THE SOCIALIST REPUBLIC OF VIETNAM
Independence – Freedom – Happiness

No: 2908/19/CV-HAGL
(Re: Explanation for the interim separate financial statements reviewed for 2019)

Gia Lai, August 29, 2019

To: - **The State Securities Commission**
- **Ho Chi Minh Stock Exchange**

Hoang Anh Gia Lai Joint Stock Company ("**the Company**") and subsidiaries ("**the Group**") (stock code: HAG) would like to give the explanation for losses, fluctuations in business results and audit reports on the interim separate financial statements reviewed for 2019 as follows:

I. Explanation for interim losses in 2019

Loss before tax of the Group was VND 278,765,128 thousand, including business losses of VND 402,003,358 thousand and other profits of VND 124,107,730 thousand. The main constituting elements are:

1. Loss from business operations

	'VND000
Gross profit	3,978,809
Financial income	580,153,236
Financial expenses	(538,896,315)
Selling expenses	(2,571,439)
General and administrative expenses	(444,667,649)
Operating loss	(402,003,358)

The main reasons for those losses lay in provision for receivables from Hoang Anh Gia Lai – Kontum Mineral One Member Co., Ltd and Hoang Anh Gia Lai Sports JSC.

2. Other profits

It is primarily because of the Company's reversal of provision.

II. Explanation for fluctuations in business results

VND'000

Item	Interim separate financial statements for 2019	Interim separate financial statements for 2018	Difference
Profit after corporate income tax	(278,765,128)	41,696,119	(320,461,247)

The main reason for the difference is presented as follows:

- Financial income decreased by VND 206 billion because of decreased dividend from subsidiaries.
- Financial expenses decreased by VND 95 billion due to a decrease in loan interest and provision for investment in subsidiaries.
- General and administration increased by VND 326 billion because of the Company's provision for receivables from its subsidiaries.
- Other income increased by VND 145 billion primarily because of the reversal of provision for corporate income tax related to Decree 20/2017/NĐ-CP appropriated and recorded in the Separate Financial Statements audited for 2017, and 2018.
- Other expenses increased by VND 19 billion because of the Company's penalties incurred in the period.

III. Qualifed opinion

In the interim review report for 2019, auditors issued a qualified opinion on assessing the recoverability of the total outstanding short-term and long-term receivables with the amount of VND 2,162,148,086 thousand. It is primarily because these related parties are operating a variety of business projects such as real estate, farming, and livestock with diverse assets, in which many projects are still under construction, generating no profits and surplus cash flow, it is difficult, therefore, to determine asset values and cash flow for Group's debt repayment. We believe that once these business projects of such related parties come into commercial operation and become profitable, it would be easier to assess the recoverability, and auditors would have adequate information to give an unqualified opinion.

In addition, the auditors gave a qualified opinion on the recognition of another income from the reversal of provisions related to corporate income tax ("CIT") appropriated in the separate financial statements of the previous years and accumulated until December 31, 2018 with a total amount of VND 142,895,860 thousand relating to Decree 20/2017/NĐ-CP ("Decree 20"). The Decree regulates tax administration regarding businesses having related transactions, and was issued by the Government on February 24, 2017, and came into effect from May 1, 2017. At the same time, as at the date of these interim separate financial statements ended June 30, 2019, the Group's Board of Directors also decided not to record any additional provision related to estimated tax expenses of VND 95,531,795 thousand according to Decree 20.

According to the assessment of the Board of Directors, provisions in Article 8.3 of Decree 20 are still unreasonable and open to different interpretation, making it difficult to be applied in practice and not in line with the nature of the decree, which is anti-transfer-pricing. The Board of Directors are still discussing and proposing to the State Audit, the General Department of Taxation, the Ministry of Finance and the Government Office consideration of some adjustments or changes of Decree 20, with details of the working process of the Board of Directors with State agencies summarized as follows:

- On December 11, 2017, the Company sent Letter No.115/2017/CV-HAG to the Office of Government, the Ministry of Finance, the General Department of Taxation and the Tax Department of Gia Lai Province regarding some of the Company's enquiries about the determination of the total interest expenses incurred during the period deducted when it was determined that taxable income would not exceed 20% of the total net profit from operating activities plus interest expenses and depreciation expenses in the period;

- On December 28, 2018, according to the Minutes regarding the handling of audit results of the State Audit Office of Region XII at the Tax Department of Gia Lai province, the State Audit Office proposed an increase in the collection of corporate income tax and penalty on the Company based on the re-calculation of CIT-taxable income under the guidance of Decree 20 with the amount of VND 106,470,415 thousand. The company also proposed to the Tax Department of Gia Lai Province and the State Audit Office of Region XII reconsideration and exemption from retrospective collection of the above-mentioned CIT;

- On March 29, 2019, in Official Letter No. 76/KV XII-TH in response to Official Letter No. 2812/18/CV-HAGL of the Company on December 28, 2018, the State Audit Office expresses its views of the calculation of the CIT as under the guidance of Decree 20 regarding the interest rate deducted, and suggested the Group make proposal to the Ministry of Finance and the Government for consideration;

- On June 17, 2019, in Official Letter No. 17062019/CV-HAGL, the Group sent a proposal to the Government, the Ministry of Finance to review the unreasonable provisions in Clause 3, Article 8 of Decree 20; and

- On August 1, 2019, according to Official Letter No. 3003/TCT-DNL of the General Department of Taxation in reponse to the Official Letter No. 17062019/CV-HAGL dated June 17, 2019 of the Company, the General Department of Taxation responded that it received the Company's proposal related to the deductible interest expenses limit in the determination of CIT-liable income in accordance with Decree 20; and the General Department of Taxation also studied and summarized to consult the Ministry of Finance to report to the Prime Minister for consideration and direction. At the same time, the General Department of Taxation would continue to study the Company's proposals to submit to the Ministry of Finance for submission to the Government for promulgation of a Decree replacing Decree 20 together with a number of guiding documents for the implementation of the Law on Tax Administration No. 38/2019/QH14 which will have come into force since July 1, 2020.

On the date of preparing for the reviewed interim separate financial statements 2019, Decree 20 was still not amended or replaced; and the Board of Directors of the Group have been working with State agencies on this issue. However, based on existing information on the Government's directions and via mass media, the Group strongly believes that Decree 20 would be amended in time.

Above is the Company's explanation for the review of separate financial statements for 2019.

Yours faithfully,

GENERAL DIRECTOR

M.S.D.N: 5900377720 - C.T.C.P
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To:
- As above;
- Filed at Filing - Planning and Investment Department