



## BUSINESS PERFORMANCE OF THE FISCAL YEAR 2016 - 2017

NET SALES EXCEEDING  
**1 BILLION**  
US DOLLAR

### OVERVIEW

#### • Socio – Economic overview

In 2017, the socio-economic situation in our country has many positive developments as well as opportunities and challenges; generally, still maintaining the growth momentum, as follows:

- Gross domestic product (GDP) in the first 10 months of 2017 is estimated to increase by 6.41%, higher than that of the same period in 2016, promoting the efficiency, flexibility and timeliness of Government's executive solutions.
- Average consumer price index in the first 10 months of 2017 increased by 3.71% compared to the same period in the previous year, but still within the 5% limitation set by the National Assembly. Basic inflation has controlled effectively.
- Credit continued to grow well, with a growth rate of 12%, showing a positive trend of development and good capital absorption capacity of the economy.
- According to the World Economic Forum (WEF) in the Competitiveness Report of 2017, the competitiveness index of Vietnam increased 5 ranks, ranking 55/137.

#### • Market situation

In 2017, the steel market faced with complicated situations, significantly affecting the production and business situation of enterprises in the same industry, specifically as follows:

- The price of steel material in 2017 fluctuated continuously, difficult to



forecast, affecting production costs, product price and profit margin of enterprises in the same industry.

- A number of steel and galvanized steel enterprises increased their capacity dramatically, which may lead to surplus of products used for the construction industry but the shortage of products used in processing and manufacturing industry.
- Low quality steel products continue to be imported into Vietnam through various types of fraud, lack of transparency, threatening the production and business of domestic enterprises, despite the efforts to overcome and prevent from the authorities.

- Although the Government of Vietnam has implemented a number of trade remedies for the steel industry,

the trade frauds of imported steel are likely to increase by incorrectly declaring the goods code.

- Exporting steel products to foreign countries is difficult due to the trade protection of domestic production and the establishment of trade barriers from major markets in the world such as USA, Malaysia, Indonesia, Thailand, etc.
- In 2017, the situation of storms, floods, heavy rain and landslides occur continuously and complicatedly, thus affecting the domestic consumption demand, affecting the production and business situation of enterprises.

**BUSINESS PERFORMANCE OF FINANCIAL YEAR 2016 - 2017**

At the end of the fiscal year 2016 - 2017, Hoa Sen Group completed and surpassed the plan for sales volume and net sales, achieving high growth compared to the previous fiscal year, specifically as follows:

- Consumption of finished products reached 1,559,007 tons, exceeding 5% compared with the plan, increased 25% compared to the same period. The average annual growth rate reached 27.1%
- Total net sales of the Group reached 26,149 billion VND, exceeding 14% compared with the plan, increased 46% compared to the same period. The growth rate was 22.1%.

Thus, in five consecutive fiscal years, the sales volume and net sales growth rate has been stable, the average growth rate over the years has been maintained above 20%, indicating the effectiveness of the Group's business development strategy which focus on the following development orientations:

- Over the past five years, the Group's distribution network has grown strongly. From 115 distribution branches in the fiscal year of 2012 – 2013, up to present (the end of 2017), the Group owns total 371 branches/retail stores which have become the main sales channel, fulfilling domestic consumption demand and supporting export channel when export markets are difficult and disadvantageous.
- Presently, Hoa Sen Group owns the production network including 11 production factories, with production capacity of more than 2,000,000 tons per year and the Group is continuing to invest in increasing capacity. The factories are allocated equally in favorable locations in the North - Central – South regions, with a system of roadway and sea transport infrastructure which is invested synchronously, creating the advantage of supply capacity and expenditure. It is a solid foundation for maintaining and developing the Group's sales channels.

Consolidated after – tax profit in the fiscal year of 2016 – 2017 was 1,332 billion VND, accounting for 81% of the plan. However, the compound annual growth rate was 23.1% in the last 5 fiscal years. This is due to the following reasons:

- In 2017, the price of steel material for production on the market fluctuated continuously from the beginning of the year, difficult to forecast. Specifically, the price increased in the first quarter of 2017, sharply reduced in the second quarter of 2017 and suddenly increased in the third quarter 2017. This causes difficulties in the purchase of raw materials, affecting the cost of products, as well as affecting financial costs and working capital for production.
- The export market in 2017 also has a lot of fluctuations as large consumption markets implemented a number of policies and actions to protect the production, trade remedies and the establishment of non-tariff barriers (import quota, quality standards system, etc.). This influenced the consumption and significantly impacted on the Group's export channels.
- Natural disasters, floods and storms in 2017 are also the factors making the after-tax profit below expectations. Heavy rain in many areas continued to slow down the progress of many construction projects in the country, leading to the decrease of demand for construction material, affecting the domestic sales channels. In addition, unpredictable weather also affected the Group's schedule, supply and transportation costs.

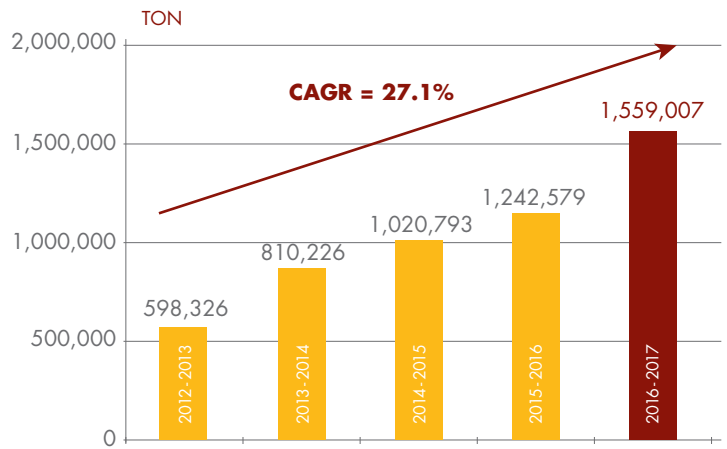


CHART OF SALES VOLUME'S GROWTH OF FINISHED PRODUCTS

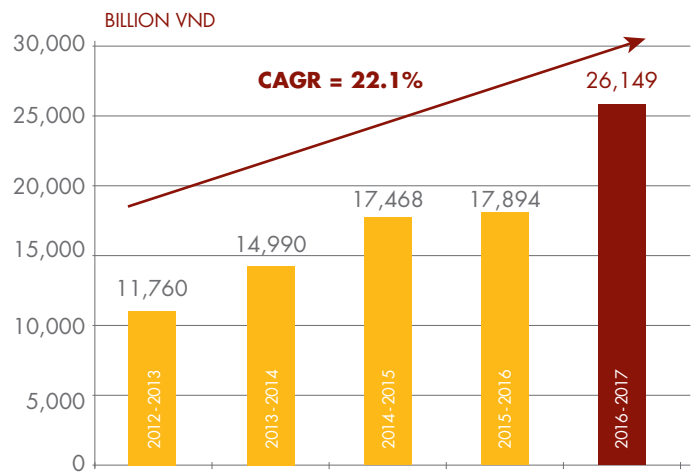


CHART OF NET SALES' GROWTH

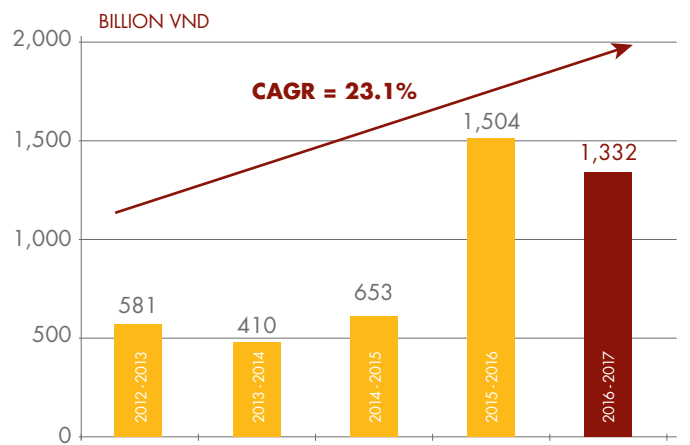
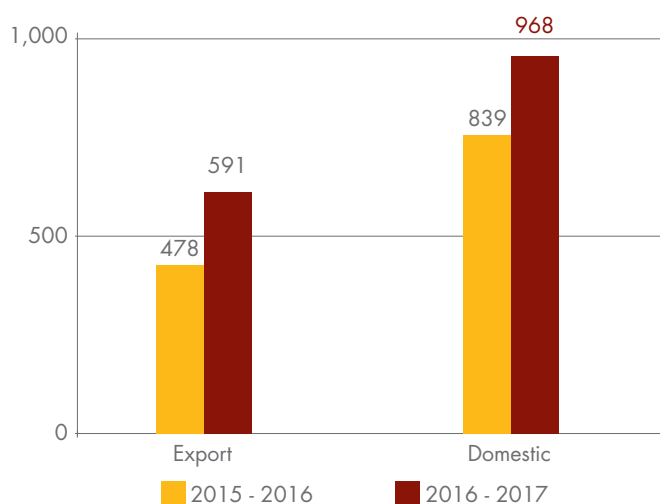


CHART OF CONSOLIDATED AFTER-TAX PROFIT'S GROWTH

According to the consolidated financial statements of the five consecutive years, the Group's gross margin/net sales was 17%, which was quite high compared to the others in the steel industry.

NO	ITEM	UNIT	FISCAL YEAR 2012 - 2013	FISCAL YEAR 2013 - 2014	FISCAL YEAR 2014 - 2015	FISCAL YEAR 2015 - 2016	FISCAL YEAR 2016 - 2017
1	Net sales	Billion VND	11,760	14,990	17,468	17,894	26,149
2	Gross profit	Billion VND	1,708	1,750	2,599	4,176	4,418
3	Gross profit /net sales	%	14.5	11.7	14.9	23.3	16.9

In the fiscal year 2016 - 2017, the sales channels have made efforts to complete the assigned targets. Specifically, the domestic sales channel continued to be the main consumption channel of the Group with the output reached 968,000 tons, increased 15% compared to the previous fiscal year. Export channel continued the growth momentum with output reached 591,000 tons, increasing 24%.



SALES VOLUME BY DISTRIBUTION CHANNELS  
(Unit: THOUSAND TONS)



### BUSINESS PERFORMANCE IN 5-YEAR TERM OF THE BOARD OF DIRECTOR (2013 - 2018)

At the end of the 5-year term of 2013-2018, thanks to the right directions and orientations of the Board of Directors, Hoa Sen Group has gradually developed and gained many remarkable achievements, fulfilling and surpassing the targets set by the General Assembly of Shareholders at the Annual General Meetings of the fiscal year 2012 - 2013. Specifically, the business performance of the fiscal year at the end of the term 2013 - 2018 achieved the following accomplishments:

- Sales volume reached 1,660,204 tons, exceeding the target of 1,000,000 tons, increased 2.6 times compared to the first fiscal year of the term, growth rate reached 27.1%.
- Net sales reached VND 26,149 billion (USD 1.1 billion), fulfilling USD 1 billion, an increase of 2.2 times against the beginning of the year, growth of 22.1%.
- After-tax profit reached VND 1,332 billion, far exceeded the target of VND 1,000 billion of the term, increased 2.3 times compared to the beginning of the term, growth rate reached 23.1%.

## REPORT ON IMPLEMENTATION OF THE RESOLUTION OF ANNUAL GENERAL MEETING OF THE FISCAL YEAR 2016 - 2017

In the fiscal year 2016 - 2017, Hoa Sen Group held one Annual General Meeting of Shareholders. At the meeting, the General Assembly of Shareholders approved a number of reports and undertakings related to production and business activities of the Company. The contents approved by the General Meeting of Shareholders are shown in Resolution No. 01/NQ/ĐHĐCĐ/2017 dated 06/01/2017. The implementation of the Resolution of the General Assembly of Shareholders in the fiscal year 2016-2017 as follows:

NO.	MAIN CONTENTS	RESULTS
1	Implementing business plan for the fiscal year 2016 - 2017	At the end of the fiscal year 2016 - 2017, sales volume and net sales of the Group exceeded the plan. Details are presented in the business performance reports of the fiscal year 2016 - 2017.
2	Dividend payment of the fiscal year 2015 - 2016 and issuance of shares to existing shareholders to increase charter capital	The Board of Directors completed the dividend payment of the fiscal year 2015-2016 and issued shares to existing shareholders to increase charter capital as follows: - Dividend payment in cash: dividend payout ratio of 10% of share par value. - Issue shares to existing shareholders, in which + Issuance of shares to pay dividends from undistributed earnings: Issue ratio was 55%. + Issuance of shares to increase charter capital from share premium: Issuance ratio was 20%. - The dividend payment was carried out on schedule. Details are presented in the stock - shares and investor relations reports.
3	Setting up funds in the fiscal 2016 - 2017	The Group has set up funds in the fiscal year 2016 - 2017 in accordance with the policy approved by the General Assembly of Shareholders.
4	Deploying the investment projects of the Group	The Group has implemented and completed the investment projects as scheduled. Details are presented in the project investment reports.
5	Selecting audit company for auditing financial statements of the fiscal year 2016 - 2017.	The Board of Directors selected Ernst & Young Vietnam as the audit company of the Group's financial statements in the fiscal year 2016-2017. The selection of audit company is presented in the Resolution No. 22/NQ/HDQT/2017 dated March 15, 2017 and has been disclosed according to regulations.
6	Issuing shares under "Selection program for key managers and senior employees on the occasion of Hoa Sen Group 15 <sup>th</sup> Anniversary of Establishment".	The Board of Directors has completed the issuance of shares under the program on the occasion of the Group's 15 <sup>th</sup> anniversary of establishment. Details are presented in the stock - shares and investor relations reports.
7	Implementing the plan to restructure the Group's operation model towards the establishment of the Regional Hoa Sen Joint Stock Companies.	The Board of Directors has been considering restructuring options in accordance with the Group's orientations and development strategy.

## CONSOLIDATED BUSINESS PLAN FOR THE FISCAL YEAR 2017 – 2018

Based on the forecast for growth rate of domestic and export markets, production and business capacity of the Group, the Board of Directors submitted the consolidated business plan for the fiscal year 2017 – 2018 to General Assembly of Shareholders as follows:

ITEM	UNIT	PERFORMANCE OF THE FY 2016 – 2017	PLAN OF THE FY 2017 – 2018 (*)	COMPARE WITH THE PERFORMANCE OF FY 2016 – 2017	
				ABSOLUTE NUMBER	RELATIVE NUMBER
(A)	(B)	(C)	(D)	(E = D - C)	(F = ((D/C-1)*100)
Sales Volume	Tons	1,660,204	1,908,000	247,796	15%
- Finished Goods	Tons	1,559,007	1,800,000	240,993	15%
- By-product	Tons	101,197	108,000	6,803	7%
Net sales	VND billion	26,149	30,000	3,851	15%
After-tax profit	VND billion	1,332	1,350	18	1%

In 2018, steel market is forecasted to have complex movements. Therefore, in the fiscal year 2017 – 2018, Hoa Sen Group proposes a business plan with more careful than the fiscal year 2016 – 2017. In particular, the sales growth target is 15%, net sales growth rate is 15% and after-tax profit increases 1% compared with the fiscal year 2016 - 2017.

# IMPLEMENTATION ORIENTATION OF BUSINESS PLAN FOR THE FISCAL YEAR 2017 – 2018

The steel market in 2018 is forecasted to face many disadvantages and fluctuations, especially the following features:

- Steel prices fluctuate continuously, difficult to keep stable momentum, likely to continue affecting the profit margin of enterprises in the same industry.
  - Major markets in the world tend to increase trade remedies measures and protect domestic production, which caused big challenges to export activities of the Group.
  - The fact that enterprises continue to push up their production capacity could lead to excess supply over demand in the market.
- Therefore, the Board of Directors set out the actions as follows to ensure the successful achievement of targets and business plans for the fiscal year 2017-2018:

1

## FOR PRODUCTION ACTIVITIES

- Ensuring efficient use of the production line system, machinery and equipment, contributing to improve production capacity and product quality.
- Strictly monitoring and ensuring safe operation of the production line, machinery and equipment.
- Continuing to research, improve technology, research and develop new products to meet market demand, diversify products of the Group.
- Completing vertically integrated value chain, optimizing production costs.

2

## FOR BUSINESS ACTIVITIES

- Continuing to maintain and develop the core competitive advantage of the Group in domestic market through the expansion of the retail distribution network, increasing domestic consumption combined with improving the efficiency of supply, delivery and quality of service, consolidating the leading position in the market.
- Continuing to maintain the growth rate of export activities through increasing consumption in traditional markets in combination with the expansion of export activities to potential foreign markets.



3

#### **FOR ADMINISTRATIVE ACTIVITIES**

- Strengthening the management and control activities based on the strict system of mechanisms, policies, procedures, regulations, limits.
- Applying resolutions of IT, science and technology to improve the management and control activities of the Group.

4

#### **FOR SUPPLY ACTIVITIES**

- Improving the quality and increasing the efficiency of supply activities which ensure that goods and raw materials are supplied and transported quickly and timely in order to meet production and business demands and optimize shipping costs of the Group.
- Taking advantage of location and infrastructure of the manufacturing plant system and distribution network operating from the North to the South in order to strengthen the Group's supply competitive advantages.

5

#### **FOR HUMAN RESOURCE DEVELOPMENT ACTIVITIES**

- Focusing on human resource development, especially on the contingent of successor administrators, building a contingent of professional staff with high qualifications and suitable with Hoa Sen Group culture.

7

#### **FOR PR AND MARKETING ACTIVITIES**

Boosting the brand promotion activities through various marketing and advertising programs; continue to organize community-oriented events, charitable activities and sponsorship to build a strong and friendly Hoa Sen brand.

6

#### **FOR PROJECT INVESTMENT ACTIVITIES**

- Focusing on speeding up the completion, combining with extensive research for the ongoing industrial projects such as Hoa Sen Nghe An Project, Hoa Sen Ha Nam Project, Hoa Sen Nhon Hoi - Binh Dinh Plant Project, Hoa Sen Phu My Hot Dip Galvanized Steel Pipe Plant Project, etc. in order to enhance the production capacity, take benefit from the competitive advantages of the location of the production plants.
- Maintaining the progress of construction projects of Real estate - hotel projects in Yen Bai and Binh Dinh, ensuring early implementation of works, contributing to diversify products and services of the Group, creating the premise for future developments.
- Continuing to study carefully and maintaining the progress of investment promotion, preparing resources for the projects which will be implemented in Ninh Thuan province.