

VCS ADVANCED QUARTZ STONE JOINT STOCK COMPANY

**VCS STONE**

# ANNUAL REPORT 2016



**VICOSTONE®**  
QUARTZ SURFACES

*The Art of Quartz*

**15** LIMITED  
WARRANTY  
year **VICOSTONE**  
QUARTZ SURFACES



Microbial Resistance  
ASTM D 6329-98





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## FORWARD-LOOKING STATEMENTS

VCS STONE's Annual Report 2016 was prepared in accordance with the guidelines in Appendix 04, Circular No. 155/2015/TT-BTC issued on 06 October 2015 by the Ministry of Finance regarding the disclosure of information on securities market.

The analyzed information data, market and industry forecasts stated in this Annual Report reflects the Company's opinions and assessment at the reporting date; thus, it may be different from the actual results in future due to many reasons beyond the Company's control and forecasts. The Company will devote its utmost effort to timely notify the shareholders and investors about such changes; however, VCS STONE is not responsible to update, amend or supplement the Report, as well as inform any organizations or individuals who receive this Report of any changes or inaccuracy regarding the stated assessment, opinions or recommendations.

VCS STONE's Annual Report 2016 includes information and data obtained from surveys on construction materials in general and engineered stones in particular, published widely by the third parties such as: Free-donia (*Publisher of industry market research*), Stone World (*reputable construction materials magazine*), etc. The reports from these organizations comprise research data, assessments or concepts developed independently and collected from many different sources, including manufacturers' financial statements; countries' statistical reports; press release; industry magazines; and interviews with manufacturers of construction materials (including engineered stone and competitive product industries), distributors, commercial associations, etc. These information sources are considered highly reliable; however, VCS STONE cannot assure the accuracy and sufficiency of these as VCS STONE has not verified and had adequate resources to cross-check the data collected by the third parties.

In this Report, VCS STONE has given the forward-looking information regarding its future performance, including: business activities and strategies, financial plan, new product development, potential markets, etc. The above forward-looking information is expressed including but not limited to the followings:

- Overview of the market and demand for quartz-based stones;
- Ability of products under VICOSTONE brand to meet the requirements of customers;
- Distribution system;
- Investment in the production technology research and development;
- Existing and potential competitors in the engineered stone industry;
- Financial indicators forecast for 2017;

Any optimistic speculations of the market and business opportunities of the Company stated in this Annual Report are not considered as the Company's commitment on the forthcoming business performance. The 2017's actual results may be different from the above forward-looking information due to many unforeseeable and uncontrollable factors.

As noted above, VCS STONE highly recommends investors consider information or forecasts in this Annual Report as reference before making investment decision, but not as any proposal, suggestion or offer for purchasing the Company's shares.

In any case, investors must be solely responsible for their own decisions.



## Message FROM CHAIRMAN



**Dear shareholders,**

*The year of 2017 will be again a year of unpredictable changes, especially for a company like VCS STONE with the export value accounting for over 90% of total turnover. The events like Brexit, the new elected US President and its Cabinet with new protective orientations and policies, the instability of a number of regions over the world including migration crisis in the Europe, etc. could have strong impacts on VCS STONE's business performance.*

*The recovery of the world economy is, especially the US (which is the largest market of VCS STONE), in general a good signal for market demand. However, the increase in the crude oil and raw material prices will be a big challenge to VCS STONE's 2017 profit expectations.*

*In addition to the continuous improvement of products and processes, focusing on cutting costs from all processes, to lower the product cost is the one of VCS STONE's key tasks in 2017, in order to increase the competitiveness and to ensure the excellent achievement of set targets (growth of at least 20% at turnover and profit).*

*With the available and good resource plan, I believe that VCS STONE will continue to gain successes in 2017, as the premise for the sustainable development of the next years.*

*On behalf of VCS STONE's Board of Directors, I would like to send my deepest thanks to customers, shareholders, employees, partners, central and local authorities and press agencies who have been cooperating with, supporting and joining VCS STONE in making the success in 2016. I hope to constantly receive more cooperation and encouraging from you in the future. I would wish you always be healthy, happy and successful in life.*

**Best regards,**

**HO XUAN NANG**

**Chairman of Board of Directors**

## OVERVIEW

1. VISION
2. MISSION
3. STRATEGIC ORIENTATIONS
4. CORE VALUES
5. ORIENTATIONS OF TOTAL QUALITY EXCELLENCE
6. CORE VALUES OF VCS STONE'S CULTURE
7. KEY INDICATORS OVER 2012 - 2016
8. OVERVIEW OF ENGINEERED STONE INDUSTRY
9. ABOUT VCS STONE
10. VCS STONE'S SIGNIFICANT RISKS FACTORS





### 1. VISION

"Pioneer in development of advanced technology and eco-friendly materials to create long-term competitive advantage and ensure sustainable growth; becoming a regional and global leading manufacturer in hi-tech and eco-friendly products."



### 2. MISSION

"Realize all commitments to satisfy the customers' highest expectations, ensure strong and sustainable growth to offer long-term mutual benefits to shareholders, partners, employees and the society."



### 3. STRATEGIC ORIENTATIONS

"Our core business is industrial manufacturing. Our key products are eco-friendly materials and hi-tech products. In the long-term, we aim to increase our value in the supply chain of manufacturing hi-tech products."



### 4. CORE VALUES

- **Human resource** is the Company's strength, providing intelligence to build successfully brand name and creating reputation and vitality for the Company;
- **Solidarity and cooperation** in works, discipline, industrial style and integrity in all activities are the core values, which couples with high quality human resource to form the Company's invisible and invaluable properties;
- **Unique and distinct technology**; the products are continuously improved and satisfied with the best quality, friendly with the environment, and meet the top requirements of customers. It is also the factor to create the Company's reputation and sustainable development;
- **Customers** are the center of all works. The product and service quality oriented at the customer requirements is the top priority, simultaneously taking the initiative and being ahead in orienting customers to the new and unique aesthetic trends;
- **Profit** is an effective measurement of business performance, as well as vital condition for the Company's vitality and development;
- **Sustainable development** strategy and more and more contributions to the society.

### 5. ORIENTATIONS OF TOTAL QUALITY EXCELLENCE

- Customers define the product quality. Customers buy products and services which meet their needs and expectations on the basis that the cost is suitable with the use value;
- Total quality excellence can be achieved best by preventing problems rather than repairing them after they occur;
- All work done by employees of the Company is part of the process of creating products and services to customers. Each one is the other one's customer and anyone can affect several parts of this process and thus affect the quality of the product and customers' satisfaction; Each employee is responsible to help other ones improve quality of their jobs;
- Excellence in total quality requires continuous improvement. This means that the Company should aware of the current level achieved and whether it could be made better;
- Employees provide the intelligence and necessary actions to make improvements mentioned above;
- Optimal enterprise resource planning and management based on the modern technology are key factors to a sustainable and professional development.



6. CORE VALUES OF VCS STONE'S CULTURE

6.1. CODE OF CONDUCT

Honesty

Always comply with the ethical standards, be honest in every work, friendly in dealing with other people and objective in the work, respect and protect the fact, truth and right, and be courageous to admit the mistake.

Respect

Always respect each other, irrespective of rank, age and gender, encourage expressing personal opinions, listen to and note all comments and ideas, especially, those which naturally contribute to the common work.

Courage

Courage is not afraid of hardship and danger, prepared to cope with the difficulties and challenges, take risks and persevere to pursue the planned objectives. Courage is also to be enterprising and willing to defend the right and express one's own opinions.

Cooperation

Always cooperate, instruct (if possible) and support colleagues to perform assigned tasks, do not elude and pass responsibility to colleagues, always look towards to the Company's common interests and set the Company's interests over the individual and group interests.

Discipline

Discipline is proved by respecting the laws and the Company's regulations; have a high sense of responsibility in the work.

Integrity is not compromised

Be transparent and straightforward in the work and in dealing with problems in the Company and the life.

6.2. CORE VALUES OF VCS STONE'S CULTURE

*Developing, maintaining and promoting the core values that create the corporate culture is a matter that has always been paid attention by the Board of Management as well as the employees in the Company. Over 15 years of development, VCS STONE's distinctive cultural values are shaped more and more profoundly, so from now on, VCS STONE's culture will be associated with its commitment to customers, partners, shareholders and employees.*

VCS STONE's traditional cultural values are portrayed through the followings:

To the Company's members

- To respect each other, corporate with each other to achieve the optimal working performance.
- To encourage open-hearted and sincere communications.
- To build a safe and non-addictive working environment together.
- To always express love and spirit of solidarity.

To customers

- Customers are the center of every work. The Company always takes the quality and products into account to meet the customers' expectations of the best, outstanding products and services in comparison with the competitors. At the same time, the Company takes initiative and one step ahead in orienting customers to the new aesthetics and superior technical characteristics.
- To maintain the reputation among the customers, build high reliability feature leading to the greatest reliability.
- To respect customers' rights of confidential information protection.

To partners, investors, shareholders and society

- To be transparent and respect each other's interests as well as cooperate for mutual benefits are the basic rules of the Company's relationship with investors and shareholders. The Company commits bringing fair opportunities to all investors and always respecting the reasonable assessment, rights and inquiries of investors and shareholders. Through that, the Company would like to establish a transparent and healthy business environment.
- To actively participate in community activities to serve the social objectives better and contribute to the foundation and protection of a sustainable environment.

Adapt with rapid changes of business environment

To demonstrate acumen, identify promptly, dare to take risks, and be well-prepared to change in accordance with the new context.

To competitors

To fairly compete without being intimidated or defaming the competitors, always respect and learn from the competitors are the shortest way to success.

Be creative and constantly enhance to bring the distinction

- To be distinct to compete
- To be distinct to bring benefits to the customers
- To be distinct to cultivate creativity and improvement

Respect time value

To have high demand on the urgency and the accuracy of time, and consider time as an opportunity and long-term value base.

Work values are recognized in:

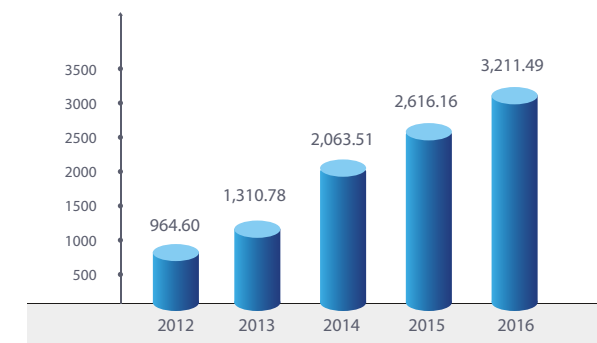
- Great conditions of a working environment and personal development;
- Employees' income;
- Respect and recognition of each employee's ability and contribution;
- Conception of the mastery: Putting the common interests and responsibilities above the individual interests and ego respectively;
- Long-term and stable employment duration
- Constant training and improvement

It is one of the most essential missions for the Company to build, conserve, inherit and develop a great distinctive culture to achieve the objective of a sustainable development.

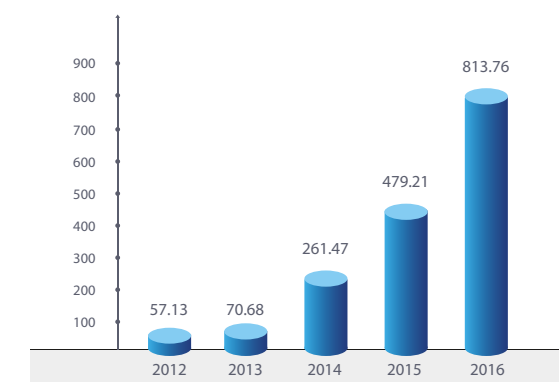


## 7. KEY INDICATORS OVER 2012 - 2016

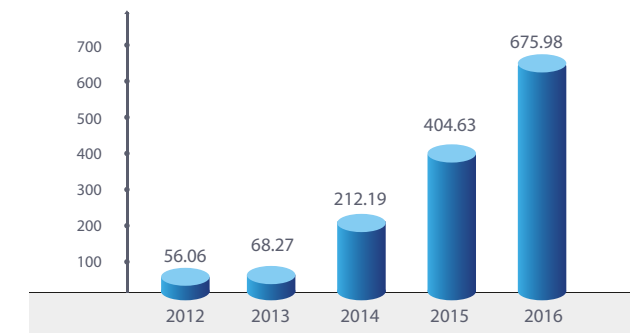
Items	Unit	2012	2013	2014	2015	2016
<b>1. BUSINESS PERFORMANCE</b>						
<b>Net revenue</b>	<b>Billion VND</b>	<b>964.60</b>	<b>1,310.78</b>	<b>2,063.51</b>	<b>2,616.16</b>	<b>3,211.49</b>
Cost of goods sold	Billion VND	638.66	915.14	1,349.49	1,857.54	2,220.06
<b>Gross profit</b>	<b>Billion VND</b>	<b>325.93</b>	<b>395.64</b>	<b>714.02</b>	<b>758.62</b>	<b>991.43</b>
Finance income	Billion VND	5.97	8.28	31.28	25.51	25.93
Finance expenses	Billion VND	145.63	174.52	334.08	169.98	70.95
Profits or losses from associated and joint venture companies	Billion VND	(2.54)	0.29	6.51	5.72	3.85
Selling expenses	Billion VND	55.36	56.96	67.65	76.97	76.84
General and administrative expenses	Billion VND	73.76	96.09	88.01	55.52	59.39
Other income	Billion VND	6.83	5.16	0.81	0.83	0.87
Other expenses	Billion VND	4.33	11.13	1.42	9.00	1.14
<b>Profit before tax</b>	<b>Billion VND</b>	<b>57.13</b>	<b>70.68</b>	<b>261.47</b>	<b>479.21</b>	<b>813.76</b>
Current and deferred corporate income tax expenses	Billion VND	1.07	2.41	49.29	74.58	137.78
<b>Net profit after tax</b>	<b>Billion VND</b>	<b>56.06</b>	<b>68.27</b>	<b>212.19</b>	<b>404.63</b>	<b>675.98</b>
Basic earnings per share	Billion VND	1,030	1,351	4,029	8,637	10,813
Diluted earnings per share	Billion VND	1,030	1,351	4,029	8,637	10,813
<b>2. ASSETS AND RESOURCES</b>						
<b>Total assets</b>	<b>Billion VND</b>	<b>2,647.61</b>	<b>2,766.84</b>	<b>2,647.94</b>	<b>2,781.48</b>	<b>3,337.93</b>
- Current assets	Billion VND	1,037.52	1,270.11	1,876.33	2,010.93	2,729.08
<i>In which: Cash and cash equivalents</i>	Billion VND	26.15	109.34	77.34	295.40	433.97
- Non-current assets	Billion VND	1,610.09	1,496.72	771.61	770.56	608.85
Total liabilities and owners' equity	Billion VND	2,647.61	2,766.84	2,647.94	2,781.48	3,337.93
- Liabilities	Billion VND	1,640.47	1,704.30	1,862.15	1,782.89	1,890.79
- Owners' equity, minority interests	Billion VND	1,007.14	1,062.53	785.80	998.59	1,447.14
<b>3. OTHER FINANCIAL DATA</b>						
Capital construction investment	Billion VND	6.51	65.30	41.75	78.27	200.10
Depreciation and amortisation of fixed assets	Billion VND	130.64	116.49	101.72	68.70	67.59
Adjusted EBITDA	Billion VND	327.61	352.47	662.52	692.38	929.64
EBITDA Margin (%)	%	33.96	26.89	32.11	26.47	28.95



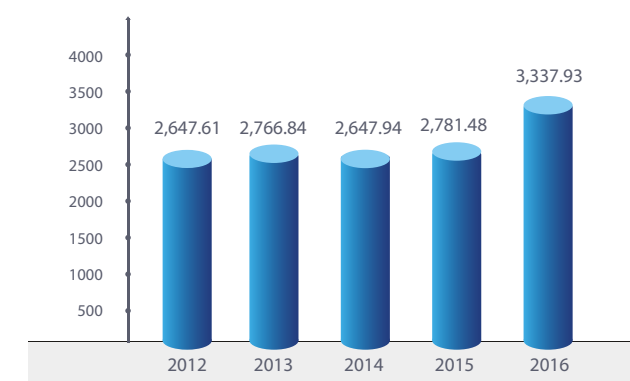
Net revenue (2012 – 2016), Unit: Billion VND



Profit before tax (2012 - 2016), Unit: Billion VND



Net profit after tax (2012 – 2016), Unit: Billion VND

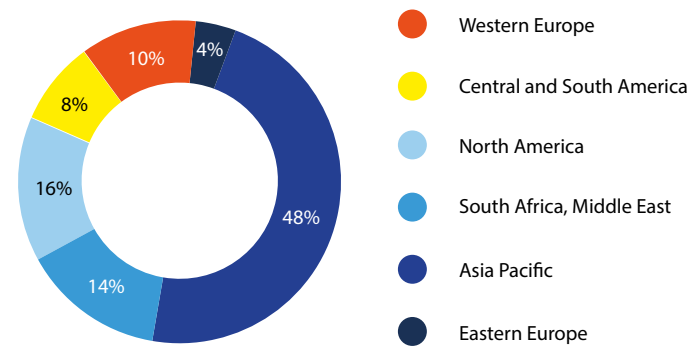


Total assets (2012 – 2016), Unit: Billion VND



8. OVERVIEW OF ENGINEERED STONE INDUSTRY

8.1. OVERVIEW OF COUNTERTOP MARKET

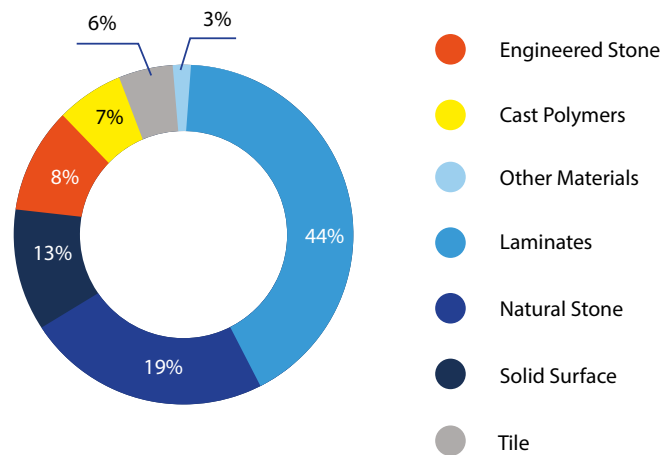


Global countertop consumption (by region) in 2016

According to the latest study of The Freedonia Group, Inc. (an American market research firm) , the world’s countertop demand (including kitchen top and other surface applications) is predicted to increase 4.3% annually to 503 million square meters in 2018. This rise in countertop demand is greatly fostered by the impressive growth of the global economy as well as construction industry. Asia Pacific is the largest market in countertop consumption (47.6% in 2016) and is forecast to rise to 48% in 2018. The second largest market is North America with 16.2% (2016) and an annual increase of 3.4%. By 2018, total market consumption of North America will reach 80.3 million square meters. In 2016, the proportion of other markets are South Africa & Middle East (13.6%), Western Europe (10.3%), Central & South America (7.73%) and Eastern Europe (4.43%). These markets will continue to have positive growth at least until 2018 but at a slow pace.

Consumption habits, levels of economic development and investment, etc. are factors that affect consumer decisions in choosing countertop materials. Thus, there are variations in trend and demand for counter-top materials in each market.

**The USA Market:** The Freedonia Group reported that countertop demand in the USA reached 66.5 million square meters in 2016. With a predicted increase of 4.2% per year, the total demand will rise to 75 million square meters in 2019. Laminates is still the most demand material with 29.7 million square meters in 2016 and accounts for 44.7% of the country’s total demand. However, Laminates is about to reach its saturation. This creates opportunities of development for other countertop materials. The second and third most demanded materials are natural stone (19.1%) and solid-surfaces (13%) respectively.



Forecast of countertop demand in 2019 (by material)

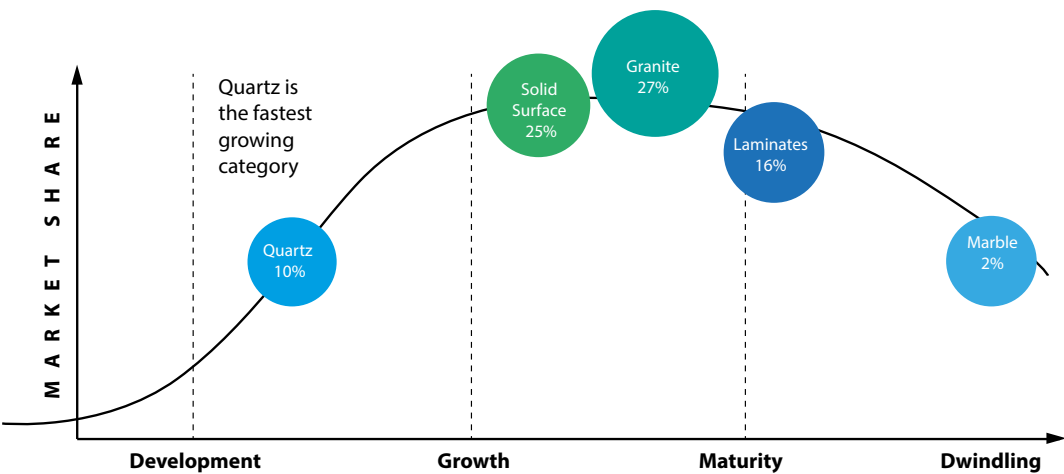
Engineered stone is the material that has the fastest growth rate of 5.8% per year. In 2016, demand for engineered stone reached 5.3 million square meters and made up 8% of the USA total countertop demand. The market share of engineered stone is forecast to expand 8.5% to 6.4 million square meters in 2019. As stated by NKBA - a top interior magazine in USA, engineered stone will continue to lead the trend in interior design in upcoming years. These are promising signals for the further development of engineered stone in the USA.

**The Australian Market:** In recent years, there have been significant shifts in shares of surface materials in the Australian countertop market. Engineered stone has gradually dominated the market by having superiority over natural stone in material structure and offering a wide range of colors with competitive prices. Whilst natural stone stock is becoming exhausted and more attention has been paid to protect the global environment, the successful development of engineered stone designs which resemble natural stone (marble and granite) has benefited the rise of such material. Consequently, engineered stone is gradually replacing natural stone. In 2013, the consumption of natural Granite made up 20% market share of the Australian benchtop market and engineered stone accounted for 7%. In 2012, the market share of natural stone dropped to 10% while such share of engineered stone increased by 3% and comprised 35% of the Australia countertop market. In 2014, 39% of the materials used for countertops are from engineered stone and this number is predicted to rise to 41% in 2017.

**Asia-Pacific Market:** is currently a booming market with the largest demand for countertop. Key players within this region are China, Japan, South Korea, India, etc. Solid surfaces are the most popular material in the market by having low prices compared to other materials. Meanwhile, engineered stone is considered as a luxury product. In 2015, as stated by Freedonia Group INC , Chinese countertop demand was 22.7 million square meters – 3.5 times bigger than the USA demand. In Japan, granite and quartz surfaces comprise 20% of total market consumption. Granite is the 2nd most demanded material and quartz surfaces have been receiving more attention from designers. The above are big and potential markets for the growth of engineered stone in Asia Pacific.

8.2. Global Quartz surfaces demand

According to the Global Engineered Quartz (E-Quartz) Countertops Market – Insights and Analysis of Freedonia INC, the global demand for engineered stones increases by an average of 15.54 percent in the period 2011-2015. This number will increase to 16.77% in the period of 2016-2021. Therefore, it can be seen that engineered stones are only at the beginning of the development stage in the product life cycle and are expected to develop significantly in the next coming years.





8. OVERVIEW OF ENGINEERED STONE INDUSTRY(CONTINUED )

Engineered stone occupies about 10% of the global countertop market. According to Freedonia estimation, the market share of engineered stone is expanding and gradually replacing traditional materials such as laminate, marble....Moreover, engineered stone even holds the leading position in some markets such as Australia (about 40% in 2016), Israel (86% in 2016). In key markets of North American, engineered stone is still a new material. Therefore, the market share of this material is about 8% in the US and 18% in Canada (2016). However, according to NKBA's interior design study - a well-known interior magazine in the US, the use of engineered stone in the countertop industry is the most popular trend today and will continue to grow in the next coming years. These are positive signs of the market, bringing the opportunities for engineered stone suppliers in general and VCS STONE in particular.

9. ABOUT VCS STONE

9.1. VCS STONE product

VCS STONE's engineered stones are produced from up to 93% natural quartz aggregates which are adhered with a polymer resin with color powder. The production lines of compound stones use the most advanced techniques with latest technology - Compaction by Vibrocompresion Under Vacuum, utilizing technology transferred from Breton S.P.A (Italy). VICOSTONE® quartz surfaces have wide color palette with a variety of single color choices, or multi-color selections full of the rich depth deserving of natural stone. Moreover, VICOSTONE is resistant to scratch, heat, impact and the corrosive chemical agents, such as: acids, common cleaning solvents which make VICOSTONE superior to granite or other natural stones. With a luxurious beauty and many advantages, VICOSTONE compound stones are widely used in interior applications such as kitchen countertops, bathroom vanities, wall paneling, and flooring, just to name a few.

VCS STONE products are continuously improved to achieve the best quality, environmentally friendly and to meet all the requirements of customers.

- **Wide color palette:** VCS STONE offers more than 100 designs with wide color palette and different surface finishes to satisfy all customers' needs.
- **Superior quality:** VICOSTONE quartz surfaces have been tested and granted with international certificates such as NSF, GREENGUARD, CE and proved to be Microbial Resistant by the world's reputable organizations.
- **Unique design:** With the differentiation strategy, VCS STONE collection brings together the unique and sophisticated designs that only VCS STONE can offer.

Since 2010, VCS STONE Quasar Light (BQ100) was a breakthrough product with superior whiteness compared to other artificial products. In 2011, VCS STONE continued to launch BQ8270 (Calacatta) at Verona exhibition in Italy that creates a "shock" in the international artificial stone market, opening a new trend for the engineered stone manufacturing industry in the world.

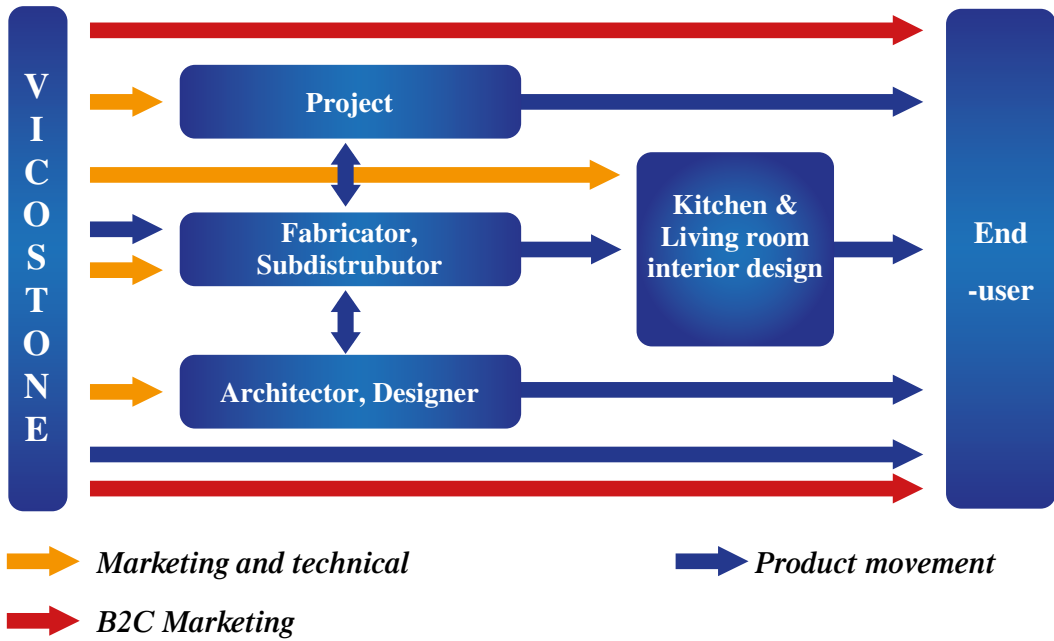
In 2012, the "Granite Looking" collection continued to receive good signals of the market, showing the direction of VCS STONE – Inspired by natural beauty. In 2014, VCS STONE launched "Exotic" collection with unique, elegant products. Products such as BQ8628 (Statuario), BQ8670 (Borghini) ... are the current best-sellers of VCS STONE and also lead the trend in major markets such as USA and Canada. In 2016, VCS STONE continued to develop a collection of new products, such as Fusion, Veincut, Arabescato ... Therefore, with endless inspiration from nature, VCS STONE always research and develop the technology to bring Art and soul to our products, making a big difference in the Quartz Surfaces market.

9.2. VCS STONE DISTRIBUTION SYSTEM

We saw the year of 2016 as a rapid development of VCS STONE's distribution system, especially the direct distribution channel which sells under the VICOSTONE® brand in the North America.

Direct distribution channel:

Since 2011, the company has established a direct distribution network in North America through STY-LENQUAZA LLC (VICOSTONE USA). Up to now, VICOSTONE USA's distribution system has expanded with four distribution centers, including a headquarter in Dallas, Texas, a branch in Houston, Texas, a branch in Chicago, Illinois, and another in Atlanta, Georgia.



Direct distribution system

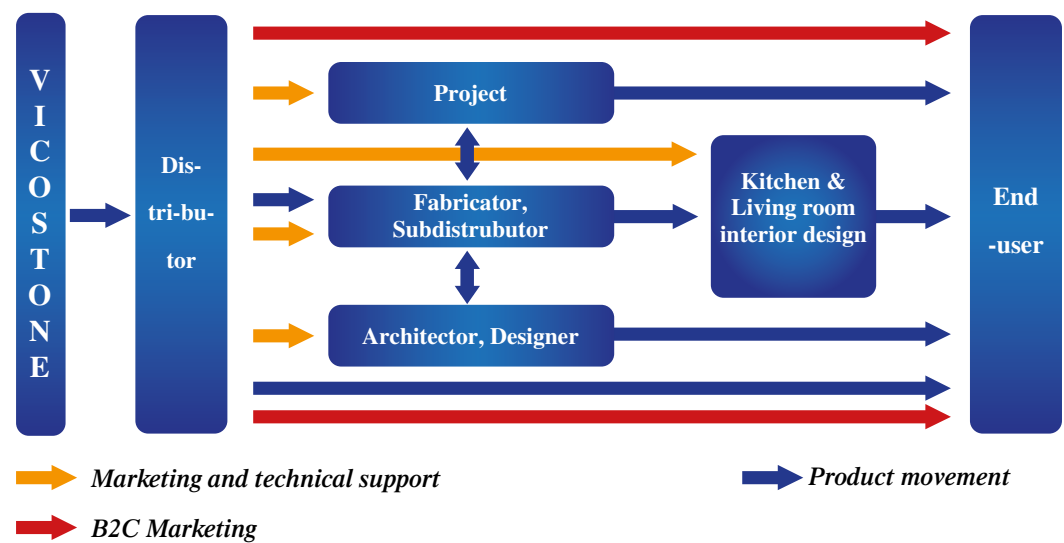
By the end of 2015, VCS STONE's direct distribution system under the VICOSTONE brand name continued to expand after its parent company Phenikaa establish VICOSTONE CANADA, and commissioned a warehouse in Toronto, Canada, from March 2016, bringing the total number of North American warehouses to five (5). As planned, in 2017 VICOSTONE CANADA will continue to open a base in Quebec to distribute to the whole of Eastern Canada.

Indirect distribution channel:

Currently, indirect distribution channel still account for the major sales of VCS STONE. The distributors of VCS STONE are large, financially capable and well-equipped companies who are very reputable in the market of construction materials and interior design. Fast delivery, standout product development ability, differentiated, and above all, the commitment of VCS STONE are key competitive factors that VCS STONE's customers and partners highly appreciate.



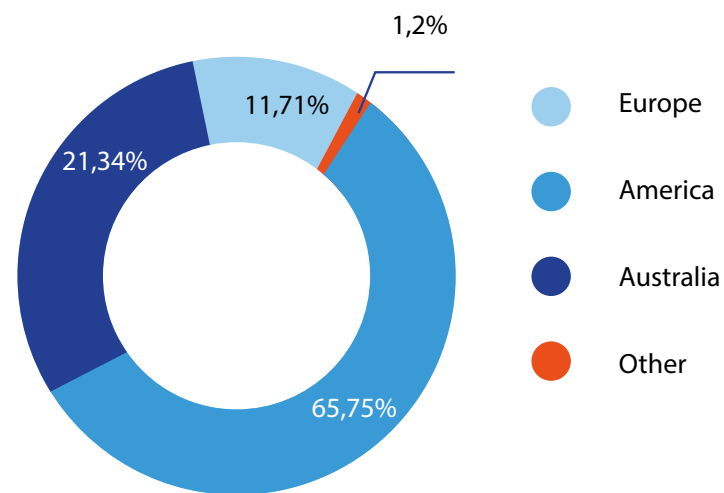
9. ABOUT VCS STONE (CONTINUED)



Indirect distribution system

9.3. VCS STONE’S MARKET

In 2016, VCS STONE’s total export revenue reached \$114.89 million, grew up 22.39% compared to 2015 (\$93.87 millions). Export value continuously focused on 03 main market including America, Europe and Australia, as follow:



Revenue structure of VCS STONE in 2016 by market

Major markets’ export value including The United States, Australia, Belgium, Canada and The United Kingdom gained **\$109.66 million**, accounted for **95.45%** of total export value.

The US continues to be the largest market with total export value more than **\$69.35 million**, marked up for **60.36%** total revenue, increasing roughly **35.7%** compared to 2015. This is the fastest growth market which is the key market of VCS STONE.

9.4. VCS STONE’S MARKETING ACTIVITIES

From 2016, VCS STONE focused on global marketing activities to promote the brand “VICOSTONE® QUARTZ SURFACES”. The purpose of these activities are to increase brand awareness to all customer segments (consumers, professionals, architects...); support distributors and fabricators by marketing tools and events.

Building “Brand Positioning System” Project is one of vital projects of VCS STONE in 2016, this will help increase brand awareness level of VICOSTONE® as well as enhance competitiveness in the international market. We cooperated with DDB agency, a company of Omnicom Corp. in New York US, which is a highly ranked, worldwide advertising agency, to build “Brand Positioning System” for PHENIKAA and “VICOSTONE®” brand. It has been expected that in Q2 2017, we will hold the Brand Announcement Ceremony to provide information about strategic direction as well as new design of “VICOSTONE®” brand.

In 2016, VCS STONE also focused on Digital Marketing activities such as enhancing social network interactions via Facebook, Houzz, Pinterest; launching new website: vicostone.com and develop new mobile application. We boosted up advertisings in international magazines as Stoneworld, Countertop Magazines, K&B (US), Azure, Index-Design (Canada)...to introduce and promote products.

Besides promoting Digital Marketing, we continuously maintained traditional marketing activities. Participation in international exhibitions in major market such as KBIS (US), IDS (Canada), Vietbuild (Hanoi & Ho-chiminh City) opened chances to promote VCS STONE’s product to market. We always try to maximize our support to customers and partners with policies as well as provide marketing tool including brochures, binders, real samples...

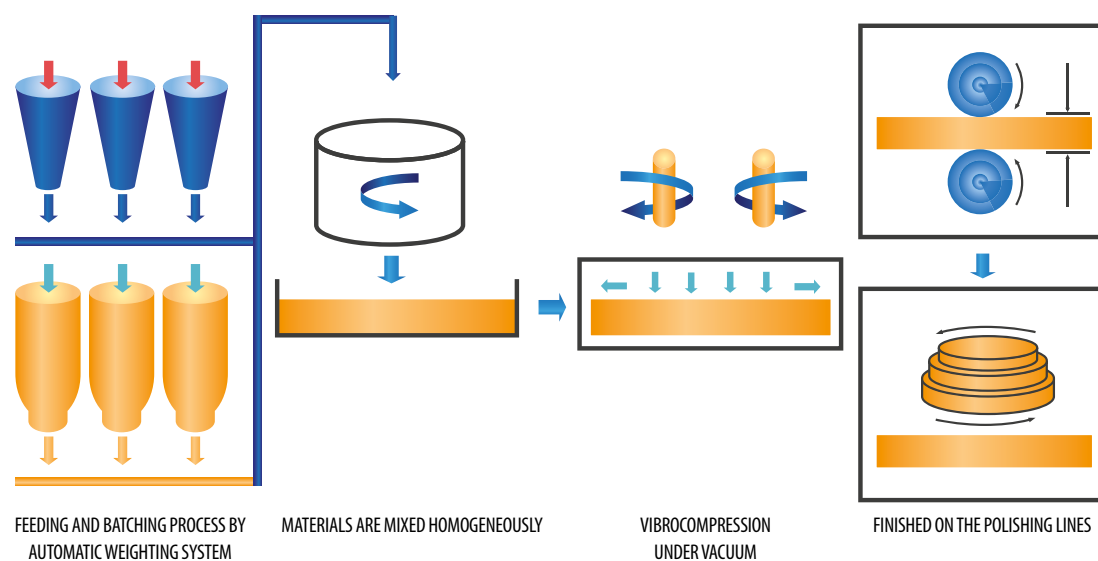
Multi-Channel Marketing implementation helped The “VICOSTONE® QUARTZ SURFACES” brand become well-known to not only domestic but also international market



## 9. ABOUT VCS STONE (CONTINUED)

### 9.5. TECHNOLOGY AND PRODUCTS

VCS STONE quartz-based stones are produced by “Compaction by Vibrocompression Under Vacuum” technology. This technology allows the admixture of dry aggregate particles with specialized adhesives, vibrates and compresses under vacuum to product types of engineered stones owning both superior technical characteristics and high aesthetics which engineered tile materials manufactured by other technologies can not afford.



**VCS STONE's engineered stone production process**

As a composite material, products under VICOSTONE brand are unfired tile materials; as a result, they have the following characteristics:

- » It saves energy (heat) as it does not require to burn under high temperature as other engineered tile material using other production technology;
- » No waste gas emitted from the curing process as other sintered tile materials;
- » It saves electricity at most thanks to the fact that the curing process uses circulating thermal oil and is controlled accurately by a modern control system.

VICOSTONE's products contain 93% of quartzite (*one of the hardest natural agglomerates*) bound by polymer resin and pigments. The raw materials are batched automatically using pre-calculated batching formula. The mixing system will homogenize all raw materials and transfer them to shaping moulds before compressing under vacuum and then polishing them to create the expected perfect products.

A balance mixture of raw materials and an excellent know-how create stone slabs possessing many features: a diversity of color, ranging from monocolour to multicolour; characteristics of natural stones but superior physical properties such as scratch resistance, impact resistance, water resistance, durable, bending or compressing properties... VICOSTONE QUARTZ SURFACES is the ideal products to use in the following applications

- » In construction industry: floor tiles, wall tiles, window sills, stair steps, high-traffic floor, etc.

- » In interior application and furniture: work table surfaces, countertops, acid-resistant surfaces in laboratories, kitchen tops, bar surfaces, vanity tops, hospitals' operating rooms, bathroom decoration, etc.

### 9.6. PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

As one of the world's leading manufacturers in the field of advanced quartz surfaces, owning famous brand, unique and distinguishable products, VCS STONE has a deep awareness of the importance of protection of these intangible assets.

Currently, the VICOSTONE trademark has been registered in Vietnam and over 50 countries and territories in the world, including the US, Canada, Australia, New Zealand, EU, Argentina, etc.

In addition to registering for protection, the Company has been also focusing on applying the internal measures to strictly control and protect its know-how, equipment, machines, production lines, etc., such as rigidly prohibiting the use of cameras and video recording devices within the production areas, all staff must sign confidentiality agreements and ensure not to publicize any confidential information or documents during working in and even when no longer working in VCS STONE.

VCS STONE undertakes to comply with the domestic laws and international treaties on the intellectual property protection; the products, softwares and applications used for the Company's production and business activities are licensed and/or permitted by the supplier/manufacturer. The Company is ensured to receive prompt and effective support if a problem arises. The naming of a product or brand is also given on a rigorous and gradual basis, carefully and seriously searched and examined in order not to be duplicated or confused with other available products. It is these actions that have contributed greatly to limiting the risk of disputes in the Company's intellectual property rights against other enterprises in the market.

### 9.7. ENVIRONMENTAL AND OCCUPATIONAL SAFETY ACTIVITIES

#### a. Environmental activities

Conserving the ecological environment and ensuring the environmental sustainability are those of the development strategy priorities of the Company. Currently, VCS STONE applies the most advanced and highly-automated technology in the world in the field of engineered stones, minimizing manual intervention, ensuring the safety for workers in the operation process and increasing the labor productivity. In addition, the stages, auxiliary equipment for the main production lines and main machines must also be set up and managed and given the operation instructions and regulations to ensure both energy efficiency and safety for workers and equipment. The entire production process from the main stage to the auxiliary stages is always completed and ensured to be safe and environmentally friendly.

The Company's environmental protection programs establish clear objectives and concrete action plans to ensure the maintenance and strict adherence to ISO 14001:2004 - Environmental management systems and International standards on environment, hygiene and food safety under NSF, GreenGuard, Microbial Resistant.

The environmental protection activities are carried out through periodic monitoring and evaluation of environmental management systems and then provide preventive and improvement measures to strictly meet the requirements set forth in the Company's environmental policy as well as timely deal with other environmental-related issues.

In addition to strictly observing the environmental laws, VCS STONE has also taken many measures to improve the environment and minimize negative impacts on the ecological environment in the production and business process such as:

- » Using a modern wastewater treatment system which recycles 100% of production and daily life wastewater for production.
- » Using materials discharged from engineered stone production lines to produce foam concrete bricks which minimizes the discharge of solid wastes into the environment and closes the production cycle;



9. ABOUT VCS STONE (CONTINUED)

- » Researching and applying the technology of engineered stone manufacturing by using bio-resin, a plant-based resin, which is environmentally friendly.
- » Using the recycled materials such as waste porcelain, waste glass, recycled quartz, etc. to produce high-grade composites and reduce the demand for original materials;
- » Reusing heat sources discharged from the production lines for the production process and maximizing the efficient use of energy sources;
- » Using the dust filter and collection systems during the production process which ensure a clean air environment;

In recent years, the Kaizen - 5S program has been carried out throughout the Company and has created a green, clean and healthy working environment. The effectiveness through the training sessions and practical implementation is that all employees have been well aware of the importance and efficiency from the Kaizen - 5S program. Its benefits are not only given to the Company but also to the employees themselves through the improvements in the daily work.

b. Occupational safety activities

Occupational safety and industrial hygiene activities are always focused on: Occupational safety rules and regulations are disseminated to all employees; warning signs are posted in places with unsafety or explosion risks to make the workers aware.

The training of occupational safety and protective equipment for workers is strictly and completely performed and the means of personal protection are provided in accordance with the law. The safety and hygiene teams in the production units are fully and regularly trained, which have effectively promoted the occupational accident and disease prevention. Every year, VCS STONE organizes many training courses and practices to help the employees know how to handle with and respond to the incidents. The special-subject courses are continuously provided to the employees, such as:

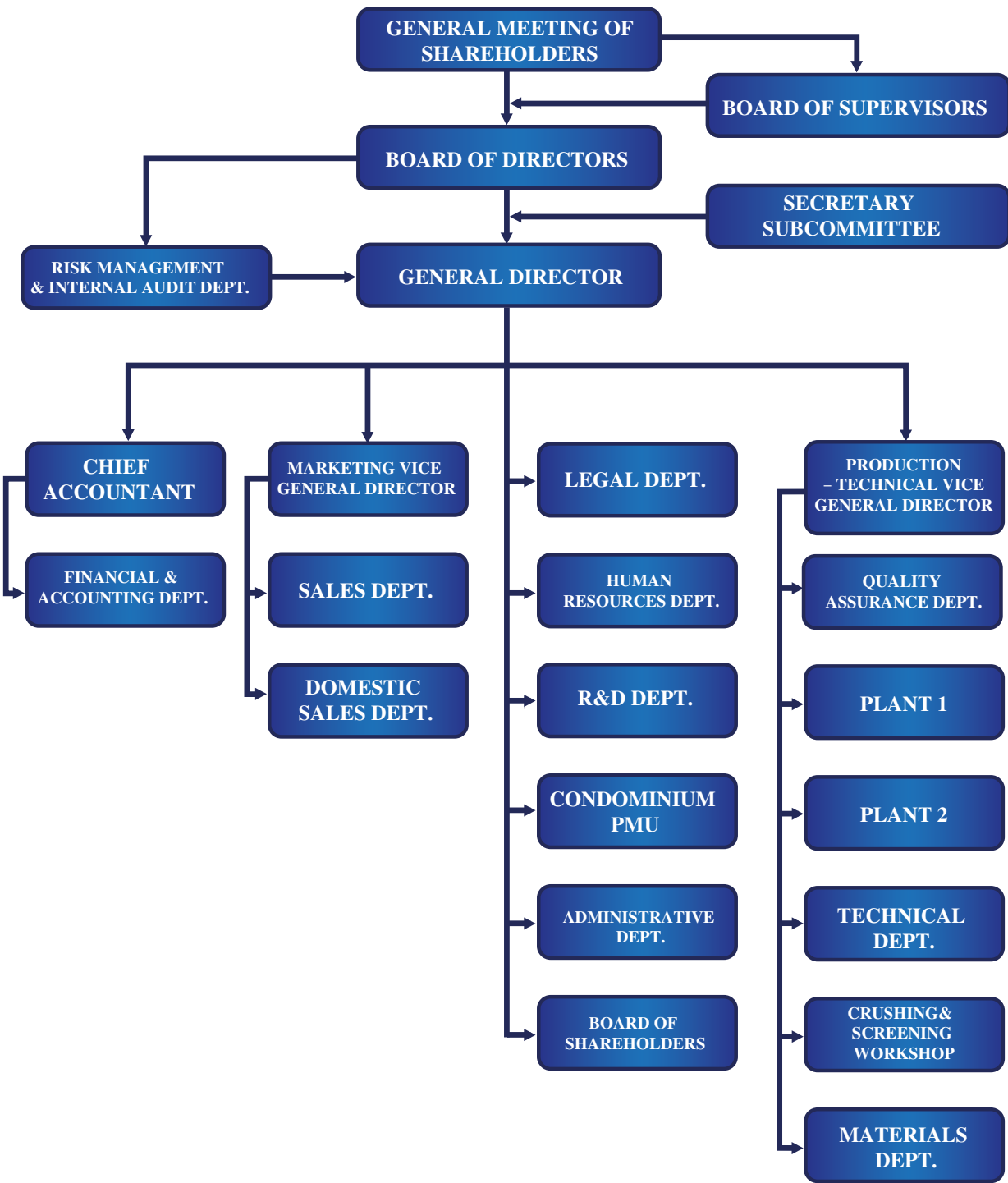
- » Organize safety training courses for 100% of new-recruited employees
- » Regularly organize the fire-fighting training and practices for the fire fighting and protection teams
- » Disseminate and rehearse the chemical spill response.
- » Training first aids for first-aid and emergency-response teams

VCS STONE always adheres to the occupational safety and hygiene control in all direct and indirect production activities, so in the past years, the Company has not experienced any serious occupational accidents.

Complying with the legal regulations, the Company has inspected all equipment with strict requirements on occupational safety and organized periodical health check for staffs, labor environment assessment and environment observation twice a year. All results meet the requirements of the environmental law and environmental impact assessment law.

9.8. ORGANIZATIONAL STRUCTURE AND HUMAN RESOURCES

a. Organizational structure



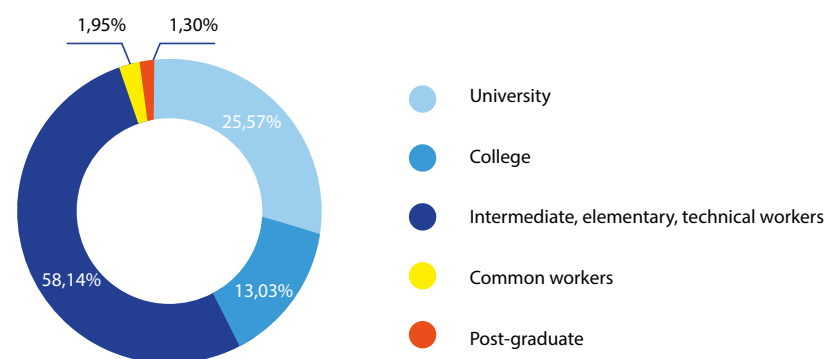
## 9. ABOUT VCS STONE (CONTINUED)

### b. Labor force structure:

Total number of employees in VCS STONE was 614 as of 31 December 2016. VCS STONE's labor force is mainly young employees with the age of under 35 (~ 68.89%), male employees (85%) and has been trained (98 %).

#### Labor force structure by qualifications

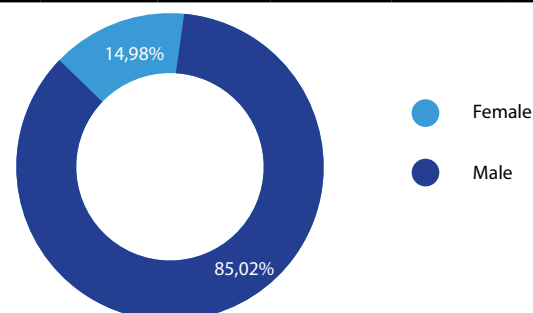
No.	Qualifications	2014		2015		2016		Increase rate in 2016 compared to 2014 (%)
		Number (person)	Rate (%)	Number (person)	Rate (%)	Number (person)	Rate (%)	
1	Post-graduate	12	1.99	9	1.55	8	1.30	-33.33
2	University	167	27.65	148	25.47	157	25.57	-5.99
3	College	79	13.08	72	12.39	80	13.03	1.27
4	Intermediate, elementary, technical workers	337	55.79	344	59.21	357	58.14	5.93
5	Common workers	9	1.49	8	1.38	12	1.95	33.33
	<b>Total</b>	<b>604</b>	<b>100</b>	<b>581</b>	<b>100</b>	<b>614</b>	<b>100</b>	



Labor force structure by qualifications (2016)

#### Labor force structure by genders

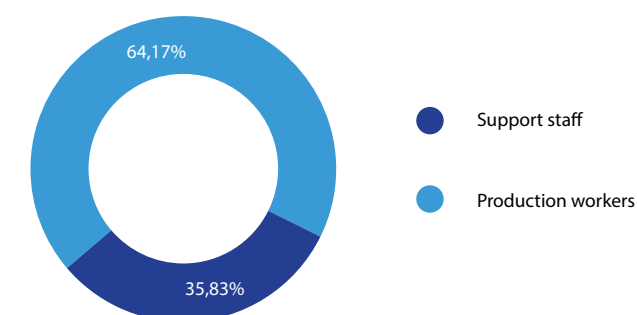
No.	Gender	2014		2015		2016		Increase rate in 2016 compared to 2014
		Number (person)	Rate (%)	Number (person)	Rate (%)	Number (person)	Rate (%)	
1	Male	505	83.61	492	84.68	522	85.02	3.37
2	Female	99	16.39	89	15.32	92	14.98	-7.07
	<b>Total</b>	<b>604</b>	<b>100</b>	<b>581</b>	<b>100</b>	<b>614</b>	<b>100</b>	



Labor force structure by job characteristics (2016)

### Labor force structure by job characteristics

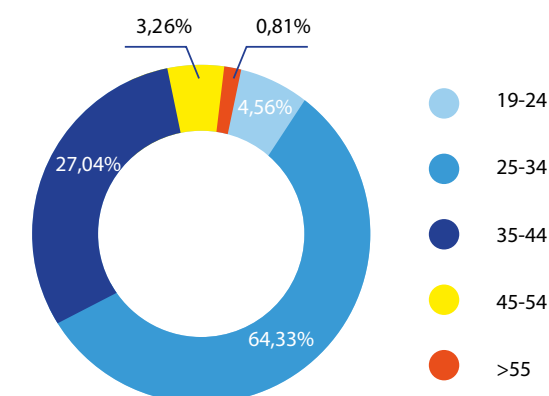
No.	Job category	2014		2015		2016	
		Number (person)	Rate (%)	Number (person)	Rate (%)	Number (person)	Rate (%)
1	Support staff	239	39.57	201	34.60	220	35.83
2	Production workers	365	60.43	380	65.40	394	64.17
	<b>Total</b>	<b>604</b>	<b>100</b>	<b>581</b>	<b>100</b>	<b>614</b>	<b>100</b>



Labor force structure by job characteristics (2016)

### Labor force structure by age

No.	Age	2014		2015		2016	
		Number (person)	Rate (%)	Number (person)	Rate (%)	Number (person)	Rate (%)
1	19-24	47	7.78	31	5.34	28	4.56
2	25-34	435	72.02	396	68.16	395	64.33
3	35-44	100	16.56	128	22.03	166	27.04
4	45-54	19	3.15	22	3.79	20	3.26
5	>55	3	0.50	4	0.69	5	0.81
		<b>604</b>	<b>100</b>	<b>581</b>	<b>100</b>	<b>614</b>	<b>100</b>



Labor force structure by age (2016)



9. ABOUT VCS STONE (CONTINUED)

c. Key members

Board of Directors: 5 members:

- Mr. Ho Xuan Nang Chairman
- Mr. Nguyen Quoc Truong Member
- Mr. Pham Anh Tuan Member
- Ms. Nguyen Dieu Thuy Ngoc Member
- Ms. Nghiem Thi Ngoc Diep Member

In which Ms. Nghiem Thi Ngoc Diep is an independent member, Mr. Ho Xuan Nang, Mr. Nguyen Quoc Truong and Ms. Nguyen Dieu Thuy Ngoc are non-executive members



Mr. **PHAM ANH TUAN**  
Member of Board of Directors

**Date of birth:** 12/09/1981  
**Professional qualifications:** Doctorate of Polymer and Composite Materials  
**Positions assigned in other companies:** Vice General Director of A&A Green Phenix JSC



Mr. **HO XUAN NANG**  
Chairman

**Date of birth:** 04/11/1964  
**Professional qualifications:**  
- Doctorate of Technique  
- Master of Business Administration  
**Positions assigned in other companies:**  
- Chairman of Board of Directors – General Director of A&A Green Phenix JSC  
- Chairman of Board of Directors of Style Stone JSC  
- Chairman of Board of Directors of Ha Noi - VPM Project Management Consultant JSC



Ms. **NGHIEM THI NGOC DIEP**  
Member of Board of Directors

**Date of birth:** 14/05/1987  
**Professional qualifications:** Bachelor of Foreign Language  
**Positions assigned in other companies:**



Mr. **NGUYEN QUOC TRUONG**  
Member of Board of Directors

**Date of birth:** 01/01/1964  
**Professional qualifications:** Internal Combustion Engine Engineer  
**Positions assigned in other companies:**



Ms. **NGUYEN DIEU THUY NGOC**  
Member of Board of Directors

**Date of birth:** 12/03/1972  
**Professional qualifications:** Bachelor of Economics  
**Positions assigned in other companies:** Chief Accountant of HTC Multi-dimensional Communications Technology JSC

9. ABOUT VCS STONE (CONTINUED)

Board of Supervisors: 03 members:

- Mr. LUONG XUAN MAN                      Head
- Mr. NGUYEN QUOC TUAN                  Member
- Ms. TRAN LAN PHUONG                   Member



Mr. **LUONG XUAN MAN**  
Head of Board of Supervisors

**Date of birth:** 20/07/1963  
**Professional qualifications:** Bachelor of Economics  
**Positions assigned in other companies:**  
- Chief Accountant - Vice General Director of A&A Green Phenix JSC  
- Head of Board of Supervisors of Vietnam Stone Work-Top Fabrication JSC  
- Head of Board of Supervisors of Style Stone JSC



Mr. **NGUYEN QUOC TUAN**  
Member of Board of Supervisors

**Date of birth:** 01/09/1964  
**Professional qualifications:** Master of Business Administration  
**Positions assigned in other companies:**



Ms. **TRAN LAN PHUONG**  
Member of Board of Supervisors

**Date of birth:** 04/10/1988  
**Professional qualifications:** Bachelor of Economic Law  
**Positions assigned in other companies:**  
- Member of Board of Supervisors of Vietnam Stone Work-Top Fabrication JSC  
- Member of Board of Management of Ha Noi - VPM Project Management Consultant JSC

Board of Executives, Chief Accountant

- Mr. PHAM ANH TUAN                      General Director
- Mr. LUU CONG AN                        Vice General Director
- Mr. PHAM TRI DZUNG                    Vice General Director
- Mr. NGUYEN QUANG ANH               Vice General Director
- Ms. NGUYEN THI NGA                    Chief Accountant

Mr. **PHAM ANH TUAN:** General Director (*Read "Board of Directors"*)



Mr. **LUU CONG AN**  
Vice General Director

**Date of birth:** 15/07/1965  
**Professional qualifications:** Dynamical Engineer  
**Positions assigned in other companies:**  
Director - Member of Board of Directors of Vietnam Stone Work-Top Fabrication JSC  
Vice General Director – Member of Board of Directors of A&A Green Phenix JSC



Mr. **PHAM TRI DZUNG**  
Vice General Director

**Date of birth:** 18/10/1971  
**Professional qualifications:** Mechanical Engineer  
**Positions assigned in other companies:**  
Vice General Director – Member of Board of Directors of A&A Green Phenix JSC  
Chairman of Board of Directors of Vietnam Stone Work-Top Fabrication JSC



9. ABOUT VCS STONE (CONTINUED)



**Mr. NGUYEN QUANG ANH**  
Vice General Director

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**Date of birth:** 29/06/1976  
**Professional qualifications:** Construction Machinery and Loading Engineer  
**Positions assigned in other companies:**



**Ms. NGUYEN THI NGA**  
Chief Accountant

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**Date of birth:** 15/12/1984  
**Professional qualifications:** Bachelor of Economics, major in Accounting  
**Positions assigned in other companies:**

d. Important changes in personnel of Board of Directors, Board of Supervisors, Board of Executives and Chief Accountant

• **Board of Directors:**

In 2016, the Board of Directors’ personnel and structure were changed as follows:

- Mr. Tran Dang Loi resigned from the position of Member of Board of Directors from 30/06/2016;
- Ms. Nguyen Dieu Thuy Ngoc was appointed as Member of Board of Directors from 30/06/2016;  
(According to Resolution No. 02/2016 NQ/VCS-ĐHĐCĐ dated 30/06/2016 by the 2016 Extraordinary General Meeting of Shareholders of VICOSTONE JSC)
- Ms. Nguyen Thi Nga resigned from the position of Member of Board of Directors from 15/12/2016;
- Mr. Pham Anh Tuan was appointed as Member of Board of Directors from 15/12/2016;  
(According to Resolution No. 33/2016 NQ/VCS-HĐQT dated 15/12/2016 by the Board of Directors of VCS Advanced Quartz Stone JSC)

Full name	Position	Date of appointment
Mr. Ho Xuan Nang	Chairman	12/06/2014
Mr. Nguyen Quoc Truong	Member	04/08/2015
Mr. Pham Anh Tuan	Member	15/12/2016
Ms. Nguyen Dieu Thuy Ngoc	Member	30/06/2016
Ms. Nghiem Thi Ngoc Diep	Member	25/08/2014

• **Board of Supervisors:**

In 2016, the Board of Supervisors’ personnel and structure were changed as follows:

- Ms. Nguyen Dieu Thuy Ngoc resigned from the position of Member of Board of Supervisors from 30/06/2016;
- Mr. Nguyen Quoc Tuan was elected and appointed as the Member of Board of Supervisors from 30/06/2016;  
(According to Resolution No. 02/2016 NQ/VCS-ĐHĐCĐ dated 30/06/2016 by the 2016 Extraordinary General Meeting of Shareholders of VICOSTONE JSC)

Full name	Position	Date of appointment
Mr. Luong Xuan Man	Head	04/08/2015
Ms. Tran Lan Phuong	Member	04/08/2015
Mr. Nguyen Quoc Tuan	Member	30/06/2016

• **Board of Executives:**

In 2016, the Board of Executives’ personnel and structure were changed as follows:

- On 14/06/2016: The Board of Directors signed the Resolution No. 19/2016 NQ/VCS - HĐQT on appointing Mr. Nguyen Quang Anh to hold the position of Vice General Director;
- On 15/09/2016: The Board of Directors signed the Resolution No. 30/2016 NQ/VCS - HĐQT on dismissing Mr. Nguyen The Thai from the position of Vice General Director;
- On 15/12/2016: The Board of Directors signed the Resolution No. 34/2016 NQ/VCS - HĐQT on dismissing Mr. Ho Xuan Nang from the position of General Director and appointing Mr. Pham Anh Tuan to hold the position of General Director;

Full name	Position	Date of appointment
Mr. Pham Anh Tuan	General Director	15/12/2016
Mr. Pham Tri Dzung	Vice General Director	17/06/2014
Mr. Luu Cong An	Vice General Director	17/06/2014
Mr. Nguyen Quang Anh	Vice General Director	14/06/2016

• **Chief Accountant:**

In 2016, there was no change in the position of Chief Accountant. Ms. Nguyen Thi Nga continues to hold the position of Chief Accountant

The changes in key personnel (members of the Board of Directors, Board of Supervisors and Board of Executives) has been announced on the Company’s website at [www.vicostone.com](http://www.vicostone.com) and reported to the State Security Commission of Vietnam and Hanoi Stock Exchange in time and in compliance with the legal regulations on information disclosure.

## 9. ABOUT VCS STONE (CONTINUED)

### e. Relevant companies

#### PARENT COMPANY - CTCP PHƯỢNG HOÀNG XANH A&A (PHENIKAA)

**Trading name:** A & A GREEN PHENIX JOINT STOCK COMPANY

**Abbreviated name:** PHENIKAA

**Headquarter:** No. 167 Hoang Ngan Street, Trung Hoa Ward, Cau Giay District, Hanoi, Vietnam

**Charter capital:** 1,600,000,000,000 VND (One thousand six hundred billion Vietnamese dong)

**Tel:** +844 3555 1411

**Fax:** +844 3368 7095

**Email:** [info@phenikaa.com](mailto:info@phenikaa.com)

**Website:** [www.phenikaa.com](http://www.phenikaa.com)

#### Main business:

- Industrial production
- Design consultancy
- Construction
- Mining and real estate
- Trade and services
- Education and training

#### Phenikaa's subsidiaries:

##### Industrial production:

- VCS Advanced Quartz Stone JSC (*ownership rate accounts for 72.49% of charter capital*)
- STYLE STONE JSC (*ownership rate accounts for 99.93% of charter capital*)
- Vietnam Stone Work-top Fabrication JSC (*ownership rate accounts for 50.55% of charter capital*)
- Phenikaa Hue Mineral Processing & Investment One Member Company Limited (*100% charter capital owned by Phenikaa*)

##### Construction and Design consultancy

- Hanoi – VPM Project Management Consultancy JSC (*ownership rate accounts for 87.82% of charter capital*)
- Global Sitetech Design Consultant and Technology JSC (*ownership rate accounts for 59.38% of charter capital*)

##### Trade and services

- Sec G3 Center JSC (*ownership rate accounts for 97.6% of charter capital*)
  - Stylenquaza LLC. DBA (VICOSTONE US) established in November 2010, its headquarter located in 11620 Goodnight Lane, Suite 100, Dallas, Texas, U.S.A.
  - Vicostone Canada INC. established in November 2015, its headquarter located in 341 Edgeley BLVD Vaughan, ON L4K 3Y2, Canada.
- VICOSTONE US and VICOSTONE Canada which are owned by Phenikaa Group, established and operating outside of Vietnam, are directly distributing the quartz-based stones under VICOSTONE brand in the North America (USA, Canada).*

#### ASSOCIATED COMPANY: CTCP CHẾ TÁC ĐÁ VIỆT NAM

**Trading name:** VIETNAM STONE WORK – TOP FABRICATION JOINT STOCK COMPANY

**Abbreviated name:** STONE VIETNAM

**Headquarter:** High-tech Industrial Zone, Hoa Lac High-tech Park, Thach Hoa, Thach That Commune, Hanoi.

**Charter capital:** 65,127,500,000 VND (*sixty five billion, one hundred and twenty seven million, five hundred thousand Vietnamese dong*) equivalent to 6,512,750 shares

The number of shares owned by VCS STONE: 2,044,800 shares equivalent to 20,448,000,000 VND (*Twenty billion, four hundred and forty-eight million Vietnamese dong*); accounting for 31.40% of charter capital.

**Main business:** Established on 13 February 2007, Vietnam Stone Work-Top Fabrication JSC is major in consulting, designing, processing and fabricating engineered quartz surfaces under VICOSTONE brand used in interior applications industry such as home furnishings, restaurants, hotels, offices and high-class projects. Stone Vietnam is an important “chain” of the closed production cycle from producing stone slabs to processing, fabricating and installing the Group’s finished products.

## 10. VCS STONE’S SIGNIFICANT RISKS FACTORS

VCS STONE’s business faces significant risks, or uncertainties that beyond the foreseen plan, including unanticipated events that occurred internally and externally. These material risks may adversely affect VCS STONE’s business performance, financial status and results of operations; but also new opportunities for the company to expand, should they can all be utilized. The Company has promoted Risk Management by developing and analyzing a list of risks related to the implementation of development strategies as well as in daily production and business activities; in parallel with the development of options to minimize and mitigate the impact of these risks, to accept a certain degree of risk to ensure maximum use of every opportunity and challenge for growth, but not to avoid or completely eliminate the risks. The identified risks that material to the Company is listed as follows:

No.	Risk	Description	Probability	Impact
1	Market development and building competitive advantages on deliverables	The Company can not grow or expand current market; or to be lessened	Very high	Severe
2	Shortage of incoming material resource	The quality of raw materials could not match up with production’s requirements; or unstable supply	Very high	Severe
3	Operating	The production activities could not get high efficiency, or disruptions in business operations	Moderate	Severe
4	Human resource	The unstable in human resource management, e.g. key personnel or key candidates that unable to meet the expectation and requirements for strategic growth and normal operations	High	Major
5	Legal dispute	Change in international and domestic laws and regulations related to taxation, import-export regulations, intellectual properties, etc. that the Company could not timely update and comply with; or the involved in legal debates	High	Major
6	Foreign exchange rate fluctuation	The fluctuation of foreign currencies exchange rates that impact the Company liabilities and receivables.	Very high	Severe

The impact of the hereabove risks on the Company’s operation is assessed base on different factors; including financial aspects such as revenue and cost, as well as non-financial aspect such as production downtime, change in market share, etc.

The summarized information set forth in this report, along with other disclosed information can be use as a basis for investors, shareholders and other business partners of VCS STONE to consider before deciding to associate with the Company.

### 10.1. MARKET DEVELOPMENT RISK

Most of all the VCS STONE revenue comes from the export of artificial quartz slabs to international markets, in which concentrated in North America, Australia and Europe. VCS STONE always under the pressure to get through other competitors whose experiences and scale of business are at least at the level of the Company. When a sustainable growth rate is not guaranteed, the Company might face deficit revenue; lessen com-



10. VCS STONE’S SIGNIFICANT RISKS FACTORS (CONTINUED)

petitive advantages along with severe impacts to Company’s value and shareholders’ trust. Here are several notable factors that might impact to the VCS STONE market development:

Geographic concentration of revenue on key existing markets:

There are many applications of VCS STONE’s artificial quartz surfaces, however it is mostly used in interior decoration such as kitchen countertop, cabinet, or lavabo, etc. Therefore, the revenue of the Company is directly linked to end users’ need for house building, innovation, or remodeling. Such events are usually costly, thus the households and individuals’ budgets for this expenditure are normally depend on the availability of consumer credit and other factors such as interest rate, consumer confident level, government policies and unemployment rate at the Company’s target markets. The world’s economy has been recovering since the Great Depression in 2008, but very slow in the recent years, and predicted to be increased by only 2.8 percent in 2017 (Conference Board’s Global Economic Outlook 2017).

The incomes of VCS STONE’s largest market in the last 3 years are listed as follow:

Main market	2014	2015	2016
North America	53.07%	58.38%	61.86%
Australia	29.74%	25.85%	25.06%
Europe	15.20%	13.97%	10.85%
Revenue share	98.01%	98.20%	97.77%

Even though there are slight different in the revenue structure, the trend shifts toward North America’s key customers. Focusing on a few key markets gives the Company chance to easily collect market intelligent, quickly react to the end users’ purchasing behaviors. On the other hand, under the circumstance that the market is undergoing major politic changes such as the impact of new US presidency and cabinet, etc. can lead to the large changes in the policies, regime, legal framework that currently unable to anticipate and measure the impact to the VCS STONE’s operation results. The direct factors might include the import tax (no longer being 10%), interest rate fluctuation that resulting in the fluctuation of construction needs, etc. In order to ensure timely response to the changes mentioned above, VCS STONE always focus on tracking information and press releases from the US government as well as major media companies, and prepare the strategy, action plans for when the worst-case scenario occurs.

Competitive pressure

VCS STONE is not the only producer of artificial stone in the world, and also, engineered quartz surface is not the only substitute for the natural stone. As the consequence, VCS STONE is facing the competitive pressure from other large artificial stone companies; as well as the strong pressure from other natural stone alternative products; or event from the global natural stone market itself.

Competitiveness from other engineered stone producers

The main competitors of the Company are the large corporations, family companies that have long tradition of producing stone for years, and newly formed companies in China and India. Those companies keep bringing new models to the market with niche designs, higher physical properties or taking advantage of the “going green” trends (using recyclable or environmental friendly materials). Another competitive element on the design is they often copy each other unique designs shortly after the products are launched. Although the VCS STONE R&D team is constantly working to create new and exclusive products with unique techniques to prevent the competitors to bring out similar designs, the reproduction is quite possible and it not possible to prevent without extensive copyright projection in the major markets. However, such protection measures only work locally in the registered market, as it is difficult to ensure that copied models will not appear in other markets beyond the control of the Company.

Another potential risk is business integration in the quartz surfaces industry, where competitors successfully merge with each other. Using merge and acquisition, large companies easily gain competitive advantage with greater scale of production and market coverage. Post-merger production scale can be expanded through new construction and technology transfer on specialized production lines. Market coverage was expanded through the expansion of the brand and the development of direct distribution channels closer to customers and end users in more areas. The above factors will increase the competitive pressure on the Company, especially competitors with greater financial potential, greater risk appetite may also be willing to offer lower than the price level than the Company for the same products to occupy the market.

China made’s low price product is also a risk factor that reduces market share and competitiveness of the Company because cheap is still an important and decisive factor for purchase, especially at large projects and budgeted segment everywhere.

To mitigate this risk, VCS STONE had stepped up market research, analyzing competitors for strategic expansion and search for new potential markets, and increased strengthening marketing team, expanding direct and indirect distribution agents, building and communicating the brand identity to end-users and fabricators.

Competitive from the alternative products

Not only facing the risk of market takeover from other engineered stone makers, VCS STONE is also facing the same risk from other surface products such as ceramic, granite, laminate, marble, solid surface, concrete, steel, wood, etc. They might not be as well as engineered stones, but have the advantages in the wide range of models, cheaper retail prices and wider field of application thus can easily meet the consumers’ needs; which become a great obstacle for the Company quest to expand the market share.

Favouring original products trend

The end users are more and more picky and smarter in choosing product. The end users are not only look at the pricing, but also consider the product’s aesthetically and originality. In recent years, there have been many original products with high aesthetic such as Calacatta, Venatino or Statuario that contributed to reputation of the Company at the international market. The Company estimates that trends changing will be short, and the process will be quicker and quicker over time. Should VCS STONE not be able to catch up with the consumers’ trends, there would be vital for the Company to keep up with the market.

Therefore, VCS STONE’s objective is to focus on developing premium and unique goods that come in high quality and environmental friendly. However, in order to achieve this goal, the Company will have to apply more advanced technologies and manufacturing processes on the current production lines; along with strict control of only use high grade materials and special procedures. Eventually, the production cost will be higher than normal, which in turn causes a lower margin for such products, in compare with the traditional ones. Furthermore, for the sake of maintaining the competitive advances, there will be a limit on transferring such cost to the consumers’ end, thus cause the profit of the Company to be further decreased should the selling volume of these premium products is not high enough to cover up the extra cost of production.

10.2. RESOURCE SHORTAGE RISK

VCS STONE has not yet been able to self-providing itself with raw materials, but completely depend on it network of international suppliers. As a consequence, the risk of unable to maintain a stable price and capacity for production, especially for quartz, crystobalite and polyester resin, is the one that the Company cannot underestimate.

Quartz

Quartz (or grounded quartz) is the main component for producing VCS STONE engineered stone (roughly 30% of raw material cost). At the moment, VCS STONE is mainly importing quartz from Turkey, Spain and India; and only purchase a small amount from domestic suppliers. Relying on imported materials cause the Company to be exposed to the following disadvantages:

## 10. VCS STONE'S SIGNIFICANT RISKS FACTORS (CONTINUED)

- As sea freight takes several months for the transit time on a normal course, the suppliers usually require the purchaser to preorder stock at the beginning of the year, or several months before shipping to prepare in advance. Traditional suppliers might not be given enough time respond to a sudden event such as change in production plan occurs, that cause the Company have to either purchase from non-frequent suppliers or resort to using air freight which are much more expensive than estimated cost.

- In case that the suppliers can provide unlimited quantities of material at anytime, the Company's ability to purchase is still could not be higher than production require, as there is limit to the inventory space, and the effectiveness of working capital use should also be considered.

- At the same time, quartz suppliers usually accept yearly contract, so the Company cannot be assured with a stable source that have plenty of high quality supply with low price.

- One more problem in purchasing grounded quartz is for some suppliers; the contract always comes with one compulsory condition of requiring VCS STONE not to purchase only one specific mesh size, but also other sizes that Company might not needed, thus raise up the cost of purchase as well as pre-processing the materials before production.

- Also, there are not many credited and reputable quartz suppliers in the world, along with limited producing capacity while there is not only VCS STONE has the need for expanding scale of production. Therefore, the Company also faces the risk of being forced down the price when competitors are willing to pay a higher price to win the contract to supply materials with VCS STONE.

In order to hedge the risks of raw materials shortage, VCS STONE has been trying to enlarge its pool of international suppliers, along with plans to increase domestic quartz usage to reduce cost and limit dependence on the current suppliers. In 2016, the Company had purchased roughly 20,000 tons of domestic quartz (doubled up from 11,600 tons in 2015), as the Company plan on increasing the domestic purchase in long-term.

### **Polyester resin**

Polyester resin, the binding agent in the Company's product, is an expensive important material. Even though the resin is only 10% of the final product, it is accounted for roughly 30-40 percent of total raw material cost, thus even a small change in resin price could adversely impact the Company's production cost. In addition, the resin's price is fluctuated depends on many different factors, but notably the price of crude oil.

By the end 2015, the crude oil price decreased by 40% in compare to the beginning of the year, which was a good signal to the Company profit, as the polyester resin price should also significantly decreased. In 2016, the crude oil price continued to decrease in the first half of the year, but has been going on increase trend at the end of the year, and will continuously increase in 2017.

Due to such fluctuations, suppliers usually only sign a principle contract at the beginning of the year, then close the price and volume about 2-3 months before shipment. This, coupled with the fact that the transit time usually lasts about 3 months, makes it difficult for the Company to ensure a steady purchase price and production cost savings.

### **10.3. OPERATING RISKS**

#### **Productions exceeds the absorption capacity of the demand**

Since the beginning of 2016, the latest production line of PHENIKAA Group had come in to operation. PHENIKAA's production team now have five lines of engineered stone production group-wide that using the Breton technology (two in PHENIKAA, two in VCS STONE and one in Style Stone), with total production capacity of 2.5 million square meters per year.

This is a great pressure for the Company to seek out the output of its products. Should the Company can not ensure a balance between production output and sales volume, it will certainly face a series of risks related to stagnation of inventory, increase management costs, personnel, reduce liquidity ... that greatly affecting the

efficiency of production and business. One of the strategic measures to mitigate this risk is considered by the Company to be aggressive attacking the neighbor markets in the nearby regions, especially in the domestic market; particularly when demand for high-end products of Vietnam is increasing as current.

#### **Interruption of Production**

Being a highly-automated manufacturer that operated in a large scale, VCS STONE always bears the risk of one or several procedures are not properly performed or complied that render the whole production process to be interrupted. For whatever reason, fails to ensure production can lead to failure in meeting the market demand, delay in delivery schedules; thereby affecting the relationship between the Company and its business partners, as it cause the Company's creditability to be lowered and negatively impact the business results

There are many reasons that increase the likelihood of production disruption, including both objective and subjective causes such as natural disasters, fire, shortage of raw material, operating personnel or equipment breakdowns, etc. Depending on the cause, the Company has prepared backup scenarios for such emergency cases, to ensure remedial and recover production capability as quickly as possible.

Furthermore, due to specific technology and equipment in manufacturing engineered stones, it is difficult for the Company to utilize outsourced resources to help with the production, but rather relies on its own professionally trained local workers to operate its machineries. Should the risks of insufficient manpower to engage in operations surface, it will take long time for the Company to recover and ensure the production capability since it is difficult to shorten the required training time. In case that there are newly built production lines, the shortage of skilled workers also lead to difficulties in ensuring the capacity increment as per scheduled.

Raw materials for the production are mostly imported from India, Spain and Turkey. Should the supply is limited because of the competition or depletion of mines; the production will be consequently limited. In the worst-case scenario, the Company will have to cease its operations when there is none of the alternative plans work (e.g. searching for new suppliers, using substitutable raw material, etc.). At the moment, the Company R&D team are working on the research for substitutable materials to prevent such situation arise.

#### **Global Distribution and Information Collection**

Currently, only a small portion of VCS STONE's stones is sold by using agencies created by PHENIKAA, VCS STONE's mother company, while the rest are being distributed over a large network of intermediate distributors, in order to take advantage of their fully established creditability, brands and market coverage areas. On the other hand, focusing on distributors creates the following difficulties to the Company in long-term:

#### ***Difficulties in controlling sold products' quality and quantity:***

The distributors are normally companies that have nothing related to VCS STONE aside from the trading contracts. Hence, they are not in anyway under direct control and management from the Company, which means there is no guarantee that the Company is able to set up and monitor the controls for quality and quantity of their merchandises. Furthermore, VCS STONE does not focus on cheap and easy selling products, but concentrate on premium products that are more valuable and luxurious, thus more expensive even for the distributors. As a consequence, the Company's credibility, reputation and profitability could be adversely impacted should these distributors sell goods from other sources under the brand name of VICOSTONE.

#### ***Difficulties in expanding distribution network***

For some of our main distributors, we have signed long-terms contracts of three to five years in which included the terms for minimum yearly income. Should the business partners are not able to keep up with the agreement, VCS STONE will consider terminating the contracts beforehand. The search for new partners is usually costly and takes time; and also bears the risk of unable to maintain the coverage range as large as before.

In addition, such contracts usually come with restrictions on geographic areas where VCS STONE can freely distribute its products, which cause difficulties for the Company to expand market and it own brand name.

Moreover, not all distributors agree to long-term contracts, but usually want to limit themselves from



## 10. VCS STONE'S SIGNIFICANT RISKS FACTORS (CONTINUED)

risk exposure by using contractual agreements when in need; or signing short-term contract and extend if necessary. At the same time, the distributors of this form either accidentally or deliberately put vague terms with ambiguous rights and obligations on both sides. The contract on cases like this can easily lead to the risk of unstable and unsustainable revenue growth; while unclear contract terms may lead to legal dispute risks.

### ***Difficulties in collect market information and end-users' information***

Another limitation of using intermediary vendors is the company will be less likely to have direct access to end users to gather direct information about the quality of their products as well as the response of the market before these products. At that time, the source of information about the market, tastes, the trend of using the product will only be shared with the company through the distributors. No one can guarantee that the information collected through such an indirect floor will be complete, accurate and will be more likely to be filtered in favor of the distributor. Even in the absence of a personal interest in sharing information, the information aggregated from this source may not be detailed and do not serve much for strategic decision making of the Company. Lack of information also means that there is a lack of market control, especially when the Company's marketing team is not capable enough to provide in depth researches, analyses, and forecast the market demand, thus reduce the efficiency of the business decision making process of the company

### **10.4. HUMAN RESOURCE RISKS**

In a dynamic labour market, corporations are always willing to bear high costs to attract talents as human resource is one of the most valuable intangible assets. Risks related to human capital arise from lacking of reserves of qualified, experienced, skilled, creative human resource for the long-term development of firms. Not limited to senior management positions, skilled staff are valuable resource that needs to be retained because of not only their valuable experience and skills in the areas of strategy, management, production, sales, marketing, research, and finance but also their development capacity and potential benefits to the Company.

The risk of this shortage of high quality human resources comes from many causes, possibly due to inadequate compensation and benefits; It may also be due to the work allocation, career path, development plan, etc... are not sufficient to attract talents to the company as well as retain the skilled staff that has committed to the company for many years.

Short-term risk mitigation options often include measures such as widening pay scales, increasing worker welfare and benefits. Although these methods are effective in bonding workers to businesses, they increase the burden of operating and managing costs of the company. Thus, the balance between cost and efficiency and development speed of high quality human resources will be difficult for managers and human resources staff.

Fully aware of this, the Company has developed a long-term plan to develop the capacity of current staff, has prepared for succession positions, and has promoted recruitment brandings to attract competent, experienced and potential candidates. The core objectives of the plan include the redefinition of a clear, concrete career path; Re-adjust the payroll system to fit the actual operations; designed short, long-term training courses on skills in production, management, administration as well as soft skills. In addition, the Company also considers the cooperation with the educational providers – colleges and universities to deliver specialized knowledge in artificial stone production to prepare for the future talent pools; to create human resources reserves from the beginning.

### **10.5. RISKS RELATE TO THE LEGAL DISPUTES**

#### **Legal disputes**

Artificial stone products are a combination of knowledge, personal experience and know-how of the company along with the relentless efforts of the research and development team. Therefore, each new and distinctive rock design, which is favored by the users, is the result of collective intelligence. In fact, these stone designs when launched into the market are often very fast to be copied, or modified a bit by opponents and considered

as their own products and intelligent.

Although international law has very specific and strict regulations on intellectual property, however, the lawsuit takes a lot of time and costs, sometimes without any result, which wastes opportunity cost of the parties involved. In the past, the company was sued by a competitor in the United States involved in intellectual property disputes. Currently, the lawsuit is being suspended due to insufficient legal basis. However, similar cases can happen at any time

Another risk to face when operating internationally is the legal disputes from trading partners, customers or even competitors relating to the quality of service, social responsibility or disputes related to the delivery of goods and services from suppliers. This risk usually occurs when the Company fails to adequately assess the circumstances, unforeseen difficulties to include in the terms of the contract. Although the final conclusions of these disputes may not lie with the Company's fault, the costs in cash and the opportunity cost involved in litigation are still not small. These costs are mostly attorney's fees, and are often difficult to control. In case of prolonged litigation, or the number of lawsuits is increased, these costs will significantly affect the Company's business results.

#### **Regulatory changes**

At present, the company's products are sold and distributed in more than 40 countries and regions around the world. Timely capturing, updating accurately changes in policies, regulations, legal corridors and building coping strategies in all areas at the same time is very difficult for the company. Therefore, the business activities of the company always face potential risks of violating regulations and policies of countries and regions

For example, in the United States, a major market for VCS STONE, since the late President Donald Trump, there is a lot of information, both formal and informal, about changing regimes and policies concerning imported goods to the United States, especially on tariffs with the trend is not conducive to the export business of Vietnam. Although there is no clear, formal change, VCS STONE is always monitoring and updating this information so that this analysis can be used to develop emergency responses.

Not only face the risks of changing the provisions of international law, the Company's operation also implies risk of violation of laws and regulations in the country, due to the relatively fast speed of changing the system of documents, regulations related to production and business activities such as tax policies, customs, accounting, securities, contracts ... of our country. Some regulations issued very close to the effective date also increase the possibility of risks relating to the compliance with the provisions of Vietnamese law.

### **10.6. FOREIGN EXCHANGE RATE FLUCTUATION RISK**

With the characteristic of mostly international trading, the Company's business activities are heavily influenced by the exchange rate between USD, EUR, CAD and VND.

In 2016, the USD exchange rate increased at the end of the year and the level of exchange rate fluctuation remained the same as last year. In addition, thanks to the effective application of financial derivative instruments, the effect of exchange rate differences on the company's profit decreased by 70 billion VND compared to 2015 (2016: loss of 3.4 billion VND; 2015: loss of VND 73.3 billion - according to audited financial statements).

However, due to many factors beyond the control of the Company affect the volatility of exchange rates, coupled with dependence on foreign currency due to specific production and business of the Company, VCS STONE determine that the degree of risk of this happening is very high, and can severely affect the business. To limit the impact of the risk of exchange rate, the Company has carefully considered the implementation period as well as the payment term of contract of sale; as well as makes use of derivative instruments.

## CORPORATE GOVERNANCE

1. BOARD OF DIRECTORS
2. ACTIVITIES OF SUBCOMMITTEES UNDER THE MANAGEMENT OF THE BOARD OF DIRECTORS
3. LIST OF BOD MEMBERS CERTIFIED WITH CORPORATE GOVERNANCE
4. BOARD OF SUPERVISORS
5. REMUNERATIONS TO THE MEMBERS OF BOARD OF DIRECTORS, BOARD OF SUPERVISORS AND BOARD OF EXECUTIVES
6. COMPLIANCE WITH REGULATIONS ON THE CORPORATE GOVERNANCE



TECHNOLOGY



SYSTEM



HUMAN RESOURCES



## 1. BOARD OF DIRECTORS

### 1.1. MEMBERS AND STRUCTURE

#### a. List of BOD members and number of shares held at VCS STONE

No.	BOD members	Title	Date of appointment/election/dismissal	Number of shares held at VCS STONE	Rate (%)
1	Mr. Ho Xuan Nang	Non-executive Chairman	Elected on 12/06/2014	1,513,423	2.52%
2	Mr. Nguyen Quoc Truong	Non-executive member	Elected on 04/08/2015	0	0
3	Ms. Nghiem Thi Ngoc Diep	Independent member	Elected on 25/08/2015	0	0
4	Ms. Nguyen Dieu Thuy Ngoc	Non-executive member	Elected on 30/06/2016	0	0
5	Mr. Pham Anh Tuan	Member – General Director	Elected on 15/12/2016	7,100	0.01%
6	Mr. Tran Dang Loi	Independent member	Dismissed on 30/06/2016	0	0
7	Ms. Nguyen Thi Nga	Member – Chief Accountant	Dismissed on 15/12/2016	0	0

#### b. Change in personnel of Board of Directors in 2016

**On 30/06/2016:** VCS STONE's General Meeting of Shareholders restructured the Board of Directors, accordingly:

- Dismissed Mr. Tran Dang Loi from the membership of the Board of Directors  
*Reason: Mr. Tran Dang Loi applied for resigning from his position due to his personal reasons.*
- Elected Ms. Nguyen Dieu Thuy Ngoc as a BOD member in replacement.

**On 15/12/2016:** The BOD elected to replace the BOD member, accordingly:

- Dismissed Ms. Nguyen Thi Nga from the membership of the Board of Directors  
*Reason: Ms. Nguyen Thi Nga applied for resigning from her position to focus on her professional tasks.*
- Elected Mr. Pham Anh Tuan as a BOD member in replacement.

In accordance with the Enterprise Law and the Company's Charter, the Board of Directors will submit the General Meeting of Shareholders to approve the dismissal of Ms. Nguyen Thi Nga and election of Mr. Pham Anh Tuan at the 2017 General Meeting of Shareholders.

#### c. The Chairman is not concurrently the General Director

On 15/12/2016, the Board of Directors has elected to replace the General Director. Accordingly, Mr. Ho Xuan Nang - Chairman cum General Director resigned from the position of General Director from 15/12/2016 and Mr. Pham Anh Tuan - Vice General Director was appointed to hold the position of General Director from 15/12/2016.

This appointment was aimed at fostering and training the succeeding human resources and enhancing the transparency between the Board of Directors and the Board of Executives to ensure the accountability and independence in the decision-making of Board of Directors.

As of 31/12/2016, the Board of Directors consists of 01 independent member, ensuring compliance with the law on the proportion of independent members at the listed company, and 03 non-executive members.

The BOD members of VCS STONE have profound qualifications and many years of experience in the fields of engineering, technology, finance and accounting, business management, etc. and clearly understand the Company's production and business situations thanks to their experience in the management positions in previous years.

*(Details about the BOD members are introduced in the Organizational Structure and Human Resources).*

### 1.2. BOARD OF DIRECTORS' ACTIVITIES

#### a. General assessment of the Board of Directors' activities

In 2016, the Board of Directors performed well its functions and duties as stipulated in the Company's Charter and Regulation on Activities of the Board of Directors, ensured the management efficiency, oversaw and supervised closely the operation of the Board of Executives.

#### Some typical activities of the Board of Directors in 2016 are as follows:

- Directed the completion of the system of management processes for five-year strategic planning and vision to the next 10 years, including the followings:
- Upgrade the SAP - ERP system to suit the new production and business requirements to optimize and manage the resources more effectively such as: Updating new features of SAP-ERP tools, creating and adding smart reports for management and strategic planning and synchronizing with Phenikaa Group's SAP-ERP system.
- Complete the PBF process for annual budget planning and forecasting for the coming years which are based on consumer and financial market research and competitiveness. The emphasis in the Company's PBF process is the integration of risk management into the annual planning process, which can provide the most feasible production and business scenarios and obtain the most effective risk prevention measures. Therefore, in the past few years, especially since 2016, the Company's production and business plans always closely follow the targets and the business results always exceed the set-forth plan and grow in a stable and sustainable manner.

Currently, SAP-ERP system, PBF process and BSC are professional tools that are clearly effective in the Company's business management and the important management platforms for the Company's sustainable development.

- Adjust the strategic targets for 2014-2017 on the basis of re-evaluating the macroeconomic forecasts, market demands and competitiveness of the Company. To do this, the Board of Directors directed the Management Board to build the brand and marketing strategies and sales network in the next 5 years with a vision to 2025. Accordingly, the Company must basically complete the direct sales infrastructure in the key markets such as the U.S.A and Canada in 2016 – 2017 and the EU, Australia and New Zealand in 2018 - 2019, along with a nationally qualified sales and marketing team. This is one of the essential content of the Company's sustainable development strategies.

*Directed the human resources management and planned the succeeding human resources*

In 2016, the Board of Directors separated the positions of Chairman and General Director, appointed 01 General Director (Mr. Pham Anh Tuan) and 01 Vice General Director (Mr. Nguyen Quang Anh) - the leader and manager who are capable, enthusiastic and involved in running the Company.

The Board of Directors and the Board of Executives focused on planning the succeeding human resources and building a career path. It is ensured that, by 2020, the young leader team can replace the incumbent leaders.

## 1. BOARD OF DIRECTORS (CONTINUED)

*Directed the Risk Management and Internal Audit under the requirements on integrating the Risk Management into all production and business processes.*

The Board of Directors directly directed the Risk Management and Internal Audit Department in coordinating the Risk Management system, facilitating other departments to effectively integrate the risk management into their operational processes and consider this integration as a prerequisite and the Company's management culture, identifying, assessing, handling and monitoring the risks on a regular basis.

The Internal Audit Department will plan and audit periodically and irregularly the implementation of the Company's production and business processes to ensure the functional units' compliance with the processes in order to improve the efficiency of risk management processes, control and governance processes within the Company.

### *Successfully held 02 General Meetings of Shareholders*

The Board of Directors convened 2 General Meetings of Shareholders in 2016, as follows:

- 2016 Annual General Meeting of Shareholders held on 31/03/2016, the Board of Directors submitted the General Meeting of Shareholders the followings:
  - + To approve the Board of Directors' Report on activities in 2015;
  - + To approve the 2015 business results and plan for 2016;
  - + To approve the audited 2015 Financial Statements and select auditors to audit the 2016 Financial Statements;
  - + To approve the Board of Supervisors' Report on the assessment of the Company's production and business activities in 2015;
  - + To approve the 2015 profit distribution and 2016 profit distribution and dividend payment plans;
  - + To adjust the plan on issuing stocks under the Employee Stock Ownership Plan
  - + To authorize the Board of Directors to review and approve the transactions and contracts, which are under the decision of the General Meeting of Shareholders, signed between Vicostone JSC and relevant parties;
  - + To unanimously decide the remuneration to the Board of Directors and Board of Supervisors in 2016;
  - + To approve that the Chairman of the Board of Directors can concurrently hold the position of General Director in 2016;
  - + To approve the plan on distributing the bonus shares to existing shareholders from the treasury shares.
- Extraordinary General Meeting of Shareholders held on 30/06/2016, the Board of Directors submitted the General Meeting of Shareholders the followings:
  - + To approve the change of Owner of Vicostone Apartment Project;
  - + To approve the transfer of VICOSTONE trademark to A&A Green Phenix JSC;
  - + To approve the change in the Business Registration (on changing the name of the Company) and amendment of the Company's Charter;
  - + To approve the plan on issuing shares to pay dividends to existing shareholders;
  - + To elect members of the Board of Directors and Board of Supervisors in replacement.

The General Meetings of Shareholders were held in accordance with the regulations of laws, the Company's Charter and other relevant legal documents.

### **b. The meetings of Board of Directors**

In 2016, the Board of Directors held 45 meetings to approve important issues of the Company. For the meetings which have special importance and need the discussion, the Board of Directors invited the Board of Executives to attend and give opinions.

The meeting attendance rate of BOD members in 2016 are as follows:

No.	BOD members	Title	Number of meetings attended	Attendance rate	Reason for not attending the meetings	Remarks
1	Mr. Ho Xuan Nang	Chairman	45	100%		
2	Mr. Nguyen Quoc Truong	Member	45	100%		
3	Ms. Nghiem Thi Ngoc Diep	Member	45	100%		
4	Ms. Nguyen Thi Nga	Member	24	53%	Took maternity leave from 29/01/2016 to 11/07/2016, dismissed on 15/12/2016	
5	Ms. Nguyen Dieu Thuy Ngoc	Member	43	96	Appointed on 30/06/2016	
6	Mr. Tran Dang Loi	Member	24	53%	Dismissed on 30/06/2016	
7	Mr. Pham Anh Tuan	Member	2	4%	Appointed on 15/12/2016	

In 2016, the Board of Directors approved the following important issues:

No.	Resolution Number	Date of meeting	Content
1	01	05/01/2016	To approve the 2016 principle contract on purchasing and selling among between A&A Phenix JSC, Style Stone JSC and Vietnam Stone Work-top Fabrication JSC.
2	03	12/02/2016	To permit Ms. Nguyen Thi Nga to be absent from the BOD meetings
3	04	24/02/2016	To convene the 2016 Annual General Meeting of Shareholders
4	06	14/03/2016	To approve the meeting documents of the 2016 Annual General Meeting of Shareholders
5	07	30/03/2016	To change the partner receiving transferred shares in VICO Quang Tri Investment and Mineral JSC
6	08	05/04/2016	To approve the plan on distributing the bonus shares to existing shareholders from the treasury shares under the Resolution of 2016 General Meeting of Shareholders
7	09	11/04/2016	To adjust the plan on distributing the bonus shares to existing shareholders from the treasury shares under the Resolution of 2016 Annual General Meeting of Shareholders



## 1. BOARD OF DIRECTORS (CONTINUED)

8	11	15/04/2016	To decide the time and place to distribute the bonus shares to shareholders from the treasury stock and the 2016 advance dividend payment
9	12	26/04/2016	To convene the 2016 Extraordinary General Meeting of Shareholders
10	13	27/04/2016	To issue and amend some internal management documents of the Company
11	15	14/05/2016	To promulgate the Website Regulations
12	16	25/05/2016	To decide the time to distribute the bonus shares to existing shareholders from the treasury shares and distribute the number of undistributed shares.
13	17	01/06/2016	To promulgate the Science and Technology Regulations of VICOSTONE JSC
14	18	02/06/2016	To decide the time to hold the 2016 Extraordinary General Meeting of Shareholders
15	19	14/06/2016	To appoint the Vice General Director (Mr. Nguyen Quang Anh)
16	20	14/06/2017	To approve the meeting documents of the 2016 Extraordinary General Meeting of Shareholders
17	21	27/06/2016	To select the unit to review the semi-annual financial statements and audit the financial statements in 2016
18	21A	15/07/2016	To promulgate the Regulation on Managing, Using and Exploiting the information technology system of VCS Advanced Quartz Stone JSC
19	25	15/08/2016	To promulgate the Regulation on Organization and Operation of VCS Advanced Quartz Stone JSC
20	26	30/08/2016	To approve the plan on issuing shares to pay dividends
21	27	06/09/2016	To establish and rename the functional units
22	28	09/09/2016	To adjust the plan on issuing shares to pay dividends
23	29	14/09/2016	To decide the time to pay dividends by shares and approve the second advance dividend payment in 2016
24	30	15/09/2016	To dismiss the Vice General Director (Mr. Nguyen The Thai)
25	32	25/10/2016	To complete the dividend payment by shares, amend the Company's Charter and change the Certificate of Securities Registration and Certificate of Business Registration
26	33	15/12/2016	To dismiss and elect the BOD members in replacement
27	34	15/12/2016	To replace the Company's senior staff (to elect the General Director in replacement)

### 1.3. ACTIVITIES OF INDEPENDENT AND NON-EXECUTIVE MEMBER OF BOARD OF DIRECTORS

As of 31/12/2016, the structure Board of Directors consists of 01 independent member (Ms. Nghiem Thi Ngoc Diep) and 03 non-executive members (Mr. Ho Xuan Nang, Mr. Nguyen Quoc Truong and Ms. Nguyen Dieu Thuy Ngoc).

The changes in structure of the Board of Directors in 2016 have increased the transparency and independence between the Board of Directors and the Board of Executives and have not detracted the Board of Directors' insight from overseeing the activities of the Board of Executives because its independent and non-executive members have many years of experiences in the Company's field of activity and management positions.

#### a. Ms. Nghiem Thi Ngoc Diep – Independent member

Elected on 25/08/2014, Ms. Nghiem Thi Ngoc Diep has worked as an independent member of Board of Directors. With her professional qualifications and experiences, Ms. Nghiem Thi Ngoc Diep has made many contributions to the activities of the Board of Directors, as follows:

- Overseeing the compliance with the governance standards by the Board of Directors and Board of Executives;
- Consulting international governance norms to improve the Company's governance efficiency;
- Advising the Board of Executives in the marketing and domestic market development.

#### b. Mr. Ho Xuan Nang – Chairman

Mr. Ho Xuan Nang is one of the people who have attached to and laid the foundations for the Company's development and growth since its inception. From December 2016, Mr. Nang resigned from the position of General Director, held the position of Chairman of Board of Directors and was not directly involved in the management. With extensive knowledge of the Company's field of activity and many years of accumulated experience of running the Company, Mr. Ho Xuan Nang continues to support and assist the Board of Executives, regularly monitors the Company's production and business performance to timely adjust and direct the Board of Executives in the management.

#### c. Mr. Nguyen Quoc Truong – Non-executive member

Having held the positions of Vice General Director and General Director, Mr. Nguyen Quoc Truong clearly understands about the Company's production and business operation. With his experiences, Mr. Truong plays an important role in overseeing the Board of Executives' management of production and business activities and is involved in identifying, assessing, handling and monitoring the business risks.

#### d. Ms. Nguyen Dieu Thuy Ngoc – Non-executive member

Ms. Nguyen Dieu Thuy Ngoc was elected to the Board of Directors on 30/06/2016. Ms. Nguyen Dieu Ngoc was a member of the Board of Supervisors before becoming a BOD member. Ms. Ngoc has many years of experience in finance and accounting and has served as Chief Accountant for many companies. For the tasks of the Board of Directors, Ms. Ngoc plays an important role in supervising the financial and accounting activities of the Board of Executives and the preparation and auditing of the Company's financial statements.

### 1.4. KEY POINTS OF 2017'S PLAN

Based on the market overview report and other research results (see 8. Overview of the engineered stone industry), the Board of Directors assessed that there would be a lot of difficulties and fluctuations in the world economy in 2017, this would greatly affect the the Company's production and business activities.

In order to further improve the corporate governance system, enhance the competitiveness through the production and quality of products and brand reputation, the Board of Directors has agreed that the Company's 2017 activity orientation is to focus on some following key issues:

#### a. Improve the capacities of the management team and middle management staff

- Continue to focus on the training of the management team and middle management staff to meet the Company's needs. Carry out the training programs which is synchronous, essential and associated with the Company's production and business activities to improve the professional and management capabilities and create the succeeding human resources to meet the requirements.

#### b. Promote the scientific research and new product development

- Raise the research capabilities of the R&D team, promote the development of new and unique product series to impress customers and differentiate with competitors.
- Continue to test the technical options, localize equipment and improve the operation process to rise up the equipment life and utilization efficiency, product productivity and quality.
- Promote the scientific research and promote innovations and technical innovations, especially the key scientific research subjects on materials.
- Together with the improvement of product productivity and quality, in 2017, the occupational safety and hygiene and environmental control activities inside and outside the Company, the regimes for employees and contributions to the community and society will also be paid due attention by the Board of Directors to ensure the Company's sustainable development.

2. ACTIVITIES OF SUBCOMMITTEES UNDER THE MANAGEMENT OF THE BOARD OF DIRECTORS

2.1. SECRETARY SUBCOMMITTEE

In 2016, the Secretary Subcommittee effectively assisted the Board of Directors in performing some important tasks such as:

- Organizing the BOD meetings, gathering and providing information on the Company’s production and business activities to the BOD upon request.
- Offering legal support to the BOD members for matters related to the corporate governance, the provisions of the Enterprise Law, the Securities Law and other legal documents related to the Company’s activities.
- Coordinating with the Board of Shareholders and the Legal Department to hold the General Meeting of Shareholders; disclosing information, responding questions of shareholders and preparing reports in accordance with the Law on Securities and Securities Market (Annual Report, Sustainable Development Report, Corporate Governance Report, etc.).

2.2. RISK MANAGEMENT AND INTERNAL AUDIT DEPARTMENT

The Risk Management and Internal Audit Department continues to assist the BOD to assess the risks and conduct the internal audits by monitoring the compliance with processes and regulations in the Board of Directors’ management and production and business activities of the departments, specifically:

- Directing the operation and supervising the risk management system in the Company’s production and business activities.
- Standardizing the risk management processes, assessing and reporting the risks regularly to improve the risk management quality.
- Planning and conducting the internal audits for all production and business processes of the Company.

3. LIST OF BOD MEMBERS CERTIFIED WITH CORPORATE GOVERNANCE

All of the BOM members of the Company participated in the course of corporate governance.

4. BOARD OF SUPERVISORS

4.1. MEMBERS OF BOARD OF SUPERVISORS

The list of BOS members as of 31 December 2016:

No.	Full name	Title	Level of independence	Date of appointment
1	Luong Xuan Man	Head	• Not owning VCS shares • Working full time at the Company	04/08/2015
2	Tran Lan Phuong	Member	• Not owning VCS shares	04/08/2015
3	Nguyen Quoc Tuan	Member	• Not owning VCS shares	30/06/2016

Change in personnel of Board of Supervisors in 2016

To strengthen the BOS structure, the Extraordinary General Meeting of Shareholders was held on 30 June 2016 and voted to approve Ms. Nguyen Dieu Ngoc’s letter of resignation from the position of BOS member and voted Mr. Nguyen Quoc Tuan to the BOS in replacement.

4. BOARD OF SUPERVISORS (CONTINUED)

4.2. Board of Supervisors’ activities

Board of Supervisors’ main meetings:

No.	Date of meeting	Meeting content
1	20/06/2016	To report the Board of Supervisors’ activities in the first 6 months of 2016 and activity plan for the last 6 months
2	21/06/2016	To approve Ms. Nguyen Dieu Thuy Ngoc’s letter of resignation from the position of BOS member and nominate another BOS member in replacement
3	25/12/2016	To report the Board of Supervisors’ activities in 2016 and activity orientation in 2017

In addition, the Board of Supervisors also attended and gave its opinions at some important meetings of the Board of Directors and Board of Executives, which help better oversee the Board of Directors and Board of Executives in their management and operation of the Company’s production and business activities.

Supervising activities of the Board of Supervisors:

The Board of Supervisors has strictly supervised all of production, business, management, operation and financial management activities of the Company and activities of the Board of Directors, Board of Executives and management staff, as follows:

- Supervising the execution of the Company’s plans and strategies, including financial plans, production and business plans and key projects under the resolutions of the General Meeting of Shareholders and Board of Directors;
- Taking part in drafting and promulgating rules and regulations to detect risks and deficiencies and then propose appropriate recommendations;
- Controlling the observance of laws, the Company’s Charter, Regulation on organization and operation and other regulations in the process of running production and business activities, decisions on appointment of the Board of Executives and management staff;
- Verifying the mid-year and annual financial statements, monitoring the units’ execution of the recommendations proposed by the Auditor;
- Taking part in compiling and controlling the contents of the Company’s Annual Report and Sustainable Development Report;

4.3. RESULTS ON SUPERVISING THE BOARD OF DIRECTORS’ ACTIVITIES

Supervision method:

The Board of Supervisors supervised the activities of the Board of Directors by:

- Directly attending the meetings held by the Board of Directors;
- Requiring it to provide periodic reports, resolutions of the Board of Directors and decisions of the Board of Executives;
- Giving opinions and discussing directly with the Board of Directors and Board of Executives



## 4. BOARD OF SUPERVISORS (CONTINUED)

### **Supervision contents:**

In 2016, the Board of Supervisors supervised the activities of the Board of Directors under the following main contents:

- Supervising the Board of Directors to deploy the production and business plans of 2016 and key projects approved by the General Meeting of Shareholders;
- Supervising the Board of Directors' promulgating Resolutions/Decisions related to the production and business activities, construction investment, personnel organization and economic transactions; Supervising the BOD members' performing their functions and duties to ensure compliance with the laws and the Company's Charter;
- Supervising the restructure of Board of Directors, accordingly, the structure of Board of Directors was adjusted in order to further improve the management efficiency in 2016, specifically:
  - ▶ *To resign the BOD membership for:*
    - o Mr. Nguyen Dang Loi (from 30/06/2016) for his personal reasons;
    - o Mr. Nguyen Thi Nga (from 15/12/2016), she had the desire to focus on her management and professional tasks
  - ▶ *The Board of Directors also elected its members in replacement:*
    - o Ms. Nguyen Dieu Thuy Ngoc (from 30/06/2016);
    - o Mr. Pham Anh Tuan (from 15/12/2016).

Currently, the Board of Directors consists of 05 members including 01 executive member, 03 non-executive members and 01 independent member.

### **Supervision results:**

Through the supervision process, the Board of Supervisors found no abnormal signs in the management and operation of the Board of Directors.

- The Board of Directors seriously executed the Resolutions of the General Meeting of Shareholders and promptly issued decisions and directions for the Company's production and business activities, which contributed to completing and exceeding the targets on revenue and profit set forth by the 2016 Annual General Meeting of Shareholders;
- The Company's plans and projects were implemented on schedule, ensuring efficiency and quality.
- The Board of Directors organized and maintained regular meetings and all members participated with high sense of responsibility. All meeting contents were fully recorded in the minutes of meeting and the issues approved by the Board of Directors were issued by resolutions and archived in accordance with the Company's regulations.
- Resolutions and decisions of the Board of Directors were issued in accordance with the order, authority and the laws and the Company's regulations. Information which must be disclosed as required by the laws was disclosed completely and timely.

### **4.4. RESULTS ON SUPERVISING THE BOARD OF EXECUTIVES' ACTIVITIES**

#### **Supervision method:**

The Board of Supervisors supervised the activities of the Board of Executives by:

- Directly attending monthly hand-over meetings of the Board of Executives;
- Report of the Internal Audit and Risk Management Department on the internal audit of the Company's operation process;

### **Supervision contents:**

In 2016, the Board of Supervisors supervised the activities of the Board of Executives under the following main contents:

- Supervising the direct management of production and business and execution of objectives and plans in accordance with the resolutions of the General Meeting of Shareholders and the Board of Executives;
- Supervising the improvement of the personnel structure towards streamlining in order to raise labor productivity and save wage costs;

In 2016, the Board of Executives had a change in its personnel structure under the resolutions of the Board of Directors, specifically:

- ▶ Mr. Ho Xuan Nang resigned from the position of General Director (From 15/12/2016);
- ▶ Appointed Mr. Pham Anh Tuan – Vice General Director to hold the position of General Director (From 15/12/2016);
- ▶ Appointed Mr. Nguyen Quang Anh to hold the position of Vice General Director (From 15/06/2016);
- ▶ Resigned Mr. Nguyen The Thai from the position of Vice General Director (From 15/09/2016).

### **Supervision results:**

Through the supervision process, the Board of Supervisors found no abnormal signs in the management and operation of the Board of Executives.

- The Board of Executives directly controlled the Company's production and business activities in accordance with the functions and duties stipulated in the Company's Charter and laws.
- The Board of Executives strictly executed the resolutions and decisions of the Board of Directors;
- The Board of Executives focused on strengthening the internal control system and enhancing the management capacity by standardizing the processes and regulations in the Company's activities.

## 5. REMUNERATIONS TO THE MEMBERS OF BOARD OF DIRECTORS, BOARD OF SUPERVISORS AND BOARD OF EXECUTIVES

### 5.1. PRINCIPLES OF PAYMENT

- For the members of the Board of Directors and Board of Supervisors working full time in the Company and members of the Board of Executives, the Company pays salary and bonus in accordance with the Salary Regulation issued by the Board of Directors and remuneration according to the rate approved by the General Meeting of Shareholders;
- For members of the Board of Directors and Board of Supervisors not working full time, the Company shall pay remuneration according to the rate approved by the General Meeting of Shareholders;
- In addition to salaries, bonuses and remunerations, members of the Board of Directors and Board of Supervisors working full time in the Company and members of the Board of Executives are paid travel expenses, telephone expenses and other eligible expenses.

### 5.2. REMUNERATION STATEMENT OF MEMBERS OF BOARD OF DIRECTORS, BOARD OF SUPERVISORS AND BOARD OF EXECUTIVES

No.	Full name	Duration of holding the position of BOD member	Duration of holding the position of BOE member	Duration of holding the position of BOS member	Salary and bonus time	Total income from salaries and bonuses of the BOD and BOE members	Total income from salaries and bonuses of BOS members	Remuneration of BOD and BOS
1	Ho Xuan Nang	Whole year	From the beginning of 2016 to 15/12/2016		Whole year	2,014,067,803		72,000,000
2	Pham Anh Tuan	From 15/12/2016	Whole year		Whole year	1,481,447,252		2,500,000
3	Nguyen Quoc Truong	Whole year				1,377,360,429		60,000,000
4	Nguyen Dieu Thuy Ngoc	From 30/06/2016		01/01/2016 - 30/06/2016	01/01/2016 - 30/06/2016	-		54,000,000
5	Nghiem Thi Ngoc Diep	Whole year			Whole year	-		60,000,000
6	Luong Xuan Man			Whole year	Whole year		1,531,273,692	60,000,000
7	Nguyen Quoc Tuan			From 30/06/2016	From 30/06/2016	-		24,000,000
8	Tran Lan Phuong			Whole year	Whole year	-		48,000,000
9	Pham Tri Dung		Whole year		Whole year	1,531,273,692		-
10	Luu Cong An		Whole year		Whole year	1,531,273,692		-
11	Nguyen Quang Anh		From 15/06/2016			524,049,000		-
12	Nguyen The Thai		01/01/2016 - 15/09/2016		01/01/2016 - 15/09/2016	1,006,950,022		-
13	Nguyen Thi Nga	01/01/2016 - 15/12/2016			01/01/2016 - 15/12/2016	536,677,546		57,500,000
14	Tran Dang Loi	01/01/2016 - 30/06/2016			01/01/2016 - 30/06/2016	-		30,000,000
<b>Total</b>						<b>10,003,099,437</b>	<b>1,531,273,692</b>	<b>468,000,000</b>

## 6. COMPLIANCE WITH REGULATIONS ON THE CORPORATE GOVERNANCE

VCS STONE's corporate governance system and its regulations comply with the corporate governance framework as stipulated in the Enterprise Law 2014 and Circular No. 121/2012/TT-BTC dated 26 July 2012 by the Ministry of Finance regulating the corporate governance applicable to the public companies and other relevant laws.

VCS STONE's corporate governance system is built on the basis of three core principles:

- To abide by the law: Ensure the absolute compliance with the legal provisions;
- To comply with the international governance standards and practices;
- To ensure the sustainable development: Functions, powers and decentralization of stakeholders in the corporate governance model are built in close association with the Company's sustainable development.

In addition to building a strong corporate governance system based on the principles of abiding by the Vietnamese law and applying OECD's and IFC's international governance practices, VCS STONE has developed and issued a system of internal management regulations to create a unified and consistent management mechanism to control and supervise the Company's activities professionally, transparently and effectively, ensuring the sustainable benefits of shareholders and harmonizing with the interests of stakeholders.

In order to ensure the transparency and interests of all stakeholders, VCS STONE always publishes the information related to governance, production and business activities and other irregular information according to the deadline as stipulated in the Circular No. 155/2015/TT-BTC dated 06/10/2015 by the Ministry of Finance on guiding the information disclosure in the securities market



**REPORT ON BUSINESS  
PERFORMANCE OF  
2016**

1. BUSINESS PERFORMANCE OF 2016
2. OVERVIEW ON INVESTMENT PROJECTS IN 2016
3. FINANCIAL SITUATION OF 2016

## 1. BUSINESS PERFORMANCE OF 2016

No.	Items	Unit	2014's results	2015's results	2016's results	2016's growth compared to that of 2015 (%)
1	Total business and production value	Million VND	1,889,592	1,671,040	1,768,944	5.86%
2	Export and Import turnover	Million USD	130.17	135.54	146.97	8.44%
	<i>In which:</i>					
	Import turnover value	Million USD	46.40	41.67	31.89	-23.47%
	Export turnover value	Million USD	83.77	93.87	115.08	22.60%
3	Gross revenue	Million VND	2,106,811	2,648,228	3,242,148	22.43%
4	Profit before tax	Million VND	261,472	479,214	813,762	69.81%
5	Net profit after tax	Million VND	212,187	404,633	675,982	67.06%
6	Payables to the State budget: paid amount	Million VND	113,877	187,920	214,818	14.31%
7	Depreciation of fixed assets	Million VND	101,717	68,703	67,589	-1.62%
8	Owners' equity at the end of the reporting period	Million VND	785,567	998,591	1,447,136	44.92%
9	Construction in progress	Million VND	41,754	78,271	200,105	155.65%
10	Employees & Salary					
	Employees available at the end of the reporting period	Person	605	585	614	4.96%
	Per capita income/month	1,000 VND	12,953	15,179	16,128	6.25%

(Source: VCS STONE's audited consolidated financial statements)

## 2. OVERVIEW ON INVESTMENT PROJECTS IN 2016

### 2.1 PROJECT "BUILD HOUSING FOR VICOSTONE'S EMPLOYEES"

- Investor: VCS Advanced Quartz Stone JSC
- Location: Lot CT of Bac Phu Cat Urban Area, Thach Hoa commune, Thach That district, Hanoi city.
- Total investment: **688,919,985,000 VND**
- Investment sources: Equity, loans from financial institutions and other sources.
- Scope of investment: To build 02 21-floor residential buildings (symbolized by 21T1 and 21T2) with a shared basement. Total number of apartments is 960 with areas ranging from 44.5m<sup>2</sup> to 65.9m<sup>2</sup> (carpet area).
- Purpose of investment: To meet the demand for housing of the employees, stabilize their concerns of housing and assure their commitment to our Company, as well as, to create job demand for the projects.
- Construction progress: According to the progress, VCS STONE had proceeded to build the 21T1 building in June 2014. By the end of 12/2016, VCS STONE has completely built the 21T1 building with 400 apartments and it is expected to be handed-over in the first Quarter of 2017. VCS STONE is finishing the work items such as garden, plant layout, playground, etc.

In January 2017, the project was transferred to A&A Green Phenix JSC so that VCS STONE could focus its capital on core business. The transfer value is 301,265,061,044 VND.

### 2.2 PROJECT "BUILD A NEW R&D OFFICE"

- Total approved investment: **3,042,959,637 VND**
- Investment source: Equity.
- Purpose of investment: To build new R&D office, creating modern and safe working space and environment for employees and contributing to increase the labor productivity and work efficiency.
- Execution time: Quarter I/2016 - Quarter III/2016.
- Location: VCS Advanced Quartz Stone JSC - Hoa Lac Hi-tech Park, Thach Hoa Commune, Thach That District, Hanoi
- Progress: The project has been completed and handed over
- Total investment amount until the end of December 2016: **2,420 million VND**

### 2.3 PROJECT "RENOVATE THE WASTE WATER TREATMENT SYSTEM"

- Total approved investment: **10,500 million VND**
- Investment source: Equity.
- Purpose of investment: To invest to replace the housing for slurry compressor, slurry conveyor and supplement the circulating wastewater treatment silo to ensure the quality of water supplied to the polishing line, the product quality and the environment.
- Execution time: From 08/2016 to 12/2016
- Location: High-tech Industrial Park, Hoa Lac Hi-tech Park, Thach Hoa commune, Thach That District, Hanoi
- Progress: Completely installed the additional silo and built in 12/2016, adjusted the equipment and it is expected to be handed over in the Quarter I/2017.

Finalized investment amount to the end of 12/2016: **3,618 million VND**



## 2. OVERVIEW ON INVESTMENT PROJECTS IN 2016 (CONTINUED)

### 2.4 OTHER SMALL-SCALED PROJECTS AND INVESTMENTS

In 2016, VCS STONE also proceeded to invest, purchase, build, renovate and repair other small projects to meet the requirements, improve production and business capacity such as: Testing the styrene treatment for Plant 1; Renovating the light-collecting panel system for the factory; Designing, manufacturing and installing the cooling tower for the Plant 1; Installing the ventilation and cooling systems for factories; Investing 01 1.7-ton truck; Upgrading the domestic wastewater treatment system; Executing some small items, etc. with the total investment of **8,640 million VND**. By the end of December 2016, the disbursed amount was **6,582 million**.



## 3. FINANCIAL SITUATION OF 2016

Items	2014	2015	2016	% increase/ decrease in 2016 compared to 2015
Total assets	2,647,941,608,568	2,781,480,262,114	3,337,930,763,897	20.01%
Net revenue	2,063,513,380,958	2,616,164,952,027	3,211,489,780,383	22.76%
Profit from operating activities	262,077,422,680	487,390,968,312	814,033,357,168	67.02%
Other profit	(605,048,559)	(8,177,260,792)	(271,219,131)	-96.68%
Profit before tax	261,472,374,121	479,213,707,520	813,762,138,037	69.81%
Net profit after tax	212,187,267,283	404,633,378,938	675,981,717,852	67.06%

(Source: VCS STONE's audited consolidated financial statements)

### Key financial items

Items	2014	2015	2016	Notes
<b>1. Liquidity</b>				
Current ratio:				
Current Assets/Current Liabilities	1.24	1.38	1.59	
Quick ratio:				
(Current Assets – Inventory)/Current Liabilities	0.64	0.61	0.74	
<b>2. Capital structure</b>				
Debt To Total Assets Ratio	0.70	0.64	0.57	
Debt-to-Equity Ratio	2.37	1.79	1.31	
<b>3. Operation ability</b>				
Inventory turnover:				
360* Average Inventory/Cost of goods sold	217	196	209	
Days of receivables from sales				
360*(Average receivables + Average advances from customers)/Net revenue	63	62	67	
Days of payables to suppliers				
360*(Average payables + Average advances to suppliers)/Cost of goods sold	45	31	57	
Net revenue/Total assets	0.78	0.94	0.96	
<b>4. Profitability</b>				
Return on Sales (ROS)	0.10	0.15	0.21	
Return on Equity (ROE)	0.27	0.41	0.47	
Return on Assets (ROA)	0.08	0.15	0.20	
Operating profit / Net revenue	0.13	0.19	0.25	



## **REPORT FROM BOARD OF DIRECTORS**

- 1. OVERVIEW**
- 2. SUPERVISION RESULTS ON THE BOARD OF EXECUTIVES' ACTIVITIES**







## 1. OVERVIEW

### 1.1. OVERVIEW OF ENGINEERED STONE INDUSTRY AND SIGNIFICANT RISKS FACTORS

(Refer to I.8 and I.10)

### 1.2. ECONOMIC SITUATION IN 2016

In 2016, the world economy continued to recover slowly because of slow growth of developed economies, low prices of materials and commodities, weak global trade and declined capital flows. In addition, the political events such as the Brexit event in the United Kingdom or the unexpected results of the US presidential election also had a major impact on the global financial markets and made the world economy become increasingly difficult to forecast.

The Conference Board's Global Economic Outlook 2017 assessed that the global economy grew by only 2.5% in 2016 and will increase slightly to 2.8% in 2017. It is very low compared to the growth rates which usually increased above 4% in the mid-first decade of the 21st century, 3.1% in the period of 2010-2014 and 3% in 2015. Meanwhile, geo-politic instabilities persist and the trend of "populism" which has been spreading in Europe causes more worried. These were reflected in the results of the vote on constitutional reform in Italy. Certainly, the world economy would suffer from certain impacts if

the political risks continue in 2017.

According to the National Financial Supervisory Commission of the Socialist Republic of Vietnam, despite the difficulties and challenges, Vietnam continued to ensure and maintain macro-balances and core inflation at only 1.8%, and the overall inflation in 2016 could be at 4%. In addition, data from the General Statistics Office of Vietnam showed that the 2016 gross domestic product (GDP) was estimated to increase about 6.21% compared to 2015, failing to meet the 6.7% growth target set by the National Assembly. However, It was 2016 that Vietnam faced with many challenges from natural disasters and the world's unstable and unpredictable economic situations. In that context, Vietnam's economy has made up four records including foreign exchange reserves, quantity of newly-established enterprises, foreign investment attraction and growth in the service sectors reached their highest level so far.

These fluctuations did not have an immediate impact on VCS STONE's production and business activities. However, because 90% of VCS STONE's revenue comes from export, its consequences (*such as solving the "consequences" of Brexit event, US new policies that tend to protect the domestic economy, etc.*) were forecasted to have a major impact on the

Company's exports in 2017 and in the years to come.

### 1.3. ECONOMIC OUTLOOKS FOR 2017

The 2017 world economy is expected to continue to grow up but there will be many changes. The International Monetary Fund's (IMF) *World Economic Outlook (updated in October 2016)*, in 2017, the recovery of the global economy continues to be slow. The world's economic growth is expected to reach 3.4% and is mainly based on the growth of emerging markets and developing countries (*such as Nigeria, Russia, South Africa, some countries in Latin America and Middle East*).

The inflation rate is expected to increase in many countries due to the influence of oil price increase. The oil price increase of 15% up to \$51 per barrel will have certain impacts on the input material sources of VCS STONE. The remnants of the world financial crisis left the public debt crisis, financial gaps, low investment and productivity losses and political instabilities. These will continue to be issues that put negative pressures on the world economy in the next year.

In 2017, major developed economies would have a rate of slow growth at 1.8%. Two bright spots in the developed countries are the good recovery in the United States and Canada with an increase

in number of new jobs, the housing market continues to recover and people's spending increases sharply. This is a chance for VCS STONE to continue to promote its business and expand market in North America. On the other hand, the European and Japanese economies will create many challenges for VCS STONE's growth. In Europe, Britain's exit from the European Union, coupled with unresolved political and economic turmoil, will burden its economic development. Meanwhile, Japan is still struggling to solve social problems such as aging population and rising consumer tax will have negative impacts on the consumption rate in 2017.

Vietnam's economy is still expected to show its positive growth but there are slow-down signs at 6.1% in the next year. HSBC reviewed that Vietnam's 2017 economy had bright prospects with the increase of new orders in the manufacturing sector and positive impacts on the creation of new jobs and the growth of consumption activities. In addition, it is expected the housing market continue to grow in the next year that will be an opportunity for the Company to develop the domestic market.

## 2. SUPERVISION RESULTS ON THE BOARD OF EXECUTIVES' ACTIVITIES

### 2.1 SUPERVISION METHOD

- Through monthly meetings between representatives of the Board of Directors and the Board of Executives and key managers, the Board of Directors timely updates the monthly results of production and business, obstacles and shortcomings in the management work of the Board of Executives to timely provide proper instructions, directions and solutions.
- The Board of Directors also conducted the supervision work through its sub-committees, including the General Subcommittee and the Risk Management and Internal Audit Department.
  - + The General Subcommittee is responsible for assisting the Board of Directors in collecting reports and data sent from the Board of Executives, issues on policy, compensation and human resources, etc.
  - + The Risk Management and Internal Audit Department works independently with the Board of Directors and other functional units within the Company, under the direction of the Board of Directors and performs the functions related to risk management and audit of internal processes of the Board of Executives and other units.
- Closely coordinate with the Board of Supervisors to jointly supervise the Board of Directors' execution of the Resolutions of the General Meeting of Shareholders.

### 2.2 SUPERVISION RESULTS

In 2016, the Board of Directors assessed that the Board of General Director successfully fulfilled its functions and tasks in running the Company's production and business activities. The Board of Executives always worked with a high sense of responsibility, enthusiasm and continuous effort, which was reflected in the Company's business performance and growth in all aspects in 2016.

### 2.3 EXECUTION OF THE RESOLUTIONS OF THE 2016 ANNUAL GENERAL MEETING OF SHAREHOLDERS

#### 2016 business plan

No.	Items	Unit	2016's plan	2016's results	2016's result/plan (%)	2016's growth compared to that of 2015 (%)
1	Gross revenue	Billion VND	3,270,703	3,242,148	99.13	22.43
2	Profit before tax	Billion VND	595,956	813,762	136.55	69.81
3	Employees & Salary					
3.1	Employees available at the end of the reporting period	Person	614	614	100	4.96

#### Selecting auditors for auditing the financial statements in 2016:

Under the authorization of the General Meeting of Shareholders, VCS STONE's Board of Directors agreed to select and sign a contract with Ernst & Young Vietnam Ltd Co. – Hanoi Branch to review the semi-annual Financial Statements and audit the Financial Statements of the parent company as well as Consolidated Financial Statements for 2016.

E&Y Vietnam is one of "Big Four" - four big and prestigious leading auditors in the world and permitted by the State Securities Commission of Vietnam to audit the financial statements of listed companies in Vietnam. Since 2012, E&Y Hanoi Branch has been confidently selected by the Board of Directors to audit VCS STONE's financial statements and always met schedule and quality criteria at appropriate and competitive auditing service fees.

VCS STONE's financial statements always ensure the accurate data, reliability and compliance with the regulations on preparing financial statements and are useful information sources for investors.

### Profit distribution in 2016

On 30/03/2016, the General Meeting of Shareholders had held a meeting and approved the profit distribution plan expected in 2016.

However, the Board of Directors reviewed that due to the Company's profit after tax in 2016 was high and far exceeded the target set at the beginning of the year, therefore, the Board of Directors had held a meeting and agreed on the decrease in the extraction rate for bonus and welfare fund from 07% to 03% of profit after tax; the extraction to reward the Management Board is reduced from 2.5% to not greater than 1%, as detailed in the following table:

No.	Items	Unit	Rate approved by the General Meeting of Shareholders	Extraction rate/ Profit after tax	Notes
1	Development and Investment Fund	%	Authorize the Board of Directors to make decisions in accordance with the law and the Company's actual requirements		
2	Bonus and welfare funds	%	03		
3	Extraction to reward the Company's Management Board	%	Not greater than 1%		
4	Dividend	%	Authorize the Board of Directors to decide the time and rate of advance dividend, ensuring the compliance with the law and the Company's Charter.		

In 2016, the Board of Directors approved the dividend distributions with the following rate:

- May 2016: Paid cash dividend in advance at the rate of 20%
- October 2016: Issued shares to pay dividends at the rate of 13.21%
- October 2016: Paid second cash dividend at the rate of 20%

#### Compensation for the Board of Directors and Board of Supervisors in 2016:

In 2016, VCS STONE paid the remuneration for members of Board of Directors and Board of Supervisors in accordance with the Resolution of the 2016 Annual General Meeting of Shareholders. Total paid remuneration in 2016 is **VND 468,000,000**:

No.	Full name	Title	Number of months	Remuneration
1	Ho Xuan Nang	Chairman	12	72,000,000
2	Pham Anh Tuan	Member of Board of Directors-General Director	0.5	2,500,000
3	Nguyen Quoc Truong	Member of Board of Directors	12	60,000,000
4	Nguyen Dieu Thuy Ngoc	Member of Board of Directors	6	30,000,000
5	Nghiem Thi Ngoc Diep	Member of Board of Directors	12	60,000,000
6	Luong Xuan Man	Head of Board of Supervisors	12	60,000,000
7	Nguyen Quoc Tuan	Member of Board of Supervisors	12	24,000,000
8	Tran Lan Phuong	Member of Board of Supervisors	12	48,000,000
9	Nguyen Dieu Thuy Ngoc	Member of Board of Supervisors	06	24,000,000
10	Nguyen Thi Nga	Member of Board of Directors – Chief Accountant	11,5	57,500,000
11	Tran Dang Loi	Member of Board of Directors	06	30,000,000
<b>TOTAL</b>				<b>468,000,000</b>



## 2. SUPERVISION RESULTS ON THE BOARD OF EXECUTIVES' ACTIVITIES (CONTINUED)

In addition to remuneration, the members of Board of Directors and Board of Supervisors who work full-time at the Company also received salaries paid under the Company's salary regulation.

*(See the Corporate Governance for income of the Board of Directors, Board of Supervisors and Board of Executives in details).*

### **To issue stocks under the Employee Stock Ownership Plan (ESOP)**

The 2016 Annual General Meeting of Shareholders had approved the method of issuing stocks under ESOP to employees satisfying the requirements approved by the Board of Directors.

However, due to the volatility of VCS stock price in 2016, after the discussion and agreement on the basis of ensuring the harmony of interests between shareholders and employees, the Board of Directors decided not to issue stocks under ESOP to employees.

### **To authorize the Board of Directors to take responsibility for approving transactions and contracts under the jurisdiction of the General Meeting of Shareholders signed between VCS STONE and stakeholders**

On 30 March 2016, the Board of Directors approved the 2016 principle sales contracts between VCS Advanced Quartz Stone JSC and A&A Green Phenix JSC (parent company), Style Stone JSC and Vietnam Stone Work-top Fabrication JSC.

The detailed contents of these contracts were disclosed on the Company's website and the electronic information disclosure system of the Hanoi Stock Exchange and the State Securities Commission of Vietnam to ensure its legitimacy and transparency.

### **To execute the plan to distribute bonus shares to the existing shareholders from treasury shares**

On 14 June 2016, the Board of Directors directed the successful distribution of treasury shares to reward the Company's existing shareholders. After this distribution, the Company's remaining treasury shares are 0 and the number of shares in circulation increased from 42,399,451 to 52,999,251 shares.

### **To change the owner of the Project "Build Housing for VICOSTONE's employees"**

On 21/ January 2017, after receiving the approval decision from the People's Committee of Hanoi City on the transfer of the project and main contents of the transaction on transferring entire Project "Build Housing for VICOSTONE's employees" approved by the Board of Directors, VCS Advanced Quartz Stone JSC and A&A Green

Phenix JSC signed the project transfer contract with a provisional transfer value of 301,265,061,044 VND. The official transfer value will be determined based on the Independent Auditor's Report on the Statement of Final Accounts for construction investment and project completion, on the basis that VCS STONE would not suffer from losses under the Resolution of the 2016 Annual General Meeting of Shareholders.

### **To transfer VICOSTONE trademark to A&A Green Phenix JSC**

On 09 July 2016, VCS Advanced Quartz Stone JSC and A&A Green Phenix JSC signed a contract on the transfer of VICOSTONE trademark owned by VCS Advanced Quartz Stone JSC to A&A Green Phenix JSC. Currently, this transfer has been completed.

### **To change the content of business registration**

In order to ensure the legality of the transfer of VICOSTONE trademark to A&A Green Phenix JSC, on 30 June 2016, the 2016 Extraordinary General Meeting of Shareholders approved the change in the business registration content. In particular, the name of the company is changed from "VICOSTONE JOINT STOCK COMPANY" to the new name "VCS ADVANCED QUARTZ STONE JOINT STOCK COMPANY".

The Board of Directors instructed the functional units to change the Company's Certificate of Business Registration, Certificate of Securities Registration, Charter and other relevant documents.

### **To issue shares to pay dividends to the existing shareholders**

On 25 December 2016, the Board of Directors directed the successful issuance of shares to pay dividends to shareholders with the total number of issued shares of 7,000,749 shares and the number of distributed shareholders was 1,327.

From 25 November 2016, total number of newly issued shares was officially put into circulation, raising VCS STONE's number of shares in circulation of up to 60,000,000 shares, the Company's chartered capital is 600 billion VND.

The Board of Directors also directed the Board of Shareholders to complete the procedures for granting additional shareholder certificates to shareholders with undeposited shares have not been deposited and changing the Certificate of Business Registration and the Certificate of Securities Registration.





## REPORT FROM BOARD OF EXECUTIVES

1. 2016 BUSINESS PERFORMANCE
2. FINANCIAL ANALYSIS OF 2016
3. TARGETS AND KEY TASKS OF 2017'S PLAN



## 1. 2016 BUSINESS PERFORMANCE

### 1.1. MAIN BUSINESS ITEMS

No.	Main items	Unit	2015	2016	2016's growth compared to that of 2015 (%)
1	Total business and production value	Million VND	1,671,040	1,768,944	5.86
2	Gross revenue	Million VND	2,648,228	3,242,148	22.43
3	Export and Import turnover	Million USD	135.54	146.97	8.44
	Export turnover	Million USD	93.87	115.08	22.60
	Import turnover	Million USD	41.67	31.89	-23.47
4	Profit before tax	Million VND	479,214	813,762	69.81
5	Net profit after tax	Million VND	404,633	675,982	67.06
6	Average return on equity	%	45.36	55.28	21.87
7	Owners' equity	Million VND	998,591	1,447,136	44.92
8	Payables to the State budget (paid amount)	Million VND	187,920	214,818	14.31
9	Per capita income	Million VND	15.18	16.13	6.25
10	Investment	Million VND	78,271	200,105	155.65
11	Charitable and social activities	Million VND	2,485	5,535	122.74

(Source: VCS STONE's audited consolidated financial statements)

### 1.2. EVALUATION ON SOME MAJOR ACTIVITIES

#### a. Business management

##### Sales and market development

In 2016, VCS STONE's export turnover reached **USD 115.08 million**, increasing by **22.62%** compared to 2015 (*USD 93.87 million*), exceeding the planned target.

In 2016, the export turnover continued to mainly come from 03 key regions: America, Australia and Europe, as follows:

- America: 61.86%
- Australia: 26.06%
- Europe: 10.85%

By promoting the marketing activities and investing more direct sales network, VCS STONE's export revenue grows as the planned scenario.

##### Purchasing

In 2016, the average cost of raw materials dropped by **7.06%** compared to 2015 while raw materials must be ensured to be promptly supplied to the plants and the requirements of raw material quality must be met.

In pursuit of Phenikaa Group's policy on localization of raw material sources, as a focal point to ensure material sources for the plants in Phenikaa Group, VCS STONE paid attention to the localization of quartz supply sources in 2016. The Company maintained two domestic suppliers and its imported volume of quartz was **22,000 tons** (equivalent to **113%** of the plan 2016), creating the premise for the execution of localization strategy in the following years.

#### b. Scientific research and technological innovation

##### Scientific research and products development

With the purpose of meeting customers' preferences, R&D team succeeded in developing new, unique product lines, creating a distinction from the competitors' product lines, leaving deep impressions on the cus-

tomers. In 2016, the Company's product development achieved encouraging results: revenue from new products reached **17,440,183 USD** (increasing **56.45%** compared to 2015), accounting for nearly 50% of Phenikaa Group's revenue from new products.

#### Research, improvement and master in the production technology

In 2016, VCS STONE made many technical improvements, localized equipment and improved the operational processes, thereby, improving the equipment life and efficiency, product productivity and quality, while saving maintenance costs. The innovations and improvements are not limited to technology and engineering, functional departments were also actively involved and successfully made many innovations and improvements in the management, direct and indirect production processes which improve the operational efficiency.

Some outstanding scientific research projects have been successfully executed at the Group level and rewarded timely and worthily by the Group. In 2016, some typical projects include:

No.	Projects	Results
1	Research and produce ecological engineered stones using bio-resin to replace polyester resin derived from petroleum	Improved the raw materials and batching formula to solve some existing problems in the production process in the lines. With the successful production of eco-friendly engineered stones, VCS STONE became the first company to produce eco-friendly materials in the world which are both technically superior and highly aesthetic.
2	Research the reuse of waste stone powder from the production process to produce building materials	The project on producing high-grade grout under the national standards has been successfully implemented. It has produced 256 tonnes and put into use in Phenikaa's Condominium Project, saving nearly VND 800 million compared to the similar materials.
3	Research the substitute resin to expand the scope of application of quartz-based stones for exterior construction	Successfully improved 2 other types of resins that are capable of replacing the existing resin type and have a better UV resistance.
4	Research and produce stone adhesive applied in the fabrication of quartz-based stones	Successful researched polyester-based stone adhesive. The samples were produced and used in Vietnam Stone Work-top Fabrication JSC. In 2017, VCS STONE plans to continue its production and put into use for comprehensive evaluation of the product

#### c. Recruitment, training and salary

##### Recruitment

The recruitment plan is based on VCS STONE's development orientation, in line with the Group's overall strategy and under the Group's unified coordination to ensure the most optimal human resource management.

The recruitment has been widely disseminated through a variety of media and posting services on job sites such as Mywork or Vietnamwork and informed through various channels such as the Company's internal newsletters, social networking sites, etc. This has attracted many candidates to apply for positions, contributing to the recruitment quality. In 2016, the recruitment basically met 100% of human resource requirements from the departments.

##### Training

The Management Board always creates conditions for each employee to maximize his/her capacity and experience in the work and opportunities for career development and contributes to creating success of each individual. With clear policy and training programs, VCS STONE always supports time and money for employees to be trained to improve their professional skills and encourages them to apply their learned knowledges in the real works. VCS STONE's human resource training and development focus on improving the capacity for key personnel, especially the capacity and work groups that create core values for VCS STONE in particular and for PHENIKAA Group in general.

## 1. 2016 BUSINESS PERFORMANCE (CONTINUED)

PHENIKAA Group's training programs and contents are prioritized for core competency and personnel groups. In addition, capacity improvement trainings for managers and skill trainings for staff and direct production workers are also held continuously to target a professional production Group under the world's current advanced model. In 2016, VCS STONE held 75 training courses with a total cost of over VND 1.8 billion and conducted 249 training sessions with 792 training hours and 3,242 turns of trainees.

- Continuous improvement training, Kaizen-5S training: These courses bring employees a green, clean and beautiful working environment and help reduce excess work steps in the production process, making small but effective improvements to raise up the productivity and quality
- Life skills training for workers;
- Personnel management training and soft skills training for middle management staff.

### Salary and welfare

Salary regime and other welfare regimes for employees are always implemented fully and timely. Currently, the Company has been applying the 3P payroll system to ensure the appropriateness and exactness with each employee's work performance and capacity while ensuring the internal fairness and competition compared to the general salary rate in the market, ensuring the ability to attract, retain and motivate the employees.

In 2016, the average income of employees increased 6.25% compared to 2015, from 15.18 to 16.13 million VND/month.

### Insurance:

In 2016, VCS STONE well executed the compulsory insurance (social insurance, health insurance, unemployment insurance), sickness and maternity regimes and registered special health insurance packages to ensure employees to receive the best health care, minimize the financial risk in case of illness and make them feel safe and be considerate. In 2016, total amount spent on insurance was **VND 9,350,244,218**.

### d. Corporate government

In 2016, VCS STONE upgraded the SAP-ERP system to be connected to the Group's SAP-ERP system. ERP - SAP solution helps the Management Board to effectively manage and operate the financial - accounting, material management, production management, business management, product distribution, project management, service management, customer management and human resource management systems, forecasting, planning and reporting tools.

ERP - SAP system's overall objective is to ensure that the resources of VCS STONE in particular and those of the Group in general such as human resources, supplies, materials, machinery and finance, etc. are always available by using the scheduling and planning tools. ERP - SAP system will allow the integration of data from a variety of individual activities to achieve the above objective.

All of these benefits will contribute to professionalism, discipline and transparency in the Company's activities and help optimize the resources. In the context of today's challenging business environment, these benefits will help the Company improve its competitiveness and maintain its position in the international market.

## 2. FINANCIAL ANALYSIS OF 2016

### 2.1. PROFITABILITY AND LIQUIDITY

No.	Items	Unit	2012	2013	2014	2015	2016
1	Profit before tax /Net revenue	%	5.92%	5.39%	12.67%	18.32%	25.34%
2	Profit after tax /Net revenue	%	5.81%	5.21%	10.28%	15.47%	21.05%
3	Profit before tax /Total assets	%	2.16%	2.55%	9.87%	17.23%	24.38%
4	Return on Average Equity (ROAE)	%	5.49%	6.62%	22.97%	45.35%	55.28%
5	Return on Average Assets (ROAA)	%	2.10%	2.52%	7.84%	14.91%	22.09%
6	Current ratio	Time	1.61	1.62	1.42	1.56	1.77
7	Liquidity Ratio	Time	1.05	1.03	1.24	1.38	1.59
8	Quick ratio	Time	0.27	0.45	0.64	0.61	0.74
9	Earnings per Share (EPS)	VND	1,030	1,351	4,029	8,637	10,813
10	Book value per 01 stock	VND	18,866	20,040	18,528	23,547	24,119

(Source: VCS STONE's audited consolidated financial statements)

- Profit before tax and profit after tax/ Net revenue of 2016 is higher than 2015 due to the following main reasons:

+ Increasing in sale quantity and average selling price led to increase in Net revenue by VND 595,325 million, resulting in an increase in gross profit by VND 232,809 million, Selling price increases as the company continues to focus on middle and high end products and the 2016 exchange rate is higher than that in 2015

+ Good production management solution and decrease in raw material price reduce production cost of the Company, Gross profit turnover of 2016 (30.87%) is higher than 2015 (29.00%)

+ Finance income increases by VND 422 million as dividend income increase by VND 3,272 million, foreign exchange difference gain increase by VND 1,725 million and interest income decrease by VND 4,575 million

+ Finance expense decrease by VND 99,027 million as interest expense decrease by VND30,824 million, foreign exchange difference loss decrease by VND 68,203 million; Finance expense/Net revenue decrease considerably (2016: 2.21%. 2015: 6.5%)

+ Share of profit of associates decrease by VND1,870 million as share profit from Stone Vietnam Joint Stock Company

+ Selling expense reduce by VND123 million, Selling expense/Net revenue decrease: 2.39% in 2016 and 2.94% in 2015, due to decrease in transportation fee, document fee...

+ Administration expense increased by VND3,869 million, Administration expense/Net revenue ratio decreased: 1.85% in 2016 and 2.12% in 2015, mainly due to in 2016 the donation to build the school of the Company was recognized in administration expense with amount of VND3,662 million, software maintenance expense increased by VND2,058 million, legal advice expense increased by VND1,060 million, labor expense for administration decreased by VND2,226 million, provision for bad debts decreased by VND557 million.

Other expenses decreased by VND7,863 million mainly due to the fact that in 2015, the Company had to pay a fine for calculating CIT of the year 2009-2011 at a higher incentive rate, amounting to VND8,569 million (under Taxation minutes for 5 years from 2009 to 2013)

As the above reasons, the profit before tax, profit after tax in 2016 increased significantly compared to 2015 and profit before tax / net revenue, after tax profit / net revenue ratio also increased

- ROAE and ROAA ratios in 2016 higher than in 2015 show a significant increase in efficiency of using capital



2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

- Current ratio of 2016 is 1.77 time, higher than 2015
- Liquidity ratio of 2016 is 1.59 time, higher than 2015. The growth rate of current asset is higher than growth rate of current liability, result in an increase in current ratio, detail as follow:

+ Increase in current asset:	VND 718,157	million
<i>Due to:</i>		
Increase in share capital in cash:	VND 138,577	million
Decrease in short-term investment:	VND (6,153)	million
Increase in inventory:	VND 336,137	million
<i>(The main reason is that the project of building houses for employees with the amount of VND 275,357 million has basically been completed and ready for sale)</i>		
Increase in trade receivables:	VND 202,946	million
Increase in Value-added tax deductible and statutory receivables:	VND 46,369	million
Increase in other current assets:	VND 282	million
+ Increase in current liability:	VND 256,240	million
<i>Due to:</i>		
Increase in short-term trade payables and advance from customers:	VND 403,043	million
Increase in statutory obligations:	VND 15,577	million
Increase in payables to employees:	VND 2,126	million
Decrease in Short – term loan:	VND (95,208)	million
Decrease in other payables:	VND (69,298)	million

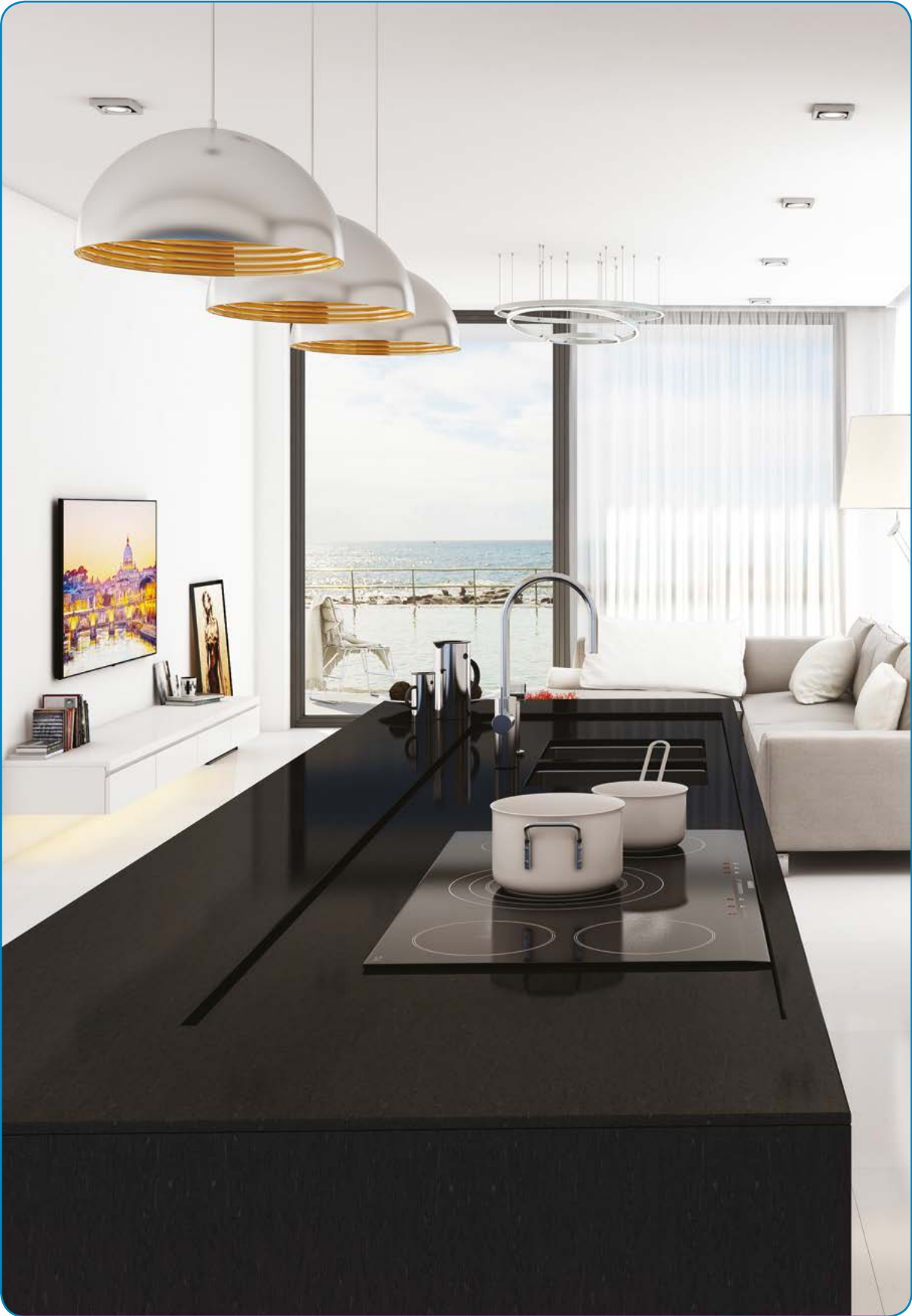
- Quick ratio in 2016 is 0.74 time, higher than 2015 as “Current asset” – “Inventory” increase VND382,020 million, while current liability increase VND256,240 million

The increase in Current ratio, Liquidity ratio and Quick ratio helps the Company active in financial position, ensure payment ability

- Book value of 2016 higher than 2015 with absolute value is: VND 448,773 million

Book value of share price in 2016 increase by VND572 compare to 2015

<i>Due to:</i>	
+ Profit from operating activity in 2016:	VND 675,982 million
+ Reduction of retained earnings after appropriation for dividend payment:	VND (190,797) million
+ Reduction of retained earnings after appropriation for bonus and welfare fund:	VND (35,683) million
+ Increase due to transfer of subsidiary:	VND 86 million
+ Other decrease:	VND (814) million



## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

### 2.2. BOOK VALUE

No.	Items	Ending balance (31/12/2012)	Ending balance (31/12/2013)	Ending balance (31/12/2014)	Ending balance (31/12/2015)	Ending balance (31/12/2016)	Increase/Decrease in 2016 compared with that of 2015 (+/-)
<b>A</b>	<b>ASSETS</b>						
<b>1</b>	<b>Current assets</b>	<b>1,037,521,493,124</b>	<b>1,270,113,223,421</b>	<b>1,876,334,812,963</b>	<b>2,010,925,147,284</b>	<b>2,729,081,767,293</b>	<b>718,156,620,009</b>
1.1	Cash and cash equivalents	26,151,331,257	109,344,586,246	77,338,056,411	295,395,072,292	433,971,607,316	138,576,535,024
1.2	Short-term investments	13,967,476,765	11,499,128,765	-	6,153,333,333	-	(6,153,333,333)
1.3	Current accounts receivables	170,024,806,965	355,903,487,911	757,899,635,969	496,457,054,880	699,403,325,617	202,946,270,737
1.4	Inventories	766,524,592,272	721,947,337,940	905,679,941,802	1,122,033,575,196	1,458,170,374,347	336,136,799,151
1.5	Other current assets	60,853,285,865	71,418,682,559	135,417,178,781	90,886,111,583	137,536,460,013	46,650,348,430
<b>2</b>	<b>Non-current assets</b>	<b>1,610,085,216,707</b>	<b>1,496,724,872,194</b>	<b>771,606,795,605</b>	<b>770,555,114,830</b>	<b>608,848,996,604</b>	<b>(161,706,118,226)</b>
2.1	Other long-term receivables			30,000,000	30,000,000	30,000,000	-
2.2	Fixed assets	1,245,589,211,351	1,133,622,057,644	655,703,872,782	597,265,777,339	548,377,023,352	(48,888,753,987)
2.3	Construction in progress	26,582,756,431	37,015,722,452	78,246,658,959	123,070,832,393	4,674,389,078	(118,396,443,315)
2.4	Long-term investments	171,444,924,910	156,331,170,287	29,976,856,783	35,207,382,225	38,248,003,359	3,040,621,134
2.5	Other long-term assets	22,853,830,675	43,037,251,215	7,649,407,081	14,981,122,873	17,519,580,815	2,538,457,942
2.6	Goodwill	143,614,493,340	126,718,670,596	-	-	-	-
	<b>TOTAL ASSETS</b>	<b>2,647,606,709,831</b>	<b>2,766,838,095,615</b>	<b>2,647,941,608,568</b>	<b>2,781,480,262,114</b>	<b>3,337,930,763,897</b>	<b>556,450,501,783</b>
<b>B</b>	<b>RESOURCES</b>						
<b>I</b>	<b>Liabilities</b>	<b>1,640,471,592,514</b>	<b>1,704,303,400,473</b>	<b>1,862,145,236,939</b>	<b>1,782,888,942,313</b>	<b>1,890,794,978,521</b>	<b>107,906,036,208</b>
1.1	Current liabilities	991,984,845,073	1,231,582,591,981	1,507,151,540,475	1,457,948,384,373	1,714,188,084,146	256,239,699,773
1.2	Non-current liabilities	648,486,747,441	472,720,808,492	354,993,696,464	324,940,557,940	176,606,894,375	(148,333,663,565)
<b>II</b>	<b>Owner's Equity</b>	<b>999,896,889,000</b>	<b>1,062,117,734,749</b>	<b>785,567,368,348</b>	<b>998,362,316,520</b>	<b>1,447,135,785,376</b>	<b>448,773,468,856</b>
2.1	Capital	999,896,889,000	1,062,117,734,749	785,567,368,348	998,362,316,520	1,447,135,785,376	448,773,468,856
2.2	Other sources and funds	-	-	-	-	-	-
<b>C</b>	<b>NON-CONTROLLING INTERESTS</b>	<b>7,238,228,317</b>	<b>416,960,393</b>	<b>229,003,281</b>	<b>229,003,281</b>	<b>-</b>	<b>(229,003,281)</b>
	<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>2,647,606,709,831</b>	<b>2,766,838,095,615</b>	<b>2,647,941,608,568</b>	<b>2,781,480,262,114</b>	<b>3,337,930,763,897</b>	<b>556,450,501,783</b>

(Source: VCS STONE's audited consolidated financial statements)

Total assets of 2016 is higher than 2015: VND556,451 million including: increase in current assets by VND718,157 million; increase in non-current assets by VND161,706 million.

#### Current assets increase due to:

- Cash and cash equivalent increase by VND138,577 million as the Company has collected trade receivables,
- Short term investment decrease by VND6,153 million due to the maturity of bank deposit with term of more than 3 months

- Other receivables increase by VND202,946 million:

	Opening balance	Ending balance	Movement
Short-term trade receivables	478,153,302,025	685,811,581,102	207,658,279,077
Short-term advance to supplier	17,606,902,913	11,942,373,761	(5,664,529,152)
Short-term loan receivables	-	50,129,329	50,129,329
Other receivables	4,909,908,094	2,356,286,894	(2,553,621,200)
Provision for bad debts	(4,213,058,152)	(757,045,469)	3,456,012,683
<b>Total</b>	<b>496,457,054,880</b>	<b>699,403,325,617</b>	<b>202,946,270,737</b>



## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

Short-term trade receivables increased by VND207,658 million from VND478,153 million at the beginning of the year to VND685,812 million by the end of the year, this is a normal increase along with the growth in revenue. Receivables turnover day of 2016 changes insignificantly compare to 2015 which is from 67 and 62 days respectively. Deferred customers are traditional customers, with good financial capacity and timely payment.

Short-term advance to suppliers decreased by VND5,665 million from VND17,607 million at the beginning of the year to VND11,942 million by the end of the year. This advance includes VND6,888 million of domestic suppliers, mainly is advance for construction contracts and VND4,954 million is advanced for foreign suppliers to buy materials for production.

Other receivables decreased by VND 2,554 million mainly due to the fact that the Company had collected quarterly loan interests and reimbursement from employees.

The provision for bad debt is reduced by VND3,456 million as the Company has written off the debts which has been made from previous years.

### **- Increase in Inventories VND 336,137 million**

#### Including:

Decrease in goods in transit:	VND (10,219)	million
Decrease in raw materials:	VND (52,295)	million
Decrease in tools:	VND (3,632)	million
Increase in semi-finish goods	VND 287,682	million
<i>In which: increase in construction of houses for employees:</i>	<i>VND 275,357</i>	<i>million</i>
Decrease in finish goods:	VND (179,984)	million
Increase in trading goods:	VND 281,462	million
Decrease in provision for inventories:	VND 13,122	million

+ Goods in transit, Raw materials, Tools decrease by VND66,416 million. Finish goods, trading goods and semi finish goods increase by VND113,804 million to meet the orders from customers. Construction in progress as at the end of the year is VND275,357 million. Provision for inventories decrease by VND13,122 million as some products which has been made provision have been processed and renewed, then sold or used for the Company's projects.

### **Increase in other current assets: VND 46,650 million**

#### Due to:

Increase in prepaid expense:	VND 282	million
Value-added tax deductible and statutory receivables:	VND 46,369	million

### **Decrease in non current assets: VND (161,706) million**

- Decrease in fixed assets:	VND (48,889)	million
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#### Due to:

Decrease as depreciation:	VND (67,589)	million
Increase as newly purchase or construction in progress transferred:	VND 18,700	million
- Construction in process including:	VND (118,396)	million

#### Due to:

Vico Quang Tri Company is no longer a subsidiary of VCS STONE since the first quarter of 2016 so the value

of the quartz sand processing plant project is no longer consolidated into the year end financial statement of VCS STONE, so the item "Construction in progress" decrease compare to the beginning of the year: VND (16,376) million

Building house for employees project basically completed and transferred to "Inventory": VND (89,995) million

Upgrading No.1 Factory projects and some small projects have been completed and used, resulting in decrease in construction in progress: VND (12,025) million

- Increase in other long-term investment : VND 3,041 million

#### Including:

+ Increase in investment in associates as share profit from Stone Vietnam Joint stock Company VND 3,854 million

+ Decrease in investment in associates as appropriation for bonus and welfare fund of Stone Vietnam VND (814) million

- Increase in other non-current VND 2,538 million

#### Due to:

+ Increase in long-term prepaid expenses: VND 711 million

+ Increase in deferred tax asset: VND 1,828 million

### **Capital to offset the increase in assets:**

### **- Increase in liabilities: VND 107,906 million**

#### Including:

Increase in trade payables and advance from customers: VND 403,043 million

Decrease in short term loan: VND (95,208) million

Decrease in long term loan due to loan payment: VND(148,334) million

Decrease in remaining liabilities: VND (51,595) million

### **- Increase in owner equity: VND 448,773 million**

#### Including:

+ Profit from operating activity in 2016: VND 675,982 million

+ Reduction of retained earnings after appropriation for dividend payment: VND(190,797) Million

+ Reduction of retained earnings after appropriation for bonus and welfare fund: VND (35,683) million

+ Other movements: VND (728) million

In conclusion. Total assets increased due to increase in current assets. the capital increased due to increase in owner equity,

## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

### 2.3. SELLING EXPENSES AND ADMINISTRATIVE OVERHEADS

Items	2012	2013	2014	2015	2016
<b>Net revenue</b>	<b>964,598,118,738</b>	<b>1,310,782,715,314</b>	<b>2,063,513,380,958</b>	<b>2,616,164,952,027</b>	<b>3,211,489,780,383</b>
<b>Total selling expenses and administrative overheads</b>					
Expenses for staff	34,419,189,976	53,391,453,208	40,762,916,041	28,672,664,199	26,918,224,498
Rate %	3.57%	4.07%	1.98%	1.10%	0.84%
Expenses for materials	17,088,514,444	16,560,500,659	15,675,804,844	8,773,098,358	9,358,263,710
Rate %	1.77%	1.26%	0.76%	0.34%	0.29%
Depreciation expenses	7,642,220,792	9,298,979,483	9,506,074,441	8,157,887,278	8,188,359,761
Rate %	0.79%	0.71%	0.46%	0.31%	0.25%
Warranty expenses	-	-	-	-	-
Rate %	0.00%	0.00%	0.00%	0.00%	0.00%
Tax, cost, charge	149,191,000	447,412,956	981,752,451	311,740,940	344,118,401
Rate %	0.02%	0.03%	0.05%	0.01%	0.01%
Provisions, trademark, goodwill	17,344,168,075	16,966,023,544	12,791,260,526	737,209,696	163,670,575
Rate %	1.80%	1.29%	0.62%	0.03%	0.01%
External services hired	23,204,391,146	33,539,496,156	62,660,964,664	70,582,464,832	72,610,662,579
Rate %	2.41%	2.56%	3.04%	2.70%	2.26%
Other expenses in cash	29,272,548,131	22,840,347,578	13,283,550,555	15,254,938,718	18,652,619,067
Rate %	3.03%	1.74%	0.64%	0.58%	0.58%
<b>Total selling expenses and administrative overheads</b>	<b>129,120,223,564</b>	<b>153,044,213,584</b>	<b>155,662,323,522</b>	<b>132,490,004,021</b>	<b>136,235,918,591</b>
Rate %	13.39%	11.68%	7.54%	5.06%	4.24%

(Source: Audited consolidated financial statements)

Selling expenses and administration expenses in 2016 increased by VND3,746 million compared to that of 2015 (an increase of 2.83%). However, the proportion of net revenue decreased from 5.06% to 4.24%, details of increase or decrease are as follows:

- Labor cost decreased by VND1,124 million (equivalent to 6.12%) leading to a decrease in proportion of net revenue from 1.10% to 0.84%. Although labor cost decreased, average income per employee increases from VND15.179 million /month in 2015 to VND16.128 million /month in 2016;
- Material cost increased by VND585 million (equivalent to 6.67%) along with the increase in export sales, but the ratio of revenue decreased from 0.34% to 0.29% due to the Company use material economically;
- Fixed asset depreciation expenses did not fluctuate much, increased by VND30 million (equivalent to 0.37%), the proportion of revenue decreased from 0.31% to 0.25%;
- Provision, trade mark, goodwill decreased by VND574 million (equivalent to 77.80%), corresponding to the ratio of revenue decreased from 0.03% to 0.01% as provision expense decreased ;
- The cost of outsourced services increased by VND2,028 million (increase by 2.88%). mainly due to: soft-

ware maintenance expense increased by VND2,058 million, legal expenses increased by VND1,060 million.... however the proportion of net revenue decreased from 2.7% to 2.26%;

- Other monetary expenses increased by VND3,398 million (increase by 22.27%), mainly due to the amount of VND3,662 million raised in 2016 for the school. However, the proportion to net revenue were unchanged at 0.58%;

The Company's selling and administration expenses were controlled well.

### 2.4. LIABILITIES:

Unit: VND

Items	Ending balance of 2012	Ending balance of 2013	Ending balance of 2014	Ending balance of 2015	Ending balance of 2016	Increase/Decrease in 2016 compared with that of 2015
Short-term loan and finance	841,037,257,494	892,413,336,820	1,212,957,606,689	1,178,560,448,863	1,083,352,550,815	(95,207,898,048)
lease obligations	841,037,257,494	892,413,336,820	1,212,957,606,689	1,178,560,448,863	1,083,352,550,815	(95,207,898,048)
Other short-term liabilities	150,947,587,579	339,169,255,161	294,193,933,786	279,387,935,510	630,835,533,331	351,447,597,821
<b>Non-current liabilities</b>	<b>648,486,747,441</b>	<b>472,720,808,492</b>	<b>354,993,696,464</b>	<b>324,940,557,940</b>	<b>176,606,894,375</b>	<b>(148,333,663,565)</b>
<b>Total liabilities</b>	<b>1,640,471,592,514</b>	<b>1,704,303,400,473</b>	<b>1,862,145,236,939</b>	<b>1,782,888,942,313</b>	<b>1,890,794,978,521</b>	<b>107,906,036,208</b>

#### Fluctuations in liabilities are as follows:

<b>- Short-term loan and finance lease obligations</b>	<b>(95,207,898,048)</b>	<b>VND</b>
Decrease in Short-term loans:	(61,997,898,048)	VND
Decrease in mature long-term liabilities:	(33,210,000,000)	VND
<b>- Other short-term liabilities:</b>	<b>351,447,597,821</b>	<b>VND</b>
Increase in short-term trade payables:	407,410,627,974	VND
Decrease in Short-term advances from customers:	(4,367,816,937)	VND
Increase in Statutory obligations:	15,576,560,774	VND
Increase in Payables to employees:	2,125,893,458	VND
Increase in Short-term unearned revenues:	9,135,598,086	VND
Decrease in Other short-term payables:	(84,887,555,111)	VND
Increase in Bonus and welfare fund:	6,454,289,577	VND
<b>- Non-current liabilities:</b>	<b>(148,333,663,565)</b>	<b>VND</b>
Decrease in Long-term loan and finance lease obligations:	(148,180,586,321)	VND
Decrease in Scientific and technological developmen fund:	(153,077,244)	VND



## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

### 2.5. INVENTORIES

Unit: VND

Items	2012	2013	2014	2015	2016
<b>Costs of goods sold</b>	<b>638,664,673,494</b>	<b>915,143,308,341</b>	<b>1,349,492,723,408</b>	<b>1,857,540,589,728</b>	<b>2,220,055,820,303</b>
Goods in transit	28,251,783,703	7,459,362,313	35,627,698,367	36,923,516,159	26,704,251,421
Raw materials	148,390,496,432	141,892,870,528	167,558,753,431	162,387,381,159	110,092,084,679
Tools and supplies	25,699,844,953	29,344,336,207	28,312,433,681	31,008,735,399	27,377,003,498
Work in process	56,154,971,108	33,453,929,182	62,755,579,973	30,595,300,853	318,277,186,910
<i>In wich: Expense of building apartments for employees,</i>					275,356,571,531
Finished goods	528,515,896,365	531,345,650,211	656,563,865,520	894,876,239,640	996,355,217,321
Goods consignment	-	14,003,812,729	-		
Provision for devaluation of inventories	(20,488,400,289)	(35,552,623,230)	(45,138,389,170)	(33,757,598,014)	(20,635,369,482)
<b>Total</b>	<b>766,524,592,272</b>	<b>721,947,337,940</b>	<b>905,679,941,802</b>	<b>1,122,033,575,196</b>	<b>1,458,170,374,347</b>

(Source: VCS STONE's audited consolidated financial statements)

### 2.6. INVENTORY TURNOVER RATIO

Unit: Time

Items	2012	2013	2014	2015	2016
Inventory turnover ratio	0.87	1.23	1.66	1.83	1.72

The inventory turnover ratio in 2016 was lower than of 2015 because inventory at the end of 2016 include expense of building apartments for employees, without this is 1.93 higher than that 2015 and the previous years which shows that the Company has been improving the speed of its inventory turnover ratio.

### 2.7. CHANGES IN SHAREHOLDER'S EQUITY

Unit: Billion VND

	Năm 2012	Năm 2013	Năm 2014	Năm 2015	Năm 2016
Vốn đầu tư của chủ sở hữu	529,99	529,99	423,99	423,99	600,00

**Total number of shares in each category:** As of 31/12/2016, the number of shares in circulation was 60,000,000 shares.

### 2.8. PROFIT DISTRIBUTION AND DIVIDEND POLICY

#### a. Estimated profit distribution in 2016 (Parent company)

Unit: VND

No.	Items	Result	Rate %	Notes
<b>I</b>	<b>Profit from previous year</b>	<b>370,373,589,878</b>		
<b>II</b>	<b>2016 pretax accounting profit</b>	<b>819,043,253,699</b>		
<b>III</b>	<b>Corporate income tax (CIT)</b>	<b>139,608,246,117</b>		
1	Current CIT	139,608,246,117		
2	Deferred CIT	-		
<b>IV</b>	<b>After-CIT profit</b>	<b>679,435,007,582</b>		
1	Extraction to the Development and Investment Fund	27,177,400,303	4.00%	Extract %/ After-tax profit
2	Payment of dividends by cash	190,797,404,000	40.00%	Extract % / par value of shares in circulation
3	Payment of dividends by share	70,007,490,000	~13.21%	Extract % / par value of shares in circulation
4	Extraction to reward the Company's Management Board	6,794,350,076	1.00%	Extract %/ After-tax profit
5	Extraction to the Bonus and welfare funds	20,383,050,227	3.00%	Extract %/ After-tax profit
<b>V</b>	<b>Distributed profits</b>	<b>315,159,694,606</b>		
<b>VI</b>	<b>Undistributed retained profits</b>	<b>734,648,902,854</b>		

#### b. Profit distribution plan for 2017

No.	Items	Unit	Extraction rate % / After-tax profit	Notes
1	Extraction to the Development and Investment Fund	%	4%	Extract %/ After-tax profit
2	Extraction to the Bonus and welfare funds	%	3%	Extract %/ After-tax profit
3	Extraction to reward the Company's Management Board	%	Authorize the Board of Management to decide the rate. not exceeding 1% of after-tax profit	Extract %/ After-tax profit

#### c. Dividend policy and dividend payout ratio

Dividend distribution to shareholders was implemented after the Company had made provisions for funds. The dividend pay-out ratio and method are annually approved by the General Meeting of Shareholders based on the Board of Management's proposal and had to follow basic regulations as below:

- Ensuring 2 fundamental objectives: shareholders' rights and the Company's capital requirements for business expansion;
- Paying out dividends only when the Company generates profits as well as fulfills tax obligations and other financial responsibilities in according with the provisions of law;
- After completing the dividend payout, the Company must retain its ability to pay due debts and other liabilities;
- Shareholders shall receive the dividends per their share ownership rate.

## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

Year	Dividend rate	Dividend payable (VND)	Total of paid dividend (VND)	Notes
2007	14%	3,354,483,463	3,284,483,463	Extract from After-tax profit in 2006
2008	20%	14,717,824,240	14,787,824,240	Extract from After-tax profit in 2007
2009		1,497,600,000	1,497,600,000	Extract from After-tax profit in 2008
2010	35%	53,625,000,000	53,625,000,000	Extract 20% from After-tax profit in 2009 Extract 15% from After-tax profit in 2010
2011	5%	9,942,391,000	10,533,300,000	Extract from After-tax profit in 2010
2012	20%	105,998,502,000	106,427,397,000	Extract from After-tax profit in 2011
2013		-	124,536,000	
2014	25%	111,298,527,500	26,495,156,100	Extract 5% from After-tax profit in + 20% from After-tax profit in 2014
2015	40%	169,597,804,000	169,571,493,275	Extract from After-tax profit in 2015
2016	40.00%	190,797,404,000	275,186,472,700	Extract from After-tax profit in 2016
	~ 13.21%	70,007,490,000		Payment of dividends by share

### 2.9. ANALYSIS OF INCOME STATEMENT ITEMS

#### a. Report of business performance over years

Unit: VND

Items	2012	2013	2014	2015	2016
Revenue from sale of goods and rendering of services	964,732,535,105	1,310,782,715,314	2,098,540,444,526	2,618,277,734,889	3,211,964,848,407
Deductions	134,416,367	-	35,027,063,568	2,112,782,862	475,068,024
Net revenue from sale of goods and rendering of services	964,598,118,738	1,310,782,715,314	2,063,513,380,958	2,616,164,952,027	3,211,489,780,383
Cost of goods sold and rendered services	638,664,673,494	915,143,308,341	1,349,492,723,408	1,857,540,589,728	2,220,055,820,303
<b>Gross profit from sale of goods and rendering of services</b>	<b>325,933,445,244</b>	<b>395,639,406,973</b>	<b>714,020,657,550</b>	<b>758,624,362,299</b>	<b>991,433,960,080</b>
Finance income	5,972,934,517	8,283,922,689	31,283,820,499	25,512,052,408	25,934,115,295
Finance expenses	145,626,530,435	174,522,415,637	334,075,827,746	169,979,978,711	70,953,282,040
In which: Interest expense	117,170,507,077	94,884,247,641	89,362,215,715	81,066,518,606	50,242,971,449
Share of profit/(loss) of associates	(2,536,781,667)	288,255,608	6,511,095,899	5,724,536,337	3,854,482,424
Selling expenses	55,355,640,724	56,959,044,034	67,650,545,428	76,966,485,013	76,843,762,966
General and administrative expenses	73,764,582,840	96,085,169,550	88,011,778,094	55,523,519,008	59,392,155,625
<b>Operating profit</b>	<b>54,622,844,095</b>	<b>76,644,956,049</b>	<b>262,077,422,680</b>	<b>487,390,968,312</b>	<b>814,033,357,168</b>
Other income	6,829,718,912	5,163,564,867	813,647,218	826,873,115	869,766,648
Other expenses	4,326,119,332	11,128,028,717	1,418,695,777	9,004,133,907	1,140,985,779
<b>Other profit</b>	<b>2,503,599,580</b>	<b>(5,964,463,850)</b>	<b>(605,048,559)</b>	<b>(8,177,260,792)</b>	<b>(271,219,131)</b>
<b>Profit before tax</b>	<b>57,126,443,675</b>	<b>70,680,492,199</b>	<b>261,472,374,121</b>	<b>479,213,707,520</b>	<b>813,762,138,037</b>
Current corporate income tax expenses	8,212,292,124	14,634,551,736	31,056,941,093	74,582,447,525	139,608,246,117
Deferred tax expense	(7,144,441,543)	(12,221,846,561)	18,228,165,745	(2,118,943)	(1,827,825,932)
<b>Net profit after tax</b>	<b>56,058,593,094</b>	<b>68,267,787,024</b>	<b>212,187,267,283</b>	<b>404,633,378,938</b>	<b>675,981,717,852</b>

<b>Net profit after tax attributable to shareholders of the parent</b>	<b>54,611,878,989</b>	<b>71,621,638,954</b>	<b>212,071,949,472</b>	<b>404,633,378,938</b>	<b>675,981,717,852</b>
Net profit after tax attributable to	1,446,714,105	(3,353,851,930)	115,317,811	-	-
non-controlling interests	1,446,714,105	(3,353,851,930)	115,317,811	-	-
Basic earnings per share	1,030	1,351	4,029	8,637	10,813

(Source: VCS STONE's audited consolidated financial statements)

#### b. Other financial data

Unit: VND

Items	2012	2013	2014	2015	2016
1. Net profit after tax (1)	56,058,593,094	68,267,787,024	212,187,267,283	404,633,378,938	675,981,717,852
2. Current and Deferred corporate income tax expenses (2)	1,067,850,581	2,412,705,175	49,285,106,838	74,580,328,582	137,780,420,185
3. Depreciation and amortization of fixed assets (3)	130,638,670,926	116,486,796,182	101,717,228,375	68,702,778,929	67,588,776,716
4. Finance expenses	145,626,530,435	174,522,415,637	334,075,827,746	169,979,978,711	70,953,282,040
In which:					
- Interest expense (4)	117,170,507,077	94,884,247,641	89,362,215,715	81,066,518,606	50,242,971,449
- Realised and unrealised foreign exchange rate differences (5)	24,109,371,821	27,658,941,565	16,268,047,303	88,913,460,105	20,710,310,591
- Loss on disposal of investments (6)	3,516,099,087	50,871,823,163	224,983,938,827		
5. Finance income	5,972,934,517	8,283,922,689	31,283,820,499	25,512,052,408	25,934,115,295
In which:					
- Deposits and loans interest income (7)	833,384,886	1,897,913,595	24,283,998,362	9,940,115,018	5,365,302,094
- Realised and unrealised foreign exchange gains (8)	4,119,549,631	6,218,009,094	6,999,822,137	15,571,937,390	17,297,046,372
6. Adjusted EBITDA (9)=(1)+(2)+(3)+(4)+(5)+(6)-(7)-(8)	327,608,158,069	352,466,378,061	662,519,983,842	692,384,412,752	929,641,848,327
7. EBITDA Margin (%)	33.96%	26.89%	32.11%	26.47%	28.95%

EBITDA is earnings before interest, tax and depreciation/amortization and is seen as an indicator to evaluate the Company's profitability ratio. It is calculated as earnings minus other expenses, before interest expense, tax and depreciation/amortization are subtracted.

The Company issued adjusted EBITDA as an additional performance indicator as it helps comparing profitability between periods and among companies easier, by showing differences in capital structure (affecting interest expense), foreign exchange rate (affecting financial income/expense), corporate income tax (affecting each period and each sector has different tax rate), fixed asset value (affecting depreciation expense). Adjusted EBITDA excludes losses due to investment disposals as it is believed by the Company that it compares profitability of core business through periods better.

Adjusted EBITDA is usually employed by securities investment analysts, debt holders and other parties for evaluating a company. This ratio cannot be replaced by other ratios such as EBIT, operating cash flow, profitability, debt ratios or any other measures because it has certain limitations and should not be considered solely as a whole analysis.



## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

### 2.10. HISTORIC DATA OF THE EFFECTIVENESS OVER PERIODS

The following table shows the business performance by rate/net revenue over years

Unit: Billion VND

Items	2012		2013		2014		2015		2016	
	Amount	Rate/Net revenue	Amount	Rate/Net revenue	Amount	Rate/Net revenue	Amount	Rate/Net revenue	Amount	Rate/Net revenue
Revenue from sale of goods and rendering of services	964.73		1,310.78		2,098.54		2,618.28		3,211.96	
Deductions	0.13		-		35.03		2.11		0.48	
Net revenue from sale of goods and rendering of services	964.60		1,310.78		2,063.51		2,616.16		3,211.49	
Cost of goods sold and rendered services	638.66		915.14		1,349.49		1,857.54		2,220.06	
<b>Gross profit from sale of goods and rendering of services</b>	<b>325.93</b>	<b>33.79%</b>	<b>395.64</b>	<b>30.18%</b>	<b>714.02</b>	<b>34.60%</b>	<b>758.62</b>	<b>29.00%</b>	<b>991.43</b>	<b>30.87%</b>
Finance income	5.97	0.62%	8.28	0.63%	31.28	1.52%	25.51	0.98%	25.93	0.81%
Finance expenses	145.63	15.10%	174.52	13.31%	334.08	16.19%	169.98	6.50%	70.95	2.21%
In which: Interest expense	117.17	12.15%	94.88	7.24%	89.36	4.33%	81.07	3.10%	50.24	1.56%
Share of profit/(loss) of associates	(2.54)	-0.26%	0.29	0.02%	6.51	0.32%	5.72	0.22%	3.85	0.12%
Selling expenses	55.36	5.74%	56.96	4.35%	67.65	3.28%	76.97	2.94%	76.84	2.39%
General and administrative expenses	73.76	7.65%	96.09	7.33%	88.01	4.27%	55.52	2.12%	59.39	1.85%
<b>Operating profit</b>	<b>54.62</b>	<b>5.66%</b>	<b>76.64</b>	<b>5.85%</b>	<b>262.08</b>	<b>12.70%</b>	<b>487.39</b>	<b>18.63%</b>	<b>814.03</b>	<b>25.35%</b>
Other income	6.83	0.71%	5.16	0.39%	0.81	0.04%	0.83	0.03%	0.87	0.03%
Other expenses	4.33	0.45%	11.13	0.85%	1.42	0.07%	9.00	0.34%	1.14	0.04%
<b>Other profit</b>	<b>2.50</b>	<b>0.26%</b>	<b>(5.96)</b>	<b>-0.46%</b>	<b>(0.61)</b>	<b>-0.03%</b>	<b>(8.18)</b>	<b>-0.31%</b>	<b>(0.27)</b>	<b>-0.01%</b>
<b>Profit before tax</b>	<b>57.13</b>	<b>5.92%</b>	<b>70.68</b>	<b>5.39%</b>	<b>261.47</b>	<b>12.67%</b>	<b>479.21</b>	<b>18.32%</b>	<b>813.76</b>	<b>25.34%</b>
Current corporate income tax expenses	8.21	0.85%	14.63	1.12%	31.06	1.51%	74.58	2.85%	139.61	4.35%
Deferred tax expense	(7.14)	-0.74%	(12.22)	-0.93%	18.23	0.88%	(0.00)	0.00%	(1.83)	-0.06%
<b>Net profit after tax</b>	<b>56.06</b>	<b>5.81%</b>	<b>68.27</b>	<b>5.21%</b>	<b>212.19</b>	<b>10.28%</b>	<b>404.63</b>	<b>15.47%</b>	<b>675.98</b>	<b>21.05%</b>
Net profit after tax attributable to non-controlling interests	1.45	0.15%	(3.35)	-0.26%	0.12	0.01%	-	0.00%	-	0.00%
<b>Net profit after tax attributable to shareholders of the parent</b>	<b>54.61</b>	<b>5.66%</b>	<b>71.62</b>	<b>5.46%</b>	<b>212.07</b>	<b>10.28%</b>	<b>404.63</b>	<b>15.47%</b>	<b>675.98</b>	<b>21.05%</b>
Basic earnings per share (VND)	1,030		1,351		4,029		8,637		10,813	

## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

### 2.11. BUSINESS PERFORMANCE IN 2016 IN COMPARISON WITH 2015

2016 show a more successful year than the Company's 2015 with sales growth of 22.76% and after-tax profit growth of 67.06%,

- Net revenue from sales of goods and rendering of services increased by VND 595,325 million (equivalent to 22.76%), of which:

+ Revenue of finished goods increased by VND 590,888 million (28.17%) due to the increase in sales volume and the sale structure change in the direction of increasing the proportion of high-end products with high selling prices and increasing exchange rates.

+ Revenue from selling raw materials increased by VND4,437 million (equivalent to 0.85%)

- Gross profit increased by VND232,810 million (30.69%). Gross profit margin increased from 29% (in 2015) to 30.87% (2016), of which:

+ Gross profit for finish goods increased by VND231,181 million (equal to 32.41%), The gross profit margin increased from 34.01% in 2015 to 35.13% in 2016, mainly due to:

The good management of production and the decrease in purchase price of main raw materials reduce production cost in 2016 down by 4.3% compared to 2015. Production cost of the company includes materials costs, labor costs, electricity, gas, and other general production expenses. Main raw materials are quartz, sand, chemicals (resin, sylan, cobalt), pigments in which Resin is the main raw material accounting for more than 29.24% of production cost. In 2016, the average stock price of Resin decreased by 12.9% compared to 2015, this is the main reason causing the production cost of the company down 4.3% compared to 2015

+ Gross profit from sales of raw materials and spare parts increased by VND2,119 million (10.23%), gross margin / net sales of raw materials and spare parts increased from 3.99% (in 2015) to 4.36% (2016)

+ Other decreases in cost of good sold such as discounted from foreign suppliers, etc, decreased by VND1,035 million, which reduced gross profit margin correspondingly.

+ The value of the import tax refund increased by VND1,149 million, thus increasing gross profit

+ Reversal of provision for inventory decrease by VND605 million reduced gross profit by VND 605 million.

• Financial income includes interest on deposits, loans, exchange rate gains, dividend income. Financial income increased by VND422 million (1.65%) because: in 2016 the Company received dividends with amount of VND3,272 million; Foreign exchange gain increased by VND1,725 million; interest on deposits, loans decreased by VND4,575 million;

• Financial expenses include interest expenses, exchange rate losses. Financial expenses decreased by VND 99,027 million (58.26%) due to: interest expense decreased by VND 30,824 million; Foreign exchange losses were reduced by VND68.203 million.

• Profit sharing from associates decreased by VND 1,870 million due to sharing profit from Stone Vietnam JSC.

• Selling expenses decreased by VND 123 million (0.16%), mainly due to the decrease in expense such as freight, document fee, etc., for export sales, as in 2015 incoterm for export sale was DDU which was CIF from mid 2016, that lead to decrease in selling expense for export sale,

• Administration expenses increased by VND 3,869 million, mainly due to the following: in 2016 the donation to build the school of the Company was recognized in administration expense with amount of VND 3,662 million; software maintenance expense increased by VND 2,058 million, legal advice expense increased by VND 1,060 million, labor expense for administration decreased by VND 2,226 million, provision for bad debts decreased by VND 557 million.

• Other expenses decreased by VND7,863 million mainly due to the fact that in 2015, the Company had to pay a fine for calculating CIT of the year 2009-2011 at a higher incentive rate, amounting to VND8,569 million (under Taxation minutes for 5 years from 2009 to 2013)

From the above reasons, the profit before tax, profit after tax, pre-tax profit / net sales ratio and profit after tax / net revenue ratio in 2016 increased much more than 2015.

### Liquidity and owner equity

Its main cash inflow in 2016 comes from: proceeds from the sale of goods and finished goods; The proceeds from the value added tax are refunded and the short-term loans are received from the credit institutions.

The company's main capital requirements in 2016 are to finance working capital needs, meeting debt repayment requirements and pay dividends to shareholders along with the 21st-floor building of "Housing for employees project" The company's working capital requirements are affected by a number of factors, including the need for input material costs, transportation costs, purchase costs, and other factors.

The company's inventory strategy is to maintain sufficient inventory levels to meet immediate product and customer demands. With the delivery strategy as quickly as possible, the Company always maintains the amount of finished products and goods large enough to immediately supply to customers when receiving orders. The level of inventories is significantly affected by sales in the United States, Australia and Canada, the Company's largest markets. In the coming years, the Company will continue to maintain this inventory policy and continue to focus on meeting the quality and quantity requirements by implementing processes to improve efficiency of production planning and production management.

The Company believes that, based on its current business plan, cash and cash equivalents cash flow from operating activities and loans available under short-term and long-term credit agreements, the Company may met the capital requirements for the Company's production and business activities for the year 2017 and subsequent years.

**The table below indicates the main components of cash flows used and generated in operation. investment and financing activities during in different periods:**

Unit: VND

Code	Items	2014	2015	2016
	<b>I. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
01	<b>Profit before tax</b>	<b>261,472,374,121</b>	<b>479,213,707,520</b>	<b>813,762,138,037</b>
	<b>Adjustments for:</b>			
02	Depreciation and amortisation (Including allocation of goodwill)	112,718,079,997	68,646,037,359	67,435,699,472
03	Provisions	(4,418,904,811)	(10,722,497,240)	(16,578,241,215)
04	Unrealised foreign exchange losses arisen from revaluation of monetary accounts denominated in foreign currency	4,247,478,955	37,369,290,590	13,424,918,995
05	Profit/loss from investing activities	220,394,567,518	(15,664,651,355)	(12,491,551,347)
06	Interest expense	89,362,215,715	81,066,518,606	50,242,971,449
08	<b>Operating profit before changes in working capital</b>	<b>683,775,811,495</b>	<b>639,908,405,480</b>	<b>915,795,935,391</b>
09	Increase/decrease in receivables	(246,647,657,288)	(29,668,229,785)	(233,527,256,967)
10	Increase/decrease in inventories	(315,709,987,202)	(204,972,842,238)	(47,657,999,088)
11	Increase/decrease in payables	2,356,266,413	(4,693,381,172)	356,252,170,802
12	Increase/decrease prepaid expenses	(1,715,145,924)	(3,200,734,318)	(5,635,150,221)
13	Interest paid	(89,559,948,132)	(81,066,518,606)	(50,242,971,449)
14	Corporate income tax paid	(15,054,224,922)	(62,158,703,926)	(120,588,242,688)
15	Other cash inflows from operating activities			-
16	Other cash outflows from operating activities	(8,299,432,511)	(23,206,173,090)	(29,228,660,947)
20	<b>Net cash flows from operating activities</b>	<b>9,145,681,929</b>	<b>230,941,822,345</b>	<b>785,167,824,833</b>
	<b>II. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
21	Purchase. construction of fixed assets and other long-term assets	(101,555,633,620)	(81,824,693,737)	(138,362,224,710)
22	Gains from disposal and liquidation of fixed assets and other long-term assets			



## 2. FINANCIAL ANALYSIS OF 2016 (CONTINUED)

23	Loans to other entities and payments for purchase of debt instruments of other entities	(477,500,000,000)	(14,000,000,000)	(161,150,483)
24	Collections from borrowers and proceeds from sale of debt instruments of other entities	93,191,128,765	321,923,811,796	6,314,483,816
25	Payments for investments in other entities	(1,931,293,600)		
26	Proceeds from sale of investments in other entities	290,837,201,224	8,585,780,000	9,090,698,130
27	Interest and dividends received	14,974,536,137	26,932,562,910	8,799,058,839
<b>30</b>	<b>Net cash flows from investing activities</b>	<b>(181,984,061,094)</b>	<b>261,617,460,969</b>	<b>(114,319,134,408)</b>
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES</b>				
31	Capital contribution and issuance of shares			4,642,749,000
32	Capital redemption	(369,627,974,515)		
33	Drawdown of borrowings	2,515,406,062,969	1,775,277,336,036	1,568,640,501,271
34	Repayment of borrowings	(1,979,341,434,388)	(1,879,879,559,769)	(1,829,927,542,985)
35	Payments for financial leasehold assets			
36	Dividends paid to shareholders	(25,423,699,375)	(169,571,493,275)	(275,186,472,700)
<b>40</b>	<b>Net cash flows from financing activities</b>	<b>141,012,954,691</b>	<b>(274,173,717,008)</b>	<b>(531,830,765,414)</b>
<b>50</b>	<b>Net increase/(decrease) in cash (50 = 20+30+40)</b>	<b>(31,825,424,474)</b>	<b>218,385,566,306</b>	<b>139,017,925,011</b>
60	Cash and cash equivalents at the beginning of the year	109,344,586,246	77,338,056,411	295,395,072,292
61	Impact of exchange rate fluctuation	(181,105,361)	(328,550,425)	(441,389,987)
<b>70</b>	<b>Cash and cash equivalents at the end of the year (70 = 50+60+61)</b>	<b>77,338,056,411</b>	<b>295,395,072,292</b>	<b>433,971,607,316</b>

### Cash flow from operating activities

Cash from operating activities is determined by the profit before tax adjusted for items: depreciation and amortization of fixed assets, provisions, interest expense, loss of foreign exchange difference, gain/loss from financial investments, and disposal of fixed assets, (known as non-cash and non-operating items). In addition, cash from operations is affected by changes in receivables, payables, inventories, prepaid expenses, interest expenses and incidental expenses.

2016 as compared to 2015: Net cash flow from operating activities increased by VND 554.23 billion as the total pre-tax profit increased by VND 334.55 billion (pre-tax profit after deducting non- Cash and non-operating activities increased by VND 275.89 billion) and the change in working capital increased by VND 278.34 billion

In 2016, net cash flow from operating activities was VND 785.17 billion, including pre-tax profit before tax of VND813.76 billion, pre-tax profit after deducting non-cash items and non-operating activities were VND102.03 billion, then adjusted with the change of items with the total value is (VND130.63) billion

Changes in items as below:

- Trade receivables increase by VND 233.53 billion
- Inventories increase by VND 47.66 billion
- Increase in payables VND 356.25 billion
- Decrease in prepaid expense VND 5.64 billion
- Interest expense paid VND 50.24 billion
- CIT paid VND 120.59 billion
- Other cash outflow from operating activities VND 29.23 billion

### Cash flow from investing activities

Net cash flow from investing activities in 2016 is (VND114.32) billion, detail as follows:

- Expenditures for procurement, construction of fixed assets and other long-term assets are: (VND138.36) billion, mainly including VND127 billion invested in housing construction projects for employees, VND0.78 billion in upgrading SAP ERP software, VND2 billion in upgrading wastewater treatment systems and VND8.51 billion in some small repairs such as upgrading R&D laboratories, upgrading machinery and equipment, purchase transportation vehicles and renovate the Company's operating facilities.

For the next fiscal year, the Company will continue investing to complete the housing project for its staffs, invest in the upgrading of the wastewater treatment system, improve work place for staffs (fresh gas supply to the workshop project) and implementation of projects to upgrade and renovate the production line, to open a stone processing and distribution system in the Southern of Vietnam for better serve the requirements of production and consumption of the Company's products.

- Loans to other entities and payments for purchase of debt instruments of other entities is VND0.16 billion. This is the amount of money the Company advances to Vico Quang Tri for operating expenses in the completion of the transfer dossier for this subsidiary.
- Proceeds from the sale of debt instruments of other entities are VND 6.31 billion, which is the revocation of the term deposit contract of more than 3 months at the bank when the deposit is due.
- Collections from borrowers and proceeds from sale of debt instruments of other entities is VND9.09 billion, which is the amount received from the transfer of Vico Quang Tri Investment and Minerals JSC.
- Interest and dividends received was VND8.8 billion, including: Vietnam Stone Working JSC paid VND3.3 billion of dividend and interest received from non-term and term of less than 3 months deposit at banks.

### Cash flow from finance activities

Net cash flow from financing activities in 2016 is (VND531.83) billion, detail as follows:

- Drawdown of borrowings received in the year are VND1,568.64 billion, all the received loans are short-term loans for production and business activities with a term of less than 9 years.
- Repayment of loan principal in the year was (VND1,829.93) billion
- In 2016, the company has reduced outstanding loans at the end of the year compared to the beginning of the year by VND261.29 billion, Cash and cash equivalents at the end of the year increased compared with the beginning of the year by VND138.58 billion
- Dividends paid to shareholders in the year is (VND275.19) billion. This is the dividends distributed from profit after tax to shareholders in details according to the following resolutions:

Resolution No. 01/2016/ NQ/VCS-ĐHĐCĐ dated 30/03/2016 of the General Meeting of Shareholders of the Company, Resolution No. 11/2016NQ/VCS-HDQT dated 15/04/2016, Resolution No. 26 /2016 NQ / VCS-HĐQT dated 30/08/2016 and Resolution No. 29/2016 NQ / VCS-HDQT dated 14/09/2016 of the Board of Directors



### 3. TARGETS AND KEY TASKS OF 2017'S PLAN

#### 3.1. TARGETS OF 2017

No.	Items	Unit	2016 (sepa- rate financial statements)	Plan in 2017	Growth (%)
1	Gross revenue	Billion VND	3,262.90	4,310.66	32.11%
2	Profit before tax	Billion VND	819.04	1,000.83	22.19%
3	Depreciation of fixed assets	Billion VND	67.59	71.11	5.21%
4	Employees & Salary				
4,1	Employees available at the end of the reporting period	Person	614	646	5.21%

#### 3.2. KEY TASKS OF 2017'S PLAN

- Completing the comprehensive plan for pro-  
duction and business in 2017;
- Continue to promote technology and related  
processes to create a breakthrough in product  
design and quality; Develop new products,  
unique, different, high aesthetic;
- To step up the work of scientific research, pro-  
mote innovations and technical innovations,  
especially key material research subjects;
- Continue to promote marketing and market  
research; Complete and operate a professional  
customer relationship management system;  
To step up the development of the domestic  
market; Open more direct sales bases in Can-  
ada,
- Speed up the management of costs, save costs,  
improve the efficiency of production and busi-  
ness and life of workers,
- Coordinate with the member units of the  
PHENIKAA Group to complete and put into  
operation the key management projects:
  - + Build up human resources management sys-  
tem in the direction of modern and professional;
  - + Brand Identity Project for Phenikaa Group and  
VICOSTONE QUARTZ SURFACES on a global scale;  
Development and implementation of IMC inte-  
grated communication plan in Vietnam and US  
market for VICOSTONE brand.
- Continue to promote social activities - chari-  
ty; To combine production and business with  
the care and improvement of the material and  
spiritual life of laborers.





## **INVESTOR RELATIONS**

1. QUANTITY AND TYPE OF SHARES IN CIRCULATION
2. QUANTITY OF RESERVED SHARES AND TREASURY SHARES FOR EACH TYPE
3. SHAREHOLDER STRUCTURE
4. LIST OF FOUNDING SHAREHOLDERS
5. LIST OF MAJOR SHAREHOLDERS
6. SHARE OWNERSHIP OF INTERNAL PERSONS (MEMBERS OF BOARD OF DIRECTORS, BOARD OF SUPERVISORS AND BOARD OF EXECUTIVES)
7. SHARE TRANSACTION OF INTERNAL PERSONS AND RELATED PERSONS
8. HISTORY OF DIVIDEND PAYMENTS
9. ASSESSMENT OF THE INVESTOR RELATION ACTIVITIES IN 2016
10. INVESTOR RELATIONS ACTIVITIES PLAN FOR 2017

1. QUANTITY AND TYPE OF SHARES IN CIRCULATION

(Pursuant to the list of shareholders as of 14 March 2017 issued by Vietnam Securities Depository)

No.	Shareholders	Number of shares	Value of shares	Ratio (%)
1	non-deposited	33,030,516	330,305,160,000	55%
2	Deposited	26,969,484	269,694,840,000	45%
Total		60,000,000	600,000,000,000	100.00
1	Institution	47,765,861	477,658,610,000	79.6%
2	Individual	12,234,139	122,341,390,000	20.4%
Total		60,000,000	600,000,000,000	100.00
1	Domestic	58,605,605	586,056,050,000	97.7%
2	Foreign	1,394,395	13,943,950,000	2.3%
Total		60,000,000	600,000,000,000	100.00

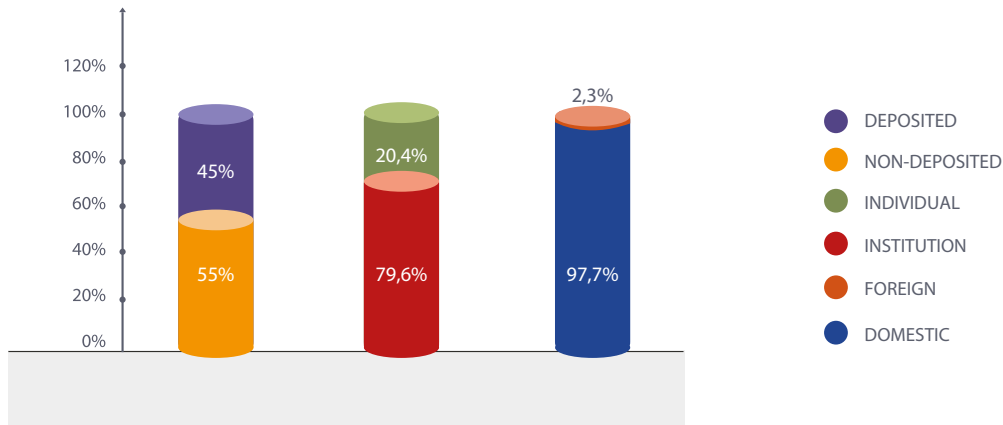


Chart: Ratio of VCS STONE's shares in circulation as of 14 March 2017

2. QUANTITY OF RESERVED SHARES AND TREASURY SHARES FOR EACH TYPE:

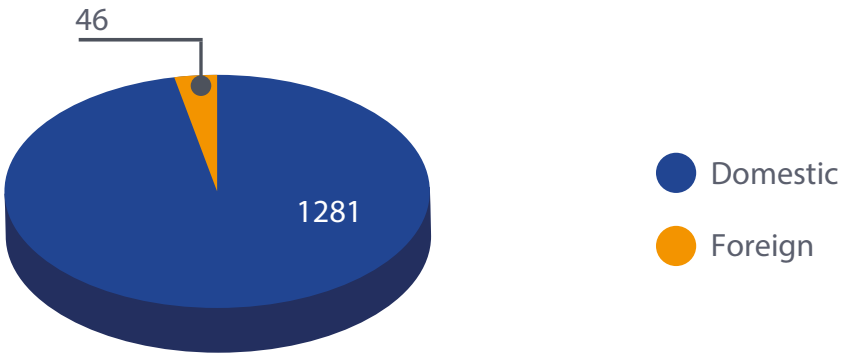
As of 14 March 2017, VCS STONE's share structure is as follows:

- Total shares: 60,000,0000 shares
- Total shares in circulation: 60,000,0000 shares
- Total treasury shares: 0 share

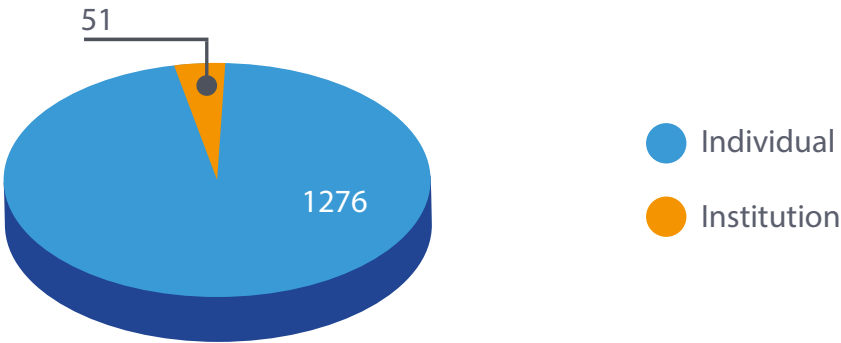
3. SHAREHOLDER STRUCTURE

As of 14 March 2017, VCS STONE's shareholder structure is as follows:

No.	Shareholders	Quantity
1	Total shareholders	1477
2	Domestic shareholders	1426
3	Foreign shareholders	51
4	Individual shareholders	1432
5	Institution shareholders	45



Rate of domestic and foreign shareholders



Rate of institution and individual shareholders (by quantity of shareholders)



#### 4. LIST OF FOUNDING SHAREHOLDERS

No.	Name	Address	Number of owned shares	Ownership rate (%)
1	Vietnam Construction & Import-Export Joint Stock Corporation (VINACONEX)	VINACONEX Building, 34 Lang Ha St., Lang Ha Ward, Dong Da Dist., Hanoi	0	0
2	Construction Joint Stock Company No.1 (VINACONEX 1)	D9, Khuat Duy Tien, Thanh Xuan Bac Ward, Thanh Xuan Dist., Hanoi, Vietnam	0	0
3	Construction Joint Stock Company No.2 (VINACONEX 2)	52 Lac Long Quan, Buoi Ward, Tay Ho Dist., Hanoi, Vietnam	0	0
4	Construction Joint Stock Company No.15 (VINACONEX 15)	8, Ngo Quyen Road, May Chai Ward, Ngo Quyen Dist., Hai Phong, Vietnam	0	0
	<b>Total</b>		<b>0</b>	<b>0</b>

#### 5. LIST OF MAJOR SHAREHOLDERS

No.	Name	Address	Number of owned shares	Ownership rate (%)
1	A&A Green Phenix Joint Stock Company (Phenikaa)	No. 167 Hoang Ngan, Trung Hoa Ward, Cau Giay Dist., Hanoi, Vietnam	45,993,343	76.66
	<b>Total</b>		<b>45,993,343</b>	<b>76.66</b>

(Pursuant to the list of shareholders as of 14 March 2017 issued by Vietnam Securities Depository)

#### 6. SHARE OWNERSHIP OF INTERNAL PERSONS (MEMBERS OF BOARD OF DIRECTORS, BOARD OF SUPERVISORS AND BOARD OF EXECUTIVES)

No.	Full name	Title	Number of shares owned at the end of the period	Ownership rate (%)
1	Ho Xuan Nang	BOD Chairman	1,513,423	2.52
2	Nghiêm Thị Ngọc Diệp	BOD independent member	0	0
3	Nguyen Dieu Thuy Ngoc	BOD member	0	0
4	Pham Anh Tuan	BOD member – General Director	7,100	0.01
5	Nguyen Quoc Truong	BOD member	0	0
6	Luong Xuan Man	BOS Head	0	0
7	Tran Lan Phuong	BOS member	7	0
8	Nguyen Quoc Tuan	BOS member	0	0
9	Luu Cong An	Vice General Director	112,118	0.19
10	Pham Tri Dzung	Vice General Director	125,981	0.21
11	Nguyen Quang Anh	Vice General Director	0	0
	<b>Total</b>		<b>1,758,629</b>	<b>2.93</b>

(Pursuant to the list of shareholders as of 14 March 2017 issued by Vietnam Securities Depository)

#### 7. SHARE TRANSACTION OF INTERNAL PERSONS AND RELATED PERSONS:

List of transactions of internal persons and related persons for the Company's shares arising in 2016 as follows:

No.	Transactor	Relationship with internal persons	Number of shares owned at the beginning of the period		Number of shares owned at the end of the period		Reason for increase or decrease
			Number	Rate	Number	Rate	
1	Ho Xuan Nang	BOD Chair-man	513,423	0.86%	1,513,423	2.52%	- Buy more shares to increase the ownership ratio - Entitled to receive bonus shares and share dividends
2	Nguyen Quoc Truong	BOD member	92,192	0.15%	0	0	Transferred shares for personal financial needs

#### 8. HISTORY OF DIVIDEND PAYMENTS

Date of dividend payment	Payment method	Rate	Notes
15/01/2010	Cash dividend	20%	Paid 2009 dividend
10/07/2010	Cash dividend	15%	Paid 2010 advance dividend
15/03/2011	Cash dividend	5%	Paid 2010 dividend
28/02/2012	Cash dividend	20%	Paid 2011 dividend
10/07/2014	Cash dividend	5%	Paid 2013 dividend
29/01/2015	Cash dividend	20%	Paid 2014 dividend
29/06/2015	Cash dividend	20%	Paid 2015 advance dividend
06/01/2016	Cash dividend	20%	Paid 2015 second advance dividend
27/05/2016	Cash dividend	20%	Paid 2016 advance dividend
21/10/2016	Cash dividend	20%	Paid 2016 second advance dividend
21/10/2016	Share dividend	52,999,251/7,000,749	Pay dividend by shares to existing shareholders

In addition, in 2016, the Company issued bonus shares to shareholders from its treasury shares at the rate of 24.99/100

#### 9. ASSESSMENT OF THE INVESTOR RELATION ACTIVITIES IN 2016

Recognizing the importance of investor relations, VCS STONE has always focused on improving the quality of investor relations and putting the interests of shareholders and investors together with the Company's sustainable development goals. The Board of Shareholders strictly adhered to the regulations on information disclosure in accordance with Circular 155/2015/TT-BTC dated 06/10/2015 by the Ministry of Finance on guiding the information disclosure in the securities market and regulations of State Securities Commission of Vietnam and Hanoi Stock Exchange. Information related to the Company's management and business activities and extraordinary information and events were disclosed within the prescribed time limit, ensuring the transparency, accuracy and honesty, completeness and timeliness and reflecting the Company's responsibility for protecting the legitimate rights and interests of investors and shareholders.

9. ASSESSMENT OF THE INVESTOR RELATION ACTIVITIES IN 2016 (CONTINUED)

For the goal of perfecting the investor relations in a professional, standardized, transparent and dynamic manner, in 2016, VCS STONE focused on enhancing and improving the quality of investor relations under the objectives: Improving the transparency, accuracy, reliability and reliability of provided information; Raising the benefits of existing shareholders and potential investors through the diversification of communication channels (face-to-face meetings, telephone calls, mail, website, etc.); and ensuring the equal rights among shareholders.

Remarkable investor relations activities in 2016:

- 2016 is the first year that VCS STONE’s Annual Report reached the Top 10 of Best Annual Report 2016. Its Annual Report was highly valued for transparency, providing sufficient information on its strategies, development orientations and policies for the environment, society, community, workers, etc.
- 2016 is the third consecutive year that VCS STONE was honored in the Top 30 most transparent companies on HNX. This result has contributed to strengthen the confidence of shareholders, investors and whole employees of VCS STONE, and to facilitate its sustainable development.
- Strictly comply with the provisions of Circular 155/2015/TT-BTC by providing sufficient, timely and accurate information on the Company’s production and business activities and information which could affect the rights and interests of shareholders on the Company’s website (<http://vicostone.com/Investor%20Relation>), the information disclosure system (IDS) of the State Securities Commission of Vietnam and the Corporate Information Management System (CIMS) of Hanoi Stock Exchange.
- In addition to successfully holding the 2016 Annual and Extraordinary General Meetings of Shareholders, VCS STONE also held meetings and welcome the domestic and foreign investors, shareholders and investment funds, securities companies, strategic partners, etc., to exchange and discuss information relating to the interests of related parties and information on the Company and its business performance, project plans, medium and long term development strategies.
- The Company always treated shareholders equitably by providing sufficient information related to its activities to all stakeholders and creating favorable conditions for shareholders (especially foreign shareholders) to vote by authorizing to attend the Annual and Extraordinary General Meetings of Shareholders.

10. INVESTOR RELATIONS ACTIVITIES PLAN FOR 2017

Key objectives of the Investor Relations in 2017 include:

- Continue to maintain and improve the quality of information disclosure, transparency, truthfulness and reliability of information to be disclosed; Enhance the professionalism in the Investor Relations activities, especially focus on improving the knowledge of IR team regarding the specific areas (finance, law, securities, accounting, etc.);
- Maintain good relationships with shareholders, investors and stakeholders through information exchange channels to timely provide information on production and business activities so that investors and shareholders will make the right orientations and decisions in investing in the Company.





## GENERAL INFORMATION

**Company's name:** CÔNG TY CỔ PHẦN ĐÁ THẠCH ANH CAO CẤP VCS.

**International name:** VCS ADVANCED QUARTZ STONE JOINT STOCK COMPANY.

**Abbreviated name:** VCS STONE.

**The Certificate of Business Registration No.:** issued for the first time on 02 June 2005 by the Hanoi Department of Planning and Investment and registered for the 15th amendment on 11 November 2016.

**Charter capital:** VND 600,000,000,000 (*Six hundred billion Vietnamese dong*).

**Address:** Hoa Lac Hi-Tech Park, Thạch Hoa Commune, Thạch Thất District, Hanoi, Vietnam.

**Tel:** 04 3368 5827

**Fax:** 04 3368 6652

**Website:** <http://vicostone.com>

**Email:** [quanhecodong@vicostone.com](mailto:quanhecodong@vicostone.com)

**Stock name:** Share of VCS Advanced Quartz Stone Joint Stock Company

**Par value:** 10,000 VND/share

**Share code:** VCS

**Number of listed shares:** 60,000,000 shares in Hanoi Stock Exchange (HNX)

**Number of voting shares in circulation:** 60,000,000 shares

### Responsible for information disclosure

Full name: Mr. PHAM ANH TUAN

Position: General Director

Tel: 04 33 685 825

Mob: 0977 150 881

Fax: 04 33 686 652

### Independent auditing unit:

ERNST & YOUNG VIETNAM LTD. CO.

Address: 8th Floor, Cornerstone Building, 16 Phan Chu Trinh, Hoan Kiem, Hanoi

Tel: 04 3831 5100

To audit VCS STONE's separated financial statements and consolidated financial statements for 2012, 2013, 2014, 2015 and 2016





**VCS ADVANCED QUARTZ STONE JOINT STOCK COMPANY**  
[previously known as Vicostone Joint Stock Company]

## **CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

1. GENERAL INFORMATION
2. REPORT OF MANAGEMENT
3. INDEPENDENT AUDITORS' REPORT
4. CONSOLIDATED BALANCE SHEET
5. CONSOLIDATED INCOME STATEMENT
6. CONSOLIDATED CASH FLOW STATEMENT
7. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS





## GENERAL INFORMATION

### 1. THE COMPANY

VCS Advanced Quartz Stone Joint Stock Company (“the Company”), previously known as Vicostone Joint Stock Company, is a shareholding company established in Vietnam in accordance with the Certificate of Business Registration for joint stock company No. 0500469512 dated 2 June 2005 and issued by the Department of Planning and Investment of Ha Tay Province (now known as Hanoi City) and its subsequent amendments with the latest 15th amendment dated 11 November 2016. Since 11 July 2016, the Company has been renamed from Vicostone Joint Stock Company to VCS Advanced Quartz Stone Joint Stock Company.

The current principal activities of the Company during the year are to manufacture and distribute quartz-based compound stone related products.

The Company’s head office is located at Hoa Lac Hi-Tech Park, Thach Hoa Commune, Thach That District, Hanoi City, Vietnam.

#### BOARD OF DIRECTORS

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

Mr Ho Xuan Nang	Chairman	
Mr Nguyen Quoc Truong	Member	
Ms Nghiem Thi Ngoc Diep	Member	
Mr Pham Anh Tuan	Member	Appointed on 15 December 2016
Ms Nguyen Dieu Thuy Ngoc	Member	Appointed on 30 June 2016
Ms Nguyen Thi Nga	Member	Resigned on 15 December 2016
Mr Tran Dang Loi	Member	Resigned on 30 June 2016

#### BOARD OF SUPERVISION

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

Mr Luong Xuan Man	Head of Board of Supervision	
Ms Tran Lan Phuong	Member	
Mr Nguyen Quoc Tuan	Member	Appointed on 30 June 2016
Ms Nguyen Dieu Thuy Ngoc	Member	Resigned on 30 June 2016

### MANAGEMENT

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

Mr Pham Anh Tuan	General Director	Appointed on 15 December 2016
Mr Ho Xuan Nang	General Director	Resigned on 15 December 2016
Mr Pham Tri Dung	Deputy General Director	
Mr Luu Cong An	Deputy General Director	
Mr Nguyen Quang Anh	Deputy General Director	Appointed on 14 June 2016
Mr Pham Anh Tuan	Deputy General Director	Resigned on 15 December 2016
Mr Nguyen The Thai	Deputy General Director	Resigned on 15 September 2016

### 2. LEGAL REPRESENTATIVE

The legal representative of the Company during the year and at the date of this report is Mr Ho Xuan Nang, Chairman. Mr Pham Anh Tuan is authorised by Mr Ho Xuan Nang to sign the accompanying separate financial statements for the year ended 31 December 2016 in accordance with the Letter of Authorisation No 541/2016/UC dated 15 December 2016.

### 3. AUDITOR

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

## REPORT OF MANAGEMENT

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

Management is responsible for the consolidated financial statements of each financial year which give a true and fair view of the consolidated financial position of the Company and its subsidiary and of the consolidated results of its operations and its consolidated cash flows for the year. In preparing those consolidated financial statements, management is required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and estimates that are reasonable and prudent;
- ▶ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- ▶ prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Company and its subsidiary will continue its business.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the consolidated financial position of the Company and its subsidiary and to ensure that the accounting records comply with the applied accounting system. It is also responsible for safeguarding the assets of the Company and its subsidiary and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management confirmed that it has complied with the above requirements in preparing the accompanying consolidated financial statement.

### 2. STATEMENT BY MANAGEMENT

Management does hereby state that, in its opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Company and its subsidiary as at 31 December 2016 and of the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and comply with the relevant statutory requirements relevant to the preparation and presentation of consolidated financial statements.

For and on behalf of management



General Director

**Phạm Anh Tuan**

16 February 2017



REPORT OF MANAGEMENT (CONTINUED)

3. INDEPENDENT AUDITORS' REPORT

Reference: 60999244/18489728-HN

To: The Shareholders and Board of Directors of VCS Advanced Quartz Stone Joint Stock Company

We have audited the accompanying consolidated financial statements of VCS Advanced Quartz Stone Joint Stock Company ("the Company"), previously known as Vicostone Joint Stock Company and its subsidiary (collectively referred to as "the Company and its subsidiary"), as prepared on 16 February 2017 and set out on page 5 to 47 which comprise the consolidated balance sheet as at 31 December 2016, the consolidated income statement and the consolidated cash flow statement for the year then ended and the notes to the consolidated financial statements.

Management's responsibility

The Company's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and the statutory requirements relevant to preparation and presentation of the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation and presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Vietnamese Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company and its subsidiary's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and its subsidiary's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditors' Opinion

In our opinion, the consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of the Company and its subsidiary as at 31 December 2016, and of the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and the statutory requirements relevant to the preparation and presentation of the consolidated financial statements.

Ernst & Young Vietnam Limited  
  
Tran Phu Son  
Deputy General Director  
Audit Practising Registration  
Certificate No.: 0637-2013-004-1

  
Tran Thu Ha  
Auditor  
Audit Practising Registration  
Certificate No.: 2499-2013-004-1

Hanoi, Vietnam

16 February 2017

# CONSOLIDATED BALANCE SHEET

(as at 31 December 2016)

Currency: VND

Code	ASSETS	Notes	Ending balance	Beginning balance
<b>100</b>	<b>A. CURRENT ASSETS</b>		<b>2,729,081,767,293</b>	<b>2,010,925,147,284</b>
<b>110</b>	<b>I. Cash and cash equivalents</b>	<b>5</b>	<b>433,971,607,316</b>	<b>295,395,072,292</b>
111	1. Cash		204,816,602,288	140,395,072,292
112	2. Cash equivalents		229,155,005,028	155,000,000,000
<b>120</b>	<b>II. Short-term investments</b>		<b>-</b>	<b>6,153,333,333</b>
123	1. Held-to-maturity investments	6	-	6,153,333,333
<b>130</b>	<b>III. Current accounts receivable</b>		<b>699,403,325,617</b>	<b>496,457,054,880</b>
131	1. Short-term trade receivables	6.1	685,811,581,102	478,153,302,025
132	2. Short-term advances to suppliers	6.2	11,942,373,761	17,606,902,913
135	3. Short-term loan receivables	28	50,129,329	-
136	4. Other short-term receivables		2,356,286,894	4,909,908,094
137	5. Provision for doubtful short-term receivables	6.1	(757,045,469)	(4,213,058,152)
<b>140</b>	<b>IV. Inventories</b>	<b>7</b>	<b>1,458,170,374,347</b>	<b>1,122,033,575,196</b>
141	1. Inventories		1,478,805,743,829	1,155,791,173,210
149	2. Provision for obsolete inventories		(20,635,369,482)	(33,757,598,014)
<b>150</b>	<b>V. Other current assets</b>		<b>137,536,460,013</b>	<b>90,886,111,583</b>
151	1. Short-term prepaid expenses	12	3,120,538,968	2,838,769,757
152	2. Value-added tax deductible		134,415,921,045	88,047,341,826
<b>200</b>	<b>B. NON-CURRENT ASSETS</b>		<b>608,848,996,604</b>	<b>770,555,114,830</b>
<b>210</b>	<b>I. Long-term receivables</b>		<b>30,000,000</b>	<b>30,000,000</b>
216	1. Other long-term receivables		30,000,000	30,000,000
<b>220</b>	<b>II. Fixed assets</b>		<b>548,377,023,352</b>	<b>597,265,777,339</b>
221	1. Tangible fixed assets	8	533,661,513,018	580,229,244,316
222	Cost		1,178,284,256,783	1,159,584,234,054
223	Accumulated depreciation		(644,622,743,765)	(579,354,989,738)
227	2. Intangible fixed assets	9	14,715,510,334	17,036,533,023
228	Cost		25,593,215,497	25,633,815,497
229	Accumulated amortisation		(10,877,705,163)	(8,597,282,474)
<b>240</b>	<b>III. Long-term assets in progress</b>		<b>4,674,389,078</b>	<b>123,070,832,393</b>
242	1. Construction in progress	10	4,674,389,078	123,070,832,393
<b>250</b>	<b>IV. Long-term investments</b>	<b>11</b>	<b>38,248,003,359</b>	<b>35,207,382,225</b>
252	2. Investments in associates		38,248,003,359	35,207,382,225
<b>260</b>	<b>V. Other long-term assets</b>		<b>17,519,580,815</b>	<b>14,981,122,873</b>
261	1. Long-term prepaid expenses	12	15,689,635,940	14,979,003,930
262	2. Deferred tax assets	26.2	1,829,944,875	2,118,943
<b>270</b>	<b>TOTAL ASSETS</b>		<b>3,337,930,763,897</b>	<b>2,781,480,262,114</b>

<b>300</b>	<b>C. LIABILITIES</b>		<b>1,890,794,978,521</b>	<b>1,782,888,942,313</b>
<b>310</b>	<b>I. Current liabilities</b>		<b>1,714,188,084,146</b>	<b>1,457,948,384,373</b>
311	1. Short-term trade payables	13	540,689,538,667	133,278,910,693
312	2. Short-term advances from customers		9,432,855,894	13,800,672,831
313	3. Statutory obligations	14	50,907,565,233	35,331,004,459
314	4. Payables to employees		2,817,678,011	691,784,553
318	5. Short-term unearned revenues		9,149,724,373	14,126,287
319	6. Other short-term payables	15	536,697,775	85,424,252,886
320	7. Short-term loan and finance lease obligations	16	1,083,352,550,815	1,178,560,448,863
322	8. Bonus and welfare fund	17	17,301,473,378	10,847,183,801
<b>330</b>	<b>II. Non-current liabilities</b>		<b>176,606,894,375</b>	<b>324,940,557,940</b>
338	1. Long-term loan and finance lease obligations	16	176,047,133,246	324,227,719,567
343	2. Scientific and technological development fund		559,761,129	712,838,373
<b>400</b>	<b>D. OWNERS' EQUITY</b>		<b>1,447,135,785,376</b>	<b>998,591,319,801</b>
<b>410</b>	<b>I. Capital</b>	<b>18</b>	<b>1,447,135,785,376</b>	<b>998,591,319,801</b>
411	1. Share capital		600,000,000,000	529,992,510,000
411a	- Shares with voting rights		600,000,000,000	529,992,510,000
411b	- Preference shares		-	-
412	2. Share premium		60,800,000	322,060,800,000
415	3. Treasury shares		-	(369,627,974,515)
418	4. Investment and development fund		63,356,329,316	87,620,177,441
421	5. Undistributed earnings		783,718,656,060	428,316,803,594
421a	- Undistributed earnings of prior year		312,740,727,372	205,715,882,542
421b	- Undistributed earnings for the year		470,977,928,688	222,600,921,052
429	6. Non-controlling interests	19	-	229,003,281
<b>440</b>	<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>3,337,930,763,897</b>	<b>2,781,480,262,114</b>

Preparer

*Brany*

Nguyen Phuong Anh

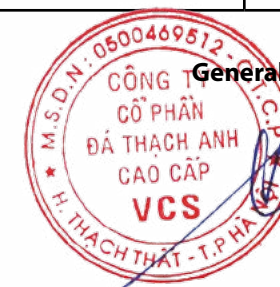
16 February 2017

Chief Accountant

*Thng*

Nguyen Thi Nga

General Director



Pham Anh Tuan



# CONSOLIDATED INCOME STATEMENT

(for the year ended 31 December 2016)

Currency: VND

Code	ITEMS	Notes	Current year	Previous year (Restated)
01	1. Revenue from sale of goods	21.1	3,211,964,848,407	2,618,277,734,889
02	2. Deductions	21.1	475,068,024	2,112,782,862
10	3. Net revenue from sale of goods (10 = 01 - 02)	21.1	3,211,489,780,383	2,616,164,952,027
11	4. Cost of goods sold	22	2,220,055,820,303	1,857,540,589,728
20	5. Gross profit from sale of goods (20=10 - 11)		991,433,960,080	758,624,362,299
21	6. Finance income	21.2	25,934,115,295	25,512,052,408
22	7. Finance expenses	23	70,953,282,040	169,979,978,711
23	- In which: Interest expense		50,242,971,449	81,066,518,606
24	8. Share of profit of associates	11	3,854,482,424	5,724,536,337
25	9. Selling expenses	24	76,843,762,966	76,966,485,013
26	10. General and administrative expenses	24	59,392,155,625	55,523,519,008
30	11. Operating profit {30 = 20 + (21 - 22) + 24 - (25 + 26)}		814,033,357,168	487,390,968,312
31	12. Other income		869,766,648	826,873,115
32	13. Other expenses		1,140,985,779	9,004,133,907
40	14. Other loss (40 = 31 - 32)		(271,219,131)	(8,177,260,792)
50	15. Profit before tax (50 = 30 + 40)		813,762,138,037	479,213,707,520
51	16. Current corporate income tax expenses	26.1	139,608,246,117	74,582,447,525
52	17. Deferred tax income	26.2	(1,827,825,932)	(2,118,943)
60	18. Net profit after tax (60=50 - 51 - 52)		675,981,717,852	404,633,378,938

61	18.1. Net profit after tax attributable to shareholders of the parent		675,981,717,852	404,633,378,938
62	18.2. Net profit after tax attributable to non-controlling interests	19	-	-
70	19. Basic earnings per share	29	10,813	6,179
71	20. Diluted earnings per share	29	10,813	6,179

Preparer



Nguyen Phuong Anh

16 February 2017

Chief Accountant



Nguyen Thi Nga

General Director



Pham Anh Tuan

# CONSOLIDATED CASH FLOW STATEMENT

(for the year ended 31 December 2016)

Currency: VND

Code	ITEMS	Notes	Current year	Previous year
	<b>I. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
01	Profit before tax		813,762,138,037	479,213,707,520
	Adjustments for:			
02	Depreciation and amortisation		67,435,699,472	68,646,037,359
03	Provisions		(16,578,241,215)	(10,722,497,240)
04	Unrealised foreign exchange losses arisen from revaluation of monetary accounts denominated in foreign currency		13,424,918,995	37,369,290,590
05	Profit from investing activities		(12,491,551,347)	(15,664,651,355)
06	Interest expense	23	50,242,971,449	81,066,518,606
08	Operating profit before changes in working capital		915,795,935,391	639,908,405,480
09	Increase in receivables		(233,527,256,967)	(29,668,229,785)
10	Increase in inventories		(47,657,999,088)	(204,972,842,238)
11	Increase/(decrease) in payables		356,252,170,802	(4,693,381,172)
12	Increase in prepaid expenses		(5,635,150,221)	(3,200,734,318)
14	Interest paid		(50,242,971,449)	(81,066,518,606)
15	Corporate income tax paid	26.1	(120,588,242,688)	(62,158,703,926)
17	Other cash outflows from operating activities		(29,228,660,947)	(23,206,173,090)
20	Net cash flows from operating activities		785,167,824,833	230,941,822,345
	<b>II. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
21	Purchase, construction of fixed assets and other long-term assets		(138,362,224,710)	(81,824,693,737)
23	Loans to other entities and payments for purchase of debt instruments of other entities		(161,150,483)	(14,000,000,000)
24	Collections from borrowers and proceeds from sale of debt instruments of other entities		6,314,483,816	321,923,811,796

26	Proceeds from sale of investments in other entities		9,090,698,130	8,585,780,000
27	Interest and dividends received		8,799,058,839	26,932,562,910
30	Net cash flows (used in)/from investing activities		(114,319,134,408)	261,617,460,969
	<b>III. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
31	Capital contribution and issuance of shares		4,642,749,000	-
33	Drawdown of borrowings		1,568,640,501,271	1,775,277,336,036
34	Repayment of borrowings		(1,829,927,542,985)	(1,879,879,559,769)
36	Dividends paid to shareholders		(275,186,472,700)	(169,571,493,275)
40	Net cash flows used in financing activities		(531,830,765,414)	(274,173,717,008)
50	Net increase in cash for the year		139,017,925,011	218,385,566,306
60	Cash and cash equivalents at the beginning of the year		295,395,072,292	77,338,056,411
61	Impact of exchange rate fluctuation		(441,389,987)	(328,550,425)
70	Cash and cash equivalents at the end of the year	5	433,971,607,316	295,395,072,292

Preparer



Nguyen Phuong Anh

16 February 2017

Chief Accountant



Nguyen Thi Nga

General Director



Pham Anh Tuan



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(as at 31 December 2016 and for the year then ended)

## 1. CORPORATE INFORMATION

VCS Advanced Quartz Stone Joint Stock Company ("the Company"), previously known as Vicostone Joint Stock Company, is a shareholding company in Vietnam established in accordance with the Certificate of Business Registration for joint stock company No. 0500469512 dated 2 June 2005 and issued by the Department of Planning and Investment of Ha Tay Province (now known as Hanoi City) and its subsequent amendments with the latest 15th amendment dated 11 November 2016. Since 11 July 2016, the Company has been renamed from Vicostone Joint Stock Company to VCS Advanced Quartz Stone Joint Stock Company.

The current principal activities of the Company during the year are to manufacture and distribute quartz-based compound stone related products.

The Company and its subsidiary's normal course of business cycle is 12 months.

The Company's head office is located at Hoa Lac Hi-Tech Park, Thach Hoa Commune, Thach That District, Hanoi City, Vietnam.

The Company's total number of employees as at 31 December 2016 is 614 (31 December 2015: 585).

### CORPORATE STRUCTURE

During the year, the Company has one subsidiary, Vico Quang Tri Mineral Joint Stock Company.

Vico Quang Tri Mineral Joint Stock Company is a joint stock company and was established in accordance with the Business Registration Certificate No. 3200384937 issued by the Department of Planning and Investment of Quang Tri Province dated 14 July 2009, with a registered charter capital of VND 100 billion. The head office of this company is located at Hai Xuan commune, Hai Lang district, Quang Tri province, Vietnam.

The principal activities of this company are to exploit, process, trade minerals; manufacture and trade construction materials.

On 19 June 2015, the Company signed the share transfer contract No. 1906/2015/VCS - HKG to transfer 1,717,156 of its total shares invested in Vico Quang Tri Mineral Joint Stock Company to Hoang Khang Group Corporation with the total transfer value of VND 17,171,560,000. In 2015, according to this contract, the Company has received an advance from Hoang Khang Group Corporation amounted to VND 8,585,780,000. However, the Company and Hoang Khang Group Corporation signed an Agreement on 25 March 2016 to cancel and terminate the share transfer contract. The Company has refunded the advances received in 2015.

On 30 March 2016, the Company signed a share transfer contract No. 01/2016/VCS-NVD to transfer 1,717,156 of its total shares invested in Vico Quang Tri Mineral Joint Stock Company to Mr Nguyen Van Dung with the total transfer value of VND 17,171,560,000. As at 31 March 2016, the legal procedures related to the transfer contract has been completed and therefore, since that date, Vico Quang Tri Minerals Joint Stock Company is no longer a subsidiary of the Company



2. BASIS OF PREPARATION

2.1. ACCOUNTING STANDARDS AND SYSTEM

The consolidated financial statements of the Company and its subsidiary, which are expressed in Vietnam Dong (“VND”), are prepared in accordance with the Vietnamese Enterprise Accounting System and Vietnamese Accounting Standards issued by the Ministry of Finance as per:

- Decision No. 149/2001/QD-BTC dated 31 December 2001 on the Issuance and Promulgation of Four Vietnamese Accounting Standards (Series 1);
- Decision No. 165/2002/QD-BTC dated 31 December 2002 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 2);
- Decision No. 234/2003/QD-BTC dated 30 December 2003 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 3);
- Decision No. 12/2005/QD-BTC dated 15 February 2005 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 4); and
- Decision No. 100/2005/QD-BTC dated 28 December 2005 on the Issuance and Promulgation of Four Vietnamese Accounting Standards (Series 5).

Accordingly, the accompanying consolidated balance sheet, consolidated income statement, consolidated cash flow statement and related consolidated notes, including their utilisation are not designed for those who are not informed about Vietnam’s accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than Vietnam.

2.2. FISCAL YEAR

The Company and its subsidiary’ fiscal year applicable for the preparation of its consolidated financial statements start on 1 January and ends on 31 December.

2.3. ACCOUNTING CURRENCY

The consolidated financial statements are prepared in Vietnam Dong (“VND”), which is also the Company’s accounting currency.

2.4. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary for the year ended 31 December 2016.

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continued to be consolidated until the date that such control ceases.

The financial statements of the subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-company balances, income and expenses and unrealised gains or losses resulting from intra-company transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and its subsidiary are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from shareholders’ equity.

Impact of change in the ownership interest of a subsidiary, without a loss of control, is recorded in undistributed earning.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Company in preparation of the consolidated financial statements as at 31 December 2016 and for the year then ended are consistent with those followed in the preparation of the Company’s annual consolidated financial statements for the year ended 31 December 2015.

3.1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash at banks and short-term, highly liquid investments with an original maturity of less than three months that are readily convertible into known amounts of cash and that are subject to an insignificant risk of change in value.

3.2 .INVENTORIES

Inventories are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to complete and the estimated costs necessary to make the sale.

The perpetual method is used to record inventories, which are valued as follows:

Raw materials and merchandise goods	- cost of purchase on a weighted average basis.
Finished goods and work-in process	- cost of direct materials and labour plus attributable manufacturing overheads based on the normal operating capacity on a weighted average basis.

Provision for obsolete inventories

An inventory provision is created for the estimated loss arising due to the impairment of value (through diminution, damage, obsolescence, etc.) of raw materials, finished goods, and other inventories owned by the Company and its subsidiary, based on appropriate evidence of impairment available at the balance sheet date.

Increases and decreases to the provision balance are recorded into the cost of goods sold account in the consolidate income statement.

3.3. RECEIVABLES

Receivables are presented in the consolidated financial statements at the carrying amounts due from customers and other debtors, after provision for doubtful debts.

The provision for doubtful debts represents amounts of outstanding receivables at the consolidated balance sheet date which are doubtful of being recovered. Increases and decreases to the provision balance are recorded as general and administrative expense in the consolidated income statement.

3.4. TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation.

The cost of a tangible fixed asset comprises its purchase price and any directly attributable costs of bringing the tangible fixed asset to working condition for its intended use.

Expenditures for additions, improvements and renewals are added to the carrying amount of the assets and expenditures for maintenance and repairs are charged to the consolidated income statement as incurred.

When tangible fixed assets are sold or retired, any gain or loss resulting from their disposal (the difference between the net disposal proceeds and the carrying amount) is included in the consolidated income statement.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. INTANGIBLE FIXED ASSETS

Intangible fixed assets are stated at cost less accumulated amortisation.

The cost of an intangible fixed asset comprises its purchase price and any directly attributable costs of preparing the intangible fixed asset for its intended use.

Expenditures for additions, improvements are added to the carrying amount of the assets and other expenditures are charged to the consolidated income statement as incurred.

When intangible fixed assets are sold or retired, any gain or loss resulting from their disposal (the difference between the net disposal proceeds and the carrying amount) is included in the consolidated income statement.

3.6. DEPRECIATION AND AMORTISATION

Depreciation of tangible fixed assets and amortisation intangible fixed assets are calculated on a straight-line basis over the estimated useful life of each asset as follows:

Buildings and structures	6 - 15 years
Machinery and equipment	3 - 15 years
Means of transportation	6 - 10 years
Office equipment	3 - 7 years
Others	5 - 8 years
Computer software	5 - 12 years

3.7 BORROWING COSTS

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds of the Company and its subsidiary. Borrowing costs are recorded as expense during the year in which they are incurred, except to the extent that they are capitalized as explained in the following paragraph.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial year of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset.

3.8. PREPAID EXPENSES

Prepaid expenses are reported as short-term or long-term prepaid expenses on the consolidated balance sheet and amortised over the year for which the amounts are paid or the year in which economic benefits are generated in relation to these expenses.

The following types of expenses are recorded as long-term prepaid expenses and are amortised to the consolidated income statement:

- Tools and consumables with large value issued into production and can be used for more than one year;
- Substantial expenditure on fixed asset overhaul; and
- Other prepaid expenses.

3.9. BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the purchase method. The cost of a business combination is measured as the fair value of assets given, liabilities incurred or assumed and equity instruments issued at the date of exchange plus any costs directly attributable to the business combination. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at

the date of business combination.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost the business combination over the acquirer’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated amortisation. Goodwill is amortised over ten (10) year period on a straight-line basis. Periodically, the Company assessed goodwill impairment of its investment in subsidiary, if there is any evidence showing that the goodwill impairment is greater than the amount of annual goodwill amortization, the goodwill will be amortized based on the amount of the impairment arised in the year.

3.10 INVESTMENTS

*Investment in associate*

The Company’s investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence that are neither subsidiaries nor joint ventures. The Company generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, the investment is carried in the consolidated balance sheet at cost plus post acquisition changes in the Company’s share of net assets of the associate. Goodwill arising on acquisition of the associate is included in the carrying amount of the investment. Goodwill is not amortised and subject to annual review for impairment. The consolidated income statement reflects the share of the post-acquisition results of operation of the associate.

The share of post-acquisition profit/(loss) of the associate is presented on face of the consolidated income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends received or receivable from associate reduces the carrying amount of the investment.

The financial statements of the associate are prepared for the same reporting year as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Unrealised profits at the reporting date of goods trading between the Company and its associate purchasing/selling with the Company and its subsidiary are eliminated in the consolidated financial statements.

*Investments in other entities*

Investments in other entities are stated at their acquisition costs.

*Provision for investments*

Provision is made for any diminution in value of the held-for-trading securities and investments in capital of other entities at the balance sheet date in accordance with the guidance under Circular No. 228/2009/TT-BTC dated 7 December 2009 (“Circular 228”) and Circular No. 89/2014/TT-BTC issued by the Ministry of Finance dated 28 June 2014 amended Circular No. 228/2009/TT-BTC. Increases and decreases to the provision balance are recorded as finance expense in the consolidated income statement.

*Held-to-maturity investments*

Held-to-maturity investments are stated at their acquisition costs. After initial recognition, held-to-maturity investments are measured at recoverable amount. Any impairment loss incurred is recognised as expense in the consolidated financial statements and deducted against the value of such investments.

3.11. PAYABLES AND ACCRUALS

Payables and accruals are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company and its subsidiary.

3.12. FOREIGN CURRENCY TRANSACTIONS

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transactions in currencies other than the Company and its subsidiary's reporting currency (VND) are recorded at the actual transaction exchange rates at transaction dates which are determined as follows:

- transaction resulting in receivables are recorded at the buying exchange rates of the commercial banks where the Company and its subsidiary designated for collection;
- transactions resulting in payables are recorded at the selling exchange rates of the commercial banks where the Company and its subsidiary designated for payment; and
- transactions for purchasing assets or expenses which were immediately settled (not recorded via liabilities) are recorded at the buying exchange rates of the commercial banks designated for payments.

At the end of the year, monetary items denominated in foreign currencies are re-translated at the actual transaction exchange rates at the balance sheet date which are determined as follows:

- monetary items which are classified as assets are translated at buying exchange rate of the commercial bank where the Company and its subsidiary conduct regular transactions; and
- monetary items which are classified as liabilities are translated at selling exchange rate of the commercial bank where the Company and its subsidiary conduct regular transactions.

All realised and unrealised foreign exchange differences incurred during the year and arisen from the translation of monetary accounts denominated in foreign currency at consolidated balance sheet date are taken to the consolidated income statement.

#### 3.13. TREASURY SHARES

Owner equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in purchase, sale, issue or cancellation of the Company's owner equity instruments.

#### 3.14. APPROPRIATION OF NET PROFITS

Net profit after tax is available for appropriation to shareholders after approval in the Annual General Meeting, and after making appropriation to reserve funds in accordance with the Company and its subsidiary's Charters and Vietnam's regulatory requirements.

The Company and its subsidiary maintain the following reserve funds which are appropriated from the Company and its subsidiary's net profits as proposed by the Board of Directors and subject to approval by shareholders at the Annual General Meeting.

- **Investment and development fund:** This fund is set aside for use in the Company and its subsidiary's expansion of its operation or in-depth investments.
- **Bonus and welfare fund:** This fund is set aside for the purpose of pecuniary rewarding and encouraging, common benefits and improvement of the employees' benefits.
- **Scientific and technological development fund:** This fund is set aside for the purpose of research, experimental of new material, chemical of its operation and trading.

#### 3.15. REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and its subsidiary and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discount, rebate and sales return. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon the delivery of the goods.

##### *Interest*

Revenue is recognised as the interest accrues (taking into account the effective yield on the asset) unless collectability is in doubt.

##### *Dividends*

Income is recognised when the Company and its subsidiary's entitlement as an investor to receive the dividend is established.

#### 3.16. TAXATION

##### **Current income tax**

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be paid to (or recovered from) the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted as at the consolidated balance sheet date.

Current income tax is charged or credited to the consolidated income statement, except when it relates to items recognised directly to equity, in which case the current income tax is also dealt with in equity.

Current income tax assets and liabilities are offset when there is a legally enforceable right for the Company and its subsidiary to set off current tax assets against current tax liabilities and when the Company and its subsidiary intends to settle its current tax assets and liabilities on a net basis.

##### **Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the consolidated balance sheet date between the tax base of assets and liabilities and their carrying amount for the consolidated financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the related transaction affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporarily differences associated with investments in subsidiary and associate, and interests in joint ventures where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credit and unused tax losses, to the extent that it is probable that taxable profit will be available against which is deductible temporary differences, carried forward unused tax credit and unused tax losses can be utilised, except:

- where the deferred tax asset in respect of deductible temporary difference which arises from the initial recognition of an asset or liability which at the time of the related transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporarily differences associated with investments in subsidiary, associate, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at consolidated balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Previously unrecognised deferred tax assets are re-assessed at the consolidated balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted at the consolidated balance sheet date.

Deferred tax is charged or credited to the consolidated income statement, except when it relates to items recognised directly to equity, in which case the deferred tax is also dealt with in the equity account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right for the Company to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on

- either the same taxable entity; or
- when the Company intends either settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### 3.17. SEGMENT INFORMATION

A segment is a component determined separately by the Company which is engaged in providing products or related services (business segment) or providing products or services in a particular economic environment (geographical segment), that is subject to risks and returns that are different from those of other segments.

Company's business segment is derived mainly from manufacturing and distributing quartz-based compound stone related products. Management defines the Company's geographical segments to be based on the location where the company sells its products.

**Transfer total shares in Vico Quang Tri Minerals Joint Stock Company – Subsidiary of the Company**

### 4. DISPOSAL OF SUBSIDIARY DURING THE YEAR

On 30 March 2016, the Company signed a share transfer contract No. 01/2016/VCS-NVD to transfer 1,717,156 of its total shares invested in Vico Quang Tri Mineral Joint Stock Company to Mr Nguyen Van Dung with the total transfer value of VND 17,171,560,000. As at 31 March 2016, the legal procedures related to the transfer contract has been completed and therefore, since that date, Vico Quang Tri Minerals Joint Stock Company is no longer a subsidiary of the Company.

### 5. CASH AND CASH EQUIVALENTS

	Ending balance	Beginning balance
Cash on hand	368,026,848	236,226,806
Cash at banks	204,448,575,440	140,158,845,486
Cash equivalents	229,155,005,028	155,000,000,000
<b>TOTAL</b>	<b>433,971,607,316</b>	<b>295,395,072,292</b>

Cash equivalents comprise time deposits in VND with term from 1 to 3 months and earning interest rates from 4.5% to 5.5% per annum.

### 6. SHORT-TERM TRADE RECEIVABLES AND SHORT-TERM ADVANCES TO SUPPLIERS

#### 6.1. SHORT-TERM TRADE RECEIVABLES

	Ending balance	Beginning balance
Short-term trade receivables	411,153,198,863	300,776,886,615
- Pental Granite & Marble Company	167,091,883,482	94,869,049,440
- Australian Stone Design Marble Work Company	145,034,272,586	-
- WK Marble & Granite Pty Ltd Company	-	175,155,304,210
- Other customers	99,027,042,795	30,752,532,965
Short-term trade receivables from related parties (Note 28)	274,658,382,239	177,376,415,410
<b>TOTAL</b>	<b>685,811,581,102</b>	<b>478,153,302,025</b>
Provision for short-term doubtful trade receivables	(757,045,469)	(2,467,728,903)

#### 6.2. SHORT-TERM ADVANCES TO SUPPLIERS

	Ending balance	Beginning balance
Advances to suppliers	8,054,658,118	12,579,213,953
Advances to related parties (Note 28)	3,887,715,643	5,027,688,960
<b>TOTAL</b>	<b>11,942,373,761</b>	<b>17,606,902,913</b>

## 7. INVENTORIES

	Ending balance		Beginning balance	
	Cost	Provision	Cost	Provision
Goods in transit	26,704,251,421	-	36,923,516,159	-
Raw materials	110,092,084,679	-	162,387,381,159	-
Tools and supplies	27,377,003,498	-	31,008,735,399	-
Work in process	42,920,615,379	-	30,595,300,853	-
Property for sale in construction (*)	275,356,571,531	-	-	-
Finished goods	315,192,843,718	(20,635,369,482)	495,176,360,629	(33,757,598,014)
Merchandise goods	681,162,373,603	-	399,699,879,011	-
<b>TOTAL</b>	<b>1,478,805,743,829</b>	<b>(20,635,369,482)</b>	<b>1,155,791,173,210</b>	<b>(33,757,598,014)</b>

(\*) This is commercial housing project for employees and external customers. In accordance with the Resolution of the Extraordinary General Meeting of the Shareholders on 30 June 2016, Company decided to transfer this project to A&A Green Phenix Joint Stock Company – parent company of the Company. On 5 January 2017, Hanoi's People Committee approved the transfer proposal according to the Official Letter No. 06/TB-UB-ND. For the year end 2016, the interest expenses capitalised for this project is amounting to VND 5,537,699,831 (in 2015 is VND 1,857,114,265).

The Company used parts of inventories pledge/mortgage for certain short-term bank loans as presented in Note 16.

Detail of movements of provision for obsolete of inventories:

	Current year	Previous year
Beginning balance	(33,757,598,014)	(45,138,389,170)
Add: Provision created during the year	-	-
Less: Utilisation and reversal of provision during the year	13,122,228,532	11,380,791,156
Ending balance (**)	(20,635,369,482)	(33,757,598,014)

(\*\*) This represents provision made for certain Breston stone products based on the assessment performed by Material Department, Quality Management Department and Sales Department of the Company. These comprised inventories which are unqualified and out of date products and do not meet sale requirements and customers' taste.

During the year, a portion of the provision provided in prior years were utilised following the sale of certain products.

## 8. TANGIBLE FIXED ASSETS

Currency: VND

	Buildings and structures	Machinery and equipment	Means of transportation	Office equipment	Others	Total
<b>Cost:</b>						
Beginning balance	154,495,713,403	959,647,054,593	27,271,624,778	12,619,443,184	5,550,398,096	1,159,584,234,054
- New purchase	-	15,261,409,861	567,245,455	864,137,291	-	16,692,792,607
- Transfer from construction in progress	2,007,230,122	-	-	-	-	2,007,230,122
Ending balance	156,502,943,525	974,908,464,454	27,838,870,233	13,483,580,475	5,550,398,096	1,178,284,256,783
In which:						
Fully depreciated	44,793,361,779	266,542,061,927	13,069,376,126	2,410,706,508	5,550,398,096	332,365,904,436
<b>Accumulated depreciation:</b>						
Beginning balance	77,424,826,303	472,398,594,456	17,397,277,785	6,583,893,098	5,550,398,096	579,354,989,738
- Depreciation for the year	8,816,087,296	52,457,025,884	2,214,412,289	1,780,228,558	-	65,267,754,027
Ending balance	86,240,913,599	524,855,620,340	19,611,690,074	8,364,121,656	5,550,398,096	644,622,743,765
<b>Net carrying amount:</b>						
Beginning balance	77,070,887,100	487,248,460,137	9,874,346,993	6,035,550,086	-	580,229,244,316
Ending balance	70,262,029,926	450,052,844,114	8,227,180,159	5,119,458,819	-	533,661,513,018
In which:						
Pledged/mortgaged (*)	51,074,692,270	439,669,442,237	5,390,414,070	2,155,887,456	-	498,290,436,033

(\*) These fixed assets are pledged/mortgaged for certain short-term and long-term loans as represented in Note 16.



9. INTANGIBLE FIXED ASSETS

Currency: VND

	Computer software	Others	Total
<b>Cost:</b>			
Beginning balance	25,595,815,497	38,000,000	25,633,815,497
- Decrease due to disposal of subsidiary during the year	(40,600,000)	-	(40,600,000)
Ending balance	25,555,215,497	38,000,000	25,593,215,497
<i>In which:</i>			
Fully amortised	191,967,400	38,000,000	229,967,400
<b>Accumulated amortisation:</b>			
Beginning balance	8,559,282,474	38,000,000	8,597,282,474
- Amortisation for the year	2,321,022,689	-	2,321,022,689
- Decrease due to disposal of subsidiary during the year	(40,600,000)	-	(40,600,000)
Ending balance	10,839,705,163	38,000,000	10,877,705,163
<b>Net carrying amount:</b>			
Beginning balance	17,036,533,023	-	17,036,533,023
Ending balance	14,715,510,334	-	14,715,510,334
<i>In which:</i>			
Pledged/mortgaged(*)	14,072,784,468	-	14,072,784,468

(\*) These fixed assets are pledged/mortgaged for certain long-term loans as represented in Note 16..

10. CONSTRUCTION IN PROGRESS

Currency: VND

	Ending balance	Beginning balance
Repairing	2,838,277,753	8,158,068,284
Construction in progress (*)	1,407,876,759	113,629,460,921
Purchase	428,234,566	1,283,303,188
<b>TOTAL</b>	<b>4,674,389,078</b>	<b>123,070,832,393</b>

(\*) As presented in Note 7, during the year, the Company classified the commercial housing project for employees with the total value of VND 275,356,571,531 into Inventories. In accordance with the Resolution of the Extraordinary General Meeting of the Shareholders on 30 June 2016, Company decided to transfer this project to A&A Green Phenix Joint Stock Company – parent company of the Company. On 5 January 2017, Hanoi’s People Committee approved the transfer proposal according to the Official Letter No. 06/TB-UBND.

11. LONG-TERM INVESTMENTS

Currency: VND

	Beginning balance				Ending balance			
	Quantity (shares)	Cost (VND)	Provision	Fair value (VND)	Quantity (shares)	Cost (VND)	Provision	Fair value (VND)
Invest in associate (*)	2,044,800	35,207,382,225	-	48,870,720,000	2,044,800	38,248,003,359	-	48,870,720,000
<b>TOTAL</b>	<b>2,044,800</b>	<b>35,207,382,225</b>	<b>-</b>	<b>48,870,720,000</b>	<b>2,044,800</b>	<b>38,248,003,359</b>	<b>-</b>	<b>48,870,720,000</b>

(\*) The shares’ market value to evaluate the fair value of the associate is the closing selling price of the last trading day of the year on UPCOM - Unlisted Public Company Market.

## 11. LONG-TERM INVESTMENTS (CONTINUED)

### Investments in associates

Company name	% of Interest	
	Ending balance	Beginning balance
Vietnam Stone Work-Top Fabrication JSC	31.40%	31.40%

Vietnam Stone Work - Top Fabrication Joint Stock Company was established in accordance with the Business Registration Certificate No. 0303000640 issued by the Department of Planning and Investment of Ha Tay Province (now known as Hanoi City) dated 13 February 2007 and its amendments with the latest 9th amendment on 12 June 2014. The head office of this company is located in Hoa Lac High Tech Park, Thach Hoa commune, Thach That district, Hanoi city, Vietnam. The current principal activities of this company are to process, manufacture and distribute quartz-based compound stone related product.

The Company's equity interest in Vietnam Stone Work - Top Fabrication Joint Stock Company as at 31 December 2016 is 31.4%.

The carrying value of the investment in associate comprised of:

	Vietnam Stone Work-Top Fabrication JSC
Beginning balance	35,207,382,225
Shares of profit of associate	3,854,482,424
Decrease due to movements of owner's equity which are not charged in the income statement during the year	(813,861,290)
<b>Ending balance</b>	<b>38,248,003,359</b>

## 12. PREPAID EXPENSES

Currency: VND

	Ending balance	Beginning balance
<b>Short-term</b>		
Tools and equipment	1,580,901,792	1,810,725,990
Other short-term prepaid expenses	1,539,637,176	1,028,043,767
<b>TOTAL</b>	<b>3,120,538,968</b>	<b>2,838,769,757</b>
<b>Long-term</b>		
Prepaid land rental (*)	7,211,725,528	7,486,457,929
Tools and equipment	2,174,060,957	3,604,206,047
Fixed asset overhauls	1,547,608,434	544,731,650
Road construction cost	203,224,052	690,961,778
Other long-term prepaid expenses	4,553,016,969	2,652,646,526
<b>TOTAL</b>	<b>15,689,635,940</b>	<b>14,979,003,930</b>

(\*) This is the 2<sup>nd</sup> payment of land rental fee for 27,451 m<sup>2</sup> of land in Block 2A, Bac Phu Cat Industrial Zone under operating lease contract No.10/VC/HĐKT-TLĐKCNBPC dated 30 May 2008 with the lease term is 48 years 7 months 19 days from the contract signing date. The total contract value and the detailed information is presented in Note 30.

## 13. SHORT-TERM TRADE PAYABLES

Currency: VND

	Ending balance		Beginning balance	
	Amount	Amount payable	Amount	Amount payable
Trade payables to suppliers				
- SHCP Pte, Ltd.	-	-	17,017,560,000	17,017,560,000
- Eternal Materials Co., Ltd.	80,020,248,000	80,020,248,000	15,450,864,000	15,450,864,000
- Other suppliers	108,316,406,534	108,316,406,534	95,909,547,592	95,909,547,592
Trade payables to related parties (Note 28)	352,352,884,133	352,352,884,133	4,900,939,101	4,900,939,101
<b>TOTAL</b>	<b>540,689,538,667</b>	<b>540,689,538,667</b>	<b>133,278,910,693</b>	<b>133,278,910,693</b>
Overdue amount	-	-	-	-

## 14. STATUTORY OBLIGATIONS

Currency: VND

	Beginning balance	Payable for the year	Payment made in the year	Ending balance
Corporate income tax (Note 26.1)	24,414,290,759	139,608,246,117	(120,588,242,688)	43,434,294,188
Import duties	8,623,449,997	20,953,933,277	(24,608,878,810)	4,968,504,464
Other taxes	2,293,263,703	69,832,430,593	(69,620,927,715)	2,504,766,581
<b>TOTAL</b>	<b>35,331,004,459</b>	<b>230,394,609,987</b>	<b>(214,818,049,213)</b>	<b>50,907,565,233</b>



## 15. OTHER SHORT-TERM PAYABLES

Currency: VND

	Ending balance	Beginning balance
Dividend payable	478,091,425	84,867,160,125
Trade union fee	48,206,900	135,509,064
Other payables	10,399,450	32,608,448
Social insurance	-	341,217,964
Health and Unemployment insurance	-	47,757,285
<b>TOTAL</b>	<b>536,697,775</b>	<b>85,424,252,886</b>
<i>In which:</i>		
Other payables	536,697,775	23,949,610,886
Other payables to related parties (Note 28)	-	61,474,642,000

## 16. LOANS AND FINANCE LEASES

Currency: VND

	Beginning balance		Movement during the year		Ending balance	
	Amount	Amount payable	Increase	Decrease	Amount	Amount payable
Short-term loans	1,178,560,448,863	1,178,560,448,863	1,645,536,631,988	1,740,744,530,036	1,083,352,550,815	1,083,352,550,815
Long-term loans	324,227,719,567	324,227,719,567	29,158,919,283	177,339,505,604	176,047,133,246	176,047,133,246
<b>TOTAL</b>	<b>1,502,788,168,430</b>	<b>1,502,788,168,430</b>	<b>1,674,695,551,271</b>	<b>1,918,084,035,640</b>	<b>1,259,399,684,061</b>	<b>1,259,399,684,061</b>

## 16. LOANS AND FINANCE LEASES (CONTINUED)

### 16.1. SHORT-TERM LOANS FROM BANKS

Name of lenders	31 December 2016 (VND)	Original amount (USD)	Principal and interest repay- ment term
Joint Stock Commercial Bank for Foreign Trade of Vietnam – Thanh Cong Branch	230,242,503,153	10,105,003	Monthly payment of interest and principal repayment from January 2017 to August 2017
Joint Stock Commercial Bank for Investment and Development of Vietnam – Thach That Branch	183,812,554,931	8,065,492	Monthly payment of interest and principal repayment from January 2017 to September 2017
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch	115,613,430,731	5,075,216	Monthly payment of interest and principal repayment from January 2017 to August 2017
Military Commercial Joint Stock Bank – West Hanoi Branch	113,239,555,479	4,968,826	Monthly payment of interest and principal repayment from January 2017 to August 2017
Indovina Bank Ltd.– Thien Long Branch	112,484,969,235	4,935,716	Monthly payment of interest and principal repayment from January 2017 to September 2017
Indovina Bank Ltd.– Thien Long Branch – Loan in VND	66,185,284,973	-	Monthly payment of interest and principal repayment from January 2017 to February 2017
Bao Viet Joint Stock Commercial Bank – Transaction Center	64,491,554,233	2,827,337	Monthly payment of interest and principal repayment from March 2017 to September 2017
Vietnam Prosperity Joint Stock Commercial Bank	63,743,913,600	2,794,560	Monthly payment of interest and principal repayment from January 2017 to July 2017
Vietnam Joint Stock Commercial Bank for Industry and Trade – Lang Hoa Lac Branch	62,394,784,480	2,739,016	Monthly payment of interest and principal repayment from January 2017 to May 2017
Asia Commercial Joint Stock Bank – Ha Thanh Branch	5,244,000,000	230,000	Monthly payment of interest and principal repayment in August 2017
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch - Current portion of long-term loan	56,950,000,000	2,500,000	Quarterly payment of interest and principal repayment up to 25 December 2017
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch - Current portion of long-term loan – Loan in VND	2,800,000,000	-	Quarterly payment of interest and principal up to 25 December 2017
Other short-term loan	6,150,000,000	-	Interest and principal to be paid on 27 June 2017
<b>TOTAL</b>	<b>1,083,352,550,815</b>	<b>44,241,166</b>	

16. LOANS AND FINANCE LEASES (CONTINUED)

16.2. LONG-TERM LOANS FROM BANKS

Name of lenders	31 December 2016 (VND)	Original amount (USD)	Principal and interest payment term
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch	171,673,735,734	7,536,160	Quarterly payment of principal and interest from 25 March 2018 to 25 June 2019
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch	4,373,397,512	-	Quarterly payment of principal and interest from 25 March 2018 to 25 June 2019
<b>TOTAL</b>	<b>176,047,133,246</b>	<b>7,536,160</b>	

17. BONUS AND WELFARE FUNDS

	Ending balance	Beginning balance
Beginning balance	10,847,183,801	10,936,183,801
Created during the year (Note 18.1)	35,682,950,524	21,695,319,639
Utilised during the year	(29,228,660,947)	(21,784,319,639)
<b>Ending balance</b>	<b>17,301,473,378</b>	<b>10,847,183,801</b>

18. OWNERS' EQUITY

18.1 INCREASE AND DECREASE IN OWNERS' EQUITY

Currency: VND

	Share capital	Share premium	Treasury share	Investment and development fund	Retained earnings	Total
<b>Previous year</b>						
Beginning balance	529,992,510,000	322,060,800,000	(369,627,974,515)	74,206,955,556	228,935,077,307	785,567,368,348
- Investment and development fund appropriation	-	-	-	12,231,240,553	(12,231,240,553)	-
- Bonus and welfare fund appropriation	-	-	-	-	(21,695,319,639)	(21,695,319,639)
- Net profit for the year	-	-	-	-	404,633,378,938	404,633,378,938
- Dividend declared	-	-	-	-	(169,597,804,000)	(169,597,804,000)
- Other movements	-	-	-	1,181,981,332	(1,727,288,459)	(545,307,127)
Ending balance	529,992,510,000	322,060,800,000	(369,627,974,515)	87,620,177,441	428,316,803,594	998,362,316,520
<b>Current year</b>						
Beginning balance	529,992,510,000	322,060,800,000	(369,627,974,515)	87,620,177,441	428,316,803,594	998,362,316,520
- Reissuance of treasury shares (*)	-	(322,000,000,000)	369,627,974,515	(47,627,974,515)	-	-
- Investment and development fund appropriation (**)	-	-	-	22,879,853,305	(22,879,853,305)	-
- Bonus and welfare funds appropriation (**)	-	-	-	-	(35,682,950,524)	(35,682,950,524)
- Dividend declared (**)	-	-	-	-	(190,797,404,000)	(190,797,404,000)
- Net profit for the year	-	-	-	-	675,981,717,852	675,981,717,852
- Dividend by shares issued (**)	70,007,490,000	-	-	-	(70,007,490,000)	-
- Other movements	-	-	-	484,273,085	(1,212,167,557)	(727,894,472)
Ending balance	600,000,000,000	60,800,000	-	63,356,329,316	783,718,656,060	1,447,135,785,376



## 18. OWNERS' EQUITY (CONTINUED)

(\*) The Company granted 10,599,800 treasury shares to existing shareholders utilising Share premium and Investment and Development fund in accordance with the Resolution No. 01/2016/NQ/VCS-DHDCD by the Annual General Meeting of Shareholders dated 30 March 2016, Resolution No. 09/2016 NQ/VCS-HDQT dated 11 April 2016 and Resolution No. 11/2016 NQ/VCS-HDQT dated 15 April 2016 by the Company's Board of Directors.

(\*\*) The appropriation of funds, dividend by shares issued from profit after tax of 2015, 2016 and the temporary dividends from profit after tax of 2016 were made in accordance with the Resolution No. 01/2016/NQ/VCS-DHDCD dated 30 March 2016 by the Annual General Meeting of Shareholders, the Resolution No. 11/2016 NQ/VCS-HDQT dated 15 April 2016, the Resolution No. 26/2016 NQ/VCS-HDQT dated 30 August 2016 and the Resolution No. 29/2016 NQ/VCS-HDQT dated 14 September 2016 by the Company's Board of Directors.

### 18.2. SHARE CAPITAL

Currency: VND

	Ending balance		Beginning balance	
	Amount	No. of shares	Amount	No. of shares
Share capital	600,000,000,000	60,000,000	529,992,510,000	52,999,251
- Contributed by A&A Green Phenix Joint Stock Company	434,933,430,000	43,493,343	307,373,210,000	30,737,321
- Contributed by other shareholders	165,066,570,000	16,506,657	222,619,300,000	22,261,930
Share premium	60,800,000	-	322,060,800,000	-
Treasury shares	-	-	(369,627,974,515)	(10,599,800)
<b>TOTAL</b>	<b>600,060,800,000</b>	<b>60,000,000</b>	<b>482,425,335,485</b>	<b>42,399,451</b>

### 18.3. DIVIDEND

Currency: VND

	Current year	Previous year
<b>Dividends declared during the year</b>	<b>260,804,894,000</b>	<b>169,597,804,000</b>
Dividends on ordinary shares	260,804,894,000	169,597,804,000
Dividend for 2016 (VND 4,000 per share)	190,797,404,000	-
Dividend by shares issued (issuance rate 7,000,749/52,999,251 par value/share)	70,007,490,000	-
Dividend for 2015 (VND 4,000 per share)	-	169,597,804,000
<b>Dividends declared after closing date of reporting year and not yet recognized as liability as at 31 December 2016</b>	<b>-</b>	<b>-</b>
Dividends on ordinary shares	-	-
Dividends on preference shares	-	-
<b>Accumulated dividends on cumulative preference shares not yet recognised</b>	<b>-</b>	<b>-</b>

### 18.4. SHARES

	Số cuối năm	Số đầu năm
	<i>Số lượng</i>	<i>Số lượng</i>
<b>Authorized shares</b>	<b>60,000,000</b>	<b>52,999,251</b>
<b>Issued shares</b>	<b>60,000,000</b>	<b>52,999,251</b>
Issued and paid-up shares	60,000,000	52,999,251
Ordinary shares	60,000,000	52,999,251
Preferred shares	-	-
<b>Treasury shares</b>	<b>-</b>	<b>(10,599,800)</b>
Held by the Company	-	(10,599,800)
Ordinary shares	-	(10,599,800)
Preferred shares	-	-
<b>Shares in circulation</b>	<b>60,000,000</b>	<b>42,399,451</b>
Ordinary shares	60,000,000	42,399,451
Preferred shares	-	-

Par value of outstanding share: VND 10,000/share (31 December 2015: VND 10,000/share).

## 19. NON-CONTROLLING INTERESTS

Currency: VND

	Vico Quang Tri Mineral Joint Stock Company
<b>Previous year</b>	
Beginning balance	229,003,281
Ending balance	229,003,281
<b>Current year</b>	
Beginning balance	229,003,281
Số cuối năm	229,003,281
-Decrease due to disposal of subsidiary during the year	(229,003,281)
Ending balance	-

## 20. OFF BALANCE SHEET ITEMS

	Ending balance	Beginning balance
Foreign currencies		
- US Dollar (US\$)	6,752,934	5,195,283
- Euro (EUR)	1,090,643	505,614

## 21. REVENUE

### 21.1. REVENUE FROM SALE OF GOODS

Currency: VND

	Current year	Previous year
<b>Gross revenue</b>	<b>3,211,964,848,407</b>	<b>2,618,277,734,889</b>
Sale of goods	3,211,964,848,407	2,618,277,734,889
<b>Less</b>	<b>(475,068,024)</b>	<b>(2,112,782,862)</b>
Sales allowances	(475,068,024)	(2,112,782,862)
<b>Net revenue</b>	<b>3,211,489,780,383</b>	<b>2,616,164,952,027</b>

### 21.2. FINANCE INCOME

Currency: VND

	Current year	Previous year
Foreign exchange gain	17,297,046,372	15,571,937,390
Deposits and loans interest income	5,365,388,923	9,940,115,018
Dividends income	3,271,680,000	-
<b>TOTAL</b>	<b>25,934,115,295</b>	<b>25,512,052,408</b>

## 22. COST OF GOODS SOLD

Currency: VND

	Current year	Previous year
Cost of finished goods sold	1,743,734,610,881	1,384,027,274,880
Cost of merchandise sold	500,557,113,682	498,239,114,241
Import tax refunds	(13,137,477,303)	(11,988,127,043)
Utilisation of provision for obsolete inventories	(10,776,200,411)	(11,380,791,156)
Others	(322,226,546)	(1,356,881,194)
<b>TOTAL</b>	<b>2,220,055,820,303</b>	<b>1,857,540,589,728</b>

## 23. FINANCE EXPENSES

Currency: VND

	Current year	Previous year
Loan interest	50,242,971,449	81,066,518,606
Foreign exchange losses	20,710,310,591	88,913,460,105
<b>TOTAL</b>	<b>70,953,282,040</b>	<b>169,979,978,711</b>

## 24. SELLING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

Currency: VND

	Current year	Previous year
Selling expenses incurred during the year		
- Delivery costs	53,908,449,538	56,724,208,380
- Packaging costs	6,771,598,645	5,765,085,377
- Others	16,163,714,783	14,477,191,256
<b>TOTAL</b>	<b>76,843,762,966</b>	<b>76,966,485,013</b>
General and administrative expenses incurred during the year		
- Labour costs	23,919,578,005	26,145,130,884
- Depreciation	8,188,359,761	8,157,887,278
- Others	27,284,217,859	21,220,500,846
<b>TOTAL</b>	<b>59,392,155,625</b>	<b>55,523,519,008</b>

## 25. PRODUCTION AND OPERATING COSTS

Currency: VND

	Current year	Previous year
Raw materials and merchandises	1,938,081,847,273	1,836,681,430,973
Labour costs	81,348,818,257	79,520,293,561
Depreciation and amortisation of fixed assets	67,435,699,472	68,646,037,359
Expenses for external services	96,740,007,751	98,304,254,831
Other expenses	17,577,220,951	14,239,596,893
<b>TOTAL</b>	<b>2,201,183,593,704</b>	<b>2,097,391,613,617</b>

## 26. CORPORATE INCOME TAX

### For parent company:

The Company is obliged to pay corporate income tax ("CIT") as follows:

*In regards to sale of finished goods of Factory No.1:*

The CIT rate which is applicable for income from this activity is 15% of taxable profits for 12 years since its operational commencement, from 2005 to 2016, and 20% of taxable profits in subsequent years.

The Company is entitled to an exemption from CIT for 3 years commencing from the first year of earning profits (from 2006 to 2008) and a 50% CIT reduction in the following 7 years. Accordingly, the CIT rate applied for activities in this year is 15% of taxable profits.

## 26. CORPORATE INCOME TAX (CONTINUED)

*In regards to sale of finished goods of Factory No.2 and trading activities*

The CIT rate which is applicable for income from these activities is 20% of taxable profit.

### For the subsidiary:

The CIT rate applicable for Vico Quang Tri Minerals Joint Stock Company is 20% of taxable profits.

The tax returns filed by the Company and its subsidiary are subject to examination by the tax authorities. As the application of tax laws and regulations is susceptible to varying interpretations, the amounts reported in the consolidated financial statements could change at a later date upon final determination by the tax authorities.

### 26.1. CIT EXPENSES

Currency: VND

	Current year	Previous year
Current tax expenses	139,608,246,117	62,562,491,526
Adjustment for under accruals of CIT from prior years	-	12,019,955,999
Deferred tax income	(1,827,825,932)	(2,118,943)
<b>TOTAL</b>	<b>137,780,420,185</b>	<b>74,580,328,582</b>

The current CIT payable is based on the estimated taxable profit for the current year. The taxable profit of the Company and its subsidiary for the year differs from the profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or deductible. The Company and its subsidiary's liability for current tax is calculated using tax rates that have been enacted by the consolidated balance sheet date.

Reconciliation between CIT expense and the accounting profit multiplied by CIT rate is presented below:

Currency: VND

	Current year	Previous year
<b>Accounting profit before tax</b>	<b>813,762,138,037</b>	<b>479,213,707,520</b>
At CIT rate for the company	137,753,956,962	84,172,393,135
<b>Adjustment to increase:</b>		
Penalty for late payment	211,732,922	1,803,328,727
Non-deductible expenses	515,294,358	660,972,010
Unrealised foreign exchange loss for year-end revaluation of cash and account receivables	81,908,814	12,537,341
Adjustment for consolidated financial statements purpose	(770,896,485)	(1,137,973,150)
Adjustment for understated CIT in previous years	-	12,019,955,999
<b>Adjustments to decrease:</b>		
Reversal unrealised foreign exchange rate of previous year in the year	(11,576,386)	(71,032,175)
Tax exempted, reduction	-	(22,879,853,305)
<b>CIT expense</b>	<b>137,780,420,185</b>	<b>74,580,328,582</b>

### 26.2. DEFERRED TAX

The following are the deferred tax assets and liabilities recognised by the Company, and the movements thereon, during the current and previous year:

Currency: VND

	Consolidated balance sheet		Consolidated income statement	
	Beginning balance	Current year	Previous year	Năm trước
<b>Deferred tax assets</b>				
Inter-group transactions eliminated in consolidation	1,829,944,875	2,118,943	(1,827,825,932)	(2,118,943)
	<b>1,829,944,875</b>	<b>2,118,943</b>	<b>(1,827,825,932)</b>	<b>(2,118,943)</b>



## 27. SEGMENT INFORMATION

The primary segment reporting format is determined to be geographical segments as the Company's risks and rates of return are affected predominantly by differences in the locations where the Company sells its products.

The operating businesses are organised and managed separately according to the locations where the Company operates, with each segment representing a strategic business unit that offers different products.

### 27.1. GEOGRAPHICAL SEGMENT

The following table presents revenue, expenditure and certain asset information regarding to the Company and its subsidiary's geographical segments.

Currency: VND

	Domestic activities	Export activities	Total
<b>As at and for the year ended 31 December 2016</b>			
Revenue			
<i>Sales to external customers</i>	640,052,954,654	2,571,911,893,753	3,211,964,848,407
<i>Inter-segment sales</i>	-	-	-
Total revenue	640,052,954,654	2,571,911,893,753	3,211,964,848,407
Results			
<i>Segment gross profit before tax</i>	52,316,661,670	911,944,260,278	964,260,921,948
<i>Unallocated cost of sale</i>	-	-	(27,173,038,132)
Gross profit	-	-	991,433,960,080
<i>Unallocated income, expense</i>	-	-	(177,671,822,043)
<i>Net profit before tax</i>	-	-	813,762,138,037
<i>Corporate income tax expense</i>	-	-	(139,608,246,117)
<i>Deferred tax income</i>	-	-	1,827,825,932
Net profit for the year	-	-	675,981,717,852
Segment assets			
<i>Segment assets</i>	49,240,242,967	635,814,292,666	685,054,535,633
<i>Unallocated assets</i>	-	-	2,652,876,228,264
<b>Total assets</b>	-	-	<b>3,337,930,763,897</b>
Unallocated liabilities	-	-	1,890,794,978,521
<b>Total liabilities</b>	-	-	<b>1,890,794,978,521</b>
Other segment information			
Capital expenditure of tangible fixed assets	-	-	18,700,022,729
Depreciation	-	-	67,588,776,716

<b>As at and for the year ended 31 December 2015</b>			
<b>Revenue</b>			
<i>Sales to external customers</i>	557,690,870,915	2,060,586,863,974	2,618,277,734,889
<i>Inter-segment sales</i>	-	-	-
Total revenue	557,690,870,915	2,060,586,863,974	2,618,277,734,889
<b>Results</b>			
<i>Segment gross profit before tax</i>	16,552,498,431	713,146,699,497	729,699,197,928
<i>Unallocated cost of sale</i>	-	-	(28,925,164,371)
Gross profit	-	-	758,624,362,299
Unallocated income, expense	-	-	(279,410,654,779)
<i>Net profit before tax</i>	-	-	479,213,707,520
<i>Corporate income tax expense</i>	-	-	(74,582,447,525)
<i>Deferred tax income</i>	-	-	2,118,943
Net profit for the year	-	-	404,633,378,938
Assets and liabilities			
<i>Segment assets</i>	3,933,128,894	471,752,444,228	475,685,573,122
<i>Unallocated assets</i>	-	-	2,305,794,688,992
<b>Total assets</b>	-	-	<b>2,781,480,262,114</b>
Unallocated liabilities	-	-	1,782,888,942,313
<b>Total liabilities</b>	-	-	<b>1,782,888,942,313</b>
Other segment information			
Capital expenditure of tangible fixed assets	-	-	10,264,683,486
Depreciation	-	-	68,702,778,929

Unallocated cost of goods sold mainly include reversal of provision for obsolete inventories and others cost of goods sold which cannot be allocated in geographical segment.

Income and expense except for cost of goods sold, assets except for trade receivables and provision for those trade receivables, and payables, are not allocated into geographical segment due to not being clearly identified for each segment

## 28. TRANSACTIONS WITH RELATED PARTIES

Significant transactions of the Company with related parties during the year were as follows:

Currency: VND

Related parties	Relationship	Transactions	Current year	Previous year
Style Stone Joint Stock Company	Affiliate	Purchase of merchandise	799,836,029,300	741,037,034,238
		Sales of materials, consumables, finished goods	241,370,751,541	418,454,676,626
		Collection of short-term loan	-	297,923,811,796
		Loan interest receivables	-	8,379,774,789
Stylenquaza LLC.	Affiliate	Sales of finished goods, consumables	365,242,168,280	311,102,430,270
Vietnam Stone Work - Top Fabrication Joint Stock Company	Associate	Sales of finished goods, consumables	124,263,880,361	45,980,252,355
		Purchase of consumables, finished goods	126,384,696,319	73,278,721,626
		Processing fee for production	30,388,500	169,782,942
		Car rental fee	15,500,000	-
		Factory rental fee	960,000,000	960,000,000
		Dividend received	3,271,680,000	-
		Short-term loan receivables	-	5,000,000,000
		Lending principal received	-	5,000,000,000
A&A Green Phenix Joint Stock Company	Parent Company	Sales of material, consumables	257,351,324,796	92,943,524,705
		Purchase of merchandises	363,715,759,080	-
		Dividend payables	138,311,796,000	122,949,284,000
		Dividend paid in cash	199,786,438,000	122,949,284,000
		Dividend paid in shares	50,747,660,000	-
VPM Hanoi Project Management Consultancy Joint Stock Company	Affiliate	Construction cost	53,362,256,522	6,276,770,445
Sec G3 Center Joint Stock Company	Affiliate	Purchase of fixed assets	-	680,203,027

		Sales of goods	3,692,544,110	-
		Ground rental fee	667,967,400	-
Global Sitetech Design Consultant and Technology Joint Stock Company	Affiliate	Payment for service rendered	144,299,000	52,257,000

### Terms and conditions of transactions with related parties

The sales to/purchases of goods/services from related parties are made at the agreed price compared to other customers, which was approved by the Board of Directors.

Outstanding balances of account receivables and payables at the end of accounting year are unsecured, interest free (except for short-term loan interest receivables) and will be settled in cash or offsetting. Receivables from related parties as presented in Note 6.1 have the payment terms from 3 to 12 months. For year ended 31 December 2016, the Company has not made any provision for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through the examination of the financial position of the related party and the market in which the related parties operate.

As at the consolidated balance sheet date, amounts due to and due from related parties were as follows:

Related parties	Relationship	Transactions	Ending balance	Beginning balance
Short-term trade receivables from related parties (Note 6.1)				
Stylenquaza Co., LLC.	Affiliate	Receivables from sales of finished goods	238,555,698,877	177,376,415,410
Vietnam Stone Work - Top Fabrication Joint Stock Company	Associate	Receivables from sales of materials	36,102,683,362	-
			<b>274,658,382,239</b>	177,376,415,410
Advances to related parties (Note 6.2)				
VPM Hanoi Project Management Consultancy Joint Stock Company	Affiliate	Advance for construction work	3,835,458,643	4,975,431,960
Global Sitetech Design Consultant and Technology Joint Stock Company	Affiliate	Advances for services	52,257,000	52,257,000
			<b>3,887,715,643</b>	<b>5,027,688,960</b>
Other receivables from related parties				

## 28. TRANSACTIONS WITH RELATED PARTIES(CONTINUED)

A&A Green Phenix Joint Stock Company	Parent Company	Other receivables	-	34,745,439
VPM Hanoi Project Management Consultancy Joint Stock Company	Affiliate	Interest receivables	-	206,666,666
			-	<b>241,412,105</b>
<b>Trade payables from related parties (Note 13)</b>				
Style Stone Joint Stock Company	Affiliate	Purchase of finished stone products	157,052,363,211	4,120,975,133
A&A Green Phenix Joint Stock Company	Parent Company	Purchase of finished stone products	177,403,232,944	-
VPM Hanoi Project Management Consultancy Joint Stock Company	Affiliate	Payables for construction	17,775,815,779	31,740,638
Global Sitetech Design Consultant and Technology Joint Stock Company	Affiliate	Payables for designing consultant	97,899,089	- ĐVT: VND
Sec G3 Center Joint Stock Company	Affiliate	Purchase of stationery and fixed assets	23,573,110	748,223,330
			<b>352.352.884.133</b>	<b>4.900.939.101</b>
<b>Other payables from related parties (Note 15)</b>				
A&A Green Phenix Joint Stock Company	Parent company	Dividend payables	-	61,474,642,000
			-	-
			-	<b>61,474,642,000</b>

### Transactions with other related parties

Remuneration to members of the Board of Directors and Management

	Current year	Previous year
Salaries and bonus	10,743,535,567	10,035,428,169
<b>TOTAL</b>	<b>10,743,535,567</b>	<b>10,035,428,169</b>

Basic earnings per share amounts are calculated by dividing net profit after tax for the period attributable

## 29. EARNINGS PER SHARE

to ordinary shareholders of the Company (after adjusting for the bonus and welfare fund) by the weighted average number of ordinary shares outstanding.

Diluted earnings per share amounts are calculated by dividing the net profit after tax attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The Company used the following information to compute earnings per share.

	Current year	Previous year (Re-stated)
Net profit after tax	675,981,717,852	404,633,378,938
Estimated appropriation in bonus and welfare funds (*)	(27,177,400,303)	(33,911,219,245)
<b>Net profit attributable to ordinary equity holders adjusted for the effect of dilution</b>	<b>648,804,317,549</b>	<b>370,722,159,693</b>
<b>Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share</b>	<b>60,000,000</b>	<b>60,000,000</b>
<b>Earnings per share</b>		
- Basic earning per share	10,813	6,179
- Diluted earning per share	10,813	6,179

(\*) Net profit used to compute earnings per share for the financial year ended 31 December 2015 was restated from figures previously disclosed in the financial statements for the year ended 31 December 2015 to present the actual appropriation to Bonus and welfare funds from retained earnings. The estimated appropriation to bonus and welfare fund for the year ended 31 December 2016 is in accordance with the Resolution No. 01/2016/NQ/VCS-ĐHĐCĐ of the General Shareholders Meeting of the Company on 30 March 2016.

(\*\*) As presented in Note 18, the Company granted 10,599,800 treasury shares to existing shareholders from Share premium and Investment and Development fund. Simultaneously, the Company also paid a dividend by issuance of 7,000,749 ordinary shares. After completion of these transactions, the number of ordinary shares of the Company increased from 42,399,451 shares to 60,000,000 shares. Accordingly, the redefined weighted average number of ordinary shares is 60,000,000 shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

### Operating lease commitments



30. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiary lease land under operating lease arrangements. As at 31 December 2016, payables for rental fee in the future under the operating lease agreements is as follows:

	Ending balance	Beginning balance
Less than 1 year	226.210.950	Currency: VND 226.210.950
From 1-5 years	904.843.800	904.843.800
More than 5 years	2.262.109.500	2.488.320.450
TOTAL	3.393.164.250	3.619.375.200

Besides, the Company also leases 27,451 m2 land area at Plot 2A, Bac Phu Cat Industriral Zone under operating lease contract No. 10/VC/HDKT-TLĐKCNBPC dated on 30 May 2008 with the lease term of 48 years, 7 months and 19 days commencing from the contract date. The total fees of land rental and the usage of infrastructure on land are VND 14,686,208,747 (including 10% VAT) and management service charge of VND 3,500/m2/year. Up to 31 December 2016, the outstanding lease payment that the Company has to pay is VND 4,343,104,373 when the Company receives land handover (land with agreed infrastructure) as stipulated by this contract.

Litigation

In May 2013, the Company received a claim from Cambria Co., Ltd. (“Cambria”), a company incorporated in the United States of America for the infringement of intellectual property rights in relation to the sale of certain of products in the U.S. market. This lawsuit has been handling by Minnesota District Court.

The Company has appointed Sapientia Law Group PLLC as its legal representative on this lawsuit. On 6 November 2013, the Minnesota District Court ordered the stay of litigation. The Company’s Board of Directors assessed that there has not been pertinent evidence to recognize a provision of potential compensation expenses, if any, for this lawsuit as at 31 December 2016 and at the date of these consolidated financial statements.

31. RESTATEMENT OF PRIOR YEAR’S CONSOLIDATED FINANCIAL STATEMENTS


Some items in the Company’s financial statements for the year ended 31 December 2015 restated in Note 29, detail as below:

ITEMS	31 December 2015 (As previously stated)	Restatement	31 December 2015 (Re-stated amount)
Consolidated income statement			
Basic earning per share	8.637	(2.458)	6.179
Diluted earning per share	8.637	(2.458)	6.179

32. EVENTS AFTER THE BALANCE SHEET DATE


There is no matter or circumstance that has arisen since the consolidated balance date that requires adjustment or disclosure in the consolidated financial statements of the Company and its subsidiary.

Preparer





\_\_\_\_\_  
Nguyen Phuong Anh  
16 February 2017

Chief Accountant



\_\_\_\_\_  
Nguyen Thi Nga

General Director



\_\_\_\_\_  
Pham Anh Tuan

**VCS ADVANCED QUARTZ STONE JOINT STOCK COMPANY**  
[previously known as Vicostone Joint Stock Company]

## **SEPARATE FINANCIAL STATEMENTS**

(31 December 2016)

1. GENERAL INFORMATION
2. REPORT OF MANAGEMENT
3. INDEPENDENT AUDITORS' REPORT
4. SEPARATE BALANCE SHEET
5. SEPARATE INCOME STATEMENT
6. SEPARATE CASH FLOW STATEMENT
7. NOTES TO THE SEPARATE FINANCIAL STATEMENTS



# GENERAL INFORMATION

## 1. THE COMPANY

VCS Advanced Quartz Stone Joint Stock Company (“the Company”), previously known as Vicostone Joint Stock Company, is a shareholding company established in Vietnam in accordance with the Certificate of Business Registration for joint stock company No. 0500469512 dated 2 June 2005 and issued by the Department of Planning and Investment of Ha Tay Province (now known as Hanoi City) and its subsequent amendments with the latest 15th amendment dated 11 November 2016. Since 11 July 2016, the Company has been renamed from Vicostone Joint Stock Company to VCS Advanced Quartz Stone Joint Stock Company.

The current principal activities of the Company are to manufacture and distribute quartz-based compound stone related products.

The Company’s head office is located at Hoa Lac Hi-Tech Park, Thach Hoa Commune, Thach That District, Hanoi City, Vietnam.

### BOARD OF DIRECTORS

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

Mr Ho Xuan Nang	Chairman	
Mr Nguyen Quoc Truong	Member	
Ms Nghiem Thi Ngoc Diep	Member	
Mr Pham Anh Tuan	Member	Appointed on 15 December 2016
Ms Nguyen Dieu Thuy Ngoc	Member	Appointed on 30 June 2016
Ms Nguyen Thi Nga	Member	Resigned on 15 December 2016
Mr Tran Dang Loi	Member	Resigned on 30 June 2016

### BOARD OF SUPERVISION

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

Mr Luong Xuan Man	Head	
Ms Tran Lan Phuong	Member	
Mr Nguyen Quoc Tuan	Member	Appointed on 30 June 2016
Ms Nguyen Dieu Thuy Ngoc	Member	Resigned on 30 June 2016

### MANAGEMENT

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

Mr Pham Anh Tuan	General Director	Appointed on 15 December 2016
Mr Ho Xuan Nang	General Director	Resigned on 15 December 2016
Mr Pham Tri Dung	Deputy General Director	
Mr Luu Cong An	Deputy General Director	
Mr Nguyen Quang Anh	Deputy General Director	Appointed on 14 June 2016
Mr Pham Anh Tuan	Deputy General Director	Resigned on 15 December 2016
Mr Nguyen The Thai	Deputy General Director	Resigned on 15 September 2016

## 2. LEGAL REPRESENTATIVE

The legal representative of the Company during the year and at the date of this report is Mr Ho Xuan Nang, Chairman. Mr Pham Anh Tuan is authorised by Mr Ho Xuan Nang to sign the accompanying separate financial statements for the year ended 31 December 2016 in accordance with the Letter of Authorisation No 541/2016/UC dated 15 December 2016.

## 3. AUDITOR

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





# REPORT OF MANAGEMENT

Management of VCS Advanced Quartz Stone Joint Stock Company (“the Company”), previously known as Vicostone Joint Stock Company, is pleased to present its report and the separate financial statements of the Company for the year ended 31 December 2016.

## 1. MANAGEMENT’S RESPONSIBILITY IN RESPECT OF THE SEPARATE FINANCIAL STATEMENTS

Management is responsible for the separate financial statements of each financial year which give a true and fair view of the separate financial position of the Company and of the separate results of its operations and its separate cash flows for the year. In preparing those separate financial statements, management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the separate financial statements; and
- prepare the separate financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue its business.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the separate financial position of the Company and to ensure that the accounting records comply with the applied accounting system. It is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management confirmed that it has complied with the above requirements in preparing the accompanying separate financial statements.

## 2. STATEMENT BY MANAGEMENT

Management does hereby state that, in its opinion, the accompanying separate financial statements give a true and fair view of the separate financial position of the Company as at 31 December 2016 and of the separate results of its operations and its separate cash flows for the year then ended in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and comply with the relevant statutory requirements relevant to the preparation and presentation of separate financial statements.

For and on behalf of management



General Director  
Phạm Anh Tuấn  
16 February 2017

## REPORT OF MANAGEMENT (CONTINUED)

### 3. INDEPENDENT AUDITORS' REPORT

Reference: 60999244/18489728

**To: The Shareholders and Board of Directors of VCS Advanced Quartz Stone Joint Stock Company**

We have reviewed the accompanying separate financial statements of VCS Advanced Quartz Stone Joint Stock Company ("the Company"), previously known as Vicostone Joint Stock Company, as prepared on 16 February 2017, and set out on page 5 to 43 which comprise the separate balance sheet as at 31 December 2016, the separate income statement and the separate cash flow statement for the year then ended and the notes to the separate financial statements.

#### **Management's responsibility**

The Company's management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and the statutory requirements relevant to the preparation and presentation of the separate financial statements, and for such internal control as management determines is necessary to enable the preparation and presentation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' responsibility**

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with Vietnamese Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Auditors' Opinion**

In our opinion, the separate financial statements give a true and fair view, in all material respects, of the separate financial position of the Company as at 31 December 2016, and of the separate results of its operations and its separate cash flows for the year then ended in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and the statutory requirements relevant to the preparation and presentation of the separate financial statements.

#### **Emphasis of matter**

We draw attention to Note 2.1 of the separate financial statements. The Company prepared the consolidated financial statements of the Company and its subsidiary for the year ended 31 December 2016 in accordance with Vietnamese Accounting Standards, Vietnamese Enterprise Accounting System and the statutory requirements relevant to the preparation and presentation of the consolidated financial statements. We have reviewed these consolidated financial statements and our audit report dated 16 February 2017 has expressed an unqualified conclusion.

Our audit opinion is not modified in respect of this emphasis of matter.

**Ernst & Young Vietnam Limited**

  
Tran Phu Son  
Deputy General Director  
Audit Practising Registration  
Certificate No.: 0637-2013-004-1

Hanoi, Vietnam

16 February 2017



Tran Thu Ha  
Auditor  
Audit Practising Registration  
Certificate No.: 2499-2013-004-1

## SEPARATE BALANCE SHEET

(as at 31 December 2016)

Currency: VND

Code		ASSETS	Notes	Ending balance	Beginning balance
<b>100</b>	<b>A.</b>	<b>CURRENT ASSETS</b>		<b>2,729,081,767,293</b>	<b>2,009,674,055,978</b>
<b>110</b>	<b>I.</b>	<b>Cash and cash equivalents</b>	<b>4</b>	<b>433,971,607,316</b>	<b>295,042,603,585</b>
111	1.	Cash		204,816,602,288	140,042,603,585
112	2.	Cash equivalents		229,155,005,028	155,000,000,000
<b>120</b>	<b>II.</b>	<b>Short-term investments</b>		<b>-</b>	<b>6,153,333,333</b>
123	1.	Held-to-maturity investments		-	6,153,333,333
<b>130</b>	<b>III.</b>	<b>Current accounts receivables</b>		<b>699,403,325,617</b>	<b>496,359,427,747</b>
131	1.	Short-term trade receivables	5.1	685,811,581,102	478,153,302,025
132	2.	Short-term advances to suppliers	5.2	11,942,373,761	17,112,297,113
135	3.	Short-term loan receivables	26	50,129,329	411,174,181
136	4.	Other short-term receivables		2,356,286,894	4,895,712,580
137	5.	Provision for doubtful short-term receivables	5.1	(757,045,469)	(4,213,058,152)
<b>140</b>	<b>IV.</b>	<b>Inventories</b>	<b>6</b>	<b>1,458,170,374,347</b>	<b>1,122,033,575,196</b>
141	1.	Inventories		1,478,805,743,829	1,155,791,173,210
149	2.	Provision for obsolete inventories		(20,635,369,482)	(33,757,598,014)
150	V.	Other current assets		137,536,460,013	90,085,116,117
151	1.	Short-term prepaid expenses	11	3,120,538,968	2,838,769,757
152	2.	Value-added tax deductible		134,415,921,045	87,246,346,360
<b>200</b>	<b>B.</b>	<b>NON-CURRENT ASSETS</b>		<b>589,202,341,970</b>	<b>756,572,192,579</b>
<b>210</b>	<b>I.</b>	<b>Long-term receivables</b>		<b>30,000,000</b>	<b>30,000,000</b>
216	1.	Other long-term receivables		30,000,000	30,000,000
<b>220</b>	<b>II.</b>	<b>Fixed assets</b>		<b>548,377,023,352</b>	<b>597,265,777,339</b>
221	1.	Tangible fixed assets	7	533,661,513,018	580,229,244,316
222		Cost		1,178,284,256,783	1,159,584,234,054
223		Accumulated depreciation		(644,622,743,765)	(579,354,989,738)
227	2.	Intangible fixed assets	8	14,715,510,334	17,036,533,023
228		Cost		25,593,215,497	25,593,215,497
229		Accumulated amortisation		(10,877,705,163)	(8,556,682,474)
<b>240</b>	<b>III.</b>	<b>Long-term assets in progress</b>		<b>4,674,389,078</b>	<b>106,694,557,710</b>
242	1.	Construction in progress	9	4,674,389,078	106,694,557,710
<b>250</b>	<b>IV.</b>	<b>Long-term investments</b>	<b>10</b>	<b>20,431,293,600</b>	<b>37,602,853,600</b>
251	1.	Investments in subsidiaries	10.1	-	17,171,560,000
252	2.	Investments in associates	10.2	20,431,293,600	20,431,293,600
<b>260</b>	<b>V.</b>	<b>Other long-term assets</b>		<b>15,689,635,940</b>	<b>14,979,003,930</b>
261	1.	Long-term prepaid expenses	11	15,689,635,940	14,979,003,930
<b>270</b>		<b>TOTAL ASSETS</b>		<b>3,318,284,109,263</b>	<b>2,766,246,248,557</b>
<b>300</b>	<b>C.</b>	<b>LIABILITIES</b>		<b>1,881,645,254,148</b>	<b>1,782,562,046,500</b>
<b>310</b>	<b>I.</b>	<b>Current liabilities</b>		<b>1,705,038,359,773</b>	<b>1,457,621,488,560</b>
311	1.	Short-term trade payables	12	540,689,538,667	133,278,910,693

312	2.	Short-term advances from customers		9,432,855,894	13,800,672,831
313	3.	Statutory obligations	13	50,907,565,233	35,324,494,459
314	4.	Payables to employees		2,817,678,011	420,489,638
319	5.	Other short-term payables	14	536,697,775	85,389,288,275
320	6.	Short-term loan and finance lease obligations	15	1,083,352,550,815	1,178,560,448,863
322	7.	Bonus and welfare fund	16	17,301,473,378	10,847,183,801
<b>330</b>	<b>II.</b>	<b>Non-current liabilities</b>		<b>176,606,894,375</b>	<b>324,940,557,940</b>
338	1.	Long-term loans and finance lease obligations	15	176,047,133,246	324,227,719,567
343	2.	Scientific and technological development fund		559,761,129	712,838,373
<b>400</b>	<b>D.</b>	<b>OWNERS' EQUITY</b>		<b>1,436,638,855,115</b>	<b>983,684,202,057</b>
<b>410</b>	<b>I.</b>	<b>Capital</b>	<b>17</b>	<b>1,436,638,855,115</b>	<b>983,684,202,057</b>
411	1.	Share capital		600,000,000,000	529,992,510,000
411a		- Shares with voting rights		600,000,000,000	529,992,510,000
411b		- Preference shares		-	-
412	2.	Share premium		60,800,000	322,060,800,000
415	3.	Treasury shares		-	(369,627,974,515)
418	4.	Investment and development fund		61,780,736,819	86,528,858,029
421	5.	Undistributed earnings		774,797,318,296	414,730,008,543
421a		- Undistributed earnings of prior year		300,366,099,878	197,806,945,897
421b		- Undistributed earnings for the year		474,431,218,418	216,923,062,646
<b>440</b>		<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>3,318,284,109,263</b>	<b>2,766,246,248,557</b>

Preparer

*Phong*

Nguyen Phuong Anh

16 February 2017

Chief Accountant

*Thi Nga*

Nguyen Thi Nga

General Director



Pham Anh Tuan



SEPARATE INCOME STATEMENT

(for the year ended 31 December 2016)

Currency: VND

Code		ITEMS	Notes	Current year	Previous year
01	1.	Revenue from sale of goods	19.1	3,236,573,462,624	2,618,377,651,710
02	2.	Deductions	19.1	475,068,024	2,112,782,862
10	3.	Net revenue from sale of goods (10 = 01 - 02)	19.1	3,236,098,394,600	2,616,264,868,848
11	4.	Cost of goods sold	20	2,235,528,836,434	1,857,626,380,262
20	5.	Gross profit from sale of goods (20 = 10 - 11)		1,000,569,558,166	758,638,488,586
21	6.	Finance income	19.2	25,934,028,466	25,546,480,951
22	7.	Finance expenses	21	70,953,282,040	169,979,978,711
23		In which: Interest expense		50,242,971,449	81,066,518,606
25	8.	Selling expenses	22	76,843,762,966	76,966,485,013
26	9.	General and administrative ex- penses	22	59,392,068,796	55,523,276,965
30	10.	Operating profit {30 = 20 + (21 - 22) - (25 + 26)}		819,314,472,830	481,715,228,848
31	11.	Other income		869,766,648	826,873,115
32	12.	Other expenses		1,140,985,779	9,004,133,907
40	13.	Other loss (40 = 31 - 32)		(271,219,131)	(8,177,260,792)
50	14.	Accounting profit before tax (50 = 30 + 40)		819,043,253,699	473,537,968,056
51	15.	Current corporate income tax expenses	24.1	139,608,246,117	74,582,447,525
60	16.	Net profit after tax (60 = 50 - 51 - 52)		679,435,007,582	398,955,520,531

Preparer

Chief Accountant

General Director



Nguyen Phuong Anh

Nguyen Thi Nga

Pham Anh Tuan

16 February 2017



## SEPARATE CASH FLOW STATEMENT

(for the year ended 31 December 2016)

Currency: VND

Code	ITEMS	Notes	Current year	Previous year
	<b>I. CASH FLOWS FROM OPERATING ACTIVITIES</b>			
01	Profit before tax		819,043,253,699	473,537,968,056
	Adjustments for:			
02	Depreciation and amortisation		67,435,699,472	68,646,037,359
03	Provisions		(16,578,241,215)	(10,722,497,240)
04	Unrealised foreign exchange losses arisen from revaluation of monetary accounts denominated in foreign currency		13,424,918,995	37,369,290,590
05	Profits from investing activities		(8,636,982,094)	(9,974,543,561)
06	Interest expense	21	50,242,971,449	81,066,518,606
08	<b>Operating profit before changes in working capital</b>		<b>924,931,620,306</b>	<b>639,922,773,810</b>
09	Increase in receivables		(233,526,888,855)	(30,387,354,749)
10	Increase in inventories		(47,657,999,088)	(204,972,842,238)
11	Increase/(decrease) in payables		347,417,788,210	(4,262,497,959)
12	Increase in prepaid expenses		(992,401,221)	(3,200,734,318)
14	Interest paid		(50,242,971,449)	(81,066,518,606)
15	Corporate income tax paid	13	(120,588,242,688)	(62,158,703,926)
17	Other cash outflows from operating activities		(29,228,660,947)	(23,206,173,090)
20	<b>Net cash flows from operating activities</b>		<b>790,112,244,268</b>	<b>230,667,948,924</b>
	<b>II. CASH FLOWS FROM INVESTING ACTIVITIES</b>			
21	Purchase, construction of fixed assets and other long-term assets		(138,167,466,331)	(81,061,883,027)
23	Loans to other entities		(310,082,483)	(14,756,240,000)
24	Collections from borrowers and proceeds from sale of debt instruments of other entities		6,314,483,816	321,923,811,796
26	Proceeds from sale of investments in other entities		9,095,756,852	8,585,780,000
27	Interest and dividends received		8,798,972,010	26,932,253,494
30	<b>Net cash flows (used in)/from investing activities</b>		<b>(114,268,336,136)</b>	<b>261,623,722,263</b>
	<b>III. CASH FLOWS FROM FINANCING ACTIVITIES</b>			
33	Drawdown of borrowings		1,568,640,501,271	1,775,277,336,036
34	Repayment of borrowings		(1,829,927,542,985)	(1,879,879,559,769)
36	Dividends paid to equity holders		(275,186,472,700)	(169,571,493,275)

40	Net cash flows used in financing activities		(536,473,514,414)	(274,173,717,008)
50	Net increase in cash for the year		139,370,393,718	218,117,954,179
60	Cash and cash equivalents at the beginning of the year		295,042,603,585	77,253,199,831
61	Impact of exchange rate fluctuation		(441,389,987)	(328,550,425)
70	Cash and cash equivalents at the end of the year	4	433,971,607,316	295,042,603,585

Preparer



Nguyen Phuong Anh

16 February 2017

Chief Accountant



Nguyen Thi Nga

General Director



Pham Anh Tuan

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS

(as at 31 December 2016 and for the year then ended)

## 1. CORPORATE INFORMATION

VCS Advanced Quartz Stone Joint Stock Company ("the Company"), previously known as Vicostone Joint Stock Company, is a shareholding company in Vietnam established in accordance with the Certificate of Business Registration for joint stock company No. 0500469512 dated 2 June 2005 and issued by the Department of Planning and Investment of Ha Tay Province (now known as Hanoi City) and its subsequent amendments with the latest 15th amendment dated 11 November 2016. Since 11 July 2016, the Company has been renamed from Vicostone Joint Stock Company to VCS Advanced Quartz Stone Joint Stock Company.

The current principal activities of the Company are to manufacture and distribute quartz-based compound stone related products.

The Company's normal course of business cycle is 12 months.

The Company's head office is located at Hoa Lac Hi-Tech Park, Thach Hoa commune, Thach That District, Hanoi City, Vietnam.

The Company's total number of employees as at 31 December 2016 is 614 (31 December 2015: 581).

### CORPORATE STRUCTURE

During the year, the Company has one subsidiary, Vico Quang Tri Mineral Joint Stock Company.

Vico Quang Tri Mineral Joint Stock Company is a joint stock company and was established in accordance with the Business Registration Certificate No. 3200384937 issued by the Department of Planning and Investment of Quang Tri Province dated 14 July 2009, with a registered charter capital of VND 100 billion. The head office of this company is located at Hai Xuan commune, Hai Lang district, Quang Tri province, Vietnam.

The principal activities of this company are to exploit, process, trade minerals; manufacture and trade construction materials.

On 19 June 2015, the Company signed the share transfer contract No. 1906/2015/VCS - HKG to transfer 1,717,156 of its total shares invested in Vico Quang Tri Mineral Joint Stock Company to Hoang Khang Group Corporation with the total transfer value of VND 17,171,560,000. In 2015, according to this contract, the Company received an advance from Hoang Khang Group Corporation amounted to VND 8,585,780,000. However, the Company and Hoang Khang Group Corporation signed an Agreement on 25 March 2016 to cancel and terminate the share transfer contract. The Company has refunded the advances received in 2015.

On 30 March 2016, the Company signed a share transfer contract No. 01/2016/VCS-NVD to transfer 1,717,156 of its total shares invested in Vico Quang Tri Mineral Joint Stock Company to Mr Nguyen Van Dung with the total transfer value of VND 17,171,560,000. As at 31 March 2016, the legal procedures related to the transfer contract has been completed and therefore, since that date, Vico Quang Tri Minerals Joint Stock Company is no longer a subsidiary of the Company.

## 2. BASIS OF PREPARATION

### 2.1. PURPOSE OF PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

VCS Advanced Quartz Stone Joint Stock Company is the parent Company of subsidiary as disclosed in Note 1 and Note 10. The separate financial statements have been prepared by the Company in order to meet with the reporting requirements as required by Circular No. 155/2015/TT-BTC issued by the Ministry of Finance on 6 October 2015 - Guidance on the disclosure of information on the security market. According to this Circular, the Company is also required to prepare the consolidated financial statements of the Company and its subsidiary as at 31 December 2016 and for the year then ended. The Company has prepared and issued these consolidated financial statements on 16 February 2017.

Users of the separate financial statements should read them together with the consolidated financial statements of the Company and its subsidiary as at 31 December 2016 and for the year then ended in order to obtain full information on the consolidated financial position, the consolidated results of operations and the consolidated cash flows of the Company and its subsidiary.

### 2.2. ACCOUNTING STANDARDS AND SYSTEM

The separate financial statements of the Company, which are expressed in Vietnam Dong ("VND"), are prepared in accordance with the Vietnamese Enterprise Accounting System and Vietnamese Accounting Standards issued by the Ministry of Finance as per:

- Decision No. 149/2001/QĐ-BTC dated 31 December 2001 on the Issuance and Promulgation of Four Vietnamese Accounting Standards (Series 1);
- Decision No. 165/2002/QĐ-BTC dated 31 December 2002 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 2);
- Decision No. 234/2003/QĐ-BTC dated 30 December 2003 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 3);
- Decision No. 12/2005/QĐ-BTC dated 15 February 2005 on the Issuance and Promulgation of Six Vietnamese Accounting Standards (Series 4); and
- Decision No. 100/2005/QĐ-BTC dated 28 December 2005 on the Issuance and Promulgation of Four Vietnamese Accounting Standards (Series 5).

Accordingly, the accompanying separate financial statements, including their utilisation are not designed for those who are not informed about Vietnam's accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than Vietnam.

### 2.3. FISCAL YEAR

The Company's fiscal year applicable for the preparation of its financial statements starts on 1 January and ends on 31 December.

### 2.4. ACCOUNTING CURRENCY

The Company maintains its accounting records in Vietnam Dong ("VND") which is also the Company's accounting currency.



# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Company in preparation of the separate financial statements as at 31 December 2016 and for the year then ended are consistent with those followed in the preparation of the Company's annual separate financial statements for the year ended 31 December 2015.

### 3.1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash at banks and short-term investments with an original maturity of less than three months that are readily convertible into known amounts of cash and that are subject to an insignificant risk of change in value.

### 3.2 INVENTORIES

Inventories are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs to complete and the estimated costs necessary to make the sale.

The perpetual method is used to record inventories, which are valued as follows:

Raw materials, tool and equipment and merchandise goods	- cost of purchase on a weighted average basis.
Finished goods and work-in process	- cost of direct materials and labour plus attributable manufacturing overheads based on the normal operating capacity on a weighted average basis.

#### Provision for obsolete inventories

An inventory provision is created for the estimated loss arising due to the impairment of value (through diminution, damage, obsolescence, etc.) of raw materials, finished goods, and other inventories owned by the Company, based on appropriate evidence of impairment available at the separate balance sheet date.

Increases or decreases to the provision balance are recorded into the cost of goods sold account in the separate income statement.

### 3.3 RECEIVABLES

Receivables are presented in the separate financial statements at the carrying amounts due from customers and other debtors, after provision for doubtful debts.

The provision for doubtful debts represents amounts of outstanding receivables at the separate balance sheet date which are doubtful of being recovered. Increases and decreases to the provision balance are recorded as general and administrative expense in the separate income statement.

### 3.4 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation.

The cost of a tangible fixed asset comprises its purchase price and any directly attributable costs of bringing the tangible fixed asset to working condition for its intended use.

Expenditures for additions, improvements and renewals are added to the carrying amount of the assets and expenditures for maintenance and repairs are charged to the separate income statement as incurred.

When tangible fixed assets are sold or retired, and any gain or loss resulting from their disposal (the difference between the net disposal proceeds and the carrying amount) is included in the separate income statement.

### 3.5 INTANGIBLE FIXED ASSETS

Intangible fixed assets are stated at cost less accumulated amortisation.

The cost of an intangible fixed asset comprises its purchase price and any directly attributable costs of preparing the intangible fixed asset for its intended use.

Expenditures for additions, improvements are added to the carrying amount of the assets and other expenditures are charged to the separate income statement as incurred.

When intangible fixed assets are sold or retired, any gain or loss resulting from their disposal (the difference between the net disposal proceeds and the carrying amount) is included in the separate income statement.

### 3.6 DEPRECIATION AND AMORTISATION

Depreciation of tangible fixed assets and amortisation of intangible fixed assets are calculated on a straight-line basis over the estimated useful life of each asset as follows:

Buildings and structures	6 - 15 years
Machinery and equipment	3 - 15 years
Means of transportation	6 - 10 years
Office equipment	3 - 7 years
Others	5 - 8 years
Computer software	5 - 12 years

### 3.7 BORROWING COSTS

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs are recorded as expense during the year in which they are incurred, except to the extent that they are capitalized as explained in the following paragraph.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial year of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended )

### 3.8 PREPAID EXPENSES

Prepaid expenses are reported as short-term or long-term prepaid expenses on the separate balance sheet and amortised over the period for which the amounts are paid or the year in which economic benefits are generated in relation to these expenses.

The following types of expenses are recorded as long-term prepaid expenses and are amortised to the separate income statement:

- *Tools and consumables with large value issued into production;*
- *Substantial expenditure on fixed asset overhaul; and*
- *Other prepaid expenses.*

### 3.9 INVESTMENTS

#### Investments in subsidiary

Investment in subsidiary over which the Company has control are carried at cost in the separate financial statements.

Distribution from accumulated net profit of the subsidiary arising subsequent to the date of acquisition is recognised in the separate income statement. Distributions from sources other than from such profits are considered a recovery of investment and are deducted to the cost of the investment.

#### Investment in associate

Investment in associate over which the Company has significant influence is accounted for under the cost method of accounting in the separate financial statements. An associated company is company in which investors have significant influence but not a subsidiary or joint venture of the investor. In general, the Company is considered to have significant impact if owning more than 20% equity share in the invested company.

Distributions from the accumulated net profits of the associate arising subsequent to the date of acquisition by the Company are recognized as income in the separate income statement. Distributions from sources other than from such profits are considered a recovery of investment and are deducted to the cost of the investment.

#### Investments in other entities

Investments in other entities are stated at their acquisition costs.

#### Provision for diminution in value of investments

Provision is made for any diminution in value of the investments at the balance sheet date in accordance with the guidance under Circular No. 228/2009/TT-BTC dated on 7 December 2009 ("Circular 228") and Circular No. 89/2013/TT-BTC dated 28 June 2013 issued by the Ministry of Finance. Increases or decreases to the provision balance are recorded as financial expense in the separate income statement.

#### Held-to-maturity investments

Held-to-maturity investments are stated at their acquisition costs. After initial recognition, held-to-maturity investments are measured at recoverable amount. Any impairment loss incurred is recognised as expense in the separate financial statements and deducted against the value of such investments.

### 3.10 PAYABLES AND ACCRUALS

Payables and accruals are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company.

### 3.11 FOREIGN CURRENCY TRANSACTIONS

Transactions in currencies other than the Company's reporting currency of VND are recorded at the actual transaction exchange rates at transaction dates which are determined as follows:

- Transactions resulting in receivables are recorded at the buying exchange rates of the commercial banks designated for collections;
- Transactions resulting in payables are recorded at the selling exchange rates of the commercial banks designated for payments; and
- Transactions for purchasing assets or expenses which were immediately settled (not recorded via liabilities) are recorded at the buying exchange rates of the commercial banks designated for payments.

At the end of the year, monetary items denominated in foreign currencies are re-translated at the actual transaction exchange rates at the balance sheet date which are determined as follows:

- Monetary items which are classified as assets are translated at buying exchange rate of the commercial bank where the Company conduct regular transactions; and
- Monetary items which are classified as liabilities are translated at selling exchange rate of the commercial bank where the Company conduct regular transactions.

All foreign exchange differences incurred during the year and arising from the revaluation of monetary accounts denominated in foreign currency at year-end are taken to the separate income statement.

### 3.12 TREASURY SHARES

Owner equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss upon purchase, sale, issue or cancellation of the Company's owner equity instruments.

### 3.13 APPROPRIATION OF NET PROFITS

Net profit after tax is available for appropriation to shareholders after approval in the Annual General Meeting, and after making appropriation to reserve funds in accordance with the Company and Vietnam's regulatory requirements.

The Company maintains the following reserve funds which are appropriated from the Company's net profit as proposed by the Board of Directors and subject to approval by shareholders at the Annual General Meeting.

- **Investment and development fund:** This fund is set aside for use in the Company's expansion of its operation or in-depth investments.
- **Bonus and welfare fund:** This fund is set aside for the purpose of pecuniary rewarding and encouraging, common benefits and improvement of the employees' benefits and presented as a liability on the separate balance sheet.
- **Scientific and technological development fund:** This fund is set aside for the purpose of research, experimental of new material, chemical of its operation and trading.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 3.14 REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding trade discount, rebate and sales return. The following specific recognition criteria must also be met before revenue is recognised:

- **Sale of goods:** Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon the delivery of the goods.
- **Interest:** Revenue is recognised as the interest accrues (taking into account the effective yield on the asset) unless collectability is in doubt.
- **Dividends:** Income is recognised when the Company's entitlement as an investor to receive the dividend is established.

### 3.15 TAXATION

#### Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted as at the separate balance sheet date.

Current income tax is charged or credited to the separate income statement, except when it relates to items recognised directly to equity, in which case the current income tax is also dealt with in equity.

Current income tax assets and liabilities are offset when there is a legally enforceable right for the Company to set off current tax assets against current tax liabilities and when the Company intends to settle its current tax assets and liabilities on a net basis.

#### Deferred tax

Deferred tax is provided using the liability method on temporary differences at the separate balance sheet date between the tax base of assets and liabilities and their carrying amount for the separate financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the related transaction affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures where timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credit and unused tax losses, to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward unused tax credit and unused tax losses can be utilised, except:

- where the deferred tax asset in respect of deductible temporary difference which arises from the initial recognition of an asset or liability which at the time of the related transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates,

and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Previously unrecognised deferred tax assets are re-assessed at the separate balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted at the separate balance sheet date.

Deferred tax is charged or credited to the separate income statement, except when it relates to items recognised directly to equity, in which case the deferred tax is also dealt with in the equity account.

Deferred tax assets and liabilities are offset when there is a legally enforceable right for the Company to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on:

- either the same taxable entity; or
- when the Company intends either settle current tax liabilities and assets on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

### 3.16 SEGMENT INFORMATION

A segment is a component determined separately by the Company which is engaged in providing products or related services (business segment) or providing products or services in a particular economic environment (geographical segment), that is subject to risks and returns that are different from those of other segments.

Company's business segment is derived mainly from manufacturing and distributing quartz-based compound stone related products. Management defines the Company's geographical segments to be based on the location where the company sells its products.



## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 4. CASH AND CASH EQUIVALENTS

Currency: VND

	Ending balance	Beginning balance
Cash on hand	368,026,848	231,058,970
Cash in banks	204,448,575,440	139,811,544,615
Cash equivalents	229,155,005,028	155,000,000,000
<b>TOTAL</b>	<b>433,971,607,316</b>	<b>295,042,603,585</b>

Cash equivalents comprise time deposits in VND with term from 1 to 3 months and earning interest rates from 4.5% to 5.5% per annum.

### 5. SHORT-TERM TRADE RECEIVABLES AND SHORT-TERM ADVANCES TO SUPPLIERS

#### 5.1 SHORT-TERM TRADE RECEIVABLES

Currency: VND

	Ending balance	Beginning balance
Trade receivables from customers	411,153,198,863	300,776,886,615
- Pental Granite & Marble Company	167,091,883,482	94,869,049,440
- Australian Stone Design Marble Work Company	145,034,272,586	-
- WK Marble & Granite Pty Ltd Company	-	175,155,304,210
- Other customers	99,027,042,795	30,752,532,965
Trade receivables from related parties (Note 26)	274,658,382,239	177,376,415,410
<b>TOTAL</b>	<b>685,811,581,102</b>	<b>478,153,302,025</b>
Provision for short-term doubtful debts	(757,045,469)	(2,467,728,903)

#### 5.2 SHORT-TERM ADVANCES TO SUPPLIERS

Currency: VND

	Ending balance	Beginning balance
Advances to suppliers	8,054,658,118	12,084,608,153
Advances to related parties (Note 26)	3,887,715,643	5,027,688,960
<b>TOTAL</b>	<b>11,942,373,761</b>	<b>17,112,297,113</b>

### 6. INVENTORIES

Currency: VND

	Ending balance		Beginning balance	
	Cost	Provision	Cost	Provision
Goods in transit	26,704,251,421	-	36,923,516,159	-
Raw materials	110,092,084,679	-	162,387,381,159	-
Tools and supplies	27,377,003,498	-	31,008,735,399	-
Work in process	42,920,615,379	-	30,595,300,853	-
Property for sale in construction (*)	275,356,571,531	-	-	-
Finished goods	315,192,843,718	(20,635,369,482)	495,176,360,629	(33,757,598,014)
Merchandise goods	681,162,373,603	-	399,699,879,011	-
<b>TOTAL</b>	<b>1,478,805,743,829</b>	<b>(20,635,369,482)</b>	<b>1,155,791,173,210</b>	<b>(33,757,598,014)</b>

(\*) This is commercial housing project for employees and external customers. In accordance with the Resolution of the Extraordinary General Meeting of the Shareholders dated on 30 June 2016, Company decided to transfer this project to A&A Green Phenix Joint Stock Company – parent company of the Company. On 5 January 2017, Hanoi's People Committee approved the transfer proposal according to the Official Letter No. 06/TB-UBND. For the year end 2016, the interest expenses capitalised for this project is amounting to VND 5,537,699,831 (in 2015 is VND 1,857,114,265).

The Company used parts of inventories to pledge/mortgage for short-term bank loans as presented in Note 15.

Detail of movements of provision for obsolete inventories:

Currency: VND

	Current year	Previous year
Beginning balance	(33,757,598,014)	(45,138,389,170)
Add: Provision created during the year	-	-
Less: Utilisation and reversal of provision during the year	13,122,228,532	11,380,791,156
<b>Ending balance (**)</b>	<b>(20,635,369,482)</b>	<b>(33,757,598,014)</b>

(\*\*) This represents provision made for certain Breston stone products based on the assessment performed by Material Department, Quality Management Department and Sales Department of the Company. These comprised inventories which are unqualified and out of date products and do not meet sale requirements and customers' taste.

During the year, a portion of the provision provided in prior years were utilised following the sale of certain products.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 7. TANGIBLE FIXED ASSETS

Currency: VND

	Buildings and structures	Machinery and equipment	Means of transportation	Office equipment	Others	Total
<b>Cost:</b>						
Beginning balance	154,495,713,403	959,647,054,593	27,271,624,778	12,619,443,184	5,550,398,096	1,159,584,234,054
- New purchase	-	15,261,409,861	567,245,455	864,137,291	-	16,692,792,607
- Transfer from construction in progress	2,007,230,122	-	-	-	-	2,007,230,122
Ending balance	156,502,943,525	974,908,464,454	27,838,870,233	13,483,580,475	5,550,398,096	1,178,284,256,783
In which:						
Fully depreciated	44,793,361,779	266,542,061,927	13,069,376,126	2,410,706,508	5,550,398,096	332,365,904,436
<b>Accumulated depreciation:</b>						
Beginning balance	77,424,826,303	472,398,594,456	17,397,277,785	6,583,893,098	5,550,398,096	579,354,989,738
- Depreciation for the year	8,816,087,296	52,457,025,884	2,214,412,289	1,780,228,558	-	65,267,754,027
Ending balance	86,240,913,599	524,855,620,340	19,611,690,074	8,364,121,656	5,550,398,096	644,622,743,765
<b>Net carrying amount:</b>						
Beginning balance	77,070,887,100	487,248,460,137	9,874,346,993	6,035,550,086	-	580,229,244,316
Ending balance	70,262,029,926	450,052,844,114	8,227,180,159	5,119,458,819	-	533,661,513,018
In which:						
Pledged/mortgaged as loan securities (*)	51,074,692,270	439,669,442,237	5,390,414,070	2,155,887,456	-	498,290,436,033

(\*) These fixed assets are pledged/mortgaged for certain short-term and long-term loans as represented in Note 15.

### 8. INTANGIBLE FIXED ASSETS

Currency: VND

	Computer software	Others	Total
<b>Cost:</b>			
Beginning balance	25,555,215,497	38,000,000	25,593,215,497
Ending balance	25,555,215,497	38,000,000	25,593,215,497
<b>In which:</b>			
Fully amortised	191,967,400	38,000,000	229,967,400
<b>Accumulated amortisation:</b>			
Beginning balance	8,518,682,474	38,000,000	8,556,682,474
- Amortisation for the year	2,321,022,689	-	2,321,022,689
Ending balance	10,839,705,163	38,000,000	10,877,705,163
<b>Net carrying amount:</b>			
Beginning balance	17,036,533,023	-	17,036,533,023
Ending balance	14,715,510,334	-	14,715,510,334
<b>In which:</b>			
Pledged/mortgaged as loan securities (*)	14,072,784,468	-	14,072,784,468

(\*) These fixed assets are pledged/mortgaged for certain long-term loans as represented in Note 15.

### 9. CONSTRUCTION IN PROGRESS

Currency: VND

	Ending balance	Beginning balance
Repairing	2,838,277,753	8,158,068,284
Construction in progress (*)	1,407,876,759	97,253,186,238
Purchase	428,234,566	1,283,303,188
<b>TOTAL</b>	<b>4,674,389,078</b>	<b>106,694,557,710</b>

(\*) As presented in Note 6, during the year, the Company classified the commercial housing project for employees with the total value of VND 275,356,571,531 into inventories. In accordance with the Resolution of the Extraordinary General Meeting of the Shareholders on 30 June 2016, Company decided to transfer this project to A&A Green Phenix Joint Stock Company – parent company of the Company. On 5 January 2017, Hanoi's People Committee approved the transfer proposal according to the Official Letter No. 06/TB-UBND.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended )

### 10. LONG-TERM INVESTMENTS

	Ending balance				Beginning balance			
	Cost (VND)	Quantity (shares)	Provision	Fair value (VND)	Cost (VND)	Quantity (shares)	Provision	Fair value (VND)
Investment in subsidiary (*)	-	-	-	-	17,171,560,000	1,717,156	-	-
Investment in associate (**)	20,431,293,600	2,044,800	-	48,870,720,000	20,431,293,600	2,044,800	-	33,739,200,000
TOTAL	20,431,293,600	2,044,800	-	48,870,720,000	37,602,853,600	3,761,956	-	33,739,200,000

(\*) The Company was not able to collect the necessary information and perform valuation of the shares' fair value of this company as the shares of this company are not listed in stock exchange.

(\*\*) The shares' market value to evaluate the fair value of the associate is the closing selling price of the last trading day of the year on UPCOM - Unlisted Public Company Market.

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended )

### 10.1 INVESTMENT IN SUBSIDIARY

On 30 March 2016, the Company signed a share transfer contract No. 01/2016/VCS-NVD to transfer 1,717,156 of its total shares invested in Vico Quang Tri Mineral Joint Stock Company to Mr Nguyen Van Dung with the total transfer value of VND 17,171,560,000. As at 31 March 2016, the legal procedures related to the transfer contract has been completed and therefore, since that date, Vico Quang Tri Minerals Joint Stock Company is no longer a subsidiary of the Company.

### 10.2 INVESTMENT IN ASSOCIATES

Name	% of interest	
	Ending balance	Beginning balance
Vietnam Stone Work - Top Fabrication Joint Stock Company	31.40%	31.40%

Vietnam Stone Work - Top Fabrication Joint Stock Company was established in accordance with the Business Registration Certificate No. 0303000640 issued by the Department of Planning and Investment of Ha Tay Province (now known as Hanoi City) dated 13 February 2007 and its amendments with the latest 9th amendment on 12 June 2014. The head office of this company is located in Hoa Lac High Tech Park, Thach Hoa commune, Thach That district, Hanoi city, Vietnam. The current principal activities of the Company are to process, manufacture and distribute quartz-based compound stone related product.

As at 31 December 2016, the equity interest of the Company in Vietnam Stone Work - Top Fabrication Joint Stock Company was 31.40%.



## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 11. PREPAID EXPENSES

Currency: VND

	Ending balance	Beginning balance
<b>Short-term</b>		
Tools and equipment	1,580,901,792	1,810,725,990
Other short-term prepaid expenses	1,539,637,176	1,028,043,767
<b>TOTAL</b>	<b>3,120,538,968</b>	<b>2,838,769,757</b>
<b>Long-term</b>		
Land rental fee (*)	7,211,725,528	7,486,457,929
Tools and equipment	2,174,060,957	3,604,206,047
Fixed asset overhauls	1,547,608,434	544,731,650
Construction of roads	203,224,052	690,961,778
Other long-term prepaid expenses	4,553,016,969	2,652,646,526
<b>TOTAL</b>	<b>15,689,635,940</b>	<b>14,979,003,930</b>

(\*) This is the 2<sup>nd</sup> payment of land rental fee for 27,451 m<sup>2</sup> of land in Block 2A, Bac Phu Cat Industrial Zone under operating lease contract No.10/VC/HDKT-TLDCNBPC dated 30 May 2008 with the lease term is 48 years 7 months 19 days from the contract signing date. The total contract value and the detailed information is presented in Note 27.

### 12. SHORT-TERM TRADE PAYABLES

Currency: VND

	Ending balance		Beginning balance	
	Amount	Amount payable	Amount	Amount payable
Trade payables to suppliers				
- SHCP Pte Ltd.	-	-	17,017,560,000	17,017,560,000
- Eternal Materials Co., Ltd.	80,020,248,000	80,020,248,000	15,450,864,000	15,450,864,000
- Other suppliers	108,316,406,534	108,316,406,534	95,909,547,592	95,909,547,592
Trade payables to related parties (Note 26)	352,352,884,133	352,352,884,133	4,900,939,101	4,900,939,101
<b>TOTAL</b>	<b>540,689,538,667</b>	<b>540,689,538,667</b>	<b>133,278,910,693</b>	<b>133,278,910,693</b>
Overdue amount	-	-	-	-

### 13. STATUTORY OBLIGATIONS

Currency: VND

	Beginning balance	Payable for the year	Payment made in the year	Ending balance
Corporate income tax (Note 24.2)	24,414,290,759	139,608,246,117	(120,588,242,688)	43,434,294,188
Import duties	8,623,449,997	20,953,933,277	(24,608,878,810)	4,968,504,464
Others	2,286,753,703	65,185,121,593	(64,967,108,715)	2,504,766,581
<b>TOTAL</b>	<b>35,324,494,459</b>	<b>225,747,300,987</b>	<b>(210,164,230,213)</b>	<b>50,907,565,233</b>

### 14. OTHER SHORT-TERM PAYABLES

Currency: VND

	Beginning balance	Ending balance
Dividend payables	478,091,425	84,867,160,125
Trade union fee	48,206,900	135,509,064
Other payables	10,399,450	29,124,416
Social insurance	-	314,383,320
Health and Unemployment insurance	-	43,111,350
<b>TOTAL</b>	<b>536,697,775</b>	<b>85,389,288,275</b>
In which:		
Other payables	536,697,775	23,914,646,275
Other short-term payables to related parties (Note 26)	-	61,474,642,000

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 15. LOANS AND FINANCE LEASES

Currency: VND

	Beginning balance		During the year		Ending balance	
	Amount	Amount payable	Increase	Decrease	Amount	Amount payable
Short-term loans	1,178,560,448,863	1,178,560,448,863	1,645,536,631,988	1,740,744,530,036	1,083,352,550,815	1,083,352,550,815
Long-term loans	324,227,719,567	324,227,719,567	29,158,919,283	177,339,505,604	176,047,133,246	176,047,133,246
<b>TOTAL</b>	<b>1,502,788,168,430</b>	<b>1,502,788,168,430</b>	<b>1,674,695,551,271</b>	<b>1,918,084,035,640</b>	<b>1,259,399,684,061</b>	<b>1,259,399,684,061</b>

#### 15.1 SHORT-TERM LOANS FROM BANKS

Name of lenders	31 December 2016 (VND)	Original amount (USD)	Principal and interest repayment term
Joint Stock Commercial Bank for Foreign Trade of Vietnam – Thanh Cong Branch	230,242,503,153	10,105,003	Monthly payment of interest and principal repayment from January 2017 to August 2017
Joint Stock Commercial Bank for Investment and Development of Vietnam – Thach That Branch	183,812,554,931	8,065,492	Monthly payment of interest and principal repayment from January 2017 to September 2017
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch	115,613,430,731	5,075,216	Monthly payment of interest and principal repayment from January 2017 to August 2017
Military Commercial Joint Stock Bank – West Hanoi Branch	113,239,555,479	4,968,826	Monthly payment of interest and principal repayment from January 2017 to August 2017
Indovina Bank Ltd.– Thien Long Branch	112,484,969,235	4,935,716	Monthly payment of interest and principal repayment from January 2017 to September 2017
Indovina Bank Ltd.– Thien Long Branch – Loan in VND	66,185,284,973	-	Monthly payment of interest and principal repayment from January 2017 to February 2017
Bao Viet Joint Stock Commercial Bank – Transaction Center	64,491,554,233	2,827,337	Monthly payment of interest and principal repayment from March 2017 to September 2017
Vietnam Prosperity Joint Stock Commercial Bank	63,743,913,600	2,794,560	Monthly payment of interest and principal repayment from January 2017 to July 2017
Vietnam Joint Stock Commercial Bank for Industry and Trade – Lang Hoa Lac Branch	62,394,784,480	2,739,016	Monthly payment of interest and principal repayment from January 2017 to May 2017
Asia Commercial Joint Stock Bank – Ha Thanh Branch	5,244,000,000	230,000	Monthly payment of interest and principal repayment in August 2017
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch - Current portion of long-term loan	56,950,000,000	2,500,000	Quarterly payment of interest and principal repayment up to 25 December 2017

Name of lenders	31 December 2016 (VND)	Original amount (USD)	Principal and interest repayment term
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch - Current portion of long-term loan – Loan in VND	2,800,000,000	-	Quarterly payment of interest and principal up to 25 December 2017
Other short-term loan	6,150,000,000	-	Interest and principal to be paid on 27 June 2017
<b>TOTAL</b>	<b>1,083,352,550,815</b>	<b>44,241,166</b>	

#### 15.2 LONG-TERM LOANS FROM BANKS

Name of lenders	31 December 2016 (VND)	Original amount (USD)	Principal and interest repayment term
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch	171,673,735,734	7,536,160	Quarterly payment of principal and interest from 25 March 2018 to 25 June 2019
Vietnam Joint Stock Commercial Bank for Industry and Trade – Hanoi Branch	4,373,397,512	-	Quarterly payment of principal and interest from 25 March 2018 to 25 June 2019
<b>TOTAL</b>	<b>176,047,133,246</b>	<b>7,536,160</b>	

### 16. BONUS AND WELFARE FUNDS

Currency: VND

	Current year	Previous year
Beginning balance	10,847,183,801	10,936,183,801
Created during the year (Note 17.1)	35,682,950,524	21,695,319,639
Utilised during the year	(29,228,660,947)	(21,784,319,639)
<b>Ending balance</b>	<b>17,301,473,378</b>	<b>10,847,183,801</b>

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

## 17. OWNERS' EQUITY

### 17.1 INCREASE AND DECREASE IN OWNERS' EQUITY

Currency: VND

	Share capital	Share premium	Treasury shares	Investment and development fund	Undistributed earnings	Total
<b>Previous year</b>						
Beginning balance	529,992,510,000	322,060,800,000	(369,627,974,515)	74,297,617,476	219,298,852,204	776,021,805,165
- Investment and development fund appropriation	-	-	-	12,231,240,553	(12,231,240,553)	-
- Bonus and welfare funds appropriation	-	-	-	-	(21,695,319,639)	(21,695,319,639)
- Dividend declared	-	-	-	-	(169,597,804,000)	(169,597,804,000)
- Net profit for the year	-	-	-	-	398,955,520,531	398,955,520,531
Ending balance	529,992,510,000	322,060,800,000	(369,627,974,515)	86,528,858,029	414,730,008,543	983,684,202,057
<b>Current year</b>						
Beginning balance	529,992,510,000	322,060,800,000	(369,627,974,515)	86,528,858,029	414,730,008,543	983,684,202,057
- Reissuance of treasury shares (*)	-	(322,000,000,000)	369,627,974,515	(47,627,974,515)	-	-
- Investment and development fund appropriation (**)	-	-	-	22,879,853,305	(22,879,853,305)	-
- Bonus and welfare funds appropriation (**)	-	-	-	-	(35,682,950,524)	(35,682,950,524)
- Dividend by shares issued (**)	70,007,490,000	-	-	-	(70,007,490,000)	-
- Dividend declared (**)	-	-	-	-	(190,797,404,000)	(190,797,404,000)
- Net profit for the year	-	-	-	-	679,435,007,582	679,435,007,582
<b>Ending balance</b>	<b>600,000,000,000</b>	<b>60,800,000</b>	<b>-</b>	<b>61,780,736,819</b>	<b>774,797,318,296</b>	<b>1,436,638,855,115</b>

(\*) The Company granted 10,599,800 treasury shares to existing shareholders utilising Share premium and Investment and Development fund in accordance with the Resolution No. 01/2016/NQ/VCS-DHDCD by the Annual General Meeting of Shareholders dated 30 March 2016, Resolution No. 09/2016 NQ/VCS-HDQT dated 11 April 2016 and Resolution No. 11/2016 NQ/VCS-HDQT dated 15 April 2016 by the Company's Board of Directors.

(\*\*) The appropriation of funds, dividend by shares issued from profit after tax of 2015, 2016 and the temporary dividends from profit after tax of 2016 were made in accordance with the Resolution No. 01/2016/NQ/VCS-DHDCD dated 30 March 2016 by the Annual General Meeting of Shareholders, the Resolution No. 11/2016 NQ/VCS-HDQT dated 15 April 2016, the Resolution No. 26/2016 NQ/VCS-HDQT dated 30 August 2016 and the Resolution No. 29/2016 NQ/VCS-HDQT dated 14 September 2016 by the Company's Board of Directors.

### 17.2 SHARE CAPITAL

Currency: VND

	Beginning balance		Ending balance	
	Amount (VND)	Ordinary shares	Amount (VND)	Ordinary shares
Share capital	600,000,000,000	60,000,000	529,992,510,000	52,999,251
- Contributed by A&A Green Phenix Joint Stock Company	434,933,430,000	43,493,343	307,373,210,000	30,737,321
- Contributed by other shareholders	165,066,570,000	16,506,657	222,619,300,000	22,261,930
Share premium	60,800,000	-	322,060,800,000	-
Treasury shares	-	-	(369,627,974,515)	(10,599,800)
<b>TOTAL</b>	<b>600,060,800,000</b>	<b>60,000,000</b>	<b>482,425,335,485</b>	<b>42,399,451</b>

### 17.3 DIVIDENDS

Currency: VND

	Current year	Previous year
<b>Dividends declared during the year</b>	<b>260,804,894,000</b>	<b>169,597,804,000</b>
Dividends on ordinary shares	260,804,894,000	169,597,804,000
Dividend for 2016 (VND 4,000 per share)	190,797,404,000	-
Dividend by shares issued (issuance rate 7,000,749/52,999,251 par value/share)	70,007,490,000	-
Dividend for 2015 (VND 4,000 per share)	-	169,597,804,000
<b>Dividends declared after closing date of reporting year and not yet recognized as liability as at 31 Dec 2016</b>		
Dividends on ordinary shares	-	-
Dividends on preference shares	-	-
<b>Accumulated dividends on cumulative preference shares not yet recognised</b>	<b>-</b>	<b>-</b>



## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 17. OWNERS' EQUITY (CONT)

#### 17.4 SHARES

	Ending balance (Quantity)	Beginning balance (Quantity)
<b>Authorized shares</b>	<b>60,000,000</b>	<b>52,999,251</b>
<b>Issued shares</b>	<b>60,000,000</b>	<b>52,999,251</b>
<i>Issued and paid-up shares</i>	<i>60,000,000</i>	<i>52,999,251</i>
Ordinary shares	60,000,000	52,999,251
Preferred shares	-	-
<b>Treasury shares</b>	<b>-</b>	<b>(10,599,800)</b>
<i>Held by the Company</i>	<i>-</i>	<i>(10,599,800)</i>
Ordinary shares	-	(10,599,800)
Preferred shares	-	-
<b>Shares in circulation</b>	<b>60,000,000</b>	<b>42,399,451</b>
Ordinary shares	60,000,000	42,399,451
Preferred shares	-	-

Par value of outstanding share: VND 10,000/share (31 December 2015: VND 10,000/share)

### 18. OFF BALANCE SHEET ITEMS

ITEM	Ending balance	Beginning balance
<b>Foreign currencies</b>		
- US Dollar (USD)	6,752,934	5,195,283
- Euro (EUR)	1,090,643	505,614

### 19. REVENUES

#### 19.1 REVENUES FROM SALE OF GOODS

Currency: VND

	Current year	Previous year
<b>Gross revenue</b>	<b>3,236,573,462,624</b>	<b>2,618,377,651,710</b>
<i>Sale of goods</i>	<i>3,236,573,462,624</i>	<i>2,618,377,651,710</i>
<b>Sales deductions</b>	<b>(475,068,024)</b>	<b>(2,112,782,862)</b>
<i>Sales allowances</i>	<i>(475,068,024)</i>	<i>(2,112,782,862)</i>
<b>Net revenue</b>	<b>3,236,098,394,600</b>	<b>2,616,264,868,848</b>

#### 19.2 FINANCE INCOME

Currency: VND

	Current year	Previous year
Foreign exchange gain	17,297,046,372	15,571,937,390
Deposits and loans interest income	5,365,302,094	9,974,543,561
Dividends income	3,271,680,000	-
<b>TOTAL</b>	<b>25,934,028,466</b>	<b>25,546,480,951</b>

### 20. COST OF GOODS SOLD

Currency: VND

	Current year	Previous year
Cost of finished goods sold	1,759,207,627,012	1,384,113,065,414
Cost of raw materials and parts sold	500,557,113,682	498,239,114,241
Import tax refunds	(13,137,477,303)	(11,988,127,043)
Utilisation of provision for obsolete inventories	(10,776,200,411)	(11,380,791,156)
Others	(322,226,546)	(1,356,881,194)
<b>TOTAL</b>	<b>2,235,528,836,434</b>	<b>1,857,626,380,262</b>

### 21. FINANCE EXPENSES

Currency: VND

	Current year	Previous year
Loan interest	50,242,971,449	81,066,518,606
Foreign exchange losses	20,710,310,591	88,913,460,105
<b>TOTAL</b>	<b>70,953,282,040</b>	<b>169,979,978,711</b>

### 22. SELLING EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

Currency: VND

	Current year	Previous year
<b>Selling expenses incurred during the year</b>		
- Delivery costs	53,908,449,538	56,724,208,380
- Packaging costs	6,771,598,645	5,765,085,377
- Others	16,163,714,783	14,477,191,256
<b>TOTAL</b>	<b>76,843,762,966</b>	<b>76,966,485,013</b>
<b>General and administrative expenses for the year</b>		
- Labour costs	23,919,578,005	26,145,130,884
- Depreciation	8,188,359,761	8,157,887,278
- Others	27,284,131,030	21,220,258,803
<b>TOTAL</b>	<b>59,392,068,796</b>	<b>55,523,276,965</b>

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 23. PRODUCTION AND OPERATING COSTS

Currency: VND

	Current year	Previous year
Raw materials and merchandises	1,953,554,863,404	1,836,767,221,507
Labour costs	81,348,818,257	79,520,293,561
Depreciation and amortisation	67,435,699,472	68,646,037,359
Expenses for external services	96,740,007,751	98,304,254,831
Others	17,577,134,122	14,239,354,850
<b>TOTAL</b>	<b>2,216,656,523,006</b>	<b>2,097,477,162,108</b>

### 24. CORPORATE INCOME TAX

The company is obliged to pay corporate income tax ("CIT") as follows:

#### In regards to sale of finished goods of Factory No.1:

The CIT rate applicable for the Company is 15% of taxable profits for 12 years since its operational commencement from 2005 to 2016, and 20% of taxable profits in subsequent years.

The Company is entitled to an exemption from CIT for 3 years commencing from the first year of earning profits (from 2006 to 2008) and a 50% CIT reduction in the following 7 years. Accordingly, CIT rate applied for income of this activity is 15% of taxable profit.

#### In regards to sale of finished goods of Factory No.2 and domestic trading activities

CIT rate applicable to this business activity is 20% of taxable profit.

The tax returns filed by the Company are subject to examination by the tax authorities. As the application of tax laws and regulations is susceptible to varying interpretations, the amounts reported in the separate financial statements could change at a later date upon final determination by the tax authorities.

#### 24.1 CIT EXPENSES

Currency: VND

	Current year	Previous year
Current tax expenses	139,608,246,117	62,562,491,526
Adjustment for under accruals of CIT in prior years	-	12,019,955,999
<b>TOTAL</b>	<b>139,608,246,117</b>	<b>74,582,447,525</b>

#### 24.2 CURRENT TAX

The current CIT payable is based on the estimated taxable profit for the current year. The taxable profit of the Company differs from the profit as reported in the separate income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are not taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted by the separate balance sheet date.

Reconciliation between CIT expense and the accounting profit multiplied by CIT rate is presented below:

Currency: VND

	Current year	Previous year
Accounting profit before tax	819,043,253,699	473,537,968,056
At CIT rate applicable to the Company	138,810,886,409	83,036,538,928
<b>Adjustment to increase:</b>		
Penalty for late payment	211,732,922	1,803,328,727
Non-deductible expenses	515,294,358	660,972,010
Unrealised foreign exchange loss for year-end revaluation of cash and account receivables	81,908,814	12,537,341
Adjustment for understated CIT in previous years	-	12,019,955,999
<b>Adjustments to decrease:</b>		
Reversal of unrealised foreign exchange rate of previous year in the current year	(11,576,386)	(71,032,175)
Tax exempted	-	(22,879,853,305)
<b>CIT expense</b>	<b>139,608,246,117</b>	<b>74,582,447,525</b>

### 25. SEGMENT INFORMATION

The primary segment reporting format is determined to be geographical segments as the Company's risks and rates of return are affected predominantly by differences in the locations where the Company sells its products.

The operating businesses are organised and managed separately according to the locations where the Company operates, with each segment representing a strategic business unit that offers different products.

#### 25.1. GEOGRAPHICAL SEGMENT

The current principal activities of the Company are to manufacture and distribute quartz-based compound stone related products. Information about revenue and assets of Company's geographical segment is presented below:

Currency: VND

	Domestic operating activities	Export activities	Total
<b>As at 31 December 2016 and for the year then ended</b>			
Revenue			
Sales to external customers	664,661,568,871	2,571,911,893,753	3,236,573,462,624
Inter-segment sales	-	-	-
Total revenue	664,661,568,871	2,571,911,893,753	3,236,573,462,624
Results			
Segment gross profit before tax	61,452,259,756	911,944,260,278	973,396,520,034
Unallocated cost of sale	-	-	(27,173,038,132)
Gross profit	-	-	1,000,569,558,166
Unallocated income, expense	-	-	(181,526,304,467)
Net profit before tax	-	-	819,043,253,699
Corporate income tax expense	-	-	(139,608,246,117)

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## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

### 25. SEGMENT INFORMATION (CONT)

	Domestic operating activities	Export activities	Total
Net profit for the year	-	-	679,435,007,582
Assets and liabilities			
Segment assets	49,240,242,967	635,814,292,666	685,054,535,633
Unallocated assets	-	-	2,633,229,573,630
Total assets	-	-	3,318,284,109,263
Unallocated liabilities	-	-	1,881,645,254,148
Total liabilities	-	-	1,881,645,254,148
Other segment information			
Capital expenditure of tangible fixed assets	-	-	18,700,022,729
Depreciation	-	-	67,588,776,716
<b>As at 31 December 2015 and for the year then ended</b>			
Revenue			
Sales to external customers	557,790,787,736	2,060,586,863,974	2,618,377,651,710
Inter-segment sales	-	-	-
Total revenue	557,790,787,736	2,060,586,863,974	2,618,377,651,710
Results			
Segment gross profit before tax	16,566,624,718	713,146,699,497	729,713,324,215
Unallocated cost of sale	-	-	(28,925,164,371)
Gross profit	-	-	758,638,488,586
Unallocated income, expense	-	-	(285,100,520,530)
Net profit before tax	-	-	473,537,968,056
Corporate income tax expense	-	-	(74,582,447,525)
Net profit for the year	-	-	398,955,520,531
Assets and liabilities			
Segment assets	3,933,128,894	471,752,444,228	475,685,573,122
Unallocated assets	-	-	2,290,560,675,435
Total assets	-	-	2,766,246,248,557
Unallocated liabilities	-	-	1,782,562,046,500
Total liabilities	-	-	1,782,562,046,500
Other segment information			
Capital expenditure of tangible fixed assets	-	-	10,264,683,486
Depreciation	-	-	68,702,778,929

Unallocated cost of goods sold mainly include reversal of provision for obsolete inventories and others cost of goods sold which cannot be allocated in geographical segment.

Income and expense except for cost of goods sold, assets except for trade receivables and provision for those trade receivables, and payables, are not allocated into geographical segment due to not being clearly identified for each segment.

### 26. TRANSACTIONS WITH RELATED PARTIES

Significant transactions with related parties during the year were as follows:

Currency: VND

Related parties	Relationship	Transactions	Current year	Previous year
Style Stone Joint Stock Company	Affiliate	Purchase of merchandise	799,836,029,300	741,037,034,238
		Sales of materials, consumables, finished goods	241,370,751,541	418,454,676,626
		Collection of short-term loan	-	297,923,811,796
		Loan interest receivables	-	8,379,774,789
Stylenquaza LLC.	Affiliate	Sales of finished goods, consumables	365,242,168,280	311,102,430,270
Vietnam Stone Work - Top Fabrication Joint Stock Company	Associate	Sales of finished goods, consumables	148,872,494,758	46,080,169,176
		Purchase of consumables, finished goods	126,384,696,319	73,278,721,626
		Processing fee for production	30,388,500	169,782,942
		Dividend received	3,271,680,000	-
		Car rental fee	15,500,000	-
		Factory rental fee	960,000,000	960,000,000
		Short-term loan receivables	-	5,000,000,000
		Lending principal received	-	5,000,000,000
Vico Quang Tri Mineral Joint Stock Company	Subsidiary (Up to 31 March 2016)	Transfer from loan receivable to investment in subsidiary	-	1,843,922,559
		Transfer from other receivables to investment in subsidiary	-	1,133,797,441
		Short-term loan receivables	148,932,000	756,240,000
A&A Green Phenix Joint Stock Company	Parent Company	Sales of material, consumables	257,351,324,796	92,943,524,705
		Purchase of merchandise	363,715,759,080	-
		Dividend payables	138,311,796,000	122,949,284,000
		Dividend paid by cash	199,786,438,000	122,949,284,000
		Dividend paid in shares	50,747,660,000	-
Sec G3 Center Joint Stock Company	Affiliate	Purchase of fixed assets	-	680,203,027
		Sales of goods	3,692,544,110	-
		Ground rental fee	667,967,400	-
Global Sitetech Design Consultant and Technology Joint Stock Company	Affiliate	Payment for service rendered	144,299,000	52,257,000
VPM Hanoi Project Management Consultancy Joint Stock Company	Affiliate	Construction cost	53,362,256,522	6,276,770,445



## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended )

### 26. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

#### Terms and conditions of transactions with related parties

The sales to and purchases of goods/services from related parties are made at the agreed price compared to other customers, which was approved by the Board of Directors. Loans to related parties bear interest rates as negotiated between the parties.

Outstanding balances as at the year-end are unsecured, interest free (except for short-term loan receivables) and will be settled in cash or offsetting account receivables and account payables. Receivables from related parties as disclosed in Note 5.1 have the payment terms from 3 to 12 months. For year ended 31 December 2016, the Company has not made any provision for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through the examination of the financial position of the related party and the market in which the related parties operate.

As at 31 December 2016, amounts due from and due to related parties were as follows:

Currency: VND

Related parties	Relationship	Transactions	Ending balance	Beginning balance
<b>Short-term trade receivables from related parties (Note 5.1)</b>				
Stylenquaza Co., LLC.	Affiliate	Receivables from sales of finished goods	238,555,698,877	177,376,415,410
Vietnam Stone Work - Top Fabrication Joint Stock Company	Associate	Receivables from sales of consumables, finished goods	36,102,683,362	-
			<b>274,658,382,239</b>	<b>177,376,415,410</b>
<b>Advances to related parties (Note 5.2)</b>				
VPM Hanoi Project Management Consultancy Joint Stock Company	Affiliate	Advance for construction work	3,835,458,643	4,975,431,960
Global Sitetech Design Consultant and Technology Joint Stock Company	Affiliate	Advances for services render	52,257,000	52,257,000
			<b>3,887,715,643</b>	<b>5,027,688,960</b>
<b>Other receivables from related parties</b>				
A&A Green Phenix Joint Stock Company	Parent company	Other receivables	-	34,745,439
VPM Project Management Consultancy Joint Stock Company	Affiliate	Interest receivables	-	206,666,666
			-	<b>241,412,105</b>
<b>Trade payables to related parties (Note 12)</b>				
Style Stone Joint Stock Company	Affiliate	Purchase of finished stone products	157,052,363,211	4,120,975,133
A&A Green Phenix Joint Stock Company	Parent company	Purchase of finished stone products	177,403,232,944	-
VPM Project Management Consultancy Joint Stock Company	Affiliate	Payables for construction work	17,775,815,779	31,740,638
Global Sitetech Design Consultant and Technology Joint Stock Company	Affiliate	Payables for designing consultant	97,899,089	-

(next page)

Related parties	Relationship	Transactions	Ending balance	Beginning balance
Sec G3 Center Joint Stock Company	Affiliate	Purchase of stationery, fixed assets	23,573,110	748,223,330
			<b>352,352,884,133</b>	<b>4,900,939,101</b>
<b>Other payables from related parties (Note 14)</b>				
A&A Green Phenix Joint Stock Company	Parent company	Dividend payables	-	61,474,642,000
			-	<b>61,474,642,000</b>

#### Transactions with other related parties

Remuneration to members of the Board of Directors and Management

Currency: VND

	Current year	Previous year
Salaries and bonus	10,486,535,567	9,872,928,169
<b>TOTAL</b>	<b>10,486,535,567</b>	<b>9,872,928,169</b>

### 27. COMMITMENTS AND CONTINGENCIES

#### Operating lease commitment

The Company leases land under operating lease arrangements. The minimum lease commitment as at the balance sheet dates under the operating lease agreement is as follows:

Currency: VND

	Ending balance	Beginning balance
Less than 1 year	226,210,950	226,210,950
From 1 – 5 years	904,843,800	904,843,800
More than 5 years	2,262,109,500	2,488,320,450
<b>TOTAL</b>	<b>3,393,164,250</b>	<b>3,619,375,200</b>

In addition, the Company also leases a 27,451 m2 land area at Plot 2A, Bac Phu Cat Industrial Zone under operating lease contract No. 10/VC/HĐKT-TLĐKCNBPC dated 30 May 2008 with the lease term of 48 years; 7 months and 19 days commencing from the contract date. The total fees of land rental and the usage of infrastructure on land are VND 14,686,208,747 (including 10% VAT) and management service charge of VND 3,500/m2/year. Up to 31 December 2016, the outstanding lease payment that the Company has to pay is VND 4,343,104,373 when the Company receives land handover (land with agreed infrastructure) as stipulated by this contract.

#### Litigation

In May 2013, the Company received a complaint from Cambria Co., Ltd. ("Cambria"), a company incorporated in the United States, that the Company had violated the intellectual property rights to the sales of certain of products in the U.S. market. This lawsuit has been handling by Minnesota District Court.

The Company has appointed Sapientia Law Group PLLC as its legal representative on this lawsuit. On 6 November 2013, the Minnesota District Court ordered the stay of litigation and the Company's Board of Directors assessed that there has not been pertinent evidence to recognize a provision of potential compensation expenses, if any, for this lawsuit as at 31 December 2016 and at the date of this separate financial statements.

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONT)

(as at 31 December 2016 and for the year then ended)

## 28. EVENTS AFTER THE BALANCE SHEET DATE

There is no matter or circumstance that has arisen since the balance sheet date that requires adjustment or disclosure in the separate financial statements of the Company.

Preparer



Nguyen Phuong Anh

16 February 2017

Chief Accountant



Nguyen Thi Nga

General Director



Pham Anh Tuan

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