**HGM: Explanation for the audit’s exception in the FS 2015**

On 21/03/2016, Ha Giang Mineral and Mechanics Joint Stock Company explained the audit’s exception in FS 2015 as follows:

**I. According to the audit’s report No. 478/VN1A-HD-BC, Vietnam Deloitte CO., Ltd. expressed several audit’s exception as follows:**

1. As mentioned at Note No. 06 of the Note for Financial Statement, the Company was recording the investment at Cao Bang Steel Joint Stock Company according to historical cost on the Balance Sheet as at 31/12/2015 with total amount of VND 69,469,880,000. We cannot gather enough proves for the value of this investment as at 31/12/2015 because we did not gather the financial statement of 2015 of Cao Bang Steel Joint Stock Company. Therefore, we cannot identify if it is necessary to adjust this investment.

2. As mentioned at Note No. 17 of the Note for Financial Statement, the Company has obligation to contribute with local agents to invest and construct the infrastructure of welfare constructions. Based on the Dispatch No. 109/BC-CT issued on 26/06/2014 by Taxation Department of Ha GIang Provinces, the Company did not extract for this expense in 2015 with total amount of VND 7,560,000,000. By far, Ha Giang People’s Committee have not announced the decision on stopping collecting this contribution. If the Company recorded fully this contribution in 2015, the total profit before tax would decrease by VND 7,560,000,000 and the short-term payables on the balance sheet as at 31/12/2015 would increase by a corresponding amount.

**II. Explanation:**

**1. Audit’s exception No. 01:**

Cao Bang Steel Joint Stock Company is the Company under Vietnam Coal and Mineral Group and this Company is investing in a project at Na Rua Iron Mine – Cao Bang. In 2015, this Company was in the time of installing and testing equipment. During this time, this Company did not have any profit. The investment of the Company in this Company is long-term investment. Therefore, we believe that when the project is completed, the Company will offset the expense.

Additionally, as at the time of auditing, the Company did not receive the financial statement of Cao Bang Steel Joint Stock Company. The Company will assess the decline in value of this investment as soon as possible when the Company receives the audited financial statement of Cao Bang Steel Joint Stock Company.

**2. Audit’s exception No. 02.**

Based on the Mineral Law No. 60/2010/QH12 and Decision No. 2621/2012/QD-UBND issued on 03/12/2012 by People’s Committee of Ha GIang Province, the Company must contribute with local agents to invest and construct the infrastructure of welfare constructions with total amount of VND 7,560,000,000. The Company had extracted and recorded into payables until 31/12/2014 with total amount of VND 15,750,000,000.

However, when the Company implemented the decisions above, there were difficulties and arising problems. Therefore, on 11/06/2014, People’s Committee of Ha Giang Province issued Dispatch No. 1726/UBND – KT. According to that, the Taxation Department of Ha GIang Province with other agents to discuss this contribution. On 26/06/2014, Taxation Department of Ha Giang and other agents had a report No. 109/BC-CT that requested People’s Committee of Ha GIang Province on stopping collecting this contribution (Decision No. 2621/2012/QD-UBND)

Therefore, the Company did not extract for this expense in 2015 with total amount of VND 7,560,000,000. Board of Managers of the Company believed that not extracting for this expense in 2015 were reasonable and the expense extracted until 31/12/2014 with total amount of VND 15,750,000,000 was enough to offset this expense.