HAGL Group

THE SOCIALIST REPUBLIC OF VIETNAM
Independence – Freedom – Happiness

No*:* 2908-1/19/CV-HAGL
(Re: Explanation for the interim consolidated 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 consolidated financial statements reviewed for 2019 as follows:

I. Explanation for interim losses in 2019

Loss before tax of the Group was VND 683,653,597 thousand, including business losses of VND 594,450,886 thousand and other losses of VND 89,202,711 thousand. The main constituting elements are:

1. Loss from business operations

	'VND000
Gross profit	236,614,951
Financial income	376,956,047
Financial expenses	(741,416,979)
Selling expenses	(141,234,330)
General and administrative expenses	(360,810,462)
Profits in associates and joint ventures	35,439,887
Operating loss	(594,450,886)

The main reasons for those losses lay in decreased revenue revenues from the sale of goods, high interest expenses, increased allocation of goodwill and transportation costs in the period.

2. Other losses

It is primarily because of the Group's re-evaluation of ineffective assets, and adjustments in the costs of converting plantations.

II. Explanation for fluctuations in business results

VND'000

Item	Interim consolidated financial statements for 2019	Interim consolidated financial statements for 2018	Difference
Profit after corporate income tax	(706,096,558)	100,224,989	(806,321,547)

The main reason for the difference is presented as follows:

- Gross profit decreased by VND 1,191,677,599 thousand because during the period, the Group actively shifted from planting short-day plants to long-day plants and regulated crops, leading to decreased revenues from the sale of chili, passion fruit and fruits. At the same time, the Group no longer consolidates revenue from the provision of rental services and other services from the Hoang Anh Gia Lai - Myanmar Complex.

- Financial income decreased by VND 59,238,278 thousand because in the first 6 months of 2018, the Group had profit from disposal of investments in Gia Lai Livestock Joint Stock Company and HeyGo Food Joint Stock Company. This interest was not generated in the same period of 2019.

- Financial expenses decreased by VND 182,276,792 thousand due to a decrease in debt.
- Selling expenses and administrative expenses decreased by VND 82,819,509 thousand mainly due to the Group's 2018 interim provision of some expenses related to business activities. This expense did not arise in the interim 2019.
- Other income increased by VND 356,385,444 thousand primarily because of reversal of provision for corporate income tax related to Decree 20/2017/NĐ-CP appropriated and recorded in the Consolidated Financial Statements audited for 2017, and 2018.
- Other expenses increased by VND 229,536,984 thousand primarily because during the period, the Group assessed non-performing assets and adjusted the cost of converting fruit plantations. Meanwhile, these expenses incurred in the same period of 2018 were smaller.

III. Qualifed opnion

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 2,548,723,591 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 consolidated financial statements of the previous years and accumulated until December 31, 2018 with a total amount of VND 335,292,885 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 consolidated 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 155,363,122 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 consolidated 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.

IV. Emphasis of matter

The auditor emphasizes the Croup was in violation of bond and loan covenants as mentioned in Notes 24.2,24.3 and 24.4 to the interim consolidated financial statements 2019.

At the time of preparing for the reviewed interim consolidated financial statements for 2019, the Group was still working with banks on adjusting the violated terms of the loan contracts. Besides, with the income from disposal of investments in subsidiaries, the Group will actively pay down debts and reallocate assets to guarantee loans.

Above is the Company’s explanation for the review of consolidated financial statements for 2019.

Yours faithfully,

GENERAL DIRECTOR

M.S.D.N: 5900377720-C.T.C.P
CÔNG TY
CỔ PHẦN
HOÀNG ANH
GIA LAI
T.P. PLEIKU-T. GIA LAI

VO TRUONG SON

To:
- As above;
- Filed at Filing - Planning and Investment Department