

No: /BC-KTNB

Hai Phong, date month year

REPORT
OPERATION PERFORMANCE OF INTERNAL AUDIT DEPARTMENT
AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS 2021

Internal Audit Department (called “IA Department”) of Tien Phong Plastic Joint Stock Company would like to report to the General Meeting of Shareholders as follows:

I. IMPLEMENTATION OF INTERNAL AUDIT PLAN IN 2020

2020 marked a turning point in governance model of Tien Phong Plastic Joint Stock Company (“the Company”) in accordance with asymptotic model with advanced practice on the world. At this model, Internal Audit Department shall be a sub-committee under the Board of Directors (called “the BOD”), which performs the verification and review in order to guarantee the compliance of operational processes and gives independent and objectives recommendations for the BOD about arising matters in the course of operation.

To be approved by the General Meeting of Shareholders, Internal Audit Department has been established under Decision No. 39/HĐQT dated May 21, 2020 on the basis of personnel structure of Internal Control Department.

In 2020, Internal Audit Department formulated and proposed to the Board of Directors for promulgation of Internal Audit Regulation under Decree No. 05/2019/NĐ-CP dated 22/01/2019 issued by Government regarding internal audit.

During operational process in 2020, Internal Audit Department fulfilled the tasks as assigned by the BOD. In particular:

1. Results of audit periods whose reports had been released in 2020.

No.	Name of audit period	Month to be audited	Month of report release	Completion Percentage	
				% completion	Reasons for failure
1	To audit the operation of Central Tien Phong Plastic Co., Ltd	January/2020	February/2020	100%	

2	To audit the investment construction projects in	March/2020	April/2020	100%	
3	Post-audit at Finance and Accounting Department, Customer Service Department and Purchasing Department	May/2020	June/2020	100%	
4	To audit at Tien Phong Plastic South Joint Stock Company	July/2020	August/2020	100%	
5	To audit the operation of Human Resources and Strategies Department and Marketing Department	September/2020	October/2020	100%	

2. Recognition of crucial audited irregularities in 2020

Through verification, Internal Audit Department showed recommendations, consulted and coordinated with functional departments in order to enhance the efficiency of internal control system at audited departments.

Name of audit	Irregularities	Remedies	Implementation
To audit the operation of Central Tien Phong Plastic Co., Ltd (NTP Central)	- Correspondences of quality management system (guidance/process) have not been reviewed and updated periodically yet. Some regulations,	- Formulate and refine systematic correspondences	-Already promulgated new regulation on finance between Parent company and subsidiaries -Already promulgated inventory process - System management executive coordinated

	<p>processes has not been released in order for control and prevention of risks.</p> <p>- Regulations, calculating of salaries and bonus are inappropriate.</p>	<p>- Re-formulate labor norms; regulation on salary payment; formulate the system of key performance indicators in order to enhance human resources management.</p>	<p>with NTP Central to review and formulate/update new correspondences at the end of 2020.</p> <p>- Human Resources and Strategies Department coordinated with NTP Central to build labor norm and issue regulation on salary payment in Q4/2020.</p>
<p>To audit the investment in basic construction projects.</p>	<p>- Assess cash flow and possibility of capital-recovery of technology transfer projects between Japan and No. 2 An Da.</p> <p>-Dossiers of construction portfolio were stored insufficiently; not compliance with regulations on subcontractors selection.</p>	<p>- Propose to Top Executives to consider the feasibility prior to making a decision</p> <p>- Propose the compliance with documents/dossiers in basic construction</p> <p>- Formulate a Draft of Guidance Process of implementation of investment projects and building construction portfolio.</p>	<p>Complete the guidance process of implementation of investment projects and basic construction.</p> <p>Monitoring remedies/suitability/adequateness of documents to be audited by Internal Audit Department at following audit period</p>
<p>Post-audit at departments (Finance and Accounting Department, Customer Service Department, Purchasing Department)</p>	<p>Records relating to welding machines management in 2019 have not been settled completely.</p> <p>Besides, there were issues relating to terms and conditions of contracts</p>	<p>Give recommendations on process of welding machines management in details in order to limit the loss of assets.</p>	<p>Continuously keep track of shortcomings in 2020</p>
<p>To audit at Tien Phong Plastic South Joint Stock Company (“TPN”)</p>	<p>-Some products whose gross profit are negative due to high discount for construction.</p>	<p>- Propose to Finance and Accounting Department to work with sales department in order to set up breakeven point according to production model for each product.</p> <p>As such, consult Top</p>	<p>Monitoring remedies/implementation of suitability/adequateness of documents would be audited by Internal Audit Department at following audit period</p>

	<p>- The Company did not appropriate for a provision of doubtful debts as regulated, which affected profit before tax</p>	<p>Executives regarding application of appropriate discount.</p> <p>- As for debts to be made for a provision, TPN continuously reminds and urges customers in debt-recovery, especially customers with large debt in the process of being made a provision</p>	
<p>Audit at Human Resources and Strategies Department and Marketing Department</p>	<p>- Management of gifts/parcels at departments have not been controlled rigorously yet: did not show inventory report at examination time; did not perform annual inventory</p> <p>- Assessment of job performance is not effective</p>	<p>Marketing Department needs to control inventory of gifts/parcels closely. Simultaneously, Marketing Departments needs to plan and organize the annual inventory in order to make a plan next year.</p> <p>- Human Resources and Strategies Department coordinated with departments to review the whole measurement of KPI library and standardizes them. At the same time, it should release a guidance/regulation clearly on recording reference information when assess KPI in order to reflect accurate results of employees. This is also a basis of re-assessment of related departments.</p>	<p>Monitoring remedies/implementation of suitability/adequateness of documents would be audited by Internal Audit Department at following audit period.</p>

3. Issues relating to risk management

At the end of 2020, Internal Audit Department analysed and assessed some major risks that may affect the Company's operation based on summary of risks identified by departments. Internal Audit Department determined some major risks which may affect internal control significantly, risk management and corporate governance:

- Risks of prestige, trademark
- Risks of raw material prices
- Risk of new product development
- Risks of doubtful debts
- Risks of investments
- Others

Based on analysis and assessment of risks, Internal Audit Department took actions, remedies/preventions as prescribed on Analysis Report.

4. Other tasks.

Based on tasks as assigned by the BOD, Human Resources and Strategies Department is in charge of building labor norms. In 2020, Internal Audit Department involved in the formulation of labor norms at PVC factory, mechanical factory and reviewed labor norms at PE-PP factory which was released in 2019. Accordingly, labor norm at PVC factory has been released in 2020. However, norm of waste treatment between PE-PP factory and PVC factory, and norm of pipe slotting at PVC factory have been in progress.

II. OTHER OVERSIGHT ACTIVITIES

1. BUSINESS AND FINANCE ACTIVITIES

Consolidated financial statements of the Company was audited by KPMG Co., Ltd with the wholly accepted opinions.

Based on audited financial statements, 2020 performance of the Company has been shown as below:

Indicator	2020 Plan	2020 Actual	Completion Percentage
Total revenue	5,100	4,646	91%
Profit before tax	470	523	111%

2020 revenue of the Company reached only 91% of Plan as set out at the Annual General Meeting of Shareholders 2020. The reasons are due to negative impacts of Covid-19 pandemic on business activities, fiercer competition among rivals, fluctuation in personnel of sales department. However, 2020 profit increased by 11% compared to 2019. Although sales encountered difficulties, profit higher than plan is due to the Company reserved raw materials at lowest price. This showed a ratio of cost of goods sold to revenue in 2020 down to 67% (this ratio in 2019 is 69%). In addition, due to efficiency of cost control, ratio of enterprise administration cost/revenue in 2020 compared to 2019 decreased from 5% to 3%.

As for receivables, compared to balance as of 31/12/2019, balance as of 31/12/2020 decreased by 6.7% (equivalent to a decrease of VND 57.5 billion). Total receivables changed slightly. However, there is a big transition to balance of debts of each customer. In particular, most of product distribution centers all declined their debts compared to

2019, in which Minh Hai Co., Ltd is an entity with the biggest plunge in debts in 2020 due to its stopped transaction, only debt-recovery. However, there is a sudden increase in debt balance from Tien Phong Plastic South Joint Stock Company (“TPN South”). As of 31/12/2020, debt balance increased by 213% (equivalent to an increase of VND 229.8 billion) compared to 31/12/2019.

As of 31/12/2020, balance of provision for bad debts is VND 80.1 billion (up 78.8 billion VND compared to 31/12/2019), in which provision for bad debts of Minh Hai Co., Ltd is 77.8 billion VND. Overdue debts is mainly originated from constructions/projects due to deferred disbursement and settlement.

Days of sales outstanding in 2020 decreased compared to 2019 (from 90 days to 70 days) presents a great effort of the Company in debt-recovery.

The Company limits its loans, converting into self-sponsor. This illustrates a ratio of debts to total assets decreasing from 44% as of 31/12/2019 to 34% as of 31/12/2020 as well as a decrease of 42% of interests expenses compared to last year.

Both ROA and ROE in 2020 increased compared to 2019, which showed an improvement in using owner equity and the Company’s asset in order to produce profit for shareholders.

Recommendations for the BOD and BOM:

- As for bad debts which has been made a provision for Minh Hai product distribution center, the BOM has been instructing related departments to work with Minh Hai Co., Ltd in urging and recovering debts.
- In order to control debts, when extending for construction projects, the Company not only reviews carefully and makes a flexible decision upon practical circumstances, but also take into account in order to give a maximum deadline of deferred payment.
- As for Tien Phong Plastic South, the BOM reviews and instructs related departments to coordinated with Tien Phong Plastic South in order to give a deadline of debt settlement between two parties, ensuring the Company’s interests.
- Currently, prices of raw materials fluctuates significantly, which may affect the fulfillment of profit plan 2021. The Company needs to update the ongoing movement of crude oil and compound prices in order to make a reservation plan, meeting production-business tasks.

2. Oversight results to the BOD, BOM.

2.1 Operation of the BOD

In 2020, the BOD already issued Resolutions and Decisions in order to implement the plans as approved by the Annual General Meeting of Shareholders; hold period and extraordinary meetings with the Board of Management in order to listen reports, address arising matters in time; oversee, direct General Director and Board of Management in running daily production-business activities, give directions as well as settle proposal and requirements in time; Decide on governance model of the Company, aiming to bring

efficiency in administration; decide on plan, investment projects and new product development.

Resolutions and Decisions of the BOD have been issued in compliance with competence, orders and procedures of Law on Enterprises and the Company's Charter, which are suitable with practical business, meet governance requirements, business development demand as well as development strategies.

Other contents depending on responsibilities and competence of the BOD in terms of governance, risk management, compliance, audit, strategic oversight have been implemented professionally.

With activities mentioned above, the BOD contributed to fruitful performance regardless of a challenged year, such as: epidemic, movement of raw material prices and severe competition among rivals in the market.

2.2 Operation of the Board of Management

The Board of Management actively deployed their duties, tasks as assigned in accordance with Resolution of the General Meeting of Shareholders and the Board of Directors.

The Board of Management took timely solutions in order to address difficulties in running and managing, aiming to rise the efficiency in production-business activities, including solutions in terms of market, products, cost-savings, production rationalization, management enhancement, guarantee of employees' interests.

3. Assessment of the coordination between Internal Audit Department and the Board of Directors, General Director and shareholders.

The BOD, the Board of Management provided timely information, documents on operation and business management of the Company as requested by Internal Audit, supported and created favorable conditions so that Internal Audit Department performed their functions. Opinions, recommendations of Internal Audit Department has been accepted by the BOD and BOM in order for give timely instructions to be disseminated to departments.

4. Assessment of transactions between the Company and stakeholders.

4.1. As for transactions among the Company, subsidiaries, entities whose over 50% of charter capital have been hold by public companies with members of the BOD, General Director (Directors), other executives of entities and their related persons
In 2020, the Company had already announced on stock trading of the BOD members, General Director, other executives of the Company and their related persons to functional authorities prior to at least 03 working days when performing the transactions in accordance with prevailing regulations.

4.2. As for transactions between the Company and entities whose members of the BOD, General Director (Directors), other executives of entities are founders or managers of such entities within the last 03 years prior to time of transaction.

Transactions between the Company and their related entities in 2020 shall be presented in details at Notes no. 35 – main transactions with stakeholders in financial statements of the Company.

These transactions had been reviewed by the BOD under Decision No. 76/QĐ-HĐQT dated August 18th, 2016 on approval of principal contracts of entities mentioned above. According to this decision, the Company's Board of Management has been assigned to perform sales contracts with related entities above; annually, when fiscal year ended, the Board of Management is responsible for reporting to the BOD regarding the performance of sales contracts with these entities.

III. 2021 OPERATION PLAN

Upon overall objectives of the Company and analysed risks in risks management report 2020, Internal Audit Department prepared and proposed to the BOD for an approvals of audit plan in 2021. Based on approved audit plan, 2021 operation objectives of Internal Audit Department has been set out as below:

- Ensure to fulfill 100% of audit plan as approved by the BOD.
- Finalize internal audit process
- Continue to innovate audit methodology, strength the application of technology solutions in order to enhance labor productivity.
- Map a program out to ensure and raise quality of internal audit activities.

Above is a report of Internal Audit Department, kindly propose to the Annual General Meeting of Shareholders for approval.

Recipients

- Shareholders
- Board of Directors
- Archive on IA Dept.

**HEAD OF INTERNAL AUDIT
DEPARTMENT**

ĐÀO ANH THẮNG