**VEA: Explanation on the Audited Financial Statements 2023**

On March 29, 2024, Vietnam Engine and Agricultural Machinery Corporation announced Official Dispatch No. 181/VEAM-TCKT on the explanation of audit opinions and profit after tax fluctuations on the Audited Financial Statements 2023 as follows:

1. Explanation on the auditor's opinions
2. Separate Financial Statements

“As of December 31, 2023, the Corporation has not assessed the net realizable value of outstanding, slow-moving inventory of VND 72,390,660,183 (appropriation value as of January 1, 2023 is VND 214,484,005 out of the total outstanding, slow-moving inventory of VND 93,983,707,857)..."

For some inventory items that have been backlogged for many years (when the Corporation was a limited company) and is slow-moving, at the time of reporting, Vietnam Engine and Agricultural Machinery Corporation has not completed the market survey of similar products to obtain the basis for assessing the net realizable value of the backlog inventory.

“The Corporation has not assessed the possibility of decline in the value of its investment in its subsidiary - Material And Complete Equipment Export-Import Corporation (“Matexim”) according to the qualified opinion in the Auditor's Report on Matexim's Financial Statements 2023, which includes the interest expenses, depreciation, and land rent of the Sponge Iron Factory which stopped operations from 2015 and Bac Kan Branch which is being reflected in the prepaid expenses and unfinished business expenses with a value of VND 453,134,333,347. ”

Long-term prepaid expenses at Material and Complete Equipment Export-Import Corporation are mainly depreciation expense of fixed assets, interest expense and some other costs of the Sponge Iron Factory arising from the previous years. Currently, the Sponge Iron Factory is facing difficulties and has to stop production, so the related cost items have not been assessed yet. Material and Complete Equipment Export-Import Corporation is considering restructuring output products. The plan to increase capital at Complete Equipment Export-Import Corporation is carried out step by step in accordance with the law and ensures the highest benefits for Vietnam Engine and Agricultural Machinery Corporation.

" The Corporation has not assessed the possibility of a decline in the value of its investment in its subsidiary - Tran Hung Dao Mechanical Company Limited ("VEAMTHD") according to the qualified opinion in the Auditor’s Report on VEAMTHD's Financial Statements 2023, which includes the overdue receivables for which no provisions have been made with a value of VND 43,559,719,374, outstanding inventory with a value of VND 10 billion (mainly inventories arising from before the Holding Company’s equitization). The Corporation has not yet determined their net realizable value and considered making provisions. ”

Tran Hung Dao Mechanical Company Limited has sent receivable reconciliation to all customers, however, some customers have not responded and customers are still making payments, so there is not enough basis to make provision. Tran Hung Dao Mechanical Company Limited has established a Debt Collection Committee and actively implemented debt collection. Tran Hung Dao Mechanical Company Limited is researching similar products in the market to determine the net realizable value of inventories as a basis for making provision.

1. Consolidated Financial Statements

“As of December 31, 2023, the Corporation has not assessed the possibility of recovery for overdue receivables with a value of VND 44,173,318,013, as of January 1, 2023, it was VND 166,081,816,385 (including receivables of principal and interest on capital support of VND 121,192,143,608)... ”

The above receivables arise from Tran Hung Dao Mechanical Company Limited and the Institute of Technology. The units have sent receivables reconciliation to all customers, however, some customers have not responded and customers are still making payments, so there is not enough basis to make provisions. The units have established a Debt Collection Committee and actively implemented debt collection.

“On December 31, 2023, the Corporation made a provision for devaluation of inventory of VND 739,372,385 out of the total value of outstanding, slow-moving inventory of VND 106,818,758,390 (The value appropriated as of January 1, 2023 is VND 1,007,856,390 out of the total value of outstanding, slow-moving inventory of VND 123,814,327,969)... ”

For some items with backlogged inventory from many years ago (limited company period) and is slow-moving at the Holding Company and Subsidiaries, at the time of making the report, the units had not completed a market survey of products of the same type to have a basis for assessing the net realizable value of the outstanding goods.

“As of December 31, 2023, a number of expenses are suspended pending processing with a value of VND 456,927,529,750 (including: Interest expenses, depreciation, land rent of the Sponge Iron Factory that stopped operating since 2015 and the Bac Kan Branch of Material And Complete Equipment Export-Import Corporation ("Matexim") of VND 453,134,333,347) that are reflected in prepaid expenses and production and business expenses in progress... ”

Long-term prepaid expenses at Material and Complete Equipment Export-Import Corporation are mainly depreciation expense of fixed assets, interest expense and some other costs of the Sponge Iron Factory arising from the previous years. Currently, the Sponge Iron Factory is facing difficulties and has to stop production, so the related cost items have not been assessed yet. Material and Complete Equipment Export-Import Corporation is considering restructuring output products. The plan to increase capital at Complete Equipment Export-Import Corporation is carried out step by step in accordance with the law and ensures the highest benefits for Vietnam Engine and Agricultural Machinery Corporation.

1. Explanation on the fluctuation in profit after tax
2. Separate Financial Statements

Profit after tax in 2023 in the Audited Separate Financial Statements (Holding Company) changes as follows:

Table 1: Difference in the production and business activities results of the Holding Company in 2023

|  |  |  |  |
| --- | --- | --- | --- |
| Targets | In 2023 | In 2022 | Difference |
| (VND) | (VND) | Value (VND) | Rate (%) |
| Net revenue from goods sales and service provision | 318,486,100,510 | 533,178,199,478 | (214,692,098,968) | -40% |
| Cost of goods sold | 431,133,154,018 | 495,774,401,813 | (64,641,247,795) | -13% |
| Gross profit from goods sales and service provision | (112,647,053,508) | 37,403,797,665 | (150,050,851,173) | -401% |
| Revenue from financial activities | 7,940,178,190,700 | 5,918,037,483,862 | 2,022,140,706,838 | 34% |
| Financial expense | 52,022,398,478 | 7,331,509,300 | 44,690,889,178 | 610% |
| Selling expense | 22,231,365,193 | 27,242,351,489 | (5,010,986,296) | -18% |
| General and administrative expenses | 776,592,830,937 | 165,250,801,414 | 611,342,029,523 | 370% |
| Profit after tax | 6,760,833,309,328 | 5,623,954,112,340 | 1,136,879,196,988 | 20% |

The Holding Company's profit after tax in 2023 increased by 20%, equivalent to VND 1,136,879,196,988 compared to the same period last year, mainly due to:

* Gross profit from goods sales and service provision decreased by 401%, equivalent to VND 150,050,851,173 compared to the same period last year (mainly due to increased costs of provisioning for devaluation of inventory)
* Financial activity revenue (dividends, profits distributed from units with VEAM's capital contribution, bank deposit interest) increased by 34%, equivalent to VND 2,022,140,706,838;
* Financial expenses increased by 610%, equivalent to VND 44,690,889,178 (mainly due to increased interest expenses);
* General and administrative expenses increased by 370%, equivalent to VND 611,342,029,523 (mainly due to increased provision for bad debts).
1. Consolidated Financial Statements

Table 2: Changes in consolidated business results in 2023

|  |  |  |  |
| --- | --- | --- | --- |
| Targets | In 2023(VND) | In 2022(VND) | Difference |
| Value (VND) | Rate (%) |
| Net revenue from goods sales and service provision | 3,806,390,374,368 | 4,747,467,433,565 | (941,077,059,197) | -20% |
| Cost of goods sold | 3,358,471,217,679 | 4,096,262,565,072 | (737,791,347,393) | -18% |
| Gross profit from goods sales and service provision | 447,919,156,689 | 651,204,868,493 | (203,285,711,804) | -31% |
| Revenue from financial activities | 1,205,146,434,496 | 818,416,324,015 | 386,730,110,481 | 47% |
| Profits or losses in joint ventures | 5,640,068,827,924 | 6,984,974,842,304 | (1,344,906,014,380) | -19% |
| Selling expense | 86,359,122,851 | 105,210,189,883 | (18,851,067,032) | -18% |
| General and administrative expenses | 610,664,483,208 | 561,525,478,760 | 49,139,004,448 | 9% |
| Other incomes | 9,583,134,644 | 99,565,054,949 | (89,981,920,305) | -90% |
| Current corporate income tax expense | 252,009,883,780 | 179,800,721,057 | 72,209,162,723 | 40% |
| Profit after tax | 6,265,207,695,495 | 7,665,420,318,971 | (1,400,212,623,476) | -18% |

Consolidated profit after tax in 2023 decreased by 18%, equivalent to VND 1,400,212,623,476 compared to the same period last year, mainly due to:

* Gross profit from goods sales and service provision decreased by 31%, equivalent to VND 203,285,711,804 compared to the same period last year (mainly due to increased costs of provisioning for devaluation of inventory);
* Financial activity revenue (mainly bank deposit interest) increased by 47%, equivalent to VND 386,730,110,481 compared to the same period last year;
* The profit or loss in joint ventures decreased by 19%, equivalent to VND 1,344,906,014,380 compared to the same period last year;
* Other income decreased by 90%, equivalent to VND 89,981,920,305 compared to the same period last year.