

THE SOCIALIST REPUBLIC OF VIETNAM
Independence – Freedom – Happiness



No. 3003-1/19/CV- HAGL

Gia Lai, 30 March 2019

(Explanation for
the audited consolidated
financial statements for 2018)

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

Hoang Anh Gia Lai Joint Stock Company (“**the Company**”), and the subsidiaries (“**the Group**”) (stock code: HAG), would like to explain the audited consolidated financial statements for 2018 as follows:

I. Explanation for the audited consolidated financial statements for 2018 compared with 2017:

VND'000

Item	Audited CFS 2018	Audited CFS 2017	Difference
Profit after corporate income tax	6,244,405	371,607,315	(365,362,910)

The reason of the difference is primarily as follows:

- Profit increased by VND 643,163,097 thousand because during the period the Group incurred revenues from sales of chilli and fruit considerably increased against the previous year.
- Financial income decreased by VND 261,117,269 thousand due to the Group’s recognition of profit from disposal of investments, which decreased in 2018
- Financial expenses increased by VND 23,751,726 thousand mainly because an increase in exchange rate resulted in foreign exchange loss
- Selling expense and general and administrative expenses increased by VND 330,310,853 thousand because in 2018 transportation expense increased, thus improving good will due to acquisition of Dai Thang Agriculture Development Ltd., and during the period the Group accrued a number of expenses related to manufacturing activities.
- Other income decreased by VND 245,656,320 thousand mainly because in 2017 the Group recorded proceeds from disposal of assets and others from output sales tax exemption certified from sales of products from agricultural and industrial trees. This income was not generated in 2018
- Other expenses increased by VND 248,049,385 thousand mainly because in 2018 the Group conducted assessment of non-performing assets and adjusted investment expenses in oil palm plantation to fruit plantation. This expense incurred less than that in 2017

II. Qualified opinion

Auditor gives qualified opinion on assessment of collectability of all the receivables of VND 2,593,250,868 thousand from related parties mainly because these parties are operating a wide variety of such projects as real estate, cultivation, livestock with a quantity of varied assets, many of which are in construction stage, thus generating no revenue and surplus cash flow, making it

difficult to measure the asset value and cash flow for the Group's loan repayment. We believe that when these related parties' projects come into commercial operation and generate revenue, determination of collectability of the receivables would be easier and auditors would have adequate information to give unqualified opinion.

IV. Emphasis of matter

In the audited financial statements, the auditor emphasized a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, based on the Group's short-term liabilities exceeding current assets by VND 6,568,828,675 thousand was also in violation of certain bond covenants as mentioned in Notes 24.2, 24.3, and 24.4 to the audited consolidated financial statements. The Group would like to explain this matter as follows

- The accumulated loss resulted from the Group's equity transactions inside Group with non-controlling interests directly affected undistributed earnings in accordance with Circular No 202/2014/TT-BTC dated 22/12/2014. Details are as follows:
 - + On 9 March 2018, Hoang Anh Gia Lai Agricultural Joint Stock Company (HNG), the Company's subsidiary, completed the issuance of 119,700,000 shares to non-controlling interest. The difference between the carrying value of equity interest in HNG before and after the issuance of shares above was VND 268,662,871 thousand, which was accounted as decreased undistributed profit after tax in the consolidated financial statements.
 - + On 16 March 2018, the Group acquired 76,930,000 shares of Hung Thang Loi Gia Lai (holding 98% ownership) which holds 5.64% of HNG interest. The difference between the cost of additional investment and the carrying value of equity interest of the Group in HNG on the transaction date was VND 157,001,821 thousand recorded as increased undistributed profit after tax in the consolidated financial statements.
 - + On 31 March 2018, the Group acquired 6,000,000 shares of Gia Lai Livestock Agricultural Joint Stock Company. The difference between the cost of additional investment and the carrying value of equity interest of the Group in ADM on the transaction date was VND 169,104,526 thousand recorded as decreased undistributed profit after tax in the consolidated financial statements.
 - + On 19 September 2018, the Group acquired 24,000,000 shares of Hiang Anh Housing Development Joint Stock Company, the group's associate. The difference between the cost of additional investment and the carrying value of equity interest of the Group in ADM on the transaction date was VND 207,238,425 thousand recorded as decreased undistributed profit after tax in the consolidated financial statements.
- Of VND 6,568,828,675 thousand difference in the Group's current liabilities exceeding its current assets, VND 2,217,100,00 thousand was convertible bonds. According to the Comprehensive Cooperation and Investment Agreement. Thaco, the bondholder committed to conversion of this bond into equity on the maturity date 3 August 2018.
- The remaining amount will be provided from manufacturing activities. Details are as follows:
 - + Fruit: in 2018 revenue from fruits and chili reached VND 3,411,226,840 thousand. The Group keeps intensifying exploitation of crops that reach maturity, bringing in substantial revenue like dragon fruit, banana. In the coming years, such crops of high economic value as

mango, avocado, durian, and jack fruit, etc. when mature are expected to yield considerably increased revenue.

+ Rubber: Nursing is maintained pending prices rebound. As at 31 December 2018, the Group had planted 47,228 ha of which 20,942 ha was harvested. In the coming years, mature rubber crop promises a bumper and bumper harvest, then the Group can earn a large revenue from this business sector. Another income from rubber logwood is also very promising.

- The Group was in violation of certain bond and loan covenants with several banks: Vietnam Prosperity Joint Stock Commercial Bank, Joint Stock Commercial Bank For Investment And Development Of Vietnam – Gia Lai branch, Saigon Thuong Tin Commercial Joint Stock Bank – Gia Lai branch and Binh Dinh branch, Ho Chi Minh City Development Joint Stock Commercial Bank – Gia Lai branch, Laos Viet Joint Venture Bank – Attapeu branch, etc. At the date of preparing the consolidated financial statements 2018, some of them affirm no collection of violated loans, and the Group is on progress of negotiating the others on adjustment of violated loan and secured covenants

Besides, on 3 August 2018, Truong Hai Automobile Joint Stock Company (THACO) entered into a strategic cooperation agreement with the Company making investments in agribusiness and property whereby THACO is committed to restructuring the loans (around VND 14,000 thousand); mobilizing investment capital in the existing fruit plantation; developing and expanding fruit growing area (expected to increase the fruit growing area to 30,000 ha in 2019 and 2020 of banana, dragon fruit, pomelo, etc.); growing 5,000 ha of medicinal plants for extraction and processing providing supply of materials to pharmaceutical companies, producing functional food and beverage; and proceeding with Phase 2 of Myanmar project.

In addition, on 24 March 2019, THACO and the Group signed an annex to the Investment and Comprehensive Cooperation Agreement, whereby THACO retains cooperation with the Group in agribusiness, expansion of fruit growing area. The two parties also foster collaboration in fruit processing for export, offering great potential for revenue to the Group.

The Company experienced no other significant fluctuation.

Above is the Company's explanation for 2018 audited consolidated financial statements.

Yours faithfully,

HOANG ANH GIA LAI JOINT STOCK COMPANY
GENERAL DIRECTOR

Recipients:

- As above;
- Archives at Filing - Planning and Investment.

VO TRUONG SON