

Hai Phong, April 24<sup>th</sup> 2019

## REPORT OF THE BOARD OF DIRECTORS ON COMPANY'S OPERATION IN 2018 AND PLAN FOR 2019

Respectfully to: General Meeting of Shareholders of Halong Canned Food Joint Stock Company

*-Pursuant to Company Charter;*

*Pursuant to financial data in 2018 and actual situation of the Company;*

The Board of Directors of the Company would like to report to the Annual General Meeting of 2019 the following main contents

**(1) Report on production and business activities in 2018**

**(2) Business plan for 2019**

Details:

**1 –Report on production and business results; analysis of basic items for 2018**

*1.1 –Report on consolidated operation of 2018 (extracting data from audited consolidated financial statements in 2018 of PwC Co., Ltd.)*

*Please see the data in following table:*

Unit: Bill. VND

Items	Actual 2018	Actual in 2017	Different	%
<b>1. Gross revenue from sales and service provision</b>	479,343	417,409	61,934	15%
2. Revenue deductions	2,692	1,630	1,061	65%
<b>3. Net revenue from sales and service provision (10 = 01 - 02)</b>	476,651	415,779	60,872	15%
4. Cost of goods sold	371,019	328,150	42,868	13%
<b>5. Gross profit on sales and service provision (20 = 10 - 11)</b>	105,633	87,629	18,004	21%
6. Revenue from financial activities	5,909	1,686	4,223	251%
7. Financial expenses	1,487	(1,609)	3,096	192%
<i>-In which: interest expenses</i>	1,062	864	198	23%
8. Selling expenses	77,419	55,105	22,314	40%
9. Administration Expenses	34,858	29,060	5,798	20%

10. Net profit from business activities (30 = 20 + (21 - 22) - 25 - 26)	(2,222)	6,759	(8,981)	-133%
11. Other income	1,934	899	1,035	115%
12. Other expense	556	713	(158)	-22%
13. Other profits 40 = 31 - 32)	1,379	186	1,193	643%
14. Profit before tax (50 = 30 + 40)	(843)	6,944	(7,788)	-112%
15. Current income tax expense	1,578	1,403	175	12%
16. Income tax expense is deferred	-	431	(431)	0%
17. Net profit after tax (60 = 50 - 51 - 52)	(2,421)	5,110	(7,532)	-147%

### 1.2 - Analysis of basic items

Please see the data in following table:

+ Net revenue:

Unit: Bill. VND

Explanation	Year 2017				Year 2018			
	First 6 months		Last six month		First 6 months		Last six month	
	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month
Net revenue of Mother Company	135,676	22,61	168,315	28,05	168,663	28,11	206,599	34,43
Consolidated net revenue	202,352	33,73	213,427	35,57	218,169	36,36	258,482	43,08

Based on the above table, we see that the net revenue/ month in 2017 and 2018 has always increased; The average net revenue / month of the last 6 months of 2018 of the Parent Company is 34.43 billion VND / month, increasing 152% compared to the average / month of the first 6 months of 2017 is 22.61 billion / month.

Similarly, the average consolidated revenue / month of the last 6 months of 2018 is 43, 08 billion VND / month, increasing 127.72% compared to the average / month of the first 6 months of 2017 is 33.73 billion / month. .

+ Expense/ net revenue (%)

Please see the data in following table

Unit: Bill. VND

### Mother Company's statement:

Explanation	Year 2017				Year 2018			
	First 6 months		Last six months		First 6 months		Last six months	
	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month
Net revenue of Mother Company	135,676	22,61	168,316	28,05	168,663	28,11	206,599	34,43



<b>COGS</b>	<b>101,613</b>	<b>16,94</b>	<b>130,208</b>	<b>21,7</b>	<b>133,576</b>	<b>22,26</b>	<b>153,392</b>	<b>25,57</b>
%COGS/Revenue	75%		77%		79%		74%	
<b>Selling expenses</b>	<b>23,291</b>	<b>3,88</b>	<b>28,199</b>	<b>4,7</b>	<b>34,438</b>	<b>5,74</b>	<b>39,617</b>	<b>6,6</b>
% Selling expenses/ Revenue	17%		17%		20%		19%	
<b>Administration Expenses</b>	<b>13,109</b>	<b>2,18</b>	<b>10,787</b>	<b>1,8</b>	<b>15,011</b>	<b>2,5</b>	<b>12,658</b>	<b>2,11</b>
% Administration Expenses/ Revenue	10%		6%		9%		6%	

### **Báo cáo Hợp nhất**

#### *Consolidated statement*

Explanation	Year 2017				Year 2018			
	First 6 months		Last six month		First 6 months		Last six month	
	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month	Sales/ 6 months	Sales/ 1 month
<b>Consolidated net revenue</b>	<b>202,352</b>	<b>33,73</b>	<b>213,427</b>	<b>35,57</b>	<b>218,17</b>	<b>36,36</b>	<b>258,481</b>	<b>43,08</b>
<b>COGS</b>	<b>161,554</b>	<b>26,93</b>	<b>166,596</b>	<b>27,77</b>	<b>174,461</b>	<b>29,08</b>	<b>196,558</b>	<b>32,76</b>
%COGS/Revenue	80%		78%		80%		76%	
<b>Selling expenses</b>	<b>25,502</b>	<b>4,25</b>	<b>29,603</b>	<b>4,93</b>	<b>36,009</b>	<b>6,</b>	<b>41,41</b>	<b>6,9</b>
% Selling expenses/ Revenue	13%		14%		17%		16%	
<b>Administration Expenses</b>	<b>15,862</b>	<b>2,64</b>	<b>13,198</b>	<b>2,2</b>	<b>17,957</b>	<b>2,99</b>	<b>16,901</b>	<b>2,82</b>
% Administration Expenses/ Revenue	8%		6%		8%		7%	

In 2018, the company objective is to restructure the distribution system in order to regain market share in the North and expand the Central and Southern markets. In terms of domestic sales in 2018 we have achieved certain results compared to 2016 (please see the chart in the BOD's report presented previously). However, to increase sales, take back market share from strong competitors such as Vissan, CP, Cau Tre ... Our company has spent big expenses to compete with competitors, these expenses have been shown in the table of basic cost items of the last 2 years 2017 and 2018 (as above table).

In terms of net revenue targets and selling expenses, which change over each period (6 months) in 2 years 2017 and 2018, we see that over time, the selling expense increase item has always been > / = net revenue increase item - in particular, the average selling cost in 2018 is 19.5% / net revenue, up 2.5% compared to the ratio of selling expense / net revenue compared to 2017 (Average selling expenses / net revenue in 2017 is 17%) - The increase in selling expenses in 2018 is VND 9.38 billion (VND 375,262 billion x 2.5%) which is the main reason leading to the Parent company's loss of 7.33 billion dong (after tax) compared to net profit after tax of 2017 loss of 0.11 billion dong.

According to the data in the above table, we can calculate the speed of sales increase and the speed of selling expenses increase in each period (every 6 months in 2017 and 2018) as follows:

- Average sales / month of the last 6 months of 2017) / (Average sales/ month of the first 6 months of 2017) = 124%
  - Average selling expenses/ month of the last 6 months 2017) / (Average selling expenses / month of the first 6 of 2017) = 124%
- ⇒ Sales and selling expenses increase at the same rate.



- Average sales / month of the first 6 months of 2018) / (Average sales / month of the last 6 months of 2017) = 100.21%
- (Average selling expenses / month of the first 6 months of 2018) / (Average selling expenses / month of the last 6 months of 2017) = 122.13%
  - ⇒ The increase rate of average selling expenses is 122.13%, while the increase in sales is only 100.21%.
- (Average sales / month of the last 6 months of 2018) / (Average sales / month of the first 6 months of 2018) = 122.48%
- (Average selling expenses / month of the last 6 months 2018) / (Average selling expenses / month of the first 6 months of 2018) = 114.98%
  - ⇒ Sales increase rate is 122.48%, while the increase in average selling expenses is only 114, 98%. The rate of sales increase is higher than the rate of expense increase, which is one of the basic improvement signs in operation of the last 6 months of 2018 compared to those of the first 6 months of 2018.

In addition, a number of other expenses such as cost of goods sold, financial expenses, and administration expenses have also fluctuated much, the expenses of managing staff has increased compared to 2017 due to the increase in personnel of BD ( Business Development), the increase in the number of staff in some departments in the management division lead to increase in 2018 salary fund compared to 2017. To reduce costs, we have carefully checked / reviewed the reasonableness of expenses, giving solutions to reduce expenses, personnel.... - cut losses, increase domestic and export sales, strengthen and develop domestic and foreign market share and brand for 2019 and years next.

### 1.3 Investment performance in 2018

To implement the objectives of increasing sales / increasing labor productivity / reducing product costs and meeting the needs of financial management and accounting. In 2018, we made the following asset investments:

Unit: VND

SN	Name of Item	Amount
1	GESO ERP Management system	147.000.000
2	Bravo Software	141.897.000
3	ZAP 2020 sausage filling machine (used)	900.000.000
4	10HP Manourop air-handling block (Ha Noi warehouse)	39.850.000
5	A set of 2 air conditioner compressor at spring rolls area	130.000.000
6	Installation of frozen sausage cold room	194.000.000
7	QK – 2000 block breaker	390.000.000
8	JR-D200 meat cutter	294.000.000
9	ZAP 2020 sausage filling machine (new)	1.890.000.000
	<b>Total</b>	<b>4.126.747.000</b>

1.4– Financial statement of year 2018 (audited by PwC Vietnam Co., Ltd.) including:

Financial statements of the Parent Company; Consolidated financial statements which the Company has published the information in detail and posted them on the Company's website: www.canfoco.com.vn – Please update.

Below is the summary of some basic items of:

**Balance sheet (summary) - at 31<sup>st</sup> December 2018**

**Unit: Billion VND**

Item	End of year	Beginning of year	Increase/ decrease	Rate
<b>A- CURRENT ASSETS</b>	<b>179,64</b>	<b>155,84</b>	<b>23,80</b>	<b>115%</b>
I. Cash and cash equivalents	8,11	48,33	-40,22	17%
II. Short-term investments:	0,00	5,39	-5,39	0%
III. Short term Accounts receivable	16,65	16,02	0,63	104%
IV. Inventories	153,18	84,08	69,10	182%
V. Other current assets	1,70	2,02	-0,32	84%
<b>B. LONG-TERM ASSETS</b>	<b>62,66</b>	<b>64,28</b>	<b>-1,62</b>	<b>97%</b>
I. Long-term accounts receivable	0,60	0,38	0,22	157%
II. Fixed assets	54,98	56,12	-1,14	98%
III. Investment real estate				
IV. Long-term assets in progress	0,00	0,63	-0,63	0%
V. Long-term investments				
VI. Other long-term assets	7,08	7,15	-0,07	99%
<b>TOTAL ASSET</b>	<b>242,30</b>	<b>220,12</b>	<b>22,18</b>	<b>110%</b>
<b>A. LIABILITIES</b>	<b>134,38</b>	<b>104,79</b>	<b>29,60</b>	<b>128%</b>
I. Current liabilities	127,92	98,43	29,49	130%
II. Long-term liabilities	6,47	6,36	0,11	102%
<b>B. OWNER'S EQUITY</b>	<b>107,92</b>	<b>115,34</b>	<b>-7,42</b>	<b>94%</b>
I. Owner's equity	107,92	115,34	-7,42	94%
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>	<b>242,30</b>	<b>220,12</b>	<b>22,18</b>	<b>110%</b>

**- Basic financial items:**

SN	Item	Unit	Year 2018	Year 2017
1	<b>Asset structure</b> - Long-term assets/ total assets - Short-term assets/ total assets	%	25,9% 74,1%	29,2% 70,8%
2	<b>Liabilities and owners' equity structure</b> - Liabilities/ Total liabilities and owners' equity - Owner's equity/ Total liabilities and owners' equity	%	55% 45%	48% 52%
3	<b>Khả năng thanh toán/ Solvency</b> - Quick ratio - Current ratio	Time	0,19 1,40	0,73 1,58



<b>3</b>	<b>Profit margin</b>			
	- Profit margin before tax/ total asset			-0,3%
	- Profit margin after tax/ net revenue		%	-0,5%
	- Profit margin after tax/ Authorized capital			-4,8%
				3,2%
				1,2%
				10,2%

## 2 –Business plan in 2019 and implementation solutions

*Objective:* Market development, brand development, effective business (on the basis of reasonable cost balance - cut loss)

### 2.1 –Business plan in 2019 (Consolidated):

Please see data in the following table:

Unit: Billion VND

Item	Target 2018	Actual 2018	Target 2019	Compare (%)	
				Actual 2018/ target 2018	Target 2019/ actual 2018
Net revenue from sales and service provision	512,654	476,651	538,292	93,0%	112,9%
- In which: domestic revenue	402,654	381,877	420,092	94,8%	110,0%
Export revenue	110,000	94,774	118,200	86,2%	124,7%
Cost of goods sold	391,465	371,019	418,109	94,8%	112,7%
Gross revenue from sales and service provision	121,189	105,633	120,183	87,2%	113,8%
Financial activities income		5,909	200		3,4%
Financial expenses		1,487	2,973		199,9%
-In which: interest expenses		1,062	2,193		206,5%
Selling expenses	68,418	77,419	74,228	113,2%	95,9%
Administration expenses	34,744	34,858	29,046	100,3%	83,3%
Net profit from operation	18,027	-2,222	14,137	-12,3%	636,2%
Other income		1,934	200		10,3%
Other expenses		556	300		54,0%
Other profits		1,379	-100		-7,3%
Profit before tax	18,027	-843	14,037	-4,7%	1665,1%
Current income tax expense	3,605	1,578	2,694	43,8%	170,7%

Income tax expense is deferred					
Profit after tax	14,422	-2,421	11,343	-16,8%	468,5%

*2.2 In order to implement the above business plan, the Management Board would like to propose the General Meeting of Shareholders to refurbish the factory and purchase some machines as follows:*

*Please see data in the following table:*

**A. SAUSAGE PLANT:**

**Unit: VND**

Stt	MACHINES & EQUIPMENT	UNIT	QTY	UNIT PRICE	AMOUNT	PURPOSE
1	Upgrading infrastructure for RS Plant - phase 1 (domestic purchase)	Package	1	300.000.000	300.000.000	To ensure temperature and food safety in the plant
2	Upgrading Air-con for RS Plant - phase 1 (domestic purchase)	Package	1	600.000.000	600.000.000	To ensure the temperature in the Plant at 15oC
3	Buying re-pasteurization system to produce chilled sausage	System	1	5.000.000.000	5.000.000.000	To produce chilled sausages & MTS sausages
4	Buying RS drying system for RS Plant	Line	1	4.500.000.000	4.500.000.000	To replace the existing dryer, to ensure that RS will be completely dried after sterilization, to avoid moldy
5	Buying tumbler for RS Plant to produce granular RS	Machine	1	2.500.000.000	2.500.000.000	To produce RS of granular type
<b>A</b>	<b>TOTAL</b>				<b>12.900.000.000</b>	

**B. CANNED PLANT:**

1	Buying seamer for Canned Plant	Machine	1	3.000.000.000	3.000.000.000	To replace the existing machine which is going to be out of use due to old age, and cannot be upgraded
2	Buying can labeling machine	Machine	1	1.500.000.000	1.500.000.000	To replace workers and reduce labor cost from labeling (we do not have any labeling machine now)

11/01/2008



3	Buying bowl cutter for Canned Plant	Machine	1	3.700.000.000	3.700.000.000	To replace the existing machine which is going to be out of use due to old age, and cannot be upgraded
<b>B</b>	<b>TOTAL</b>				<b>8.200.000.000</b>	
<b>C.</b>	<b>GRAND TOTAL (A) + (B)</b>				<b>21.100.000.000</b>	

*(in word: twenty-one billion one hundred million Vietnam dong only*

### **2.3 – Measures to implement business plant of 2019 (consolidated)**

#### **a ) Solutions on revenue**

According to the 2019 Executive Board's expectation, revenue is estimated at VND 538,292 billion, up 12.9% compared to the implementation in 2018, the revenue growth rate decreases by 2.1% compared to the rate of increase in sales in 2018, compared to 2017 sales is 15%.

To increase and develop sustainable and long-term sales - The Management Board is always consistent with the goal of renewing and developing HALONGCANFOCO brand:

+) Currently HALONG CANFOCO brand is known and used by middle-aged and elderly customers in the North. However, the young generation knows the brand of our company is very little. So we have to build the HALONG CANFOCO brand for the younger generation, attract them to us because they are the group having good income (their income level is often > / = the average income of people) and their consumption habit towards processed / fast / highly convenient products / meet nutritional indicators ... This is the key mission of the Company in 2019 and the following years.

HALONG CAFOCO brand is mainly strong in the North market (with middle-aged / senior people), in the Central market and the Southern market, the brand of our company is less known (weak brand) ; Our company's products' taste is mainly suitable for Northern consumers, so to enlarge the market and develop the brand, in the coming time, our company must have specific plans and investment:

- Access directly to consumers (near consumers) to boost "demand", regain the trust of middle / senior customers who have used the company's products and approach / attract customers as young people who is the potential customer of our company. In order to realize this goal, in 2019, the Management Board is expected to approach more closely towards consumers in general and the younger generation in particular. Specifically, at the beginning, the Management Board intends to open some stores in the capital city of Hanoi and Hai Phong city to sell fast food products made from the company's products; give instructions on how to make dishes and also a place to promote products and test market demand of the Company.

Regarding products, our company must diversify products in terms of product quantity / product size and product line (medium and premium class) ... suitable for regional / regional taste and target consumer, invest to refresh brand (with young people) and develop brand in markets where HALONGCANFOCO brand is "still weak" such as Central and Southern markets ...

In addition to the current product groups, develop product groups from natural products (vegetables, fruits) enhances access to food / drink chains; in addition to sales at GT (General Trade), increase sales in MT (Modern Trade) channel to penetrate deeper into restaurants, hotels, industrial zones...

- Investing and equip equipment for the management and corporate governance system / recruit market personnel system in accordance with the objectives of the Company in each period ...

#### **b) Solutions on expenses:**



Solutions to control and balance expenses will be thoroughly implemented by the Management Board in 2019, aimed at achieving the revenue and profit plan as submitted to the General Meeting of Shareholders at the above table.

Details:

- *Regarding the cost of goods sold (we expect that COGS/ Net revenue of 2019 decreases by 1% compared to 2018):*

Looking for good raw material prices, reasonable reserves, strict production cost management. Invest / equip new equipment / production lines / buy and transfer new technologies to increase labor productivity (reduce labor costs) / reduce costs / improve product quality / diversify products /reasonable prices – in order to create competitive advantage.

- *Regarding selling expenses (we expect that selling expenses/ Net revenue of 2019 decreases by 2,88% compared to 2018):*

In 2018, the Company has invested to expanded market to some remote areas of South Central and Mekong River Delta. The fact that the Company penetrated the markets brought some certain results in terms of revenue and image, brand but due to the geographical distance, unsuitable taste... the sales in these regions are low while the investment expenses for sales and transportation costs are high, this is the reason for the increase in selling expenses in 2018. In 2019, the Management Board has decided to temporarily stop trading in these markets to reduce selling expenses in 2019 and has specific plans for these markets in the following years ( We expect that reducing selling expenses in 2019 will reduce more than 2% revenue growth of 2019 compared to 2018).

- *Regarding administration expenses (We expect Administration expense/ Net revenue in year 2019 decrease by 2,2% compared to 2018)*

In 2018, with the orientation of market development and rapid sales growth, the Management Board has established several new departments such as BD (business development) and added a number of personnel in some departments to fit with the development objective, exploit and expand product groups and market, increase sales ... However, in 2019, the Management Board will review and re-evaluate the performance of the section, and individuals ... determine the number of the personnel in each section, issue regulations on financial management and regulations on internal spending to reduce / save some expenses of administration, to reduce expenses items in 2019.

The Management Board respectfully report to shareholders and would like to receive the comments of shareholders to help the Management Board well implement the objectives set by the General Meeting of Shareholders.

Best regards,

ON BEHALF OF THE MANAGEMENT BOARD

GENERAL DIRECTOR  
  
KEK CHIN ANN