

BUSINESS PERFORMANCE AND FINANCIAL STATEMENTS OF THE BOARD OF MANAGEMENT IN 2018 & PLANS FOR 2019

I. SOCIOECONOMIC CONTEXT OF VIETNAM IN 2018, 2019 FORECAST AND 2022 OUTLOOK

The government identified that bright “stroke” in the 2018 economic picture was achievement of 12/12 socioeconomic indicators set out by the National Assembly. This was also the second consecutive year of optimistic economic growth and achievement of targets. According to the General Department of Statistics, Gross Domestic Product (GDP) growth rate was 7.08%, a high degree for the past 10 years.

In addition to good economic growth, Vietnam also scored many accomplishments in macroeconomic management with flexible monetary policies against complicated global developments. The State Bank of Vietnam introduced some currency stabilization measures against USD. Interest rate was also stabilized, credit growth rate was kept at 17% to accommodate business activities.

Late 2018, the National Assembly ratified Vietnam’s ascension to Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) of 11 member states. Further integration helps to realize Vietnam’s dreams of prosperity and sustainable development. Vietnam also successfully held the World Economic Forum on ASEAN. This established the country with its efforts in improving business environment and encouraging growth.

However, Vietnam still faces 4 main challenges in terms of economic growth: “low labor cost trap”, “low value trap”, “average income trap” and “low tech trap”. Despite the highest growth rate for the past 10 years, there were signs of unsustainability. Main growth drive was export by FDI companies, which bears low domestic contents among the spearheaded exports. In addition, cheap labor advantage is diminishing, while adoption of artificial intelligence poses new challenges. Domestic companies are proven by the impact of globalization to be poorly competitive and susceptible to close-down or acquisition by foreign companies. In particular, over 90,000 companies went out of business in 2018, an increase of nearly 50% from 2017.

The Asian Development Bank (ADB) forecast that growth rate will be 6.8% in 2019, which coincides with growth target set out by the Government.

Vietnam can follow many economic scenarios for the next five years. Associate professor Nguyen Van Thanh, PhD, of the National Center for Socioeconomic Information and Forecast, proposed two growth scenarios. For the first scenario, growth model is transformed slowly and intermittently, international integration opportunities are not taken, and state governance is poor: Growth rate will be 6.5%, and inflation rate will be 6.7%. For the second scenario, growth model is transformed in industrialized and modernized approach, comparative advantages and benefits from bilateral and multilateral FTAs are well taken, and state governance is improved: Growth rate will be 7.1%, and inflation rate will be 7.21%.

Given the many scenarios set for the next five years, Vietnam will persistently pursue a stable growth target, curb inflation, improve foreign investment attraction and drive growth through bilateral and multilateral trade agreements.

II. PHARMACEUTICAL INDUSTRY OF VIETNAM IN 2018 AND 2022 OUTLOOK

2018 was an eventful year for Vietnam's pharmaceutical industry - harsh competition in light of saturated market after heated growth. YoY revenue increased slowly, profit margin of listed pharmaceutical companies dropped sharply due to a rise in input price. The reason originates from China – the world's manufacturer of pharmaceutical inputs – who strengthened environmental control and closed down thousands of material plants.

Vietnam's pharmaceutical market faced many challenges in 2018, but was considered to have potentials given the fact that the population is shifting towards older ages. In 2017, 6.5% of Vietnamese population was above the age of 65, which will rise to 21% by 2050. A survey conducted by Nielsen indicates that health was one of the two leading concerns among the Vietnamese. Improvement in average income results in higher expenditure for health care. Therefore analysts are still optimistic about outlook of the pharmaceutical industry.

Statistics provided by Drug Administration of Vietnam indicates that the industry will continue to grow at two-digit rate in the next five years, and will reach USD 7.7 billion by 2021. Virac reports that there are approx. 153 western medicine and 80 traditional medicine pharmaceutical producers in Vietnam. However, the majority of products made are in simple dosage forms and generics while product groups are often overlapping, lack of diversity and produced using simple technology. Therefore, when the market slows down, companies struggle to find their position, strengthen their competitiveness and take market share. This means poor growth in revenue is predictable.

The biggest challenges pharmaceutical firms are facing are material dependency and legal framework for bidding for contract with hospital. In addition, preference towards imported products among the Vietnamese is also detrimental to domestic players' striving for market share. Currently, pharmaceutical firms have invested in technology to comply with world standards, e.g. EU-GMP or PIC/S, and are prepared to compete with foreign players.

On the other hand, Vietnam's pharmaceutical industry is even more open after CPTPP ratification. Domestic players will have to defend more fiercely against foreign inflows. M&A is vibrant among major listed pharmaceutical firms. Globalization is imminent, and to sustain, firms have to address material dependency, improve investment in R&D, an increase science and technology contents. Domestic players should adopt robust strategy, diversify products and strengthen brand to stand out in the competitive market. In addition, they also need a full-fledged legal framework, especially in terms of bidding for contract with hospitals to accommodate access to high-quality and low-cost medicine.

III. OPERATIONAL AND FINANCIAL PERFORMANCE 2018

Operational performance briefing 2018

Indicator (VND billion)	2018	2017	% Change	2018 target	% of 2018 target
Total net revenue and other income	1,207,125	1,185,399	1.8%	1,400,000	86.2%
Net revenue	1,184,818	1,165,456	1.7%		
<i>Export turnover</i>	<i>12,482</i>	<i>5,132</i>	<i>143.2%</i>		
<i>Revenues from produced goods</i>					
<i>(Imexpharm products)</i>	<i>1,064,214</i>	<i>1,004,924</i>	<i>5.9%</i>		
<i>Revenues from franchises</i>	<i>67,329</i>	<i>105,068</i>	<i>-35.9%</i>		
<i>Revenues from other goods</i>	<i>40,793</i>	<i>50,332</i>	<i>-19.0%</i>		
Financial income and other income	22,307	19,944	11.8%		
Cost of goods sold	715,187	728,635 (*)	-1.8%		
Gross profit	469,631	436,821	7.5%		
Operation expenses	318,169	310,206	2.6%		
<i>Expenses of financial activities</i>	<i>17,599</i>	<i>13,985</i>	<i>25.8%</i>		
<i>Sales expenses</i>	<i>212,134</i>	<i>210,067 (*)</i>	<i>1.0%</i>		
<i>Management expenses</i>	<i>88,184</i>	<i>85,505</i>	<i>3.1%</i>		
<i>Other expenses</i>	<i>252</i>	<i>649</i>	<i>-61.2%</i>		
Profit Before Tax and Allocation for Science & Technology Development Fund	192,769	162,559	18.6%	190,000	101.5%

Indicator (VND billion)	2018	2017	% Change	2018 target	% of 2018 target
Pre-tax profit	173,769	146,559	18.6%		
Profit after tax	138,683	117,360	18.2%		
Total assets	1,774,247	1,773,631	0.0%		
Owner's equity	1,504,613	1,395,314	7.8%		
Charter capital	494,212	429,782	15.0%		
% COGS/Net Revenue	60,4%	62,5%	-2.2%		
% Operating Expense/Net Revenue	26,9%	26,6%	0.2%		

Note: () In 2018, Imexpharm Board of Directors decided to terminate Financial Statements auditing service from Deloitte Vietnam Co., Ltd, and started using such services by PwC Vietnam Co., Ltd.*

The following 2017 indicators were adjusted by PwC Vietnam Co., Ltd. in the audited financial statements:

2017 indicators (VND million)	2017 Audited Financial Statements	Adjusted by PwC	Difference
Cost of goods sold	707,481	728,635	(21,154)
Sales expenses	231,220	210,066	21,154
Total			0

1. Performance of 2018 Revenue Targets

In 2018, Imexpharm's total revenue and earnings increased YoY by 1.8% to VND 1,207 billion. This means Imexpharm completed 86.2% targets set for 2018. Revenue for Imexpharm trademark products had an optimistic growth rate of 5.9%.

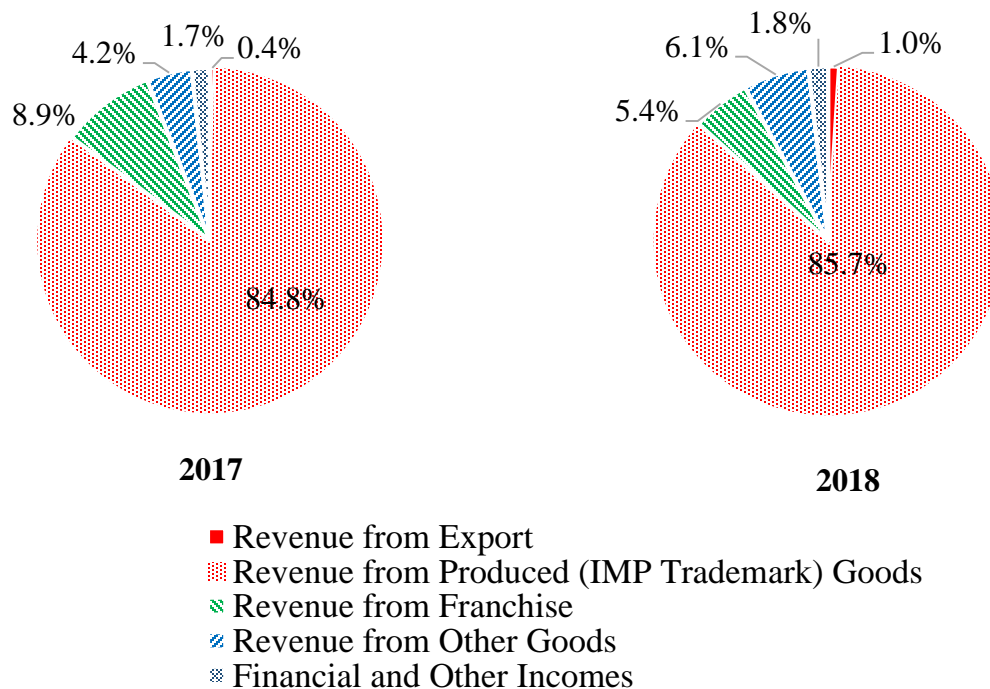
Even though 2018 was a challenging year for pharmaceutical industry when heated growth phase was over, the Board of Management still set demanding targets, determined to accelerate after major investment in new plants to meet the expectations of shareholders and investors. Against all of their efforts, 2018 revenue could not make target, given inhibitions by legal framework on the ETC market. However, this performance was considered upbeat. Statistics indicate that 2018 was a difficult year for the whole industry - total revenue of 17 listed firms decreased by 3.5%, and profit by 2.2%. Imexpharm is considered a rare case with strong strategy and growth potential in mid and long terms, and focus on sustainable development.

In 2018, the Firm's OTC channel was dim. Competitions and saturated market drove OTC revenue to lowest in the past three years, growing at over 1% against the target of approx. 10%.

Bidding on ETC channel was also not optimistic. This line of business depends heavily on legal framework, however, revision of the Circular instructing this activity was not complete in 2018. In 2018, ETC contributed 19% to revenue, against meager growth rate of 9%. Apparently ETC business is growing steadily and contributing better to revenue. However, it fails to leverage the new plants and existing potentials. The Board of Management understands this responsibility and will review the potential market in 2019 to aim for the 2022 target of 40% for ETC business.

Revenue Structure by Product Category

Imexpharm trademark products still take the highest share of 85.7% in revenue, slightly increasing from 84.8%. The Firm focuses on key products to build our brand and improve profit margin.

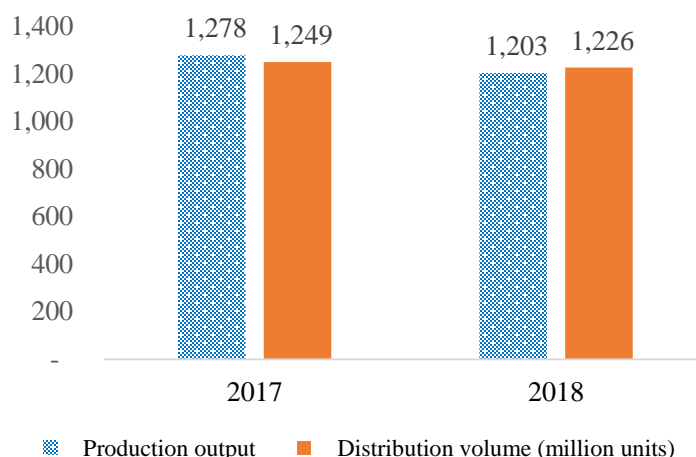


chise dropped sharply because the distributor decided to cut down on order. Same situation for Revenue from Other Goods because the Firm refrains from selling materials to other partners, given the fluctuating price. However, Revenue from Export increased and offset for other categories.

Imexpharm believes that in 2019, with the presence of EU-GMP plants, Imexpharm trademark products will continue to have major share. The Firm will seek more

markets for export to avoid domestic competitive pressure, and invest further in R&D to improve technology contents in existing products.

Production and Consumption



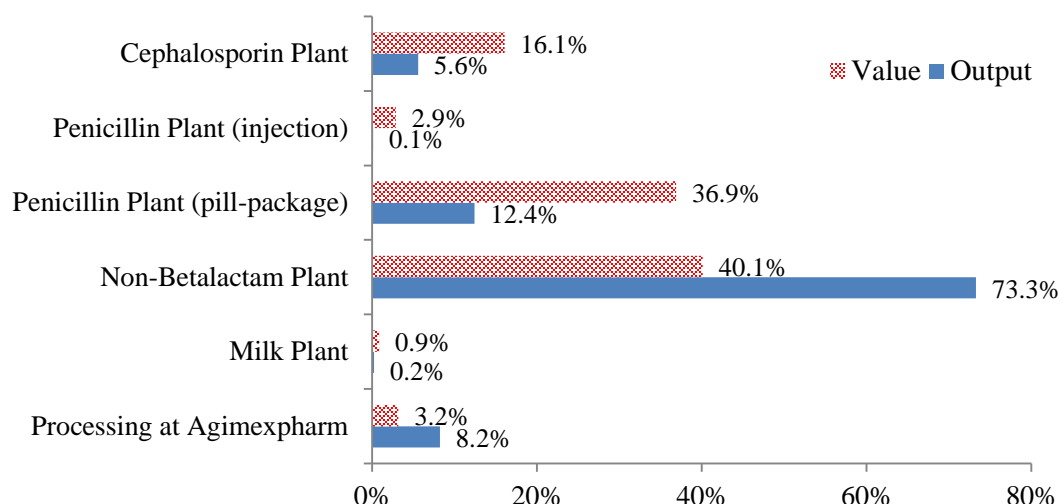
Production and Consumption decreased slightly from 2017, mainly because the Firm focused more on key, high-value products, especially injection antibiotics Cephalosporin and Penicillin lines. Therefore, output was lower in terms of volume, but higher in terms of value compared to previous year. 2018 output was 1,203 million units, decreasing 5.9%, but the total stock-in value was VND 572.3 billion, increasing by 3.8% (regardless of price appreciation, 2018 COGS increased by 3.2%).

In the future, Imexpharm will leverage our core value to produce high-value goods, i.e. injection and other types of special medicine, to generate good revenue and profit margin, and improve competitiveness against the popular simple products with low technology contents on the market.

Plants Output and Value Creation

Two plants in Cao Lanh still play an important role and are operating at capacity to sustain growth. They also cover the cost for new, nonoperational plants, given that Imexpharm has invested enormously for new EU-GMP plants recently. Non-Batalactam plant continues to rank first in term of output volume and value in 2018 revenue, followed by swallowing Penicillin.

Cephalosporin Plant in made certain share in revenue with high-value products, despite underutilized capacity. The Board of Management will adopt sound strategy



to improve the performance of Cephalosporin and injection Penicillin plants in the future.

2. Cost of Goods Sold and Operating Expenses

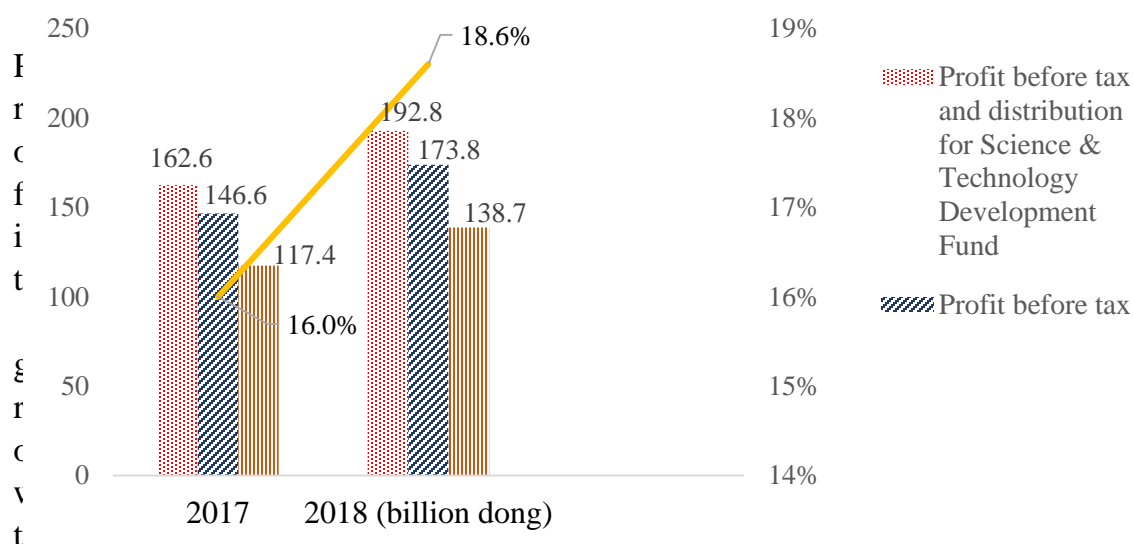
In 2018, the global development has many changes, with the exchange rate showing an upward trend, affecting the price of input materials. In addition, the major exporters of pharmaceutical chemical material, i.e. China and India, have tightened their control over environmental protection, leading to termination of thousands of factories which in turn resulted in strong growth in raw material prices in the world. Supply of raw materials becomes scarcer. Prices of other inputs also increased following this trend. The Board of Management expects 2018 to be full of challenges in controlling input costs. Thanks to the timely forecast of the situation and introduction of appropriate counter measures, the company succeeded in controlling production and operation costs.

Imexpharm has well controlled the cost of goods sold to keep it competitive in the context of difficulties in the industry. Specifically, the total cost of goods sold in 2018 decreased by 1.8%. For Imexpharm brand-name products only, the proportion of cost of goods produced/ revenue in 2018 was 50.4%, up 3.2% compared to 2017. It can be said that this is the best price increase under control by Imexpharm in the context of strong fluctuations in the price of pharmaceutical input materials in 2018; while the selling price was not adjusted because the Company adopted the drug price stabilization policy.

Total operation costs increased by 2.6% over the same period in 2017, mainly due to increased financial costs and management expenses. Notably, Sales expenses only increased by 1.0 %. These are impressive figures when the consumer price index of 2018 increased by 3.54%. The Board of Management spoke highly of the efforts of the entire team in strengthening its market while staying in balanced control of all of the costs, contributing to a higher profit margin for the Company in the context of extremely disadvantages in 2018.

3. Performance of profit targets

Thanks to the effective operation of the entire system, the Profit before tax and distribution for Science & Technology Development Fund of Imexpharm in 2018 exceeded by 1.5% of the target set by the General Meeting of Shareholders for an amount of VND 192.8 billion. The Board of Management acknowledged and spoke highly of the efforts of its people in fulfilling the profit target under the condition that its revenue only reached 86.2% of the 2018 plan and input material prices sharply increased.



h rate in 2018 reached 18.6%, higher than 2017 (16.0%). However, the profit from divesting from S.Pharm Pharmaceutical Joint Stock Company (Soc Trang) and Da Nang Pharmaceutical Medical Equipment Joint stock Company (Dapharco) was VND 8.2 billion in 2018. Should this amount be excluded from calculation, the Profit before tax and distribution for Science & Technology Development Fund still achieved a high growth rate of 13.5%, taking into account of unfavorable contextual conditions in 2018.

The company also determined that it will be very challenging for the years to come to achieve a profit growth rate of over 18% as competition is getting fiercer with the presence of too many competitors in the same market. Besides, the price of raw

materials is expected to grow strongly in 2019, shrinking the profit margin of the pharmaceutical industry. However, in recent years, Imexpharm has always completed the profit targets set by the General Meeting of Shareholders thanks to relevant and timely strategies. Therefore, the company will build on its past achievements to successfully deliver the profit growth targets in the coming years.

4. Total assets and capital

Total assets in 2018 reached VND 1,774.2 billion, which is almost equivalent to 2017. Short-term deposits were drawn for disbursement at 02 new factory projects. Fixed assets in the year were recorded to increase by VND 47.8 billion due to its purchase of additional machinery and equipment. The value of long-term assets in progress increased by VND 120.5 billion due to the completion of Binh Duong High-Tech Plant. The Board of Management also acknowledged the collective effort in completing the factories as scheduled.

During the year, the Company divested from its affiliated company of S.Pharm Pharmaceutical Joint Stock Company and divested its long-term investment from Da Nang Pharmaceutical Medical Equipment Joint stock Company (Dapharco), with VND 33.7 billion collected for stronger resources on key business and production activities.

In 2018, the charter capital increased by 15% due to its issuance of shares to pay dividends in 2017, increasing owner's equity to 7.8% compared to 2017.

5. Science and Technology Development Fund

Imexpharm contribution to and use of Science and Technology Fund for 7 years as follows:

(Unit: million dong):

Year	Appropriated amount	Used	Closing balance
2012	11,500	-	11,500
2013	10,500	2,793	19,207
2014	12,200	3,909	27,498
2015	13,000	11,180	29,318
2016	14,000	21,597	21,721
2017	16,000	3,310	34,411
2018	19,000	20,805	32,606
Total	96,200	63,594	32,606

Science and Technology Development Fund has been used by Imexpharm for its investment in product development, application for Europe Visa for products, technology development in the context of the Industry 4.0, including: SAP-ERP, DMS (Distribution Management System), automated systems for building management and monitoring of online production environment for EU-GMP factories; and consultancy costs for EU-GMP approval.

Imexpharm is expected to terminate contribution to this fund after receiving EU-GMP approval for Binh Duong High-tech factory and successful application for a product visa for the factory.

6. Cash flows

CASH FLOW	2018	2017	% of change
Net cash flows from operating activities	132,094	97,213	35,9%
Net cash flows from investing activities	(48,101)	(443,247)	-89,1%
Net cash flows from financing activities	-	352,372	-100,0%
<i>Net cash flows in the period</i>	83,993	6,338	1,225,2%
<i>Closing cash and cash equivalents</i>	190,437	106,457	78,9%

The after-tax profit growth is positive, plus good debt management; thus, the operating cash flow increased significantly to VND 132 billion, up nearly 36%.

Net cash flows from investment activities fell sharply compared to 2017, mainly due to the reduction of term deposits. In 2018, the expenses for acquisition of fixed assets was VND 272.4 billion, financed by the recovery of term deposits at banks of VND 221.7 billion and recovery of investment in another agencies of VND 33.7 billion as mentioned above. Last year, the Company also received a deposit interest and dividends of VND 12 billion.

Net cash flows from financing activities were 0. Imexpharm mainly used owners' equity to implement its business and investment activities. Currently, the company only uses short-term unsecured loans from banks to guarantee bids and apply for import LC. These amounts valued at VND 160 billion were used and repaid fully last year.

Cash and cash equivalents as of the end of 2018 reached more than VND 190 billion, i.e. an increase of nearly VND 84 billion or 79% compared to the same period of 2017.

7. Explanation of the opinion of the Independent Auditors in the audited Financial Statements for 2018

Independent auditors provided their comments on the Notes to the financial statements No. 2.17, saying that, as of December 31, 2018, the Company did not record any provision for payment of severance allowance to employees due to the application of Circular No. 180/2012/TT-BTC by the Ministry of Finance dated October 24, 2012. The application of this Circular led to a difference from Vietnamese Accounting Standard No. 18 - *Provisions, contingent assets and liabilities*.

The Board of Management hereby explains on this as follows:

According to Vietnamese Labor Code, the employees of the Company who have worked regularly for full 12 months or longer are entitled to severance allowance. The working period for the calculation of severance allowance is the total working period minus the period during which the employee benefits from unemployment insurance as regulated.

As of December 31, 2018, the provisions for payment of severance allowance were estimated at VND 13.0 billion. However, according to the guidance at Circular 180/2012/TT-BTC, the Company was not required to set up a provision fund for payment of severance allowances for its employees. When the employees leave the Company, it will make and record this payment as the severance allowance during the year. On the other hand, the Company has paid full unemployment insurance for employees since 2009. For that reason, the Company did not contribute any provisions for payment of severance allowances for its employees.

IV. ANALYSIS OF FINANCIAL INDICATORS

Key indicators	2018	2017	Change
Profit margin			
Operating income/Revenue	14.4%	12.5%	1.9%
ROS (Net profit/Revenue)	11.7%	10.1%	1.6%
ROA (Net profit/Assets)	7.8%	8.0%	-0.2%
ROE (Net profit/Owner's equity)	9.6%	10.1%	-0.5%
Liquidity ratio (times)			
Quick ratio	2.2	2.0	0.2
Current ratio	3.5	2.8	0.7
Days Working Capital (days)			
Average days of inventories	153	128	25
Average days of trade receivables	63	71	-8
Average days of trade payables	84	77	7
Days Working Capital	132	121	11
Debt ratios			
Liabilities/Owner's equity	15.20%	21.30%	-6.1%

Key indicators	2018	2017	Change
Liabilities/Total assets	17.90%	27.10%	-9.2%
Stock market performance indicators			
EPS (VND)	2,470	2,160 (*)	14.4%
Market price on December 31 (VND/share)	60,900	66,000	-7.7%
P/E ratio (times)	25	31	-6
Book value of a share (BV, VND)	30,457	32,481	-6.2%
P/B ratio (times)	2	2	0

*Note: (**) EPS for 2017 has been adjusted by PwC Vietnam Co., Ltd. From VND 2,501 /share down to VND 2,160 /share in 2018 Audited Financial Statements)*

1. Profit margin

Thanks to the significant growth of the company's profit compared to 2017, operating profit margin and net profit margin both increased compared to the previous year, by 1.9% and 1.6% respectively. However, return on assets and return on equity were slightly reduced. The reason is that the total assets and owners' equity increased sharply from the end of 2016 to the end of 2017 thanks to the issuance of shares; thus, the average total asset and equity for 2017 was lower than that for 2018, and ROA and ROE measures were somewhat lower than 2017. Imexpharm expected to invest in new projects with future growth potential; thus, in the period of 2016-2018, ROA and ROE indicators may not be high. In 2019, when factories are put into operation, the company expects to significantly improve its profitability indicators.

2. Liquidity ratio

Imexpharm's payment ratio is always kept at a safe level. Short-term payment ratios in 2018 increased slightly compared to 2017. In 2018, the basic construction of factories was nearly completed, so the short-term payables to suppliers also dropped significantly and the short-term payment indicators improved compared with the previous year. Specifically, short-term liabilities at the end of 2018 were VND 107 billion lower than those at the end of 2017. Imexpharm has always controlled its working capital, especially inventories and debts, to ensure smooth and effective business operations.

3. Performance Indicators

In 2018, the company's average days of inventories were 153, a 25-day increase compared to 2017. Average days of inventories increased significantly due to the planned stockpiling of raw materials in the face of price fluctuations. Specifically, the net value of raw materials inventory at the end of 2018 was VND 188.4 billion,

44% higher than the previous year, and accounting for nearly 60% of the inventory value. The company has set up contribution of provision for devaluation inventories.

The company continued to further tighten its debts, so the average days of trade receivables decreased by 8 days, standing at 63 days in 2018. Last year, Imexpharm issued a credit policy for OTC customers, whereby it continued to reduce the number of credit days from 75 to 45 days. Overdue debt (overdue for more than 6 months) at the end of 2018 was VND 10.6 billion, accounting for only 5.7% of total collectible debts, 4.4 billion or 29.4% lower than the end of 2017. The provision for all bad debts has been fully extracted in accordance with regulations. Provision for short-term receivables which were difficult to collect reduced by VND 0.5 billion compared to the previous year, standing at VND 12.5 billion. The amount of bad debts cleared in 2018 was VND 19.5 billion, an increase of VND 1.72 billion compared to 2017.

The negotiation skills with suppliers improved, so the average days of trade payables increased by 7 days, from 77 to 84 days. The days working capital increased by 11 days compared to 2017.

The credit tightening and negotiation with suppliers continued to be a focus of the company in 2018, resulting in improved performance indicators. Despite fierce competition, the company will still control a safe amount of debts to avoid bad debts. The Board of Management spoke highly of its team's efforts to improve performance indicators. These indicators need to be closely monitored and further improved in 2019 and years to come to reduce capital expenditures for the Company.

4. Debt ratios

The debt-to-asset and debt-to-equity ratios of the company all decreased compared to 2017 due to lower liabilities compared to the same period in previous year. Imexpharm has always managed its financial situation based on low risk tolerance, controlled its debt ratios at a safe level, and minimized risks that potentially affect production and business activities.

5. Stock market performance indicators

At the end of 2018, Imexpharm's stock price stood at VND 60,900/share, down 7.7% compared to the closing price in 2017. Last year, due to strong fluctuation of input material prices, the business performance of listed pharmaceutical companies was far below expectations, leading to investors' concerns about pharmaceutical stocks.

Increased profits improved EPS by 14.4%. Due to falling stock prices, the P/E ratio also decreased by 6 times to 25 times. In 2018, the company issued additional

shares to pay dividends to shareholders (15%), the book value accordingly decreased by 6.2% compared to 2017.

V. PERFORMANCE REPORT OF THE BOARD OF MANAGEMENT IN 2018

1. Sales - Distribution - Marketing

In 2018, the total net revenue increased by 1.8% compared to 2018 and the revenue stood at 86.2% of the plan; thus, the Sales Division did not fulfill the planned targets. However, the Board of Management spoke highly of the efforts of the sales team, considering the fact that there were too many competitors, the OTC market was moving forward to a saturation point under the impacts of the Universal Health Coverage, while the legal corridor for drug procurement activities in hospitals remained unclear.

In 2018, Imexpharm maintained operations of 20 out of 23 sales branches throughout Vietnam. Sales activities were much supported by DMS software (Distribution Management System). However, the Sales Division has not exploited full utilities of this system. The revenue forecasting has not been standardized, leading to a shortage of supply to the market. The Board of Management has recognized this limitation and will focus on remedial measures in 2019.

The company will still focus on boosting its revenue from key products of Imexpharm. In 2018, Imexpharm's revenue reached more than VND 1,064 billion, up 5.9% compared to the same period in 2017. This figure is remarkable in the development context in 2018, despite being lower than expected target set by the Board of Management as well as the General Meeting of Shareholders. The Sales Division should coordinate with the Marketing Division to expand its customer network, increase the nationwide coverage of Imexpharm products, especially in private health care.

Imexpharm expected that ETC revenue in 2018 would reach more than VND 350 billion, but the actual revenue was only about 50% of the plan. Understanding that the procurement process would require some more time for any positive changes due to availability of a legal corridor, the Board of Management determines that higher ETC revenue is an important indicator for the Sales Division and would manage to achieve this by the end of 2019 .

Customer care services were also among the priorities of Marketing Division in 2018 and undertaken through product fairs and customer conferences. Product branding activities for: Claminat , Cidetuss, Bactamox, Probio, etc. have been promoted to increase sales for key product lines, which has achieved initial positive results. In addition, the Board of Management also spoke highly of the efforts of the Marketing Division in ETC procurement activities through programs for hospitals and doctors.

The Board of Management expected that sales, distribution and marketing activities in 2018 would experience many positive improvements in response to market fluctuations. However, the Sales Division needs to draft reasonable strategies to boost sales of ETC products, and coordinate closely with the Planning Division to avoid short supply of goods and lower inventories.

2. Human resources management

Imexpharm is currently putting into operation two new factories, so it is of importance to train and finalize personnel structure. By the end of 2018, the Company had a total of 1,208 employees, up 2% compared to 2017. Imexpharm focuses on human resources development centered around specialization and training of high-quality personnel for smooth operation of European-standardized factories. It focuses on solutions to enhance labor productivity, redevelop norms, improve production and work processes, reduce working hours and machine hours per unit of products. Human resource management is supported by Balanced Score Card tool to strictly control the implementation of the company's strategic goals at the departmental level.

In 2018, the company completed and standardized terms of references for all positions in the company, and redeveloped the recruitment process and policies, prepared standardized training materials to be in line with the development goals and scale of Imexpharm. Besides, KPIs (work performance measurement index) were initially developed for a number of departments and then across the company to evaluate the capacity of all employees and draft relevant HR policies.

For Imexpharm, the succession team is very important in the development process of the company, and it has strengthened the HR training for departments, especially the Sales Division, i.e. the key part of the company's business activities. Besides, the company also focuses on activities that aim to develop Imexpharm Culture to enhance the team cohesion in the Company. Imexpharm's policies always aim to stabilize the pay and benefits system for employees. The guiding principle for Imexpharm has always been to develop a professional, friendly, humane working environment, and to turn itself into a "Sustainable House" to make full use of the working capacity and dedication of its employees.

The Board of Management recognized the achievements of Human Resource Development activities in 2018. However, there remain some shortcomings, that is, attracting and recruiting talents for EU-GMP factories which are about to go into operation. The performance assessment system has not yet been finalized in a sense that it has not been able to integrate the performance indicators with the overall development strategy of the company. Therefore, the task of Human Resource Development in the coming months and years is to streamline the recruitment process and performance assessment system, which is the basis to build strong

succession teams in the future to direct Imexpharm development towards its missions and goals.

3. R&D activities - Supply chain of input materials

R&D is one of the weak and uncompetitive areas of domestic pharmaceutical companies compared to foreign-financed counterparts. Therefore, the Board of Management, with its strong interest on this issue, has introduced timely policies and solutions to improve research capacity and technology content of Imexpharm products.

In 2018, the R&D Division was strongly restructured in terms of its people and operation to build a specialist team for individual production technology. Training and updating technical knowledge are conducted internally on a regular basis to build capacity on work management. The achievement of the R&D Division last year was its collaboration with industry experts and reputable national hospitals to announce EACRI research for Bactamox 1g product. Besides, the R&D Division also worked closely with the Supplies Division to diversify suppliers, promote the advantages for Imexpharm in price negotiation with our partners. In addition, the registration of new products and re-registration of expired products was also conducted promptly by R&D department to meet the needs of production and business activities.

The Input supplies Division made great efforts last year in timely meeting the demand for materials and equipment of new factories, while keeping searching for new sources of materials and coordinating with the Planning Division to respond to the price soaring of raw materials.

However, the Board of Management believes that the R&D Division needs to improve the capacity of its staff to grow stronger, in addition to close coordination with other divisions such as: Supplies and Planning divisions to focus on products research according to market requirements, and sources of raw materials at competitive prices. Although the Input supplies Division has completed its task of supporting operation of new factories, the shortage of raw materials still occurs. The Board of Management believes that the divisions need to coordinate more closely with one another to ensure the production progress and adequate supply of goods to the market.

4. Production activities - Quality assurance

The Board of Management acknowledged the contribution of the Production Division in satisfaction of goods demand for the Sales Division. In 2018 only, Vinh Loc High-tech Plant obtained EU-GMP approval, its leaders, workers and support

teams have successfully completed their assigned tasks. Quality Control Division at factories are developed in line with advanced technology standards and equipped with advanced processes to minimize disqualified products to be distributed to market. Last year, the production division cooperated closely with other divisions to further support business activities, reducing the shortage of goods.

In particular, the production division also upgraded the Binh Duong Cephalosporin production line, enabling it to double the production capacity to 20 million vials/year. The quality improvement and energy saving programs implemented by the production division in 2018 achieved positive results despite some limitations to remain. In spite of stable operation of factories, the Quality Assurance Division also needs to monitor the product stability more closely to avoid any incidents to potentially occur with product quality at the output stage.

5. Sustainable development programs

In November 2018, Imexpharm's Sustainable Development Board was re-established to replace the old Sustainable Development Board formed in August 2014, with the participation of and accountability taken directly by the members of Board of Directors and Board of Management, which is led by Chairperson of Board of Directors. With this high commitment, the Sustainable Development Board is expected to provide efficient support to the Board of Management in monitoring and implementation of sustainable development issues across the company, development of sustainable development strategies and messages associated with internal culture for clear understanding and easy implementation of managers and employees.

Promoting efficient use of energy is one of Imexpharm's sustainable development goals. In 2018, the company achieved its energy use target for Cao Lanh factory with a total power consumption of 3,183kw of electricity/1 million units of product, 11.6% lower than the planned target of 3.600kw of electricity/1 million units. Besides, Imexpharm also undertook the feasibility study of the solar power project at its Cao Lanh Head Office. If the project is rated feasible, the company will soon start the implementation. This is considered the first green energy project of Imexpharm. The company also achieved its goal of reduction of hazardous solid waste discharged into the environment. Specifically, in 2018, the volume of hazardous solid waste at Cao Lanh only was 13.4 kg/1 million units, 10.7% lower than the target threshold of 15kg/1 million units.

Occupational safety is the top indicator in production and the Company always strictly adheres to the regulations on occupational safety. New factories of the company adopt the leading global standards, which place human health as a top priority in production lines. In 2018, Imexpharm did not record any occupational accidents or occupational diseases within the Company. The Board of Management

recognized and spoke highly of the achievements its team made in occupational safety as the company has 5 factories, in which 2 factories are in the process of completion.

In addition, the company is also keeping its pay and benefits policies to encourage dedication among employees. In 2018, the revenue only reached 86% of the plan but the pay and benefits policy was kept unchanged as 2017. However, the average income of employees has not improved as much as expected by the Company. The Board of Management is determined to complete its 2019 plan, thereby increasing income of employees.

The community development policy is also given much attention and has been delivered by the company over the past 10 years. The company has still been implementing its study scholarship programs in Dong Thap province and Da Nang City. Besides, Imexpharm continued to offer medical checkups and distribution of drugs to thousands of local people in difficult areas in 2018.

6. Legislation and Compliance

The Legal Division has been closely coordinating with the Finance and Accounting Division, Internal Control Division and Sales Division to manage the debt risks and capital tie-up to avoid losses for the company. The company's debt clearing situation in 2018 was relatively better than in 2017.

In addition, the Legal Division has also developed the Data Protection Regulation for dissemination to all employees. For the Board of Management, this is an important issue in the current development situation as the company's new factories are about to be put into operation and many technical know-how should be protected.

The Board of Management spoke highly of the legal work carried out last year. The Legal Division should continue to coordinate with Internal Control Division to streamline risk management measures to minimize risks in the company's operations.

VI. ACHIEVEMENTS AND LIMITATIONS IN 2018 PERFORMANCE

1. 04 Achievements in 2018

- Imexpharm exceeded the profit target set by the General Meeting of Shareholders. While raw materials were becoming more expensive and all businesses wished to increase their market share, keeping its stable rate of profit growth was considered a success of Imexpharm last year.
- New factories in Vinh Loc and Binh Duong were constructed on schedule. Particularly, Vinh Loc High-tech plant obtained EU-GMP certificate issued by Portugal Ministry of Health in January 2019, marking the completion of Imexpharm's third plant certified with EU-GMP standard, with 02 Penicillin

production lines. Besides, Imexpharm also upgraded the production capacity for Cephalosporin injections in Binh Duong to better serve the needs of the market.

- The R&D Division has been working closely with other divisions to successfully undertake product research for new plants, and coordinating with hospitals nationwide to conduct EACRI research for Bactamox 1g products which already demonstrate its therapeutic effect of up to 97.2%. At the same time, Marketing and Sales teams also developed market penetration plans and output strategies for products of new factories.
- In the context of tougher competition, the Human Resources and Human Resource Development Division last year managed to keep its pay and benefits policies, organize training and capacity building of Imexpharm's employees and develop it really into a Sustainable House, connecting people for the shared goal of the organization.

2. 04 Limitations in 2018 performance

- Revenue was only nearly 86.2% of the plan. The Board of Management identified the issue and developed a strategy to improve ETC market while developing a better plan and targets for 2019.
- Sales branch management remained weak, despite improvements. Sales support tools such as DMS, BSC have not been fully utilized for its highest efficiency.
- The risk management system has not been completed, particularly when there remained some issues such as capital tie-up by pharmacists and bad debts of customers.
- Factories have not been effectively exploited to their highest capacity to meet market requirements. The lack of materials has not been handled while there remain limitations in production planning. The coordination between the Supplies, Production, Planning and Sales divisions was not strong.

VII. KEY OBJECTIVES IN 2019

Currently, despite slower growth pace of pharmaceutical industry, the Board of Management believes that there are still many market space for Imexpharm to tap into, especially in the high-end segment. Specifically, core capabilities will be quality standards for the company to focus on boosting sales for key high-tech products to meet the demand for high-quality pharmaceuticals. Besides, Imexpharm also faces many challenges, especially after adoption of the CPTPP agreement and it anticipates that the foreign pharmaceutical enterprises with high technical capacity and rich capital will invest in the Vietnamese market, in which case the competition will become tougher and M&A trend will present potential risks of takeover in the industry. In addition, to survive and develop on the market, the Company also believes that building managerial capacity and technical skills of its people is critical to keep pace with the global development.

Besides, the biggest potential risks in 2019 can include 2 of the following: (1) Delayed issuance of a revised Circular guiding drug procurement in hospitals; (2) Higher prices of raw materials, in addition to other elements such as wages and insurance for employees, gasoline prices, electricity prices, which surged in early 2019 and might reduce profit margins.

1. Business performance targets for 2019

Based on the current situation as well as analysis as mentioned above, Imexpharm expects that its total revenue and income in 2019 would be VND 1,450 billion, up 20.1 % compared to 2018; Pre-tax profit and appropriation to the Science and Technology Development Fund would be VND 220 billion, up VND 27.2 billion or 14.1% compared to 2018. In this scenario, EU-GMP factories, i.e. IMP2 and IMP3, are expected to contribute 30% - 40% of total revenue in 2019.

Specifically, the expected revenue and profit targets for 2019 have been set by the Board of Directors as follows:

Target (billion dong)	2019	2018	Growth
Total net revenue and income	1,450.0	1,207.1	20.1%
Profit before tax and distribution for Fund for Science & Technology Development	220.0	192.8	14.1%

Despite holding an optimistic views about the growth potential of the pharmaceutical market and the ability to fully and effectively utilize EU-GMP factories, the Board of Management believes that the planning process should be carried out in a careful manner to manage external risks such as prices and legal corridors which can have significant impacts on business operations. As new factories will start to operate in 2019, the input costs are expected to increase while profit growth is forecast to slow down. A double-digit revenue growth in 2019 is envisioned, which is considered quite challenging for Imexpharm, but the Board of Management believes the company can manage to fulfill this target.

In 2019, the Board of Management will closely direct and monitor the construction of Binh Duong High-Tech Plant (IMP 4) to make sure it will be completed on schedule. Besides, it is also important to have stable operation of IMP 1 (Dong Thap), IMP 2 (Vinh Loc), and IMP 3 (Binh Duong) factories to ensure that production output would be adequate to facilitate business activities of the company.

Although being one of the leading enterprises in pharmaceutical technology in this industry in Vietnam, Imexpharm determines that an output strategy and market research for products of EU-GMP factories is the key. Therefore, in 2019, the Board of Management will direct the Sales Division to coordinate with Marketing

and Finance divisions to develop appropriate sales strategies and programs to widen its market coverage of new products that Imexpharm has successfully studied. In addition, customer care and support, maintaining market shares and market expansion to potential customers will be implemented and directed by the Board of Management in 2019 based on new policies to keep abreast of market changes and consumer appetite.

Promoting the sales in ETC segment will also be one of the top priorities in 2019 as the OTC market will see the presence of more and more competitors while Imexpharm's new products are mainly for ETC market. The Board of Management will direct the Marketing and Sales divisions to closely coordinate in the implementation of programs related to hospitals and private health care, so that Imexpharm's products can penetrate deeply into the ETC segment. Sales Division needs to fully utilize the Distribution Management System - DMS to ensure that sales activities are smoothly carried out in line with the company's goals while sales management is strictly controlled. Effective sales branch management is also targeted by the Board of Management for all branches in the country.

2. Investment project for a functional food factory and testing center

In order to meet the regulations on manufacturing of functional food which require that functional food shall not be manufactured in the same factory with pharmaceuticals; besides, at Dong Thap Quality Control Division, the equipment and machinery are old and the area is inadequate to store samples. Therefore, at the meeting of the Board of Directors for the first quarter of 2019 on March 7, 2019, the Board of Directors agreed with the Board of Management and approved the construction project for a functional food factory and testing center at Imexpharm Head Office in Cao Lanh City, Dong Thap.

Details on the project's investment budget are as follows:

No.	Items	Amount
I	Functional Foods Plant	89,000,000,000
1	Fixed assets	70,000,000,000
	<i>Where:</i>	
	New investment and procurement	46,000,000,000
	<i>Reuse of available equipment</i>	<i>24,000,000,000</i>
2	Working capital	19,000,000,000
II	Testing center	31,000,000,000
	New investment and purchase of fixed assets	31,000,000,000
Total (I+II)		120,000,000,000

(Total: One hundred and twenty billion Vietnamese dong)

The total capital investment of the project is VND 120 billion. Investment capital for function food factory is expected to be VND 89 billion, of which VND 24 billion the value of existing equipment to be reused. Estimated investment capital for the new testing center with modern equipment and sample storage space is VND 31 billion.

The functional food factory will produce Imexpharm product lines that are being accepted by the market and for which the sales growth is quite positive such as: Centrivit Ginseng, Centrivit soft caps, effervescence and Gelatin capsules, boxed and bottled SuperMaxgo, Ginkgo Biloba 40mg, Rolivit F, FlexoMAX, Probio, etc. Imexpharm has also studied and registered over 6 new products to start production in the functional food plant which is expected to be released to market in early 2020.

Currently, the Company has established a Project Management Board, and developed a Gantt chart to closely monitor project progress. The factory is expected to be completed and launched by the end of 2019.

3. Solutions for 2019

In order to achieve the strategic objectives for 2019, the Board of Management will direct the delivery of solution to its divisions as follows:

- **Marketing Division:** continue to build on success of current programs in branding for key products such as: Claminat, Bactamox, Probio, etc. In addition, the branding and Imexfamily program activities must be further promoted, focusing on key customers and diversification of programs over the years. Customer appreciation activities should be linked with the company's direction and an effective measurement system, so Marketing Division needs to coordinate with Strategic Management Division to develop an assessment system and improve the effectiveness of these activities.
- **Human resources development:** Effective human resource management is also considered one of the key tasks for 2019. Human resource is a key contributor to maintenance and promotion of the company's activities; thus, the human resources management and development are essential. The Board of Management assigns Human Resources and Human Resource Development Division to coordinate with other divisions to focus on development of performance measurement indicators. At the same time, there should be measures to improve managerial capacity of middle-level employees, in addition to pay and benefits policies to attract and retain talents, targeting to develop Imexpharm to become one of the most best places to work in Vietnam.

- **Strategic management:** The Strategic Management Division needs to reevaluate the strategies at the departmental level as well as across the company, introduce programs to improve work performance, and review the employee capacity assessment system centered around work performance. In addition, Strategic Management Division should coordinate with the Sustainable Development Board to implement sustainable development strategies at the company and provide advice to the Board of Management.
- **Production Division:** Specialization in production management must be further promoted in 2019. Production Division should actively coordinate with other divisions to meet the product demand in 2019, avoiding shortage of goods. In addition, the production team should conduct a review and make timely adjustments to meet specific requirements, in addition to full utilization of factories.
- **R&D Department:** It is necessary to follow up EU-GMP approval schedule, coordinate closely with the Sales Division to register new products for partners, and review registered products to ensure that there is no stagnation in production.
- **Finance, Planning and Input Supplies divisions:** The price volatility of input material is expected to continue in 2019; thus, the Finance, Planning and Input Supplies divisions need to closely monitor and take timely measures to respond to changes. Debt and inventory management activities must be further improved in 2019. In addition, diversification of suppliers and identification of new sources of raw materials must be promoted and are one of the key targets for the Input Supplies Division.
- **Legal Division:** continue to promote the timely dissemination of new legal documents that regulate the operation of Imexpharm for relevant divisions to understand and comply with such regulations in pharmaceutical production and businesses.

4. 2019 Sustainable Development Goals

For 2019, the Board of Management approved the action plan for the Sustainable Development Board as follows:

For employees

- The average income of employees in 2019 will increase by at least 7%, in addition to same benefits for employees;
- Employee retention rate will increase by at least 3% in 2019;
- Clear provisions on non-use of child labor in the recruitment regulations and respect to the diversity irrespective of gender, race, religion ... of employees;
- Developing a professional, friendly, humane working environment at Imexpharm, improving work performance and acknowledging contributions;
- Maintaining effective dialogue channels with employees.

For the environment:

- Implement at least 01 of the following projects, whichever is feasible shall be delivered first: (1) solar power project at Cao Lanh Head Office; (2) electronic invoicing project.
- Further organization of online meetings to save travel costs by at least 10% in 2019;
- Strengthening of projects for higher productivity, energy saving, reduction of hazardous solid waste in factories;
- Addition of environmental criteria for the manufacturer/supplier surveys.

For society:

- Strengthening effective communication channels with stakeholders and local communities;
- Participating in and providing support to effective start-ups in the locality;
- Further investment in basic health care access and study encouragement funds for young generations across the country;
- Allocation of at least VND 3 billion for corporate social responsibility (CSR) activities in 2019.
- Addition of social criteria for the manufacturer/supplier surveys.

VIII. CONCLUSION

In 2018, which is the starting year for the term 2018-2022, the Board of Directors and the Board of Management adopted “Aspire to lead” as a strategic message for the entire term. Imexpharm was also proud to be the leading enterprise among the listed companies with market capitalization which were awarded the Corporate Governance Award in 2018 given jointly by Ho Chi Minh Stock Exchange in coordination with the Hanoi Stock Exchange. With proper and effective strategies as currently in place, we believe in the positive growth potential in the medium and long term of the Company. Imexpharm will continue to improve its products and production systems, streamline its distribution channels, develop strong sales teams, and strengthen management and technical solutions to realize Imexpharm’s aspiration to become the leading enterprise in Vietnamese pharmaceutical industry in the future with comprehensive governance in the following areas: Technology, R&D, Market and Customer Service, moving towards Sustainable Development . The Board of Management would like to express our gratitude to all Imexpharm’s leaders and employees for their work values and tireless creativity. We would also like to send our sincere thanks to our shareholders, investors and partners who have extended your trust and support to Imexpharm's strategies. We share the same aspiration that Imexpharm will step further forwards and lead Vietnam’s pharmaceutical industry in terms of product quality, technology and governance in the future.

Sincerely,

**ON BEHALF OF THE BOARD OF
MANAGEMENT
CHIEF EXECUTIVE OFFICER**



DS. Trần Thị Đào