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



30 August 2019

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

Dear Sirs

**REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2019**
(Previous corresponding period: 30 June 2018)

Attached is our report for the six months ended 30 June 2019 incorporating the requirements of Appendix 4D.

**Results for announcement to the market**

| | 6 months to 30.06.2019 | 6 months to 30.06.2018 | Change $ | Change % |
|---|---|---|---|---|
| Revenues from ordinary activities (A$) | 330.838m | 257.490m | 73.348m | 28% |
| Net profit/(loss) for the period (A$) | 1.540m | (1.393m) | 2.933m | 211% |
| Net profit/(loss) for the period attributable to members (A$) | 0.784m | (1.593m) | 2.377m | 149% |

| Dividends (distributions) | Amount per security | Franked amount per security |
|---|---|---|
| Interim dividend | NIL | NIL |
| Previous interim dividend | 0.015 | NIL |

**Brief explanation of any of the figures reported above:**

Explanation of the results for the half-year ended 30 June 2019 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 | 0.37 | 0.35 |

No control has been gained or lost over any entities 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 2019

# 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 | *Independent Non-Executive Director, Chairman* |
| V.H. Lam | *Managing Director (Chief Executive Officer)* |
| M.D. Mann | *Independent Non-Executive Director* |
| J.H.S Murray | *Independent Non-Executive Director* |
| A.D. Walker | *Independent Non-Executive Director* |
| A.A. Young | *Non-Executive Director* |
| | |
| P. Williams | *Company Secretary* |

**Registered Office in Australia**
Level 24 Allendale Square
77 St. Georges Terrace
PERTH Western Australia 6000
Telephone: (618) 6141 3244
Facsimile: (618) 6141 3101
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

# Contents

# Directors' Report

Your directors submit their report for the half-year ended 30 June 2019.

## 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*
Lam Van Hung, *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 2019** | 30 June 2018 | Change |
|---|---|---|---|
| | **$'000** | $'000 | |
| Group revenue | 330,838 | 257,490 | 28% |
| Group net profit/(loss) after tax | 1,540 | (1,393) | 211% |
| Foreign currency translation difference | 117 | 2,244 | (95%) |
| Total comprehensive income | 1,657 | 851 | 95% |

*Group revenue include other revenue of $3.578 million (2018: $2.048 million).*

For the half-year ended 30 June 2019, the Group reported a total comprehensive income of $1.657 million (2018: $0.851 million). A slightly improved result is reported with a net profit after tax of $1.540 million (2018: net loss after tax of $1.393 million). The increase in the demand of construction projects in Vietnam led to the increase in sales volumes during the period. Moreover, the Group's management of its costs of obtaining good quality billets resulted in improvement of gross profit. Gross profit margin increased from 2.9% to 3.8%. Vinausteel made the largest contribution to the Group's financial performance for the current period reporting a net profit after tax of $2.456 million (2018: $0.694 million) due to sales growth and gross profit increase. Vinausteel's gross profit margin went up from 2.9% to 4.8% whilst SSESTEEL's gross profit margin increased from 2.4% to 2.9%. This slight increase in SSESTEEL gross profit margin led to a lower net loss after tax of $0.314 million for the half-year ended 30 June 2019 (2018: $1.456 million). The arrangement with a local strategic partner, Nam Thuan Investment Development Company ("NTC") is beginning to bring some positive improvements although still in the early stages of implementation.

During half-year ended 30 June 2019, an offer was received to purchase the Group's 99% ownership in Total Building Systems Limited ("TBS") thus avoiding the need for winding down this company. Terms for the sale of TBS are being negotiated and the sale is expected to be completed in the near future. At 30 June 2019, TBS was classified as a disposal group held for sale and as a discontinued operation.

In Note 15 to this report, we have reported on an arrangement with NTC 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. On 30 May 2019, the Company announced that the second phase of the project, the rolling mill to produce rebar by hot charging of billets, had been successfully commissioned. The hot charging has been effectively implemented on a stable basis sooner than expected and the mill is currently producing an average of 500 tons per day. The production of hot charging billets is a key factor of the Company's supply arrangement and is anticipated to result in future production and cost savings. In order to increase production rebar by hot billet charging, the Company understands that NTC is planning to install a further pair of induction furnaces.

NTC will start commissioning the Blast Furnace in Q4 2019. Construction of a Basic Oxygen Furnace (BOF) has commenced with piling and foundation work well advanced. The facility is scheduled for completion in Q2 2020 with commissioning and production.

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 located in Hai Phong, Vietnam which produces high tensile rebar and wire rod for the construction industry. SSESTEEL has been partnering with a Vietnamese local strategic company for billet supply.

| | **30 June 2019** | **30 June 2018** | *Change* |
|---|---|---|---|
| Sale Volume (tons) | 201,831 | 183,341 | 10% |
| **Revenue** | **$205.281 million** (VND3.381 trillion) | **$153.232 million** (VND2.682 trillion) | 26% |
| **Net Loss after tax** | **($0.314 million)** (-VND5.167 billion) | **($1.456 million)** (-VND25.483 billion) | (80%) |

SSESTEEL reported a net loss after tax of $0.314 million (2018: $1.456 million). SSESTEEL continued to grow sales volume and revenue. Its gross profit margin slightly increased from 2.4% to 2.9%. However, with increasing working capital requirements, it had to service its increasing loans' interest expense which led to net loss after tax in current period.

***Vinausteel Ltd (VII 70%)***

Vinausteel owns and operates a steel rolling mill in Hai Phong which produces reinforcing steel products for the construction industry.

| | **30 June 2019** | **30 June 2018** | *Change* |
|---|---|---|---|
| Sale Volume (tons) | 156,004 | 124,792 | 25% |
| **Revenue** | **$119.979 million** (VND1.976 trillion) | **$100.240 million** (VND1.754 trillion) | 13% |
| **Net Profit after tax** | **$2.456 million** (VND40.452 billion) | **$0.694 million** (VND12.148 billion) | 233% |

Vinausteel made the largest contribution to the Group's financial performance for the current period reporting a net profit after tax of $2.456 million (2018: $0.694 million) due to sales growth and gross profit increase. Vinausteel gross profit margin went up from 2.9% to 4.8%.

***Austnam Joint Stock Corporation (VII 67%)***

Austnam produces metal roofing, steel frames and wood replacement products from its factory in Hanoi which it distributes in that city and surrounding provinces.

| | **30 June 2019** | **30 June 2018** | *Change* |
|---|---|---|---|
| Square Meters Sold | 310,443 | 283,885 | (9%) |
| **Revenue** | **$2.000 million** (VND32.945 billion) | **$1.970 million** (VND34.624 billion) | (4%) |
| **Net Profit/(Loss) after tax** | **$0.067 million** (VND1.098 billion) | **($0.015 million)** (-VND0.255 billion) | (530%) |

For the half-year ended 30 June 2019, Austnam reported a small net profit after tax of $0.067 million (2018: net loss after tax of $0.015 million). The increase in sales volume contributed to the net profit for the period despite the higher material import tariff affecting this company.

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

| | 30 June 2019 | 31 December 2018 | 30 June 2018 | 31 December 2017 |
|---|---|---|---|---|
| Spot rate | 16,342 | 16,371 | 16,970 | 17,713 |
| Average rate | 16,469 | 17,170 | 17,500 | 17,474 |

During the period, the foreign currency translation difference is a gain of $0.117 million (2018: $2.244 million). Vietnam Dong appreciated slightly against the Australian Dollar since 31 December 2018 as compared to previous period.

**EVENTS SUBSEQUENT TO BALANCE DATE**

There has not been any 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 2019.

Signed in accordance with a resolution of the directors.

ROGER SING-LEONG KWOK
**Director**
30 August 2019

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Building a better working world

## 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 2019, 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

Ernst & Young

V L Hoang
Partner
30 August 2019

**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

| | Notes | CONSOLIDATED 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue from contracts with customers | 19 | 327,260 | 255,442 |
| Other revenue | 4 | 3,578 | 2,048 |
| | | 330,838 | 257,490 |
| Cost of sales | | (314,954) | (248,035) |
| **Gross profit** | | 15,884 | 9,455 |
| Other income | 4 | 39 | 100 |
| Selling expenses | 4 | (4,550) | (3,415) |
| Administrative expenses | 4 | (4,591) | (4,217) |
| Finance costs | | (3,813) | (2,298) |
| **Profit/(loss) before income tax** | | 2,969 | (375) |
| Income tax expense | 5 | (1,183) | (665) |
| **Net profit/(loss) after tax from continuing operations** | | 1,786 | (1,040) |
| **Discontinued operation** | | | |
| Net loss after tax from discontinued operation | 16 | (246) | (353) |
| **Net profit/(loss) for the period** | | 1,540 | (1,393) |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation differences attributable to parent | | 102 | 2,037 |
| *Items that may not be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation differences attributable to non-controlling interests | | 15 | 207 |
| **Other comprehensive income for the period** | | 117 | 2,244 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | 1,657 | 851 |
| Net profit/ (loss) after tax attributable to: | | | |
| Equity holders of the parent | | 784 | (1,593) |
| Non-controlling interests | | 756 | 200 |
| | | 1,540 | (1,393) |
| Total comprehensive income net of tax attributable to: | | | |
| Equity holders of the parent | | 886 | 444 |
| Non-controlling interests | | 771 | 407 |
| | | 1,657 | 851 |
| **Profit/(loss) per share (cents per share) for continuing operations attributable to the ordinary equity holders of the company:** | | 1.2 | (0.8) |
| - basic and diluted earnings/(loss) per share (cents per share) | | | |
| **Profit/(loss) per share (cents per share) attributable to the ordinary equity holders of the company:** | | | |
| - basic and diluted earnings/(loss) per share (cents per share) | | 1.0 | (1.1) |

The accompanying notes form part of the financial report

**AS AT 30 JUNE 2019**

| | Notes | CONSOLIDATED As at 30 June 2019 $'000 | As at 31 December 2018 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 7 | 15,500 | 21,743 |
| Trade and other receivables | 8 | 88,790 | 85,916 |
| Advances to suppliers | 9 | 39,925 | 24,423 |
| Inventories | | 45,899 | 38,074 |
| Financial assets at fair value through profit or loss | | 9 | 9 |
| Other current assets | | 314 | 427 |
| | | 190,437 | 170,592 |
| Disposal group classified as held for sale | 16 | 945 | - |
| **Total Current Assets** | | 191,382 | 170,592 |
| **Non-current Assets** | | | |
| Other receivable | 10 | 3,671 | 7,330 |
| Property, plant and equipment | | 11,219 | 12,232 |
| Right-of-use assets | | 1,246 | - |
| Deferred tax assets | | 976 | 1,144 |
| Intangible assets and goodwill | | 78 | 80 |
| Other non-current assets | | 612 | 638 |
| **Total Non-current Assets** | | 17,802 | 21,424 |
| **TOTAL ASSETS** | | 209,184 | 192,016 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | | 30,176 | 27,928 |
| Lease liabilities | | 156 | - |
| Advances from customers | | 2,006 | 2,419 |
| Income tax provision | | 2,701 | 2,118 |
| Interest-bearing loans and borrowings | 12 | 113,092 | 101,557 |
| Provisions | | 796 | 889 |
| | | 148,927 | 134,911 |
| Liabilities directly associated with disposal group classified as held for sale | 16 | 382 | - |
| **Total Current Liabilities** | | 149,309 | 134,911 |
| **Non-current Liabilities** | | | |
| Lease liabilities | | 1,113 | - |
| **Total Non-Current Liabilities** | | 1,113 | - |
| **TOTAL LIABILITIES** | | 150,422 | 134,911 |
| **NET ASSETS** | | 58,762 | 57,105 |
| **EQUITY** | | | |
| Contributed equity | 6 | 27,819 | 27,819 |
| Reserves | | (4,676) | (4,778) |
| Retained earnings | | 29,945 | 29,161 |
| **Parent interests** | | 53,088 | 52,202 |
| **Non-controlling interests** | | 5,674 | 4,903 |
| **TOTAL EQUITY** | | 58,762 | 57,105 |

The accompanying notes form part of the financial report.

**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

| 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 2019** | 27,819 | (5,902) | 29,161 | 1,124 | 52,202 | 4,903 | 57,105 |
| Net profit for the period | - | | 784 | - | 784 | 756 | 1,540 |
| Other comprehensive income | - | 102 | - | - | 102 | 15 | 117 |
| **Total comprehensive income for the period** | - | 102 | 784 | - | 886 | 771 | 1,657 |
| **At 30 June 2019** | 27,819 | (5,800) | 29,945 | 1,124 | 53,088 | 5,674 | 58,762 |
| | | | | | | | |
| **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 income | - | 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 |

The accompanying notes form part of the financial report.

**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

| | Notes | CONSOLIDATED 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of VAT) | | 359,456 | 269,810 |
| Payments to suppliers and employees (inclusive of VAT) | | (375,989) | (287,454) |
| Interest income received | | 7,315 | 932 |
| Borrowing costs | | (3,764) | (2,298) |
| Interest repayments on lease liabilities | | (49) | - |
| Income taxes paid | | (439) | (249) |
| **Net cash flows used in operating activities** | | (13,470) | (19,259) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (353) | (369) |
| Net funding of short-term deposits | | (2,942) | (6,909) |
| **Net cash flows used in investing activities** | | (3,295) | (7,278) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | 190,408 | 262,440 |
| Repayment of bank borrowings | | (179,140) | (240,314) |
| Repayments on lease liabilities | | (74) | - |
| Dividends paid to shareholders | | - | (2,133) |
| Dividends paid to non-controlling interests | | - | (467) |
| **Net cash flows provided by financing activities** | | 11,194 | 19,526 |
| Net decrease in cash and cash equivalents | | (5,571) | (7,011) |
| Net foreign exchange difference | | (1) | 1,637 |
| Cash and cash equivalents at beginning of period | | 21,743 | 45,255 |
| **Cash and cash equivalents at end of period** | 7 | 16,171 | 39,881 |

The accompanying notes form part of the financial report.

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 1. CORPORATE INFORMATION

The interim consolidated financial statements of the Company and its subsidiaries (the Group) for the six months ended 30 June 2019 were authorised for issue in accordance with a resolution of the directors on 26 August 2019.

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 Level 24 Allendale Square, Perth Western Australia 6000, 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 consolidated financial statements for the six months ended 30 June 2019 are condensed general purpose financial statements prepared in accordance with AASB 134 *Interim Financial Reporting*.

The interim 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 2018. The interim consolidated financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

### 2.2 New and amended standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of the interim 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 2018, except for the adoption of new accounting standards effective as of 1 January 2019. 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 16 *Leases* ("AASB 16") and AASB Interpretation 23 *Uncertainty over Income Tax Treatments* ("AASB Interpretation 23"). The impact of adopting these are discussed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim consolidated financial statements of the Group and hence have not been disclosed.

***AASB 16***

AASB 16 was issued in January 2016 and it replaces AASB 117 *Leases* ("AASB 117"), AASB Interpretation 4 *Determining whether an Arrangement contains a Lease* ("AASB Interpretation 4"), AASB Interpretation-115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117.

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.2 New and amended standards and interpretations adopted by the Group (continued)

***AASB 16***

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The impacts of this standard are as follows:

Effective 1 January 2019, the Group has adopted AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019, and as such the comparatives have not been restated. There was no impact of adoption on opening retained profits as at 1 January 2019.

The Group used the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or operating lease. For operating leases, the leased property was not capitalised and the lease payments were recognised as an expense in profit or loss on a straight-line basis.

During the period, the detailed impact of AASB 16 is as follows:

The Group has recorded:

| | 1 January 2019<br>$'000 | 30 June 2019<br>$'000 |
|---|---|---|
| ***Assets*** | | |
| Non-current assets – Right-of-use assets | 1,340 | 1,246 |
| ***Liabilities*** | | |
| Current liabilities - lease liabilities | 470 | 156 |
| Non-current liabilities - lease liabilities | 870 | 1,113 |

Modified retrospective transition:

| | $'000 |
|---|---|
| Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements | 1,451 |
| Present value discounting | (111) |
| Lease liabilities at 1 January 2019 | 1,340 |

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.2 New and amended standards and interpretations adopted by the Group (continued)

***AASB 16***

Principal repayments on lease liabilities of $0.074 million were presented as financing cash flows in the consolidated statement of cash flows. Interest repayments on lease liabilities of $0.049 million for the half year ended 30 June 2019 were presented as operating cash flows in the consolidated statement of cash flows.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application was 9%.

The Group also considered its strategic supply arrangement with NTC and concluded that there was no embedded lease under AASB 16 within this arrangement. In reaching this conclusion, the Group considered the extent of involvement on NTC operations and concluded that it does not have the right to direct the use of the NTC plant.

***AASB Interpretation 23***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 *Income Taxes* ("AASB 112") and does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with on or more other uncertain tax treatments. There was no impact on adopting AASB Interpretation 23.

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.3 Going concern

At 30 June 2019, the Group presented net current assets of $42.073 million (31 December 2018: $35.681 million). Net current assets included current interest-bearing loans and borrowings of $113.092 million (31 December 2018: $101.557 million). These loans 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, timely collection of its receivables and timely satisfactory fulfillment of the contractual obligations from Nam Thuan Investment Development Company ("NTC"), a Vietnamese local investment and development company (the "local strategic partner") to which the Group has a total exposure of $79.154 million under loan, advances and receivable 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. On 30 May 2019, the Company announced that the second phase of the project, the rolling mill to produce rebar by hot charging of billets, had been successfully commissioned. The mill is currently producing an average of 500 tons per day. In order to increase production rebar by hot billet charging, the Company understands that NTC is planning to install a further pair of induction furnaces. Once the additional induction furnaces are in operation, NTC should achieve optimum capacity in hot charging rebar in Q1 2020.

The strategic supply 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.

The Group believes that the above 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.

There is one operating segment for which discrete information is presented to the chief decision makers being the Steel Making Division. This division comprises Vinausteel Limited ("Vinausteel"), SSESTEEL Ltd ("SSESTEEL"), Austnam Joint Stock Corporation ("Austnam"), and VRC Weldmesh (Vietnam) Limited ("VRC"). Unallocated relate to corporate charges of Parent in Australia, British Virgin Islands and Singapore entities which are separately accounted for from the business segments. Total Building Systems Ltd has been excluded as this has been classified as a disposal group held for sale and as a discontinued operation (Refer to Note 16).

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 3. SEGMENT INFORMATION (continued)

### 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 preparation of financial statements of the Group.

### Segment Performance

| | Steel Making (Vietnam) $'000 | Unallocated Note (i) $'000 | Total $'000 | Adjustments and eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| **Half-year ended 30 June 2019** | | | | | |
| **Revenues** | | | | | |
| External revenues from contracts with customers | 327,260 | - | 327,260 | - | 327,260 |
| Other revenues | 3,575 | 3 | 3,578 | - | 3,578 |
| Total segment revenues | 330,835 | 3 | 330,838 | - | 330,838 |
| **Results** | | | | | |
| Other income | 39 | 191 | 230 | (191) | 39 |
| Finance costs | (3,985) | - | (3,985) | 172 | (3,813) |
| Segment result before tax | 3,384 | - | 3,384 | - | 3,384 |
| Income tax expense | (1,183) | - | (1,183) | - | (1,183) |
| Segment result after tax | 2,201 | - | 2,201 | - | 2,201 |
| Corporate charges | - | (415) | (415) | - | (415) |
| Net profit after tax from continuing operations | 2,201 | (415) | 1,786 | - | 1,786 |

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

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 3. SEGMENT INFORMATION (continued)

| | Steel Making (Vietnam) $'000 | Unallocated Note (i) $'000 | Total $'000 | Adjustments and eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|
| **Half-year ended 30 June 2018** | | | | | |
| **Revenues** | | | | | |
| External revenues from contracts with customers | 255,442 | - | 255,442 | - | 255,442 |
| Other revenues | 2,038 | 10 | 2,048 | - | 2,048 |
| Total segment revenues | 257,480 | 10 | 257,490 | - | 257,490 |
| **Results** | | | | | |
| Other income | 70 | 209 | 279 | (179) | 100 |
| Finance costs | (2,469) | - | (2,469) | 171 | (2,298) |
| Segment result before tax | (121) | - | (121) | - | (121) |
| Income tax expense | (665) | - | (665) | - | (665) |
| Segment result after tax | (786) | - | (786) | - | (786) |
| Corporate charges | - | (254) | (254) | - | (254) |
| Net profit after tax from continuing operations | (786) | (254) | (1,040) | - | (1,040) |

| | Steel Making (Vietnam) $'000 | Unallocated Note (i) $'000 | Total $'000 |
|---|---|---|---|
| **Segment assets** | | | |
| **At 30 June 2019** | | | |
| Segment assets | 207,368 | 967 | 208,335 |
| Disposal group classified as held for sale (note 16) | | | 945 |
| Inter-segment eliminations | | | (96) |
| Total assets per statement of financial position | | | 209,184 |
| **At 31 December 2018** | | | |
| Segment assets | 190,498 | 1,613 | 192,111 |
| Inter-segment eliminations | | | (95) |
| Total assets per statement of financial position | | | 192,016 |
| **Segment liabilities** | | | |
| **At 30 June 2019** | | | |
| Segment liabilities | 149,802 | 334 | 150,136 |
| Liabilities directly associated with disposal group classified as held for sale (note 16) | | | 382 |
| Inter-segment eliminations | | | (96) |
| Total liabilities per statement of financial position | | | 150,422 |
| **At 31 December 2018** | | | |
| Segment liabilities | 134,440 | 566 | 135,006 |
| Inter-segment eliminations | | | (95) |
| Total liabilities per statement of financial position | | | 134,911 |

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

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 4. REVENUE AND EXPENSES

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

| | CONSOLIDATED | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| **(i) Other income** | | |
| Rent income | 13 | 10 |
| Other | 26 | 90 |
| | 39 | 100 |
| **(ii) Other revenue** | | |
| Interest income – receivables from local strategic partner (Notes 9 and 10) | 2,851 | 1,102 |
| Interest income – short-term deposits | 696 | 940 |
| Interest income – other | 31 | 6 |
| | 3,578 | 2,048 |
| **(ii) Expenses** | | |
| Depreciation and amortisation | (1,389) | (1,073) |
| **(iii) Selling expenses** | | |
| Salaries and wages | (692) | (441) |
| Delivery expenses | (370) | (334) |
| Other | (3,488) | (2,640) |
| | (4,550) | (3,415) |
| **(iv) Administrative expenses** | | |
| Employee related expenses | (2,919) | (1,970) |
| Professional fees | (130) | (116) |
| Rent expenses | (181) | (228) |
| Travel expenses | (66) | (123) |
| Foreign exchange loss | (135) | (575) |
| Other | (1,160) | (1,205) |
| | (4,591) | (4,217) |

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 5. INCOME TAX EXPENSE

| | CONSOLIDATED | |
|---|---|---|
| | **2019** | 2018 |
| | **$'000** | $'000 |
| Income tax expense consists of: | | |
| Current income tax | (1,014) | (218) |
| Deferred tax | (169) | (447) |
| | (1,183) | (665) |
| Current income tax expense consists of: | | |
| Vinausteel income tax expense | (748) | (611) |
| SSESTEEL income tax expense | (416) | (52) |
| Austnam income tax expense | (19) | (2) |
| | (1,183) | (665) |

## 6. CONTRIBUTED EQUITY

| | CONSOLIDATED | |
|---|---|---|
| | **30 June 2019** | 31 December 2018 |
| | **$'000** | $'000 |
| Contributed equity | 27,819 | 27,819 |
| | **Number** | Number |
| Number of shares | 142,277,423 | 142,277,423 |

## 7. CASH AND CASH EQUIVALENTS

| | CONSOLIDATED | |
|---|---|---|
| | **30 June 2019** | 30 June 2018 |
| | **$'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 | 1,997 | 2,915 |
| Short-term deposits | 13,503 | 36,966 |
| | 15,500 | 39,881 |
| Cash at bank attributable to discontinued operation (Note 16) | 671 | - |
| | 16,671 | 39,881 |

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 8. TRADE AND OTHER RECEIVABLES

| | CONSOLIDATED | |
|---|---|---|
| | **30 June 2019** | 31 December 2018 |
| | **$'000** | $'000 |
| Trade receivables at amortised cost | | |
| Trade receivables from local strategic partner (refer to note 15) | 29,262 | 21,925 |
| Trade receivables from customers | 21,803 | 26,447 |
| | 51,065 | 48,372 |
| Allowance for expected credit loss | (2,763) | (3,227) |
| | 48,302 | 45,145 |
| Construction contract receivables | - | 67 |
| Allowance for expected credit loss | - | (47) |
| | - | 20 |
| Other receivables at amortised cost | | |
| Other receivable from local strategic partner – current (refer to note 10) | 3,672 | 3,665 |
| Accrued interest on other receivable from local strategic partner (refer to note 10) | 407 | 1,870 |
| Accrued interest on advances to local strategic partner (refer to note 9) | 2,466 | 3,927 |
| Accrued interest on term deposits | 155 | 891 |
| Others | 2,232 | 1,812 |
| | 8,932 | 12,165 |
| Term deposits at amortised cost (i) | 31,556 | 28,586 |
| | 31,556 | 28,586 |
| Carrying amount of trade and other receivables | 88,790 | 85,916 |

(i) Term deposits have original terms greater than three months and bear interest rates ranging from 6.4% to 9% (2018: 4.6% - 8%).

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 9. ADVANCES TO SUPPLIERS

| | CONSOLIDATED | |
|---|---|---|
| | **30 June 2019** | 31 December 2018 |
| | **$'000** | $'000 |
| Advances to local strategic partner | 39,676 | 23,925 |
| Advances to other suppliers | 249 | 498 |
| | 39,925 | 24,423 |

At 30 June 2019, advances to suppliers included advances equivalent to $39.676 million (VND648 billion) (31 December 2018: $23.925 million (VND392 billion)) were made to NTC, a Vietnamese local strategic partner, which is the same counterparty to the other receivable disclosed in notes 10 and 15.

The advances to the local strategic partner bear interest. 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

| | CONSOLIDATED | |
|---|---|---|
| | **30 June 2019** | 31 December 2018 |
| | **$'000** | $'000 |
| Other receivable | 3,671 | 7,330 |
| | 3,671 | 7,330 |

At 31 December 2018, SSESTEEL has an other receivable due from NTC, equivalent to $10.995 million (VND 180 billion) of which VND60 billion was repaid in January 2019. The outstanding balance as at 30 June 2019 is $7.343 million (VND120 billion) of which current portion is $3.672 million (VND60 billion) and non-current portion is $3.671 million (VND60 billion). This amount is to be repaid over the remaining 24 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 accrued interest of this other receivable is $0.407 million, is included in trade and other receivables under current assets. Refer to note 15 for further disclosure.

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 11. RECOVERABILITY OF NON-CURRENT ASSETS

The Group's main cash generating units (CGUs) are in SSESTEEL and Vinausteel. At 30 June 2019, the Group had performed impairment assessment for these CGUs. The results are as follow:

*Vinausteel CGU*
The total non-current asset of this CGU at 30 June 2019 was $1.257 million. This CGU made a profit before tax for the half-year ended 30 June 2019 of $2.456 million. The Group has assessed this CGU against the impairment assessment criteria under AASB 136 Impairment of Assets and concluded that no impairment triggers existed at 30 June 2019. As a result, no impairment charges were required for this CGU.

*SSESTEEL CGU*
The financial performance of the SSESTEEL CGU for the half-year ended 30 June 2019 was a net loss after tax of $0.314 million (2018: $1.456 million) which is an internal indicator of impairment. At 30 June 2019, the SSESTEEL CGU carrying value of its property, plant and equipment was $7.991 million.

At 30 June 2019, the Group performed an impairment assessment for this CGU using a value in use calculation based on cash flow projections from financial budgets approved by management covering a five-year period to determine the CGU recoverable amount. The projected cash flows adopted reflect the demand for steel in Vietnam to deliver the expected savings in the Group's future cost of production and the gradual decrease in the Group's working capital advances to the local strategic partner once its steel making facilities achieve full production capacity at optimum costs (refer to note 15). The real post-tax discount rate applied is 12% (2018: 12%). A growth rate of nil was used to determine the terminal value of SSESTEEL (2018: nil). At 30 June 2019, 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 2019.

**Key assumptions used in value in use calculations**
The calculation of value in use for SSESTEEL CGU are most sensitive to gross profit margin, discount rate and growth rate.

| | SSESTEEL |
|---|---|
| Effective gross profit margin | 6.49% |
| Discount rate | 12% |
| Growth rate used to determine terminal value | Nil |

**Sensitivity to changes in assumptions**
The sensitivity analyses have been determined for the gross profit margin and discount rate for the estimated recoverable amounts of SSESTEEL.

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 $7.991 million on the property, plant and equipment of SSESTEEL CGU.

If the discount rate increased by 1% with the gross profit margin held constant, there would be an impairment loss of $2.905 million on the property, plant and equipment of SSESTEEL 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 $1.320 million on the property, plant and equipment of SSESTEEL CGU.

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 12. INTEREST-BEARING LOANS AND BORROWINGS

| | CONSOLIDATED | |
|---|---|---|
| | **30 June 2019 $'000** | 31 December 2018 $'000 |
| Current | | |
| Bank loans – secured | 113,092 | 101,557 |
| | 113,092 | 101,557 |

**Terms and conditions of Interest-bearing loans and borrowings**
Outstanding bank loans relate to loans from various banks in Vietnam which are denominated 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 2019 the total interest bearing liabilities drawn down to which these corporate guarantees relate to are:

| | 30 June 2019 | 31 December 2018 |
|---|---|---|
| **Outstanding bank loans** | $113.092 million | $101.557 million |
| **Letter of guarantee** | $23.528 million (US$16.500 million) | $23.378 million (US$16.500 million) |
| **Outstanding loans guaranteed by the parent** | $18.889 million (USD$13.247 million) | $19.664 million (US$13.879 million) |

Interest is recognised at an effective rate of interest.

**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 2019 $'000** | 31 December 2018 $'000 |
|---|---|---|
| Inventories | 39,362 | 32,576 |
| Property, plant and equipment | 7,641 | 9,073 |
| Deposits | 19,061 | 29,897 |
| Trade receivables | 28,355 | 14,738 |
| | 94,419 | 86,284 |

Financing facilities available

| | **30 June 2019 $'000** | 31 December 2018 $'000 |
|---|---|---|
| At reporting date, the following financing facilities had been negotiated and were available | | |
| Total facilities available | 173,825 | 178,057 |
| Facilities used at reporting date | (113,092) | (101,557) |
| Facilities unused at reporting date | 60,733 | 76,500 |

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 13. RELATED PARTY DISCLOSURES

**Transactions and balances with Key Management Personnel and their related parties**

At 30 June 2019, the balance owing to Mr Lam is $213,004 (31 December 2018: $455,519).

For the half year ended 30 June 2019, the non-executive directors' remuneration was $115,000 (half year ended 30 June 2018: $115,000). At 30 June 2019, the balance owing to non-executive directors is $4,167 (31 December 2018: nil).

For half-year ended 30 June 2018, the Company subleased 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 2019 was $5,250 (30 June 2008: $31,500). The lease with Arcadia was made in the ordinary course of business and on normal commercial terms and conditions. Also, the Company paid bookkeeping services to Arcadia of $2,000 (2018: $12,000). Commencing 1 February 2019, the Company leased an office space to another entity which are not related to directors and cancelled Arcadia's bookkeeping services.

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 $3,827 (30 June 2018: $3,721).

## 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 2019 | 31 December 2018 | 30 June 2018 | 31 December 2017 |
|---|---|---|---|---|
| Spot rate | 16,342 | 16,371 | 16,970 | 17,713 |
| Average rate | 16,469 | 17,170 | 17,500 | 17,474 |
| **Foreign exchange gain difference** | $0.102 million | | $2.037 million | |
| **Foreign currency translation reserves** | ($5.800 million) | | ($7.699 million) | |

During the period, the foreign currency translation difference attributable to the parent is a gain of $0.102 million (2018: $2.037 million). Vietnam Dong appreciated slightly since 31 December 2018 as compared to previous period.

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 15. STRATEGIC SUPPLY ARRANGEMENT

The Group's wholly owned subsidiary SSESTEEL Ltd (SSESTEEL) entered into a supply arrangement ("the arrangement") with Nam Thuan Investment Development Company ("NTC"), a Vietnamese 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 30 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.

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.

At 30 June 2019, the Group has the following credit exposure with the local strategic partner:

| | 30 June 2019<br>$'000 | 31 December 2018<br>$'000 |
|---|---|---|
| **Short term advances and receivables** | | |
| Short term receivable related to selling of steel scraps and equipment (included in trade and other receivables – refer to Note 8) | 29,262 | 21,925 |
| Short term advances for billets purchase (refer to Note 9) | 39,676 | 23,925 |
| Interest receivables (refer to Note 8) | 2,873 | 5,797 |
| Current- loan receivable (refer to Note 8) | 3,672 | 3,665 |
| **Total current assets** | 75,483 | 55,312 |
| **Long term loan receivable** (refer to Note 10) | 3,671 | 7,330 |
| **Total exposure** | 79,154 | 62,642 |

Management acknowledges at 30 June 2019 and 31 December 2018:

- 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 re-measurement adjustments arising from variation from the original contractual cashflows in accordance with AASB 9 Financial Instruments;
- the Group's ability to meet its obligations under its short-term loan facilities taken to finance the above advances, loans and receivables; and
- the Group's ability to recover the carrying value of its non-current assets

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.

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 15. STRATEGIC SUPPLY ARRANGEMENT (continued)

The above exposure is secured against second registered charges dated July 2017 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. This is however not the primary source of recovery of the Group's exposure to the local strategic supplier. The net realisable value of the collateral assets available to the Group, after taking into account the borrowings by the local strategic partner from the first charges holder, is lower than the Group's present level of exposure.

Whilst the ability of NTC's steel making facilities to achieve and maintain full production capacity at optimum costs in the planned stages cannot be guaranteed as at the report date, management is pleased with the operational performance of the NTC plant to date. Due to the importance that management attach to the supply arrangement with NTC, and the Group's exposure in assisting that company, SSESTEEL has seconded experienced personnel to NTC to ensure that development of the steel making facilities is progressing satisfactorily. Once construction of the NTC facility is completed as a steel production unit, management expects that the net realisable value of the collateral access will exceed the Group's present level of exposure. In addition, once the next phase of construction is completed, alternative valuation methods, such as DCF models, are expected to indicate more robust valuations than simple valuation of the projects' assets. Although the NTC plant is currently operating well, it has not been in operation for a sufficiently long period to provide a reasonable certainty that the process can deliver the anticipated/expected levels of production capacity at optimum costs and provide significant cost savings to VII. Therefore, management have no reason to doubt that the objectives of the supply arrangement will not be achieved and believe that there is low probability of default such that there is no need for a provision associated with the exposure.

## 16. DISCONTINUED OPERATION

During half-year ended 30 June 2019, an offer was received to purchase the Group's 99% ownership in Total Building Systems Limited ("TBS") thus avoiding the need for winding down this company. Terms for the sale of TBS are being negotiated and the sale is expected to be completed in the near future. At 30 June 2019, TBS was classified as a disposal group held for sale and as a discontinued operation. Previously, TBS was included in the Steel Making (Vietnam) division. With TBS being classified as a discontinued operation, TBS has been excluded in the Steel Making (Vietnam) division in the segment note. The results of TBS for the half-year ended 30 June 2019 is as follows:

| | **30 June 2019 $'000** | 30 June 2018 $'000 |
|---|---|---|
| Revenue from contracts with customers | 130 | 91 |
| Expenses | (202) | (470) |
| Operating loss | (72) | (379) |
| Other income | 2 | 26 |
| Impairment loss recognised on the remeasurement to fair value less costs to sell | (176) | - |
| Loss before tax from a discontinued operation | (246) | (353) |
| Tax (expense)/benefit | | |
| Related to pre-tax profit/(loss) from ordinary activities for the period | - | - |
| Related to remeasurement to fair value less costs to sell | - | - |
| Loss for the period from discontinued operation | (246) | (353) |

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 16. DISCONTINUED OPERATION (continued)

The assets and liabilities of TBS classified as held for sale at 30 June 2019 are as follows:

| | 30 June 2019 $'000 |
|---|---|
| **Assets** | |
| Cash | 671 |
| Trade and other receivables | 104 |
| Property, plant and equipment | 89 |
| Other current assets | 81 |
| Assets held for sale | 945 |
| **Liabilities** | |
| Trade and other payables | 382 |
| Liabilities directly associated with the assets held for sale | 382 |
| **Net assets directly associated with disposal group** | 563 |

The net cash flows incurred by TBS are, as follows:

| | 30 June 2019 $'000 | 30 June 2018 $'000 |
|---|---|---|
| Operating | (41) | 149 |
| Investing | (91) | (40) |
| Financing | - | - |
| Net cash (outflow)/inflow | (132) | 109 |

Loss per share (in cents)

| | 30 June 2019 cents | 30 June 2018 cents |
|---|---|---|
| Basic and diluted loss per share for the period from discontinued operation | (0.2) | (0.3) |

## 17. FAIR VALUE MEASUREMENT

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

## 18. COMMITMENTS AND CONTINGENCIES

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

# Notes to the Half-Year Financial Statements
**FOR THE HALF-YEAR ENDED 30 JUNE 2019**

## 19. REVENUE FROM CONTRACTS WITH CUSTOMERS

For the half-year ended 30 June 2019, revenue is disaggregated as follows:

| | **30 June 2019 $'000** | 30 June 2018 $'000 |
|---|---|---|
| Type of good or service and timing of revenue recognition | | |
| Sale of goods- point in time (i) | 327,260 | 255,442 |
| | 327,260 | 255,442 |

(i) Where the Group offers volume-based discounts to customers, these discounts are estimated at each reporting date and are finalised as at 31 December.

The Group's sales of goods are made to a number of external customers located in Vietnam.

a) Contract balances

| | **30 June 2019 $'000** | 31 December 2018 $'000 |
|---|---|---|
| Trade receivables (Note 8) | 21,803 | 26,447 |
| Construction contract receivable (Note 8) | - | 67 |
| Advances from customers (i) | (2,006) | (2,419) |

(i) Advances from customers are amounts received from customers in advance of the performance obligations being satisfied which are treated as contract liabilities. These amounts are recognised as revenue when the performance obligations, being the transfer of goods, are met. No goods have been transferred under these sale agreements as at 30 June 2019 and 31 December 2018 however amounts are expected to be settled within twelve months days and there is no financing component in the contracts.

## 20. EVENTS AFTER BALANCE SHEET DATE

There has not been any 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 2019 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 2.3, 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**

30 August 2019

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

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# 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 2019, 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 2019 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, as at 30 June 2019, the Group has advances, receivables and a loan due from Nam Thuan Development Co Ltd ("Nam Thuan"), a local investment and development company in Vietnam, amounting to $79.154 million (31 December 2018: $62.642 million). The recoverability of the advances, receivables and the loan is initially dependent on the successful achievement of commercial production at Nam Thuan's new steel making facilities. Failing this, the recoverability of the advances, receivables and the loan is dependent on the realisation of sufficient value from the Nam Thuan assets pledged as security to the Group under a second registered charge.

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 ability of Nam Thuan's new steel making facilities to deliver to the Group the budgeted volumes of steel at the expected price.

For the review of the Group's financial report for the half-year ended 30 June 2019, we have been unable to obtain sufficient appropriate audit evidence to assess whether Nam Thuan can achieve planned production levels at its steel making facilities and deliver the forecast production at the expected price, nor to assess the potential impact of the Group's exposure to Nam Thuan, including an assessment of the probability of default and loss given default in respect of the advances, receivables and the loan.

Consequently, we are unable to determine the extent of impairment charges, if any, and the accuracy and completeness of disclosures relating to:

- the Group's advances, receivables and the loan due from Nam Thuan of $79.514 million at 30 June 2019
- The Group's SSESTEEL cash generating unit property, plant and equipment of $7.991 million at 30 June 2019

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Our audit report dated 29 March 2019 on the Group's financial report for the financial year ended 31 December 2018 and our review conclusion dated 31 August 2018 on the Group's interim financial report for the half-year ended 30 June 2018 were also qualified on the same basis.

## Emphasis of matter – Material uncertainty related to going concern

We draw attention to Note 2.3 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 2019 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

Ernst & Young

V L Hoang
Partner
Perth
30 August 2019