(2016, 2017)



Top **40** Most Valuable Company  
Brand in Vietnam  
(2016, 2017)



Top **10** Typical Vietnamese Trademark  
Product and Service  
(2015, 2017)



Top **10** Typical Vietnam Golden  
Star Enterprise for Social  
Responsibility  
(2011, 2013, 2015)



Top **10** Vietnam's Most Sustainable  
Enterprise (Top 10 CSI)  
(2016, 2017)



Enterprise for Labors  
(2016, 2017)

Message from  
**THE CHAIRWOMAN OF BOARD**



Dear shareholders, clients, investors, and colleagues,

**THE YEAR 2017 HAS PASSED, MARKING THE 45<sup>TH</sup> MILESTONE ON THE JOURNEY OF BUILDING AND DEVELOPMENT OF TRAPHACO. THIS IS A CHALLENGING YEAR BUT ALSO A MOTIVATION FOR TRAPHACO TO ACCOMPLISH A GREAT DEAL OF HUGE TASKS OF THE FIVE YEAR PLAN (2016-2020).**

Ladies and Gentlemen,

In 2017, Traphaco has announced the Company's strategic objectives to 2020 with adequate content and quantification of the major objectives. The Strategy has been actively developed from communication to the transformation of general objective into component strategies. We have created tremendous consensus throughout the Company and our partners with a strong commitment to achieve our strategic objectives. In addition to economic objectives, the strategy also emphasized the humanistic objectives: "Traphaco people are happy, satisfied with their life and work, the working environment ranks in the best range in Vietnam". Traphaco has applied the KPIs and developed 3Ps salary policy, completed the policies on salary and bonuses, working conditions, compensation, training ...

to improve the quality of human resources, the belief of employees, the consensus in the entire system on the basis of developing corporate culture to enhance the core values.

This is the first time Traphaco has developed a scientific and feasible strategy.

2017 is also an urgent year of accomplishing the construction project of new Western medicine factory, containing not only construction works, modern equipment assembly but also promptly GMP standard registration for the factory and production license for products ... Hundreds of outstanding employees have been mobilized to join this huge and difficult workload. On 08<sup>th</sup> November 2017, the inauguration ceremony of "Smart" factory was organized and honored to rank in Top 10 national scientific and technological events in 2017 of Vietnam. We are so proud of the leadership and all staff and employees of the Company. You have proven that we can make the impossible possible if we are consensus and do our best.

Together with the "smart" factory in Hung Yen Province, we have completed the project of pharmaceutical processing and local products manufacturing factory in Lao Cai. The factory was also honored to welcome Prime Minister Nguyen Xuan Phuc and high level government officials for visiting in April 2017.

The distribution system continued to grow with the launch of four new branches, the increase in clients and a sales team. The products are sold at stable price with fast payment throughout the country. The relationship of clients with the company is increasingly tightened. With the quality of products and services, Traphaco brand has continuously been the famous brand of pharmaceutical industry, more proudly, many products have become prestige brands with clients.

Message from  
**THE CHAIRWOMAN OF BOARD** (continued)



# CONQUER THE PEAK

In 2017, we have continued to implement ERP throughout the system with consistency in sales policy along with creativity and innovation in directing the implementation solutions. The Company has completed the revenue plan, especially the profit plan, which was voted as number 1 in the Top 10 prestigious Vietnamese pharmaceutical companies.

2017 is also the year of completing the internal regulations and implementing the provisions of Decree 71 issued by the Government for public companies on Vietnam stock exchange.

In 2017, there was a remarkable change of shareholder in the Company, however, this change did not affect the Company but enhanced the position of Traphaco when all major shareholders successfully divested and the new shareholders had commitment to accompany with the Company in developing the Company's values, unifying the strategic goals and mission of the Company.

Under the close direction of the Board of Directors, the drastic management of the Executive Board, the active participation of staff and employees, the enthusiastic support of clients, partners and related parties, Traphaco has outstandingly completed its business missions in 2017. Traphaco has continued to maintain the Vietnam Value brand, develop green value chain, continued to be selected as the best business, an effective enterprise on Vietnam stock market, especially being voted in the Top 10 sustainable development enterprises, Enterprises for employees. It is visible that Traphaco has had a year fulfilling the

key missions of the Five Year Plan, setting the best conditions for acceleration in the coming years.

On behalf of the Board of Directors, I would like to give my gratitude to the cooperation and support of clients, all staff and employees who have been active, creative, cooperative, consensus to overcome the pressure and master the technology, actively adapt to changes, overcome difficulties and challenges of the market economy, satisfying the increasingly stringent requirements from the regulations of state management agencies. Thanks the Executive Board who have been very drastic in directing, seizing opportunity, being positive in fulfilling the tasks. The leadership has created the best working conditions, provided full caring and support to employees both in physical and mental aspects, encouraging employees to fulfill the objectives, at the same time well performing the social responsibilities, duties of environmental protection, implementing business effectively, performing green economy development, fulfilling missions of the Company.

**I would like to give sincere thanks to the belief of shareholders and investors.**

Traphaco now owns the core values from the achievements of 45 years, especially the result of 2017, the hinge year of the 2016-2020 Five-Year Plan. In 2018, Traphaco will develop the existing achievements, accelerate the "Actualization of strategic goals" – the content of the 2018 emulation movement: revenue and profit will increase by over 20%, completing ERP implementation in the entire company system,

effectively exploiting the "smart" factory, increasing sales revenue of exclusively distributed products, functional food products, and applying governance standards in accordance with Decree 71/2017/NĐ-CP issued by the government. The year 2018 is full of challenging goals!

**Ladies and Gentlemen,**

A new journey is opening for Traphaco. We have taken steady steps to start the 2017-2020 journey. The companion we carry with are the position of a famous brand, the consensus leadership, the wise direction of the Board of Directors, the drastic and effective management of the Executive Board, the determination to achieve objectives on the basis of strengthening the control of all staff; an extensive distribution system, an advanced information technology platform which exists

**IT IS NOT NECESSARY FOR WAITING ANY FURTHER, WE ARE READY TO CONQUER NEW GOALS WHICH ARE BOTH CHALLENGING AND GLORIOUS. 2018 WILL SURELY BE THE NEXT STEP TO ACTUALIZE THE ASPIRATIONS THAT WE ALWAYS CHERISHED, TO BECOME THE NUMBER ONE ENTERPRISE IN VIETNAMESE PHARMACEUTICAL MARKET IN TERMS OF GROWTH RATE OF REVENUE- PROFITABILITY-AND-MARKET CAPITALIZATION IN 2020.**

on every business operation, the shared happiness and social responsibility...

Always appreciating your valuable comments, we would like you to continue to work with Traphaco on the path of sustainable development - a green health path pioneering in green products creation, to protect human health, for a general peace and prosperity.

Thank you very much./.

MSc. **VU THI THUAN**  
Chairwoman of the Board

## Message from CEO



Dear shareholders, clients, all staff and employees of Traphaco JSC;

2017 is a year which is full of work and pressure for Traphaco. The Western medicine factory construction project stepped into the urgent phase, requiring the focus and efforts of the entire company. 2017 is the first year the Company has deployed the Sustainable Development Strategy for the 2017-2020 period. Also in this year, the group of major shareholders accounting for 40% of charter capital has divested capital at Traphaco; this action had influence on the general mind of employees as well as consumed part of Company's resources. In addition to these challenges, Traphaco also has many fundamental advantages. It is the dedicated leadership, timely assessment of market changes; confidence of employees in the leadership in particular and in the Company in general. At the same time, Traphaco also owns a strong brand, affirming its reputation for many years plus with abundant resources accumulated through a long-term development process.

With these advantages and disadvantages, in 2017, the 45<sup>th</sup> anniversary of traditional day, Traphaco has made every effort to achieve outstanding results, creating an important premise for new developments in the coming time.

Firstly, Traphaco has successfully developed and announced the

**2017 IS A SUCCESSFUL YEAR FOR TRAPHACO. THE COMPANY HAS ACCOMPLISHED A GIANT WORKLOAD, ACHIEVED IMPORTANT RESULTS WHICH WERE RECOGNIZED BY STATE AND SOCIETY, OF WHICH IS THE RANKING AT THE LEADING POSITION IN TOP 10 MOST PRESTIGIOUS PHARMACEUTICAL COMPANIES IN VIETNAM IN 2017 VOTED BY VIETNAM REPORT.**

Traphaco Sustainable Development Strategy for the 2017-2020 period, setting the path for the Company and its objectives to become the number one pharmaceutical enterprise in Vietnam in terms of growth rate of revenue-profitability-and-market capitalization in 2020. Traphaco's development strategy is developed scientifically, detailed and specifically by the key staff in the Company with the consultancy from qualified and prestigious experts. The Strategy was also widely communicated to staff and employees, attracting great attention, creating confidence for employees. Following results of survey on human resources and happiness conducted by Anphabe, 91.8% of employees "trusted in the Company's vision and strategy" (this is also the highest result of the survey). Traphaco's strategy for 2017-2020 attracts the attention of shareholders, investors; creates a positive effect on the stock market. TRA's stock price has maintained a rise of nearly 30% compared to 2016, increasing the Company's capitalization value to VND 5 trillion, bringing great profit for shareholders and investors. The implementation of the Strategy in 2017 has achieved remarkable success. To date, the Strategic Objectives of 2017 have been completed and maintained on right directions. Revenue and profit continues to maintain positive growth. The successful implementation of 2017 objectives provided a solid

foundation for further development in 2018.

The second success of Traphaco was to accomplish the Western medicine manufacturing factory project on schedule with proper total investment; officially put into commercial operation from the third quarter of 2017. This was a large project mobilizing huge resources as well as strategic orientation of the company. In less than 2 years, with a great deal of hardiness and efforts, Traphaco staffs have turned nearly 50,000 square meters of agricultural land into a modern factory with 4 large lines and a series of international standard auxiliary systems. At the same time, overcoming a giant workload in a "record time", Vietnam Pharmaceutical Factory has been granted GMP-WHO Certificate by the Department of Drug Administration, Ministry of Health, certifying qualification for manufacturing conditions and medication registration numbers. It is the outcomes of the positive, accurate and determined direction of the leadership, as well as the result of hundreds working days and nights, days of working with international experts to directly study, acquire and operate the technological chain. The operation of the pharmaceutical factory has increased the production capacity of Traphaco, diversified products, and opened new development steps for the Company.

In 2017, Traphaco also continued to share its co-benefits attitude with clients, supported by clients. At the same time, Traphaco has modernized the management system on the basis of integrated information technology. The Company has integrated new sales policies into DMS, completed the next phase of the ERP project, deploying electronic invoices on the entire system. Traphaco has also applied modern marketing methods based on information technology, achieving positive results and feedback from society and clients. The Company has also completed the project to develop a 3Ps payroll system to ensure benefits as well as encourage motivation for employees, the regulation has been submitted to the Board of Directors for approval and expected to put into application since 01<sup>st</sup> January 2018.

The CEO selects 2017 as year of "Work Effectiveness" with the message "Effectiveness is the goal - Determination is the solution" and launched the emulation program. This is an annual activity aimed at encouraging and motivating staffs to carry out emulation programs associated with the Company's annual objectives, enhancing the efficiency of production and business as well as developing corporate culture. Traphaco launched the first emulation program in 2012 with the "Overcoming yourself"; objective; encouraging the employees to overcome the existing difficulties and pass the precious successes together with Company. In 2014, the "Client Oriented" emulation program was held, that year, Traphaco also changed its sales policy by sharing benefits with clients on the viewpoint of co-benefits. The emulation program was carried out with the goal of attracting clients' support with Traphaco, making Traphaco to be the number one pharmaceutical company in Vietnam in terms of distribution system, ranking at the highest position in Top 10 most prestigious pharmaceutical company in Vietnam in 2016 voted by Vietnam Report. In 2016, the Company organized the program "Technology innovation - Product development" with the slogan "Technology innovation, Position raise - Product development, Successful breakthrough". The program has attracted the support of staff and employees with many positive results such as the ERP system was completed on schedule, especially the inauguration of Western medicine manufacturing factory actually "raised the position" of Traphaco, bringing Traphaco to be a pharmaceutical company with the

most modern technology in Vietnam. In 2017, the "Work Effectiveness" program with "Effectiveness is the goal - Determination is the solution" slogan has attracted special attention of staff and employees with 257 registered works, 251 works which were completed and submitted to the Organization Committee; many of them reached high quality. At the same time, the positive effects from the program really spread in all aspects of the Company. There were a great deal of important things which seemed to be utopian and impossible to be completed such as: obtaining GMP certificate for the Western medicine manufacturing factory before 30<sup>th</sup> May, 2017, converting registration number of a series of products to produce at new factory before 30<sup>th</sup> June 2017, Bogan Atiso anti-counterfeiting tasks. However, with the "determination" of leadership and all employees, all those "utopian" have been given "solutions" to be actualized in time, bringing "great effect" to Traphaco.

Along with the emulation programs, this year Traphaco continues to select 20 individuals with outstanding achievements. This is also the annual event which is organized for the fourth time in order to create motivation for the staff. 2018 is the fifth year of selecting outstanding individuals, in addition to annually-voted 20 best individuals, Company will select 20 distinguished individuals for 5 years with special prizes in order to encourage, motivate as well as acknowledge the contributions of the employees in the overall achievement of the Company.

With constant efforts and strives, the production and business results also recorded positive growth. In 2017, the Company basically fulfilled all planned targets.

2017 was a successful year for Traphaco. The Company has accomplished a great amount of works, achieved important results which were recognized by State and society, of which is the ranking at the leading position in Top 10 most prestigious pharmaceutical companies in Vietnam in 2017 voted by VN Report.

2018 will be a year with a great deal of changes. The policy for pharmaceutical distribution companies has not been specifically regulated, the fierce competition from counterfeit products on market. The old shareholders group has completed the divestment, the Company will have a new large

shareholders group with several changes. However, 2018 is also the year that Traphaco has developed a specific strategy with certain premises to be completed in 2017. Employees also really believe in the Company's vision and strategy, along with dedicated team of leaders. This is the biggest advantage for Traphaco to achieve the great goals.

With the results of 2017, Traphaco confidently prepares for 2018 with the main tasks are:

- » Actualizing the objectives of Traphaco Sustainable Development Strategy in 2018 into targets with specific results and clear responsibilities for each division and individual.
- » Ultimately exploiting the production capacity of the newly-operated western medicine factory.

Therefore, 2018 was chosen as the "Actualization of Strategic Goals" year with communication message as "Strengthening Control - Actualizing Objectives". Despite of encountering thorny and severe competition, however, with the tradition of a heroic company; with the solidarity and efforts of the collective leadership and staff; I strongly believe that Traphaco will actualize the objectives of 2018, to gradually achieve the objectives of the Traphaco Sustainable Development Strategy 2017-2020, which focuses on the happy Traphaco people who satisfies with work; standing among the best working environment in Vietnam.

On behalf of Traphaco, I would like to express my gratitude to our valued clients, shareholders and partners who have trusted and supported Traphaco throughout the years as well as all staff and employees who have been working hard for the development of the Company. I believe that with the determination and efforts of all staff and employees and proper solutions, Traphaco will fulfill the 2018 targets impressively, towards the achievement of the planned strategic objectives.

Thank you very much./.

MSc. TRAN TUC MA  
CEO

“ **TRAPHACO CONTINUES TO IMPLEMENT ITS STRATEGY OF BECOMING NUMBER ONE ENTERPRISE VIETNAM’S PHARMACEUTICAL INDUSTRY IN TERMS OF GROWTH RATE OF REVENUE-PROFITABILITY-AND-MARKET CAPITALIZATION IN 2020. THE YEAR 2017 HAS PASSED WHICH RECOGNIZED THE GREAT CHANGES AS WELL AS IMPRESSIVE RESULTS OF TRAPHACO.** ”

1

Annual growth rate	Unit	2013	2014	2015	2016	2017
Total assets	Billion VND	1,088	1,132	1,297	1,357	1,510
Owners' Equity	Billion VND	684.00	788.60	881.58	929.00	1,031
Net revenue from sale of goods and rendering of services	Billion VND	1,682	1,651	1,982	1,999	1,870
Net profit after tax attributable to shareholders of the parent company	Billion VND	149.42	145.82	180.97	210.58	241.10
Return on Assets (ROA)	%	16.65	14.72	16.77	17.07	18.04
Return on Equity (ROE)	%	30.16	22.19	23.20	23.03	24.41

In 2017, increasing by 15% compared to 2016, but the expected total revenue of VND 2,000 billion because it will exclude revenue from consignment import for Nam Duong Company and exclude turnover of Thai Nguyen Pharmaceutical Company in 3 quarters.

PROFIT REACHED

241

BILLION VND

INCREASING BY 14% COMPARED TO 2016

REVENUE REACHED

1,870

BILLION VND

INCREASING BY 11% COMPARED TO 2016

MARKET CAPITALIZATION REACHED

4,800

BILLION VND

20 TIMES OF AFTER TAX PROFIT

(as of 29<sup>th</sup> December 2017)



MSc. TRAN TUC MA  
CEO

# CONSENSUS

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“ Profit is the important objective of each enterprise, salary and bonus are important objectives for each employee... however, if these benefits are created excitedly, on the basis of desire and dedication of employees and the whole group, the profit or, more broadly, the development of the business will be stronger and more sustainable.”

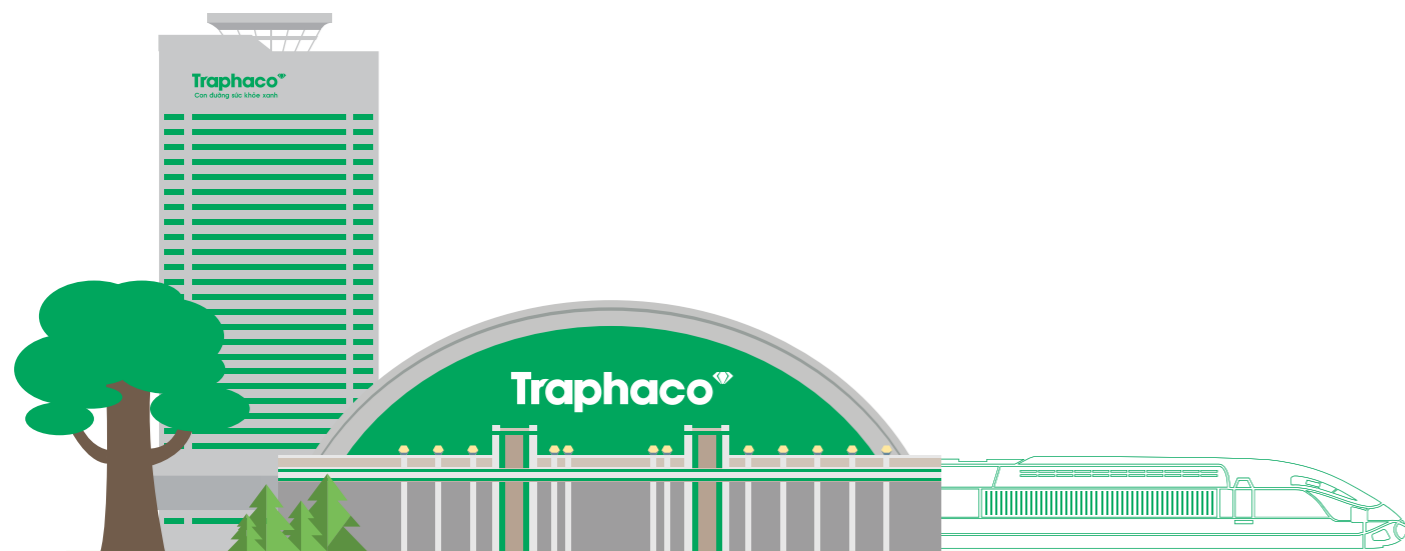
MSc. TRAN TUC MA  
CEO

## OVERVIEW OF TRAPHACO

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About Traphaco	28
Establishment and development history	30
Industry and business area	32
Organization Chart of Traphaco JSC	34
Subsidiaries	35
Management model - Management system structure	36
Development strategy of Traphaco	38

Overview of  
**TRAPHACO**



Head office: 75 Yen Ninh, Ba Dinh, Hanoi.

Traphaco JSC was established on 28<sup>th</sup> November 1972.

OVER **45** years of establishment and development, TRAPHACO HAS BECOME THE LEADING PHARMACEUTICAL BRAND OF VIETNAM PHARMACY. **1**



HoangLiet's factory offices

**04**

SUBSIDIARIES

**03** factories which meets GMP-WHO standard

**27,000** clients nationwide

**01** medicine extract factory

**24** branches nationwide



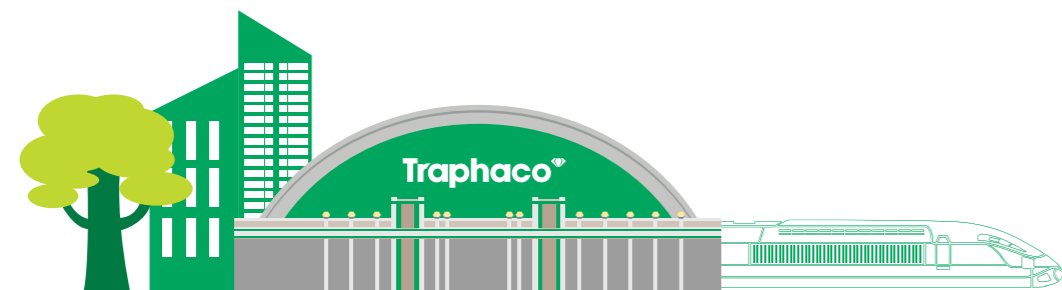
Traphaco Sapa One Member Ltd

Daklak Pharmaceutical and Medical Supplies JSC. (BAMEPHARM)

Traphaco High Technology JSC

Traphaco Hung Yen Co., Ltd

# The Establishment AND DEVELOPMENT HISTORY



**1972**

Establishing production team belonging to Railway medical company.

**1994**

Railway Pharmaceutical Company (RAPHACO).

**1998**

The first northern GMP pharmaceutical factory in Phu Thuong.



**1999**

Annual General Meeting of founding shareholders, Traphaco became one of the pioneering pharmaceutical enterprises in equitization.

**2001**

Changing name to Traphaco JSC, with the purpose of performing multi-lines business, suitable with the new economic trend.

**2002**

Establishing the first branch in Ho Chi Minh City.

Establishing Traphaco Sapa Two-Member Limited Liability Company.



**2004**

Inaugurating and putting Hoang Liet Pharmaceutical Factory - Hoang Mai - Hanoi into operation



**2006**

Establishing Central Branch in Danang City. Establishing Traphaco High Tech JSC (Traphaco CNC).

**2007**

Conducting IPO, raising charter capital from VND 20 billion to VND 80 billion. Inaugurating the traditional medicine manufacturing factory in Van Lam - Hung Yen reaching to GMP-WHO standard.



**2008**

On 26<sup>th</sup> November, 2008, TRA's stock code was officially traded on Ho Chi Minh City Stock Exchange (HOSE) with the charter capital of VND 80 billion.

**2009**

Launching Traphaco Sapa One Member Limited Liability Company in Lao Cai, Traphaco owned 100% capital.

Traphaco was recognized as the most famous brand in the pharmaceutical industry in Vietnam.



**2010**

Celebrating 10<sup>th</sup> anniversary of equitization, being awarded Labor Hero title.



**2012**

On the 40<sup>th</sup> anniversary of the Company's traditional day, Traphaco was awarded First-class Labor Medal.



**2014**

Changing new OTC sales policy based on the principle of co-interests; Applying information technology in distribution system administration.



**2015**

Starting the construction of Vietnam Pharmaceutical Factory in Vietnam with a total estimated value of VND 500 billion.



**2017**

Launching the Sustainable Development Strategy 2017-2020.

Inaugurating the most modern western medicine production factory in Vietnam.

Celebrating the 45<sup>th</sup> anniversary of the Company and receiving the Certificate of Merit from the Prime Minister.



**2020 VISION**

**BECOMING THE NUMBER 1  
ENTERPRISE ON VIETNAM  
PHARMACEUTICAL MARKET**



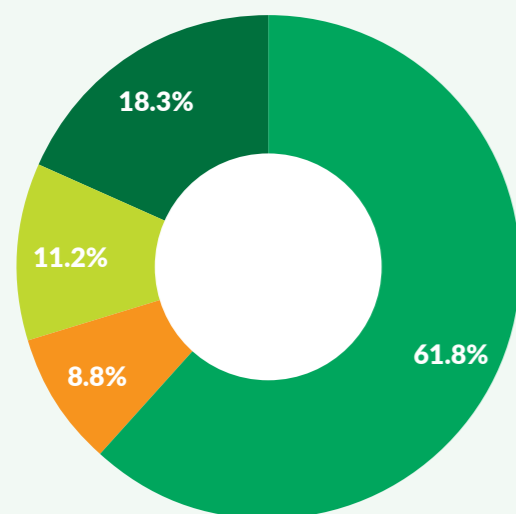
## Industry and BUSINESS AREA

### BUSINESS

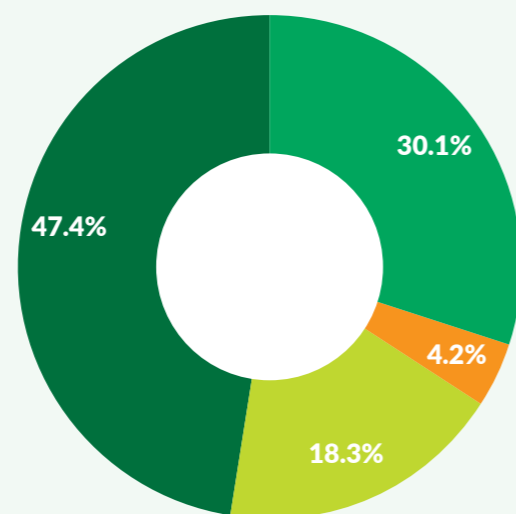
- Producing and trading pharmaceuticals, chemicals and medical supplies
- Purchasing, cultivating and processing medicine
- Preparing prescribed medication
- Consulting on pharmaceuticals and cosmetics manufacturing
- Importing and exporting raw materials, auxiliary materials, medicines
- Manufacturing and trading cosmetics
- Producing and trading food
- Consultancy on scientific services, technology transfer in the field of medical and pharmaceutical areas
- Producing, trading alcohol, beer, beverage (not including bar business)
- Importing and exporting the Company's trading products

### BUSINESS AREA

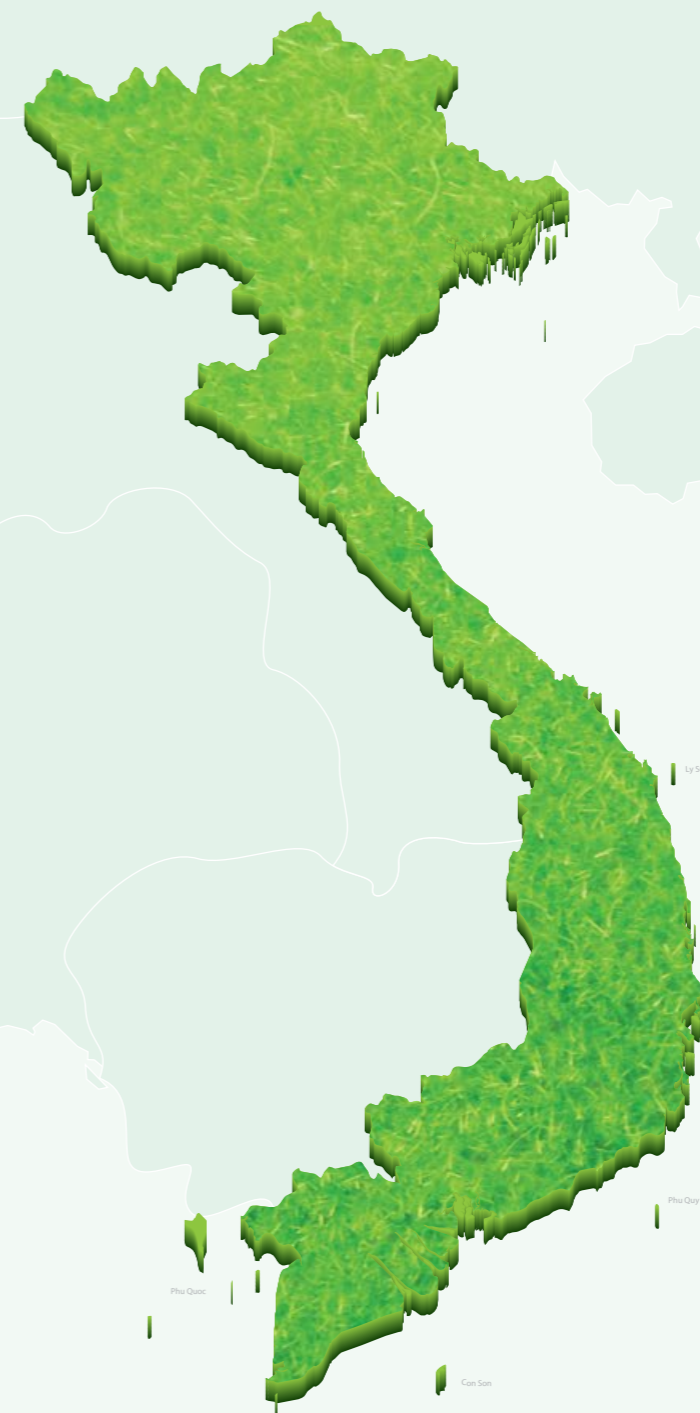
**OTC STRUCTURE**  
(Pharmacies)



**ETC STRUCTURE**  
(Hospitals)



● Northern
 ● Northern Central
 ● Central
 ● South



# 24

BRANCHES NATIONWIDE

# 01

MEDICINE  
EXTRACT FACTORY

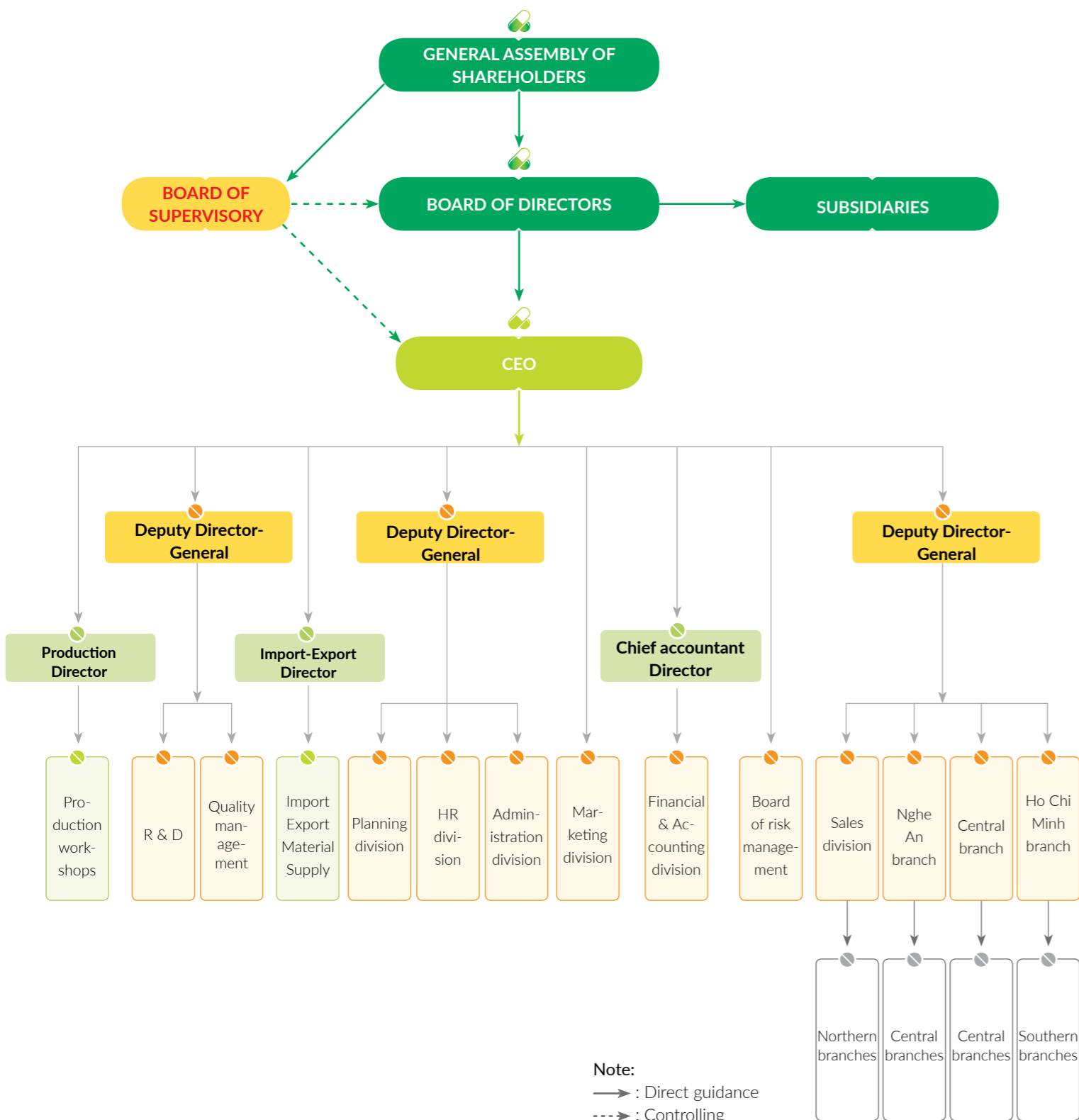
# 27,000

CLIENTS NATIONWIDE

# Organizational Chart

## TRAPHACO JOINT STOCK COMPANY

## SUBSIDIARIES



**100%**  
TRAPHACO'S OWNERSHIP PROPORTION

### TRAPHACO SAPA LIMITED LIABILITY CO., LTD

Headquarter: Group 9, Sapa Town, Sapa District, Lao Cai Province  
 Charter capital: VND 25 billion  
 Traphaco's ownership proportion: 100%

**Main functions:**

Processing raw materials, input medicine, GACP research practice of Traphaco. At the same time, it is the center for developing the medicinal plant areas to supply raw materials for Traphaco.

**100%**  
TRAPHACO'S OWNERSHIP PROPORTION

### TRAPHACO HUNG YEN CO., LTD

Headquarter: Tan Quang Commune, Van Lam District, Hung Yen Province  
 Charter capital: VND 250 billion  
 Traphaco's ownership proportion: 100%

**Main functions:**

Manufacturing drugs, pharmaceuticals, medicines.

**51%**  
TRAPHACO'S OWNERSHIP PROPORTION

### TRAPHACO HIGH TECH JOINT STOCK COMPANY (TRAPHACO CNC)

Headquarter: Tan Quang Commune, Van Lam District, Hung Yen Province  
 Charter capital: VND 94,703,570,000  
 Traphaco's ownership proportion: 51%

**Main functions:**

Processing products and finished products of Traphaco.

**58%**  
TRAPHACO'S OWNERSHIP PROPORTION

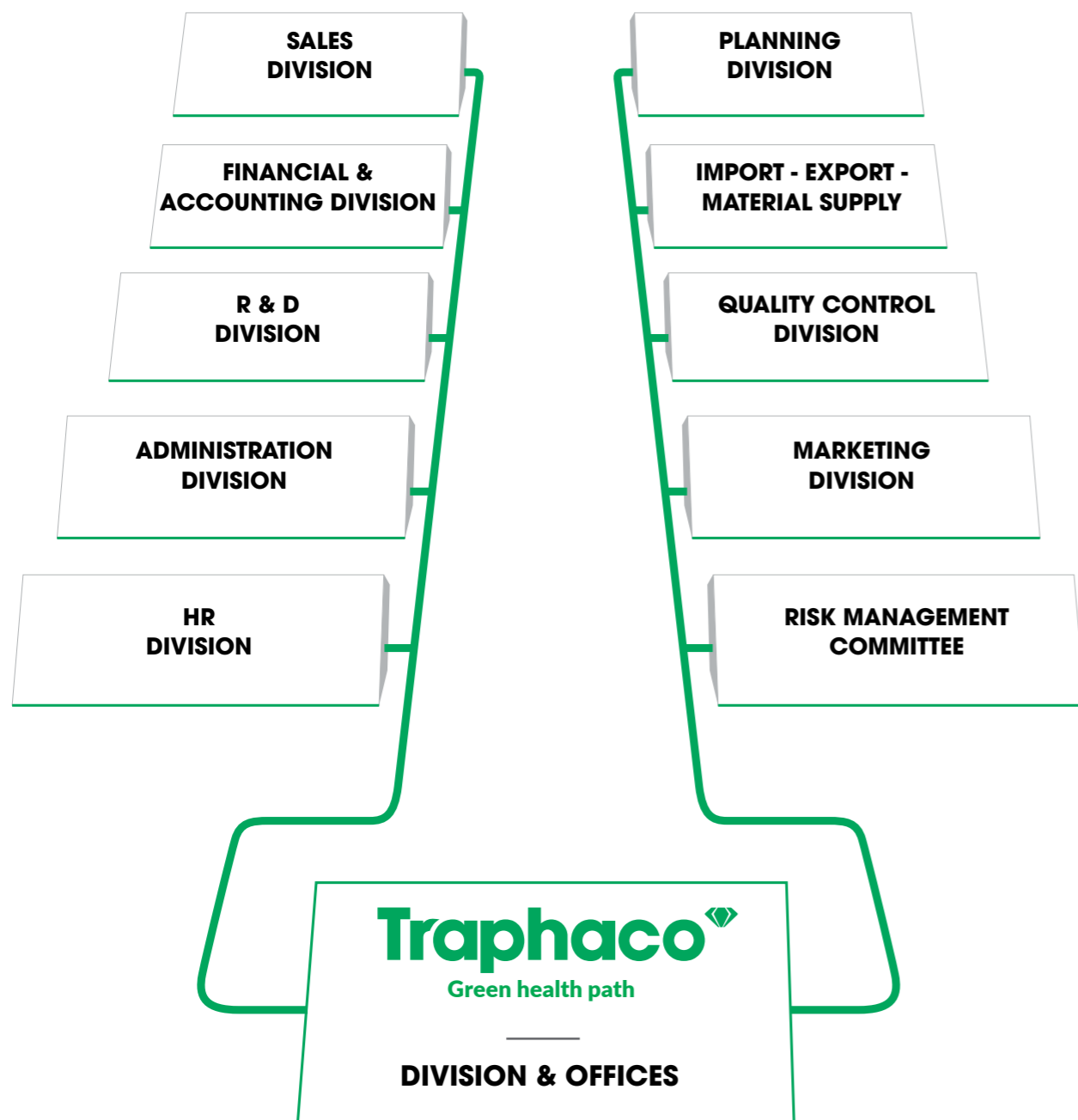
### DAKLAK PHARMACEUTICAL - MEDICAL SUPPLIES JOINT STOCK COMPANY (BAMEPHARM)

Address: 9A Hung Vuong Street, Buon Ma Thuot City, Daklak Province  
 Charter capital: 19,415,880,000 VND.  
 Traphaco's ownership proportion: 58%

**Main functions:**

Specializing in distribution of pharmaceutical products - medical supplies in 02 provinces of Daklak and Dak Nong.

## Organizational APPARATUS



## BRANCHES

1. Thai Nguyen branch
2. Yen Bai branch
3. Bac Giang branch
4. Quang Ninh branch
5. Hai Duong branch
6. Hai Phong branch
7. Hung Yen branch
8. Nam Dinh branch
9. Thanh Hoa branch
10. Phu Tho branch
11. Nghe An branch
12. Central branch
13. Gia Lai branch
14. Quang Ngai branch
15. Khanh Hoa branch
16. Thua Thien Hue branch
17. Ho Chi Minh branch
18. Tien Giang branch
19. Vinh Long branch
20. Can Tho branch
21. Binh Thuan branch
22. Dong Nai branch
23. Binh Duong branch
24. Kien Giang branch

## HOANG LIET FACTORY



## POLITICAL AND SOCIAL POLITICS ORGANIZATIONS

**Company's Party Committee:** consisting of 6 component cells - **Party Secretary:** Mr. Tran Tuc Ma - **Deputy Secretary:** Mr. Nguyen Huy Van.

**Company's Trade Union:** 7 sub unions - **Chairwoman of Company's Union:** Ms. Tran Thi Anh Phuong.  
**Vice Chairpersons:** Mr. Do Ngoc Hung - Ms. Phan Thi Thuy Ha.

**Ho Chi Minh Communist Youth Union of Traphaco:** consisting of 7 branches - **Secretary:** Mr. Le Anh Tuan - **Deputy Secretary:** Mr. Le Dang Bien.

## MEDICATION TRADING LOCATIONS IN HANOI

1. **Traphaco Product Showroom**  
74 Ngo Quyen, Quang Trung, Ha Dong, Hanoi.
2. **Counter 207 - 2<sup>nd</sup> Floor, Hapu Pharmaceutical and Medical Equipment Distribution Center**  
No. 1 Nguyen Huy Tuong, Thanh Xuan, Hanoi.
3. **Traphaco Distribution Center Long Bien**  
No. 295 Thanh An, Thuong Thanh, Long Bien, Hanoi.

# THE VISION TO 2020

BEING THE NUMBER **1** PHARMACEUTICAL  
ENTERPRISE IN VIETNAM IN TERMS OF GROWTH RATE  
OF REVENUE-PROFIT-AND-MARKET CAPITALIZATION

BECOMING THE LEADING GREEN  
BRAND IN VIETNAM



TOP BEST WORKING ENVIRONMENT  
IN VIETNAM

**10,000** VND  
BILLION  
MARKET CAPITALIZATION VALUE

**4,000** VND  
BILLION  
TOTAL REVENUE IN 2020

**500** VND  
BILLION  
TOTAL PROFIT IN 2020

THE TECHNOLOGY REACHES  
THE HIGHEST STANDARD  
IN THE PHARMACEUTICAL  
INDUSTRY IN VIETNAM

MODERN  
ADMINISTRATION  
BASED ON INTEGRATION  
INFORMATION

## POSITIONING COMPANY'S STRATEGY

- 1** FOCUSING GROWTH ON DOMESTIC MARKET, CREATING BREAKTHROUGH IN THE SOUTH.
- 2** DIVERSIFYING CONCENTRIC PRODUCTS ON THE BALANCE OF CAPABILITIES AMONG R&D - PRODUCTION - DISTRIBUTION, ULTIMATELY UPHOLDING THE COMPARATIVE ADVANTAGE OF TRAPHACO.
- 3** MODERNIZING SUPPLY CHAIN BASED ON ADVANCED TECHNOLOGY AND MODERN MANAGEMENT SYSTEMS.
- 4** DEVELOPING TRADE ALLIANCES AND CONNECTIONS ON EXTENSIVE AND STEADY DISTRIBUTION SYSTEM.
- 5** BALANCING RESOURCES, SYNCHRONIZING AND RESONANCE WHICH CREATES THE COMPETITIVE ADVANTAGES BASED ON THE CORE COMPETENCE FOR SUSTAINABLE DEVELOPMENT.

The Traphaco's production line of eye drops following BFS technology - the most modern technology nowadays.

# SOLID FOUNDATION

“

The companion Traphaco carries on the new journey is famous position and brand, extensive distribution system, synchronously invested modern factories, strong financial capability, information technology platform in production and business activities and Traphaco people who are happy - satisfied with their work and life, the best working environment in Vietnam.

## BUSINESS RESULTS IN 2017

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# Overview of macroeconomic situation AND PHARMACEUTICAL MARKET IN 2017

## MACROECONOMIC SITUATION IN 2017

THE ECONOMIC GROWTH WAS HIGH IN THE CONTEXT OF THE VARIABLES WHICH REFLECT THE ECONOMIC STABILITY WERE IMPROVED.



# 6.81%

The Economic growth was stable as it was always higher than the average growth during the 2011 – 2017 period.

In 2017, the economic growth rate reached 6.81%. After the difficulties of bottoming out in 2012, the national economy has shown the steady growth as the growth has been always higher than the average growth level during the 2011 – 2017 period.

**THE FIRST** For inflation rate. during recent years, the inflation rate tends to decrease remarkably, in 2017, the inflation rate was less than 5% (lower than the average inflation rate in the 2011 - 2017 period which was 6.5%).

**THE SECOND** In terms of public debt/GDP ratio. This year, the public debt /GDP ratio has fallen to 62% compared to 63.6% ratio in 2016. The growth rate of public debt also tends to decrease; during the 2011-2015 period, the average public debt growth rate was 18.4%, in 2016, it increased to 15% and 9% in 2017. At the same time, the budget deficit is on decline, the recurrent expenditure rate of state budget expenditure has fallen to 64.9% this year and is expected to be 64% by 2018.

**THE THIRD** Trade balance was improved from trade deficit in 2015 (USD 3.2 billion), trade surplus in 2016 (USD

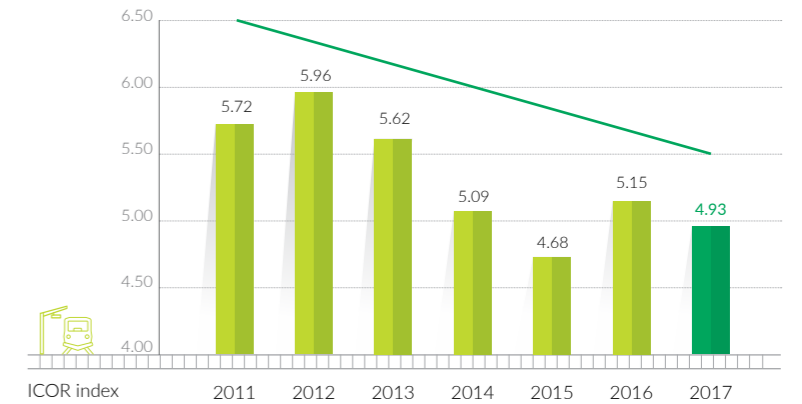


2.68 billion) and the possibility of trade balance surplus in 2017. Thus, the economic growth is accelerating on a stronger macroeconomic basis. However, looking at the level, the economic growth is still lower compared to the years before 2008, the public debt ratio is high, the budget deficit is large despite the trend is gradually improved. This reflects the fact that many macroeconomic policies are going under right direction but the penetration speed of good policies into life is still slow.

In 2017, high economic growth and gradually improved macroeconomic fundamentals will be the basis for maintaining growth for 2018.

In addition to positive developments in economic indicators such as budget overspending, public debt, trade balance, inflation rate ... the economy has gained improvements in terms of investment efficiency and competitiveness. The ICOR

ICOR of the economy in the 2011 – 2017 period



Source: General Statistics Office, vietnamnet

index of 2017 is 4.93, lower than 5.15 of 2016. Although this index can be fluctuated due to various factors, it is obvious that the ICOR trend line is going down. This reflects the investment efficiency of the economy is gradually improved.



## Overview of macroeconomic situation AND PHARMACEUTICAL MARKET IN 2017 (continued)



### PHARMACEUTICAL MARKET

**IN THE COMING TIME, VIETNAM'S PHARMACEUTICAL INDUSTRY IS EXPECTED TO CONTINUE TO GROW AT TWO DIGITS RATE BUT THE GROWTH TREND IS SLOWING DOWN.**

Vietnam has a young population structure with over average GDP growth rate, being the third largest population in ASEAN, the middle class is growing rapidly. The awareness of Vietnamese about diseases has also improved remarkably in recent times. Half of the population is under the age of 30 and will enter the aging period in the coming 15 years.

In Vietnam, there are currently 178 medication manufacturers, but mostly concentrating in simple or generic form, low value and lack of special medications.

The Vietnamese pharmaceutical industry uses about 60,000 tons of medicines, of which about 80-90% are from imported origins. China and India are two countries with large export turnover to Vietnam in terms of medicines. In addition, the application of advanced technologies to production has encountered many difficulties. The proportion of investment in new medication research of domestic companies accounts for only about 5% of sales while foreign companies are 15%.

Statistics show that spending on medication per capita in Vietnam has risen from \$9.85 in 2005 to \$22.25 in 2010 and has nearly doubled in 2015 to \$37.97. In 2017, the average spending on drugs of Vietnamese was about \$56/person (about VND 1.3 million).

The average annual growth rate in medication spending was more than 14% between 2010 and 2015 and will be maintained until 2025. The medication



According to IMS Health's report, the market size in 2017 reached

# 79,070

BILLION VND

growing by 6% compared to 2016

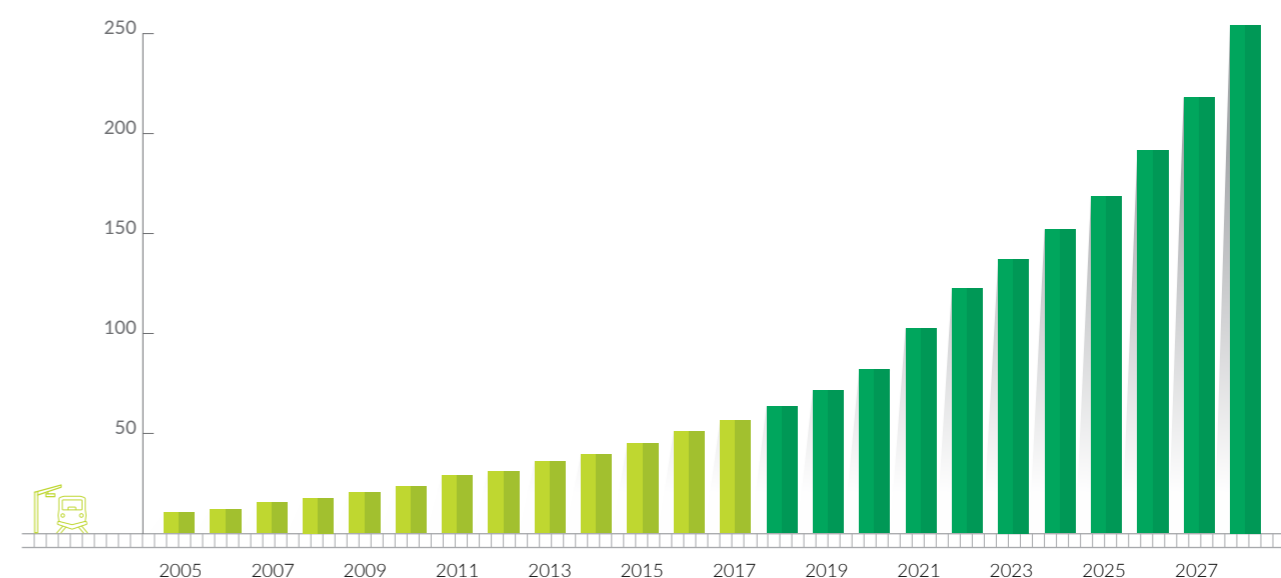
spending per capita in Vietnam is forecasted to double to USD 85 in 2020 and USD 163 in 2025.

According to a report by IMS Health, the market size in 2017 reached VND 79,070 billion, with a growth rate of 6% compared to 2016. IMS Health forecasts that medication spending per capita in Vietnam will increase to \$50/person/year by 2020, higher than \$33/person/year in 2015.

In the coming time, the pharmaceutical industry in Vietnam is forecasted to continue to grow at double digits but the trend is slower. In addition, with the progress of Vietnam's extensive integration through trade agreements, domestic pharmaceutical companies will encounter greater competition from foreign companies due to the reduction of protection barriers especially in the context that the main driving force of the sector is still the state's protection policies.

The majority of pharmaceutical companies have maintained their positive business with gross profit and net profit at high level in the 2014-2015 period. Taking advantages of the scale, leading companies are re-structuring their sales systems, reducing their cost proportion to maximize profits, and develop OTC channels.

Average medication spending per capita in Vietnam from 2005 and forecasted to 2027 (USD/person)



Source: Business Monitor International - BMI.

## Report and assessment of the EXECUTIVE BOARD



### EFFECTIVELY PROMOTING RESOURCES, COMPLETING THE BUSINESS PLAN FOR 2017

#### PRODUCTION AND BUSINESS RESULTS OF 2017

In 2017, Traphaco completed the listed targets well. Basic indicators for business were

No	Indicator	Plan of 2017 (VND billion)	Results in 2017 (VND billion)	The ratio compared to planned (%)	The ratio compared to 2016 (%)
1	Net revenue from sales and services	2,000	1,870.4	94%*	94%*
1.1	Manufactured goods:	1,610	1,492	93%	98.7%
1.2	Consigned Export-Import goods and services, other products:	75	150	200%	80%
1.3	Revenue from subsidiaries	315	228.4	72.5%	76.6%
2	Net profit from business operation		323.7		
3	Profit after tax of the parent company	242	241.06	99.6%	114%

(\*) The plan for 2017 is expected to reach VND2,000 billion. However, in this year, the company adjusts its sales policy. Sales policy in 2017 states that monthly and quarterly discounts for clients are directly deducted from sales revenue. The value of deductible after tax is VND 160 billion. Therefore, after deduction, the Company completed the plan. In 2017, the partnership with Nam Duong Investment JSC changed into the form of consignment contract, so the revenue from this partner is less than that of 2016 (about VND 190 billion). Therefore, when coming to the general accounting, actually, revenue in 2017 gain a real growth of 11% over the same period in 2016.

## THE MAJOR ACTIVITIES OF THE COMPANY IN 2017

### IMPLEMENTATION OF THE SUSTAINABLE DEVELOPMENT STRATEGY FOR THE PERIOD OF 2017 - 2020

1. Shortly after the Strategy was approved, on March 31<sup>st</sup>, 2017, the CEO established a Strategic Implementation Board with 11 members.
2. Strategic Implementation Board operates under its own working regulations. Its members are assigned specific tasks, responsible for their own component strategy, directly inspect and urge divisions to implement the assigned strategic objectives.
3. From May 4<sup>th</sup> 2017 to Aug 3<sup>rd</sup> 2017, the Company held 9 training courses on Traphaco's sustainable development strategy, with 956 series of participants. 5 out of 9 course took place outside the company campus. Classes are divided by participants such as: Senior management staff, junior management staff, university staff, staff in the sale division, production division, office division.
4. At the training courses, the Strategy Development Board has directly engaged in dialogue, answered questions of employees about the issues related to Traphaco's sustainable development strategy. Especially questions related to the challenge of goals, difficulties, changes needed to confront and deliberately implement.
5. In addition to these formal classes, the Strategy is frequently integrated and communicated in corporate meetings, divisional and unit meetings.
6. Strategic targets for 2017 are very challenging but eventually fulfilled. These targets are Profit, market capitalization, and operation in Traphaco Hung Yen.
7. The synchronous implementation of the dissemination activities, training to all levels of management and staff achieved highly satisfactory results. Through training and communication, Traphaco employees have learned more about Traphaco's Sustainable Development Strategy.
8. Ranking the first in Top 10 most prestigious pharmaceutical companies in Vietnam in 2017 by Vietnam Report is an objective evidence of Traphaco's repute and position in Vietnam pharmaceutical market. This confirms the rightness of Traphaco's Sustainable Development Strategy and its great effectiveness.



## Report and assessment of the EXECUTIVE BOARD (continued)

### THE MAJOR ACTIVITIES OF THE COMPANY IN 2017 (continued)

#### SOUTHERN MARKET DEVELOPMENT

In 2017 with significant efforts, the target of developing the southern market has achieved good results.

No	Indicators	2016	2017 (Million VND)			Notes
			Plan	Realization	% Completed	
1	Revenue (million)	346,349	403,000	371,000	92	Up by 7% over the same period
	- OTC Revenue	241,421	305,000	272,500	89	Up by 13% over the same period
	- ETC Revenue	104,928	98,000	98,500	101	Equal to 94% over the same period
2	Sales of Green Health products (m) sold	91,700	97,000	126,500	130	Up by 38% over the same period
3	Number of pharmacies:	7,710	8,000	8,344	104	Up by 8% over the same period
4	Establishing new branches		1	1	100	



Number of pharmacies increased

# 8%

COMPARED TO 2016



Number of purchase orders increased to

# 24,600

ORDERS PER MONTH

Many products enjoyed fast growth as well as larger market coverage, such as Stilux, Dibetalic, Methorphan tablets and Syrup, Tobramycine. Introducing support package for HCM-BT combined with the policy of increasing the coverage of key products as well as potential products such as Methorphan, Stilux, Dibetalic.

Expanding of contract signing, number of purchase orders increased to 24,600 orders per month from 18,600 orders/month in 2016.

Buyers with revenue over 1 million increased by 1,000 compared to 2016, buyers with revenue less than 500,000 decreased.

The percentage of buyers has increased to 58% from 55% in 2016 (average 17,800 turns of buyers per month and compared to 13,900 in 2016).

The SKUs over the counter increases.

Group Green Health: This is a group of new and potential products, in 2017 they exceeded 20% target planned, guests with Green Health rate over 30% accounted for 92% of clients and 90% of average revenue, 2016 is 70% of the visitors and 62% of the average quarterly revenue.



#### OTHER MANAGEMENT ACTIVITIES

##### SALARY POLICY OF 3P AND HUMAN RESOURCES SURVEY

To carry out one of the general objectives of Traphaco's Sustainable Development Strategy - "Traphaco people are happy and satisfied with life, working environment in Traphaco is among the best groups in Vietnam", Traphaco has cooperated with Anphabe to conduct "Investigating Human Resources at Traphaco".

# 82.7

THE HAPPINESS LEVEL OF TRAPHACO'S  
EMPLOYEES IS EXCELLENT

Combined with the above results, the company introduce the salary policy with 3P principles to strengthen motivation and encourage employees to work and dedicate.

The policy has been approved by the Board, takes effect from Jan 1<sup>st</sup> 2018.



**Result:** Employees in Traphaco have close connection and long-termed commitments to the company. Their attitude and satisfaction is among the excellent group in the Vietnamese market. Overall, the happiness level of Traphaco's employees is excellent (82.7), more than average of the sector (64.8) and the nationwide (63.1).



##### ASSISTING MAJOR SHAREHOLDERS TO DIVEST

In 2017, a group of major shareholders with 40% of share made the divestment from Traphaco with Ban Viet Securities and Jefferies - UK being the main consultants.

In order to ensure the benefits for shareholders, Traphaco has cooperated with the group of divested shareholders and consultancy companies, provided a large volume of documents and participated in many meetings with potential investors.

The process of divesting took place over a long period of time (1 year), consuming many resources of the company while

there were many other important tasks to fulfill and this also affected the employees' morale.

With the active support from the Company, in November 2017, these major shareholders successfully divested. The company also maintained the growth momentum, basically reaching the plan.

The Company and the new group of shareholders held a meeting to agree on the directions of cooperation in the coming periods to ensure the implementation of Traphaco's Sustainable Development Strategy and the interests of other shareholders as well as of the employees.

## Report and assessment of the **EXECUTIVE BOARD** (continued)



### **REFORMING AFTER THE TRANSFORMATION IN PRODUCTION**



In parallel with the production transfer to Traphaco Hung Yen, the company has restructured to suit the new organizational model.

The company plans to have Hoang Liet Factory concentrate on supplementary diets and cosmetics, to reorganize its production structure and labor force.

The company also merged Quality Assurance and Quality Testing departments into Quality Control, approved by the Board, to meet new needs and tasks.



### **FINANCIAL WORKS**

2017 is the period of switching production from Hoang Liet Factory to Traphaco Hung Yen's Factory. In order to ensure the uninterrupted supply of goods, Traphaco planned to pile up its inventory more than previous years. Days inventory during 9 months of 2017 is 142 days, up 38 days compared to 2016.



Borrowing VND 113 billion to add to the working capital to ensure the normal operation of production and business activities.

The average number of days for payment collection is 28 days, 6 days fewer compared to 2016.

Traphaco has demonstrated its high ability to manage its working capital through the stock management to ensure its ability to supply goods to the market; money collection and recovery of debts; ensure a strong and safe financial foundation.

In 2017, the Company finalized the Regulation on Financial Management, approved by the Board of Directors and applied from January 01<sup>st</sup> 2018.



### **INCOME AND INTERESTS OF EMPLOYEES**

In 2017, the average income of employees increased by 6.2% compared to 2016 in accordance with the AGM Resolution No. 28/2017/NQ-ĐHĐCĐ dated March 30<sup>th</sup>, 2017.



### **DIVESTING FROM QUANG TRI PHARMACEUTICALS & MEDICAL SUPPLIES COMPANY**

The initial purpose of investing in QUATRIPHAR was to achieve the objective of expanding the distribution system of Traphaco in provinces including Quảng Trị. Currently, Traphaco has developed a strong distribution system in Quang Tri province. At the same time, the Company has succeeded in expanding the market in this area, while selling products to QUATRIPHAR has led to high collectibles. Therefore, the investment in QUATRIPHAR is no longer as effective as before.

The Board of Directors has issued the resolution on the divestment from Quảng Trị Pharmaceuticals & Medical Supplies Company.

Executing the BOD's Resolution on divestment from Quang Tri Pharmaceutical & Materials Supplies Co., Traphaco has contracted Bao Viet Securities Company to conduct the competitive bidding procedures.

Traphaco has successfully divested entirely its capital at Quang Tri Pharmaceutical & Medical Supplies Company; the value of divestment reached VND 5 billion (the investment value at VND 4.27 billion), ensuring the financial efficiency, in accordance with the Resolution of the Board of Directors.



### **CHARTER CAPITAL AND DIVIDENDS**

In implementing the Resolution No. 28/2017/NQ-DHĐCĐ dated March 30<sup>th</sup> 2017, the Company has increased its charter capital by 20% by issuing bonus shares to its existing shareholders; the whole process finished in Q2/2017. The charter capital after the issue: VND 414,536,730,000.

In implementing the Resolution No. 28/2017/NQ-DHĐCĐ dated March 30<sup>th</sup> 2017, Traphaco advanced the dividend of 20% in January 2018.



**DEVELOPING THE DISTRIBUTION SYSTEM**

Considered one of the competitive strengths of Traphaco, the distribution system is always expanded and consolidated. Setting up branches has ensured the safety of goods & finance for the Company.

In 2017, in implementing the BOD's Resolution No. 28/2017/NQ-DHDCD dated March 30<sup>th</sup>, 2017, Traphaco established 4 more branches (Thai Nguyen, Yen Bai, Thua Thien Hue, Kien Giang) bringing the total number of branches nationwide to 24.

In 2017,  
Traphaco established

**04**

**BRANCHES**  
(Thai Nguyen, Yen Bai,  
Thua Thien Hue, Kien Giang)



**QUALITY CONTROL & PRODUCTION MANAGEMENT**



Despite the transfer of personnels, machineries and equipments to the new Factory, the quality system is maintained, continuously improved and has gained outstanding achievements as follows:

Ensure the quality of 100% of products circulating on the market; no product lots have to be recovered or fined by the authorities.

Successfully apply for the registration of cosmetics production for Hoang Liet Factory in November 2017.

Successfully control the process of preserving, distributing and performing quality assurance activities for the warehouse system and means of transport to meet the requirements of the partners and management agencies and, at the same time, to reduce the percentage of goods destroyed due to long inventory turnover; Debt collection reached the set goal.



**MARKETING AND BRANDING**

**THE COMPANY HAS APPLIED MANY MODERN MARKETING TOOLS, INCLUDING DIGITAL MARKETING, MAINTAINING AND ENHANCING THE PRESTIGE OF TRAPHACO BRAND, ESPECIALLY RAISING CONSUMER AWARENESS FOR SOME KEY PRODUCTS SUCH AS TOTTRI, BOGANIC AND CEBRATON, WHICH CONTRIBUTED TO MAINTAINING A GOOD GROWTH RATE WITH THESE PRODUCTS.**

**CERTIFICATE OF MERIT FROM THE PRIME MINISTER**



Certificate of Merit from the Prime Minister.



**Top 10 Sustainable Businesses in 2017**  
Vietnam Sustainable Business Council.



**Top 40 Most Valued Vietnamese Brands**  
by Forbes.



**Top 50 Best Listed Company in Vietnam**  
by Forbes.



**Top 10 Employers' Enterprises of 2017**  
by the General Confederation of Labor of Vietnam in collaboration with the Ministry of Labor, Invalids and Social Affairs and the VCCI. Certificate of Merit from the General Confederation of Labor.



**Top 10 Most Prestigious Pharmaceutical Companies of Vietnam in 2017**  
by the Vietnam Report.



Building Hung Yen Traphaco Factory is considered as one of the Top 10 scientific and technological events in 2017.



**R&D AND  
THE DEVELOPMENT OF NEW PRODUCTS**

**Green Health Group (40 products)**

**25%**  
up from that of 2016

Estimated revenue is  
**VND 760 billion**  
(accounting for 49% of revenue)

**Products with high turnover and growth are**

Tottri  
**48%**



Methorphan  
film coated tablets  
**50%**



**Revenue from new products**

According to the turnover of the implementation list for 3 years (2015-2017) is

**VND 90 billion**

New products launched in 2017:  
04 products

**VND 22.6 billion**

No	The Plan of new products deployment	Implementation in 2017
1	Probiotic powder Oviotic	Launched from 3/2017: Turnover reached VND 7.8 billion
2	Andiabet	Launched from September: Turnover reached VND 800 million
3	Didicera (hard capsule) (Totcos)	Launched from 10/2017: Turnover reached VND 5 billion
4	Seacan	Turnover VND 9 billion



**HANDLING THE COUNTERFEIT AND FAKE PRODUCTS**

In 2017, there were many counterfeit and fake products taking the brand "Traphaco", causing serious damage to our prestige and revenue. The Company is aware of these risks and has worked with the authorities on this problem and achieved positive results, specifically:

**Bogan Actiso:** The Company has worked with relevant authorities including the Inspectorate of the Ministry of Science and Technology and the Food Hygiene and Safety Department to issue three official orders to confiscate the Bogan actiso products by Viet Phap Company due to violation, revoke the production license of the Bogan Actiso product of Viet Phap Company, requesting Viet Phap JSC to

withdraw their Bogan actiso products from circulation due to the breach of the label and to sign the commitment to ceasing the business with the violating products and to destroy those products.

**Tarpha:** The Company sent the written notice and information about the violation of copying Traphaco's trademark of Tarpha - TARPHA products by Quang Xanh and this enterprise was inspected by the Intellectual Property Department with the Conclusion No. NH 521-17YC/DHS on November 24<sup>th</sup>, 2017, which stated that: The trademark TARPHA of Quang Xanh Cosmetics and Chemicals Co., Ltd. infringed a trademark of Traphaco.

## Report and assessment of the EXECUTIVE BOARD (continued)



## IMPLEMENTATION OF INVESTMENT PROJECTS IN 2017

### BRINGING THE VIETNAM PHARMACEUTICAL FACTORY INTO OPERATION

Vietnam Pharmaceutical Factory is a big project, an important step in Traphaco's Sustainable Development Strategy for the period 2017-2020. The project has a total investment of nearly VND 500 billion, with modern equipment and a production line meeting international standards.

The construction of the Pharmaceutical Factory officially started on May 09<sup>th</sup>, 2015. After nearly 2 years of construction, by the end of March, 2017, the Factory had completed the construction and the installation of the equipment and production line and at the same time, submitted the application for the GPs-WHO registration.

In May 2017, the Drug Administration of Vietnam – the Ministry of Health inspected the GPs-WHO in Vietnam's Pharmaceutical Factory. On May 30<sup>th</sup>, 2017 the Factory was granted the GPs - WHO certificate.

On June 9<sup>th</sup>, 2017, the Factory was granted the Certificate of Business Registration.

In parallel with the registration of the GPs-WHO standard, the Company also applies for registration of products manufactured at the new Factory. Currently,

38 out of 38 products manufactured by Traphaco Hung Yen have already been licensed by the Drug Administration of Vietnam.

The project was officially put into operation at the beginning of the third quarter of 2017 and the inauguration ceremony was held on November 08<sup>th</sup> 2017.

This is a significant achievement of the whole company when completing a large project with many strict technical and technological requirements in such a short time (2 years). At the same time, the project also quickly obtained the necessary permits and certifications for production, which proved the determination of the Executive Board and a great effort from the staffs.

Putting the Factory into commercial operation in time is a triumph and an important step of Traphaco in 2017.

At the same time, in order to ensure the transparency and benefit of the shareholders, the Company has contracted Deloitte Vietnam Co., Ltd. to review and audit the Project. The review was completed and detailed reported at the AGM.



## REPORT AND ASSESSMENT OF EXECUTIVE BOARD

### ASSESSMENT OF BUSINESS PERFORMANCE

**THE EXECUTIVE BOARD HAS MADE GREAT EFFORTS AND MANAGEMENT OF THE COMPANY'S OPERATION UNDER RIGHT DIRECTIONS, IMPLEMENTING IMPORTANT OBJECTIVES AND CREATING FOUNDATION FOR THE COMPANY'S DEVELOPMENT IN THE FUTURE.**

2017 is a year which is full of work and pressure for Traphaco. The Western medicine factory construction project stepped into the urgent phase, requiring the focus and efforts of the entire company. 2017 is the first year the company has deployed the Traphaco Sustainable Development Strategy for the 2017-2020 period. Also in this year, the group of major shareholders accounting for 40% of charter capital has divested capital at Traphaco; this action had influence on the general mind of employees as well as consumed part of Company's resources.

In 2017, the Board of Directors successfully fulfilled its role in accordance with the provisions of law, the Charter of Traphaco JSC, actively

support the Executive Board to achieve the objectives of the Company.

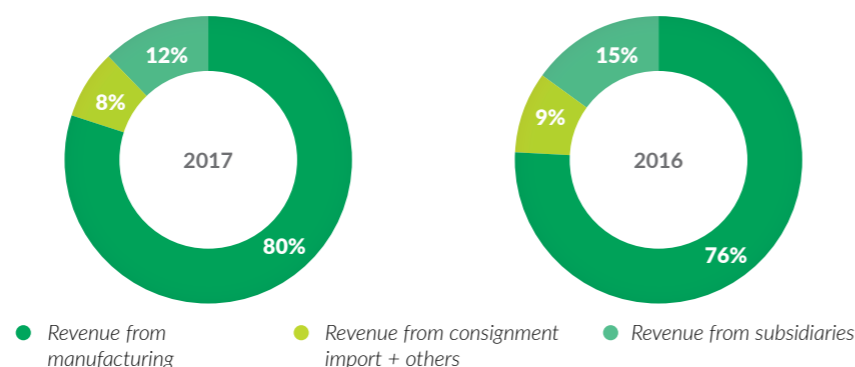
The Executive Board has made efforts, operating the Company's activities in the right direction. The CEO has completed the important objectives, creating the foundation for the company's development in the coming time such as the successful implementation of Traphaco's Sustainable Development Strategy 2017-2020, to put Vietnam pharmaceutical factory into operation on schedule. At the same time, the CEO launched a creative emulation campaign with the message of 2017 as work efficiency, thereby encouraging and motivating employees in the company to promote their intellectual potential, contributing to the overall success of Traphaco.

2017 is a successful year with Traphaco, the Executive Board has fulfilled the tasks well, achieving important strategic goals. This is an important precondition for Traphaco to maintain its growth rate, completing its 2018 plan.

**ASSESSMENT OF FINANCIAL SITUATION**

**REVENUE**

**Net revenue structure**



In 2017, the manufacturing and exclusively distributed goods account for 80%, Traphaco's revenue structure, increasing by 4% compared to 2016. This shows that the Company is focusing on developing products with advantages of quality, brand name and high gross profit margin.

The revenue of manufacturing and exclusively distributed goods reached VND 1,492 billion, decreasing by 1.27% compared to the same period in 2016, reaching 92.68% compared with the plan. This decrease was caused by in 2017, the Company has adjusted its sales policy (the trading discount for direct clients through Traphaco's business system is deducted from revenue at the rate of 11% compared to net sales of manufacturing and exclusively

**Revenue by sales channel**

In 2017, 88% revenue of manufactured and solely distributed goods was from the OTC market. Total revenue from

distributed goods). Thus, if the adjustment of accounting method is excluded, the revenue of 2017 from manufacturing and exclusively distributed goods increased by 9.3% compared to the same period in 2016 and exceeded by 2.6% compared to the plan.

The revenue from consignment import and exploitation in 2017 reached VND 150 billion, decreased by 20.6% compared to 2016 and reached 200% compared to the plan. This decrease was caused in 2017, the Company had changed the purchase contract with Nam Duong Investment JSC into the form of consignment contract which made the revenue decreased compared to 2016.

Consolidated revenue from subsidiary in 2017 reached VND

OTC increased by 10.5% in 2017 compared to 2016. This result shows that the company's sales policy has been well received

228 billion, decreased by 23.42% compared to 2016 and reached 72.5% of the plan. This decrease was caused by the fact that Daklak Pharmaceutical & Medical Supplies JSC has not fulfilled its sales target because the main business of ETC supply continued to decline in the year. Although the company has tried to increase sales in free market share, it still has not completed the assigned plan.

Thus the revenue in 2017 decreased 6.4% compared to the same period in 2016 and reached 93.52% compared with the plan. However, if the adjustment of accounting method and contract form with Nam Duong Investment JSC are excluded, the revenue increased over 11% compared 2016 and exceeded the plan.

by clients and the distribution channel of the company has been growing.

**GROSS PROFIT**

In 2017, the Company's gross profit reached to VND 1,040 billion, increased by 4.6% compared to the same period and the gross profit margin was 55.64%. The Company's gross profit margin has improved steadily over the years.

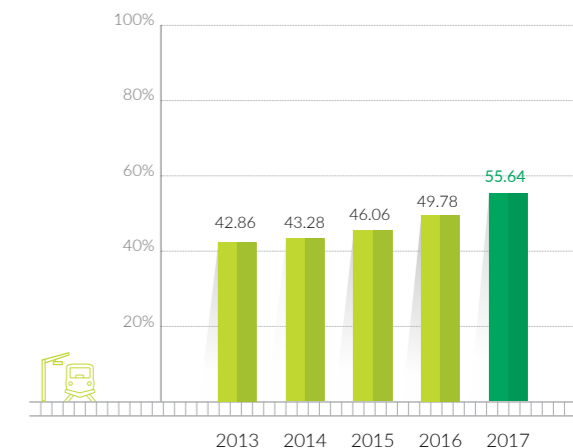


**These achievements are brought by:**

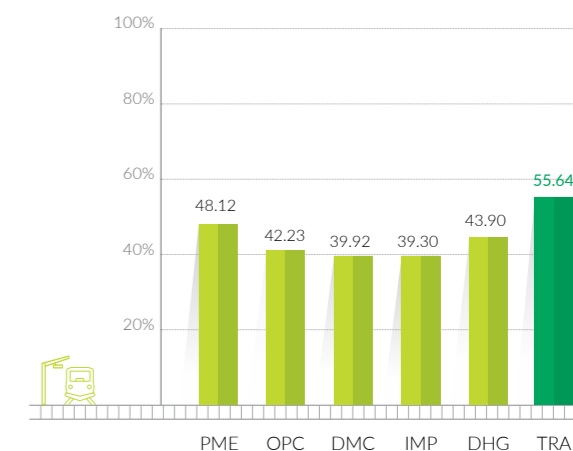
- » The Company focuses on manufacturing goods and maintaining a reasonable product structure which gain high profit.
- » Traphaco's brand prestige and products allow the sales team to determine the difference, stably keep the price level, and focus on service quality instead of price competition.
- » The ownership and control of subsidiaries which are manufacturing factories contributes to increase profit margins and the efficiency of production coordination among factories, contributing to improve the efficiency of Traphaco's green value chain.



**Gross profit ratio of TRA**



In 2017, Traphaco's gross margin proportion was the highest compared to other listed companies.



# Report and assessment of the EXECUTIVE BOARD (continued)

## COST

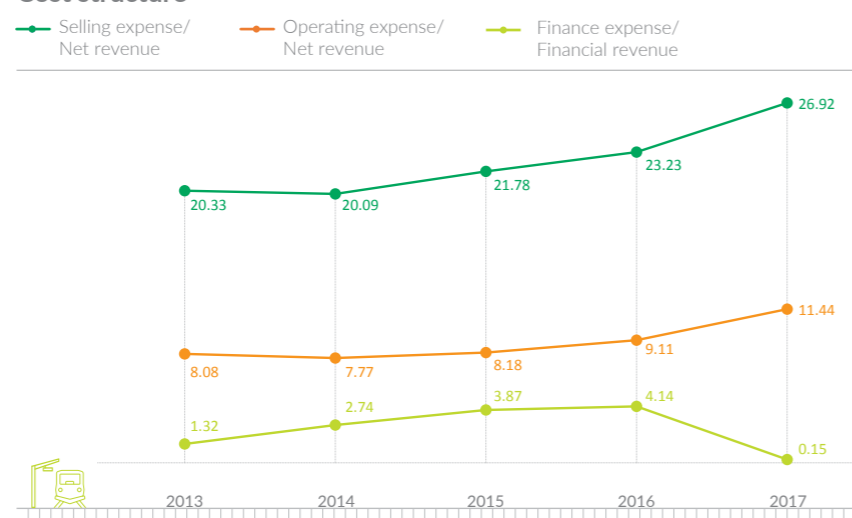
The proportion of selling expenses to net revenue in 2017 was 26.92%, increased by 3.7% compared to 2016. The proportion of financial expense to net revenue was 0.15%, decreased by 3.98% compared to the same period. This decrease was caused by in 2017, the Company changed its sales policy, and accordingly discount payment was, instead of being recorded in financial expense, reflected in commercial discount directly being deducted from revenue which made the proportion of selling expense to revenue higher than the same period.

The proportion of operating expense to net revenue in 2017 was 11.44%, increased by 2.33% compared to the same period. The main cause was that the sales policy of 2017 has deducted

the discount on direct sales for clients to revenue which made the revenue decreased 8.5% compared to the result of accounting method of 2016.

Interest expense and exchange rate difference accounted for a very small proportion so that it would not affect the results of business activities in 2017.

### Cost structure

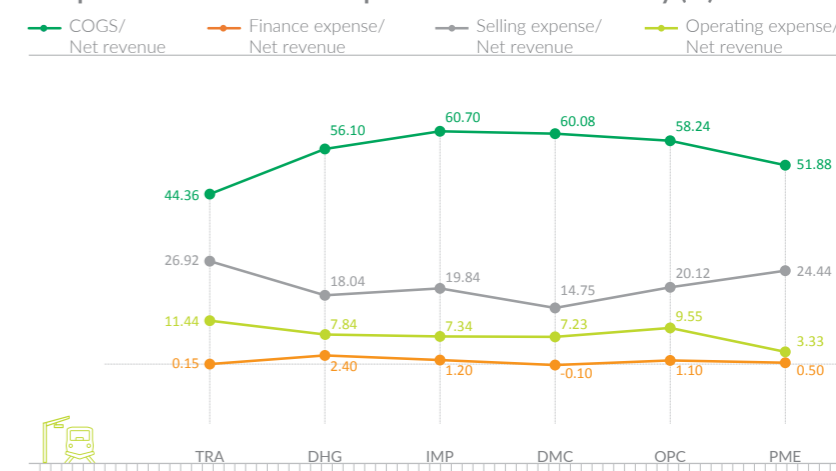


Cost structure:	2013	2014	2015	2016	2017
Selling expense/ Net revenue	20.33%	20.09%	21.78%	23.23%	26.92%
Operating expense/Net revenue	8.08%	7.77%	8.18%	9.11%	11.44%
Financial expense/ Net revenue	1.32%	2.74%	3.87%	4.14%	0.15%

### Cost structure of Traphaco compared to other listed companies in the same industry

	TRA	DHG	IMP	DMC	OPC	PME
COGS/ Net revenue	44.36%	56.10%	60.70%	60.08%	58.24%	51.88%
Financial expense/ Net revenue	0.15%	2.40%	1.20%	-0.10%	1.10%	0.50%
Selling expense/ Net revenue	26.92%	18.04%	19.84%	14.75%	20.12%	24.44%
Operating expense/ Net revenue	11.44%	7.84%	7.34%	7.23%	9.55%	3.33%

### Cost structure of Traphaco compared to other listed companies in the same industry (%)



In 2017, the Traphaco's COGS proportion was lowest compared to the comparable companies. The total proportion of COGS, financial expense, selling expense and operating expense of Traphaco were lower than the average rate of listed companies in the same industry, giving the company an advantage in the pharmaceutical market which tends to be intensely competitive on price.

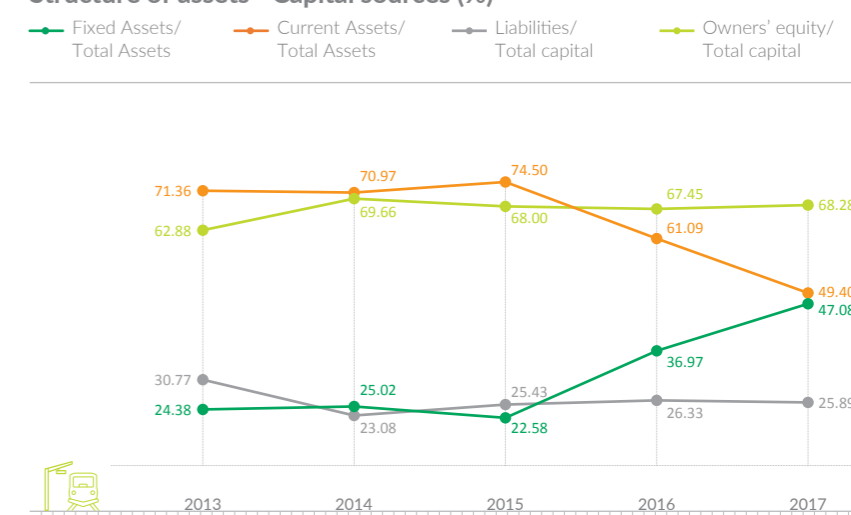
## STRUCTURE OF ASSETS - CAPITAL SOURCES

No	Indicator (%)	2013	2014	2015	2016	2017
1	Assets structure					
	» Fixed Assets/Total Assets	24.38	25.02	22.58	36.97	47.08
	» Current Assets/Total Assets	71.36	70.97	74.50	61.09	49.40
2	Capital structure					
	» Liabilities/Total capital	30.77	23.08	25.43	26.33	25.89
	» Owners' equity/Total capital	62.88	69.66	68.00	67.45	68.28

The proportion of long-term assets to total assets reached 47% in 2017, increased by 10.11% compared to 2016, reflecting such huge investments in the distribution system and production facilities with the objective of steadily holding the position of a domestic pharmaceutical manufacturer with strong distribution network and highest growth rate of revenue and profit.

The proportion of short-term assets to total assets decreased to 49.40% in 2017. The main reason was that receivables decreased from VND 382.18 billion in 2016 to VND 200.06 billion at the end of 2017. This illustrates that Traphaco has well managed the receivables in recent years.

### Structure of assets - Capital sources (%)

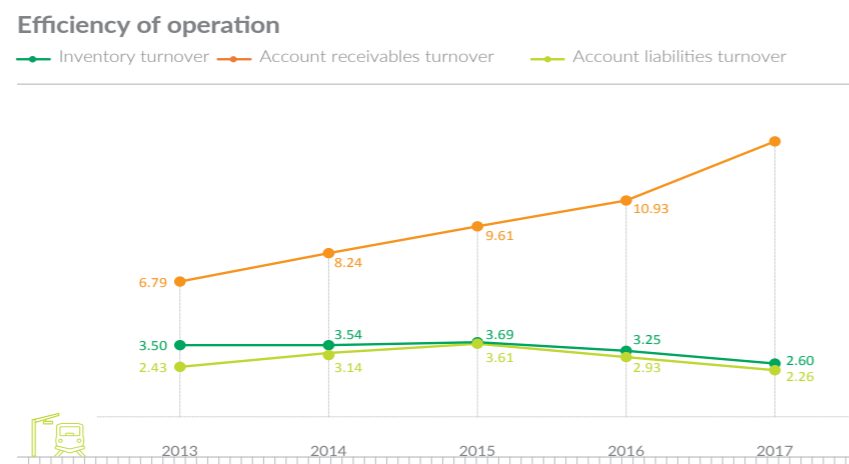


The proportion of liabilities and owners' equity has not fluctuated much in recent years, especially the proportion of owners' equity has

always accounted for more than over 67% of total capital, reflecting the healthiness and stability of the Company's financial structure.

# Report and assessment of the EXECUTIVE BOARD (continued)

## EFFICIENCY OF OPERATION

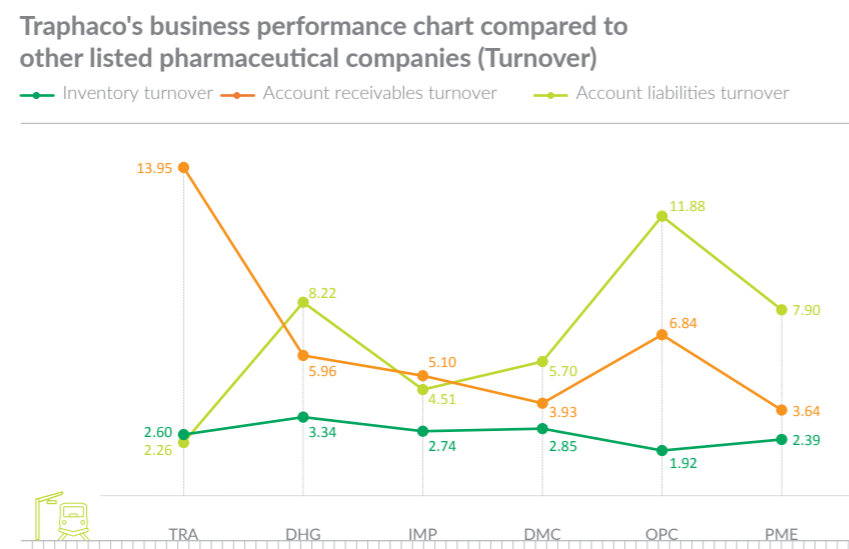


Efficiency of operation	2013	2014	2015	2016	2017
Inventory turnover	3.50	3.54	3.69	3.25	2.60
Account receivables turnover	6.79	8.24	9.61	10.93	13.95
Account liabilities turnover	2.43	3.14	3.61	2.93	2.26

The Account receivables turnover of the Company in 2017 was 13.95 compared with 10.93 of 2016. With the policy of selling goods by cash on delivery, the collection and recovery of debts were very effective, ensuring a safe financial resource, supporting resources for investment in the most modern pharmaceutical factory project in Vietnam.

Inventory turnover in 2017 decreased compared to the same period last year because the Company actively increased production in order to accumulate sufficient goods for sales in the production transition period to the new factory.

The Accounts liabilities turnover in 2017 also decreased compared to the same period due to the investment cost in the modern

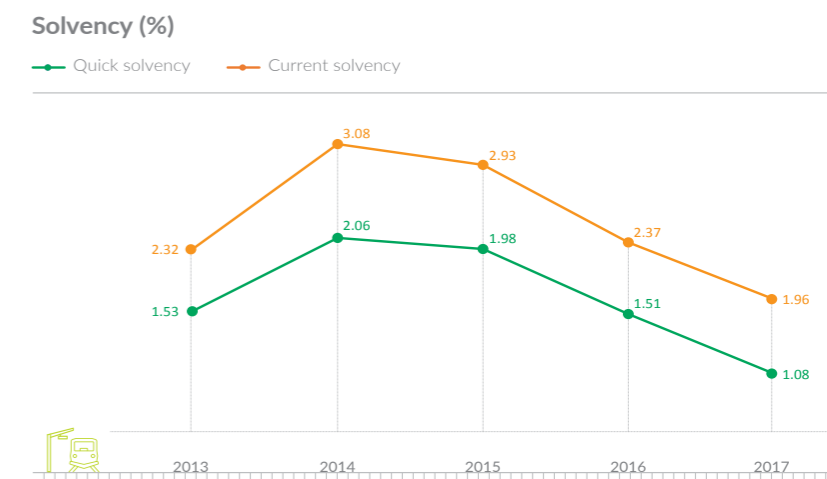


pharmaceutical factory with the total investment of VND 480 billion being in acceptance and as-built stages of the project. As a result, fundamentally, the financial

performance indicators of the Company have been continuously improved over the years, especially according to the Account receivables turnover.

	TRA	DHG	IMP	DMC	OPC	PME
Inventory turnover	2.60	3.34	2.74	2.85	1.92	2.39
Account receivables turnover	13.95	5.96	5.1	3.93	6.84	3.64
Account liabilities turnover	2.26	8.22	4.51	5.7	11.88	7.9

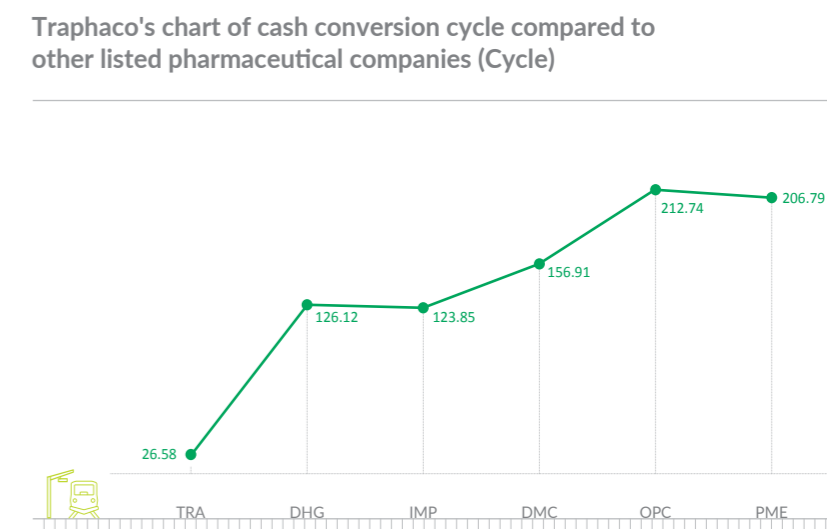
Compared to other listed companies in the same industry: Traphaco's number of payable days was the best among comparable competitors. Traphaco's number of payable days for client was the highest and average inventory days was also high. However, the index of inventory ratio and average liabilities will be reduced when new factory project steps into stable manufacturing stage.



Solvency	2013	2014	2015	2016	2017
Quick solvency	1.53	2.06	1.98	1.51	1.08
Current solvency	2.32	3.08	2.93	2.37	1.96

In 2017, the Company's solvency index decreased compared to the same period, however, the payment ratio of TRA was always guaranteed.

In general, Traphaco has shown its superior ability in current capital management through the cash conversion cycle, which is calculated by average number of inventory days plus the average days of receivables minus the number of payable days. This index indicates the time a manufacturing enterprise needs to transfer money to raw materials, finished goods and return it into money. The smaller the index is, the more effectively the enterprise operates. Traphaco's turnover cycle index is the lowest among companies in



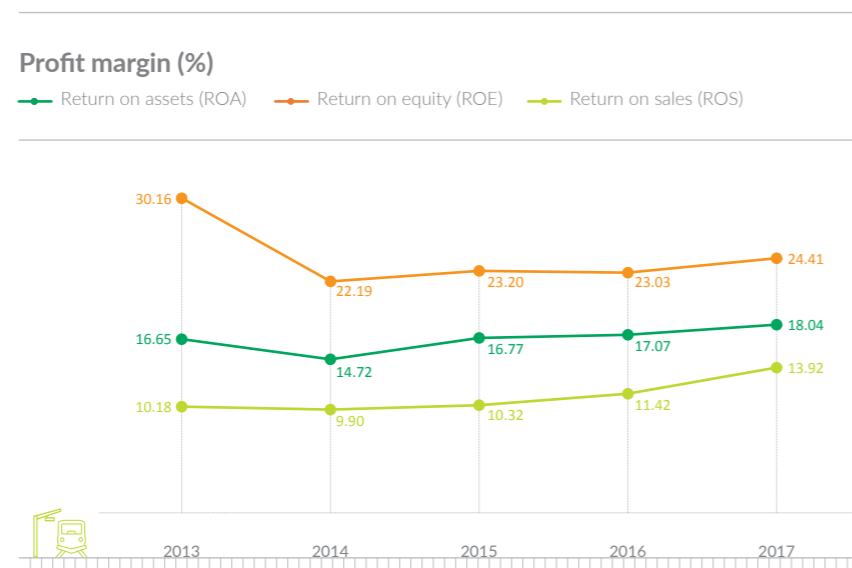
the same industry. This reflects the superiority of the new sales policy and the right direction of Traphaco when choosing the OTC market as the focus.

	TRA	DHG	IMP	DMC	OPC	PME
Cash conversion cycle	123.85	206.79	123.85	156.91	212.74	206.79



# Report and assessment of the EXECUTIVE BOARD (continued)

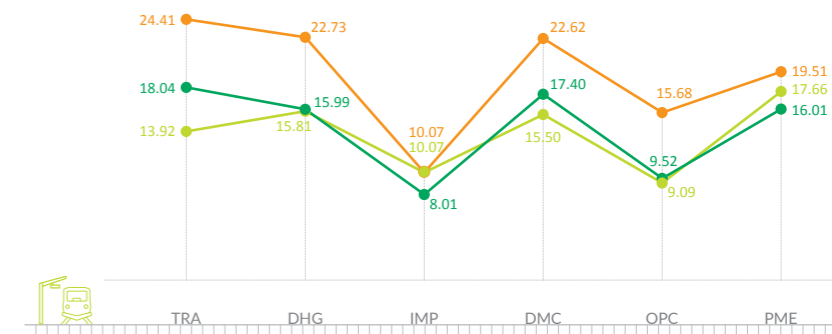
## PROFIT MARGIN



The rate of return on the Company's revenue has increased steadily over the years. In particular, in 2017, this ratio increased by 2.5% compared to 2016. The Return on equity (ROE) was 24.41% and Return on assets (ROA) reached 18.04% in 2017, recognizing an improvement compared to 2016.

Profit margin	2013	2014	2015	2016	2017
Return on assets (ROA)	16.65%	14.72%	16.77%	17.07%	18.04%
Return on equity (ROE)	30.16%	22.19%	23.20%	23.03%	24.41%
Return on sales (ROS)	10.18%	9.90%	10.32%	11.42%	13.92%

## Traphaco's solvency chart compared to other listed pharmaceutical companies (%)



In 2017, Traphaco's ROE and ROA indicators enjoyed 1<sup>st</sup> ranks compared to other listed pharmaceutical companies.

	TRA	DHG	IMP	DMC	OPC	PME
Return on assets (ROA)	18.04%	15.99%	8.01%	17.40%	9.52%	16.01%
Return on equity (ROE)	24.41%	22.73%	10.07%	22.62%	15.68%	19.51%
Return on sales (ROS)	13.92%	15.81%	10.07%	15.50%	9.09%	17.66%

In 2017, Traphaco continued to gain good indicators compared to the pharmaceutical companies listed on the HOSE such as account receivables turnover,

ROA, ROE; and was one of the companies with high dividend payouts (30%).

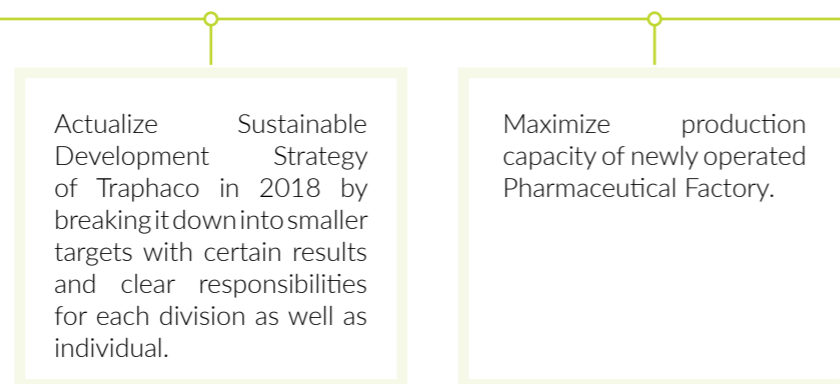
Source: Traphaco Financial Report throughout the years, Financial statement of 2017 of other listed companies.

Panoramic view of Artichoke plantation zone.



# 2018 GOALS AND MASTER PLAN

BASED ON 2017 RESULTS, TRAPHACO CONFIDENTLY GETS PREPARED FOR 2018 WITH THE MAIN FOLLOWING GOALS:



## 2018 ACTION PLANS

### Implement Sustainable Development Strategy for the 2017-2020 period

In 2018, the Company will continue to implement the Sustainable Development Strategy of Traphaco for the 2017-2020 period as approved at Annual General Meeting.

In more details, the Company will specify strategic goals into division's KPI as well as strengthen supervision to ensure that all activities go well as directed and achieve expected results.

Accordingly, the CEO has given 2018 message of "Actualization of strategic goals" with PR slogan "Strengthening control - Actualizing objectives".

### Boost Southern market

In 2018, the Company will focus on boosting Southern market to make a significant breakthrough.

### Develop distributed products

In 2018, the Company will keep facilitating distributed products with expected revenue of VND 300 billion.

The Company will strengthen co-operation with traditional partners such as Sandoz, Kobayashi in parallel with seeking new ones to increase both quantity and quality of products.

### Establish new branches

In order to meet the expanding requirements of the distribution system, implementing strategies and enhancing competitive capacity, the Company is about to establish 04 new branches in 2018. They are Vinh Phuc, Binh Dinh, Vung Tau and Long An Branches.

Board of Directors and Executive Board will jointly lead the operation of these 04 branches in time.

### Investment activities

In 2018, the Company will spend VND 72 billion for investment activities which mainly focus on improving Hoang Liet Factory, building branch offices to encompass and enhance the capacity of the distribution system.

### R&D activities and development of new products

In 2018, the Company will continue to boost its strength of R&D activities, focusing on researching and applying global scientific achievements, developing traditional drug recipes and diversified herbal materials of Vietnam as well as improving the quality, production process and methodology.

The Company will pay attention to register GMP-EU standard for Vietnam Pharmaceutical Factory to leverage its products and thus get competitive advantage in bidding.

In 2018, the Company intends to launch 8 new products to market.

### Develop brand

The Company will continue to conduct Marketing activities to increase reputation and reinforce Traphaco brand to clients.

The Company will keep gaining the obtained awards.

### Quality control

In 2018, the Company will maintain the existing quality policies, ensure to keep quality certificates and production standards as well as provide good products for the market.

### HR management

The Company will keep adopting HR development polices including welfare, training and other benefit policies as regulated by the Government.

The Company will continue to follow direction of creating a friendly working environment, build up and promote Traphaco working culture.

### Strengthen the governance of Subsidiaries

**Traphaco Hung Yen Co., Ltd.:** Strengthen governance, enhance usage efficiency of Western Pharmaceutical Factory, achieve target of 2018 production plan and get prepared for registering GMP-EU for the new factory.

**Traphaco Sapa One-member Ltd. Co.:** Strengthen governance, speed up the progress of Lao Cai Project, get GMP-WHO in 2018, continue to develop plantations, improve the quality of input materials of Traphaco's production activities, increase the exploitation of local products, enhance the investment and operation efficiency and achieve the revenue and profit targets of 2018 to contribute to the value chain of Traphaco.

**Traphaco CNC JSC.:** Via the representative of capital, strengthen governance, ensure the operation following directions of the parent company and achieve the revenue, profit and dividend targets of 2018 to contribute to the value chain of Traphaco.

**Dak Lak Pharmaceutical & Medical Supplies JSC.:** Via the representative of capital, strengthen governance, ensure the operation following directions of the parent company, enhance the operation efficiency and achieve the revenue, profit and dividend targets of 2018 to contribute to the value chain of Traphaco.

**Complete the ERP Project:** subsystem of Quality control Plan and Production Plan.



**“ WE SEE OUR FUTURE HERE”** is the answer of all staffs when being asked about the Company. We strongly believe in the Company’s strategies, which helps us work more effectively, lean in and share consensus to achieve greater success.

It is simply because , **WE ARE A FAMILY!**

**Pharmacist NGUYEN KIM CUONG**  
Staff of Quality control Division.

# OPERATION REPORTS OF SUBSIDIARIES

**“** AS A LINK IN THE GREEN VALUE CHAIN OF TRAPHACO, EACH SUBSIDIARY ENDEAVORS TO COMPLETE ITS DUTIES IN THE FOLLOWINGS: DEVELOPING AND SUPPLYING HERBAL MATERIALS, PRODUCING AND DISTRIBUTING TRAPHACO’S PRODUCTS. IN ORDER TO ACTUALIZE SUSTAINABLE DEVELOPMENT STRATEGY OF TRAPHACO FOR THE 2017-2020 PERIOD, EACH SUBSIDIARY SET ITS OWN SHORT-TERM TARGETS, CONTRIBUTING TO MAKE THE AMBITION OF BUILDING TRAPHACO THE TOP GREEN BRAND IN VIETNAM COME TRUE.

- **Traphaco Sapa One-member Ltd.** (TRAPHACO SAPA)
- **High Technology Traphaco JSC.**, (TRAPHACO CNC)
- **Dak Lak Pharmaceutical & Medical Supplies JSC.** (BAMEPHARM)



Operation report of  
**TRAPHACO SAPA ONE MEMBER CO., LTD**



Farmers in Harvest Day of Artichokes in Sapa, Lao Cai

**INTRODUCTION OF TRAPHACO SAPA**

Traphaco Sapa Ltd. was established on August, 7<sup>th</sup>, 2001. It used to be a joint venture between Traphaco JSC., and Lao Cai Pharmaceutical & Medical Supplies JSC. In 2009, this company was changed into Traphaco Sapa One member Ltd., which was 100% funded by Traphaco JSC.,

**Business activities**

- ❖ Plant spice & herbal plants;
- ❖ Cultivate & process herbal materials, agro-forestry products and food; Produce and sell medicines, herbal materials, food; Transfer know-how of planting, processing and producing herbal materials;
- ❖ Import and export agro-forestry products and chemicals;
- ❖ Import and export herbal and drug materials;
- ❖ Produce and sell wine, beer, beverages and cosmetics;
- ❖ Produce, sell, import, export and consign import and export of machines and equipments.

OWNERSHIP RATE OF  
TRAPHACO JSC.



**SIGNIFICANT ACHIEVEMENTS**

- ❖ 2010: VIFOTEC Gold Cup.
- ❖ 2012: KOVA SciTech Award.
- ❖ 2013: Certificate of Merit of Lao Cai President for extraordinary achievements in SciTech research.
- ❖ 2014: Recognized as SciTech Company.

# TRAPHACO SAPA

**AS AN IMPORTANT LINK IN THE GREEN VALUE CHAIN OF TRAPHACO, TRAPHACO SAPA RESEARCHES AND DEVELOPS AREAS OF HERBAL MATERIALS, ENSURES THE STABILITY OF QUANTITY AND QUALITY, MANUFACTURES LOCAL HEALTH PRODUCTS AS DIRECTED BY THE PARENT COMPANY. TRAPHACO SAPA HAS ACHIEVED MUCH SUCCESS IN BOTH PRODUCTION AND BUSINESS: MAINTAIN AND DEVELOP HERBAL MATERIALS CERTIFIED BY GACP-WHO.**

**OUTSTANDING PRODUCTS**



Actiso Sapa extract



Jiaogulan (Gynostemma pentaphyllum) tea



Ampelopsis cantoniensis tea



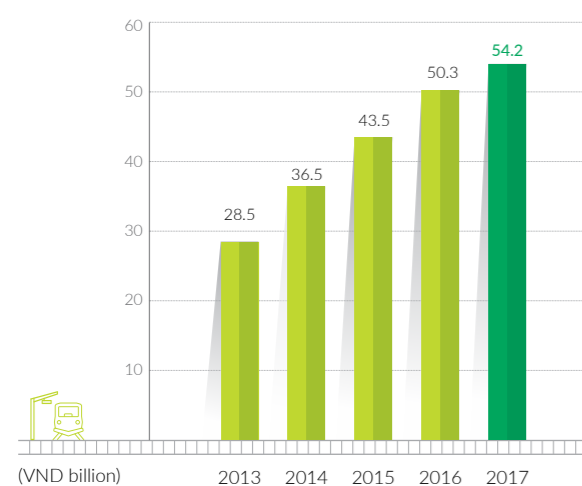
Mint honey

# Operation report of TRAPHACO SAPA ONE MEMBER CO., LTD (continued)

## 2017 BUSINESS RESULTS

### Gross revenue

2017 gross revenue was VND 54.219 billion, which was 91.9% of target, increasing 7.8% compared with 2016.



### After-tax profit

After-tax profit was VND 2.009 billion, exceeding 0.5% compared with 2017 target.



### Scale and asset structure

Supported by Traphaco JSC., Traphaco Sapa increased the charter capital to build up new factory in Lao Cai, exclusively purchased all extract materials, maximized support for R&D activities of production procedure, processed materials and created new products.

Installed new assembly lines and equipment to facilitate production and thus increase products' quality.

### The company's achieved improvements in 2017

- ❖ Revenue increased 7.8 % compared to 2016.
- ❖ Promotion of selling indigenous products and Traphaco products.
- ❖ Granted GDP certificate of medicinal materials and medicines at Lao Cai factory (the Health Department of Lao Cai province).
- ❖ Granted certificate of food safety and hygiene at Lao Cai factory, Sapa factory (Agency of Food Safety).



Prime Minister Nguyen Xuan Phuc and other Government Officials visited Traphaco Sapa.

## 2018 DIRECTIONS

### TRAPHACO SAPA SETS 2018 TARGETS AS FOLLOWS

Gross revenue of



**58**

VND billion

After-tax profit of



**2.5**

VND billion

In order to achieve these targets, the Company will focus on the following measures:

- 1 Be certified as a GMP-WHO factory and qualified to get license for producing herbal medicine and herbal extracts.
- 2 Get ISO certification.
- 3 Be prepared for Traphaco's renewing GACP-WHO certification for Ampelopsis cantoniensis tea.
  - Sell local products.
    - ❖ Estimated revenue of VND 7.5 billion, estimated profit of 10%.
    - ❖ Build up sales system:
      - Separate whole sale and retail sale.
      - Establish new sales channel via travel agencies and tour guides.
      - Online sales nationwide.
      - Promote Marketing activities via online marketing tools, leaflets, posters, trade fares, exhibitions and meetings.
- 4
- 5 Launch new product: Hoang Lien Son Cordyceps sinensis.
- 6 Make 2018 message come into being "Strengthening control – Actualizing objectives".



## Operation report of **TRAPHACO CNC JSC.,**



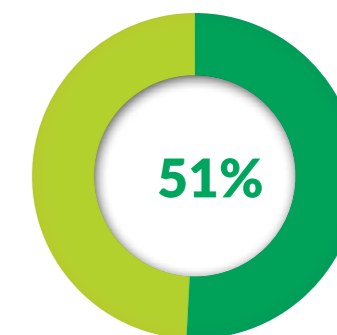
### **INTRODUCTION OF TRAPHACO CNC**

With the long-term view of “**Green health path**”, Traphaco CNC JSC., (Traphaco CNC for short) was established to complete the mission of bring good health for community by medicines with natural ingredients. On June 6<sup>th</sup>, 2006, Traphaco CNC JSC., was approved to be established at Annual General Meeting.

The Company officially came into operation on January 1<sup>st</sup>, 2007 with registered business activities: Producing and selling herbal medicine, materials, additives, supplement dietary, cosmetics, chemicals, pharmaceutical and medical equipment.

The Company is producing and distributing its products for an exclusive client which is Traphaco JSC., - Traphaco is owning 51% of Traphaco CNC's charter capital.

**OWNERSHIP RATE OF  
TRAPHACO JSC.**



# TRAPHACO CNC

NOT ONLY A PIONEER IN TRADITIONAL MEDICINE MANUFACTURING, TRAPHACO CNC IS PRO-ACTIVE IN ADOPTING SUCH NEW BUSINESS GOVERNANCE TOOLS FOR HIGHER PRODUCTION EFFICIENCY AS: APPLYING GMP-WHO IN MANUFACTURING TRADITIONAL MEDICINE, USING QUALITY CONTROL SYSTEM ISO 9001:2008, ISO 14001:2015 FOR ENVIRONMENT PROTECTION, EMPLOYING 5S, KPI, APPLYING UPDATE MANAGEMENT SYSTEM WITH THE AMBITION OF MAKING THE BEST BECOME BETTER.

### **2017 BUSINESS RESULTS**

In 2017, despite the impressive growth of Vietnam pharmaceutical market, there was still fierce competition in the market in general and traditional medicine market in particular. The key products of the company were much likely to be faked by other competitors.

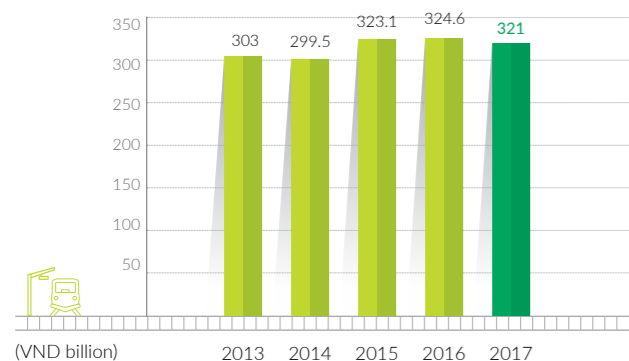
However, as an important link of the value chain of Traphaco, the company enjoyed Traphaco's advantages. They were the sustainable development strategy which paid attention to both economic efficiency and social responsibilities as well as environment protection, “**The path of green health**” strategy, a

famous brand with high reputation and quality, a value chain of healthy materials – Modern and environment-friendly technology – a distribution chain considered number one in Vietnam pharmaceutical market, the healthy financial status, a successful sales policy for pharmacies and timely order and payment by the parent company. Besides, it was Board of Directors' directions and following-up production and business activities, Executive Board's effort and persistence as well as the enthusiasm and professionalism of all staffs in the company that helped Traphaco CNC to achieve targets as planned:

# Operation report of TRAPHACO CNC JSC., (continued)

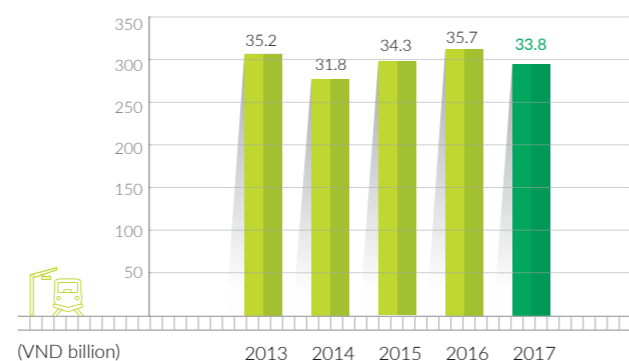
## Gross revenue

Gross revenue was VND 321 billion which exceeded 0.3% compared with planned target. In 2017, due to changes in the ratio of finished and toll-manufactured products in parent company's order, the revenue did not increase compared with 2016.



## After-tax profit

After tax profit was VND 33.78 billion and profit margin was 10.6%, which exceeded 2017 target (10.5%).



## Average income

Average income was VND 16.7 million/person, increasing 7.7% compared with 2016 and exceeding 2017 target (2017 target was 5% increase in average income compared with 2016).

## Scale and asset structure



Total asset of the Company in 31/12/2017

# 193.2

VND billion

Increasing 2% compared with 2016.

## Structurally

Short-term assets were VND 105 billion, accounting for 54.3% of total assets, down 1.87% compared to 2016.

Long-term assets were VND 88.2 billion, accounting for 45.6% of total assets, up 7.0% compared to 2016.

## Financial status

In 2017, the Company did finance management very well, strengthened corporate finance efficiency following the Company's Charter and legal regulations,

collected debts and received Traphaco's payment in time, ensure all payments for clients and internal ones settled on due date as planned and committed.

## 2017 achievements

- 2017 was a notable year of productivity improvement activities of manufacturing sector. It was the application of capacity measurement at Soft-Capsule Workshop and Soft-Pill Workshop along with good production arrangements (line package at Capsule Workshop, suitable assembly line of hard-pill...) that helped to increase productivity of manufacturing sector 9.8% more and that of Capsule Workshop 27% more compared with 2016.
- In 2017, the company made research and successfully developed Totcos which generated revenue of VND 7.6 billion for the last quarter of the year.
- The company installed and operated packing lines with laser-tech printers at Capsule Workshop and Packing Workshop to number products to avoid product-overflow.

## 2018 DIRECTIONS

TRAPHACO CNC SETS 2018 TARGETS AS FOLLOWS:

With direction of sustainable growth, Traphaco CNC will conduct the following measures:

Revenue of **350** VND billion  
9% increase compared with 2017  
(2017: VND 321 billion)

After-tax profit equals to **10.5%** of revenue

Average income increases at least **5%** compared to 2017

1 The company will apply some R&D solutions. For example, in addition to top 10 products recognized in the market in terms of clients' belief, stability, distribution, revenue as well as high profit for the past few years, the company has planned to make research to change processing methods of some products like "Dưỡng cốt bao phim" (film-coated bone-nurturing pill), Tottri, to refresh Bohairic to attract clients in different sectors as well as improve and apply reasonable measures to reduce price...

2 Facing fiercer competition in the pharmaceutical market, besides protecting brand from fake products, the company has put top priority for quality and price. Therefore, there will be more control in all activities, especially in quality control.

3 2018 dividend: Pay by cash, at least 20% of the charter capital.

4 As a manufacturer, Traphaco CNC will continue to apply up-to-date production management methods in order to increase its production capacity.

Operation report of  
**DAK LAK PHARMACEUTICAL & MEDICAL SUPPLIES JSC**



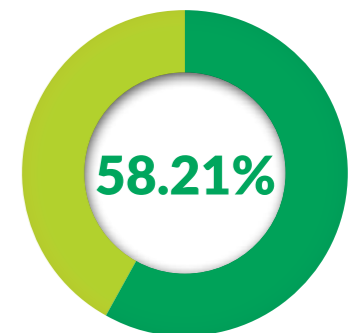
**INTRODUCTION OF BAMEPHARM**

Dak Lak Pharmaceutical & Medical Supplies JSC., came into operation for 42 years with a distribution channel of more than 800 GPP certified outlets which fully covered Dak Lak and Dak Nong from urban to rural and remote areas.

Bamepharm used to be a Government's company. The company is considered the key enterprise of Dak Lak in terms of business and has actively supported local health service in diseases prevention and social welfare.

Current activities: Mainly distributing and selling products (agent) for both domestic and foreign manufacturers.

OWNERSHIP RATE OF TRAPHACO JSC.



# BAMEPHARM

WITH FAME FOR PRO-ACTIVENESS AND CREATIVITY IN MANAGEMENT AND BUSINESS IN OPEN-MARKET PERIOD, DAK LAK PHARMACEUTICAL & MEDICAL SUPPLIES JSC. (BAMEPHARM) HAS GRADUALLY ASSERTED ITSELF IN THE PHARMACEUTICAL MARKET OF CENTRAL REGION-CENTRAL HIGHLANDS. THE COMPANY IS AN IMPORTANT LINK IN THE GREEN VALUE CHAIN OF TRAPHACO. FOR THE DEVELOPMENT STRATEGY OF 2017-2020, THE COMPANY DESIRES TO BECOME THE TOP ENTREPRISE IN THE PHARMACEUTICAL MARKET OF CENTRAL REGION-CENTRAL HIGHLANDS IN TERMS OF DIRECT RETAIL SALE, GROWTH RATE, REVENUE AND PROFIT.

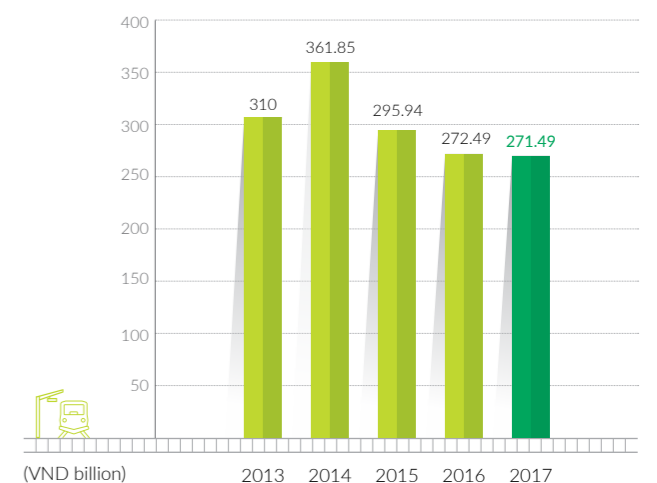
**2017 BUSINESS RESULTS**

In 2017, Bamepharm kept being the top enterprise in terms of distribution channel in Dak Lak and Dak Nong with more than 800 loyal clients. In 2017, the company focused on reinforcing internal resources for sustainable development.

**Gross revenue**

Gross revenue was VND 272 billion, which was 91% of target and equaled to that of 2016.

Revenue from Traphaco's product increased 18%. Revenue from toll-manufactured products increased 5% compared with the same period.



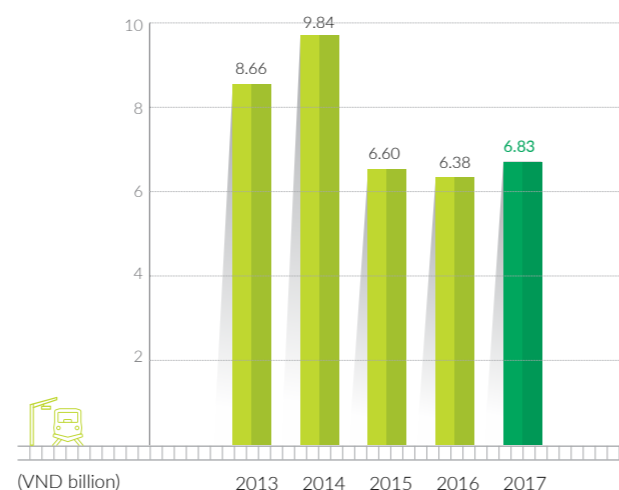


# Operation report of DAK LAK PHARMACEUTICAL & MEDICAL SUPPLIES JSC (continued)



## After-tax profit

After-tax profit was VND 6.8 billion, which exceeded 5% compared with target (and increase 7% compared with 2016).



## Scale and asset structure

Total asset of the company on 31/12/2017



# 102.98

VND billion  
which increased 19% compared with 2016

Owners' equity on 31/12/2017



# 54.9

VND billion  
which increased 7% compared with 2016

In 2017, the company continued to well-control finance management, increase finance efficiency, collect debts in time and have no extra expense.

## 2017 improvements

- 1 Enhance competition capacity in the market. Stabilize and boost retail sale.
- 2 Perfect management.
- 3 Maintain sound and transparent financial status.

## 2017 achievements



- Sao Do Award.
- Certificate of Merit of People's Committee of Dak Lak for achievements in production and business,...

## 2018 DIRECTION

### MAJOR INDICATORS



Gross revenue **300**  
VND billion  
In which: Traphaco's products account for VND 42 billion



After-tax profit **6.5**  
VND billion

Dividend: **12%**

Average income: **VND 6.4 million/person**

Promote OTC market: Manage **1,000** clients with revenue of more than VND 1 million/month.

### Measures:

- ❖ Develop Traphaco's products as key items to optimize the advantage of the distribution channel via pharmacies. Speed up the growth rate of revenue by selecting key products of prestigious companies.
- ❖ Build up professional distribution channel, increase service quality, pay attention to delivering correct products in full quantity within 30 hours and clients service.
- ❖ Improve bidding capacity, increase market share in ETC channel.
- ❖ Research and launch at least 5 products under Bamepharm brand.
- ❖ Localize and boost Bamepharm brand.
- ❖ Build professional sales representatives.



# WIN-WIN DEVELOPMENT

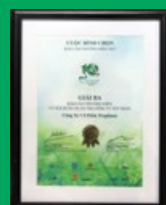
“ In order to synchronize all resources, we need consensus of shareholders, co-operation and belief of partners, support from society and above all endeavor of all staffs. In our viewpoint, win-win principle is the key to success to create a tight connection between Traphaco and other partners.

## ENTERPRISE GOVERNANCE

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ENHANCING THE QUALITY OF CORPORATE GOVERNANCE IS ONE OF OUR FOCUSES IN TRAPHACO DEVELOPMENT STRATEGY WITH THE AIM TO BUILD UP A STRONG GOVERNANCE SYSTEM BASED ON THE APPLICATION OF INTERNATIONAL BEST PRACTICES AND POWER OF ALL RESOURCES IN THE SYSTEM TO CONTROL AND SUPERVISE THE COMPANY'S ACTIVITIES RESPONSIBLY, CLEARLY AND EFFICIENTLY.



IN 2017, IT WAS THE FIRST TIME THAT TRAPHACO WAS AWARDED ANNUAL REPORT WITH BEST CORPORATE GOVERNANCE CONTENT IN POLL OF BEST ANNUAL REPORT.

**IN 2017, TRAPHACO CONTINUED TO SCREEN AND REINFORCE THE FOUNDATION FOR ISSUES RELATING TO CORPORATE GOVERNANCE:**

- 1 Drew up, perfected and implemented the Sustainable Development Strategy for 2017-2020.
- 2 Adjusted the investment budget for the Project of New Factory in Lao Cai and increased the charter capital of Traphaco Sapa one-member Co., Ltd.
- 3 Directed and supervised the running of Vietnam Pharmaceutical Factory, handed the charter capital over to Traphaco Hung Yen Co., Ltd.
- 4 Continued to perfect internal regulations aiming at corporate governance's targets, obeying law: regulation on financial management, regulation on salary payment according to 3Ps.
- 5 Completed senior personnel of the Company, appointed Deputy CEO and Branch Directors of the Company.
- 6 Successfully divested from Quang Tri Pharmaceutical & Medical Supplies JSC.
- 7 Reconstructed and optimized the efficiency of corporate governance: re-organized Hoang Liet Factory, merged and established Quality Control Division.
- 8 Mekong Capital Fund and VietNam Holding divested; Magbi Fund Limited and Super Delta Pte. Ltd became the biggest shareholders of Traphaco.
- 9 Supervised information and relationship with investors to increase the reputation of TRA's stocks.
- 10 Learned, implemented and applied regulations of Decree 71, Circular 95 of corporate governance for public corporations.

## OVERVIEW OF CORPORATE GOVERNANCE & GOVERNANCE MODEL AT TRAPHACO

IN 2017, TRAPHACO CONTINUED TO EVALUATE AND ENHANCE THE CAPABILITY OF MANAGEMENT SYSTEM WITH THE FOLLOWING AIMS: PERFECTING GOVERNANCE SYSTEM BY APPLYING BEST GOVERNANCE PRACTICES IN THE MARKET AND YET MAINTAINING TRAPHACO'S IDENTITY AND CORE VALUES, OPTIMIZING GOVERNANCE TOOLS TO IMPROVE OPERATION EFFICIENCY, INCREASING PRODUCTIVITY AND BALANCING BETWEEN INDIVIDUAL INTERESTS AND THE COMPANY'S EFFICIENCY.

**ROLE OF GOVERNANCE TO TRAPHACO'S DEVELOPMENT**

Corporate governance is considered the key for sustainable growth and development in long-term by TRAPHACO. Beside building a strong governance structure based on obeying Vietnam's law and application of international practices, TRAPHACO has adopted internal management regulations with the aim to create a coherent process to control and supervise the Company's activities professionally, clearly and efficiently, contributing to ensure shareholders' interest in harmony with other stakeholders' including clients, employees and community.

**GOVERNANCE PRINCIPLES AT TRAPHACO**



- 1 Ensure efficiency of governance structure.
- 2 Ensure shareholders' interest and treat them fairly.
- 3 Ensure roles and interest of all stakeholders.
- 4 Ensure clarity in all business activities.
- 5 Ensure efficiency of Board of Directors and Board of Supervisors.

# Overview of CORPORATE GOVERNANCE (continued)

## TRAPHACO'S GOVERNANCE MODEL IS BASED ON CORE VALUES

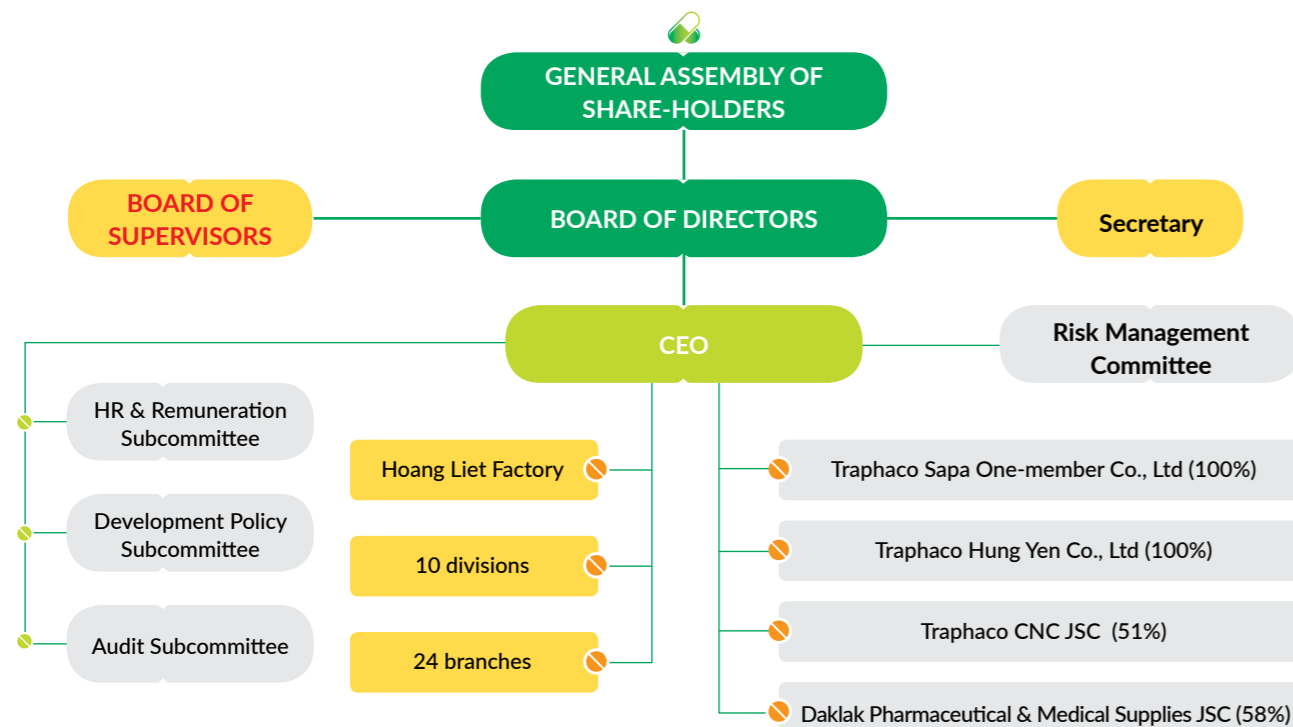


## GOVERNANCE MODEL AT TRAPHACO

Traphaco's governance model is based on the best international practices and standards which ensure the presence of all needed

administrators of a listed company. They are the General Assembly of shareholders, Board of Directors (including supporting sub-

committees and secretary), Board of Supervisors, CEO, other divisions and representatives managing TRAPHACO's equity at Subsidiaries.



This corporate governance model has been applied at Traphaco and gradually at other subsidiaries. Upon adopting the model, Traphaco has frequently evaluated its efficiency in order to make

responsive adjustments to real business situations of Traphaco as well as other subsidiaries.

In general, the current organization structure has clearly shown

function of each division, applying the best practices in business management and identifying relationship and responsibilities between Traphaco and other subsidiaries.

## GOVERNANCE STRUCTURE AT TRAPHACO IS AS FOLLOWS:



**CEO AND EXECUTIVE BOARD** are responsible for managing and directing business activities of the company by decentralizing power for divisions/sections managers of the company's office to directly deal with specific tasks as well as support other subsidiaries in business.

**GENERAL ASSEMBLY OF SHAREHOLDERS** include all shareholders with voting right. This is the most powerful body to make decisions of Traphaco.

**BOARD OF SUPERVISORS** is responsible for implementing duties assigned by General Assembly of Shareholders, supervising Board of Directors and CEO's activities in managing and operating Traphaco's business. Board of Supervisors is totally independent from Board of Directors and CEO.

**BOARD OF DIRECTORS** is the managing body of Traphaco. It can represent Traphaco to make decisions and conduct rights and responsibilities of Traphaco that do not belong to GAS's authority.

**SUPPORTING SUB-COMMITTEES FOR BOARD OF DIRECTORS:** Board of Directors set up sub-committees to advise, recommend and support activities of Board of Directors.

**SECRETARIAT:** Office of Board of Directors functions as the Company's secretariat in order to support managing activities and make them more efficient. The office is in charge of organizing meetings for Board of Directors, Board of Supervisors and General Meeting of Shareholders, ensuring drafting, obedience and periodical evaluation of managing policies and practices, providing fiscal information, copy of minutes of Board of Directors' meetings and other information for members of Board of Directors and Board of Supervisors as well as conducting other duties as regulated by Law, Internal Managing Policies and The Company's charter.

TRAPHACO HAS EVALUATED AND PERFECTED THE GOVERNANCE MODEL WHICH IS STANDARDIZED BASED ON INTERNATIONAL PRACTICES. THE MODEL CLEARLY SEPARATES RESPONSIBILITIES OF THE PARENT COMPANY AND SUBSIDIARIES TO ENABLE EACH ENTITY TO BE MORE ACTIVE IN ITS BUSINESS ACTIVITIES AND TO ENSURE COHERENT MANAGEMENT STRUCTURE IN ORDER TO INCREASE MANAGEMENT EFFICIENCY, IMPROVE PROFESSIONALISM AND PRODUCTIVITY AND THUS CONTRIBUTING TO ENHANCE BUSINESS ACTIVITIES EFFICIENCY.

## 2018 GOVERNANCE DIRECTIONS

ONE OF THE MISSIONS IN 2018 IS FOCUSING ON GOVERNANCE PROJECTS TO ACHIEVE THE FOLLOWING GOALS:

- 1** REFORM ALL GOVERNANCE SYSTEM AND PRINCIPLES BASED ON BEST PRACTICES AND YET ENSURE THE COMPANY'S IDENTITY, CULTURE AND CORE VALUES.
- 2** CONTRIBUTE TO ACTUALIZING THE DEVELOPMENT STRATEGY THANKS TO APPLICATION OF ERP MANAGEMENT SYSTEM, OPTIMIZE PRODUCTS OF NEW FACTORY PROJECTS, EXCLUSIVELY DISTRIBUTE AND BOOST GOVERNANCE OF GREEN VALUE CHAIN;
- 3** APPLY MODERN TECHNOLOGY AND TOOLS TO INCREASE OPERATION EFFICIENCY AND PRODUCTIVITY, CUT COST, IMPROVE COMPETITIVENESS AND MAXIMIZE EMPLOYEES' ABILITY;
- 4** APPLY REGULATIONS AS OF DECREE 71, CIRCULAR 95 OF LISTED PUBLIC JOINT STOCK COMPANIES. STRENGTHEN CORPORATE GOVERNANCE ACTIVITIES FOR SUSTAINABLE DEVELOPMENT GOAL.



**KEEP INDIVIDUAL  
INTEREST HARMONIZED  
WITH WORKING QUALITY  
AND THE COMPANY'S  
INTEREST**

**INDIVIDUAL RESILIENCE MAKE THE  
COMPANY'S STRENGTH**

## Introduction of THE BOARD OF DIRECTORS



### Ms. Vu Thi Thuan

Chairwoman of Board of Directors

Date of birth: 25/1/1956

Nationality: Vietnamese

#### Qualification

Master of Pharmacist.

#### Employment Background

- 01/1980-01/1982: Technical Staff, Railway Medicine Workshop.
  - 01/1982-4/1989: Sub-Workshop Manager, Deputy Head of Railway Medicine Workshop.
  - 5/1989-10/1993: Deputy Director, President of Trade Union at Railway Medicine Factory.
  - 10/1993-01/2000: Deputy Director, President of Trade Union at Transportation Pharmaceutical and Medical Supplies Company, under Ministry of Transportation.
  - 01/2000-3/2003: Chief Operating Officer, Deputy Chairwoman of Board of Directors at Transportation Pharmaceutical and Medical Equipment Company, under Ministry of Transportation (Traphaco JSC).
  - 4/2003-5/2010: Secretary of Party Executive Committee, Chairwoman of Board of Directors, CEO at Traphaco JSC.
  - 5/2010-4/2011: Chairwoman of Board of Directors, CEO at Traphaco JSC.
  - 4/2011 - present: Chairwoman of Board of Directors at Traphaco JSC.
- Positions assigned at other organizations**
- Board members at Traphaco CNC JSC.

### Mr. Nguyen Anh Tuan

Deputy Chairman of Board of Directors

Date of birth: 27/6/1978

Nationality: Vietnamese

#### Qualification

Bachelor of External Economics, Master of International Business Law.

#### Employment Background

- 8/2006-8/2015: Deputy Officer Manager at SCIC.
- 9/2015-3/2016: Head of Capital Management Unit 3, SCIC.
- 4/2016 - present: Deputy Chairman of Board of Directors at Traphaco JSC.

#### Positions assigned at other organizations: none.

### Mr. Tran Tuc Ma

Member of Board of Directors

Date of birth: 17/6/1965

Nationality: Vietnamese

#### Qualification

Master of Pharmacist.

#### Employment Background

- 03/1990- 8/1992: Staff at Experimental Institute, Ministry of Health.
  - 9/1992-12/1993: Staff at Sales Division - Hanoi Railway Medicine Factory.
  - 01/1994-4/1997: Staff at Sales Division, Traphaco.
  - 05/1997-10/2000: Deputy Head of Quality Control Division, Traphaco.
  - 11/2000-02/2003: Head of Sales Division, Traphaco JSC.
  - 03/2003-12/2004: Member of Board of Directors, Head of Sales Division, Traphaco JSC.
  - 01/2005-03/2006: Member of Board of Directors, Deputy Director in charge of Sales, Traphaco JSC.
  - 04/2006-05/2010: Member of Board of Directors, Deputy CEO in charge of Sales, Traphaco JSC.
  - 05/2010-03/2011: Secretary of Party Executive Committee, Member of Board of Directors, Deputy CEO in charge of Sales, Traphaco JSC.
  - 03/2011-03/2016: Secretary of Party Executive Committee, Deputy Chairman of Board of Directors, CEO at Traphaco JSC.
  - 04/2016 - present: Secretary of Party Executive Committee, Member of Board of Directors, CEO at Traphaco JSC.
- Positions assigned at other organizations**
- Member of Board of Directors at Traphaco CNC JSC.
  - Chairman of Board of Directors at Traphaco Hung Yen Co. Ltd.

### Mr. Nguyen Hong Hien

Member of Board of Directors

Date of birth: 06/02/1974

Nationality: Vietnamese

#### Qualification

Master of Law, Bachelor of Economics.

#### Employment Background

- 6/1998-10/2003: Secretary of Deputy Minister/Head of Department, Head of General Administration of Department of Aviation, Ministry of Transportation.
  - 10/3003-02/2007: Spokesman of Minister of Transportation; Head of Propaganda and Information Department, Ministry of Transport.
  - 03/2007 - present: Office Manager, Head of Planning and Administration, Head of Investment Unit 4; Deputy Director- General of SCIC.
  - 5/2008-12/2014: Member of Board of Directors at Vietnam-Oman Investment JSC.
  - 5/2012-02/2016: Member of Board of Directors at Kim Lien Tourism JSC.
  - 6/2012-11/2014: Member of Board of Directors at Vietnam Electronics and Informatics Corporation.
  - 6/2012-6/2015: Chairman of Board of Directors at Vietnam Tourism JSC in Hanoi.
  - 4/2013-11/2014: Member of Board of Directors at Chemical JSC.
  - 5/2013 - present: Member of Hanoi Pharmaceutical & Medical Equipment Import - Export JSC.
  - 5/2014- present: Vietnam Investment Consulting and Investment JSC.
  - 12/2014- present: Member of Board of Directors at FPT Telecom JSC.
- Positions assigned at other organizations:**
- Member of Board of Directors at FPT Telecom JSC.
  - Member of Board of Directors at Vietnam Investment Consulting and Investment JSC.

### Mr. Marcus John Pitt

Member of Board of Directors

Date of birth: 24/7/1971

Nationality: Australian

#### Qualification

Master of Administration.

#### Employment Background

- 1989-1995: Commercial Lending Director, National Australia Bank, Melbourne.
  - 1995-1999: Regional Sales Manager, Melbourne Sport Network.
  - 1999-2000: Marketing Services Manager, Monash University Sport, Melbourne.
  - 2000-2007: General Director, in charge of strategy, business development and marketing, Monyx Pty Ltd, Melbourne.
  - 2007-2009: Leader of Administration Consulting Department, Palladium Consulting Group (U.S. Boston), Asia Pacific Office, Sydney.
  - 2010-2011: Member of Non-executive Board of Directors, Soho Flordis International Pty Ltd, Sydney.
  - 2009-2014: General Director of Soho Global Heath Corporation, Indonesia.
  - 2013-2014: Member of Non-executive Board of Directors, PT Ethica Fresenius - Kabi, Indonesia.
  - 2014- present: Director, Indonesia and South East Asia Market, Palladium Consulting Group (U.S. Boston), Asia Pacific Office, South East Asia Office, Singapore.
- Positions assigned at other organizations: none.**

### Mr. Christopher E. Freund

Member of Board of Directors

Date of birth: 03/02/1972

Nationality: American

#### Qualification

Bachelor of Psychology.

#### Employment Background

- 1995-6/1998: Investment Analysis Specialist, Templeton Asset Management, Ltd., Singapore.
  - 6/1998-2001: Deputy Chairman cum Investment Item Managing Director, Templeton Asset Management, Ltd., Singapore.
  - 2001- present: Founder cum General Director of Mekong Capital Consulting Ltd.
- Positions assigned at other organizations**
- Member of Board of Directors of Mobile World, Vietnam Australia School (VAS), A Chau Chemical ACC, F88, Pharmacy, Pasteur Street.

### Mr. Chad Ryan Ovel

Member of Board of Directors

Date of birth: 12/7/1974

Nationality: American

#### Qualification

Master of Business Administration

#### Employment Background

- Before 2000: Development Director of World Wildlife Fund.
  - 2000-2006: Chief Operating Officer of ScanCom Vietnam.
  - 2006-2013: Chief Operating Officer of AA Corporation.
  - 2013- present: General Director of Mekong Capital Consulting Ltd.
- Positions assigned at other organizations:**
- Member of Board of Directors at Nam Long Investment JSC.
  - Member of Board of Directors at ABA JSC.
  - Member of Board of Directors at Wrap & Roll JSC.
  - Maroon Bells.

## Introduction of THE BOARD OF SUPERVISORS



### Ms. Nguyen Thanh Hoa

Member of Board of Supervisors

Date of birth: 10/12/1983

Nationality: Vietnamese

#### Qualification

Bachelor of Accounting, Master of Business Administration.

#### Employment Background

- **6/2006-8/2006:** Accounting Officer at Vietnam Airlines Corporation - Labor Export Center.
- **10/2006-5/2007:** Accounting Officer at Bank for Investment and Development of Vietnam - BIDV Hanoi Branch.
- **6/2007-6/2012:** Officer at Financial and Accounting Department, State Capital Investment Corporation.
- **6/2012 - present:** Officer at Risk Management Department, State Capital Investment Corporation.

### Mr. Duong Duc Hung

Chairman of Board of Supervisors

Date of birth: 16/12/1980

Nationality: Vietnamese

#### Qualification

Master of Business Administration.

#### Employment Background

- **4/2003-3/2013:** Receivables monitoring accountant, Sales Division of Traphaco JSC.
- **4/2013-8/2013:** Accountant, Financial and Accounting Division of Traphaco JSC.
- **8/2013-3/2016:** Head of Risk Management Committee of Traphaco JSC.
- **4/2016 - present:** Head of Risk Management Committee of Traphaco JSC. Chairman of Board of Supervisors.

### Ms. Do Thi Khanh Van

Member of Board of Supervisors

Date of birth: 05/01/1981

Nationality: Vietnamese

#### Qualification

Bachelor of Business Finance.

#### Employment Background

- **2002-2003:** Auditor at AACC Ltd.
- **2003-2006:** Auditor, Senior Auditor, Ernst & Young Vietnam Ltd.
- **2006-2008:** Director of Investment Analysis Division, FPT Securities JSC.
- **2008 - present:** Senior Consulting Specialist of business finance, Senior Investment Specialist at Mekong Capital Consulting Ltd.
- **3/2011 - present:** Member of Board of Supervisors of Traphaco JSC.

## Introduction of THE EXECUTIVE BOARD



Mr. Nguyen Van Bui  
Deputy CEO

Mr. Tran Tuc Ma  
CEO

Ms. Nguyen Thi Lan  
Deputy CEO

Mr. Nguyen Huy Van  
Deputy CEO

## Introduction of THE EXECUTIVE BOARD



**Mr. Tran Tuc Ma**  
CEO

Date of birth: 17/6/1965  
Nationality: Vietnamese

### Qualification

Master of Pharmacist.

### Employment Background

- **03/1990- 8/1992:** Staff at Experimental Institute - Ministry of Health.
- **9/1992-12/1993:** Staff at Sales Division - Hanoi Railway Medicine Factory.
- **01/1994-4/1997:** Staff at Sales Division, Traphaco.
- **05/1997-10/2000:** Deputy Head of Quality Control Division, Traphaco.
- **11/2000-02/2003:** Head of Sales Division, Traphaco JSC.
- **03/2003-12/2004:** Member of Board of Directors, Head of Sales Division, Traphaco JSC.
- **01/2005-03/2006:** Member of Board of Directors, Deputy Director in charge of Sales, Traphaco JSC.
- **04/2006-05/2010:** Member of Board of Directors, Deputy CEO in charge of Sales, Traphaco JSC.
- **05/2010-03/2011:** Secretary of Party Executive Committee, Member of Board of Directors, Deputy CEO in charge of Sales, Traphaco JSC.
- **03/2011-03/2016:** Secretary of Party Executive Committee, Deputy Chairman of Board of Directors, CEO at Traphaco JSC.
- **04/2016 - present:** Secretary of Party Executive Committee, Member of Board of Directors, CEO at Traphaco JSC.



**Ms. Nguyen Thi Lan**  
Deputy CEO

Date of birth: 08/01/1967  
Nationality: Vietnamese

### Qualification

Bachelor of Pharmacist.

### Employment Background

- **01/1993-01/1994:** Manager of Salve Workshop, Railway Pharmacy Company (RAPHACO).
- **02/1994-11/2001:** Manager of Pill Workshop, Staff of Technical Division, Manager of Western medicine, Deputy Head of Planning - Sales Division, Transportation Pharmaceutical and Medical Equipment Company (Traphaco).
- **11/2001-3/2011:** Head of Planning - Supply - Sales, Head of Planning of Traphaco JSC.
- **3/2011-9/2014:** Member of Board of Directors, Head of Planning of Traphaco JSC.
- **09/2014 - present:** Deputy CEO at Traphaco JSC.



**Mr. Nguyen Huy Van**  
Deputy CEO

Date of birth: 10/03/1967  
Nationality: Vietnamese

### Qualification

Master of Pharmacist.

### Employment Background

- **From 01/06/1994 to 30/06/1995:** Staff of Sales Division.
- **From 01/07/1995 to 09/07/1996:** Deputy Head of Marketing Division.
- **From 10/07/1996 to 12/1999:** Head of R&D Division.
- **01/2000-12/2004:** Head of R&D Division, Member of Board of Directors, Transportation Pharmaceutical & Medical Supplies Company (Traphaco Joint Stock Company).
- **01/2005-3/2006:** Deputy Director of R&D, Member of Board of Directors, Traphaco JSC.
- **4/2006-3/2011:** Deputy CEO, Member of Board of Directors, Traphaco JSC.
- **4/2011-4/2015:** Deputy CEO of Traphaco JSC.
- **5/2015 - present:** Vice Secretary of Party Executive Committee; Deputy CEO at Traphaco JSC.



**Mr. Nguyen Van Bui**  
Deputy CEO

Date of birth: 16/10/1963  
Nationality: Vietnamese

### Qualification

Bachelor of Pharmacist.

### Employment Background

- **03/1988 to 12/1996:** Bachelor of Pharmacist, Hai Hung tuberculosis hospital.
- **01/1997 to 12/1997:** Bachelor of Pharmacist, Hung Yen social diseases prevention center.
- **01/2001 to 12/2004:** Director of Friendship Medicine Co. Ltd.
- **12/2003-05/2004:** Staff of R&D Division, Traphaco JSC.
- **06/2004-12/2007:** Staff of Sales Division, Traphaco JSC.
- **01/2008-06/2008:** Staff of Marketing Division, Traphaco JSC.
- **07/2008-04/2011:** Deputy Head of Marketing Division, Traphaco JSC.
- **05/2011-07/2013:** Head of Sales Division, Traphaco JSC.
- **08/2013-01/2017:** Sales Manager.
- **02/2017 - present:** Deputy CEO in charge of Sales at Traphaco JSC.



**Mr. Dinh Trung Kien**  
Chief accountant

Date of birth: 1973  
Nationality: Vietnamese

### Qualification

Bachelor of Economics,  
Master of Business Administration.

### Employment Background

- **12/1994 - 01/2005:** Staff of Finance and Accounting Division of Traphaco JSC.
  - **01/2005 - 12/2007:** Deputy Head of Finance and Accounting Division of Traphaco JSC.
  - **01/2008 - present:** now Chief accountant, Head of Finance and Accounting Division of Traphaco JSC.
- ### Outstanding achievements
- Good worker award in transportation in the period of 2007-2009.
  - Granted by awards of MOT and Complementary papers of Party Executive Committee, Complementary papers of Party Executive Committee - Health division of MOT.



## LEGAL REGULATIONS of corporate governance

In 2017, Traphaco continued to evaluate and reinforce foundations for issues relating to corporate governance including:

### OBEY VIETNAM'S LAW OF CORPORATE GOVERNANCE AND INFORMATION DISCLOSURE

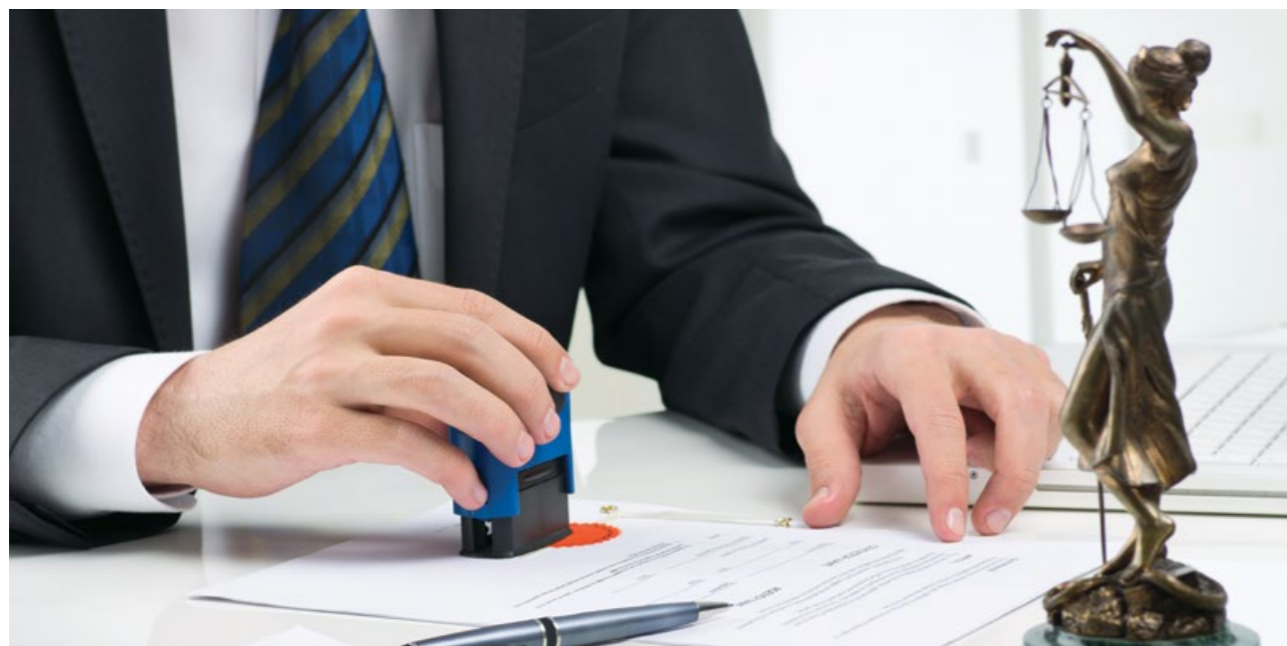
As one of the top listed companies in Vietnam in terms of medicine, Traphaco always obeys corporate governance regulation framework as stated in the Law on Enterprise and other specific rules of corporate governance in Circular 121/2012/TT-BTC of listing and listing supervision of HCM Stock Exchange Division issued by Ministry of Finance.

In addition to building corporate governance frame based on obeisance of Vietnam's law and application of international and regional practices, Traphaco has drafted and published internal regulations to create a coherent management structure in order to control and supervise Traphaco's activities professionally and clearly.

In 2017, Traphaco evaluated, amended and supplemented 60 articles in Company's Charter to harmonize with regulations in 2014 Law on Enterprise No. 68/2014/QH113, The Law on Securities No. 70/2006/QH11 and articles in Circular 121/2012/TT-BTC dated July 26th, 2012 by Ministry of Finance on corporate governance regulations applied for public companies. These changes were made to timely respond to real business situations at Traphaco and ensure serious obeisance of rules of information disclosure pursuant to Circular 155/2015/TT-BTC dated October 6<sup>th</sup>, 2015 on instruction of information disclosure on stock market.

IN 2018, TRAPHACO WILL AMEND THE CHARTER AND PUBLISH (NEW) INTERNAL REGULATIONS OF CORPORATE GOVERNANCE PURSUANT TO DECREE 71/2017/NĐ-CP ON CORPORATE GOVERNANCE APPLIED FOR PUBLIC COMPANIES AND CIRCULAR 95/2017/TT-BTC ON INSTRUCTION ON SOME ARTICLES OF DECREE 71/2017/NĐ-CP.

Information of management and business activities as well as ad-hoc information are assured by Traphaco to be released in time as regulated by law and to be transparent to all shareholders, investors and other stakeholders.



### ENHANCE GOVERNANCE CAPABILITY BASED ON APPLICATION OF THE BEST INTERNATIONAL PRACTICES

For Traphaco, enhancing the quality of corporate governance is essential to its development strategy which aims to build up a strong governance system based on application of the best international practices along with power of internal resources in order to control and supervise the Company's activities more responsibly, transparently and effectively.

In 2017, Traphaco focused on understanding and obeying Corporate Governance Manual pursuant to OECD (Corporate Governance Manual) to frequently update knowledge of domestic



and foreign practices in Corporate Governance. In the meantime, the Company suggested foreign partners supporting and sharing

experience of Corporate Governance to harmonize interest between Traphaco and other stakeholders.

### APPLY GOVERNANCE CRITERIA PURSUANT TO ASEAN GOVERNANCE SCORECARD

This was the 2<sup>nd</sup> time that Traphaco applied and compared criteria pursuant to ASEAN scorecard with the Company's activities in order to enhance governance capability and support members of Board of Directors, Executive Board and Board of Supervisors in understanding and

applying principles pursuant to governance scorecard in terms of shareholders' rights, stakeholders' roles, information disclosure and transparency, Board of Directors' responsibility so that the Company can develop sustainably in long-term.



### ENHANCE GOVERNANCE CAPABILITY FOR MEMBERS OF BOD, BOARD OF SUPERVISORS, EXECUTIVE BOARD AND MANAGERS BY TRAINING COURSES OF CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

Strengthening training for Senior Managers of Corporate Governance pursuant to international standards was one of Traphaco's main focuses. Therefore, in 2017,

the Company organized training course of Corporate Governance for all Senior Managers with the aim to improve knowledge and skills of corporate governance pursuant to Vietnam's law and international

standards for members of Board of Directors, Executive Board, Board of Supervisors and other leaders of Traphaco and its subsidiaries.

## Activities of BOARD OF DIRECTORS

BOARD OF DIRECTORS WELL UPHOLD ITS ROLES IN SETTING UP GOALS, STRATEGY AND BUSINESS PLAN FOR 2017 WITH FOCUS ON SUSTAINABLE DEVELOPMENT AND GROWTH STRATEGY, STRENGTHENING SOLUTIONS TO INCREASE EFFICIENCY IN GOVERNANCE AND BUSINESS OPERATION AND BOOSTING INTERNAL COOPERATION WITH THE AIM TO OPTIMIZE THE COLLECTIVE POWER OF THE COMPANY.

### RIGHTS AND DUTIES OF BOARD OF DIRECTORS

Pursuant to the Law on Enterprise and Traphaco's Charter, Board of Directors of Traphaco is the managing body of Traphaco. It can represent Traphaco to make decisions and conduct rights and responsibilities of Traphaco that do not belong to GAS's authority.

### MEMBER STRUCTURE OF BOARD OF DIRECTORS

BOD maintains its operation pursuant to regulations in the Company's Charter and BOD's rules with 07

Performing roles and duties of Board of Directors, in 2017, the Board of Directors of Traphaco supervised and directed the following tasks within its rights:

- ❖ Corporate governance and senior personnel activities of the Company;
- ❖ Direct the formulation and approve the business proposal and strategy of the Company;
- ❖ Audit financial reports of the Company;
- ❖ Organize Annual General Meeting (AGM), report and get GAS's approval of issues regulated in the Charter;
- ❖ Direct dealing with specific issues within its right based on CEO's proposal to timely implement daily business of the Company;
- ❖ Supervise CEO and other managers.

(seven) members. The followings are list of members of BOD as of December 31<sup>st</sup>, 2017:



### List of members of BOD for the 2016 – 2020 period (as of 31/12/2017)

Pursuant to instructions in Decree 71/2017/NĐ-CP dated Jun 6<sup>th</sup>, 2017 on corporate governance applied for public companies, Traphaco BOD for the 2017-2020 period consists of 07 members among whom there is 01

independent member (from Nov 2017, there are 03 independent members) and 06 non-executive members who are strategy and business specialists with much experience in management at both domestic and foreign companies.

This model helps to ensure independence of BOD in evaluating, approving and making decision for issues proposed by Executive Board. Besides, the 07 members of BOD have got certificate of Corporation Governance as regulated.

No. Board of Directors	Title	Position	Ratio of voting share at Traphaco	Position holding in another organizations
1. Md. Vu Thi Thuan	Chairwoman	non-executive	1.12% (personal ownership: 464,644 shares)	Board Member of Traphaco High Technology JSC.
2. Mr. Nguyen Anh Tuan	Deputy Chairman	non-executive	12.50% (Representative of state ownership: 5,181,709 shares)	
3. Mr. Nguyen Hong Hien	Board Member	non-executive	12.50% (Representative of state ownership: 5,181,709 shares)	Board Member of FPT Telecom JSC. Board Member of Vietnam Diary Product JSC.
4. Mr. Tran Tuc Ma	Board Member	executive	12.53% (In which: Representative of state ownership: 4,423,106 shares. Personal ownership: 772,308 shares)	Chairman of Traphaco Hung Yen Limited Company. Board Member of Traphaco High Technology JSC.
5. Mr. Chad Ryan Ovel	Board Member	non-executive	0.00%	Board Member of Nam Long Investment JSC. Board Member of PABA JSC.
6. Mr. Christopher E. Freund	Board Member	non-executive	0.00%	Board Member of Mobile World Investment Corporation. Board Member of F88 Investment JSC. Board Member of Ben Thanh Jewelry JSC. Board Member of A Chau Chemical ACC. Board Member of YOLA.
7. Mr. Marcus John Pitt	Board Member	Independent	0.00%	Director, in charge of Indonesia and Asia - Palladium Consulting Group (U.S, Boston), Asia Pacific Office, South East Asia Office, Singapore.

## Activities of BOARD OF DIRECTORS (continued)

### ACTIVITIES OF BOARD OF DIRECTORS IN 2017

#### THE BOARD OF DIRECTORS CONVENED PERIODICALLY TO EVALUATE THE OPERATION AND THEN ISSUE DEVELOPMENT STRATEGY FOR TRAPHACO

Pursuant to Enterprise Law and Traphaco Rules, the BODs organizes quarterly meeting, two times per quarter in order to discuss and timely give guidance on the management of business activities. The BODs held 10 (ten) meetings, among which 08 (eight) were face to face meetings and 02 (two) via written consultation of members' opinions on assignment of the 2017 temporary business plan and other related issues of Traphaco and its subsidiaries.

Meetings of the BODs must ensure to comply with the provisions of the Traphaco Rules and Enterprise Law. Board members strictly attended the meetings or authorized other members and voted according to the Company Rules and Regulation on the operation of BODs, as following:

#### Meetings of Board of Directors (BODs)

No Board of Directors	Title	Position	Date becoming Board member	Number of attendance	Ratio	Reasons for absence
1. Md. Vu Thi Thuan	Chairwoman	non-executive	30 <sup>th</sup> March 2016	10/10	100%	
2. Mr. Nguyen Anh Tuan	Deputy Chairman	non-executive	30 <sup>th</sup> March 2016	09/10	90%	Authorizing to Mr. Nguyen Hong Hien
3. Mr. Nguyen Hong Hien	Board Member	non-executive	30 <sup>th</sup> March 2016	07/10	70%	Authorizing to Mr. Nguyen Anh Tuan
4. Mr. Tran Tuc Ma	Board Member	executive	30 <sup>th</sup> March 2016	10/10	100%	
5. Mr. Chad Ryan Ovel	Board Member	non-executive	30 <sup>th</sup> March 2016	09/10	90%	Authorizing to Mr. Christopher E. Freund
6. Mr. Christopher E. Freund	Board Member	non-executive	30 <sup>th</sup> March 2016	06/10	60%	Authorizing to Mr. Chad Ryan Ovel
7. Mr. Marcus John Pitt	Board Member	Independent	30 <sup>th</sup> March 2016	10/10	100%	

#### Meetings of BODs focus on key matters as followed:

- ❖ To supply concrete guidance to the implementation of the Sustainable Development Strategy for the 2017-2020 period; develop some component strategies; develop Business Plan for the year of 2017 and 2018;
- ❖ To supply concrete guidance to the implementation of business plan and Resolution of the General Shareholders Meeting for the 2016-2020 term, Resolution of the 2017 annual general meeting;
- ❖ To direct the construction, inauguration and put into operation of Vietnam Pharmaceutical Factory, strengthen the capacity of the South Branch, complete the phase 1 of the Enterprise Resource Planning (ERP) project;
- ❖ To direct the development of institutional capacity and internal regulations (remuneration regulation, financial management regulation);
- ❖ To consolidate the senior leadership of the Company, expand/develop branches and restructure its divisions, committees.
- ❖ To strengthen relationship with investors;
- ❖ To carry out activities to celebrate the 45<sup>th</sup> anniversary of the Company's traditional day;
- ❖ Resolutions adopted by the BODs at the meetings become important orientations for the Executive Board to carry out its business tasks effectively.

#### BOD's Resolutions issued in 2017

The BODs discussed and approved 51 decisions on the following issues:

- ❖ Executive management: 11 decisions;
- ❖ Financial investment management: 12 decisions;
- ❖ Human Resource management: 24 decisions;
- ❖ Shareholder management (for shareholder's benefits): 3 decisions.

Resolution / Decision No.	Date	Content
01/QĐ	02/07/2017	Appoint Deputy CEO Nguyen Van Bui.
02/QĐ	01/19/2017	Regulation on Traphaco JSC's Representatives of capital in enterprises.
03/QĐ	01/19/2017	On appointment, reappointment and dismissal of managerial officers in Traphaco JSC.
04/QĐ	01/19/2017	The Regulation on Management of Contracts and Transactions between Traphaco JSC and Related Parties.
05/QĐ	01/19/2017	Appoint Mr. Dinh Trung Kien to be Representative of capital of Traphaco at Daklak Pharmaceuticals and Medical Supplies JSC.
06/QĐ	01/19/2017	Appoint Mr. Thai Duc Luan to be Representative of capital of Traphaco at Quang Tri Pharmaceuticals and Medical Supplies JSC.
07/QĐ	01/19/2017	Appoint Mr. Nguyen Huy Van to be Representative of capital of Traphaco at Traphaco Sapa.
08/QĐ	01/19/2017	Approve the nomination of Ms. Dao Thi Hong Anh as Chief Accountant at Traphaco Hung Yen.
09/QĐ	01/19/2017	Elect Ms. Dinh Thi Xuan Hong to be Comptroller of Traphaco Hung Yen.
11/QĐ	02/07/2017	Dismiss Mrs. Hoang Thi Ruoc from Deputy CEO.
13/QĐ	02/17/2017	Appoint Mr. Nguyen Van Nhung to be Representative of capital of Traphaco at Traphaco CNC.
29/NQ	04/11/2017	Approve the implementation of the plan to issue shares to increase equity from owners' equity.
32/QĐ	05/10/2017	Establish Thai Nguyen branch of Traphaco JSC.

## Activities of BOARD OF DIRECTORS (continued)

Resolution / Decision No.	Date	Content
33/QĐ	05/10/2017	Appoint Dr. Vuong Van Tuyen to be Director of Traphaco's branch in Thai Nguyen.
34/QĐ	05/10/2017	Select Ernst & Young as the auditor for 2017 financial statements.
35/QĐ	05/10/2017	Approve the contract signing with Traphaco CNC.
39/QĐ	05/24/2017	Approve the result of the share issuance to increase equity from owners' equity.
43/QĐ	07/27/2017	Adjust the total investment capital for the project "Plant for producing, processing, and trading pharmaceutical materials, pharmaceuticals and functional foods" of Traphacosapa one-member Ltd Company.
44/QĐ	07/27/2017	Raise the charter capital of Traphaco JSC at Traphacosapa one member Ltd Company.
45/QĐ	07/31/2017	Buy house as branch office of Traphaco JSC in Binh Thuan.
46/QĐ	07/31/2017	Buy house as branch office of Traphaco JSC in Kien Giang.
47/QĐ	07/31/2017	Buy land to build a branch of Traphaco JSC in Hung Yen.
48/QĐ	07/31/2017	Rebuild the warehouse of Traphaco branch office in the Central.
50/QĐ	08/16/2017	Appoint the director of Binh Thuan branch of Traphaco JSC.
51/QĐ	09/07/2017	Establish Yen Bai branch of Traphaco JSC.
52/QĐ	09/07/2017	Establish Thua Thien Hue branch of Traphaco JSC.
53/QĐ	09/07/2017	Buy house as branch office of Traphaco JSC in Kien Giang (in replacement of Decision 46).
54/QĐ	09/07/2017	Establish Kien Giang branch of Traphaco JSC.
56/QĐ	02/11/2017	Assign the Plan of 2018.
57/QĐ	02/11/2017	Assign the marketing fund in 2018.
58/QĐ	02/11/2017	Assign the 2018 unit price plan.
62/QĐ	05/12/2017	Advance payment of dividend in 2017, 1 <sup>st</sup> time.
63/QĐ	11/12/2017	Divest from Quang Tri Pharmaceutical & Medical Supplies JSC.
65/QĐ	27/12/2017	Promulgate the Regulation on Salary payment of Traphaco JSC.
66/QĐ	29/12/2017	Promulgate the Regulation on Financial Management of Traphaco JSC.

### SUPPLY CONCRETE GUIDANCE ON THE WORK OF CORPORATE GOVERNANCE AND HIGH-RANKING PERSONNEL

The Board of Directors has strengthened the senior staff of the Company, including Chairwoman and board members, CEO, Deputy CEOs, Branch Directors, other Directors of the Company; as well as the leadership

of Traphaco's wholly-owned subsidiary (Traphaco Hung Yen Co., Ltd.). In addition, the BODs instruct to continue reviewing and completing internal rules and regulations in order to unify the management

mechanism of the Company, improving the management capacity and management effectiveness in the whole system. In 2017, the BODs issued a revised Charter pursuant to Enterprise Law 2014; Regulation on the organization and operation of the Board of Directors; Regulation on management of contracts and transactions

between Traphaco JSC and related persons; Regulation on the appointment, re-appointment and dismissal of leaders and managers of Traphaco JSC; Regulation on representatives of Traphaco JSC's capital at other companies; Regulation on remuneration of Traphaco JSC; Regulations on financial management at Traphaco JSC.

### FINANCIAL STATEMENT AUDITING

In implementation of Resolution No. 28/2017/NQ-DHDCD dated 30<sup>th</sup> March 2017 of the 2017 Annual General Meeting of Shareholders on approval of the list of independent auditors and authorize the BODs to select an auditor according to the list approved by the General Meeting of Shareholders to audit and review the 2017 financial statements. Based on the proposal of the CEO of the Company, the Board of Directors

has considered and decided to choose Ernst & Young Vietnam Co., Ltd. as an independent auditor who audits the Company's 2017 financial statements. The Board of Directors also directed to prepare financial statement in accordance with Vietnamese Accounting Standards (VAS). At the same time, the financial statement was disclosed on time to ensure transparency of information for shareholders and partners.

### THE BOARD OF DIRECTORS SUPERVISES, DIRECTS THE CEO AND MANAGERS TO OPERATE THE COMPANY'S BUSINESS

Quarterly give KPIs to the CEO and assess the results at the end of each quarter; evaluate regular reports (quarterly) and semi-annual audit report.

Develop market in the South.

Monitor the production and carrying out business.

Successfully divest capital at Quang Tri Pharmaceutical & Medical Supplies JSC.

Direct, supervise and support the CEO and other managers to implement Resolution of the General Assembly of Shareholders; the BOD's resolutions and decisions.

Direct the development of remuneration regulation and financial management regulation.

Disclose information and submit reports according to current regulations of State management agencies.

Direct to build the structure and human resources policy for Traphaco Hung Yen Co., Ltd.

Direct the Executive Board to organize the Annual General Meeting of Shareholders on 30/03/2017.

Direct the expansion of investment for factory in Lao Cai, and raise the charter capital of Traphaco Sapa Co., Ltd.

Direct the construction, inauguration and put into operation of the most modern pharmaceutical factory in Vietnam.

Direct to restructure Hoang Liet Factory; merge divisions and committees within the Company.

Direct the increase of charter capital by 20% in June 2017. In 2017, the market capitalization of TRA reached VND 4,850 billion.

Carry out the procedures for paying the remaining dividend of 2016 to shareholders (10% of charter capital) and advance dividend to shareholders for the first time in 2017 (20% of charter capital).

## THE 2018 OPERATING ORIENTATION OF THE BODs

2018 IS THE ACCELERATING YEAR FOR THE IMPLEMENTATION OF THE STRATEGIC PLAN FOR THE 2017- 2020 PERIOD. IN THE SPIRIT OF OVERCOMING DIFFICULTIES OF THE ECONOMY TO COMPLETE THE BUSINESS TASKS, THE BODS ORIENTS SOME KEY TASKS THAT THE EXECUTIVE BOARD SHALL IMPLEMENT IN 2018 AS FOLLOWS:

- 1 Organize Annual General Meeting of Shareholders 2018;
- 2 Direct, supervise the implementation of Strategy 2017-2020; raise awareness of staffs, clients on its strategy, solutions to ensure the planned growth rate;
- 3 Fulfill requirements stipulated in Decree No 71/2017/ND-CP, Circular No 95/2017/TT-BTC; complete the structure of the Board of Directors;
- 4 Direct the development of human happiness index of Traphaco;
- 5 Direct and supervise the effective exploitation of Vietnam Pharmaceutical Factory, the new factory in Lao Cai, Hoang Liet functional food and cosmetic factory;
- 6 Direct to develop the distribution system, enhance the effective exploitation of operation of branches;
- 7 Monitor the implementation of new sales policies, increase market share and product lines;
- 8 Direct and supervise the implementation of remuneration regulation, financial management regulation, etc.
- 9 Direct the implementation of ERP; apply IT technology, speed up the management, strengthen the cooperation among mid-level managers;
- 10 Promote relationship with investors, manage and improve transparency; combine corporate governance with sustainable development issues to ensure long-term sustainability of the Company.

THE EXECUTIVE BOARD HAS SUCCESSFULLY FINISH THE ROLE OF RUNNING BUSINESS OF THE COMPANY IN ACCORDANCE WITH THE DIRECTION OF BODs.

**TOP 50** OF BEST LISTED COMPANY IN VIETNAM  
**TOP 40** OF MOST VALUABLE COMPANY IN VIETNAM

In 2017, Traphaco JSC has achieved stable growth in revenue and profit, completed the plan approved in the General Meeting of Shareholders. Under the leadership and management of the CEO, the Executive Board has expressed the spirit of solidarity, dynamic, creativeness, dare to think, dare to do, professional and high responsibility to the work. With the efforts of the Executive Board in a drastic implementation of strategic solutions, Traphaco JSC excellently finished its targets and plans given in the General Meeting of Shareholders. This is a remarkable result in the context of macro-economic and that pharmaceutical market has still faced many challenges, as followed:

- ❖ Complete the business targets in the 2017 plan as approved in the General Meeting of Shareholders and by the Board of Directors;
- ❖ Invest in the project of Pharmaceutical Factory in Vietnam to meet the proposed plan; the factory was inaugurated on 8/11/2017.
- ❖ Implement the ERP system.
- ❖ Promote product development; increase the number of items and the quantity of products sold in pharmacies.
- ❖ Ensure the income of employees to increase by 10% in 2017.
- ❖ The development of the South market has got good results.
- ❖ Distribution system: achieved good results, established 4 new branches: Thai Nguyen, Yen Bai, Thua Thien Hue, Kien Giang; the number of clients increased to 27,000 clients; sales policy ensured the sustainability of retail price and rapid turnover.

❖ Communication – brand name

- » The Company received many big prizes such as the No. 1 of Top 10 of the best prestige Vietnamese Pharmaceutical Company in 2017, Top 40 of the Most valuable Companies in Vietnam, Top 50 of the Best Listed Companies in Vietnam Stock Exchange voted by Forbes Vietnam Magazine, Top 10 of CSI and is the only company to win all three awards of the Election of the Best Annual Report in 2017.
- » Traphaco trademark has been affirming its prestige with clients and its attraction to investors. According to IMS's report, to the end of the fourth quarter of 2017, Traphaco's market share accounted for 1% of the total pharmaceutical market in Vietnam, ranking 11<sup>th</sup> among 20 pharmaceutical companies which have highest revenue in the pharmaceutical market. In the OTC market, Traphaco's market share made up 3% and ranked second regardless of revenue (only behind Sanofi). In comparison with other pharmaceutical companies on the stock market, Traphaco ranked second regarding revenue, profit and market capitalization. Traphaco has the top three products among which "Hoat huyet duong nao" ("cerebral blood circulation improvement) is ranked 1<sup>st</sup> in neurological medicine; Boganic in the liver medicine. Tottri in emerods medicine. Both "Hoat huyet duong nao" and Boganic are among the top 20 of OTC that have topped the market.

❖ Direct the implementation of resolutions and decisions of the BOD.

## Operation of SUB-COMMITTEES OF THE BOARD OF DIRECTORS

### IN ORDER TO IMPROVE THE EFFECTIVENESS OF GOVERNANCE ACCORDING TO INTERNATIONAL STANDARDS, THE BOD ESTABLISHED SUB-COMMITTEES INCLUDING: REMUNERATION AND HUMAN RESOURCES COMMITTEE; AUDIT COMMITTEE; DEVELOPMENT POLICY COMMITTEE TO IMPROVE THE GUIDANCE OF STRATEGY, AUDIT, FINANCIAL MANAGEMENT, RISK, HIGH-RANKING HUMAN RESOURCES AND INVESTMENT.

#### REMUNERATION AND HUMAN RESOURCES COMMITTEE

##### Tasks and functions

Remuneration and human resources committee is a part in the governance structure of Traphaco JSC, which was established by the Board of Directors. Its main functions include:

- ❖ Proposals on the scale and composition of the management system of the Company;
- ❖ Give advice to the BOD on the appointment and dismissal of managers and their salaries;
- ❖ Review and give advice to the BOD on the long-term human resources development plan; find out, select, train and foster managers;
- ❖ Propose regulations and budgets for salary and related effective regulations for the Company.

##### Composition of committee

The Committee is headed by an independent board member and three members are also board members and CEO who have proficiency and experience in human resources management and remuneration in order to effectively promote its role of counsel, assistance to the Board of Directors while making

strategy for development of human resource as well as personnel policies to ensure the rights of workers.

##### Operation of Committee in 2017

The remuneration and human resources Committee discussed and advised the BOD the following issues:

- ❖ Finalize and submit for signing O3 regulations: management of transactions with related parties, appointment/dismissal of managerial personnel, representatives of capital in subsidiaries;
- ❖ Consult the salary regulation based on the result of remuneration consultancy;
- ❖ Appoint capital representatives and other personnel (supervisors, chief accountants) at the subsidiaries;
- ❖ Consider managers to be appointed/recruited in the term;
- ❖ Propose remuneration budget for 2018 and grounds for budget allocation.

##### THE 2018 OPERATING ORIENTATION

- ❖ Supervise the implementation of remuneration regulation; Propose the 2018 bonus policy and unit price of salary.
- ❖ Consider important management positions.
- ❖ Take an overall review of HR policy.
- ❖ Evaluate the performance of Board of Directors and the development plan.
- ❖ Consider remuneration for the Board of Directors, the CEO and senior managers of Traphaco.

#### DEVELOPMENT POLICY COMMITTEE

##### Tasks and functions

The Development Policy Committee is a part in the management structure of Traphaco JSC, which was established by the Board of Directors. Its main functions contain:

- ❖ Propose and advise the BOD on development strategies, objectives and solutions to implement the short term and long term strategy for production, business and investment;
- ❖ Propose and advise the BOD on the long-term and short-term development strategies for subsidiaries to ensure that the plan is in line with the Company's overall strategy and objectives;

- ❖ Propose and help the BOD in approving annual financial plan, short-term and long-term financial plans, plan for buying and selling shares of other companies, joint ventures and strategic cooperation.

##### Composition of Committee

The head of committee should be the CEO, two other members will be the representatives of SCIC, Vietnam Azalea Fund and the last one should be an independent board member who have proficiency and experience in strategy development and development of investment projects to raise the role of making advice, proposal of development strategy and investment activities of the company.

##### Operation of Committee in 2017

The Development Policy Committee discussed and advised the BODs on issues such as:

- ❖ Finalize the Sustainable Development Strategy 2017-2020 to submit the Board of Directors and the General Meeting of Shareholders;
- ❖ Propose (plan) the issuance of bonus shares to existing shareholders;
- ❖ Give recommendation to the 2017 Financial Plan: investment in fixed assets, primary construction, and marketing...;
- ❖ Review and report important contracts of the company to the Board of Directors, the General Meeting of Shareholders;
- ❖ Evaluate business results according to short-term and medium-term strategic objectives;
- ❖ Establish branches in Thai Nguyen, Yen Bai, Thua Thien Hue and Kien Giang;
- ❖ Advise the set of criteria to select partners and products for distribution;
- ❖ Evaluate the company's risk report and plan for risk mitigation;
- ❖ Consult a plan for the usage of Hoang Liet factory after the conversion.

##### THE 2018 OPERATING ORIENTATION

- ❖ Give advice to the BODs on the 2018 production plan;
- ❖ Supervise the implementation of strategy 2017-2020;

#### AUDIT COMMITTEE

##### Tasks and functions

The audit committee is a part in the management structure of Traphaco JSC, which was established by the Board of Directors. The main functions of committee are:

- ❖ Select an independent auditor, evaluate the independence of independent audit and apply criteria to consolidate financial report of subsidiaries with associates;
- ❖ Consider the effectiveness of the company's risk management, in compliance with the law, company charter, management regulations and internal management regulations... of the company.

##### Composition of committee

The head of committee is the Chairwoman and two other members are Board members who represent the SCIC, gain lots of experiences in field of audit and finance.

##### Operation of Committee in 2017

The audit committee has reviewed and commented on the company's financial report and auditing report.

- ❖ Joining with the Executive Board to consider Ernst & Young's audit letter;
- ❖ Assess the 2016 audited financial statements;
- ❖ Review the 2017 semi-annual financial report;
- ❖ Consult the Regulation on financial management;
- ❖ Monitor the compliance with internal regulations, other investment projects and major contracts in 2017.

##### THE 2018 OPERATING ORIENTATION

- ❖ Monitor the compliance with internal regulations of the Executive Board.
- ❖ Evaluate the quarterly and annual results of production and business via audited financial statements.
- ❖ Consult the BODs to consider development and approval of regulations related to cost and business performance.
- ❖ Monitor and evaluate investment activities, asset procurement: the compliance with legal regulations and internal regulations.

# ANALYSIS BASED ON Asean corporate governance scorecard

☑: Best practice      ☒: Lack of practice      ☒: No practice

No.	Criteria	Status up to 2017	Evaluation
<b>LEVEL 1</b>			
<b>PART A. RIGHTS OF SHAREHOLDERS</b>			
<b>A.1 Basic rights of shareholders</b>			
A.1.1	The company pay dividends within 30 days after being declared.	☑	Traphaco made the best practice. It is shown in Page 131
<b>A.2 Right to participate in decisions concerning fundamental corporate changes</b>			
<b>Shareholders have the right to participate in:</b>			
A.2.1	Amendment of the company's charter.	☑	Traphaco will collect opinions of shareholders on the amendment of its charter at General meeting of shareholders but the amendment of company's regulations has not been put into agenda yet.
A.2.2	Vote for the additional issuance of shares.	☑	Traphaco collect shareholders' opinions in writing or submit to the General Meeting of Shareholders for approving the plan of additional issuance of shares.
A.2.3	The transfer all or most of the Company's assets which results in the sale of the Company.	☑	This has never happened.
<b>A.3 Right to participate effectively in and vote in the General meeting of shareholders and must be informed the rule including voting procedures.</b>			
A.3.1	Do shareholders have opportunity to give their opinions according to the Agenda of meeting such as approve remuneration or any increases in remuneration for the non-executive Board member?	☑	Traphaco made the best practice.
A.3.2	Does the company provide non-supervisory shareholders a right to nominate candidates for the Board of Directors?	☑	Traphaco made the best practice. Regulations on the nomination/self-nomination of candidates for the BODs / Supervisory Board members are announced on the Company's website before the General Meeting of Shareholders and approved before the election.
A.3.3	Does the company allow shareholders to elect every board member?	☑	Traphaco made the best practice.
A.3.4	Does the company disclose voting procedure before the meeting?	☑	Traphaco made the best practice. Nomination and voting procedures are announced on the website before the meeting.
A.3.5	Does the latest minute of the General meeting of shareholders show that there was an opportunity for shareholders to raise their questions and record their questions and answers?	☑	Minutes of the General Meeting of Shareholders recorded discussion of shareholders. The 2017 meeting noted details of questions and answers.
A.3.6	Does the company announce the voting result including approving, dissenting and abstaining votes for every issue in the draft of the latest General meeting of shareholders?	☑	Traphaco has indicated the results of voting for each content of the draft of the latest meeting.
A.3.7	Does the company announce the list of board members who participated in the most recent General meeting of shareholders?	☑	Traphaco has listed the Board members in the minutes of the General Meeting of Shareholders.

No.	Criteria	Status up to 2017	Evaluation
A.3.8	Does the company disclose that all board members and the CEO/Executive director (if the CEO/ Executive director is not a board member) attend the latest General meeting of shareholders?	☑	Traphaco has well done this thing for many years and the senior leaders of the Company, such as the Chairman, the CEO,... always attend the meetings.
A.3.9	Does the company accept the ballot if the voter is absent?	☑	The Company allows to obtain the absentee ballot from an authorized representative in accordance with the Company's regulations.
A.3.10	The company uses the form of voting based on the number of ballots of shareholders (not by raising hands) for all resolutions at the latest General Meeting of Shareholders.	☑	The company uses the form of voting based on voted ballots of shareholders for all resolutions at the latest General Meeting of Shareholders, not by raising a hand.
A.3.11	Does the company announce the appointment of an independent party (auditor, supervisor) to participate in the counting committee to count and / or verify votes at the General Meeting of Shareholders?	☑	This practice has been successfully implemented from the General Meeting of Shareholders for the period of 2016-2020 with the participation of representatives of State Capital Investment Corporation (SCIC) and included in the minutes of meeting.
A.3.12	Does the company will publicly announce the results of voting on all resolutions on the next working day of the nearest General Meeting of Shareholders?	☑	Traphaco always releases the Resolution and minutes of the meeting, minutes of counting votes within 24 hours as prescribed.
A.3.13	Does the company notice the General Meeting of Shareholders and the extraordinary shareholders' meeting for at least 21 days?	☑	Traphaco made the best practice.
A.3.14	Does the company provide the basis, information and explanation for each item of the draft of resolution to be approved by shareholders in the notice of the General Meeting of Shareholders / documents of the General Meeting of Shareholders / Draft and / or attached reports?	☑	Information and backgrounds for issued to be approved by the General meeting of shareholders are fully provided in materials of meeting.
A.3.15	Do shareholders have opportunity to contribute (discuss) on the agenda of the General Meeting of Shareholders.	☑	Traphaco made the best practice.
<b>A.4 The acquisition market must be allowed to operate efficiently and transparently.</b>			
A.4.1	In the case of mergers, acquisition and / or take overs requiring approval of the shareholders, the proposed members / board members shall be asked to appoint an independent party to assess the fairness of transaction prices.	☑	It has never happened.
<b>A.5 The exercise of ownership rights for all shareholders, including institutional investors should be facilitated.</b>			
A.5.1	Does the Company publicly announce policies / practices to encourage shareholders' participation outside the framework of the General Meeting of Shareholders?	☑	Traphaco has disclosed this in its annual report (specifically in the part of shareholder relations, policies on encouraging shareholders to exercise their rights, enabling shareholders to vote and ballot).
<b>PART B. EQUITABLE TREATMENT OF SHAREHOLDERS</b>			
<b>B.1 Shares and voting rights</b>			
B.1.1	Each common stock of the company has one vote.	☑	Traphaco made the best practice.
B.1.2	In case the company has more than one class of shares, does the company announce the corresponding voting rights for each class of shares?	☑	Traphaco has announced that "the company has only one type of common stock" in the notice of closing list, financial and annual reports.
<b>B.2 Notice of the General Meeting of shareholders</b>			
B.2.1	Each resolution in the latest General Meeting of Shareholders is only relevant to one issue of the drafted resolution, i.e., there is no bundling of several contents in the same resolution.	☑	Minutes and resolutions of the General Meeting of Shareholders clarify specific articles, and vote for every issue separately without combining it.
B.2.2	Notices and documents of the General Meeting of Shareholders are translated into English and published on the same day as the Vietnamese version.	☑	Since 2017, all materials for the General Meeting of Shareholders have been translated into English.

# ANALYSIS BASED ON

## Asean corporate governance scorecard (continued)

: Best practice
 : Lack of practice
 : No practice

No.	Criteria	Status up to 2017	Evaluation
The notice of the General meeting of Shareholders contains the following issues:			
B.2.3	Providing CVs of members / commissioners of the Board of Directors who are going to be selected / re-elected (at least provide information of age, training qualification, professional qualification, first appointment date, experience, and current position of the Board member. in other listed companies).	<input checked="" type="checkbox"/>	Traphaco announces the CV of candidates.
B.2.4	Are the auditors / audit firms going to be elected / re-elected clearly defined?	<input checked="" type="checkbox"/>	Traphaco made the best practice by submitting the proposal letter to the General Meeting of Shareholders for approving the list of independent audit companies.
B.2.5	Authorization letter to attend the General Meeting of Shareholders is easily provided.	<input checked="" type="checkbox"/>	Traphaco made the best practice: Authorization letter to attend the General Meeting of Shareholders is attached with the invitation letter, and also posted on the company's website (the link attached in the invitation letter).
<b>B.3 Prohibition of insider trading and abuse of trading for personal interests.</b>			
B.3.1	Does the company have policy to prohibit Board members and employees to benefit from information which is not disclosed outside?	<input checked="" type="checkbox"/>	Traphaco made the best practice: there are regulations on contract management, trading between Traphaco JSC with related persons, and other regulations.
B.3.2	Board members are required to report their stock transactions within 3 working days.	<input checked="" type="checkbox"/>	Traphaco has implemented this criteria in accordance with Circular 155/2015/TT-BTC.
<b>B.4 Related party transactions of members of the Board of Directors and senior management.</b>			
B.4.1	Does the Company have a policy to require Board members to disclose relevant interests in transactions and any conflict of interest with the Company?	<input checked="" type="checkbox"/>	Traphaco provided this content in the Company charter.
B.4.2	Does the Company have a policy requiring a subcommittee consisting of independent members to review significant RPTs to determine whether they are in the best interests of the company and shareholders?	<input checked="" type="checkbox"/>	This activity is conducted by the Board of Supervisors.
B.4.3	Does the company have a policy requiring board members not to attend meetings of the board of directors on transactions or activities in which the member has a conflict of interest?	<input checked="" type="checkbox"/>	It is stipulated in the financial regulation.
B.4.4	Does the Company have a policy on loans for its members, which prohibits this activity or ensures that loans are made on a commercially reasonable market rate?	<input checked="" type="checkbox"/>	Traphaco made the best practice
<b>B.5 Protect minority shareholders from abusive behavior</b>			
B.5.1	Does the company announce that RPTs are conducted to ensure that they are reasonable and at arm's length?	<input checked="" type="checkbox"/>	Traphaco made the best practices.
B.5.2	In case of a requiring shareholder's approval for related party transactions, the vote for approval must be voted by the disinterested shareholders.	<input checked="" type="checkbox"/>	

No.	Criteria	Status up to 2017	Evaluation
<b>PART C. ROLE OF STAKEHOLDERS</b>			
<b>C.1 The rights of stakeholders as defined by law or under bilateral agreements must be respected</b>			
Does the company publish policies and practices that:			
C.1.1	Announce policies and practices to protect client's interests.	<input checked="" type="checkbox"/>	Traphaco disclosed policies on the annual report and sustainable development report.
C.1.2	Disclose policies and practices, proceedings and procedures for selection of suppliers / contractors.	<input checked="" type="checkbox"/>	Since 2017, Traphaco has announced policies and practices, proceedings and procedures for selecting suppliers on sustainable development report.
C.1.3	Publish policies and practices, to describe the company's efforts to ensure that the company's value chain is environmentally friendly or consistent with promotion of sustainable development.	<input checked="" type="checkbox"/>	Traphaco disclosed policies on the annual report and sustainable development report.
C.1.4	Publish policies and practices to describe the company's efforts to interact with the communities where it operates.	<input checked="" type="checkbox"/>	Traphaco disclosed policies on the sustainable development report.
C.1.5	Disclose the company's anti-corruption and proceedings of anti-corruption.	<input checked="" type="checkbox"/>	Traphaco issued a financial management regulation which clearly regulates the competence to decide Company's assets, cash and so on.
C.1.6	The company has a policy to protect its creditors.	<input checked="" type="checkbox"/>	Since 2014, Traphaco has applied a new sales policy: cash on delivery results in a solid financial base; there is almost no debt financing and no need to develop this policy.
C.1.7	The company has written a specific report / content describing its efforts on environmental / economic and social issues.	<input checked="" type="checkbox"/>	Traphaco disclosed policies on the annual report and sustainable development report.
<b>C.2 Where the stakeholder's interests are protected by law, stakeholders must have the opportunity to obtain effective redress for violation of their interests.</b>			
C.2.1	The Company provides contact information on its website and Annual report so that all related parties can use to voice their concerns or complaints.	<input checked="" type="checkbox"/>	Traphaco has identified the central contact and shareholder relations division on the Company's Annual Report and website.
<b>C.3 It should be better to develop a mechanism to strengthen employee's participation.</b>			
C.3.1	The company clearly publishes the health, safety and welfare policies for employees.	<input checked="" type="checkbox"/>	Traphaco disclosed policies on the annual report and sustainable development report.
C.3.2	The company has made clear policies and practices, efforts on training programs and staff development.	<input checked="" type="checkbox"/>	Traphaco made the best practice and fully provided them on the sustainable development report.
C.3.3	The company has a policy of reward associated with the performance of the company in the long term rather than in the short term.	<input checked="" type="checkbox"/>	Traphaco disclosed the policy on the annual report and sustainable development report.
<b>C.4 Stakeholders, including employees and their representative organizations, should be free to communicate their concerns about unlawful or unethical practices to the Board of directors. And this does not affect their rights.</b>			
C.4.1	The company has procedures for employees to report violations.	<input checked="" type="checkbox"/>	Traphaco has not applied these practices.
C.4.2	The company has a policy or procedure to protect employees / individuals from retaliation for revealing unlawful / unethical behavior.	<input checked="" type="checkbox"/>	



# ANALYSIS BASED ON

## Asean corporate governance scorecard (continued)

☑: Best practice      ☐: Lack of practice      ☒: No practice

No.	Criteria	Status up to 2017	Evaluation
<b>PART D. DISCLOSURE AND TRANSPARENCY</b>			
<b>D.1 Transparent ownership structure</b>			
D.1.1	Disclosure of ownership information: the identity of the major shareholders holding 5% or more of shares.	☑	Traphaco has not made the best practice.
D.1.2	Disclosure of direct and indirect ownership of major shareholders	☑	
D.1.3	The Company publishes the direct and (deemed) indirect ownership of the Board members.	☑	
D.1.4	Disclosure of ownership information: both direct and indirect shares held by the Executive Board members.	☑	Traphaco released it on the annual report.
D.1.5	Disclosure of detailed information on the parent company, subsidiaries, associate, joint venture.	☑	
<b>D.2 Qualification of annual report</b>			
D.2.1	Corporate objectives.	☑	
D.2.2	Financial performance indicators.	☑	
D.2.3	Non-financial performance indicators.	☑	
D.2.4	Dividend policy.	☑	
D.2.5	Biographical details (minimum age, training qualification, professional qualification, first appointment date, relevant experience, and position of other board members held in listed companies) of Board members.	☑	Traphaco released them on the annual report.
D.2.6	Number of meetings which each member of the Board of Directors participated in during the year.	☑	
D.2.7	Total remuneration of each member of the Board.	☑	
<b>Corporate governance confirmation statement</b>			
D.2.8	The annual report states that the company is fully compliance with the rules of corporate governance and, in case of noncompliance, clearly identifies and explains reasons for it.	☑	Traphaco released it on the annual report.
<b>D.3. Disclosure of related party transactions (RPT)</b>			
D.3.1	The Company publishes a policy of review and approval of critical / important RPTs	☑	It was stipulated in Traphaco's charter; specified in contract management rules between Traphaco JSC and related persons.
D.3.2	The company discloses the name of related parties, relationships, nature and value for each crucial / critical RPT.	☑	It is provided in Chapter on corporate governance of the 2016 Annual report.
<b>D.4 Board members/Commissioners dealing with shares of the company</b>			
D.4.1	The company announces transactions of the company's shares which are traded by the company's insiders.	☑	It is provided in Chapter on corporate governance of the 2016 Annual report.

No.	Criteria	Status up to 2017	Evaluation
<b>D.5 Independent Audit and Audit report</b>			
<i>Where the same audit firm provides both audit and non-audit services</i>			
D.5.1	Disclosure of audit fees	☒	Traphaco published this content.
D.5.2	Disclosure of non-audit fees.	☒	
<b>D.6 Medium of communications</b>			
<i>Does the company use the following modes of communication?</i>			
D.6.1	Quarterly report.	☑	It was fully released/
D.6.2	Company website.	☑	Traphaco has fully updated information on its website in Vietnamese version.
D.6.3	Evaluation of analysts.	☑	
D.6.4	Media briefings/ press conferences.	☑	Information of the company has been advertised widely and often on the media.
<b>D.7 Timely submit/release annual reports/financial reports</b>			
D.7.1	Financial reports are published within 120 days at the end of the financial year.	☑	Traphaco made the best practice.
D.7.2	Annual reports are published within 120 days at the end of the financial year.	☑	Traphaco made the best practice.
D.7.3	The truthfulness and appropriateness of the annual financial report are affirmed by the Board members and / or executive members of the Company.	☑	Traphaco made the best practice.
<b>D.8 The company has a website to publish up-to-date information on the following:</b>			
D.8.1	Financial reports (latest quarter).	☑	
D.8.2	Materials of analysts and media.	☑	
D.8.3	Downloadable annual report.	☑	
D.8.4	Notices and documents of the General Meeting of Shareholders and / or Extraordinary General Meeting of Shareholders.	☑	Adequate information is provided and regularly updated.
D.8.5	Minutes of the General Meeting of Shareholders and / or Extraordinary General Meeting of Shareholders.	☑	
D.8.6	Downloadable company's charter.	☑	
<b>D.9 Relationship with investors</b>			
D.9.1	Does the company disclose contact information (e.g. phone number, fax, and email) of the officer / division responsible for investor relations?	☑	Traphaco fully disclosed this information on its annual, sustainable development reports and website.
<b>PART E. RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>			
<b>E.1 Board duties and responsibilities</b>			
<i>Clearly specified responsibilities of the Board and corporate governance statute</i>			
E.1.1	Disclose the corporate governance policy, board charter.	☑	They are disclosed on Traphaco's official website.
E.1.2	Are the types of decisions requiring board of directors' approval disclosed?	☑	Decisions are publicly available as required by law.
E.1.3	Are the roles and responsibilities of the board members clearly stated?	☑	Traphaco fully releases those contents in its Annual Report, Corporate Governance Regulations and Charter.

# ANALYSIS BASED ON

## Asean corporate governance scorecard (continued)

☑: Best practice    ☒: Lack of practice    ☒: No practice

No.	Criteria	Status up to 2017	Evaluation
E.1.4	Does the company disclose its updated visions and missions?	☑	Traphaco fully releases those contents in the Annual Report
E.1.5	Do the board members play their leading role in the process of developing and reviewing the company's strategy within at least one year?	☑	The Board of Directors directs to develop/monitor closely the implementation, specification of strategic goals
E.1.6	Do the board members have a process to review monitor and oversee the implementation of the corporate strategy?	☑	The Board of Directors considers, supervises and monitors the implementation of the company's strategy but without having specific procedures.
<b>E.2 The BOD structure</b>			
<i>Code of conduct/ethics</i>			
E.2.1	Are the details of the code of ethics or conduct disclosed?	☒	Traphaco has not had a code of conduct/ethics.
E.2.2	Does the company specify that all directors, executive members and employees are required to comply with the code?	☒	
E.2.3	Does the company publish the way it implements and monitors compliance with the code of ethics or conduct?	☒	
<i>The BOD structure and composition</i>			
E.2.4	Independent directors must make up at least 50% of the BODs.	☑	Since 11/2017, the Traphaco' BOD has 03 independent members out of 07 Board members compared to the previous time with only 1 independent member.
E.2.5	Does the company have a term limit of nine years or less or maximum of 2 terms of five years each for its independent directors?	☑	Traphaco is in compliance with the Charter with the term of the Board of Directors not exceeding 5 years.
E.2.6	Does the company set the maximum year for an independent/non-executive director holding directorship simultaneously in other companies?	☑	It has not concretized into regulations by Traphaco, but is well-applied.
E.2.7	Does the company have any executive directors who serve on more than two boards of listed companies outside of the group?	☑	Traphaco well applies this principle: Traphaco Board of directors has only one executive member being the CEO - working in the two Boards of subsidiaries.
<i>Human resources committee</i>			
E.2.8	Does the company have a human resources committee?	☑	Traphaco has human resources and remuneration committees.
E.2.9	Does the human resources committee comprise of a majority of independent members of the BODs?	☑	Only head of the Human Resources Committee being an independent member of the Board of Directors because of the limited number of Board members.
E.2.10	Is the head of human resources committee an independent Board member?	☑	
E.2.11	Does the company disclose the regulation of operation/ governance structure/charter of the Human resources Committee?	☑	Traphaco made the best practices.
E.2.12	Is the attendance of member in the meeting of Human resources committee disclosed? If yes, has the Human resources committee met at least twice a year?	☑	
E.2.13	Does the company have Remuneration Committee?	☑	Traphaco has human resources and remuneration committees.

No.	Criteria	Status up to 2017	Evaluation
E.2.14	Does the Remuneration Committee comprise of a majority of independent Board members?	☑	Only head of the Human Resources and remuneration Committees being as independent members of the Board of Directors because of the limited number of Board members.
E.2.15	Is the head of Remuneration committee an independent Board member?	☑	
E.2.16	Does the company disclose the regulation of operation/ governance structure/charter of the Remuneration Committee?	☑	Traphaco made the best practices.
E.2.17	Is the attendance of member in the meeting of Human resources committee disclosed? If yes, has the Remuneration committee met at least twice a year?	☑	
<i>Audit Committee</i>			
E.2.18	Does the company have an Audit committee?	☑	Traphaco made the best practice.
E.2.19	Is Audit Committee composed of all non-executive Board members?	☑	Audit Committee composed of all non-executive Board members.
E.2.20	Is the Head of Audit Committee an independent Board member?	☒	The Head of Audit Committee is the Chairwoman of the Company.
E.2.21	Does the company disclose the regulation of operation/ governance structure/charter of the Audit Committee?	☑	Traphaco made the best practice.
E.2.22	Does at least one independent Board member of Audit committee specialize in accounting (accounting qualification or experience)?	☒	Members of Audit committee specialize in accounting but they are not independent Board members.
E.2.23	Is the attendance of member in the meeting of Human resources committee disclosed? If yes, has the Remuneration committee met at least four times a year?	☑	Audit committee has separate meetings and meetings with independent auditors.
E.2.24	The Audit Committee has primary responsibility for recommendation on the appointment, and discharge independent auditor.	☑	Being clearly stipulated in the operation rule of the BODs.
<b>E.3 The BODs process</b>			
<i>Board meetings and attendance</i>			
E.3.1	Are meetings scheduled before the start of financial year?	☑	The agenda for the next year meeting of Board of Directors is scheduled and raised tentative contents at the last meeting of the current year.
E.3.2	the Board members meet at least six times per year	☑	In 2017, the Board of Directors of Traphaco organized 10 meetings and every member attended at least 6 ones.
E.3.3	Each Board member attends at least 75% of all the board meetings held during the year.	☑	Traphaco made the best practice.
E.3.4	Does the company require that with the meeting results in making decisions, it must be attended by at least two-third (2/3) of the total Board number?	☑	Stipulated in the regulations and operation rules of the Board of Directors.
E.3.5	Do non-executive members meet separately at least once a year without presentation of any executive member?	☒	Traphaco has not implemented this regulation.
<i>Access to information</i>			
E.3.6	Are materials provided to members at least 5 working days before the BOD meeting date?	☑	This content is included in the Traphaco Regulations and is in good working order.
E.3.7	Does the company's secretary play a significant role in supporting the BODs in discharging its responsibilities?	☑	It is clearly provided in the company's charter.
E.3.8	Is the company secretary trained in legal, accounting or company secretarial practices and updated new issues relevant to such fields?	☑	The company's secretary is full-time officer, trained in accounting, fully understands legal regulations on industry, business law, securities law ...

# ANALYSIS BASED ON

## Asean corporate governance scorecard (continued)

: Best practice    
 : Lack of practice    
 : No practice

No.	Criteria	Status up to 2017	Evaluation
<b>Appointment and re-election of Board members</b>			
E.3.9	The company has announced the criteria used to select new board members.	<input checked="" type="checkbox"/>	The criteria for selecting members of the Board of Directors are specified in the Regulations on the nomination self-nomination of candidates for the Board of Directors and announced on the Company's website before the meeting.
E.3.10	The company describes the process to appoint new board members.	<input checked="" type="checkbox"/>	Traphaco has introduced the process of electing new Board members in the Regulations to nominate and self-nominate members of the Board of Directors and announce on the Company's website before the meeting.
E.3.11	All Board members are subject to re-election at least 3 years, or 5 years for companies listed in countries where the law stipulates a five-year term.	<input checked="" type="checkbox"/>	The term of Traphaco's Board members is 5 years.
<b>Remuneration matters</b>			
E.3.12	The Company publishes a policy / practice of remuneration (fees, allowances, benefit-in-kind and other emoluments) (i.e. the use of incentive policies and short-term, long-term performance indicators) for members of the executive Board members and CEO.	<input checked="" type="checkbox"/>	Traphaco published it in its annual reports.
E.3.13	Remuneration structure for non-executive board members is publicly disclosed.	<input checked="" type="checkbox"/>	
E.3.14	The shareholder or the board of directors passes the remuneration of executive board members and / or senior executives.	<input checked="" type="checkbox"/>	Remuneration of board members is approved by the General meeting of shareholders.
E.3.15	The Company has a set of measurable standards and policies to impose a remuneration based on the performance of executive board members or executive board with the long-term interests of the company, such as the application of Clawback provision, deferred bonus).	<input checked="" type="checkbox"/>	Traphaco has not developed this policy.
<b>Internal audit</b>			
E.3.16	The company has an internal audit division.	<input checked="" type="checkbox"/>	
E.3.17	It is announced the head of the internal audit division, or if outsourced, the name of the external company is publicized.	<input checked="" type="checkbox"/>	Traphaco has not established internal audit division.
E.3.18	The appointment and removal of internal auditors must be approved by the Audit committee.	<input checked="" type="checkbox"/>	
<b>Risk monitoring</b>			
E.3.19	The Company publishes the internal control / risk management system and periodically reviews the effectiveness of the system it is implementing.	<input checked="" type="checkbox"/>	Traphaco had a risk management system and published in the 2017 annual report.
E.3.20	Annual Reports/ Corporate Governance Reports disclose that the Board members have reviewed the Company's key control points (including operational, financial and compliance controls) and risk management system.	<input checked="" type="checkbox"/>	Traphaco made the best practice.
E.3.21	The company has announced the mean of managing critical risks (such as finance, operations including information technology, environment, social and economic).	<input checked="" type="checkbox"/>	Traphaco classifies risks, presents the main risk management methods and discloses them in the 2016 annual report.
E.3.22	Annual Reports / Corporate Governance Reports disclose the statement of the Board members or the Audit Committee on the adequacy of the Company's internal controls / risk management systems.	<input checked="" type="checkbox"/>	Annual reports have not clarified this statement.

No.	Criteria	Status up to 2017	Evaluation
<b>E.4 Position in the Board of directors</b>			
<b>The Chairman</b>			
E.4.1	Two different people hold the position of chairman of the board of directors and CEO.	<input checked="" type="checkbox"/>	Traphaco met this criterion since 2011.
E.4.2	Chairman is an independent Board member.	<input checked="" type="checkbox"/>	Traphaco has not met this criterion.
E.4.4	Are the role and responsibilities of the chairman disclosed?	<input checked="" type="checkbox"/>	Traphaco has regulated the role and responsibilities of the Chairman of the Board of Directors in the Charter of the Company, the Regulation on the structure and operation of the Board of Directors.
<b>Lead independent director</b>			
E.4.5	If the chairman is not a Board member, the board of directors elects the lead independent director and is the role of the position clearly defined?	<input checked="" type="checkbox"/>	Traphaco has not made this practice due to the limited number of members of the BOD.
<b>Skills and competencies</b>			
E.4.6	The company has at least one non-executive board member who has previous working experience in the major sector that the company is operating in.	<input checked="" type="checkbox"/>	The company has two Board members who had experience in the field of pharmacy (the Chairwoman is the Master of Pharmacist with more than 38 years' experience).
<b>E.5 Board performance</b>			
<b>Development of Board members</b>			
E.5.1	The company has orientation program for new Board members.	<input checked="" type="checkbox"/>	New Board members can meet, work with all divisions, units to understand the business activities of the company; approach the board meeting documents to grasp the development direction of the company.
E.5.2	The Company has a policy of encouraging board members to attend on-going or professional training programs.	<input checked="" type="checkbox"/>	In 2017, Traphaco held corporate management courses for board members and company leaders.
<b>CEO/Executive Board appointment and performance</b>			
E.5.3	The company announces how the Board of Directors develops succession planning for CEO / Chairman / key HR positions.	<input checked="" type="checkbox"/>	Traphaco has the regulation on appointing leaders and managers.
E.5.4	Board members conduct annual performance reviews for CEO / Chief Executive / Key management positions.	<input checked="" type="checkbox"/>	It is specified in the regulation on the organization and operation of the BODs, and is carried out twice a year.
<b>BODs appraisal</b>			
E.5.5	The Company conducts an annual capacity assessment for the BOD and publishes the evaluation process as well as the criteria used in the assessment.	<input checked="" type="checkbox"/>	The company summarizes and evaluates the performance of the Board of Directors annually, and discloses in the annual report.
<b>Evaluation of Board members</b>			
E.5.6	The Company conducts an annual capacity assessment for each member of the Board of Directors and publishes the evaluation process as well as the criteria used in the evaluation.	<input checked="" type="checkbox"/>	
E.5.7	The Company conducts an annual capacity assessment for sub-committees of the Board of Directors and publishes the evaluation process as well as the criteria used in the evaluation.	<input checked="" type="checkbox"/>	Traphaco has no practice.

# ANALYSIS BASED ON

## Asean corporate governance scorecard (continued)

☑: Best practice      ☒: Lack of practice      ☒: No practice

No.	Criteria	Status up to 2017	Evaluation
<b>LEVEL 2</b>			
<b>Bonus questions</b>			
<b>(B)A. Rights of shareholders</b>			
(B)A.1	The right to participate effectively and vote in the General Meeting of Shareholders is announced in the regulations, including the voting procedure taking place in the General Meeting of Shareholders.		
(B)A.1.1	Does the company allow the use of secure electronic voting in absentia at the shareholders' meeting?	☒	Traphaco has no practice.
<b>(B)B. Equitable treatment of shareholders</b>			
(B)B.1.1	The company will issue a notice of the General Meeting of Shareholders (with detailed agenda and explanatory notice), as notified to the Exchange, at least 28 days before the meeting date.	☑	Apply 20 days prior to the final registration date (i.e. 28 days before the General meeting of shareholders).
<b>(B)C. Role of stakeholders</b>			
(B)C.1	The rights of stakeholders as defined by law or under bilateral agreements must be respected		
(B)C.1.1	The company has implemented an internationally recognized reporting framework for sustainable development (i.e., GRI, Integrated Reporting, SASB).	☑	Traphaco's sustainability report is developed based on the GRI criteria.
<b>(B)D. Disclosure and Transparency</b>			
(B)D.1	Quality of annual report		
(B)D.1.1	The audited annual financial reports are publicly disclosed within 60 days financial year end.	☑	Traphaco releases the annual financial reports in accordance with the regulation on information disclosure of the State Securities Commission, specifically not more than 90 days since the end of fiscal year.
(B)D.1.2	Does the company disclose details of remuneration of the CEO?	☑	Traphaco disclosed the detailed remuneration of the CEO in the 2016 Annual report.
<b>(B)E. Responsibilities of the Board of Directors</b>			
(B)E.1	Competencies and diversity of the BODs		
(B)E.1.1	Does the company have at least one female independent Board member?	☒	Have one female independent board member.
(B)E.1.2	Does the company publish policies and measurable objectives to implement the Board's diversity and progress report?	☒	Traphaco has no practice.
(B)E.2	The BODs structure		
(B)E.2.1	Does the Human resources Committee include all independent board members?	☒	Human resources Committee has 4 members: 01 is an independent member, 02 is non-executive member and the rest is the CEO.
(B)E.2.2	The Human resources Committee conducts the process of developing criteria for the quality of Board members in accordance with the Company's strategic orientation.	☑	In fact, the Board members are selected, developed according to the quality criteria in accordance with the strategic orientation of the company, for each specific time. However, it has not been stipulated in a set of criteria and throughout applied.

No.	Criteria	Status up to 2017	Evaluation
(B)E.3	Appointment and re-election of Board members		
(B)E.3.1	Does the company use headhunter companies or sources of external independent candidates (such as the database of Board members established by the Chamber of board of directors or the shareholders' association) when seeking candidates for the position of Board members.	☑	The company use these ways when looking for candidates for the board members.
(B)E.4	The BODs structure and composition		
(B)E.4.1	Independent non-executive board members make up more than 50% of the BODs and the Chairman is independent members.	☑	Since 11/2017, the Traphaco' BOD has 03 independent members out of 07 Board members compared to the previous time with only 1 independent member.
(B)E.5	Risk management		
(B)E.5.1	The Board of Directors describes management proceedings for IT related issues such as disruption, network security, disaster recovery, to ensure that all major risks are identified, managed and reported to Board of Directors.	☑	Traphaco has a Risk Management Committee in charge of these issues to regularly monitor and supervise, control risks and report to the BODs upon requested.
(B)E.6	The BODs performance		
(B)E.6.1	Does the company have a Risk management committee?	☒	Currently, the Risk management committee belongs to Executive Board.
<b>PENALTY QUESTION</b>			
(P)A.	Rights of shareholders		
(P)A.1	Basic rights of shareholders		
(P)A.1.1	Does the company fail or neglect to offer equal treatment for share repurchases to all shareholders?	☑	All shareholders are treated equally to repurchase shares
(P)A.2	Shareholders, including institutional shareholders, should be consulted on issues related to the fundamental rights of shareholders as set out in this Corporate Governance Code, except for the exception to prevent abuse.		
(P)A.2.1	Is there evidence of barriers that prevent shareholders from communication or consulting with other shareholders?	☑	There is no evidence.
(P)A.3	The right to participate effectively and vote in the General Meeting of Shareholders and be informed about the regulations, including the voting procedure takes place in the General Assembly of Shareholders.		
(P)A.3.1	Does the company include additional content and is not informed in advance on the agenda on the notice of the General Meeting of Shareholders	☑	Traphaco organizes a shareholder meeting in accordance with the provisions of the Law on Enterprises and relevant guiding documents, not violating this provision.
(P)A.3.2	Chairman of the Board of Directors, Chairman of the Audit Committee and the CEO / Directors attend the latest General Meeting of Shareholders.	☑	All Board members attend the latest General Meeting of Shareholders
(P)A.4	Capital structure and agreements allow some shareholders to hold control not corresponding to the proportion of shares they own must be publicly disclosed.		
(P)A.4.1	Shareholders agreement.	☑	Traphaco has not these privileges/constraints.
(P)A.4.2	Voting cap.	☑	
(P)A.4.3	Multiple voting rights.	☑	
(P)A.5	Capital structure and agreements allow some shareholders to hold control not corresponding to the proportion of shares they own must be publicly disclosed.		
(P)A.5.1	Do pyramid-owned structures and/ or cross-ownership structures exist?	☑	Traphaco does not have this ownership structure; shareholders have equal rights and are treated equally.

# ANALYSIS BASED ON

## Asean corporate governance scorecard (continued)

☑: Best practice    ☒: Lack of practice    ☒: No practice

No.	Criteria	Status up to 2017	Evaluation
<b>(P)B. Equitable treatment of shareholders</b>			
<b>(P)B.1 Prohibition of insider trading and abuse of trading for personal interests</b>			
(P)B.1.1	Has there been any conviction of insider trading involving members of the Board of Directors, Executive Board and employees in the past three years?	☑	There are no violations, transaction information of insiders and related persons were disclosed in accordance with regulations.
<b>(P)B.2 Protect minority shareholder from abusive action</b>			
(P)B.2.1	Are there any cases of non-compliance with the laws, rules and regulations related to significant or crucial party transactions in the past three years?	☑	
(P)B.2.2	Are there any related party transactions that can be categorized as financial support (i.e. not properly executed on a market basis) for non-subsidiary entities?	☑	None.
<b>(P)C. Rights of stakeholders</b>			
<b>(P)C.1 The rights of stakeholders as defined by law or under bilateral agreements must be respected</b>			
(P)C.1.1	Are there any violations of any laws pertaining to labor / employment / consumer / bankruptcy / trade / competition or environmental?	☑	None.
(P)C.2	When stakeholders participate in the corporate governance process, they must have access to relevant, adequate and reliable information in a timely and regular basis.		
(P)C.2.1	Does the company have any penalty imposed by the regulator for failure to disclose information within the requisite time for material events?	☑	None.
<b>(P)D. Disclosure and transparency</b>			
<b>(P)D.1 Penalties of regulators on financial reports</b>			
(P)D.1.1	Does the company receive "exclusion opinion" in the independent audit report?	☑	No.
(P)D.1.2	Does the company receive "negative opinion" in the independent audit report?	☑	No.
(P)D.1.3	Does the company receive "refusal to provide opinions" in the independent audit report?	☑	No.
(P)D.1.4	The Company has revised its financial report in the past year for a reason other than changes in accounting policies.	☑	No.
<b>(P)E. Responsibilities of the BODs</b>			
<b>(P)E.1 Compliance with current regulations, rules and regulations on listing</b>			
(P)E.1.1	There is evidence that the company did not comply with the rules and regulations on listing in the past year in addition to disclosure requirements.	☑	There is no proof.
(P)E.1.2	There are cases in which non-executive Board members have resigned and raised any concerns regarding governance.	☑	There are no instances.

No.	Criteria	Status up to 2017	Evaluation
<b>(P)E.2 Structure of the BODs</b>			
(P)E.2.1	The company has independent board members who has served more than 9 years or two terms of 5 years (whichever is higher) with the same responsibilities.	☑	None.
(P)E.2.2	The company fails to identify who are the independent Board members.	☑	The company clearly identifies 1 independent Board member.
(P)E.2.3	The Company has any independent board member holding executive management roles in a total of more than 5 boards of publicly-listed companies.	☑	None.
<b>(P)E.3 External audit</b>			
(P)E.3.1	(In the past two years) There are any members of the board of directors or senior executives who were former employees or partners of the current external auditor.	☑	No.
<b>(P)E.4 Structure and composition of the BODs</b>			
(P)E.4.1	The Chairman has been the CEO of the company in the last three years?	☑	No.
(P)E.4.2	Non-executive independent members are entitled to receive stock options, bonus shares.	☑	No.

### Asean corporate governance scorecard assessment of Traphaco JSC.

This is Traphaco's second year of implementing the ASEAN Corporate Governance Scorecard in order to be closer to regional corporate governance standards as well as to self-assess the quality of corporate governance, improve governance practices, and ensure the sustainable development.

Among five areas of corporate governance, Traphaco has four good practices namely Shareholders' Rights (reaching 21/21 indicators, 100%), Equitable Treatment of Shareholders (reaching 13/15 indicators), the role of stakeholders (reaching 10/13 indicators), Information disclosure and transparency (31 out of 32 indicators, 97%). In order to achieve those good result, in 2017, Traphaco focused on developing and issuing internal regulations to improve the corporate governance: financial management regulations (anti-corruption); Regulation on appointment and dismissal of managerial personnel; salary and remuneration regulations; contractor selection policy/process...

Regarding the responsibilities of the Board of Directors, Traphaco has not achieved good points on indicators of Audit Subcommittee; Internal audit; Evaluation of members and subcommittees, the Company will improve those indicators as soon as possible. In terms of the number of independent members, Traphaco now has three independent members (accounts for 50%) due to the divestment of large shareholders. This is a good point for implementing the governance practice pursuant to Decree 71/2017/ND-CP right in the year 2017. In the coming election of

the Board members, Traphaco will try to find and elect the independent board members to keep this ratio to ensure the independence of the Board of Directors in accordance with the good practice of ASEAN.

Since the 2017 Annual General Meeting of shareholders, Traphaco has published all the materials of the General Meeting of Shareholders in English in the same day with the Vietnamese version to ensure the equitable treatment of shareholders in approaching information and exercising voting rights.

A number of measures need to be taken to improve the corporate governance scorecard and governance competency of Traphaco JSC as follows:

- 1 The Charter, Governance Regulations, Regulations on the operation of the Board of Directors and other important internal regulations of the Company are available in English version, which will be published on website in 2018.
- 2 Effort to seek and elect independent directors in upcoming times to be closer to the required ratio of the ASEAN Governance Scorecard and Decree 71/2017/ND-CP.
- 3 On-going improvement of indicators that have not made best practice in ASEAN Corporate Governance Scorecard Assessment.

## TRANSACTION AND REMUNERATION

### TRANSACTION AND REMUNERATION

#### Remuneration of Board members and Board of supervisors

The total remuneration fund of Board members and members of the Board of Supervisors of Traphaco is approved by the General Meeting of Shareholders for the period of 2016 - 2020 as follows:

- ❖ Remuneration for Board Members: VND 3,500,000,000.
- ❖ Remuneration for the Board of Supervisors: VND 600,000,000.

#### Payment rule

The monthly payment for members complies with the rate stipulated in the Decision of the Board of Directors on the issuance of regulations on remuneration, bonus and operating expenses for members of the Board of Directors, the CEO and member of the Board of Supervisors of Traphaco JSC.

#### The 2017 payment of remuneration

Based on the above remuneration rate and based on the actual number of members of the Board of Directors, the Board of Supervisors at each time in 2017, the remuneration payment in 2017 as follows:

#### Wage to members of Board of Directors in 2017 (Unit: VND)

No.	Full name	In charge of	Hold concurrently	Term	Date of assignment/leaving post	Monthly wage
1	Md. Vu Thi Thuan	x		Term 2011- 2016, 2016 - 2020		140,000,000
2	Mr. Tran Tuc Ma		x	Term 2011- 2016, 2016 - 2020	Be assigned on 03/30/2016	31,000,000
3	Mr. Nguyen Anh Tuan	x		Term 2016 - 2020		27,000,000
4	Mr. Nguyen Hong Hien	x		Term 2016 - 2020		23,000,000
5	Mr. Marcus John Pitt	x		Term 2016 - 2020		66,000,000
6	Secretary to Board of Directors	x			10/2016	4,000,000

#### Wage to members of Board of Supervisors in 2017 (Unit: VND)

No.	Full name	Term	Date of assignment/leaving post	Monthly wage
1	Duong Duc Hung	Term 2016 - 2020		26,000,000
2	Do Thi Khanh Van	Term 2011 - 2016, 2016 - 2020	Be assigned on 03/30/2016	10,000,000
3	Nguyen Thanh Hoa	Term 2016 - 2020		10,000,000
4	Secretary to Board of Directors		10/2016	4,000,000

### TRANSACTIONS BETWEEN THE COMPANY WITH THE COMPANY'S RELATED PARTIES; OR BETWEEN THE COMPANY AND MAJOR SHAREHOLDERS, INTERNAL PERSONS OR INTERNAL PERSONS' RELATED PARTIES:

No.	Name of organization/ individual	Relationship with the Company	Number of Ownership Certificate, place of issue	Headquarter address/ Contact address	Time of transaction with the Company	No. of Resolution/ Decision approved by GSM/BOD	Number and rate of stocks held after transactions	Notes
1.	Vietnam Azalea Fund Limited	Major shareholder 10,361,385 stocks, rate: 24.997%	CD-185851 issued by Cayman Islands Company Registration Agency on 04/18/2007	P.O. Box 1984, Boundary Hall, Cricket Square, Grand Cayman, KY1-1104, Cayman Islands	11/06/2017		0 stocks, rate 0.00%	divestment
2.	Vietnam Holding Ltd.	Major shareholder 4,323,896 stocks, rate: 10.43%	CS1077 issued by VSD on 05/29/2006	8 <sup>th</sup> floor, Nam A Bank building, Ward 4, District 3, Ho Chi Minh city	11/06/2017		0 stocks, rate 0.00%	divestment
3.	Magbi Fund Limited		CB2132 issued by VSD on 08/29/2017	Unit 810, 8/F Star Hse 3 Salisbury Rd Tst Kln Hongkong	11/06/2017		10,361,385 stocks, rate 24.99%	
4.	Super Delta Pte. Ltd		CB2320 issued by VSD on 09/18/2017	10 Anson Road #23-14P, International Plaza, Singapore (079903)	11/06/2017		6,267,289 stocks, rate: 15.12%	



## TRANSACTION AND REMUNERATION (continued)

### STOCK TRANSACTIONS BETWEEN INTERNAL SHAREHOLDERS AND RELATED PARTIES

No.	People making transactions	Relationship with internal people	Opening number of stocks		Closing number of stocks		Number and rate of stocks held after transactions
			Number of stocks	Rate	Number of stocks	Rate	
1.	Vu Thi Thuan	Chairwoman of BOD	581,084	1.40%	464,644	1.12%	Award stocks to increase charter capital in June 2017 and sell 116,440 shares from 26 <sup>th</sup> July to 24 <sup>th</sup> August 2017
2.	Nguyen Thi Bao Van	Daughter of the Chairwoman of BOD	73,130	0.18%	59,800	0.14%	Award stocks to increase charter capital in June 2017 and sell 13,330 shares from 25 <sup>th</sup> July to 23 <sup>rd</sup> August 2017
3.	Tran Tuc Ma	CEO	1,276,648	3.08%	772,308	1.86%	Award stocks to increase charter capital in June 2017 and sell 67,000 shares from 25 <sup>th</sup> July to 23 <sup>rd</sup> August 2017 (Phase 1), 207,340 shares from 30 <sup>th</sup> August to 27 <sup>th</sup> September 2017 (Phase 2), 230,000 shares from 3 <sup>rd</sup> October 2010 to 1 <sup>st</sup> November 2017 (Phase 3)
4.	Nguyen Thi Lan	Deputy CEO	103,460	0.25%	73,460	0.18%	Award stocks to increase charter capital in June 2017 and sell 30,000 shares from 8 <sup>th</sup> August to 6 <sup>th</sup> September 2017
5.	Nguyen Thi Hoan	wife of Deputy CEO Nguyen Van Bui	134,760	0.33%	100,560	0.24%	Award stocks to increase charter capital in June 2017 and sell 34,200 shares from 11 <sup>th</sup> August to 9 <sup>th</sup> September 2017

TRANSACTION OF STOCKS: No

### TRANSACTION WITH RELATED PARTIES

Important transactions between Traphaco JSC and related parties in 2017:

No.	Related parties	Transactions	Amount
<b>I. FOUNDING SHAREHOLDERS</b>			
1.	State Capital Investment Corporation (SCIC)	Dividend in 2017 paid in advance 20%	Until 29 <sup>th</sup> January 2018, Traphaco has paid VND 29,573,024,000 for 1 <sup>st</sup> batch of dividend in 2017
<b>II. STRATEGIC SHAREHOLDERS</b>			
1.	Vietnam Holding Limited	Dividend in 2017 paid in advance 20%	VND 700,000,000
2.	Magbi Fund Limited		VND 20,722,770,000
3.	Super Delta Pte. Ltd		VND 12,534,578,000

No.	Related parties	Transactions	Amount
<b>III. SUBSIDIARIES</b>			
1.	Traphaco Sapa One member Co. Ltd	Profit transferred to the Parent company	VND 2,009,760,220
2.	Traphaco CNC JSC	Profit transferred to the Parent company Received dividend	VND 33,782,898,613 VND 14,479,965,000
3.	Dak Lak Pharmaceutical & Medical Supplies JSC	Profit transferred to the Parent company Received dividend	VND 7,016,584,491 VND 1,356,325,200
4.	Quang Tri Pharmaceutical % Medical Supplies JSC	Profit transferred to the Parent company Received dividend Collected from offering the entire 42.91% equity (prior to divestment)	(VND 125,599,487) VND 125,710,000 VND 5,003,258,000

Transactions between the company with the company's related parties; or between the company and major shareholders, internal persons or internal persons' related parties:

### Sales

	12 month term end on 12/31/2017 (VND)	12 month term end on 12/31/2016 (VND)
Traphaco CNC JSC	19,136,250,940	22,974,562,440
Traphaco Hung Yen Co. Ltd	24,126,735,687	
Traphaco Sapa One member Co. Ltd	15,495,227,632	15,878,847,223
Dak Lak Pharmaceutical & Medical Supplies JSC	32,901,650,062	27,706,951,521
Quang Tri Pharmaceutical & Medical Supplies JSC	1,032,099,810	3,600,862,515
Sao Mai JSC (Ms Dao Thuy Ha is the authorized person for information disclosure)	58,920,325,121	51,480,511,745

### Procurement of goods and services

	12 month term end on 12/31/2017 (VND)	12 month term end on 12/31/2016 (VND)
Traphaco CNC JSC	321,002,118,656	324,648,878,093
Traphaco Hung Yen Co. Ltd	42,966,009,010	
Traphaco Sapa One member Co. Ltd	32,169,935,000	29,210,576,542
Mr. Vu Van An (husband of Deputy CEO Nguyen Thi Lan)	180,000,000	137,300,000

## Stock information and INVESTOR RELATIONS (IR)

### STOCK INFORMATION

#### STOCK INFORMATION ON TRA (AS OF 12/31/2017)

Market capitalized value  
on 12/29/2017

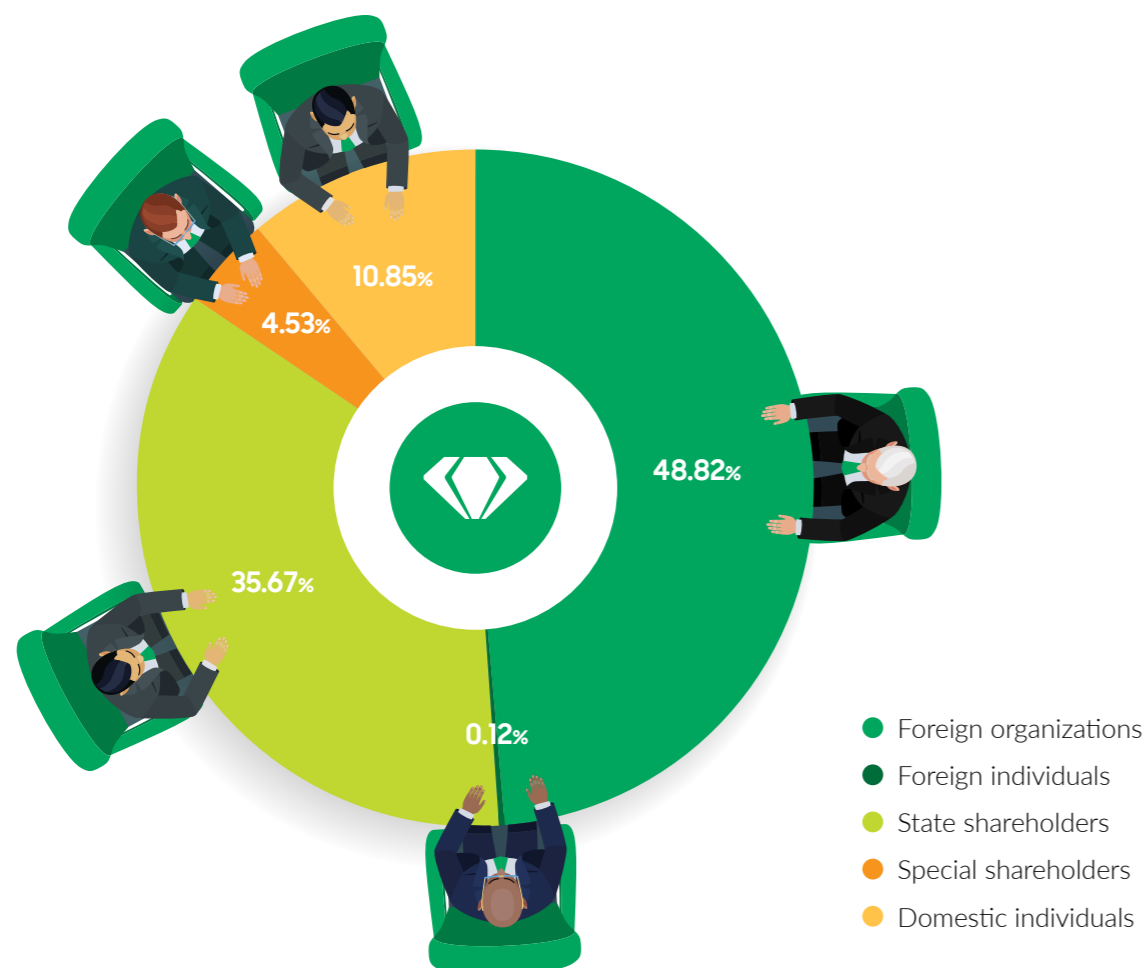


# 4,800

VND billion

Stock Code	TRA
Company's Charter capital	VND 414.53 billion
Number of listed stocks	41,453,673
Type of Stock	Common stock
Number of outstanding stocks (29 <sup>th</sup> December 2017)	41,450,540
Market capitalized value (29 <sup>th</sup> December 2017)	VND 4,800 billion

### OWNERSHIP STRUCTURE



Type	Transaction restriction	Free transaction	Total	Rate of ownership (%)
1	2	3	4=2+3	5
<b>I. I. Special shareholders</b>	<b>0</b>	<b>1,879,836</b>	<b>1,879,836</b>	<b>4.53%</b>
1. Board of Directors		1,236,952	1,236,952	2.98%
In which:				
- Domestic	0	1,236,952	1,236,952	
- Foreign	0	0	0	
(not including representatives for organization)				
2. Executive Board	0	517,800	517,800	1.25%
(not including members of Board of Directors)				
3. Board of Supervisors	0	1,008	1,008	0.0024%
4. Chief accountant	0	55,386	55,386	0.13%
5. Authorized person for information disclosure	0	68,690	68,690	0.17%
<b>II. Treasury stock</b>	<b>443</b>	<b>2,690</b>	<b>3,133</b>	<b>0.0076%</b>
<b>III. Other shareholders</b>	<b>5,560</b>	<b>39,565,144</b>	<b>39,570,704</b>	<b>95.46%</b>
1. Domestic	5,560	19,276,656	19,282,216	46.52%
1.1 Individual	5,560	4,490,144	4,495,704	10.85%
1.2 Organization	0	14,786,512	14,786,512	35.67%
- In which State:	0	14,786,512	14,786,512	35.67%
2. Foreign	0	20,288,488	20,288,488	48.94%
2.1 Individual	0	49,771	49,771	0.12%
2.2 Organization	0	20,238,677	20,238,677	48.82%
<b>TOTAL:</b>	<b>6,003</b>	<b>41,447,670</b>	<b>41,453,673</b>	<b>100%</b>

### LIST OF TRANSACTIONS

Price of transaction stock	Date	Price
Closing price at the end of the year	31 <sup>st</sup> December 2017	VND 117,000/stock
Highest price	20 <sup>th</sup> July 2017	VND 142,000/stock
Lowest price	18 <sup>th</sup> May 2017	VND 102,600/stock
Price variation in the year		VND +3,000 (+2.63%)
Transaction volume at the end of the year	31 <sup>st</sup> December 2017	0
Highest	3 <sup>rd</sup> November 2017	934,260
Lowest	04 <sup>th</sup> , 11 <sup>th</sup> , 18 <sup>th</sup> , 25 <sup>th</sup> January 2017 & 14 <sup>th</sup> , 06 <sup>th</sup> , 02 <sup>nd</sup> February 2017	0
Average daily transaction volume		15,497.48

(Source: HSX, www.Vietstock.vn)



**PRICE TREND OF TRA STOCK IN 2017**

Graph of closing price of TRA stock from 01/01/2017 to 12/31/2017



(Source: HSX, www.Vndirect.com.vn)

Price of Traphaco's stock (TRA) in 2017 shown some fluctuation. Closing price bottomed out at 102,600 VND and soared at 142,000 VND. The difference was 39,400 VND equivalent to 38.4%.

Graph comparing price trend of TRA with that of VN-index from 01/01/2017 to 31/12/2017



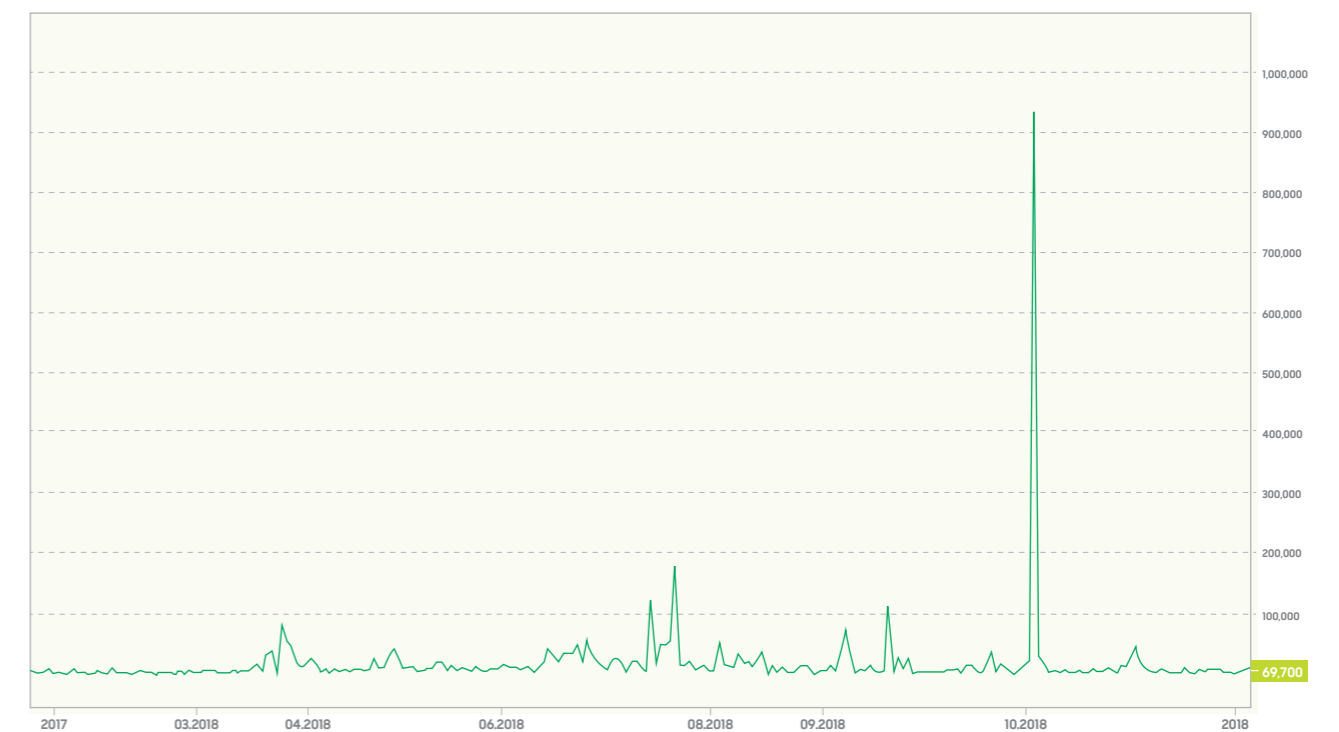
— : TRA — : VN-index (Source: HSX, www.Vndirect.com.vn)

In quarter I and II of 2017, Tra's stock (TRA) varied in line with VN-index despite smaller changes. From quarter III, Tra's stock (TRA) shown an upsurge compared with the market's trend, keeping setting and remaining high price after leaping from short-term savings at the beginning of the year.

From August 2017, Traphaco's stock (TRA) began to drop while VN-index continued to increase. That such

macro-economic indexes as GDP and deficit shown positive signals helped VN-index leap. At the beginning of November, TRA backed to go upward after Mekong Capital divested from TRA and Magbi Fund Limited and Super Delta Pte. Ltd bought more than 16.5 million shares. From mid-November, Traphaco's fluctuated against the market. By the end of 2017, TRA stock increased by 3.53 % compared with early 2017 and the market's general trend (VN-index went by 46.5%).

Graph of trading volume and price of TRA stock (from 01/01/2017 to 12/31/2017)



(Source: HSX, www.Vndirect.com.vn)

TRA stock was the most actively traded in quarter IV/2016 with routine volume of 6,986 shares. Trading

volume reached a peak at 934,260 shares worth VND 124 billion on November 3<sup>rd</sup>, 2017

## TIMES OF RAISING CAPITAL STOCK

IN 2017, TRAPHACO JSC ISSUED NEW STOCK ONCE TO RAISE OWNERS' EQUITY AMONG CURRENT INVESTORS WITH RATIO OF 10:2 (FOR EVERY 10 OLD STOCKS, SHAREHOLDERS WERE GIFTED 2 MORE NEW STOCK). DETAILS WERE AS FOLLOWS:

Type of issued Stock	Common stock
Par value	VND 10,000/stock
Number of issued Stock	6,908,157
Total of outstanding stocks (31 <sup>st</sup> December 2017)	41,453,673
Current charter capital (31 <sup>st</sup> December 2017)	VND 414,536,730,000

## THE PROCESS OF INCREASING CHARTER CAPITAL

Time of issue	Reason for increasing charter capital	Charter capital before issuance	Additional capital	Charter capital after issuance
September 2006	Issued to existing shareholders	9.9	10.1	20
March 2007	Award stock to employees	20	0.8	20.8
April 2007	Dividends paid in stock	20.8	41.6	62.4
November 2007	Offering to existing shareholders, employees and IPO to public	62.4	17.6	80
December 2008	Award stock to employees	80	1,585.2	81,585.2
October 2009	Issued to existing shareholders	81,585,200,000	20,396,300,000	101,981,500,000
April 2010	Issued to existing shareholders	101,981,500,000	20,395,790,000	122,377,290,000
December 2010	Award stocks to existing shareholders	123,398,240,000	1,020,950,000	123,398,240,000
September 2013	Issued to existing shareholders	123,398,240,000	123,336,090,000	246,764,330,000
July 2016	Issued to existing shareholders	246,764,330,000	98,690,830,000	345,455,160,000
June 2017	Issued to existing shareholders	345,455,160,000	69,081,570,000	414,536,730,000

## HISTORY OF PAYING DIVIDENDS

Traphaco always keeps the rate of paying dividends at 20-30% and pays right after the Annual GSM/BOD makes decisions:

Dividends over years	Rate of payment	Time of payment
2017	30% (VND 3,000 / share)	From 31 <sup>st</sup> January 2018 (pay in advance 20%).
2016	30% (VND 3,000 / share)	Batch 1 (20%): From 18 <sup>th</sup> January 2017 Batch 2 (10%): From 12 <sup>th</sup> June 2017
2015	30% (VND 3,000 / share)	Batch 1 (20%): From 10 <sup>th</sup> March 2016 Batch 2 (10%): From 8 <sup>th</sup> July 2016
2014	30% (VND 3,000 / share)	From 11 <sup>th</sup> May 2015
2013	20% (VND 2,000 / share)	Batch 1 (10%): From 26 <sup>th</sup> December 2013 Batch 2 (10%): From 6 <sup>th</sup> March 2014
2012	20% (VND 2,000 / share)	From 20 <sup>th</sup> December 2012
2011	20% (VND 2,000 / share)	Batch 1 (10%): From 12 <sup>th</sup> January 2012 Batch 2 (10%): From 10 <sup>th</sup> April 2012

## INVESTOR RELATIONS

Shareholders are important stakeholders of the Company. The relationship between Traphaco and its shareholders is particularly focused on by Traphaco. Investor relations with the Company are very flexibly executed to bring the best conditions for investors to update information of the Company in forms of:

- ❖ Annual General Shareholders' Meeting;
- ❖ Publishing Annual reports, financial information and information related to shareholders and regular investors on the website and investor relations software Traphaco IR. Information are strictly disclosed in accordance with regulations;
- ❖ Welcoming investors and shareholders to visit the company headquarters, factories, raw materials supplies...
- ❖ Answering questions, providing information to shareholders and investors via telephone or email;
- ❖ Welcoming and cooperating to resolve issues as well as directly providing information when shareholders, investors visit the company;
- ❖ Seriously considering comments and ideas for the development of the business from investors and shareholders.

TRAPHACO HAS BEEN ACTIVELY BUILDING GOOD RELATIONSHIPS WITH STATE MANAGEMENT AGENCIES, CLIENTS, SHAREHOLDERS AND INVESTORS. TRAPHACO ALWAYS MAINTAINS THE DIVIDEND PAYOUT RATIO AT 20% - 30% PER YEAR.

With the continuous growth of Traphaco, over the past years, many investors who are domestic and global securities companies or investment funds have visited the company. Upon these meetings, we understand that the value of TRA stock are not only from our business performance but also in what we do for the community, for shareholders, clients and the public. We will do our best for the sustainable development of the Company in the future.

# Report of THE BOARD OF SUPERVISORS

## MEMBER AND STRUCTURE OF THE BOARD OF SUPERVISORS

No.	Member	Title	Number of shares	Remark
1	Mr. Duong Duc Hung	Chairman	1,008 (0.002%)	Elected for the new term on March 30 <sup>th</sup> , 2016
2	Ms. Nguyen Thanh Hoa	Commissioner	0	Elected for the new term on March 30 <sup>th</sup> , 2016
3	Ms. Do Thi Khanh Van	Commissioner	0	Elected for the new term on March 30 <sup>th</sup> , 2016

## ACTIVITIES OF THE BOARD OF SUPERVISORS

The Board of Supervisors (BOS) consists of 03 members elected by the General Assembly of Shareholders for the 2016-2020 period to carry out monitoring activities in accordance with rules and operation regulation of the Company. BOS conducts the following main tasks: execute the rights to monitor the implementation of the Charter and Resolutions approved by the annual and tenured GMS; supervise financial activities; monitor the implementation of BOD and Executive Board in accordance with regulations, the charter of the

company and the operating regulations of the Board Charter of the Company and operating regulations of the Board of Directors. In the fiscal year 2017, the SB, together with BOD, advised and supervised the establishment of corporate governance regulation in accordance with best practices, strengthened the measures to ensure the business is in total compliance with the Charter, regulations, enforcement of AGM and BOD's resolutions, and ensured clear and transparent financial activities.

### Meetings of the Board of Supervisors

In 2017, Board of Supervisors held 04 regular meetings as scheduled and attended all meetings of the Board of Directors ("BOD"). The main sessions of SB meeting are as follows:

Meeting	Participants	Content
<b>Session 1:</b> Feb 28 <sup>th</sup> , 2017	3/3	Analyze trading activities with Traphaco CNC. Review and evaluate if the Executive Board complies with the regulations, resolutions of AGM and Board of Directors and KPIs.
<b>Session 2:</b> June 5 <sup>th</sup> , 2017	3/3	Supervise the Executive Board in the implementation of the BOD's resolutions in transactions with Traphaco CNC. Review and evaluate if the Executive Board complies with the regulations, resolutions of AGM and Board of Directors and KPIs.
<b>Session 3:</b> July 26 <sup>th</sup> , 2017	3/3	Review the mid-year financial statements 2017. Analyze and assess the impact of Decree 71, Circular 95 on the governance of a public company then give advices and recommendations to the Board of Directors.
<b>Session 4:</b> December 15 <sup>th</sup> , 2017	3/3	Review the list and results of transactions with related parties in 2017. Review and evaluate if the Executive Board complies with the regulations, resolutions of AGM and Board of Directors and KPIs.

## MONITORING RESULTS OF THE IMPLEMENTATION PROCESS OF 2017 AGM'S RESOLUTIONS

**1**

The Company finished setting up funds in accordance with regulation; and ensured contribution to the state budget in accordance with the law.

**2**

The Company finished setting up funds in accordance with regulation; and ensured contribution to the state budget in accordance with the law.

**3**

The Company issued bonus shares at the ratio of 10:2 as stipulated in 2017 AGM's Resolution on May 16<sup>th</sup>, 2017.

**4**

In 2017, the Company's revenue was VND 1,870.4 billion, equals to 94% of 2017 targeted number, and 94% compared to 2016; profit after tax attributable to the parent company's shareholders were at VND 241.10 billion, equals to 99.6% of 2017 targeted number, increasing 14% compared to 2016.

**5**

The payment of remuneration to the BOD and the BOS: In 2017, the Company has paid remuneration to the members of BOD and BOS as approved by the 2017 AGM.

**6**

Put the Vietnam Pharmaceutical Factory into operation on schedule.

**7**

The Charter of the Company has been adjusted, supplemented each time authorized capital was increased.

**8**

The Company has selected Ernst & Young as the auditor for 2017 financial statements.

## MONITORING RESULT OF THE BOARD OF DIRECTORS, EXECUTIVE BOARD

The Board of Directors operates stably with 7 members, 3 out of 7 members are foreigners, and 1 out of 7 is an independent member. The Board held regular and irregular meetings in accordance with the regulations of the Company. Board of Supervisors assesses the year-round performance of the BOD in pursuant with legal regulations, the Company's Charter and the Regulations on corporate governance of the Company, following all activities, strategic development of the Company with effectiveness and responsibility.

The Board of Directors, the Executive Board made reports and information disclosures as prescribed by regulations.

BOD members attended Board meetings and gave advices in accordance with regulation.



The sub-committees under the Board of Directors held meetings in accordance with the regulation on Board's activities.

BOS agreed with BOD's reports submitted to the 2018 AGM.

# Report of THE BOARD OF SUPERVISORS (continued)

## MONITORING RESULTS OF THE COMPANY'S OPERATIONS AND FINANCES

### THE COMPANY'S CONSOLIDATED BUSINESS RESULTS

#### Key indicators:

No	Targets in Resolution	Plan of 2017	Results in 2017	The ratio compared to planned	Compared to 2016
		(VND billion)	(VND billion)	(%)	(%)
	Net revenue from sales and services	2,000	1,870.4	94	94
	- Manufactured goods:	1,610	1,539	96	102
1	- Consigned Export-Import goods and services, other products:	75	100.4	133.8	53.4
	- Revenue from subsidiaries	315	231	73.3	77.5
2	Net profit from business operation	-	323.7	-	-
	Profit after tax of the parent company	242	241.10	99.6	114
		VND	VND	(%)	(%)
3	Average income	21,060,000	21,570,000	102.40	107.53
4	Contribution to the state budget		71,232,929,712		

#### Unfulfilled targets

Revenue target: did not reached the planned target, down 6% compared to 2017 plan, sales from manufactured goods decreased 4% compared to plan. This is because the Company adjusted the sales policy. The sales policy in 2017 with monthly and quarterly discounts for clients are directly deducted from sales. Deductible value of VND 160 billion after tax. Therefore, after adjusting this deduction, the Company completed the plan.

Southern market reached 93% of the plan. In the coming period, the Company in general and Ho Chi Minh City Branch in particular must work harder to truly achieve breakthroughs in this potential market.

### EVALUATION OF 2017 FINANCIAL STATEMENTS

Board of Supervisors has reviewed, verified and agreed with the 2017 consolidated financial statements and separate financial statements of the Company audited by Ernst & Young. The financial statements ended on Dec 31<sup>st</sup>, 2017, the biannually and quarterly financial statements were clear and reasonable in all major aspects, including the financial status, business results and cash flows of the Company.

The Company has complied with the requirements of accounting standards, accounting regulations and current rules of financial, and accounting and taxation management. The 2017 financial statements are promptly and correctly prepared.

### EXPENSE FOR BOARD OF SUPERVISORS' ACTIVITIES

Remuneration and operating expenses of the Board of Supervisors in 2017 were made in accordance with the AGM's Resolution dated March 30<sup>th</sup>, 2017. Specifically:

Unit: VND

No	Name	Term	Date of appointment/ termination/ office	Monthly remuneration
1	Mr. Duong Duc Hung	2016-2020		26,000,000
2	Ms. Do Thi Khanh Van	2011-2016, 2016-2020	Appointed on March 30 <sup>th</sup> , 2016	10,000,000
3	Ms. Nguyen Thanh Hoa	2016-2020		10,000,000
4	Secretary to the Board of Directors			4,000,000

### EVALUATION ON THE COORDINATION OF THE BOARD OF SUPERVISORS, THE BOARD OF DIRECTORS, THE EXECUTIVE BOARD AND SHAREHOLDERS

The Board of Directors and the Executive Board have close cooperation, facilitating the Board of Supervisors to fulfill the assigned tasks, providing sufficient information on the situation of production and business activities and the financial position of the Company, or minutes of meeting of the Board of Directors and other information upon request.

The Board of Supervisors, the Board of Directors and the Executive Board closely cooperate to promptly solve the problems during the process of inspection and examination.

#### Financial activities

It is expected that in 2018 the Company will work with the tax authorities on the issue of "Transfer price in associated transactions".

In 2018, the Company has set up a plan to control input materials, cost, and operating expense to ensure effective management of the Company's operations.

Periodically, the Board of Supervisors has reported and submitted written proposals to the Board of Directors and the Executive Board. The advices of the Board of Supervisors are all noted and executed.

In 2017, there is no request from the General Shareholders' Meeting, shareholder group or individual shareholder under Clause 2, Article 114 of the Law on Enterprises to the Board of Supervisors regarding the examination of specific issue in management or operations of the Company.

In 2018, the Company also plans to assess the impact of import tariffs under free trade agreements on the list of goods and materials the Company plans to import.

## Report of THE BOARD OF SUPERVISORS (continued)

### RECOMMENDATIONS:

The Board of Supervisors recommends the following points for 2018:

- 1 Division of Finance and Accounting has to work closely with auditors, tax consultants in order to improve the efficiency and effectiveness in accounting and financial activities.
- 2 The Company considers to add the internal audit function to the Company's governance activities.
- 3 Hire independent consultants regarding "Transfer price in associated transactions".
- 4 Complete the requirements regarding corporate governance in accordance with Decree 71 and Circular 95.
- 5 Enhance the ERP system to apply throughout the Company.

### OPERATION PLAN OF THE BOARD OF SUPERVISORS IN 2018



- » The Board of Supervisors will continue to perform the inspection and supervision functions and duties stipulated in the Law on Enterprise and the Charter of the Company;
- » Monitor the Board of Directors and the Executive Board during the implementation process of the resolutions by the General Shareholders' Meeting.
- » Coordinate with independent auditors in auditing financial statements. Monitor the implementation of advices, suggestions and recommendations by independent auditors.
- » Carry put assessment of reports on business situation and management practice by the Board of Directors to submit to 2019 AGM.
- » Continue to review and give advice on issues in the processes, regulations, business operations of the Company. Supervise the compliance procedures with regulations.

## RISK MANAGEMENT REPORT

RISK  
STRATEGY



LEGAL  
RISK



FINANCIAL  
RISK



OPERATIONAL  
RISK



**RISK MANAGEMENT (RM) IS A MANAGEMENT ACTIVITY THAT THE BOARD HAS PAID A LOT OF ATTENTION AND INVESTMENT INTO. THIS ACTIVITY IS THE BASIS FOR THE COMPANY'S STRATEGIC DECISIONS IN BALANCING RISKS AND BENEFITS. IN ADDITION, RISK MANAGEMENT PLAYS AN ESSENTIAL ROLE IN SUPPORTING OTHER BUSINESS MANAGEMENT SYSTEMS AND PROCESSES.**

# RISK MANAGEMENT

## Process (continued)

### ORGANIZATION STRUCTURE OF RISK MANAGEMENT

The Board of Directors of Traphaco Joint Stock Company decides to set up the Risk Management Committee, appoint the Chairman, issue risk management strategies and policies and supervise risk management activities.

risk management; issuing risk management regulations and procedures and supervising the implementation of the Company's business and production activities in a safe and effective manner, complying with laws and internal regulations of the Company.

The CEO of Traphaco JSC decides the organizational structure, functions and duties of the Risk Management Committee and is responsible to the Board of Directors for implementing the risk management strategy and policy; providing resources to meet the requirements of

The Risk Management Committee is a sub-committee under the CEO with the function of assisting and advising the CEO on the risk management of the Company and its subsidiaries.

### RISK MANAGEMENT PROCESS

#### Purposes

Specifies the approach to come to consensus for risk management activities including risk identification, risk assessment and risk monitoring in accordance with ISO 9001, ISO 14001. Ensure that all staffs in the Company are fully aware of risks in daily operations.

#### Matrix to determine the severity of the risk

		POSSIBILITY OF RISK (B)				
		Occur very rarely	Infrequent	Possibility	High possibility	Very high possibility
THE IMPACT DEGREE OF RISK (A)	Point scale					
		1	2	3	4	5
	Very small	1	2	3	4	5
	Small	2	4	6	8	10
	Average	3	6	9	12	15
	Large	4	8	12	16	20
Very large	5	10	15	20	25	

The severity of risk (C) = The impact degree of risk (A) \* Possibility of risk (B)

\* C < 6: Low risk

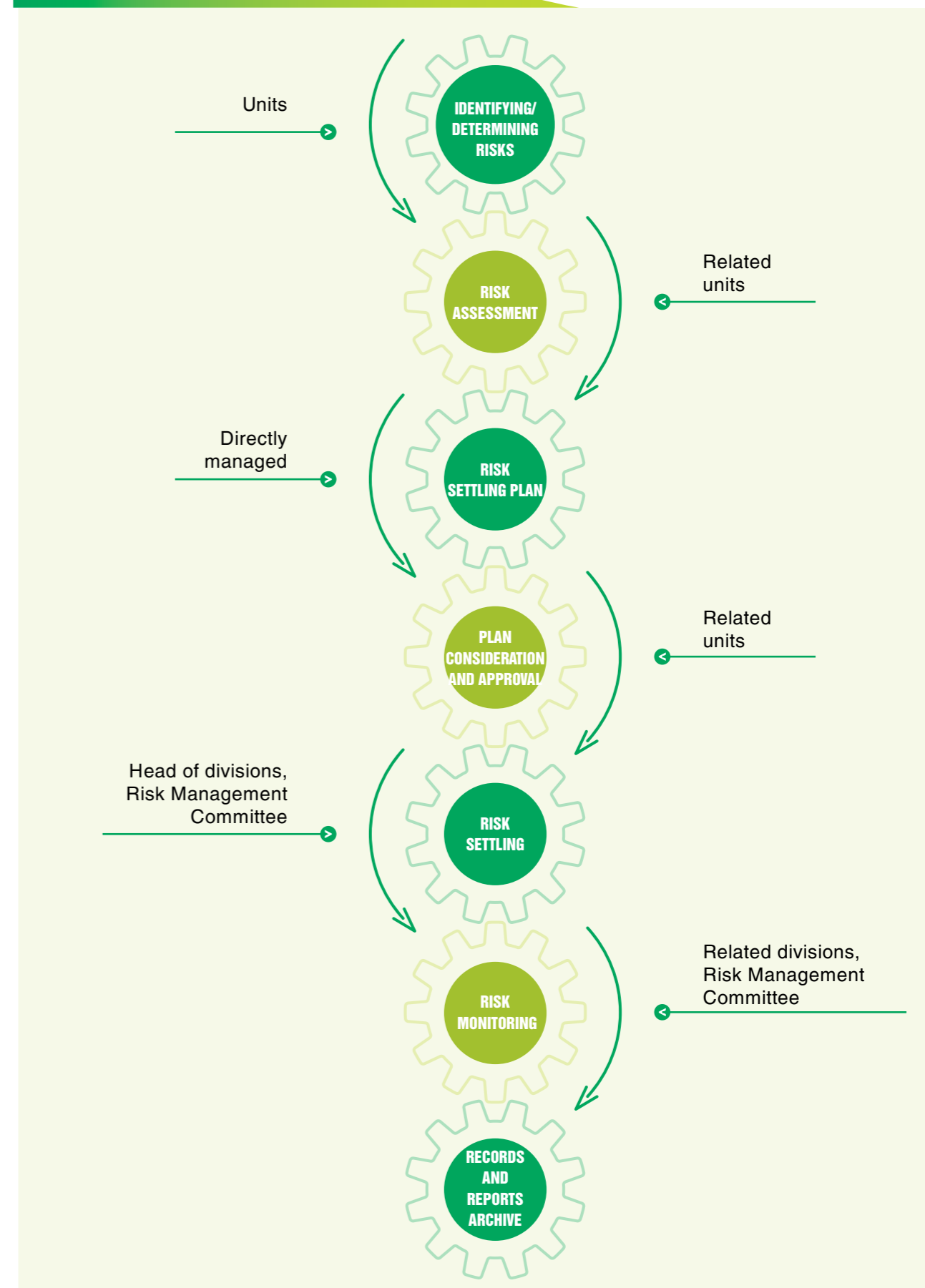
\* 6 ≤ C ≤ 9: Medium risk

\* C > 9: High risk

In the process of operation, Traphaco JSC always takes the initiative in identifying, evaluating and proposing effective solutions before the appearance of risk. Identification of key risks should focus on management, step by step assessing all risks affecting the results of business operations of the

Company and its subsidiaries, including new risks derived from changes in the legal environment, macroeconomics, competition and counterfeit goods, input materials, etc., enhancing measures to be taken to manage and minimize the risks that may occur to the Company.

### RISK MANAGEMENT DIAGRAM



## RISK MANAGEMENT

Process (continued)

### IMPROVEMENTS ON RISK MANAGEMENT



2017 is the year in which the activities of the RM presented clearly and comprehensively, covering all areas: strategic risk, legal risk, financial risk and operational risk. The risk management activities of each area are different from before as follows:

For strategic risk	For legal risk	For financial risk	For operational risk
<p>The Company established the Sustainable Development Strategy for the 2017 - 2020 period, an ambitious and challenging strategy. Meanwhile, besides the development and implementation of strategies are comprehensive strategic risk management measures.</p>	<p>2017 is the year of strengthening the legal risk management system with the establishment of a specialized legal unit in this field.</p>	<p>Continue to maintain risk management as before, focusing on financial risk management in subsidiaries.</p>	<p>2016 established and completed the process of risk management. In 2017, carry out this process across all activities, across all divisions within the Company, to meet the requirements of the new ISO.</p>



### THE RISK OF CORPORATE GOVERNANCE IN THE YEAR 2017

**ONE OF THE FOUR CORE VALUES THAT TRAPHACO POSSESSES IS “PIONEER”. PIONEERING: PIONEER IN GREEN VALUE CHAIN MANAGEMENT, INNOVATION AND APPLICATION OF NEW INSIGHTS AND TECHNOLOGIES. TRAPHACO IS ONE OF THE LEADING COMPANIES IN APPLYING THE BEST INTERNATIONAL PRACTICES IN CORPORATE GOVERNANCE IN LINE WITH VIETNAM’S CONDITIONS.**

Risk management is a management activity that the Board has paid a lot of attention and investment into. This activity is the basis for strategic decisions of the Company in balancing risks and benefits. In addition, risk management plays an essential role in supporting other business management systems and processes.

## RISK MANAGEMENT

Process (continued)

### STRATEGIC RISK MANAGEMENT

**GOOD STRATEGIC RISK MANAGEMENT LEADS THE COMPANY IN THE RIGHT DIRECTION, ACHIEVE TARGETED GOALS WITH LOWEST COST IN THE SHORTEST POSSIBLE TIME.**



The development goals of revenue and profits determine the existence and development of each enterprise. Not just the development, sustainable development is also the goal of Traphaco in particular and of other large enterprises in general. The "Sustainable Development Strategy for the 2017-2020 period" was scientifically conducted by the Traphaco Strategy committee and the Consultation Team of the International Economics and Trade Institute, with leading experts on strategy and corporate governance.

In order to manage the implementation of the strategy as well as the risk management during the implementation of the strategy, the overall objectives of the strategy must be broken down into the objectives of component strategies, quantified in detail and divided into time slots by yearly goals. The company's annual objectives are divided into the goals of the divisions, subsidiaries. This process is closely monitored by the Standing Deputy Chairperson of the Strategy Committee and Monitoring Team.

By 2020, Traphaco aims to rank No. 1 among Vietnamese pharmaceutical companies in terms of growth rate of revenue-profit-and-market capitalization. The Strategy Committee always updates information on these indicators of domestic pharmaceutical companies, identifies Traphaco's location at times, and provides timely advice and warnings to Traphaco's Executive Board. Follow up and achieve the set strategic goals.

At the higher level, the Board of Directors also has members in charge of risk management, ensuring that strategic risk management is fully and effectively implemented, in the right direction.

One of the strategic objectives of 2017 is to successfully build and operate the most modern pharmaceutical factory in Vietnam. Risks can occur when the factory is slow to finish or finish without registration number of the product. This would cause great damage to the Company in terms of finance and reputation. To avoid this risk, the Project Committee of Vietnam Pharmaceutical Factory always closely controls the progress of the contractors, and construction packages. The R&D Division prepares for the registration of products for the new factory, which ensures that when the factory meets the conditions for production, the products circulation registration numbers are ready. It can be said that the company management is very good compared to some companies in the industry, avoiding underuse of new plant. Previously, the company also prepared reserves for the time when the new factory goes into operation; ensuring products quantity always meets the market demand.

Operating of a new factory with high technology is also a pressure on the operating system. Priority is put on strict adherence to the processes. The training and improving know-how level of workers, access to new technology are applied immediately upon receiving the new system line. Machinery maintenance and repair schedule is strictly followed.

### LEGAL RISK MANAGEMENT

**GOOD LEGAL RISK MANAGEMENT HELPS THE COMPANY TO CONTROL THE SYSTEM EFFECTIVELY, SAFELY, LEGALLY, PROACTIVELY AND WELL RESPONDS WHEN THE RISK OCCURS.**

Traphaco always respects the law. This is reflected in the regulations and cultural identity of Traphaco. Constant and unsynchronized changes in laws and regulations will affect the Company's development direction, business operations. If the Company does not understand the law, does not update the new regulations, the risk of litigation, dispute, and compensation is likely to happen.

2017 is the year marked with the legal risk management of the Company. The Legal Unit under the Risk Management Committee is established with the function of advising and advising the Board of Directors on matters related to the organization and operation of the Company; Control the compliance with law internally and act as a focal point for resolving disputes relating to the Company. In addition, the Company maintains an annual contract with a law

firm to give advice on legal issues of the business.

#### Legal RM activities undertaken in 2017:

- » Give comments on draft circulars related to drug registration, labeling of drugs and drug materials, regulations on recognition of traditional medicines exempted from clinical trials, and regulation of drug procurement at public health facilities.
- » Analyze and evaluate the impact of: Decree No. 71/2017/ND-CP, Decree No. 54/2017/ND-CP, Circular 95/2017/TT-BTC.
- » Complete legal documents database on internal network, regularly update new documents and send to related divisions.
- » Brand protection, coupled with anti-counterfeit, and fake goods. The protection of the brand must be closely linked with enhancing the affirmation of class by quality, reputation and coordination with the market management authorities. In 2017, the Inspectorate of the Ministry of Science and Technology has a memorandum on the recall of Bogan Actiso Forte products for the infringing company - Viet Phap JSC.





## RISK MANAGEMENT

Process (continued)

### FINANCIAL MANAGEMENT

**FINANCIAL RISK MANAGEMENT IS A VERY IMPORTANT MANAGEMENT ACTIVITY: FINANCIAL RISK CAN BE CONSIDERED “TYCOON” OF ALL RISKS, BECAUSE AFTER ALL, ALL THE RISKS THAT OCCUR WILL RESULT IN FINANCIAL LOSSES (IMMEDIATE OR LONGTERM) FOR THE BUSINESS.**



To identify financial risks, the Company analyzes financial statements for timely assessment of financial risks, if any. Traphaco hires a reputable independent auditing firm (Big 4) to audit its parent company quarterly (Ernst & Young auditing company), audits major project such as the Vietnam Pharmaceutical Factory Project, Factory manufacturing, processing, trading pharmaceutical materials, pharmaceuticals, functional foods at block F5 in Dong Pho Moi Industrial Park, Lao Cai City (Deloitte Auditing Company). The results of the audit show that: There are no serious distortions in the Company's operations in general and in the financial sector in particular.

The participation of the members of the Board of Directors of the parent company's Board of Supervisors, the controllers of subsidiaries and members of the Board of Supervisors of the member companies has contributed to the financial risk management more effectively.

Management of receivables. The implementation of sale policy by immediate payment method with the pharmacy clients is always well executed. In addition, the company also has strict regulations on inventory levels, inventory levels at the appropriate level. The Company has managed the risk of receivables at the best level.

The risk of exchange rate and credit is controlled by the Company through the appropriate use of bank loans, capital and foreign currency regulation. Financial costs are low. Interest rates are always at preferential rates.

In order to minimize the risk of share price, price risk of capital instruments arising from investments in affiliated companies, the Board of Directors always study carefully and carefully for each investment decision to associate companies.

The review of contracts between the parent and subsidiary companies that the Board of Supervisors performs in 2017 may be considered a typical risk management activity (both legal risk management and financial risk management) because these are contracts of great value. At present, Traphaco has been developed into a system with value chain from raw materials, production, processing and distribution of finished products. Transactions between Traphaco and its subsidiaries (purchase of raw materials, semi-finished products, service fees, royalty fees...) are strictly controlled, with focus on the reasonable transaction price avoiding risk of Tax re-collection and fines in cases of transactions related to transferring price.



### OPERATIONAL RISK MANAGEMENT

**OPERATIONAL RISK MANAGEMENT IS BROAD, COVERING ALL COMPANY ACTIVITIES, REQUIRING RISK AWARENESS OF ALL MEMBERS OF THE COMPANY: FROM DIRECT WORKERS TO MANAGEMENT LEVELS.**

Risk Management Process RMP66 has been deployed to all processes, across all areas of the company, execute risk-based management for business. In 2017, we have implemented a complete cycle of closed RMP with full steps: risk identification and evaluation, risk scheduling, risk processing, and result reporting.

- » Rate of risk has been eliminated or reduced to 85%.
- » The quantity risk is reduced 15%.
- » The severity of risks is reduced 45%.



# RISK MANAGEMENT

## Process (continued)

The following are some of the operational risks that were well managed in 2017:



### HUMAN RESOURCES RISK

The competition in the labor market is increasingly acute, leading to the risk of brain drain, failing to retain quality personnel for the Company. To avoid this risk, the Company always creates a good working environment, with opportunity to advance and develop further in career, encouraging morale of employees. The change in payroll rules by 3Ps - an advanced compensation method that is being applied by large firms is being researched, established and completed by the Company.

In order to increase the staff's attachment to the Company as well as to understand the employees, Traphaco also cooperated with Anphabe to make "Traphaco Human Resources Survey". As a result, the Company has developed an appropriate personnel policy and increased the satisfaction of "Traphaco people". In addition to the positive results, Traphaco employees (82.7%) enjoyed excellent performance, far above the industry average (64.8%) and Vietnam (63.1%). The Company has great interest in indicators that need to be improved, such as the level of satisfaction of mid-level managers who want more initiatives in their work.



### RISK OF INFORMATION SECURITY

One of the contents of the Company's strategic positioning is "Modernizing supply chains based on advanced technology and modern management systems", the application of ERP across the system brought outstanding advances in business; or the application of electronic invoices in business in 2017 brought great benefits to business. Besides, information security is a risk management activity that must be put in first priority.

Divisional data stored on the central data system has not been screened carefully at divisions or personal emails have been used for work; which lead to the risk of data loss. To control this risk, in the IT policy of Traphaco in 2017, the IT division of the Company has developed and issued policies to store and use data in divisions, forbidding the use of personal emails on the job and prevent this access in corporate network.

For the risk that server rooms cannot satisfy the needs of increasing use in terms of: areas, infrastructure, and bandwidth; the Company has upgraded the facilities, adding remote warning and monitoring devices.

Software that can be accessed from outside of the Company is not strictly controlled to track data usage will pose the risk of data stealth and leakage. The risk management approach adopted by IT in 2017 is to review the access control mechanisms of existing software and update the system.



### RISK OF RAW MATERIAL INPUT

Input materials are an important factor in the production process, occupying a large proportion in the cost structure and affecting the effectiveness of the company's production and business activities. Good planning and risk minimization ensure smooth production, reasonable costs, and optimal profitability.

For pharmaceutical raw materials, and imported materials, exchange rate and supplier issues are carefully controlled, regularly and periodically.

For medicinal plants, seasonal factors and stable sources of raw materials are issues of concerns for the Company. Company leaders have a relationship with local authorities, and commits to farmers through contracts to grow medicinal herbs to connect interests between farmers and company. The Company has "local" staff, the Greenplan project operation is to connect four "partners": Government - enterprises - scientists - farmers to ensure active development of medicinal plant areas according to GACP - WHO standards to meet high quality raw materials and stable production.



### RISK OF SALES POLICY EXECUTION

In the process of implementing the sales policy, if the business unit does not comply with the Company's sales policy, it will lead to the risk for loss of trust from clients and no revenue growth. To minimize this risk the Company has made:

Survey the compliance of the Client's Warranty Policy 2017 through 2 criteria: support & retail price by "Secret consumer" method, thus controlling the retail price of the Company, resulting in stable profit for clients.

Check the activities of the provinces & branches in terms of: sales, market, salary & expense management.



Mr. Ma A Thao's family - the H'mong ethnic group cultivates Actiso for Traphaco in Sapa.

# SPREADING HAPPINESS

“GreenPlan is like a long journey, the footsteps of farmers across the path of medicinal herbs. The happiness of the farmers is as simple as it was when it began with Traphaco and bloomed after each harvest season. Every step we take, each place we come, is marked by the radiant smiles. Touching on happiness, with the Traphaco people, and that is enough.”

GreenPlan Project Team - Traphaco Green Project.

## SUSTAINABLE DEVELOPMENT REPORT

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# OVERVIEW OF SUSTAINABLE DEVELOPMENT REPORT

“THE APPROACH TO SUSTAINABILITY ISSUES OF TRAPHACO IS DERIVED FROM THE OBJECTIVE OF LONG-TERM ECONOMIC GROWTH OF THE COMPANY IN COMBINATION WITH THE OBJECTIVES OF SOCIAL DEVELOPMENT AND ENVIRONMENTAL PROTECTION, THEREBY CONTRIBUTING TO THE COMMON DEVELOPMENT OF THE COMMUNITY. THIS REPORT DOCUMENTED IMPORTANT ACTIVITIES OF TRAPHACO AND TRAPHACO MEMBER UNITS (HEREINAFTER REFERRED TO AS “TRAPHACO”) RELATED TO SUSTAINABILITY ISSUES IN 2017.

Report range: TRAPHACO JSC  
Reporting Period: 01/01/2017 - 31/12/2017.

Applied standard: The report is “Conformable” in accordance with the G4 Core Guide - Core Option.

Contact:  
To send questions and recommendations related to the sustainable development of Traphaco as well as the content of the report, please contact us with the information below:



Mrs. Dao Thuy Ha  
Marketing Manager,  
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Your comments will help Traphaco to make appropriate decisions to make true the vision toward 2020 becoming the number one pharmaceutical industry in Vietnam in terms of growth rate of revenue-profitability-and-market capitalization and ensure the mission to pioneer Green Pharmaceutical to protect human health.

## SUSTAINABLE DEVELOPMENT Model

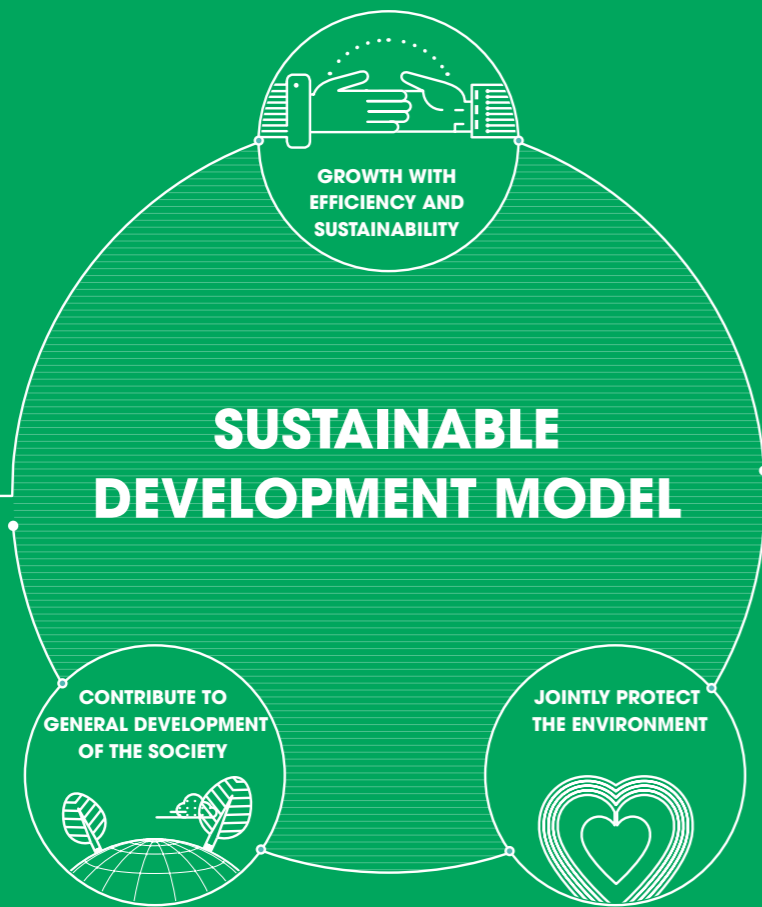


**TRAPHACO ALWAYS ATTACHES ECONOMIC GROWTH WITH ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITY - THREE FACTORS PLAY A FUNDAMENTAL ROLE IN THE LONG-TERM SUCCESS OF TRAPHACO. THE EXCHANGE PROCESS WITH STAKEHOLDERS HELPS US TO REALIZE THAT BESIDES ECONOMIC GROWTH, ENSURING THE BENEFITS OF SOCIETY, COMMUNITY AND ENVIRONMENTAL PRESERVATION IS EQUALLY IMPORTANT FOR THE SUSTAINABLE DEVELOPMENT OF TRAPHACO.**

## Strategic orientation FOR SUSTAINABLE DEVELOPMENT

**BASED ON THE SPECIFIC CONTENT OF THE 17 UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS, TRAPHACO HAS SELECTED AND INTEGRATED SUSTAINABLE DEVELOPMENT GOALS IN THE STRATEGIC ORIENTATION FOR SUSTAINABLE DEVELOPMENT FOR THE 2017-2020 PERIOD OF THE COMPANY INCLUDING:**

1. Ensuring healthy living condition for the community (SD3);
2. Promoting sustainable, effective and long-term economic growth; creating jobs and increasing productivity for all people (SD8);
3. Building up solid infrastructure, accelerating open and sustainable industrialization, encouraging innovation (SD9);
4. Ensuring responsible consumption and production (SD12);
5. Reducing poverty in all forms, and all places (SD1);
6. Taking action to respond to climate change (SD13);
7. Protecting, regenerating and encouraging sustainable use of terrestrial ecosystems, sustainable management of forest resources, anti-desertification, soil erosion and biodiversity loss (SD15).



## GROWTH WITH EFFICIENCY AND SUSTAINABILITY



### OBJECTIVE 1 (SD8)

Promoting sustainable, effective and long-term economic growth; Creating jobs and increasing productivity for everyone



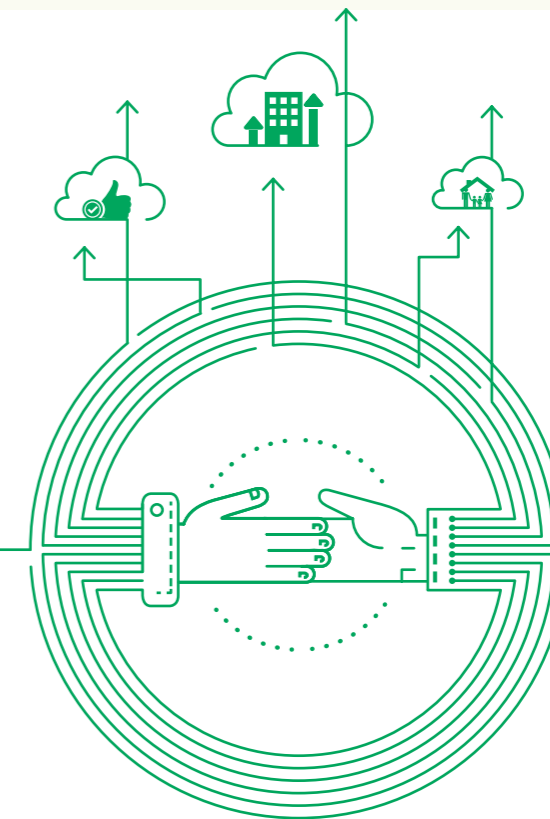
### OBJECTIVE 2 (SD12)

Ensuring Responsible consumption and production



### OBJECTIVE 3 (SD9)

Building up solid infrastructure, promoting open and sustainable industrialization and encouraging innovation



Optimizing the capacity and effectiveness of corporate governance and the Green Value Chain. Improving business efficiency by improving business efficiency and quality at Traphaco to enhance efficiency and increase Traphaco's value, becoming the leading Green Trademark in Vietnam.

Investing in research and development activities, especially researching and exploiting traditional medicine knowledge of Vietnamese people, using high quality medicinal herbs grown in Vietnam to create modern products to serve domestic demand and also export.

Increasing efficiency through technology investment in the highest standards in the pharmaceutical industry in Vietnam to increase the efficiency of resource use, and more application of clean and environmentally friendly technologies; Modern management system based on integrated information technology.

Establishing the best working environment in Vietnam; ensuring the salary, bonuses, welfare for employees, creating motivation for work and encouraging creativity.

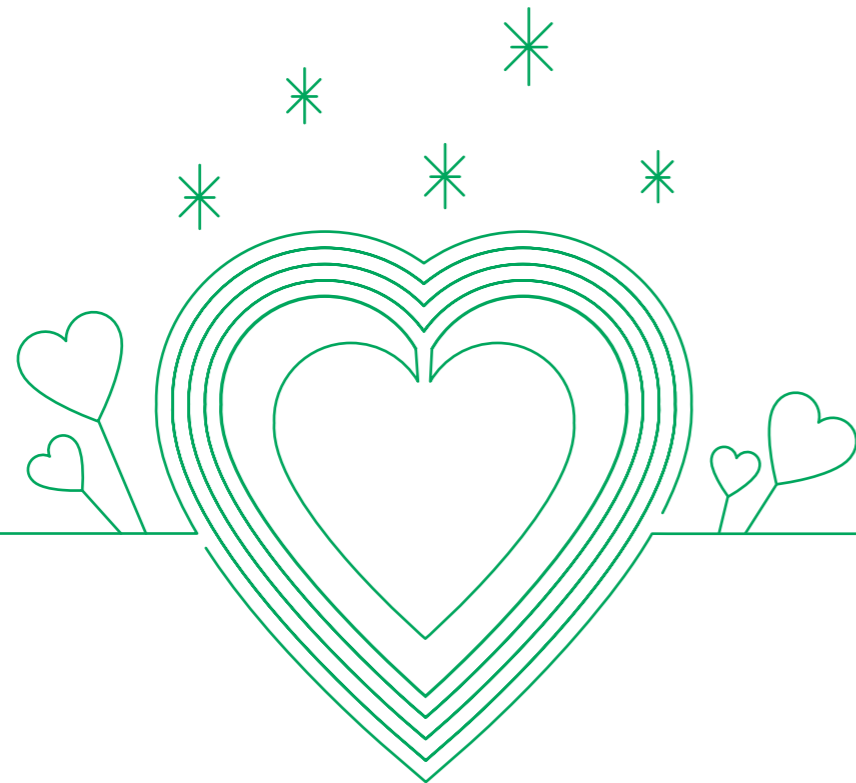
## CONTRIBUTE TO GENERAL DEVELOPMENT OF THE SOCIETY



**OBJECTIVE 4 (SD1)**  
Reducing poverty in all forms, in all places



**OBJECTIVE 5 (SD3)**  
Ensuring a healthy living condition and improving well-being for all ages



Pioneering in responding to the “Buy Vietnamese” campaign: using Vietnamese materials, Vietnamese knowledge for health care service.

Guiding and transferring techniques of cultivation and development of medicinal plants in localities to help increase income and stabilize the life of ethnic people and farmers in medicinal plant cultivating areas.

Contributing to medicines accessibility of community through continuous innovation to improve product quality, labor productivity, costs optimization, and medicines creation to meet the demands of society.

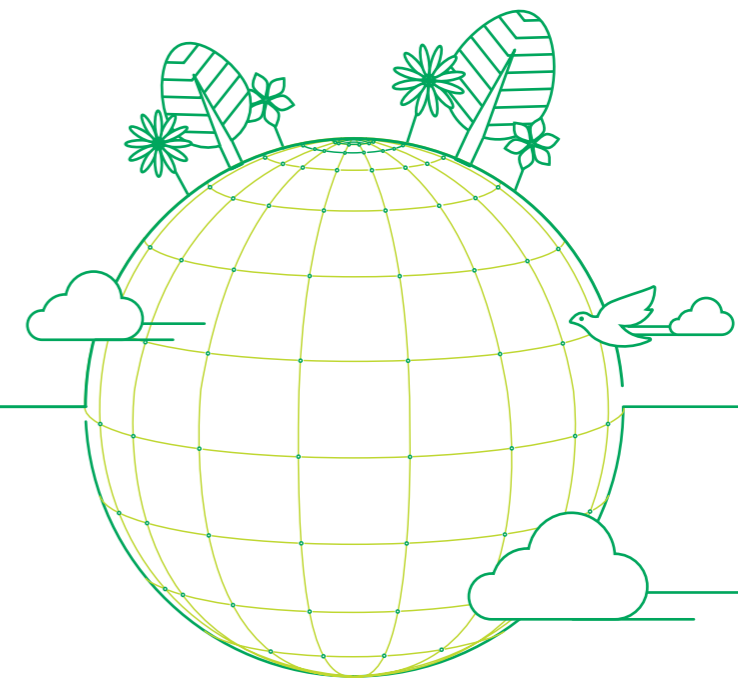
## JOINTLY PROTECT THE ENVIRONMENT



**OBJECTIVE 6 (SD13)**  
Taking action to respond to Climate Change



**OBJECTIVE 7 (SD15)**  
Protecting, regenerating and encouraging the sustainable use of terrestrial ecosystems, sustainable forest resource management, anti-desertification, soil erosion and biodiversity loss.



Ensuring the preservation of ecosystems, biodiversity, desertification, rehabilitation of degraded lands and soils.

Reforestation of vacant, bare hills with medicinal herbs cultivation with GACP - WHO standards.

Minimizing activities that generate waste and pollute the environment, contributing to the improvement of natural environment and human health.

Utilizing energy efficiency through the rational use of energy resources and natural resources.

## ACTION PLAN of 2018

### EFFICIENT AND SUSTAINABLE GROWTH

- 1 Promoting sustainable, effective and long-term economic growth; Creating jobs and increasing productivity.
- 2 Optimizing the capacity and effectiveness of corporate governance and the Green Value Chain.
- 3 Improving business efficiency by business model and improving quality and productivity at Traphaco to increase efficiency and increase Traphaco's value, to become the leading Green Trademark in Vietnam.
- 4 Investing in research and development activities, especially researching and exploiting traditional medicine knowledge of Vietnamese people, using high quality medicinal herbs grown in Vietnam to create modern products to serve domestic demand and export.

### CONTRIBUTE TO GENERAL DEVELOPMENT OF THE SOCIETY

- 1 Increasing efficiency through highest standards technology investment in pharmaceutical industry in Vietnam to increase the efficiency of resource use, and more application of clean and environmentally friendly technologies; Modern management system based on integrated information technology.
- 2 Establishing the best working environment in Vietnam; Ensuring the salary, bonuses, welfare for employees, creating motivation for work and encouraging creativity.
- 3 Ensuring responsible consumption and production.
- 4 Pioneering in responding to the "Buy Vietnamese" campaign using Vietnamese materials, Vietnamese knowledge to serve health care service.
- 5 Guiding and transferring techniques of cultivation and development of medicinal plants in localities to help increase income and stabilize the life of ethnic people and farmers in medicinal plant cultivating areas.
- 6 Ensuring a healthy living condition and improving well-being for all ages.

### JOINTLY PROTECT THE ENVIRONMENT

- 1 Taking action to Respond to Climate Change: Carrying out the Carbon Footprint Report of the parent company and member companies.
- 2 Reforestation of vacant, bare hills with medicinal herbs cultivation zone with GACP - WHO standards.
- 3 Minimizing activities that generate waste and pollute the environment, contributing to the improvement of natural environment and human health.
- 4 Utilizing energy efficiency through the rational use of energy resources and natural resources. Protecting, regenerating and encouraging the sustainable use of terrestrial ecosystems, sustainable forest resource management, anti-desertification, soil erosion and biodiversity loss.

THE SMILE OF FARMERS THANKS TO FRUITFUL HARVEST OF MEDICAL HERBS IS THE MOTIVATION FOR US TO BE AWARE OF OUR RESPONSIBILITY IN THE SOCIAL CONTRIBUTION AND LOCAL DEVELOPMENT...



Traphaco  
**SUSTAINABLE**

## ECONOMIC GROWTH

### ENSURING EFFECTIVE, SUSTAINABLE GROWTH

From the fifth place among listed pharmaceutical companies in 2011, Traphaco has risen strongly to the second place

**02**

in terms of revenue and profit.

There are complete value chain, strong brand and distribution system throughout

**24**

branches

**01**

distribution subsidiary

Direct sales to more than

**27,000**

retail clients

Total revenue of the Company in 2017 reached VND 1,870 billion; After-tax profit reached VND 241 billion, up 14% compared to the same period in 2016.

See more details in the report on business results in 2017, page 46.



Technical staff of Traphaco Sapa visits Ma A Cau family - herbal plant farmer.

### INDIRECT CONTRIBUTIONS TO THE ECONOMY

Contributing to the state budget

**71.2**

Billion VND in 2018



Paying dividend to shareholders

**124**

Billion VND in 2018



Total dividends paid to shareholders of Traphaco from 2012-2017 is VND 437.65 billion. In 2017, Traphaco maintains a dividend rate of 30%, equivalent to VND 124.35 billion (advanced payment of 20% has been made in December 2017), which is high compared to the average pharmaceutical market.

### TOTAL INVESTMENT FOR COMMUNITY ACTIVITIES



**1-3%**

of revenue Budget for community activities each year

Traphaco's budget for community activities each year accounted for 1-3% revenue. In particular, public health care consultancy activities were focused. In addition, Traphaco actively contributed to humanitarian, charitable, and benevolent activities with the desire to contribute to a better quality of life - happier. Charity social activities are an indispensable event, and they receive enthusiastic response from leaders to employees.

### JOBS CREATION AND LOCAL ECONOMY DEVELOPMENT

DEFINING THE PIONEER ROLE OF A LEADING PHARMACEUTICAL BRAND IN SUSTAINABLE DEVELOPMENT, THE COMPANY HAS DEVELOPED THE PROJECT "RESEARCH AND DEVELOP SUSTAINABLE SOURCE OF MEDICAL PLANTS FOR TRAPHACO" (GREENPLAN PROJECT).

After nearly 10 years of implementing the project, Traphaco has a raw material area of over 36,300 ha with GACP - WHO standard. In 2017, the yield of controlled medicinal herbs from the growing/harvesting areas including those of GACP-WHO standards reached 2,989 tons (accounting for 88.4% of the total production demand); the total material demand for production is 3,383 tons, including more than 100 kinds of medicinal plants, 100% of raw materials are controlled to meet quality standards; domestically-made materials accounted for 91.3% of the total production demand; areas of medicinal plants are located in 24 provinces across Vietnam.

Traphaco is cooperating with more than 675 households to collect GACP-WHO medicinal plants, and thousands of households are harvesting/collecting medicinal plants following the GACP-WHO standard. The Company provides stable incomes for local farmers/collectors and moreover, the Company enriches the households in the raw material cultivating areas with the Company's footprint, ranging from VND 8.6 million to VND 16.6 million/ha/month.



## SOCIAL INVESTMENT

# ENHANCING HUMAN RESOURCES AND POLICIES FOR EMPLOYEES

## WORKFORCE STRUCTURE IN TRAPHACO

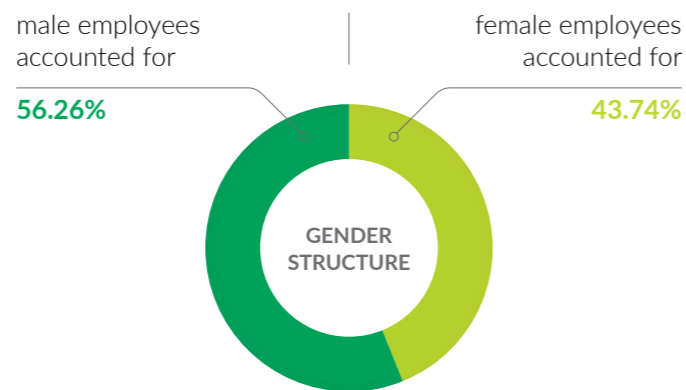
Total number of employees as of 31/12/2017



Decreased 9.4% compared to 2016 (due to the transfer of staff from Traphaco to Traphaco Hung Yen).

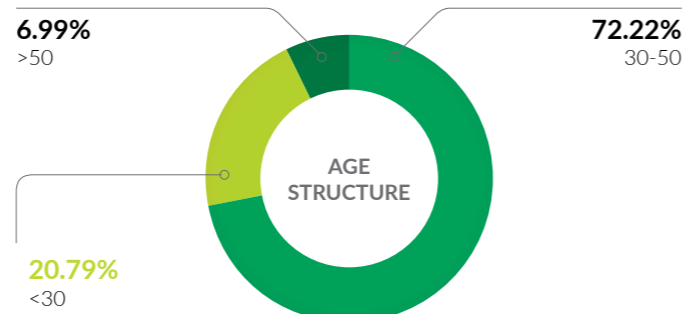


### Gender composition is quite balanced as



### The age structure has a large gap

The number of middle-aged workers (from 30 to 50 years of age) has a solid professional and actual experience accounted for 72.22%, 20.79% are of young workers under 30 and the work force with age over 50 who are very experienced and has been with Traphaco a long time accounted for 6.99%.



In terms of qualifications, the number of employees who has a college or postgraduate degree accounted for

**39%**

“ With the increase in quantity and quality of workforce, Traphaco has successfully achieved business and sustainable development requirements of the Company, reflected by the growth in sales and profit of the Company in the year of 2017 compared to 2016.

Labor structure in 2017 according to criteria	Number of staff	Percentage over total number of Traphaco staff
<b>Nation</b>		
Vietnamese	702	100%
Foreigner	0	0%
<b>Structure by ethnicity</b>		
Kinh	691	98.43%
Ethnic minorities	11	1.57%
<b>Gender</b>		
Male	395	56.26%
Female	307	43.74%
<b>Age</b>		
Under 30	146	20.79%
30 - 50	507	72.22%
Over 50	49	6.99%
<b>Training</b>		
Post-graduate	41	5.84%
Graduate	230	32.76%
Other	431	61.40%
<b>Division</b>		
Sales	468	66.66%
Production	42	5.98%
Office	192	27.36%

## INCOME AND INTERESTS OF EMPLOYEES



## IMPROVE THE QUALITY OF HUMAN RESOURCES AND BUILD LONG-TERM VALUE FOR EMPLOYEES

SUSTAINABLE HUMAN RESOURCE DEVELOPMENT IS CENTRAL TO OUR LONG-TERM STRATEGY. THE COMPANY HAS A POLICY OF TRAINING AND DEVELOPING HUMAN RESOURCES TO MEET THE CHANGE OF TECHNOLOGY, THE INCREASING DEMAND OF CLIENTS AND THE DEVELOPMENT NEEDS OF INDIVIDUALS. THE COMPANY ALWAYS ENCOURAGES EMPLOYEES TO PARTICIPATE IN LEARNING AND TRAINING IN ORDER TO IMPROVE THEIR PROFESSIONAL SKILLS TO BETTER SERVE THEIR WORK.



### Training courses the Company provided:

**Organizing training courses at the Company:** Using company's own staff or outsourcing experts for training and teaching. Training budget paid by the Company in 2017 is VND 2,022,559,000.

**Assigning staff to participate in external training courses:** The Company sends staffs to attend advanced training courses in professional skills or skills suitable for each position. All expenses for the training were paid by Traphaco JSC.

**Regular training:** Managers at all levels are responsible for training their employees to have the best work skills. Managers should always keep in mind that training and upgrading their qualifications and staffs' is a matter of urgency and this is one of the important tasks in the work plan while maintaining regular training.

**Self-learning:** Employees are responsible for self-learning to improve their professional knowledge, skills and work skills to meet the requirements of the job. Expense (if any) shall be paid by individuals.



### Training results in 2017

No	Content	2017		
		Unit	Implemented	% over total implemented
<b>General report</b>				
1	Total cost of training:	1,000	2,022,559	
	Training cost/person/year		2,113	
2	Total count of trainees:	Number of trainees	3,015	
	Number of trainings/person/year	Number trainees	3.2	
3	Number of training courses	Course	82	
4	Average satisfaction level/total training courses completed: 96.47%			
<b>Analysis by training content</b>				
1	Compliance, mandatory: 16 courses	Number of trainees 1,000	473 150,079	15.69 7.42
2	Management skills 14 courses	Number of trainees 1,000	235 688,496	7.79 34.04
3	Soft skills and professional skills 36 courses	Number of trainees 1,000	2,185 1,091,270	72.47 53.95
4	Attending seminars, conferences, listening to seminars, ... 11 course	Number of trainees 1,000	117 30,900	3.88 1.53
5	Support advanced training (University, Graduate,...): 5 courses	Number of trainees 1,000	5 61,814	0.17 3.06

**2017 IS THE YEAR TRAPHACO DECLARED THE COMPANY STRATEGY FOR THE PERIOD 2017-2020 AND FOR ALL EMPLOYEES THROUGHOUT THE COMPANY TO UNDERSTAND AND ACHIEVE THE GOALS SET OUT BY THE STRATEGY, THE COMPANY HAS IMPLEMENTED A SERIES OF TRAINING PROGRAMS - “COMPANY STRATEGY FOR 2017-2020” WITH 956 PARTICIPANTS / 9 PROGRAMS IMPLEMENTED FOR DIFFERENT TARGET GROUPS.**



**956**

**participants / 9 programs were conducted for different target groups.**

**EXAMPLES**

The program is designed with three topics to provide practical knowledge and information needed in the international pharmaceutical market, domestics and the current situation as well as solutions to implement the strategic goals that the Company set out:



**Session 1:**  
**Strategy Overview**

**Session 2:**  
**Traphaco's Strategy for the 2017-2020 period**

**Session 3:**  
**Discussion on related issues**

The training and communication program helps the trainees to understand the company strategy, the importance of strategy development in each stage and the specific objectives of the Company's Strategy for the 2017 - 2020 period as well as specific strategies for each division.

Attending the program is an opportunity for employees coming from member companies, branches, units and divisions of the Company to share and exchange ideas and views with trainers, Strategy Committee members in order to realize the objectives set out in the strategic plan from a variety of perspectives, thereby gaining a more comprehensive view of action for the Company's overall development.



## SINCERELY APPRECIATE THE CONTRIBUTIONS OF THE EMPLOYEES

TRAPHACO UNDERSTANDS THAT IN ORDER FOR THE ORGANIZATION TO SUCCEED AND GET TO DESTINATION, THEY NEED TO RELY ON HUMAN RESOURCES WITH DETERMINATION AND CONSENSUS FOR THE COMMON GOAL.



Therefore, Traphaco always respects the contribution and dedication of staff for the success of Traphaco. This is reflected in the policy of compensation and good welfare indicates not only the assurance of material benefits but also the recognition of Traphaco for the commitment and dedication to the work of the staff. Annually, the Company celebrates and awards 20 excellent employees of the year with a trip abroad.

### WELFARE POLICY

Income, bonus and welfare for workers were secured. On-site poisoning bonus; gasoline, telephone support; special support regime for female staff; vacation; Bonuses for holidays; Gifts for employees who are children of war invalids and martyrs; Gifts for children on the occasion of Mid-Autumn Festival, 01/6; Maintaining the commendation ceremony for the children and employees who have academic achievements ... Total expenditure on welfare funds in 2017 is VND 25 billion.

Implement the current labor regulations, make communication activities through annual employee conferences, trade unions, internal surveys to understand the aspirations, as well as to share the business direction, results of Traphaco activities, to align and harmonize the goals and motives individuals with the common goals of the organization.

### LABOR HEALTH-CARE POLICY

In 2017, Traphaco continued to show its interest in the health of its employees through the availability of regular medical staff and medical care for workers; yearly medical examination for workers with expanded examination list, increasing the maximum benefit for workers. With the strength of products to protect customers against health risks, Traphaco regularly organizes consultancy programs with the participation of experts and doctors for internal customers and staff to enhance the knowledge of health care and protection, especially for women workers.



**25**

VND billion  
Expenditure on welfare and welfare funds in 2017

## EFFECTIVE WORK MANAGEMENT SYSTEMS AND REMUNERATION BY PERFORMANCE

### EFFECTIVE MANAGEMENT SYSTEM (KPI)

EFFECTIVE MANAGEMENT SYSTEMS CONTINUE TO BE APPLIED AND INCREASINGLY IMPROVED TO ENHANCE EFFICIENCY IN PRACTICE.



Since its inception, this system has been helping to align Traphaco's goals to each division and staff, contributing to improve business efficiency by equipping every individual in the team the power and tools to clearly identify Traphaco's expectations, enabling individuals to operate effectively, to leverage their abilities and potential and to contribute to the success of Traphaco.

Maintaining good implementation of "Establishing KPIs and KPIs Assessment" process and appraising the results of the monthly assessment. The KPI committee shall review the results of the quarter, six-month and annual performance objectives of the division in order to advise the CEO on the adjustment (if any).

The results of KPI's quarterly and annual performance evaluation are used by Traphaco as a basis to adjust salaries, incentives and human resources development. This policy ensures that employees are paid consistently, transparently and in a manner consistent with the nature of their work, work efficiency and effort, motivating them to work.

### PAYROLL POLICY BY EFFECTIVENESS

In addition to the salary paid to employees in the year, including basic salary and salary based on work performance or contract salary, Traphaco also applies other remuneration policies to employees such as reward for completion of production plan Quarterly, on the occasion of the establishment of Traphaco, Tet holidays; toxic bonuses, petrol, telephone, working allowance, uniforms, meals, social insurance, health insurance, etc. In particular, in 2017, Traphaco has improved the new payroll regulations by 3Ps (P1 by position, P2 by capacity and P3 by individual performance). The payment of salaries, bonuses under the 3Ps will be an advanced payroll system that ensures

fairness, competition and transparency, motivates employees and will be a good basis for evaluating staff competence. This is the reason for increasing the labor productivity and efficiency of production and business. The 3P payroll regulations were officially introduced in January 2018.

**IN 2017, TRAPHACO EMPLOYEES RECEIVED 18/12 SALARY MONTHS. AVERAGE INCOME REACHED VND 21.57 MILLION/PERSON/ MONTH, INCREASED 7.5% COMPARED TO 2016.**

## SOCIAL COMMUNITY ACTIVITY

“ TRAPHACO IS ALSO KNOWN AS A LEADER IN THE IMPLEMENTATION OF SOCIAL RESPONSIBILITY AND ENVIRONMENTAL PROTECTION REQUIREMENTS, SUSTAINABLE DEVELOPMENT; CREATING JOBS FOR THE CHILDREN BY PLANTING MEDICINAL PLANTS, ACTIVELY SUPPORTING HUMANITARIAN ACTIVITIES, CHARITABLE SOCIETY, GRATITUDE TO CONTRIBUTE FOR A BETTER LIFE QUALITY - MORE HAPPINESS, PHILANTHROPIC ACTIVITIES SUCH AS REGULAR EMPLOYMENT ARE INDISPENSABLE AND GET ENTHUSIASTIC RESPONSE FROM LEADERS TO EMPLOYEES. TRAPHACO'S BUDGET FOR COMMUNITY ACTIVITIES IN 2016 WAS OVER 1 BILLION VND. IN 2017, THE TOTAL AMOUNT SPENT ON COMMUNITY ACTIVITIES IS NEARLY VND 25 BILLION.

Free health care advice and gifts for the elderly, women across the country 18 years in a row

**20.6**  
VND billion  
As of 31/12/2017

Sponsorship / support programs for the disadvantaged elderly

**2.5**  
VND billion  
As of 31/12/2017

**1** VND billion  
Supporting people in the Central region, giving medicine in free healthcare consultation service...  
As of 31/12/2017

Sponsorship / support programs for children. Of which 10 consecutive years sponsored the program "Spring for children"

**500**  
VND billion  
As of 31/12/2017



## SOCIAL INVESTMENT (continued)

### ACTIVELY IMPLEMENT COMMUNITY HEALTH COUNSELING



TRAPHACO HAS BEEN DOING THE MISSION TO PROTECT THE HEALTH OF VIETNAMESE PEOPLE



**616**

Conference - Advocacy  
Conference on Health Promotion  
nationwide

They are real numbers about the public health care service that Traphaco is still working on. Health counseling, medicine distribution and Healthy Living Magazine are free to millions of members of the Elderly Association, Women's Union, Red Cross, Veterans Association, and Retirement Association...nationwide; especially in rural areas, remote areas; Those are always the most practical approach for Traphaco to carry out the mission of protecting the health of Vietnamese people.

In the year 2017, Traphaco has exceeded the quantity of 616 Conferences – Seminar on Healthcare Promotion throughout the country (increase 28.9% compared to 2016) with a total cost of over VND 20 billion.

Traphaco's public health consultancy activities are closely coordinated and enthusiastic participation of the Elderly Association, Women's Union, Red Cross, Veterans Association, Retirement Association ... nationwide; have brought love and care to people which were expressed through many letters sent to thank the Company. The result of that continuous dedication is the recognition of the State and the social community through "Top 10 Corporate Social Responsibility" awarded to Traphaco in 2011, 2013 and 2015. At the anniversary of the International Day of the Elderly held at the Vietnam-Soviet Friendship Cultural Palace in September 2017, Traphaco was honored as an Excellence Enterprise for the cause of community health care.



- 1 "Steps to school" program offers children's books in Nam Sai, Lao Cai.
- 2 Consultative Conference on Elderly Care in Bac Giang.
- 3 The Traphaco Youth Union supports farmers during the Actiso cutter day.
- 4 New Year's Day tree planting of Traphaco.
- 5 Blood donation day in 2017.

## ENVIRONMENTAL PROTECTION



**TRAPHACO UNDERSTANDS THAT TO BUILD A GOOD FUTURE REQUIRES THE EFFORTS OF ALL OF US TODAY, IN WHICH BUSINESSES ACT AS AN ACTIVE ELEMENT IN REALIZING THIS FUTURE. AND TO DO THAT, WE ALSO NEED TO BUILD A CONCRETE ROADMAP TO COMPENSATE FOR THE SHORTAGES OF RESOURCES THAT PEOPLE HAVE OVER-EXPLOITED IN THE PAST AND IN THE PRESENT.**



The herbal medicine plantation of GACP-WHO of Traphaco in Nam Dinh.



## RAW MATERIAL SUPPLIES

With the strength of oriental medicine, most of the Company's raw materials are domestically produced (90%). The rest (10%) of raw materials for medicines production are imported directly from manufacturers or distributors of pharmaceutical ingredients with brand names and reputation in the

world such as: Univar - England, Roquette - France, Eastman-Estonia - USA, Merck - Germany ... Besides, the Company also has many suppliers in Asian market such as Korea, Japan, China...Traphaco's demand for materials is about 23 tons/day, including pharmaceutical-chemical and pharmaceutical

ingredients, packages, aluminum film, PVC, ... The raw materials used are specified in quota and registered to reduce shrinkage, reduce unsuitable products each year. The total volume of Traphaco raw materials used for production in 2017 is 2,190 tons, details as following:

**90%**

Medicinal plants grown domestically.

**10%**

of the remaining medicinal plants are directly imported for the production of pharmaceutical medicines.

No	Supplies	Unit:	Amount
I	Production materials	Ton/year	2,190
II	Packing		
1	PVC	Ton/year	248.6
2	Aluminum foil	Ton/year	40.3
3	Box + Prescription	Million sets / year	44.7
4	Plastic bottle 5ml	Million sets / year	3.0
5	Plastic bottle 10ml	Million sets / year	10.9
6	Plastic bottle 25ml	Million sets / year	0.3
7	100ml plastic vial	Million sets / year	0.3
8	Plastic bottle 250ml	Million sets / year	0.2
9	Plastic bottle 500ml	Million sets / year	2.8
10	Glass bottle 60ml	Million sets / year	2.1
11	Glass bottle 100ml	Million sets / year	0.3
12	Glass jar of 125ml	Million sets / year	0.1
13	Tube	Million per year	5.8
14	Aluminum bag	Million per year	11.9
15	Boxset	Million per year	0.5
16	Glass tube 10ml	Million per year	12.5



## CONSUMPTION OF ELECTRICITY AND WATER RESOURCES.

Indicator	Consumption/year	Cost of use / year (million VND)	Amount
Total electricity consumption	2,416,800 KW		
• For production	2,296,626 KW	4,601	<ul style="list-style-type: none"> <li>» Propagate electricity and water saving to employees by training, posters.</li> <li>» Limit the temperature of the air conditioning on hot days.</li> <li>» Use LED bulb to replace Compact bulb.</li> </ul>
• For office	120,174 KW		<ul style="list-style-type: none"> <li>» Use inverter to automatically turn on for HVAC system.</li> </ul>
Water	34,325 m <sup>3</sup>	516	<ul style="list-style-type: none"> <li>» Optimizing sanitation processes for: washing the bottles, sanitary equipment, and workshops with standard procedures.</li> <li>» Keep the equipment on and off for the right purpose with efficiency.</li> <li>» Continuous production to reduce the number of times for machines cleaning, reduce the energy consumption of water, reduce the waste water.</li> <li>» Utilization of wastewater from the RO system to cool the equipment.</li> </ul>

Table: Cost of electricity and water saving



## EMISSIONS

EMISSIONS FROM THE PRODUCTION PROCESS ARE MAINLY DUST: WHICH IS PROCESSED THROUGH THE HVAC SYSTEM IN ACCORDANCE WITH QCVN 05: 2013/BTNMT “NATIONAL TECHNICAL STANDARD FOR AMBIENT AIR QUALITY”.

### Operational Technology of the system:

When the system is taking air from the surrounding environment, the air follows the pipeline entering the treatment system (AHUs), which consists of three levels of pre-filtering - intermediate - refining; it is a circulating system, which then adds air to the treatment and delivers to the production room. The same amount of air is then taken from the production room back to the pipeline through filters and will be sucked by exhaust system.

Hood cabinet is placed in the laboratory, Hood has exhaust air treatment systems.

Principles of operation: Exhaust air from the hood draws poison air generated during the experiments in the Hood cabinet and push into the air processing tower. At the tower, this air is sprayed with solution (diluted NaOH solution) moving in the opposite direction of the air to absorb, neutralize toxic gas. Next the air is cleaned again by adsorption into activated charcoal before being discharged into the external environment.

**Emissions from generators:** Only use generators in unexpected cases such as power failure. In order to save energy, reduce emission, the Company plans to actively schedule production as soon as there is notice of power failure.

**Waste generated from the air conditioning system:** The Company practice saving with regulations about the time, turn on duration, minimum outdoor temperature, closed-door when enter air-conditioning room ... for each division, each staff.

**Exhaust emissions from vehicles entering and leaving the factory** (vehicles of employees and vehicles transporting raw materials and finished products) shall be minimized and controlled by the following measures:

Spray water onto road in dry days.

Disseminate and sign the regulations on safety and environment with all contractors/suppliers when entering the company.

Do not use transportation vehicles which are too old, or exceeded the time of circulation. All trucks must be periodically inspected by the Environmental Safety Register to be allowed to operate and are regularly maintained.



Dây chuyền sản xuất thuốc nhỏ mắt của Traphaco theo công nghệ BFS - hiện đại nhất hiện nay.



## ENVIRONMENTAL PROTECTION (continued)



### WASTEWATER

No	Criteria	Unit	Sample 1	Sample 2	Sample 3	Sample 4	Accepted value
	Date of sampling		15/02/2017	23/05/2017	08/08/2017	06/11/2017	
	Date of result		06/03/2017	07/06/2017	25/08/2017	15/12/2017	
1	Temperature	°C	23.7	28.7	29.5	25.8	40
2	Colors	Pt-Co	6	46	27	5	150
3	pH	-	7.81	6.83	7.89	7.65	5.5 -9
4	BOD 5 (20 ° C),	L	0.8	8.7	13.6	42.4	50
5	COD	L	87.6	73.1	115.4	87.2	150
6	Suspended Solid dust (TSS)	L	6	32	21	10.1	100
7	Total cyanide	L	0.021	0.0047	0.0057	0.08	0.1
8	Total phenol	L	0.003	0.003	0.003	0.05	0.5
9	Sulfur	L	0.022	0.032	0.022	0.32	0.5
10	Ammonium (calculated in N)	L	0.1	3.32	1.05	0,051	10
11	Total nitrogen	L	11.89	10.81	10.08	0.0001	40
12	Total phosphorus (in P)	L	0.14	1.47	0.08	0.71	6
13	Chloride	L	46	57	38	0,015	1000
14	Residual chlorine	L	0.17	0.17	0.17	015	2
15	Coliform	Bacteria / 100 ml	430	4,300	4,300	2,400	5,000
16	Total dissolved solids (TDS)	L	254	497	389	981	1200
17	Nitrate (NO <sub>3</sub> <sup>-</sup> ) (calculated in N)	L	3,174	1.01	5,895	48	60
18	Vegetable oil and grease	L	0.3	0.3	1.0	3.5	24
19	Total surfactants	L	0.045	0.247	0.203	4	12
20	Phosphate (PO <sub>4</sub> <sup>3-</sup> ) (calculated according to P).	L	0,036	1.38	0.08	0.1	12

(Source: Report on environmental monitoring results of Hoang Liet Factory - 2017).

**Comment:** The wastewater after treatment at the final discharge point of the system before being discharged into the environment at all times of the year meets the standards of wastewater according to the norms in the discharge permit.



### RESULTS OF MONITORING AND MEASURING THE WORKING ENVIRONMENT

The microclimate, physical elements "Noise, special physical elements" at the measuring locations are within the permitted limits of Labor Standards 3733/QĐ-BYT/2002 by the Ministry of Health.

No	Measurement factor, test	Total:	Number of samples qualified	Number of samples not qualified
1	Temperature	44	44	0
2	Humidity	44	44	0
3	Wind speed	44	44	0
4	Light	44	44	0
5	General noise	12	12	0
6	Frequency response	38	38	0
7	Total dust	38	38	0
8	Dust respirator	31	31	0
9	CO <sub>2</sub>	38	38	0
10	CO	4	4	0
11	NO <sub>x</sub>	4	4	0
12	SO <sub>2</sub>	4	4	0
13	NH <sub>3</sub>	4	4	0
14	H <sub>2</sub> S	4	4	0
15	HCL	6	6	0
16	H <sub>2</sub> SO <sub>4</sub>	2	2	0
17	NaOH	2	2	0
18	HNO <sub>3</sub>	2	2	0
19	Toluen	3	3	0
20	Acetonitril	3	3	0
21	Methanol	3	3	0



According to the labor environment, the noise is in the range of 64.8-84.9 dB, lower than the permitted standard of 85dB (Decision 3733/2002/QĐ-BYT: Promulgating 21 labor sanitation standards, 05 principles and 7 labor sanitation standards.

The results of external noise monitoring are below the recommended noise level of 70dB (QCVN 26: 2010/BTNMT National Technical Regulation Noise).

Measurement location	Result:	
	Date 5/23/2017	Date 11/6/2017
North east corner	63.9	61.1
South east corner	66.5	60.3
North west corner	65.3	62.9
Southwest corner	65.2	57.8

### MANAGEMENT MEASURES

To ensure the noise is always lower than the permitted standard and to ensure the health of workers in the factory and no effect to the surrounding environment, the Company has introduced some measures to reduce noise and vibration as following:

- » Maintenance, replacement of sound absorbers, anti-vibration on HVAC piping.
- » Check for wear out parts and lubricate or replace parts monthly.
- » Provide labor protection for positions with noise higher than 80 dB.

## ENVIRONMENTAL PROTECTION (continued)



### SOLID WASTE

No	Name of waste	Weight (kg)	Treatment method	Treatment unit
1	Domestic waste	9,200	Burn	Management Board of Hoang Mai District Construction Investment Project.
2	Scrap: Packing carton, raw materials	28,834	Recycle	Tien Dung Investment Co., Ltd
3	Hazardous waste	890	Clean, burn, bury	URENCO URBAN AND INDUSTRIAL ENVIRONMENT JOINT STOCK COMPANY - Urenco10, transport and treatment of hazardous waste annually

Recycled garbage accounts for 75% of the company's waste.

#### Measures for waste management and recycling:

- » Classify at source, disseminate and implement waste classification regulations in each division or unit.
- » Place the collection bin at places that are convenient for identification, storage.
- » Carry out regular transportation of waste and recycle waste according to the Company's regulations.

#### Measures to manage hazardous waste:

- » Regularly collect, classify and store wastes in separate tanks, with HWs label in strict compliance with the provisions of Circular No. 36/2015 / TT-BTNMT.
- » Regulations and instructions are disseminated to all employees in the Company.
- » Storage houses have shelves, walls, lock doors and have a warning sign in accordance with TCVN 6707: 2009.
- » Assign the specialized taskforce to perform the task of monitoring and managing hazardous wastes.



### COMPLIANCE WITH LAWS

The Company complies and does not violate environmental legislation and follow the guidance of the environmental management agency.

Maintain updating and evaluating the influence of legal documents on the Company's system.

Systemize relevant legal documents that are constantly updated on the Company's

internal network and inform the influence of the documents to related divisions.

Identify hazards, and carry out risk assessment in safety-environment management and integrate into the training program and response exercises.

- » In October, 2017, fire protection trial exercise has been carried out at Hoang Liet factory.



# Traphaco

## FOR SUSTAINABLE FUTURE





MARKET  
CAPITALIZATION  
IN 2020 TO BE VND

**10,000**

BILLION

**20 TIMES HIGHER THAN NET PROFIT**

## VALUES TO ACHIEVE

“ Not only the tangible achievements but also the integrity, dignity and individuality of Traphaco are our intangible investment objectives. We believe that Traphaco’s strong staff and leadership will create a reputation for our company. Thus, we will do our best to support Traphaco’s leaders and teams to implement sustainable development strategies until 2020”.

From Traphaco’s major shareholder’s Letter.

## CONSOLIDATED FINANCIAL STATEMENTS

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# TRAPHACO JOINT STOCK COMPANY

## GENERAL INFORMATION

### THE COMPANY

Traphaco Joint Stock Company ("the Company") is a joint stock company which was transformed from a State-Owned Enterprise into a Joint Stock Company pursuant to Decision No. 2566/1999/QĐ-BGTVT dated 27 September 1999 issued by the Ministry of Transport and the Business Registration Certificate No. 058437 issued by the Department of Planning and Investment of Hanoi City 24 December 1999. The Company also received the subsequent amendments, with the latest is the 22<sup>nd</sup> amendment, being granted by the Department of Planning and Investment of Hanoi on 1 August 2017.

The current principal activities of the Company during the year are to produce and trade pharmaceutical products, chemicals, medical supplies and equipment.

The Company's head office is located at 75 Yen Ninh street, Quan Thanh ward, Ba Dinh district, Ha Noi, Viet Nam. The Company also has the following dependent units:

Name	Address
Head Office	75 Yen Ninh street, Quan Thanh ward, Ba Dinh district, Ha Noi, Viet Nam
Branch of Traphaco Joint Stock Company	Ho Chi Minh City
Central Region Branch	Da Nang City
Nam Dinh Branch	Nam Dinh Province
Nghe An Branch	Nghe An Province
Thanh Hoa Branch	Thanh Hoa Province
Vinh Long Branch	Vinh Long Province
Hai Phong Branch	Hai Phong City
Quang Ninh Branch	Quang Ninh Province
Binh Thuan Branch	Binh Thuan Province
Quang Ngai Branch	Quang Ngai Province
Dong Nai Branch	Dong Nai Province
Khanh Hoa Branch	Khanh Hoa Province
Can Tho Branch	Can Tho City
Gia Lai Branch	Gia Lai Province
Hai Duong Branch	Hai Duong Province
Tien Giang Branch	Tien Giang Province
Phu Tho Branch	Phu Tho Province
Binh Duong Branch	Binh Duong Province
Bac Giang Branch	Bac Giang Province
Hung Yen Branch	Hung Yen Province
Yen Bai Branch	Yen Bai Province
Thua Thien Hue Branch	Thua Thien Hue Province
Kien Giang Branch	Kien Giang Province

### BOARD OF DIRECTORS

Members of the Board of Directors during the year and at the date of this report are:

Ms Vu Thi Thuan	Chairwoman
Mr Nguyen Anh Tuan	Deputy Chairman
Mr Tran Tuc Ma	Member
Mr Nguyen Hong Hien	Member
Mr Chad Ryan Ovel	Member
Mr Christopher E.Freund	Member
Mr Marcus John Pitt	Member

### BOARD OF SUPERVISION

Members of the Board of Supervision during the year and at the date of this report are:

Mr Duong Duc Hung	Head
Ms Do Thi Khanh Van	Member
Ms Nguyen Thanh Hoa	Member

### MANAGEMENT

Members of the Management during the year and at the date of this report are:

Mr Tran Tuc Ma	General Director
Mr Nguyen Huy Van	Deputy General Director
Ms Nguyen Thi Lan	Deputy General Director
Mr Nguyen Van Bui	Deputy General Director
Ms Hoang Thi Ruoc	Deputy General Director
	Appointed on 7 February 2017
	Resigned on 7 February 2017

### LEGAL REPRESENTATIVE

The legal representative of the Company during the year and at the date of this report is Mr. Tran Tuc Ma, General Director.

### AUDITORS

The auditor of the Company is Ernst & Young Vietnam Limited.

Management of Traphaco Joint Stock Company ("the Company") is pleased to present this report and the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017.

#### MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the consolidated financial statements of each financial year which give a true and fair view of the consolidated financial position of the Company and its subsidiaries and of the consolidated results of its operations and its consolidated cash flows for the year. In preparing those consolidated financial statements, management is required to:

- » select suitable accounting policies and then apply them consistently;
- » make judgments and estimates that are reasonable and prudent;
- » state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- » prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company and its subsidiaries will continue its business.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the consolidated financial position of the Company and its subsidiaries and to ensure that the accounting records comply with the applied accounting system. It is also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management confirmed that it has complied with the above requirements in preparing the accompanying consolidated financial statements.

#### STATEMENT BY MANAGEMENT

Management does hereby state that, in its opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company and its subsidiaries as at 31 December 2017 and of the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and the statutory requirements relevant to the preparation and presentation of consolidated financial statements.

For and on behalf of Management



**Tran Tuc Ma**  
General Director

8 March 2018

#### To: The shareholders of Traphaco Joint Stock Company

We have audited the accompanying consolidated financial statements of Traphaco Joint Stock Company ("the Company") and its subsidiaries (collectively referred to as "the Company and its subsidiaries") as prepared on 8 March 2018 and set out on pages 186 to 219, which comprise the consolidated balance sheet as at 31 December 2017, the consolidated income statement and consolidated cash flow statement for the year then ended and the notes thereto.

#### Management's responsibility

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System, and the statutory requirements relevant to the preparation and presentation of the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation and presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Vietnamese Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the consolidated financial statements of the Company and its subsidiaries in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of the Company and its subsidiaries as at 31 December 2017, and of the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with the Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and the statutory requirements relevant to the preparation and presentation of the consolidated financial statements.

Ernst & Young Vietnam Limited



**Tran Phu Son**  
Deputy General Director  
Audit Practising Registration Certificate  
No. 0637-2018-004-1

Hanoi, Vietnam  
8 March 2018

**Trinh Xuan Hoa**  
Auditor  
Audit Practising Registration  
Certificate No. 0754-2018-004-1

# CONSOLIDATED BALANCE SHEET

as at 31 December 2017

B01-DN/HN

Currency: VND

Code	ASSETS	Notes	Ending balance	Beginning balance
<b>100</b>	<b>A. CURRENT ASSETS</b>		<b>745,856,234,430</b>	<b>841,551,437,650</b>
110	<i>I. Cash and cash equivalents</i>	4	160,903,552,066	204,507,406,466
111	1. Cash		156,203,552,066	133,772,157,528
112	2. Cash equivalents		4,700,000,000	70,735,248,938
120	<i>II. Short-term investments</i>		<b>8,600,000,000</b>	<b>10,600,000,000</b>
123	1. Held-to-maturity investments	5	8,600,000,000	10,600,000,000
130	<i>III. Current accounts receivables</i>		<b>200,062,890,655</b>	<b>291,660,937,803</b>
131	1. Short-term trade receivables	6.1	131,073,852,304	143,073,288,265
132	2. Short-term advances to suppliers	6.2	26,087,609,173	118,237,712,608
136	3. Other short-term receivables	7	46,977,083,358	33,581,976,994
137	4. Provision for doubtful short-term receivables	6.3	(4,818,749,621)	(3,975,135,505)
139	5. Shortage of assets waiting for resolution		743,095,441	743,095,441
140	<i>IV. Inventories</i>	9	<b>332,830,780,428</b>	<b>305,363,642,369</b>
141	1. Inventories		334,029,449,737	306,310,595,273
149	2. Provision for obsolete inventories		(1,198,669,309)	(946,952,904)
150	<i>V. Other current assets</i>		<b>43,459,011,281</b>	<b>29,419,451,012</b>
151	1. Short-term prepaid expenses		4,851,299,419	4,472,494,856
152	2. Value-added tax deductible		37,368,785,607	24,844,014,403
153	3. Tax and other receivables from the State		1,238,926,255	102,941,753
<b>200</b>	<b>B. NON-CURRENT ASSETS</b>		<b>763,845,632,373</b>	<b>535,902,484,020</b>
210	<i>I. Long-term receivables</i>		-	<b>491,157,110</b>
216	1. Other long-term receivables		-	491,157,110
220	<i>II. Fixed assets</i>		<b>685,451,065,181</b>	<b>245,196,233,108</b>
221	1. Tangible fixed assets	10	640,987,966,931	206,597,023,337
222	Cost		901,792,003,870	431,065,606,793
223	Accumulated depreciation		(260,804,036,939)	(224,468,583,456)
227	2. Intangible fixed assets	11	44,463,098,250	38,599,209,771
228	Cost		49,616,243,031	42,417,480,745
229	Accumulated amortisation		(5,153,144,781)	(3,818,270,974)
240	<i>III. Long-term assets in progress</i>		<b>25,249,073,444</b>	<b>264,027,532,101</b>
242	1. Construction in progress	12	25,249,073,444	264,027,532,101
250	<i>IV. Long-term investments</i>		<b>500,000,000</b>	<b>4,807,068,649</b>
252	1. Investments in associates, jointly controlled entities	13	-	4,307,068,649
253	2. Investment in other entities		500,000,000	500,000,000
260	<i>V. Other long-term assets</i>		<b>52,645,493,748</b>	<b>21,380,493,052</b>
261	1. Long-term prepaid expenses	14	39,096,605,117	5,581,629,224
262	2. Deferred tax assets	28.3	2,736,900,272	2,074,610,558
269	3. Goodwill	15	10,811,988,359	13,724,253,270
<b>270</b>	<b>TOTAL ASSETS</b>		<b>1,509,701,866,803</b>	<b>1,377,453,921,670</b>

Currency: VND

Code	RESOURCES	Notes	Ending balance	Beginning balance
<b>300</b>	<b>C. LIABILITIES</b>		<b>390,854,017,539</b>	<b>362,690,618,296</b>
310	<i>I. Current liabilities</i>		<b>380,752,817,539</b>	<b>354,736,618,296</b>
311	1. Short-term trade payables	16	119,423,187,075	150,998,376,320
312	2. Short-term advances from customers		575,780,993	418,593,156
313	3. Statutory obligations	17	53,796,337,958	28,796,161,940
314	4. Payables to employees		46,394,624,465	46,403,282,526
315	5. Short-term accrued expenses	18	42,611,741,262	42,557,455,369
319	6. Other short-term payables	19	89,504,678,453	75,178,961,763
320	7. Short-term loan and finance lease obligations	20	27,030,663,991	7,185,526,651
322	8. Bonus and welfare fund		1,415,803,342	3,198,260,571
<b>330</b>	<i>II. Non-current liabilities</i>		<b>10,101,200,000</b>	<b>7,954,000,000</b>
337	1. Other long-term liabilities		60,000,000	90,000,000
338	2. Long-term loans and finance lease obligations	20	10,041,200,000	7,864,000,000
<b>400</b>	<b>D. OWNERS' EQUITY</b>		<b>1,118,847,849,264</b>	<b>1,014,763,303,374</b>
410	<i>I. Capital</i>	21	<b>1,117,491,672,808</b>	<b>1,013,134,230,001</b>
411	1. Share capital		414,536,730,000	345,455,160,000
411a	» Shares with voting rights		414,536,730,000	345,455,160,000
411b	» Preference shares		-	-
412	2. Share premium		133,021,732,000	153,747,160,000
415	3. Treasury shares		(3,593,000)	(3,593,000)
418	4. Investment and development fund		325,267,190,345	312,754,296,109
421	5. Undistributed earnings		156,679,527,750	115,512,018,350
421a	» Undistributed earnings by the end of prior years		6,215,533,168	6,515,394,258
421b	» Undistributed earnings of current year		150,463,994,582	108,996,624,092
429	6. Non-controlling interests		87,990,085,713	85,669,188,542
<b>430</b>	<i>II. Other funds</i>		<b>1,356,176,456</b>	<b>1,629,073,373</b>
432	1. Fund for fixed assets in use		1,356,176,456	1,629,073,373
<b>440</b>	<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>1,509,701,866,803</b>	<b>1,377,453,921,670</b>

Preparer  
Nguyen Thi Ngoc Thuy

8 March 2018

Chief Accountant  
Dinh Trung Kien



General Director  
Tran Tuc Ma

## CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2017

B02-DN/HN

Currency: VND

Code	ITEMS	Notes	Current year	Previous year
01	1. Revenue from sale of goods and rendering of services	23.1	1,880,138,568,640	2,005,540,489,832
02	2. Deductions	23.1	9,696,711,713	7,206,269,642
10	3. Net revenue from sale of goods and rendering of services [10 = 01 - 02]	23.1	1,870,441,856,927	1,998,334,220,190
11	4. Cost of goods sold and services rendered	24	829,783,773,501	1,003,653,137,637
20	5. Gross profit from sale of goods and rendering of services [20 = 10 - 11]		1,040,658,083,426	994,681,082,553
21	6. Finance income	23.2	3,618,625,203	15,386,853,067
22	7. Finance expenses	25	2,890,659,006	82,652,482,107
23	<i>In which: Interest expense</i>		2,583,109,219	897,891,879
24	8. Shares of (loss)/profit of associates	13	(125,599,487)	72,279,483
25	9. Selling expenses	26	503,536,120,297	464,180,865,225
26	10. General and administrative expenses	26	214,061,671,628	182,075,800,088
30	11. Operating profit [30 = 20 + 21 - 22 + 24 - 25 - 26]		323,662,658,211	281,231,067,683
31	12. Other income		1,677,573,875	4,763,920,160
32	13. Other expenses		2,691,545,102	2,815,617,224
40	14. Other (loss)/profit [40 = 31 - 32]		(1,013,971,227)	1,948,302,936
50	15. Accounting profit before tax [50 = 30 + 40]		322,648,686,984	283,179,370,619
51	16. Current corporate income tax expense	28.2	62,893,606,877	55,783,717,002

Currency: VND

Code	ITEMS	Notes	Current year	Previous year
52	17. Deferred tax income	28.3	(662,289,714)	(830,439,363)
60	18. Net profit after tax [60 = 50 - 51 - 52]		260,417,369,821	228,226,092,980
61	19. Net profit after tax attributable to shareholders of the parent		241,103,175,375	210,595,706,839
62	20. Net profit after tax attributable to non-controlling interests	21	19,314,194,446	17,630,386,141
70	21. Basic earnings per share	30	5,351	4,561
71	22. Diluted earnings per share	30	5,351	4,561

Preparer  
**Nguyen Thi Ngoc Thuy**

8 March 2018

Chief Accountant  
**Dinh Trung Kien**



General Director  
**Tran Tuc Ma**

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2017

B03-DN/HN

Currency: VND

Code	ITEMS	Notes	Current year	Previous year
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<b>01</b>	<b>Profit before tax</b>		<b>322,648,686,984</b>	<b>283,179,370,619</b>
<i>Adjustments for:</i>				
02	Depreciation of tangible fixed assets and amortisation of intangible fixed assets (including amortization of goodwill)		42,063,220,260	35,256,425,683
03	Provisions		1,095,330,521	(933,418,554)
04	Foreign exchange losses arisen from revaluation of monetary accounts denominated in foreign currency		7,537,040	974,185,589
05	Profits from investing activities		(1,484,399,844)	(12,994,884,053)
06	Interest expense	26	2,583,109,219	897,891,879
<b>08</b>	<b>Operating profit before changes in working capital</b>		<b>366,913,484,180</b>	<b>306,379,571,163</b>
09	Decrease/(increase) in receivables		90,351,724,508	(32,823,232,430)
10	Increase in inventories		(27,718,854,464)	(204,026,652)
11	Decrease in payables		(116,767,340,848)	(2,892,501,412)
12	Increase in prepaid expenses		(33,893,780,456)	(5,062,420,407)
14	Interest paid		(2,605,474,461)	(1,190,491,879)
15	Corporate income tax paid	17	(60,019,702,195)	(60,095,417,752)
16	Other cash inflows from operating activities		-	26,539,759
17	Other cash outflows from operating activities		(31,124,756,164)	(21,579,171,742)
<b>20</b>	<b>Net cash flows from operating activities</b>		<b>185,135,300,100</b>	<b>182,558,848,648</b>

Currency: VND

Code	ITEMS	Notes	Current year	Previous year
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES</b>				
21	Purchase, construction of fixed assets and other long-term assets		(135,836,935,513)	(251,372,831,174)
22	Proceeds from disposals of fixed assets and other long-term assets		-	128,636,364
23	Loans to other entities and payments for purchase of debt instruments of other entities		(11,100,000,000)	(10,600,000,000)
24	Collections from borrowers and proceeds from sale of debt instruments of other entities		13,100,000,000	2,261,976,982
26	Proceeds from sale of investments in other entities (net of cash held by entity being disposed)		-	12,360,516,160
27	Interest and dividends received		1,033,175,273	8,126,345,025
<b>30</b>	<b>Net cash flows used in investing activities</b>		<b>(132,803,760,240)</b>	<b>(239,095,356,643)</b>
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES</b>				
33	Drawdown of borrowings		149,701,661,438	17,142,726,651
34	Repayment of borrowings		(127,679,324,098)	(17,023,200,000)
36	Dividends paid, profit distributed to equity holders of the parent and non-controlling interests		(117,957,731,600)	(84,173,380,243)
<b>40</b>	<b>Net cash flows used in financing activities</b>		<b>(95,935,394,260)</b>	<b>(84,053,853,592)</b>
<b>50</b>	<b>Net decrease in cash for the year</b>		<b>(43,603,854,400)</b>	<b>(140,590,361,587)</b>
<b>60</b>	<b>Cash and cash equivalents at the beginning of the year</b>		<b>204,507,406,466</b>	<b>345,097,768,053</b>
61	Impact of exchange rate fluctuation		-	-
<b>70</b>	<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	<b>160,903,552,066</b>	<b>204,507,406,466</b>

Preparer  
**Nguyen Thi Ngoc Thuy**

Chief Accountant  
**Dinh Trung Kien**



General Director  
**Tran Tuc Ma**

8 March 2018



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at 31 December 2017 and for the year then ended

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## 1. CORPORATE INFORMATION

Traphaco Joint Stock Company ("the Company") is a joint stock company which was transformed from a State-Owned Enterprise into a Joint Stock Company pursuant to Decision No. 2566/1999/QĐ-BGTVT dated 27 September 1999 issued by the Ministry of Transport and the Business Registration Certificate No. 058437 issued by the Department of Planning and Investment of Hanoi City on 24 December 1999. The Company also received the subsequent amendments, with the latest is the 22<sup>nd</sup> amendment, being granted by the Department of Planning and Investment of Hanoi on 1 August 2017.

The current principal activities of the Company during the year are to produce and trade pharmaceutical products, chemicals, medical supplies and equipment.

The Company's normal course of business cycle is 12 months.

The Company's head office is located at 75 Yen Ninh street, Quan Thanh ward, Ba Dinh district, Ha Noi, Viet Nam. The Company also has the following dependent units:

Name	Address
Head Office	75 Yen Ninh street, Quan Thanh ward, Ba Dinh district, Ha Noi, Viet Nam
Branch of Traphaco Joint Stock Company	Ho Chi Minh City
Central Region Branch	Da Nang City
Nam Dinh Branch	Nam Dinh Province
Nghe An Branch	Nghe An Province
Thanh Hoa Branch	Thanh Hoa Province
Vinh Long Branch	Vinh Long Province
Hai Phong Branch	Hai Phong City
Quang Ninh Branch	Quang Ninh Province
Binh Thuan Branch	Binh Thuan Province
Quang Ngai Branch	Quang Ngai Province
Dong Nai Branch	Dong Nai Province
Khanh Hoa Branch	Khanh Hoa Province
Can Tho Branch	Can Tho City
Gia Lai Branch	Gia Lai Province
Hai Duong Branch	Hai Duong Province
Tien Giang Branch	Tien Giang Province
Phu Tho Branch	Phu Tho Province
Binh Duong Branch	Binh Duong Province
Bac Giang Branch	Bac Giang Province
Hung Yen Branch	Hung Yen Province
Yen Bai Branch	Yen Bai Province
Thua Thien Hue Branch	Thua Thien Hue Province
Kien Giang Branch	Kien Giang Province

The number of the Company and its subsidiaries' employees as at 31 December 2017 is 1,434 (31 December 2016: 1,426).

## Corporate structure

As at 31 December 2017, the Company has 4 subsidiaries. Details on these subsidiaries and the Company's ownership interest in its subsidiaries are as follows:

No.	Name	Equity interest	Voting rights	Head office's address	Principal activities
1	TraphacoSapa One Member Company Ltd.	100%	100%	Group 9, Sapa town, Sapa district, Lao Cai province	Plant, process pharmaceutical materials, agriculture and forestry products, food; Produce and trade pharmaceutical products, pharmaceutical materials, food.
2	Traphaco Hi-tech Joint Stock Company	51%	51%	Tan Quang commune, Van Lam district, Hung Yen province	Produce oriental medicine.
3	Dak Lak Pharmaceutical and Medical Equipment Joint Stock Company	58%	58%	No. 9A Hung Vuong Street, Tu An ward, Buon Ma Thuot city, Dak Lak province	Produce and trade pharmaceutical products, nutritional foods; Export and import medicines, pharmaceutical materials.
4	Traphaco Hung Yen One Member Company Ltd.	100%	100%	Tan Quang commune, Van Lam district, Hung Yen province	Produce oriental medicine.

## 2. BASIS OF PREPARATION

### 2.1 Accounting standards and system

The consolidated financial statements of the Company and its subsidiaries expressed in Vietnam dong ("VND"), are prepared in accordance with the Vietnamese Enterprise Accounting System and Vietnamese Accounting Standard issued by the Ministry of Finance as per:

- ❖ Decision No. 149/2001/QĐ-BTC dated 31 December 2001 on the Issuance and Promulgation of Four Vietnamese Accounting Standards (Series 1);
- ❖ Decision No. 165/2002/QĐ-BTC dated 31 December 2002 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 2);
- ❖ Decision No. 234/2003/QĐ-BTC dated 30 December 2003 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 3);
- ❖ Decision No. 12/2005/QĐ-BTC dated 15 February 2005 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 4); and
- ❖ Decision No. 100/2005/QĐ-BTC dated 28 December 2005 on the Issuance and Promulgation of Four Vietnamese Accounting Standards (Series 5).

Accordingly, the accompanying consolidated financial statements, including their utilisation are not designed for those who are not informed about Vietnam's accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than Vietnam.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as at 31 December 2017 and for the year then ended

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### 2. BASIS OF PREPARATION (Continued)

#### 2.2 Applied accounting documentation system

The applied accounting documentation system of the Company and its subsidiaries is the General Journal system.

#### 2.3 Fiscal year

The Company's fiscal year applicable for the preparation of its consolidated financial statements starts on 1 January and ends on 31 December.

#### 2.4 Accounting currency

The consolidated financial statements are prepared in VND which is also the Company's accounting currency.

#### 2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2017.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtained control, and continued to be consolidated until the date that such control ceases.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-company balances, income and expenses and unrealised gains or losses resulting from intra-company transactions are eliminated in full.

Non - controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet

Impact of change in the ownership interest of a subsidiary, without a loss of control, is recorded in retained earning.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks and short-term, highly liquid investments with an original maturity of less than three months that are readily convertible into known amounts of cash and that are subject to an insignificant risk of change in value.

#### 3.2 Inventories

Inventories are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value.

Net realisable value ("NRV") represents the estimated selling price in the ordinary course of business less the estimated costs to complete and the estimated costs necessary to make the sale.

The perpetual method is used to record inventories, which are valued as follows:

Raw materials and goods	»	cost of purchase on a weighted average basis.
Finished goods and work-in process	»	cost of direct materials and labour plus attributable manufacturing overheads based on the normal operating capacity on a weighted average basis.

#### Provision for obsolete inventories

An inventory provision is created for the estimated loss arising due to the impairment of value (through diminution, damage, obsolescence, etc.) of raw materials, finished goods, and other inventories owned by the Company and its subsidiaries, based on appropriate evidence of impairment available at the balance sheet date.

Increases and decreases to the provision balance are recorded into the cost of goods sold account in the consolidated income statement.

#### 3.3 Receivables

Receivables are presented in the consolidated financial statements at the carrying amounts due from customers and other debtors, after provision for doubtful debts.

The provision for doubtful debts represents amounts of outstanding receivables of the Company and its subsidiaries at the balance sheet date which are doubtful of being recovered and made in accordance with the guidance under Circular 228/2009/TT-BTC issued by Ministry of Finance on 7 December 2009 ("Circular 228"). Increases and decreases to the provision balance are recorded as general and administrative expense in the consolidated income statement.

#### 3.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

The cost of a tangible fixed asset comprises of its purchase price and any directly attributable costs of bringing the tangible fixed asset to working condition for its intended use.

Expenditures for additions, improvements and renewals are added to the carrying amount of the assets and expenditures for maintenance and repairs are charged to the consolidated income statement as incurred.

When tangible fixed assets are sold or retired, any gain or loss resulting from their disposal (the difference between the net disposal proceeds

#### 3.5 Intangible fixed assets

Intangible assets are stated at cost less accumulated amortisation.

The cost of an intangible fixed asset comprises of its purchase price and any directly attributable costs of preparing the intangible fixed asset for its intended use.

Expenditures for additions, improvements are added to the carrying amount of the assets and other expenditures are charged to the consolidated income statement as incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as at 31 December 2017 and for the year then ended

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.5 Intangible fixed assets (Continued)

When intangible fixed assets are sold or retired, any gain or loss resulting from their disposal (the difference between the net disposal proceeds and the carrying amount) is included in the consolidated income statement.

##### Land use rights

Land use rights comprise the indefinite land use rights and the prepayment for the land lease contracts which are effective prior to 2003 and for which, land use right certificates have been issued. These land use rights are recorded as intangible fixed assets according to Circular No.45/2013/TT-BTC issued by the Ministry of Finance on 25 April 2013 guiding the management, use and depreciation of fixed assets.

#### 3.6 Depreciation and amortisation

Depreciation of tangible fixed assets and amortisation of intangible assets are calculated on a straight-line basis over the estimated useful life of each asset as follows:

Buildings and structures	5 - 35 years
Equipment, management tools	2 - 12 years
Means of transportation	3 - 10 years
Machinery and equipment	3 - 10 years
Definite land use rights	30 - 50 years
Site clearance expenses	32 years
Computer softwares	3 years

Indefinite land use rights are not amortised.

#### 3.7 Borrowing costs

Borrowing costs consist of interest and other costs that the Company and its subsidiaries incur in connection with the borrowing of funds. Borrowing costs are recorded as expense during the year in which they are incurred except for borrowing costs, those are directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale, are capitalized as part of the cost of the respective asset.

#### 3.8 Prepaid expenses

Prepaid expenses are reported as short-term or long-term prepaid expenses on the consolidated balance sheet and amortised over the period for which the amounts are paid or the period in which economic benefits are generated in relation to these expenses.

#### 3.9 Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of a business combination is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange plus any costs directly attributable to the business combination. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of business combination.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of a business combination is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement. After initial recognition, goodwill is measured at cost less any accumulated amortization. Goodwill is amortized from eight (8) to ten (10) years on a straight-line basis. The Company conducts the periodical review for impairment of goodwill of investment in subsidiaries. If there are indicators of impairment loss incurred is higher than the yearly allocated amount of goodwill on the straight-line basis, the higher amount will be recorded in the consolidated income statement.

#### 3.10 Investments

##### Investments in associate

The Company's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence that is neither subsidiaries nor joint ventures. The Company generally deems it has significant influence if it has over 20% of the voting rights.

Under the equity method, the investment is carried in the consolidated balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associates. Goodwill arising on acquisition of the associate is included in the carrying amount of the investment. Goodwill is not amortised and subject to annual review for impairment. The consolidated income statement reflects the share of the post-acquisition results of operations of the associates.

The share of post-acquisition profit/(loss) of the associates is presented on face of the consolidated income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from associates reduces the carrying amount of the investment.

The financial statements of the associates are prepared for the same reporting period and use the same accounting policies as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

##### Investments in other entities

Investments in other entities are stated at their acquisition costs.

##### Provision for diminution in value of the held-for-trading securities and investments in other entities

Provision is made for any diminution in value of the investments in other entities at the balance sheet date in accordance with the guidance under Circular No. 228/2009/TT-BTC issued by Ministry of Finance on 7 December 2009 ("Circular 228") and Circular No. 89/2013/TT-BTC issued by the Ministry of Finance on 28 June 2013 amending, supplementing Circular 228. Increases or decreases to the provision balance are recorded as finance expense in the consolidated income statement.

##### Held-to-maturity investments

Held-to-maturity investments are stated at their acquisition costs. After initial recognition, held-to-maturity investments are measured at recoverable amount. Any impairment loss incurred is recognised as expense in the consolidated financial statements and deducted against the value of such investments.

#### 3.11 Payables and accruals

Payables and accruals are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company and its subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as at 31 December 2017 and for the year then ended

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.12 Foreign currency transactions

Transactions in currencies other than the Company and its subsidiaries' reporting currency of VND are recorded at the actual transaction exchange rates at transaction dates which are determined as follows:

- ❖ Transactions resulting in receivables are recorded at the buying exchange rates of the commercial banks designated for collection;
- ❖ Transactions resulting in liabilities are recorded at the selling exchange rates of the commercial banks designated for payment; and
- ❖ Payments for assets or expenses without liabilities initially being recognised is recorded at the buying exchange rates of the commercial banks that process these payments.

At the end of the year, monetary balances denominated in foreign currencies are translated at the actual exchange rates at the balance sheet dates which are determined as follows:

- ❖ Monetary assets are translated at buying exchange rate of the commercial bank where the Company and its subsidiaries conduct transactions regularly; and
- ❖ Monetary liabilities are translated at selling exchange rate of the commercial bank where the Company and its subsidiaries conduct transactions regularly.

All foreign exchange differences incurred during the year and arising from the revaluation of monetary accounts denominated in foreign currency at year-end are taken to the consolidated income statement.

#### 3.13 Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss upon purchase, sale, issue or cancellation of the Company's own equity instruments.

#### 3.14 Appropriation of net profits

Net profit after tax is available for appropriation to shareholders after approval in the annual general meeting, and after making appropriation to reserve funds in accordance with the Charters of the Company and its subsidiaries and Vietnam's regulatory requirements.

The Company and its subsidiaries maintains the following reserve funds which are appropriated from net profits of the Company and its subsidiaries as proposed by the Board of Directors and subject to approval by shareholders at the annual general meetings.

##### Investment and development fund

This fund is set aside for use in the Company and its subsidiaries' expansion of its operation or of in-depth investments.

##### Bonus and welfare fund

This fund is set aside for the purpose of pecuniary rewarding and encouraging, common benefits and improvement of the employees' benefits, and presented as a liability on the consolidated balance sheet.

#### 3.15 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and its subsidiaries and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discount, rebate and sales return. The following specific recognition criteria must also be met before revenue is recognised:

##### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon the delivery of the goods.

##### Rendering of services

Revenue is recognised when services are rendered and completed.

##### Dividends

Income is recognised when the Company and its subsidiaries' entitlement as investors to receive the dividend is established.

##### Interest

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

#### 3.16 Taxation

##### Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted as at the consolidated balance sheet date.

Current income tax is charged or credited to the consolidated income statement, except when it relates to items recognised directly to equity, in which case the current income tax is also dealt with in equity.

Current income tax assets and liabilities are offset when there is a legally enforceable right for the Company and its subsidiaries to set off current tax assets against current tax liabilities and when the Company and its subsidiaries intends to settle its current tax assets and liabilities on a net basis.

##### Deferred tax

Deferred tax is provided using the liability method on temporary differences at the consolidated balance sheet date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ❖ where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the related transaction affects neither the accounting profit nor taxable profit or loss; and
- ❖ in respect of taxable temporarily differences associated with investments in subsidiaries and associates, and interests in joint ventures where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credit and unused tax losses, to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward unused tax credit and unused tax losses can be utilised, except:

- ❖ where the deferred tax asset in respect of deductible temporary difference which arises from the initial recognition of an asset or liability which at the time of the related transaction, affects neither the accounting profit nor taxable profit or loss; and
- ❖ in respect of deductible temporarily differences associated with investments in subsidiaries, associates, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as at 31 December 2017 and for the year then ended

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 3.16 Taxation (Continued)

##### Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Previously unrecognised deferred tax assets are re-assessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset realised or the liability is settled based on tax rates and tax laws that have been enacted at the consolidated balance sheet date.

Deferred tax is charged or credited to the consolidated income statement, except when it relates to items recognised directly to equity, in which case the deferred tax is also dealt with in the equity account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right for the Company and its subsidiaries to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on:

- ❖ either the same taxable entity; or
- ❖ when the Company and its subsidiaries intend either settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### 3.17 Earnings per share

Basic earnings per share amounts are calculated by dividing net profit/(loss) after tax for the year attributable to ordinary shareholders of the Company (after adjusting for the bonus and welfare fund) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit after tax attributable to ordinary equity holders of the Company (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

#### 3.18 RELATED PARTIES

Parties are considered to be related parties of the Company and its subsidiary if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, or when the Company and its subsidiary and other party are under common control or under common significant influence. Related parties can be enterprise or individual, including close members of the family of any such individual.

### 4. CASH AND CASH EQUIVALENTS

	Ending balance		Beginning balance	
Cash on hand	13,605,488,409		7,980,049,932	
Cash at banks	142,593,674,320		125,792,107,596	
Cash equivalents (*)	4,704,389,337		70,735,248,938	
<b>TOTAL</b>	<b>160,903,552,066</b>		<b>204,507,406,466</b>	

(\*) Cash equivalents as at 31 December 2017 comprised bank deposits in VND with terms of less than 3 months and earn interest at the rate of 4.3% - 5.5% per annum (as at 31 December 2016: 4.3 - 4.8% per annum).

### 5. SHORT-TERM INVESTMENTS

	Ending balance		Beginning balance	
	Cost	Carrying value	Cost	Carrying value
Term deposits (*)	8,600,000,000	8,600,000,000	10,600,000,000	10,600,000,000
<b>TOTAL</b>	<b>8,600,000,000</b>	<b>8,600,000,000</b>	<b>10,600,000,000</b>	<b>10,600,000,000</b>

(\*) Term deposits as at 31 December 2017 comprised bank deposits in VND with terms from 3 months to less than 1 year and earn interest at the rate of 5.3 - 7.5% per annum (as at 31 December 2016: 5.3% per annum).

### 6. TRADE RECEIVABLES AND ADVANCES TO SUPPLIERS

#### 6.1 Short-term trade receivables

	Ending balance		Beginning balance	
Short-term trade receivables	131,073,852,304		139,472,425,750	
<i>Nam Duong Investment JSC</i>	-		18,182,478,125	
<i>Other customers</i>	131,073,852,304		121,289,947,625	
Short-term trade receivables from related parties (Note 29)	-		3,600,862,515	
<b>TOTAL</b>	<b>131,073,852,304</b>		<b>143,073,288,265</b>	
<i>Provision for short-term trade receivables</i>	(4,668,749,621)		(3,825,135,505)	

#### 6.2 Short-term advances to suppliers

	Ending balance		Beginning balance	
Natural Factors	10,144,268,030		111,575,000	
Dong Do Investment, Construction and Development JSC	-		14,006,788,839	
Hop Phat Trading and Production JSC	-		17,688,528,643	
Cello Vietnam Co. Ltd	-		12,293,014,880	
Others	15,943,341,143		74,137,805,246	
<b>TOTAL</b>	<b>26,087,609,173</b>		<b>118,237,712,608</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as at 31 December 2017 and for the year then ended

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### 6. TRADE RECEIVABLES AND ADVANCES TO SUPPLIERS (Continued)

#### 6.3 Provision for doubtful short-term receivables

	Currency: VND	
	Current year	Previous year
Beginning balance	3,975,135,505	5,338,885,318
Provision created during the year	1,295,257,985	1,671,378,378
Decrease due to the disposal of subsidiary	-	(181,425,398)
Utilisation and reversal during the year	(451,643,869)	(2,853,702,793)
<b>Ending balance</b>	<b>4,818,749,621</b>	<b>3,975,135,505</b>

#### 7. OTHER SHORT - TERM RECEIVABLES

	Currency: VND			
	Ending balance		Beginning balance	
	Amount	Provision	Amount	Provision
Advances to employees	19,166,372,589	(150,000,000)	6,639,545,246	(150,000,000)
Deposits and mortgages	2,334,194,403	-	7,947,343,545	-
Interest receivables	-	-	298,282,872	-
Advance for payments of bonus and welfare expenses (*)	18,495,462,509	-	10,498,365,568	-
Other receivables	6,981,053,857	-	8,198,439,763	-
<b>TOTAL</b>	<b>46,977,083,358</b>	<b>(150,000,000)</b>	<b>33,581,976,994</b>	<b>(150,000,000)</b>

(\*) In accordance with the Resolution No. 28/2017/NQ-ĐHĐCĐ dated 30 March 2017, the shareholders have approved the profit appropriation plan for Bonus and welfare fund of the company at the rate of 8% of profit after tax for the year 2017. Accordingly, the Company has made advances for payments for bonus and welfare fund related expenses during the year and these advances will be cleared as a deduction to Bonus and welfare fund after having official approval from the Annual General Meeting.

### 8. BAD DEBTS

Currency: VND

	Ending balance		Beginning balance	
	Cost	Recoverable amount	Cost	Recoverable amount
Quang Tri Pharmaceutical and Medical Equipment Joint Stock Company	2,059,141,317	1,500,446,580	-	-
Overdue receivables which are considered to be irrecoverable	8,626,216,018	4,366,161,134	6,778,026,524	2,802,891,019
<b>TOTAL</b>	<b>10,685,357,335</b>	<b>5,866,607,714</b>	<b>6,778,026,524</b>	<b>2,802,891,019</b>

### 9. INVENTORIES

Currency: VND

	Ending balance		Beginning balance	
	Cost	Provision	Cost	Provision
Raw materials	146,229,695,980	(1,198,669,309)	133,876,282,225	(927,414,547)
Tools and supplies	341,292,805	-	588,589,571	-
Work in process	42,597,103,313	-	28,597,152,688	-
Finished goods	96,865,094,416	-	87,594,003,283	(19,538,357)
Merchandise	47,331,833,520	-	52,217,873,264	-
Goods in transit	664,429,703	-	3,436,694,242	-
<b>TOTAL</b>	<b>334,029,449,737</b>	<b>(1,198,669,309)</b>	<b>306,310,595,273</b>	<b>(946,952,904)</b>

#### Movements of provision for obsolete inventories:

	Currency: VND	
	Current year	Previous year
Beginning balance	946,952,904	698,047,043
Provision created during the year	1,635,653,960	841,047,445
Utilisation during the year	(591,721,954)	-
Reversal during the year	(792,215,601)	(592,141,584)
<b>Ending balance</b>	<b>1,198,669,309</b>	<b>946,952,904</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as at 31 December 2017 and for the year then ended

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### 10. TANGIBLE FIXED ASSETS

Currency: VND

	Buildings, structures	Machinery and equipment	Means of transportation	Office equipment	Others	Total
<b>Cost:</b>						
Beginning balance	180,210,253,968	173,764,795,973	58,550,410,343	15,248,689,464	3,291,457,045	431,065,606,793
» New purchase	8,701,928,591	20,646,341,761	7,226,812,724	839,461,181	2,042,115,905	39,456,660,162
» Transfer from construction in progress (*)	130,244,110,445	302,517,754,442	-	-	-	432,761,864,887
- Disposal	-	(1,064,191,611)	(120,000,000)	(307,936,361)	-	(1,492,127,972)
Ending balance	319,156,293,004	495,864,700,565	65,657,223,067	15,780,214,284	5,333,572,950	901,792,003,870
<b>In which:</b>						
Fully depreciated	25,960,225,188	49,264,057,638	14,396,244,808	9,556,242,975	2,845,844,346	102,022,614,955
<b>Accumulated depreciation:</b>						
Beginning balance	69,947,268,505	107,597,309,423	32,720,443,433	11,142,338,339	3,061,223,756	224,468,583,456
» Depreciation for the year	7,908,726,506	22,950,879,417	5,626,520,928	1,151,774,432	178,180,261	37,816,081,544
» Disposal	-	(1,052,691,700)	(120,000,000)	(307,936,361)	-	(1,480,628,061)
Ending balance	77,855,995,011	129,495,497,140	38,226,964,361	11,986,176,410	3,239,404,017	260,804,036,939
<b>Net carrying amount:</b>						
Beginning balance	110,262,985,463	66,167,486,550	25,829,966,910	4,106,351,125	230,233,289	206,597,023,337
Ending balance	241,300,297,993	366,369,203,425	27,430,258,706	3,794,037,874	2,094,168,933	640,987,966,931
<b>In which:</b>						
Assets used for mortgage (**)	19,871,063,148	7,291,942,559	-	-	-	27,163,005,707

(\*) These include assets of Traphaco Hung Yen Pharmaceutical Factory project which were invested by the Company and Traphaco Hung Yen One Member Company Ltd., during the year.

(\*\*) Certain buildings and properties attached to lands of the Company and machineries and equipment belong to the pharmaceutical material extraction production plan of TraphacoSapa One Member Company Ltd., a subsidiary of the Company are used as collateral to secure loans from banks as presented in Note 20.

### 11. INTANGIBLE FIXED ASSETS

Currency: VND

	Indefinite land use rights	Definite land use rights	Site clearance expenses	Computer software	Total
<b>Cost:</b>					
Beginning balance	33,373,954,266	416,291,335	4,972,028,674	3,655,206,470	42,417,480,745
New purchase	7,138,762,286	-	-	60,000,000	7,198,762,286
Ending balance	40,512,716,552	416,291,335	4,972,028,674	3,715,206,470	49,616,243,031
<b>In which:</b>					
Fully amortised	-	-	-	1,232,187,570	1,232,187,570
<b>Accumulated amortization:</b>					
Beginning balance	-	60,966,947	1,437,227,010	2,320,077,017	3,818,270,974
Amortisation for the year	-	8,906,677	155,375,891	1,170,591,239	1,334,873,807
Ending balance	-	69,873,624	1,592,602,901	3,490,668,256	5,153,144,781
<b>Net carrying amount:</b>					
Beginning balance	33,373,954,266	355,324,388	3,534,801,664	1,335,129,453	38,599,209,771
<b>Ending balance</b>	<b>40,512,716,552</b>	<b>346,417,711</b>	<b>3,379,425,773</b>	<b>224,538,214</b>	<b>44,463,098,250</b>

### 12. CONSTRUCTION IN PROGRESS

Currency: VND

	Ending balance	Beginning balance
Traphaco Hung Yen Pharmaceutical Factory project	8,298,830,855	242,347,149,268
Dong Pho Moi Pharmaceutical Factory project	-	12,421,965,789
Gia Lai Office project	5,194,752,092	1,616,180,092
Can Tho Office project	2,352,727,272	2,479,653,636
Thai Nguyen Office project	3,731,036,944	3,640,036,043
ERP software project	1,478,530,000	1,393,880,000
Overhaul of soft capsule factory	4,189,252,982	-
Others	3,943,299	128,667,273
<b>TOTAL</b>	<b>25,249,073,444</b>	<b>264,027,532,101</b>

### 13. INVESTMENT IN ASSOCIATE

Name	Ending balance		Beginning balance	
	Equity interest (%)	Voting rights (%)	Equity interest (%)	Voting rights (%)
Quang Tri Pharmaceutical Medical and Equipment Joint Stock Company	-	-	43%	43%

Quang Tri Pharmaceutical and Medical Equipment Joint Stock Company is a joint-stock company incorporated in pursuant to the Business Registration Certificate No. 3200042637 issued by the Department of Planning and Investment of Quang Tri province on 6 October 1998. This Company's head office is located at 185 Le Duan street, No 2 ward, Dong Ha city, Quang Tri province and its principal activities are to produce and trade pharmaceutical products.

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### 13. CONSTRUCTION IN PROGRESS (Continued)

Details of investment in associate are as follows:

	Currency: VND	
	Quang Tri Pharmaceutical Medical Equipment Joint Stock Company	
<b>Cost:</b>		
Beginning balance	3,576,498,999	
Disposal of associate (*)	(3,576,498,999)	
Ending balance	-	
<b>Accumulated share in post-acquisition profit of the associate</b>		
Beginning balance	730,569,650	
Loss from associate	(125,599,487)	
Dividends received during the year	(125,710,000)	
Disposal of associate (*)	(479,260,163)	
Ending balance	-	
<b>Net carrying amount:</b>		
Beginning balance	4,307,068,649	
<b>Ending balance</b>	-	

(\*) In compliance with Decision No. 63/2017/QĐ-HĐQT dated 11 December 2017 issued by the Company's Board of Directors, the Company has disposed all shares of Quang Tri Pharmaceutical and Medical Equipment JSC on 29 December 2017.

### 14. LONG-TERM PREPAID EXPENSES

	Currency: VND	
	Ending balance	Beginning balance
Compensation and site clearance expense	25,710,346,426	-
Renovation and installation expense	4,737,896,201	1,731,937,119
Tools and equipment	1,303,736,820	-
Pre-operation training expense	3,293,433,917	-
Others	4,051,191,753	3,849,692,105
<b>TOTAL</b>	<b>39,096,605,117</b>	<b>5,581,629,224</b>

### 15. GOODWILL

	Currency: VND		
	Goodwill for TraphacoSapa One Member Company Ltd	Goodwill for Traphaco Hi-tech Joint Stock Company	Total
<b>Cost:</b>			
Beginning balance	1,467,939,358	28,205,187,022	29,673,126,380
Ending balance	1,467,939,358	28,205,187,022	29,673,126,380
<b>Accumulated amortisation:</b>			
Beginning balance	1,376,193,150	14,572,679,960	15,948,873,110
Amortization for the year	91,746,208	2,820,518,703	2,912,264,911
Ending balance	1,467,939,358	17,393,198,663	18,861,138,021
<b>Net carrying amount:</b>			
Beginning balance	91,746,208	13,632,507,062	13,724,253,270
<b>Ending balance</b>	-	<b>10,811,988,359</b>	<b>10,811,988,359</b>

### 16. SHORT-TERM TRADE PAYABLES

	Ending balance		Beginning balance	
	Amount	Payable amount	Amount	Payable amount
Nanum CNC Company Ltd.,	-	-	18,530,008,296	18,530,008,296
Others	119,423,187,075	119,423,187,075	132,468,368,024	132,468,368,024
<b>TOTAL</b>	<b>119,423,187,075</b>	<b>119,423,187,075</b>	<b>150,998,376,320</b>	<b>150,998,376,320</b>

### 17. STATUTORY OBLIGATIONS

	Currency: VND			
	Beginning balance	Payable for the year	Payment during the year	Ending balance
Corporate income tax (Note 28.2)	24,172,594,935	62,893,606,877	60,019,702,195	27,046,499,617
Personal income tax	3,504,291,095	18,462,814,396	18,057,544,265	3,909,561,226
Value added tax	1,118,858,470	88,656,643,885	66,935,976,280	22,839,526,075
Import value added tax	-	3,969,439,497	3,969,439,497	-
Import, export duties	-	1,375,734,801	1,375,734,801	-
Other taxes	417,440	998,759,052	998,425,452	751,040
<b>TOTAL</b>	<b>28,796,161,940</b>	<b>176,356,998,508</b>	<b>151,356,822,490</b>	<b>53,796,337,958</b>

### 18. SHORT-TERM ACCRUED EXPENSES

	Currency: VND	
	Ending balance	Beginning balance
Sales discounts payable to customers	26,613,035,451	20,607,463,461
Allowance for freelancers	5,037,942,682	3,928,898,687
Bonus for employees	3,000,000,000	3,753,070,000
Advertisement expenses	666,818,182	3,333,348,366
Expenses for market survey	-	3,889,809,000
Other accruals	7,293,944,947	7,044,865,855
<b>TOTAL</b>	<b>42,611,741,262</b>	<b>42,557,455,369</b>

### 19. OTHER PAYABLES

	Currency: VND	
	Ending balance	Beginning balance
Remuneration for the Board of Management and the Board of Supervision	84,674,166,278	70,283,753,278
Social Insurance fee	1,214,879,670	705,112,848
Dividend payables	337,208,619	970,226,012
Trade union fee	344,398,134	585,739,646
Others	2,934,025,752	2,634,129,979
<b>TOTAL</b>	<b>89,504,678,453</b>	<b>75,178,961,763</b>



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## 20. LOANS AND FINANCE LEASES

Currency: VND

	Beginning balance		During the year		Ending balance	
	Amount	Amount payable	Increase	Decrease	Amount	Amount payable
<b>Short-term loans</b>	<b>7,185,526,651</b>	<b>7,185,526,651</b>	<b>139,061,766,520</b>	<b>(121,216,629,180)</b>	<b>27,030,663,991</b>	<b>27,030,663,991</b>
Short-term loans from banks	3,612,726,651	3,612,726,651	135,238,966,520	(116,393,829,180)	24,457,863,991	24,457,863,991
Short-term loan from others	2,000,000,000	2,000,000,000	1,000,000,000	(3,000,000,000)	-	-
Current portion of long-term loan	1,572,800,000	1,572,800,000	2,822,800,000	(1,822,800,000)	2,572,800,000	2,572,800,000
<b>Long-term loans</b>	<b>7,864,000,000</b>	<b>7,864,000,000</b>	<b>5,000,000,000</b>	<b>(2,822,800,000)</b>	<b>10,041,200,000</b>	<b>10,041,200,000</b>
Loan from bank	7,864,000,000	7,864,000,000	5,000,000,000	(2,822,800,000)	10,041,200,000	10,041,200,000
<b>TOTAL</b>	<b>15,049,526,651</b>	<b>15,049,526,651</b>	<b>144,061,766,520</b>	<b>(124,039,429,180)</b>	<b>37,071,863,991</b>	<b>37,071,863,991</b>

### 20.1 Short-term loans from banks

Details of the short-term loans from bank are as follows:

	Ending balance (VND)	Principal and interest payment term	Interest rate	Description of collateral
Vietnam Joint Stock Commercial Bank for Industry and Trade - Ba Dinh Branch	22,637,343,017	Term of each withdrawal is within 3 months and the final withdrawal will be repayable in March 2018. Interest is paid on a monthly basis.	5.5% p.a	A parts of plant and assets attached to land of Hoang Liet factory and some branches.
Vietnam Joint Stock Commercial Bank for Industry and Trade - Yen Bai Branch	1,820,520,974	Term of each withdrawal is within 10 months and the final withdrawal will be repayable in October 2018. Interest is paid on a monthly basis.	6% p.a	Un-secured
<b>TOTAL</b>	<b>24,457,863,991</b>			

### 20.2 Long-term loan from bank

Details of the long-term loans from banks are as follows:

Bank	Ending balance (VND)	Principal and interest repayment term	Interest rate	Description of collateral
Vietnam Joint Stock Commercial Bank for Industry and Trade - Yen Bai Branch	12,614,000,000	Principal is repayable within 25 quarters with the first payment is on 26 November 2016. Interest is paid monthly.	Interest for the first twelve months is 7.5%/annum and then will be adjusted upon bank's notice. Interest rate applicable in 2017 is 7.5%/annum	Certain machinery and equipment belong to the pharmaceutical material extraction production plant of TraphacoSapa One Member Company Ltd., and Dong Pho Moi pharmaceutical factory project.
<b>TOTAL</b>	<b>12,614,000,000</b>			
In which:				
» Current portion of long-term loan	2,572,800,000			
» Long-term loan	10,041,200,000			

## 21. OWNERS' EQUITY

### 21.1 Increase and decrease in owners' equity

	Share capital	Share premium	Treasury shares	Foreign exchange differences reserve	Investment and development fund	Undistributed earnings	Non-controlling interest	Total
<b>Previous year</b>								
Beginning balance	246,764,330,000	153,747,160,000	(3,593,000)	179,264	312,296,798,152	166,416,575,824	85,278,195,990	964,499,646,230
» Increase from investment and development fund	98,690,830,000	-	-	-	(98,690,830,000)	-	-	-
» Decrease due to a disposal of subsidiary	-	-	-	-	-	-	(4,141,153,062)	(4,141,153,062)
» Net profit for the year	-	-	-	-	-	210,595,706,839	17,630,386,141	228,226,092,980
» Dividends declared	-	-	-	-	-	(143,104,666,000)	(10,569,035,243)	(153,673,701,243)
» Appropriation of investment and development fund	-	-	-	-	99,148,327,957	(99,148,327,957)	-	-
» Appropriation of bonus and welfare fund	-	-	-	-	-	(17,756,663,452)	(2,766,087,100)	(20,522,750,552)
» Bonus for Executive Board	-	-	-	-	-	(2,279,715,787)	(269,070,213)	(2,548,786,000)
» Others	-	-	-	(179,264)	-	789,108,883	505,952,029	1,294,881,648
<b>Ending balance</b>	<b>345,455,160,000</b>	<b>153,747,160,000</b>	<b>(3,593,000)</b>	<b>-</b>	<b>312,754,296,109</b>	<b>115,512,018,350</b>	<b>85,669,188,542</b>	<b>1,013,134,230,001</b>

Currency: VND

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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### 21. OWNERS' EQUITY (Continued)

#### 21.1 Increase and decrease in owners' equity (Continued)

Current year:	Currency: VND					Total	
	Share capital	Share premium	Treasury shares	Investment and development fund	Undistributed earnings		Non-controlling interest
Beginning balance	345,455,160,000	153,747,160,000	(3,593,000)	312,754,296,109	115,512,018,350	85,669,188,542	1,013,134,230,001
» Increase in capital (*)	69,081,570,000	(20,725,428,000)	-	(34,542,380,000)	(13,813,762,000)	-	-
» Profit for the year	-	-	-	-	241,103,175,375	19,314,194,446	260,417,369,821
» Dividends declared from 2016's profit (**)	-	-	-	-	(34,542,383,000)	(5,617,280,394)	(40,159,663,394)
» Appropriation of investment and development fund (*)	-	-	-	47,055,274,236	(47,055,274,236)	-	-
» Appropriation of bonus and welfare fund (*)	-	-	-	-	(19,279,061,418)	(1,793,243,661)	(21,072,305,079)
» Bonus for Executive Board (*)	-	-	-	-	(2,254,829,623)	(245,170,377)	(2,500,000,000)
» Interim dividends from 2017's profit (**)	-	-	-	-	(82,901,080,000)	(9,287,401,206)	(92,188,481,206)
» Other decreases	-	-	-	-	(89,275,698)	(50,201,637)	(139,477,335)
<b>Ending balance</b>	<b>414,536,730,000</b>	<b>133,021,732,000</b>	<b>(3,593,000)</b>	<b>325,267,190,345</b>	<b>156,679,527,750</b>	<b>87,990,085,713</b>	<b>1,117,491,672,808</b>

(\*) In accordance with the Resolution of the Annual General Meeting of Shareholders No. 28/2017/NQ-DHDCD dated 30 March 2017, the Company had proceeded its issuance of additional 6,908,157 shares using funds from Share premium, Investment and development fund and Undistributed earnings. The Company also distributed dividends and profit of 2016 in accordance with the said Resolution.

(\*\*) Besides, the Company's Board of Director also approved the declaration of interim dividends from 2017's profit at the rate of VND 2,000/share in accordance with the Resolution No. 62/2017/NQ-HDQT dated 5 December 2017.

#### 21.2 Details of owners' shares capital

Currency: VND

	Ending balance			Beginning balance		
	Total	Ordinary shares	Preferred shares	Total	Ordinary shares	Preferred shares
State Capital and Investment Corporation	147,855,380,000	147,855,380,000	-	123,215,630,000	123,215,630,000	-
Magbi Fund Limited	103,613,850,000	103,613,850,000	-	-	-	-
Super Delta Pte. Ltd	62,672,890,000	62,672,890,000	-	-	-	-
Vietnam Azalea Fund Limited	-	-	-	86,341,160,000	86,341,160,000	-
Vietnam Holding Limited	-	-	-	36,030,920,000	36,030,920,000	-
Other shareholders	100,394,610,000	100,394,610,000	-	99,867,450,000	99,867,450,000	-
<b>TOTAL</b>	<b>414,536,730,000</b>	<b>414,536,730,000</b>	<b>-</b>	<b>345,455,160,000</b>	<b>345,455,160,000</b>	<b>-</b>

#### 21.3 Capital transactions with owners and distribution of dividends, profits

Currency: VND

	Current year	Previous year
<b>Contributed capital</b>		
Beginning balance	345,455,160,000	246,764,330,000
Increase in the year (Note 21.1)	69,081,570,000	98,690,830,000
Ending balance	414,536,730,000	345,455,160,000
<b>Dividends declared</b>		
Dividends for 2017 (1 <sup>st</sup> payment): VND 2,000 per share	82,901,080,000	-
Dividends for 2016 (2 <sup>nd</sup> payment): VND 1,000 per share	34,542,383,000	-
Dividends for 2016 (1 <sup>st</sup> payment): VND 2,000 per share	-	69,084,766,000
Dividends for 2015: VND 3,000 per share	-	74,019,900,000
<b>Dividends paid</b>	<b>103,497,308,000</b>	<b>74,147,994,000</b>

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### 21. OWNERS' EQUITY (Continued)

#### 21.4 Shares

	Ending balance	Beginning balance
<b>Shares registered for issuance</b>	<b>41,453,673</b>	<b>34,545,516</b>
<b>Issued shares</b>	<b>41,453,673</b>	<b>34,545,516</b>
Ordinary shares	41,453,673	34,545,516
Preferred shares	-	-
<b>Treasury shares</b>	<b>(3,133)</b>	<b>(3,133)</b>
Ordinary shares	(3,133)	(3,133)
Preferred shares	-	-
<b>Shares in circulation</b>	<b>41,450,540</b>	<b>34,542,383</b>
Ordinary shares	41,450,540	34,542,383
Preferred shares	-	-

The par value of share in circulation during the year is VND 10,000/share.

### 22. OFF BALANCE SHEET ITEMS

ITEM	Ending balance	Beginning balance
1. Foreign Currency:		
» US Dollar (USD)	75,536	4,507
2. Bad debts written-off (VND)	2,560,552,240	2,560,552,240

### 23. REVENUE

#### 23.1 Revenue from sale of goods and rendering of services

	Currency: VND	
	Current year	Previous year
<b>Gross revenue</b>	<b>1,880,138,568,640</b>	<b>2,005,540,489,832</b>
<i>Of which:</i>		
Sale of finished goods	1,497,425,680,990	1,518,524,099,069
Sale of merchandise	378,052,128,294	486,248,932,040
Rendering of services	4,660,759,356	767,458,723
<b>Less</b>	<b>(9,696,711,713)</b>	<b>(7,206,269,642)</b>
Sales return	(9,696,711,713)	(7,060,998,572)
Sales discount	-	(136,220,500)
Special consumption tax	-	(9,050,570)
<b>Net revenue</b>	<b>1,870,441,856,927</b>	<b>1,998,334,220,190</b>
<i>Of which:</i>		
Sale to others	1,869,409,757,117	1,988,266,266,531
Sale to related parties (Note 29)	1,032,099,810	10,067,953,659

#### 23.2 Finance income

	Currency: VND	
	Current year	Previous year
Interest income	449,710,404	7,546,056,258
Dividend income	350,000,000	52,500,000
Foreign exchange gain	945,891,751	1,053,781,434
Gain from disposal of subsidiary	867,498,838	5,376,548,312
Others	1,005,524,210	1,357,967,063
<b>TOTAL</b>	<b>3,618,625,203</b>	<b>15,386,853,067</b>

### 24. COST OF GOODS SOLD AND SERVICES RENDERED

	Currency: VND	
	Current year	Previous year
Cost of finished goods sold	498,113,325,951	555,316,370,581
Cost of merchandise sold	330,462,698,804	448,287,791,546
Cost of services rendered	1,207,748,746	48,975,510
<b>TOTAL</b>	<b>829,783,773,501</b>	<b>1,003,653,137,637</b>

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### 25. FINANCE EXPENSES

	Currency: VND	
	Current year	Previous year
Early settlement discounts (*)	169,171,354	80,539,058,350
Interest expense	2,583,109,219	897,891,879
Foreign exchange losses	138,378,433	1,215,531,878
<b>TOTAL</b>	<b>2,890,659,006</b>	<b>82,652,482,107</b>

(\*) The Company has changed its sales policy, in which payment discount scheme has no longer been applied in 2017.

### 26. SELLING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

	Currency: VND	
	Current year	Previous year
<b>Selling expenses incurred during the year</b>	<b>503,536,120,297</b>	<b>464,180,865,225</b>
Labour costs	126,694,654,396	119,917,957,703
Sales discounts	100,987,676,661	65,050,946,112
Advertising expenses	87,783,955,872	102,628,574,000
Allowance for freelancers	66,702,040,734	64,463,152,994
Transportation expenses	26,244,091,370	25,387,431,908
Depreciation and amortisation	6,573,364,873	6,093,052,092
Expenses for external services	2,508,472,357	2,391,190,426
Others	86,041,864,034	78,248,559,990
<b>General and administrative expenses incurred during the year</b>	<b>214,061,671,628</b>	<b>182,075,800,088</b>
Labour costs	128,548,466,066	103,086,181,710
Depreciation and amortisation	5,278,461,800	4,571,093,303
Expenses for external services	17,457,291,680	17,122,238,788
Others	62,777,452,082	57,296,286,287
<b>TOTAL</b>	<b>717,597,791,925</b>	<b>646,256,665,313</b>

### 27. PRODUCTION AND OPERATING COSTS

	Currency: VND	
	Current year	Previous year
Raw materials	493,676,997,409	525,049,133,299
Labour costs	396,013,403,393	311,125,018,709
Depreciation and amortization	39,150,955,351	31,139,995,884
Expenses for external services	86,793,805,166	112,223,313,918
Others	224,363,471,484	219,154,579,199
<b>TOTAL</b>	<b>1,239,998,632,803</b>	<b>1,198,692,041,009</b>

### 28. CORPORATE INCOME TAX

The statutory corporate income tax ("CIT") applicable to the Company and its subsidiaries is 20% of taxable profits, except for the following entities:

- ❖ TraphacoSapa One Member Company Ltd.: CIT is 10% of profits from planting and processing activities of pharmaceutical materials, agriculture, forestry products and food at Sapa town, Sapa district, Lao Cai province; and
- ❖ Traphaco Hi-tech Joint Stock Company: CIT is 10% of profits from producing pharmaceutical products qualified for GMP international standard for 15 years starting from 2007. This company is also entitled to an exemption from CIT for 4 years from 2007 to 2010 and a 50% reduction of the applicable CIT tax rate for 9 years from 2011 to 2019.

The tax returns filed by the Company and its subsidiaries are subject to examination by the tax authorities. As the application of tax laws and regulations is susceptible to varying interpretations, the amounts reported in the consolidated financial statements could change at a later date upon final determination by the tax authorities.

#### 28.1 CIT expenses

	Currency: VND	
	Current year	Previous year
Current CIT expenses	62,893,606,877	55,783,717,002
Deferred tax income	(662,289,714)	(830,439,363)
<b>TOTAL</b>	<b>62,231,317,163</b>	<b>54,953,277,639</b>

#### 28.2 Current tax

The current CIT payable is based on taxable profit for the current year. The taxable profit of the Company and its subsidiaries for the year differs from the profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company and its subsidiaries' liability for current tax is calculated using tax rates that have been enacted by the consolidated balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

as at 31 December 2017 and for the year then ended

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### 28. CORPORATE INCOME TAX (Continued)

#### 28.2 Current tax (Continued)

Reconciliation between accounting profit and taxable profit is presented below:

	Currency: VND	
	Current year	Previous year
<b>Accounting profit before tax</b>	<b>322,648,686,984</b>	<b>283,179,370,619</b>
<b>Adjustments of accounting profit</b>		
<i>Adjustments to increase</i>		
Non-deductible expenses	5,096,901,904	10,309,482,906
Provision for doubtful receivables	642,805,875	2,473,112,684
Allowance for non-executive members of the Board of Directors	3,898,393,000	3,640,847,630
Elimination of unrealised profit for consolidation purpose	-	9,994,744,047
Depreciation expenses exceeding allowable cap	126,908,731	125,366,900
Goodwill allocation	2,912,264,911	4,116,429,799
Loss from associate	125,599,487	-
Other increases	1,372,847,732	-
<i>Adjustments to decrease</i>		
Dividends and profit distributed	(350,000,000)	(52,500,000)
Profit from associate	-	(72,279,483)
Elimination of unrealised profit for consolidation purpose	(3,697,787,079)	-
Other decreases	-	(286,004)
<b>Estimated taxable income for the current year</b>	<b>332,776,621,545</b>	<b>313,714,289,098</b>
<i>In which:</i>		
Income at CIT rate of 20%	293,545,624,473	265,888,563,309
Income at CIT rate of 10%	39,230,997,072	47,825,725,789
<b>Estimated CIT expense in the current year</b>	<b>62,632,224,602</b>	<b>57,960,285,241</b>
CIT exempted during the year	(1,944,055,984)	(2,391,286,289)
<b>CIT expense after exemption</b>	<b>60,688,168,618</b>	<b>55,568,998,952</b>
CIT payable at the beginning of the year	24,172,594,935	28,154,255,309
Adjustment of CIT in previous year charged to consolidated income statement	2,205,438,259	214,718,050
Adjustment of CIT in previous year recognized in retained earnings	-	690,014,070
Decrease in CIT payable due to disposal of subsidiary	-	(359,973,694)
CIT paid during the year	(60,019,702,195)	(60,095,417,752)
<b>CIT payable at the end of the year (Note 17)</b>	<b>27,046,499,617</b>	<b>24,172,594,935</b>

### 28.3 Deferred tax

The following are the deferred tax assets and deferred tax liabilities recognised by the Company and its subsidiaries, and the movements thereon, during the current and previous year.

	Consolidated balance sheet		Consolidated income statement	
	Ending balance	Beginning balance	Current year	Previous year
<b>Deferred tax assets</b>				
Effects of the elimination of intra-group transactions for consolidation purpose	2,736,900,272	2,074,610,558	662,289,714	830,439,363
<b>Net deferred tax assets</b>	<b>2,736,900,272</b>	<b>2,074,610,558</b>		
<b>Net deferred tax income credited to consolidated income statement</b>			<b>662,289,714</b>	<b>830,439,363</b>

Currency: VND

### 29. TRANSACTIONS WITH RELATED PARTIES

Significant transactions of the Company and its subsidiaries with related parties during the current and previous year were as follows:

Currency: VND				
Related party	Relationship	Transactions	Current year	Previous year
Quang Tri Pharmaceutical and Medical Equipment JSC	Associate (up to 29 December 2017)	Sales of goods	1,032,099,810	10,067,953,659
		Dividends received	125,710,000	125,710,000

#### Terms and conditions of transactions with related parties:

The sales to and purchases of goods from related parties are made based on the contractual agreement.

Outstanding balances as at 31 December 2017 are unsecured, interest free and will be settled in cash. For the year ended 31 December 2017, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (31 December 2016: VND 0). This assessment is undertaken each financial year through the examination of the financial position of the related party.

Amounts due to and due from related parties at the balance sheet dates were as follows:

Currency: VND				
Related party	Relationship	Transactions	Ending balance	Beginning balance
<b>Short-term trade receivables (Note 6.1)</b>				
Quang Tri Pharmaceutical and Medical Equipment JSC	Associate (up to 29 December 2017)	Sales of goods	-	3,600,862,515
			-	<b>3,600,862,515</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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### 29. TRANSACTIONS WITH RELATED PARTIES (Continued)

Remuneration to members of the Board of Directors and Management during the year:

	Currency: VND	
	Current year	Previous year
Salaries and bonus	11,689,962,000	9,008,718,576
<b>TOTAL</b>	<b>11,689,962,000</b>	<b>9,008,718,576</b>

### 30. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations.

	Currency: VND	
	Current year	Previous year (Restated)
Accounting profit after tax	241,103,175,375	210,595,706,839
Distribution to Bonus and welfare fund (*)	(19,288,254,030)	(21,533,891,041)
<b>Net profit after tax attributable to ordinary equity holders</b>	<b>221,814,921,345</b>	<b>189,061,815,798</b>
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share (**)	41,450,540	41,450,540
<b>Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of dilution</b>	<b>41,450,540</b>	<b>41,450,540</b>
<b>Earnings per share</b>		
» Basic	5,351	4,561
» Diluted	5,351	4,561

(\*) Net profit used to compute earnings per share for the year ended 31 December 2016 was adjusted to decrease in comparison with the net profit used to compute earnings per share as disclosed in the consolidated financial statement for the year ended 31 December 2016. Adjusted amount represents an actual distribution to Bonus and welfare funds in accordance with the Company's Resolution of the Annual General Meetings.

Net profit used to compute earnings per share for the year ended 31 December 2017 are also adjusted to decrease in relation to a provisional bonus and welfare fund which will be appropriated at the rate of 8% of 2017's profits in accordance with the Resolution of the Annual General Meetings No. 28/2017/NQ-DHDCD dated 30 March 2017.

(\*\*) The Company also restated the weighted average number of ordinary shares (excluding treasury shares) to calculate earnings per share for the year ended 31 December 2016 due to the effect of bonus shares issuance in 2017.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

### 31. SEGMENT INFORMATION

The principal activities of the Company and its subsidiaries are to produce and trade pharmaceutical products and related services. Besides, the business activities of the Company and its subsidiaries are carried out in the territory of Vietnam and accordingly, the Company has not prepared reports for operating and geographical segment.

### 32. COMMITMENTS AND CONTINGENCIES

#### Operating lease commitment

The Company and its subsidiaries lease assets under operating lease arrangements. The minimum lease commitment as at the balance sheet date under the operating lease agreements of the Company and its subsidiaries are as follows:

	Currency: VND	
	Ending balance	Beginning balance
Less than 1 year	3,498,746,139	4,306,356,022
From 1 - 5 years	10,391,502,863	13,324,588,112
More than 5 years	18,754,890,977	32,833,325,905
<b>TOTAL</b>	<b>32,645,139,979</b>	<b>50,464,270,039</b>

### 33. EVENTS AFTER THE BALANCE SHEET DATE

There has not been any matter or circumstance that has arisen since the balance sheet date that requires adjustment or disclosure in the consolidated financial statements of the Company and its subsidiaries.



Preparer  
**Nguyen Thi Ngoc Thuy**



Chief Accountant  
**Dinh Trung Kien**



General Director  
**Tran Tuc Ma**

8 March 2018