A.C.N. 063 656 333
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VIETNAM INDUSTRIAL INVESTMENTS LIMITED

21 September 2018

Ms Elizabeth Harris
Principal Adviser, Listings Compliance (Perth)
ASX Limited
Level 40, Central Park
152-158 St Georges Terrace
PERTH WA 6000

By email: Elizabeth.Harris@asx.com.au

Dear Ms Harris

VIETNAM INDUSTRIAL INVESTMENTS LIMITED (COMPANY) – ASX QUERY ON QUALIFIED REVIEW CONCLUSION IN HALF-YEAR REPORT AND ACCOUNTS

We refer to your letter of 15 September 2018 in regard to the auditor's qualified review conclusion in the Company's Half-Year Financial Report for the half year ended 30 June 2018 (**Financial Report**).

Before addressing your specific questions, we wish to provide you with some information on the rationale and great importance we attach to the Company entering into the supply arrangement with the local strategic partner ("NTC" – refer to response to your question no.2 below). This will provide the history and background for the board's decision and, in part, assist in answering some of your questions.

The group's main operations are its steel rolling mills in Haiphong, Vietnam which account for 99% of group's revenues. The group is not currently producing steel and has had to rely on purchasing steel billets (raw material) locally or on the international market. The rolling mills were able, in the past, to take advantage of the best prices by buying locally or importing billets. In 2015 and part of 2016, imported billets were available at low prices which is reflected in the Company's profitability in those years, being $9.868 million and $8.614 million respectively.

In 2016, the Company's situation changed dramatically when the Vietnamese government introduced a "safeguard tax" of 23.3% on imported billets which increased the tax from 10% to 33.3%. The tax made it uncompetitive to import billets and resulted in increased prices for local billets. As a result, the Company's gross margins were reduced substantially and profit declined to $2.397 million in 2017, a 72% decrease on 2016, and a loss of $1.593 million was incurred for the half-year ended June 2018. The Company anticipated the difficulties which it would face as a result of the safeguard tax and has been exploring options to secure a stable supply of billets at competitive prices in order to improve profit margins and ensure its competitiveness in the market.

From 2009 to 2011, SSESTEEL (**SSE**) had a supply arrangement with a local steel mill for supply of billets under a tolling arrangement (SSE supplied scrap for production of billets on payment of a conversion fee). The arrangement ended when the mill was forced to cease operations due to pressure from its bankers and other creditors. At the time the company which operated the local steel mill was indebted to SSE for VND180 billion which was secured by certain assets of the company.

In the third quarter of 2017, SSE was advised (as it was a secured creditor) that the assets of the local steel mill were to be auctioned as part of the process to wind up the company. With the Company's knowledge of those assets, we approached NTC with a proposal that it acquire the assets and that the Company would assist NTC in bringing the local steel mill back into operation and would enter into a supply arrangement to offtake all of the production. As part of the transaction, NTC was to assume the debt of VND180 billion due to SSE.

NTC was successful in acquiring the assets of the defunct steel mill and SSE has been assisting with plant design, acquisition of machinery and equipment and commissioning of the plant with NTC. The Company's due diligence on the steel plant is therefore far more rigorous than assessment of a business plan and financial capacity of NTC. The Company's due diligence will continue indefinitely to ensure that its interests are protected. The Company's aim is for the revived steel plant to provide the security of billet supply, additional products and cost savings which underpin future profitability and growth of the Company.

The Company's responses to your nine (9) questions are set out below:

Response to Question 1

The Qualified Review Conclusion refers specifically to notes 11 and 15 of the Financial Report and should be read in conjunction with those notes. It is acknowledged that:

- the recovery of the above advances, loans and receivables, either through future cash flows or realisation of secured 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.

The basis for the auditor's qualified conclusion was that they were unable to obtain sufficient 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. This is because the steel plant is under construction and has no historical production on which to base an assessment, albeit that commissioning of the first phase commenced on 14 August 2018.

The Company can confirm that, in the Directors' opinion, the Financial Report complies with the relevant Accounting Standards and gives a true and fair view of the financial performance and financial position of the Company.

Response to Question 2

The name of the local investment and development company with whom the Company has a strategic supply arrangement is Nam Thuan Investment Development Company (**NTC**). The company was incorporated in Ho Chi Minh City, Vietnam in 2012 and the group has utilised NTC's services to source part of the Company's local billet requirements to avoid price pressures from competitors.

In 2017 NTC registered a Branch Office in Haiphong to acquire and construct a steel plant. The plant will be capable of manufacturing steel by three processes:
a) Induction Furnace (**IMF**) using scrap steel to produce billets;
b) Electric Arc Furnace (**EAF**) using scrap to produce billets; and
c) Blast Furnace (**BF**) and Basic Oxygen Furnace (**BOF**) to produce steel (Pig iron or liquid steel [Hot Metal]).
NTC is also constructing a steel rolling mill to produce rebar.

SSE has the strategic supply arrangement with NTC. The initial phase will be to produce steel billets from the IMF plant and rolling mill to produce rebar. The plant is designed to utilise hot charging of billets to the rolling mill to reduce production costs.

Other than a link to a Vietnamese Government website which provides certain statutory filings on payment of a fee, the Company is not aware of any link which could provide information on NTC.

Response to Question 3

As advised above, the Company's objective is not for a passive investment in the new NTC steel mill which would justify due diligence on NTC. The Company's objective is and remains for the steel mill to deliver its supply requirements and the Company will be actively assisting with commissioning and operation of the plant to protect the future success of the steel mill and the Company. In any event, advances, supply of scrap and other materials are secured by a charge over the assets of NTC. The security charge has been confirmed by the Company's auditors.

Response to Question 4

Commissioning of the first phase of the steel plant, the billet facility, commenced on 14 August 2018, with some 1,700 tons delivered to SSE. The quality of the billets and the production costs have met expectations and production in September 2018 should exceed 5,000 tons. From 1 October 2018, the plant may be considered as in commercial production and output is expected to be in the region of 10,000 tons per month, initially. It is NTC's intention to increase production incrementally with strong emphasis on safety standards being met as a condition for stepping up production.

Response to Question 5

Now that phase 1 of the plant design has been completed and construction of the plant is well advanced, the Company intends to commission a study, which can be verified independently, to demonstrate that the plant is capable of achieving planned production levels and deliver the forecast production cost savings to the Group. Although the impact of the study on the future audit process cannot be reliably predicted, the Company anticipates that the study should result in an unqualified audit/review report for future financial periods. Actual plant performance to the date of future reporting periods should add weight to the issue of unqualified audit/review reports.

Refer also to the Company's response to question 6 below.

Response to Question 6

The Company has made reasonable enquiry and is presently satisfied that the NTC plant can deliver the expected results. This belief is based on continued engagement with NTC and involvement in the project design, equipment selection and ongoing review of plant operation.

Response to Question 7

As advised, SSE is not investing in NTC and the receivables and advances for scrap and other material supply are secured by charges over the assets of NTC.

Response to Question 8

The Company considers it is in compliance with the listing rules and, in particular, listing rule 3.1.

Response to Question 9

The Company confirms that the responses to the questions above have been authorised and approved by its board of Directors.

Your sincerely

Mr Lam Van Hung
Managing Director

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15 September 2018

Ms Patricia Williams

Company secretary
Vietnam Industrial Investments Ltd
Unit 5A, 1 Station Street
Subiaco WA 6008

By email: PWilliams@vii.net.au

Dear Ms Williams

Vietnam Industrial Investments Limited (the "Entity"): Qualified Review Conclusion in Half Year Report and Accounts

ASX Limited ("ASX") refers to the following;

1. The Company's Half Year Financial Report for the year ended 30 June 2018, lodged with ASX on 31 August 2018 (the "Financial Report").

2. The Independent Auditor's Report set out on pages 33 to 34 of the Financial Report which contains a Qualified Conclusion (the "Qualified Conclusion"), stating the following:

    Basis for Qualified 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 $67.514 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 loans, advances and receivable to the local investment and development company of $67.514 million; and*

- *The Group's SSESTEEL Cash Generating Unit property, plant and equipment of $7.869 million.*

Relevant listing rules and guidance

ASX also refers to the following:

- Listing rule 3.1, which requires an entity, once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, to immediately tell ASX that information.

- Listing rule 19.11A, which requires accounts given to ASX under the requirements of the listing rules, to be prepared to Australian accounting standards and if the entity is a foreign entity, the accounts may be prepared to other standards agreed by ASX.

- Listing rule 3.1A sets out an exception from the requirement to make immediate disclosure, provided that each of the following are satisfied.

3.1A.1 One of the following 5 situations applies

- *It would be a breach of a law to disclose the information;*
- *The information concerns an incomplete proposal or negotiation;*
- *The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- *The information is generated for the internal management purposes of the entity; or*
- *The information is a trade secret.*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed.

Questions for response

In light of the information contained in the Financial Report, and referring to the listing rules above, we ask that you answer the following questions in a format suitable for release to the market in accordance with Listing Rule 18.7A.

1. Commenting specifically on the Qualified Review Conclusion, can the Company confirm that in the Directors' opinion the Financial Report:

   (a) complies with the relevant Accounting Standards; and

   (b) gives a true and fair view of the financial performance and financial position of the Company?

2. Please name the local investment and development company ("Local Investment and Development Company") from whom the Group has a loan, advances and receivables due. Please also provide further information on this entity and a link to where this information is available in the public domain.

3. Please provide a summary of the due diligence undertaken by the Company on the Local Investment and Development Company on its financial and other capacity to perform its obligations (payment and other obligations) to the Company.

4. Noting that the steel making facilities started commissioning in early August 2018, when will the Local Investment and Development Company commence commercial production of its steel making facilities?

5. Given the Qualified Conclusion relates to the Auditor's inability 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, what steps does the Company intend to take to obtain an unqualified audit/review report for future financial periods?

6. How has the Company satisfied itself that the planned productions levels of the Local Investment and Development Company's steel making facilities can deliver the forecast cost savings to the Group?

7. How has the Company satisfied itself as to the completeness and accuracy of the financial position and performance of the Local Investment and Development Company so as to present a true and fair view of the Company's investment in the Local Investment and Development Company?

8. Please confirm that the Company is in compliance with the listing rules and, in particular listing rules 3.1

9. Please confirm that the Companys's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of the Company with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, **by not later than 3:00 pm AWST on Friday, 21 September 2018**. If we do not have your response by then, ASX will have no choice but to consider suspending trading in the Entity's securities under Listing Rule 17.3. Your response should be sent to me by return e-mail at Elizabeth.Harris@ASX.com.au, copying tradinghaltsperth@asx.com.au. It should not be sent to the ASX Market Announcements Office.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, the Entity's obligation is to disclose the information "immediately". This may require the information to be disclosed before the deadline set out in the previous.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market. Accordingly, please prepare your response in a form suitable for release to the market.

If you have any queries regarding any of the above, please call me.

Kind regards

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