



A.C.N. 063 656 333
A.B.N. 64 063 656 333

VIETNAM INDUSTRIAL INVESTMENTS LIMITED

31 August 2018

Company Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sirs

REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018

(Previous corresponding period: 30 June 2017)

Attached is our report for the six months ended 30 June 2018 incorporating the requirements of Appendix 4D.

Results for announcement to the market

	6 months to 30.06.2018	6 months to 30.06.2017	Change \$	Change %
Revenues from ordinary activities (A\$)	257.583m	186.631m	70.952m	38%
Net (loss)/profit for the period (A\$)	(1.393m)	0.207m	(1.600m)	(773%)
Net loss for the period attributable to members (A\$)	(1.593m)	(0.418m)	(1.175m)	(281%)
Dividends (distributions)	Amount per security	Franked amount per security		
Interim dividend	0.015	NIL		
Previous interim dividend	NIL	NIL		

Dividend Distribution

On 25 May 2018, the Board declared dividend of 1.5 Australian cents per ordinary share (fully unfranked) which was paid and dispatched on 27 June 2018 (for six months ended 30 June 2017: Nil). The entire dividend was 100% conduit foreign income.

Brief explanation of any of the figures reported above:

Explanation of the results for the half-year ended 30 June 2018 is provided in Review of Results of Operations of the consolidated entity in the Half-Year Financial Report.

Net Tangible Asset Backing	Current Period	Previous Corresponding Period
Net tangible asset per ordinary security	0.35	0.34

There had been no entities gained or lost control in the half-year.

The applicable accounting standards used by the consolidated entity are the Australian Accounting Standards.

The financial report has been reviewed, and a copy of the independent review report is attached to the financial report.

Yours faithfully

ROGER SING-LEONG KWOK
Director



VIETNAM INDUSTRIAL INVESTMENTS LIMITED
A.B.N. 64 063 656 333

CONSOLIDATED FINANCIAL REPORT
HALF-YEAR FINANCIAL REPORT 30 JUNE 2018

Corporate Information

A.B.N. 64 063 656 333

This half-year report covers the consolidated entity comprising Vietnam Industrial Investments Limited (“the Company”) and its subsidiaries (“the Group”). The Group's presentation currency is AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is unaudited and does not form part of the financial report.

Directors

R.S. Kwok	<i>Independent Non-Executive Director, Chairman</i>
V.H. Lam	<i>Managing Director (Chief Executive Officer)</i>
M.D. Mann	<i>Independent Non-Executive Director</i>
J.H.S Murray	<i>Independent Non-Executive Director</i>
A.D. Walker	<i>Independent Non-Executive Director</i>
A.A. Young	<i>Non-Executive Director</i>

P. Williams *Company Secretary*

Registered Office in Australia

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SUBIACO Western Australia 6008
Telephone: (618) 9388 0155
Facsimile: (618) 9218 8399
Website: www.vii.net.au

Auditors

Ernst & Young
11 Mounts Bay Road
PERTH Western Australia 6000

Legal Advisors

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
PERTH Western Australia 6000

Bankers

Australia & New Zealand Banking Group Limited
8 St George's Terrace
PERTH Western Australia 6000

Bankwest
Bankwest Place, 300 Murray Street
PERTH Western Australia 6000

Share Registry

Security Transfer Australia
770 Canning Hwy
APPLECROSS Western Australia 6153

Home Exchange

Australian Securities Exchange
Level 40, Central Park
152-158 St Georges Terrace
PERTH Western Australia 6000

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Directors' Report

Your directors submit their report for the half-year ended 30 June 2018.

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Roger (Sing-Leong) Kwok, *Independent Non-Executive Director, Chairman*

Henry (Van Hung) Lam, *Managing Director (Chief Executive Officer)*

Michael Douglas Mann, *Independent Non-Executive Director*

Jonathan Heath Stuart Murray, *Independent Non-Executive Director*

Andrew David Walker, *Independent Non-Executive Director*

Alan Alexander Young, *Non-Executive Director*

REVIEW AND RESULTS OF OPERATIONS

	30 June 2018	30 June 2017	Change
	\$'000	\$'000	
Group revenue	257,583	186,631	38%
Group net (loss)/profit after tax	(1,393)	207	(773%)
Foreign currency translation difference	2,244	(3,450)	165%
Total comprehensive income/(loss)	851	(3,243)	(126%)

30 June 2018 Group Revenue include Contract Revenue of \$0.091 million and Other Revenue of \$2.050 million.

30 June 2017 Group Revenue include Contract Revenue of \$0.299 million and Other Revenue of \$1.977 million.

Group revenue grew 38% attributable to sale volume growth of 22,947 tons of steel sold. This achievement is par with Vietnam steel industry growth of 16% in volume. The second driver contributing to increase in sale revenue was the surge in steel selling price across Vietnam. Average selling price increased from approximately \$640 per ton in the first half of 2017 to \$820 in 2018. The leap in selling prices was driven by accelerated billet costs which started the third quarter of 2017. Billet cost increased from \$530 (\$US410) per ton to \$730 (\$US540) level by January 2018.

Increases in selling prices were lagging behind the acceleration in billet costs. These events led to continued compression in sales margin. The Group also incurred higher selling expenses for selling more steel into newer markets. These changes led to Group net loss of \$1.393 million.

Vietnam Dong appreciated 4% since 31 December 2017; hence foreign currency exchange gain of \$2.244 million.

The results of the Vietnam operating segments included in the consolidated financial statements are as follows:

SSESTEEL Ltd (VII 100%)

SSESTEEL owns and operates a fully automated rolling mill based in Hai Phong. It produces and distributes rebar and wire rod to the Vietnam construction industry.

	30 June 2018	30 June 2017	Change
Sale Volume (tons)	183,341	157,558	16%
Revenue	\$154.528million (VND2.704 trillion)	\$101.793 million (VND1.754 trillion)	52%
Net Loss after tax	(\$1.456 million) (-VND25.483 billion)	(\$1.184 million) (-VND20.398 billion)	23%



REVIEW AND RESULTS OF OPERATIONS (continued)

SSESTEEL upgraded its production capacity in 2016, from 28,000 to 35,000 tons per month. This enabled SSESTEEL to defend its market share in its core market, and to expand distribution into newer markets. SSESTEEL continued to grow sales volume and revenue. Faced with industry wide sale margin compression plus higher selling costs to defend its market positioning, SSESTEEL incurred a higher net loss of \$1.456 million.

Vinausteel Ltd (VII 70%)

Vinausteel owns and operates a steel rolling mill in Hai Phong. It produces and distributes rebar to the Vietnam construction industry.

	30 June 2018	30 June 2017	Change
Sale Volume (tons)	124,792	127,628	(2%)
Revenue	\$100.976million (VND1.767 trillion)	\$82.515 million (VND1.422 trillion)	22%
Net Profit after tax	\$0.694 million (VND12.148 billion)	\$1.967 million (VND33.896 billion)	(64%)

Vinausteel encountered unexpected repairs during second quarter of 2018 which led to lower sale volume for the period. Selling only rebar within a narrower distribution network allows Vinausteel to command relatively higher gross profit ratio than SSESTEEL.

Austnam Joint Stock Corporation (VII 67%)

Austnam produces and distributes metal roofing and cladding in Hanoi and nearby provinces.

	30 June 2018	30 June 2017	Change
Square Meters Sold	283,885	318,813	(11%)
Revenue	\$1.979 million (VND34.624 billion)	\$2.024 million (VND34.867 billion)	(2%)
Net (Loss)/Profit after tax	(\$0.015 million) (-VND0.255 billion)	\$0.109 million (VND1.882 billion)	(114%)

Prior to 2017, Austnam was able to source metal roofing raw materials, at a lower cost overseas. In 2017, the Vietnam government launched a tariff safeguard against imports of Austnam's metal roofing raw materials. Diminishing roofing profit is expected. In second quarter of 2018 Austnam developed and launched a new product line, using Plastic Wood Composite (PWC) in place of natural wood for exterior and interior construction purposes. This initiative would take more time to reach material commercial results.

Total Building Systems Ltd (VII 99%)

Total Building Systems Limited ("TBS") provides engineering services, building systems and construction services to industrial and commercial customers across Vietnam.

	30 June 2018	30 June 2017	Change
Revenue	\$0.092 million (VND1.620 billion)	\$0.299 million (VND5.160 billion)	(69%)
Net Loss after tax	(\$0.353 million) (-VND6.183 billion)	(\$0.114 million) (-VND1.970 billion)	(210%)

The Board has resolved to divest or discontinue TBS's operations, effective second quarter of 2018. TBS is in the process of winding down its business and discharging its contractual obligations, collecting trade receivables and liquidating its assets through the remainder 2018 or early 2019.



Foreign currency translation difference {VND vs A\$ exchange rate}

	30 June 2018	31 December 2017	30 June 2017	31 December 2016
Spot rate	16,970	17,713	17,485	16,473
Average rate	17,500	17,474	17,232	16,632
Spot vs Average rate	(3%)	+1%	+1%	(1%)
Spot vs Last Reporting	(4%)	+1%	+6%	

{+ VND depreciates; foreign exchange loss. (negative) VND appreciates; foreign exchange gain}

Note 14 in the 30 June 2018 financial report explains foreign currency translation (loss)/gain.

EVENTS SUBSEQUENT TO BALANCE DATE

In note 15 to this report, we have reported on an arrangement with a local strategic partner which is intended to provide the group with increased reliability of billet supply, additional finished product and production cost savings dependant on the local strategic partner completing its steel making facilities and attaining full production capacity at optimum costs. Supply will come on stream in stages and the first stage for billet production commenced commissioning in early August 2018. Subsequent to the end of this reporting period, supply of billets to the group has now commenced in terms of the arrangement.

There has not been any other matter or circumstance that has arisen since the end of the half-year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument applies.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 6 and forms part of the directors' report for the half-year ended 30 June 2018.

Signed in accordance with a resolution of the directors.



ROGER SING-LEONG KWOK

Director

Perth, 31 August 2018



Auditor's Independence Declaration to the Directors of Vietnam Industrial Investments Limited

As lead auditor for the review of Vietnam Industrial Investments Limited for the half-year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Vietnam Industrial Investments Limited and the entities it controlled during the financial period.



Ernst & Young



V L Hoang
Partner
31 August 2018

FOR THE HALF-YEAR ENDED 30 JUNE 2018

	Notes	CONSOLIDATED	
		2018 \$'000	2017 \$'000
CONTINUING OPERATIONS			
Sale of goods		255,442	184,355
Contract revenue		91	299
Other revenue	4	2,050	1,977
		<u>257,583</u>	<u>186,631</u>
Cost of sales		<u>(248,249)</u>	<u>(175,164)</u>
Gross profit		<u>9,334</u>	<u>11,467</u>
Other income	4	124	153
Selling expenses	4	(3,415)	(2,868)
Administrative expenses	4	(4,473)	(4,472)
Finance costs		<u>(2,298)</u>	<u>(2,143)</u>
(Loss)/Profit before income tax		(728)	2,137
Income tax expense	5	<u>(665)</u>	<u>(1,930)</u>
Net (loss)/profit for the period		(1,393)	207
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences attributable to parent		2,037	(3,076)
<i>Items that may not be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences attributable to non-controlling interests		207	(374)
Other comprehensive income/(loss) for the period		<u>2,244</u>	<u>(3,450)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>851</u>	<u>(3,243)</u>
Net (loss)/profit after tax attributable to:			
Equity holders of the parent		(1,593)	(418)
Non-controlling interests		200	625
		<u>(1,393)</u>	<u>207</u>
Total comprehensive income/(loss) net of tax attributable to:			
Equity holders of the parent		444	(3,494)
Non-controlling interests		407	251
		<u>851</u>	<u>(3,243)</u>
Loss per share (cents per share) for continuing operations attributable to the ordinary equity holders of the company:			
- basic loss per share (cents per share)		(1.1)	(0.3)
- diluted loss per share (cents per share)		(1.1)	(0.3)

The accompanying notes form part of the financial report



AS AT 30 JUNE 2018

	Notes	CONSOLIDATED	
		As at 30 June 2018 \$'000	As at 31 December 2017 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	39,881	45,255
Trade and other receivables		36,413	22,391
Advances to suppliers	9	41,612	29,473
Inventories		47,723	46,863
Financial assets at fair value through profit or loss		9	9
Other current assets	8	26,733	19,335
Total Current Assets		<u>192,371</u>	<u>163,326</u>
Non-current Assets			
Other receivable	10	7,072	6,782
Property, plant and equipment		12,265	12,458
Deferred tax assets		773	1,159
Intangible assets and goodwill		79	80
Other non-current assets		608	27
Total Non-current Assets		<u>20,797</u>	<u>20,506</u>
TOTAL ASSETS		<u>213,168</u>	<u>183,832</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		20,329	16,967
Advances from customers		1,164	995
Income tax provision		1,611	1,550
Interest-bearing loans and borrowings	12	134,251	106,760
Provisions		835	832
Total Current Liabilities		<u>158,190</u>	<u>127,104</u>
TOTAL LIABILITIES		<u>158,190</u>	<u>127,104</u>
NET ASSETS		<u>54,978</u>	<u>56,728</u>
EQUITY			
Contributed equity	6	27,819	27,819
Reserves		(6,575)	(8,612)
Retained earnings		28,953	32,680
Parent interests		<u>50,197</u>	<u>51,887</u>
Non-controlling interests		<u>4,781</u>	<u>4,841</u>
TOTAL EQUITY		<u>54,978</u>	<u>56,728</u>

The accompanying notes form part of the financial report.



FOR THE HALF-YEAR ENDED 30 JUNE 2018

CONSOLIDATED	Attributable to equity holders of the parent					Non- controlling interests	Total equity
	Contributed equity	Foreign currency translation reserves	Retained Earnings	Legal reserves	Owners of the parent		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2018	27,819	(9,736)	32,680	1,124	51,887	4,841	56,728
Net (loss)/profit for the period	-	-	(1,593)	-	(1,593)	200	(1,393)
Other comprehensive gain	-	2,037	-	-	2,037	207	2,244
Total comprehensive income for the period	-	2,037	(1,593)	-	444	407	851
Dividends declared to shareholders	-	-	(2,134)	-	(2,134)	-	(2,134)
Dividends paid by subsidiaries	-	-	-	-	-	(467)	(467)
At 30 June 2018	27,819	(7,699)	28,953	1,124	50,197	4,781	54,978
At 1 January 2017	27,819	(6,033)	30,283	1,124	53,193	6,357	59,550
Net (loss)/profit for the period	-	-	(418)	-	(418)	625	207
Other comprehensive loss	-	(3,076)	-	-	(3,076)	(374)	(3,450)
Total comprehensive (loss)/income for the period	-	(3,076)	(418)	-	(3,494)	251	(3,243)
Dividends paid by subsidiaries	-	-	-	-	-	(2,062)	(2,062)
At 30 June 2017	27,819	(9,109)	29,865	1,124	49,699	4,546	54,245

The accompanying notes form part of the financial report.



FOR THE HALF-YEAR ENDED 30 JUNE 2018

	Notes	CONSOLIDATED	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of VAT)		269,810	198,162
Payments to suppliers and employees (inclusive of VAT)		(287,454)	(223,682)
Interest income		932	1,977
Borrowing costs		(2,298)	(2,143)
Income tax paid		(249)	(3,540)
Net cash flows used in operating activities		<u>(19,259)</u>	<u>(29,226)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(369)	(441)
Net funding of short-term deposits		(6,909)	(18,274)
Net cash flows used in investing activities		<u>(7,278)</u>	<u>(18,715)</u>
Cash flows from financing activities			
Proceeds from bank borrowings		262,440	201,372
Repayment of bank borrowings		(240,314)	(180,043)
Dividends paid to shareholders		(2,133)	(103)
Dividends paid to non-controlling interests		(467)	(2,062)
Net cash flows provided by financing activities		<u>19,526</u>	<u>19,164</u>
Net decrease in cash and cash equivalents		(7,011)	(28,777)
Net foreign exchange difference		1,637	(4,008)
Cash and cash equivalents at beginning of period		<u>45,255</u>	<u>76,762</u>
Cash and cash equivalents at end of period	7	<u><u>39,881</u></u>	<u><u>43,977</u></u>

The accompanying notes form part of the financial report.



**Condensed Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 30 JUNE 2018****1. CORPORATE INFORMATION**

The interim condensed consolidated financial statements of the Company and its subsidiaries (the Group) for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 27 August 2018.

Vietnam Industrial Investments Limited is a limited company incorporated and domiciled in Australia whose shares are publicly traded. The Group is a for-profit entity. The registered office is located at Unit 5a, 1 Station Street, Subiaco Western Australia 6008, Australia. The principal activities of the Group are described in the Directors' Report.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**2.1 Basis of Preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017. The interim condensed consolidated financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated. Certain comparative items have been reclassified to conform to current year presentation.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* that require restatement of previous financial statements. As required by AASB 134, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

AASB 15 Revenue from Contracts with Customers – Impact of adoption

AASB 15 supersedes AASB 11 *Construction Contracts*, AASB 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Group consolidated revenue is derived primarily from the Steel Making Division which comprises of Vinaasteel, SSESTEEL and Austnam. Since their inception, these operations produce and distribute products to limited number of distributors and contractors. These operations do not perform any after sale services relating to the products sold.

The transfer of control from sales is fulfilled at the factory gate or at the customer premises. All sales are final upon customer possession with there being no right of return. Customer must pay their accounts within 15 to 45 days from date of sale. Each delivery of products must be accompanied by a sale invoice or a purchase order that specifies quantity and prices. These operations in general do not incur additional costs to obtain customers and/or contracts with customers.

Total Building Systems provides construction and engineering services. The performance obligations associated with these services are satisfied over time. Revenues will be recognised using the input methods, based on costs incurred, which is materially consistent with the percentage of completion method applied in prior periods.

The Group adopted AASB 15 using the modified retrospective method from 1 January 2018. This method recognises cumulative effect resulted from initial application of this standard, as adjustment to the opening balance of retained earnings. All customer contracts in force throughout the period have been reviewed and assessed and it was determined the adoption of AASB 15 had no significant impact on the recognition and measurement or revenue. The accounting policy in note 2.3(a) has been updated to reflect the application of AASB 15 for the period from 1 January 2018. There was no impact to the Group's 30 June 2018, and to 31 December 2017 financial statements, applying AASB 15 for the first time.

AASB 9 Financial Instruments – Impact of adoption

AASB 9 *Financial Instruments* replaces AASB 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applies AASB 9 for the first time prospectively from 1 January 2018, when required adjusts comparative information for the reporting period from 1 January 2017.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

AASB 9 Financial Instruments – Impact of adoption (continued)

Measurement and classification

Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). The SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.

At the date of initial application, existing financial assets and liabilities of the Group have been assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 January 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 January 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 139 (i.e. prior to 31 December 2017)	New measurement category under AASB 9 (i.e. from 1 January 2018)
Cash and cash equivalents and term deposits	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Advances to suppliers	Loans and receivables	Financial assets at amortised cost
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss
Other receivables	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liability at amortised cost
Advances from customers	Financial liability at amortised cost	Financial liability at amortised cost
Interest bearing loans and borrowings	Financial liability at amortised cost	Financial liability at amortised cost

The reclassification of financial instruments did not have a significant measurement impact on the financial statements.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

AASB 9 Financial Instruments – Impact of adoption (continued)

Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss (“ECL”) if the credit risk on the instrument has increased significantly since initial recognition. Where the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

The Group’s existing financial assets carried at amortised cost were reviewed and assessed for impairment at 1 January 2018 using reasonable and supportable information. With respect to cash balances and term deposits, these items were assessed to have a low credit risk as they are held by investment grade financial institutions.

All trade receivables at 1 January 2018 have been subsequently settled during the period or were fully provided as at that date.

As at 30 June 2018 an expected credit loss has been recognised as 1% of all trade receivables that are within 90 days, except for the receivables relating to the local strategic partner as discussed in note 15. 1% has been determined by the Group to be a reasonable estimate of the forward looking expected credit loss under the simplified approach.

Hedging

The Group does not apply hedge accounting.

2.3 Summary of revised accounting policies

a) Revenue

Revenue is recognised to the extent that performance obligations have been met, regardless of when the payment is being made. Revenue is measured at the consideration expected to be received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The specific recognition criteria described below must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the performance obligations is meet and control of steel has passed to the buyer, usually on delivery of the goods.

Rendering of services other than construction contracts

Revenues are generally recognised as the services are provided to the customer.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Summary of revised accounting policies (continued)

a) Revenue (continued)

Construction contracts

Construction contracts are reviewed for individual performance obligations. Where the outcome of a construction contract can be estimated reliably, revenues and costs are recognised by reference to the input method. Under this method revenue is recognised on the basis of the entity's efforts or inputs to satisfy the performance obligation relative to the total expected inputs to completely satisfy the performance obligation. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of the construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are expensed as incurred. Any expected loss is recognised immediately as an expense.

The difference between the cumulative revenue of a construction contract recognised to date and the cumulative amount of progress billings of that contract is presented as construction contractor receivable/payable based on the agreed progress billings in the statement of financial position.

b) Trade and other receivables

Trade receivables, which are generally on a 45-day term, are recognised initially at their transaction price. Receivables that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principle and interest are classified and subsequently measured at amortised cost. Receivables that do not meet the criteria for amortised cost are measured at fair value through profit or loss. Following initial recognition the amortised cost is calculated using the effective interest method.

The Group assesses on a forward looking basis the expected credit loss associated with its receivables carried at amortised cost. The expected credit loss is calculated using the simplified approach which requires the loss allowance to be based on the lifetime expected credit loss. In determining the expected credit loss the Group assesses the profile of the debtors and compares with historical recoverability trends, adjusted for factors that are specific to the debtors' general economic conditions and an assessment of both the current and forecast conditions as a reporting date.

The Group considers an event of default has occurred when a financial asset is more than 90 days past due or external sources indicate that the debtor is unlikely to pay its creditors, including the Group. A financial asset is credit impaired when there is evidence that the counterparty is in significant financial difficulty or a breach of contract, such as a default or past due event has occurred. The Group writes off a financial asset when there is information indicating the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Summary of revised accounting policies (continued)

c) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, at amortised cost, financial assets at fair value through profit or loss, fair value through other comprehensive income as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, and quoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of comprehensive income.

(ii) Amortised cost or fair value through other comprehensive income

In order for a financial asset to qualify for measurement as either amortised cost or fair value through other comprehensive income, it has to pass both, the contractual cash flow characteristics test as well as the business model test. Under the contractual cash flow characteristics test, an entity has to assess, whether the cash flows resulting from the financial asset are solely payments for principal and interest. The Group has not recognised any financial assets at fair value through other comprehensive income.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

Impairment of financial assets

The Group assesses on a forward looking basis the expected credit loss associated with its construction contractor receivables and trade receivables. The expected credit loss is calculated using the simplified approach which requires the loss allowance to be based on the lifetime expected credit loss. In determining the expected credit loss the Group assesses the profile of the debtors and compares with historical recoverability trends, adjusted for factors that are specific to the debtors' general economic conditions and an assessment of both the current and forecast conditions as a reporting date. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 Summary of revised accounting policies (continued)

c) Financial instruments (continued)

For other financial assets, the expected credit loss is based on the 12-month expected credit loss. The 12-month expected credit loss is the portion of lifetime expected credit losses that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or at amortised cost as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, described as follows:

i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 139 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

ii) Amortised cost

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 Going concern

At 30 June 2018, the Group has current interest-bearing loans and borrowings of \$134.251 million (31 December 2017: 106.760 million) which relate to short term loan facilities (the “facilities”) with various banks in Vietnam. The terms and conditions associated with the facilities are outlined in note 12. The ability to meet the repayment obligations under these facilities will be dependent on cash flows from existing operations and timely collection of amounts due under loan, advances and receivable of \$67.514 million from a local investment and development company (the “local strategic partner”) as disclosed in note 15.

As further detailed in note 15, the Group’s ability to meet its obligations under its short-term loan facilities which were entered into to finance these advances, loans and receivables are significantly dependent on the successful commercial production of the local strategic partner’s steel making facilities, in particular, its ability to achieve and maintain full production capacity at optimum costs in planned stages. Given the steel making facilities started commissioning in early August 2018 and the continued close working relationship of management with the local strategic partner, the Company believes that the objectives of the strategic supply arrangement can be achieved and the Group’s long-term loan, advances and receivable can be fully repaid in accordance with the contractual arrangements. It is therefore appropriate to prepare the financial report on a going concern basis.

The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

3. SEGMENT INFORMATION

The Group’s reportable segment is mainly located in Vietnam. The Group provides the majority of its products and services to customers based in Vietnam.

The Steel Making Division comprises of Vinausteel Limited, SSESTEEL Ltd, Austnam Joint Stock Corporation, Total Building Systems Ltd and VRC Weldmesh (Vietnam) Limited. The unallocated segment relates to corporate charges of the parent in Australia with subsidiaries in Singapore and British Virgin Islands. All revenue in accordance with AASB 15 is within Vietnam.

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision makers with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

3. SEGMENT INFORMATION (continued)

Segment Performance

	Steel Making (Vietnam)	Unallocated Note (i)	Total	Adjustments and eliminations	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Half-year ended 30 June 2018					
Revenues					
External revenues	255,533	-	255,533	-	255,533
Other revenues	2,040	10	2,050	-	2,050
Total segment revenues	<u>257,573</u>	<u>10</u>	<u>257,583</u>	<u>-</u>	<u>257,583</u>
Results					
Other income	94	209	303	(179)	124
Finance costs	(2,469)	-	(2,469)	171	(2,298)
Segment result before tax	(474)	-	(474)	-	(474)
Income tax expense	(665)	-	(665)	-	(665)
Segment result after tax	(1,139)	-	(1,139)	-	(1,139)
Corporate charges	-	(254)	(254)	-	(254)
Net profit after tax from continuing operations	<u>(1,139)</u>	<u>(254)</u>	<u>(1,393)</u>	<u>-</u>	<u>(1,393)</u>

	Steel Making (Vietnam)	Unallocated Note (i)	Total	Adjustments and eliminations	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
Half-year ended 30 June 2017					
Revenues					
External revenues	184,654	-	184,654	-	184,654
Other revenues	1,975	2	1,977	-	1,977
Total segment revenues	<u>186,629</u>	<u>2</u>	<u>186,631</u>	<u>-</u>	<u>186,631</u>
Results					
Other income	123	206	329	(176)	153
Finance costs	(2,314)	-	(2,314)	171	(2,143)
Segment result before tax	2,697	-	2,697	-	2,697
Income tax expense	(1,930)	-	(1,930)	-	(1,930)
Segment result after tax	767	-	767	-	767
Corporate charges	-	(560)	(560)	-	(560)
Net profit after tax from continuing operations	<u>767</u>	<u>(560)</u>	<u>207</u>	<u>-</u>	<u>207</u>

Note (i) – Australia, British Virgin Islands and Singapore



**Condensed Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 30 JUNE 2018**

3. SEGMENT INFORMATION (continued)

	Steel Making (Vietnam) \$'000	Unallocated Note (i) \$'000	Total \$'000
Segment assets			
At 30 June 2018			
Segment assets	211,559	1,609	213,168
Inter-segment eliminations			-
Total assets per statement of financial position			<u>213,168</u>
At 31 December 2017			
Segment assets	179,600	4,232	183,832
Inter-segment eliminations			-
Total assets per statement of financial position			<u>183,832</u>
Segment liabilities			
At 30 June 2018			
Segment liabilities	157,876	314	158,190
Inter-segment eliminations			-
Total liabilities per statement of financial position			<u>158,190</u>
At 31 December 2017			
Segment liabilities	126,545	559	127,104
Inter-segment eliminations			-
Total liabilities per statement of financial position			<u>127,104</u>

Note (i) – Australia, British Virgin Islands and Singapore



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

4. REVENUE AND EXPENSES

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
(i) Other income		
Rent income	10	8
Other	114	145
	124	153
(ii) Other revenue		
Interest income	2,050	1,977
	2,050	1,977
(ii) Expenses		
Depreciation and amortisation	(1,073)	(1,030)
	(1,073)	(1,030)
(iii) Selling expenses		
Salaries and wages	(441)	(377)
Delivery expenses	(334)	(57)
Other	(2,640)	(2,434)
	(3,415)	(2,868)
(iv) Administrative expenses		
Employee related expenses	(1,970)	(2,631)
Professional fees	(116)	(358)
Rent expenses	(228)	(261)
Travel expenses	(123)	(182)
Foreign exchange loss	(575)	(376)
Other	(1,461)	(664)
	(4,473)	(4,472)



**Condensed Notes to the Half-Year Financial Statements
FOR THE HALF-YEAR ENDED 30 JUNE 2018**

5. INCOME TAX EXPENSE

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Income tax expense consists of:		
Current income tax	(218)	(1,903)
Deferred tax	(447)	(27)
	<u>(665)</u>	<u>(1,930)</u>
Current income tax expense consists of:		
Vinausteel income tax expense	(611)	(1,684)
SSESTEEL income tax expense	(52)	(203)
Austnam income tax expense	(2)	(16)
	<u>(665)</u>	<u>(1,903)</u>

6. CONTRIBUTED EQUITY

	CONSOLIDATED	
	30 June 2018	31 December 2017
	\$'000	\$'000
Contributed equity	<u>27,819</u>	<u>27,819</u>
	Number	Number
Number of shares	<u>142,277,423</u>	<u>142,277,423</u>

7. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	30 June 2018	30 June 2017
	\$'000	\$'000
For the purpose of the half-year statement of cash flows, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	2,915	6,262
Short-term deposits	36,966	37,715
	<u>39,881</u>	<u>43,977</u>



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

8. OTHER CURRENT ASSETS

	CONSOLIDATED	
	30 June 2018 \$'000	31 December 2017 \$'000
Term deposits	26,356	18,989
Prepayments	377	322
Others	-	24
	26,733	19,335

Term deposits mature in six (6) to nine (9) months from inception dates and bear interest rates ranging from 6.2% to 9% (31 December 2017: 4.6% to 9%).

9. ADVANCES TO SUPPLIERS

	30 June 2018 \$'000	31 December 2017 \$'000
Other suppliers	41,612	29,473
	41,612	29,473

At 30 June 2018, advances to suppliers included advances equivalent to \$40.616 million (VND689 billion) (31 December 2017: \$28.820 million (VND510 billion)) were made to a local strategic partner, which is the same counterparty to the other receivable disclosed in notes 10 and 15.

A portion of the advances to suppliers bear interest at a rate of 11% (31 December 2017: 11%). The remaining advances to suppliers which relate to items where goods are expected to be delivered in the short term bear no interest.

Accrued interest is included in trade and other receivables under Current assets.

10. OTHER RECEIVABLE – NON-CURRENT ASSETS

	30 June 2018 \$'000	31 December 2017 \$'000
Other receivable	7,072	6,782
	7,072	6,782

At 30 June 2018, SSESTEEL has a long-term other receivable from a local strategic partner, equivalent to A\$10.607 million (VND 180 billion). This amount is to be repaid over 30 months, bearing interest of 8% per annum. This amount is secured against machinery and certain production facilities inside the factory owned and operated by the supplier. The non-current other receivable of \$7.072 million represents 2/3 of \$10.607 million. The current portion of this arrangement, \$3.535 million plus accrued interest, is included in trade and other receivables under Current assets. On the basis of a recent independent valuation report of the security assets received in December 2017, management expects that the receivables balance at 30 June 2018 is fully recoverable (level 3 in the fair value hierarchy). As disclosed in the VII announcement on 16 February 2018 about Supply Arrangement in Haiphong Vietnam, SSESTEEL has entered into a strategic arrangement with this local strategic partner intended to provide increased reliability of raw material supply. Refer to note 15 for further discussion.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

11. RECOVERABILITY OF NON-CURRENT ASSETS

The Group's main cash generating units are in SSESTEEL and Vinausteel.

For the half year ended 30 June 2018, the recoverable amount of SSESTEEL (CGU) was determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five year period. The projected cash flows reflect the demand for steel in Vietnam. The real post-tax discount rate applied is 12% (2017: 12%). Growth rate determined at nil is used to determine the terminal value in SSESTEEL (2017: nil). At 30 June 2018, the SSESTEEL (CGU) carrying value was approximately equal to the recoverable amount calculated. As a result of this analysis, management did not identify any further impairment or reversal of previously recognised impairment for this CGU in 2018.

The recoverable amount of Vinausteel (CGU) was determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five year period and have been extrapolated at 0% growth rate to 2024, the year which Vinausteel parties may extend the term of operation in Vinausteel. The projected cash flows reflect the demand for steel in Vietnam. The real post-tax discount rate applied is 12.0% (2017: 12%). At 30 June 2018, the Vinausteel (CGU) carrying value was below the calculated recoverable amount of the CGU. As a result of this analysis, management did not identify any impairment for this CGU (2017: nil).

Key assumptions used in value in use calculations

The calculations of value in use for SSESTEEL and Vinausteel CGUs are most sensitive to gross profit margins, discount rates and growth rates.

	SSESTEEL	Vinausteel
Effective gross profit margins	6-7%	4-5%
Discount rates	12%	12%
Growth rates	Nil	Not applicable

Sensitivity to changes in assumptions

The sensitivity analyses have been determined for the gross profit margin, discount rate and growth rate for the estimated recoverable amounts of SSESTEEL and Vinausteel.

The ability to achieve the gross profit margin included in the model is dependent on the business cooperation arrangement with a local investment and development company to supply billets and rebar for the Group's rolling mill operations in Vietnam. Refer to Note 15 for further discussion. If the gross profit margin decreased by 0.5% with the discount rate and growth rate held constant, there would be an impairment loss of \$10.196 million in relation to SSESTEEL. If the gross profit margin decreased by 0.5% with the discount rate and growth rate held constant, there would be an impairment loss of \$1.997 million in relation to Vinausteel.

If the discount rate increased by 1% with the gross profit margin and growth rate held constant, there would be an impairment loss of \$6.748 million in relation to SSESTEEL. No impairment on the property, plant and equipment of Vinausteel (CGU) is noted if this sensitivity analysis is applied to this CGU.

If the long-term growth rate decreased by 1% in SSESTEEL with the discount rate and gross profit margin held constant, there would be an impairment loss of \$3.774 million in relation to SSESTEEL. This sensitivity is not applicable to Vinausteel (CGU) due to the life of the project.

No impairment on the property, plant and equipment of Vinausteel (CGU) is noted if the above sensitivity analysis is applied to this CGU.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

12. INTEREST-BEARING LOANS AND BORROWINGS

	30 June 2018	31 December 2017
	\$'000	\$'000
Current		
Bank loans – secured	134,251	106,760
	<u>134,251</u>	<u>106,760</u>

Terms and conditions of Interest-bearing loans and borrowings

Outstanding bank loans relate to loans from various banks in Vietnam which are valued in Vietnamese Dong and US Dollar. These interest-bearing liabilities of the Group's operating subsidiaries have various repayment terms. The Group's operating subsidiaries in Vietnam have banking facilities with various banks in Vietnam for working capital and project finance purposes. These facilities are secured by a chattel pledge over machinery, equipment, short-term deposits and inventories of the subsidiaries and in certain instances, by the guarantee of Vietnam Industrial Investments Limited ("Parent"). The Parent has provided security to various banks for banking facilities provided to Vietnam subsidiaries in the form of letters of guarantee. At 30 June 2018 the total interest bearing liabilities drawn down to which these corporate guarantees relate to are:

	30 June 2018	31 December 2017
Outstanding Bank Loans	\$134.251 million	\$106.760 million
Letter of Guarantee	\$22.324 million (US\$16.500 million)	\$21,154 million (US\$16.500million)
Loans drawdown tie to Guarantee	\$15.555 million (US\$11.496 million)	\$15.356 million (US\$11.978 million)

Assets pledged as security for liabilities

The banks have the right to the security provided in the case of a default of the terms and conditions of the finance. Carrying values of assets which are pledged as security for bank loans are as follows:

	30 June 2018	31 December 2017
	\$'000	\$'000
Inventories	38,645	45,506
Property, plant and equipment	8,923	8,965
Deposits	30,901	18,989
Trade receivables	40,228	-
	<u>118,697</u>	<u>73,460</u>



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

13. RELATED PARTY DISCLOSURES

Transactions and balances with Key Management Personnel and their related parties

At 30 June 2018, the balance owing to Mr Lam is \$219,254 (31 December 2017: \$411,398).

For the half year ended 30 June 2018, the non-executive directors' remuneration was \$115,000 (half year ended 30 June 2017: \$120,672). At 30 June 2018, the balance owing to non-executive directors is \$4,167 (31 December 2017: nil).

The Company subleases its office accommodation at Unit 5A, 1 Station Street, Subiaco, Western Australia 6008 from Arcadia Group Pty Ltd ("Arcadia") of which Mr Kwok is a Managing Director and a shareholder. The lease rental for the half year ended 30 June 2018 was \$31,500 (30 June 2017: \$31,500). The lease with Arcadia is made in the ordinary course of business and on normal commercial terms and conditions. Also, the Company paid bookkeeping services to Arcadia of \$12,000 during the period (30 June 2017: \$12,000).

During the period, the Company obtained case by case legal services from Mr Murray's legal firm under commercial terms and conditions. The legal fees during the period was \$3,721 (30 June 2017: \$4,106).

14. FOREIGN CURRENCY TRANSLATION DIFFERENCES

The foreign currency translation reserve in the statement of comprehensive income reflects the movement of foreign currency between the assets and liabilities of the Vietnam subsidiaries which are translated to Australian Dollars (presentation currency) at the prevailing rate at the reporting date, and the results of these subsidiaries which are translated at exchange rates as at the date of each transaction.

	30 June 2018	31 December 2017	30 June 2017	31 December 2016
Spot rate	16,970	17,713	17,485	16,473
Average rate	17,500	17,474	17,232	16,632
Spot vs average rate	(3%)	+1%	+1%	(1%)
Spot vs last balance date	(4%)	+1%	+6%	
Foreign exchange gain/(loss) difference	\$2.037 million		(\$3.076 million)	
Foreign currency translation reserves	(\$7.699 million)		(\$9.109 million)	

{+ VND depreciates; foreign exchange loss. (negative) VND appreciates; foreign exchange gain}



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

15. STRATEGIC SUPPLY ARRANGEMENT

As announced on 16 February 2018, in the prior year, the Group's wholly owned subsidiary SSESTEEL Ltd (SSESTEEL) entered into a business cooperation arrangement ("the arrangement") with a local investment and development company (the "local strategic partner") to supply billets and rebar for the Group's rolling mill operations in Vietnam. The arrangement seeks to secure the supply of billets and rebar to SSESTEEL from the local strategic partner's steel making facilities in Vietnam which were under construction at the date of the arrangement. The arrangement is intended to provide the Group with:

- increased reliability of raw material supply, in terms of volume, quality and grade of billets and additional finished goods
- significant savings in the Group's future cost of production once the local strategic partner's steel making facilities achieve full production capacity at optimum costs.

These cost reductions could take up to 36 months for full production at optimum costs to be attained, however, benefits are anticipated to take effect as the various stages of the steel making facilities come on stream.

The first phase (Billet production) of the local strategic partner's steel making facilities were commissioned in early August 2018 and billets are now being supplied to SSESTEEL

With the expected increased reliability of raw material supply and production costs savings from the arrangement, the Group aims to deliver improved and sustainable financial results from the Group's rolling mill operations. As disclosed in note 11, in performing the impairment assessment for the SSESTEEL Cash Generating Unit ("CGU") at 30 June 2018, management anticipates that the local strategic partner will successfully commission the steel making facilities and that SSESTEEL will attain the intended benefits of reliability of raw material supply, additional product supply cost reductions and have therefore incorporated these factors in the future cashflows of this CGU.

At 30 June 2018, the Group has the following credit exposure with the local strategic partner:

	30 June 2018	31 December 2017
	\$'000	\$'000
<i>Short term advances and receivables</i>		
Short term receivable related to selling of steel scraps and equipment (included in trade and other receivables)	13,323	7,609
Short term advances for billets purchase (refer to note 9)	40,616	28,820
Interest receivables (refer to notes 9 and 10)	2,968	1,740
Current- loan receivable (refer to note 10)	3,535	3,387
<i>Total current assets</i>		
Long term loan receivable (refer to note 10)	7,072	6,782
Total exposure	67,514	48,338

The above exposure is secured against first registered charges over the main workshop building, machinery and equipment, the newly constructed steel production facilities, inventories and consumables inside the factory owned and operated by the local strategic partner. Management has estimated the value of the collateral assets to be higher than the present level of exposure.



Condensed Notes to the Half-Year Financial Statements FOR THE HALF-YEAR ENDED 30 JUNE 2018

15. STRATEGIC SUPPLY ARRANGEMENT (continued)

Management acknowledges:

- the recovery of the above advances, loans and receivables, either through future cash flows or realisation of security assets;
- the timing of cash inflows from these exposures, their resulting current/non-current classification and potential fair value gains/losses from variation from the original contractual cashflows in accordance with AASB 9 Financial Instruments; and
- the Group's ability to meet its obligations under its short-term loan facilities taken to finance the above advances, loans and receivables

are significantly dependent on the successful commercial production of the local strategic partner's steel making facilities, in particular, its ability to achieve and maintain full production capacity at optimum costs in the planned stages. Whilst this outcome cannot be guaranteed as at the report date, management continues to work closely with the local strategic partner and believes that the objectives of the strategic supply arrangement can be achieved and the Group's long-term loan, advances and receivable can be fully repaid in accordance with the contractual arrangements.

16. FAIR VALUE MEASUREMENT

The carrying values of financial assets and financial liabilities approximate their fair values at the balance sheet date.

17. COMMITMENTS AND CONTINGENCIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

18. EVENTS AFTER BALANCE SHEET DATE

In note 15 to this report, we have reported on an arrangement with a local strategic partner which is intended to provide the group with increased reliability of billet supply, additional finished product and production cost savings dependant on the local strategic partner completing its steel making facilities and attaining full production capacity at optimum costs. Supply will come on stream in stages and the first stage for billet production commenced commissioning in early August 2018. Subsequent to the end of this reporting period, supply of billets to the group has now commenced in terms of the arrangement.

There has not been any other matter or circumstance that has arisen since the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the consolidated entity in future financial years.



Directors' Declaration

In accordance with a resolution of the directors of Vietnam Industrial Investments Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position as at 30 June 2018 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001
- (b) Subject to note 2.4, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



ROGER SING-LEONG KWOK
Director

Perth, 31 August 2018



Independent auditor's review report to the members of Vietnam Industrial Investments Limited

Report on the half-year financial report

Qualified conclusion

We have reviewed the accompanying half-year financial report of Vietnam Industrial Investments Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

Based on our review, which is not an audit, except for the effect of the matters described in the Basis for Qualified Review Conclusion section of our report, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for qualified review conclusion

As detailed in Note 15 to the half-year financial report, at 30 June 2018, the Group has a loan, advances and receivables due from a local investment and development company amounting to \$67.386 million. The recoverability of the loan, advances and receivables is initially dependent on the successful commercial production of the local investment and development company's new steel making facilities or subsequently, the recoverable value of the assets securing, under first registered charge, the loan, advances and receivables.

As detailed in Note 11 and Note 15 to the half-year financial report, the Group's ability to achieve the production cost savings that are incorporated within the Group's impairment assessment of its SSESTEEL Cash Generating Unit is dependent upon the local investment and development company's new steel making facilities being able to deliver the budgeted volume of supply at the agreed pricing.

For our review of the Group's financial report for the half-year ended 30 June 2018, we have been unable to obtain sufficient appropriate audit evidence to assess whether the local investment and development company can achieve planned production levels of its steel making facilities and deliver the forecast production cost savings to the Group. Consequently, we are unable to determine the appropriate carrying value and related disclosures of:

- ▶ The Group's loan, advances and receivable to the local strategic partner of \$67.836 million; and
- ▶ The Group's SSESTEEL Cash Generating Unit property, plant and equipment of \$7.869 million.

Emphasis of matter - Material uncertainty related to going concern

We draw attention to Note 2.4 of the financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The Directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



V L Hoang
Partner
Perth

31 August 2018