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SAO Y BẢN CHÍNH
Ngày 17 Tháng 4... Năm 2019



KT. TỔNG GIÁM ĐỐC
PHÓ TỔNG GIÁM ĐỐC
Satoshi Sugino

VIETNAM - ITALY STEEL JOINT STOCK COMPANY
(Incorporated in the Socialist Republic of Vietnam)

**AUDITED FINANCIAL
STATEMENTS**

For the year ended 31 December 2018

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VIETNAM - ITALY STEEL JOINT STOCK COMPANY

Pho Noi A Industrial Park, Giai Pham Commune
Yen My District, Hung Yen Province, S.R.Vietnam

STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors of Vietnam - Italy Steel Joint Stock Company (the "Company") presents this report together with the Company's financial statements for the year ended 31 December 2018.

THE BOARDS OF MANAGEMENT AND DIRECTORS

The members of the Boards of Management and Directors of the Company who held office during the year and to the date of this report are as follows:

Board of Management

Mr. Toshimasa Zako	Chairman (appointed on 10 July 2018)
Mr. Le Hong Khue	Chairman (resigned on 10 July 2018)
Mr. Yoichi Hoshino	Member (appointed on 09 March 2018)
Mr. Minoru Sakurai	Member (appointed on 10 July 2018)
Mr. Satoshi Oda	Member (appointed on 10 July 2018)
Mr. Nguyen Duy Luan	Member (appointed on 10 July 2018)
Mr. Nguyen Thuong Nguyen	Member (resigned on 10 July 2018)
Mr. Truong Xuan Thanh	Member (resigned on 10 July 2018)
Mr. Nguyen Thanh Ha	Member (resigned on 10 July 2018)
Mr. Dang Ngoc Hung	Member (resigned on 09 March 2018)

Board of Directors

Mr. Yoichi Hoshino	General Director (appointed on 10 July 2018)
Mr. Nguyen Thanh Ha	General Director (resigned on 10 July 2018)
Mr. Satoshi Oda	Senior Deputy General Director (appointed on 10 July 2018)
Mr. Satoshi Sugino	Senior Deputy General Director (appointed on 10 July 2018)
Mr. Hidekazu Funkunishi	Senior Deputy General Director (appointed on 10 July 2018)
Mr. Nguyen Ngoc Quyet	Senior Deputy General Director (appointed on 10 July 2018)
Mr. Nguyen Thanh Ha	Deputy General Director (appointed on 10 July 2018)
Mr. Nguyen Hoang Ngan	Deputy General Director
Mr. Nguyen Duy Luan	Deputy General Director (resigned on 10 July 2018)
Mr. Masumi Miyazaki	Deputy General Director (resigned on 10 July 2018)

THE BOARD OF DIRECTORS' STATEMENT OF RESPONSIBILITY

The Board of Directors of the Company is responsible for preparing the financial statements, which give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Vietnamese Accounting Standards, accounting regime for enterprises and legal regulations relating to financial reporting. In preparing these financial statements, the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting principles have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- design and implement an effective internal control system for the purpose of properly preparing and presenting the financial statements so as to minimize errors and frauds.


STATEMENT OF THE BOARD OF DIRECTORS (Continued)

THE BOARD OF DIRECTORS' STATEMENT OF RESPONSIBILITY (Continued)

The Board of Directors is responsible for ensuring that proper accounting records are kept, which disclose, with reasonable accuracy at any time, the financial position of the Company and that the financial statements comply with Vietnamese Accounting Standards, accounting regime for enterprises and legal regulations relating to financial reporting. The Board of Directors is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of frauds and other irregularities.

The Board of Directors confirms that the Company has complied with the above requirements in preparing these financial statements.

For and on behalf of the Board of Directors,


Satoshi Sugino
Senior Deputy General Director
Authorization letter No. 948/UQ-VIS
dated 21 December 2018

28 February 2019

No.: 536 /VN1A-HN-BC

INDEPENDENT AUDITORS' REPORT

**To: The Shareholders
The Board of Management and Board of Directors of Vietnam - Italy Steel Joint Stock Company**

We have audited the accompanying financial statements of Vietnam - Italy Steel Joint Stock Company (the "Company"), prepared on 28 February 2019 as set out from page 05 to page 34, which comprise the balance sheet as at 31 December 2018, the statement of income, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Director is responsible for the preparation and fair presentation of these financial statements in accordance with Vietnamese Accounting Standards, accounting regime for enterprises and legal regulations relating to financial reporting and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Vietnamese Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Vietnamese Accounting Standards, accounting regime for enterprises and legal regulations relating to financial reporting.



Pham Hoai Nam
Deputy General Director
Audit Practising Registration Certificate
No. 0042-2018-001-1

DELOITTE VIETNAM COMPANY LIMITED

28 February 2019
Hanoi, S.R. Vietnam

Nguyen Anh Tuan
Auditor
Audit Practising Registration Certificate
No. 1472-2018-001-1



BALANCE SHEET

As at 31 December 2018

Unit: VND

ASSETS	Codes	Notes	Closing balance	Opening balance
A. CURRENT ASSETS	100		2,155,525,289,432	2,389,547,833,365
I. Cash	110	4	21,353,737,164	38,747,453,680
1. Cash	111		21,353,737,164	38,747,453,680
II. Short-term financial investments	120	5	200,000,000,000	399,223,126,574
1. Held-to-maturity investments	123		200,000,000,000	399,223,126,574
III. Short-term receivables	130		938,212,724,981	1,338,981,753,930
1. Short-term trade receivables	131	6	854,845,024,011	1,330,268,776,157
2. Short-term advances to suppliers	132	7	12,326,196,560	8,698,293,328
3. Other short-term receivables	136	8	169,464,121,835	78,347,952,778
4. Provision for short-term doubtful debts	137	9	(98,422,617,425)	(78,425,895,162)
5. Deficits in assets awaiting solution	139		-	92,626,829
IV. Inventories	140	10	870,194,799,714	535,552,415,439
1. Inventories	141		943,145,657,157	535,552,415,439
2. Provision for devaluation of inventories	149		(72,950,857,443)	-
V. Other short-term assets	150		125,764,027,573	77,043,083,742
1. Short-term prepayments	151	11	9,799,108,611	15,161,488,430
2. Value added tax deductibles	152		108,554,105,330	54,470,781,680
3. Taxes and other receivables from the State budget	153	14	7,410,813,632	7,410,813,632
B. NON-CURRENT ASSETS	200		528,337,859,875	600,762,999,648
I. Long-term receivables	210		10,591,428,201	10,591,428,201
1. Other long-term receivables	216	8	10,591,428,201	10,591,428,201
II. Fixed assets	220		343,057,329,819	415,821,106,273
1. Tangible fixed assets	221	12	335,022,409,699	408,235,526,310
- Cost	222		1,396,519,718,338	1,381,751,966,737
- Accumulated depreciation	223		(1,061,497,308,639)	(973,516,440,427)
2. Intangible assets	227	13	8,034,920,120	7,585,579,963
- Cost	228		11,169,135,751	10,169,135,751
- Accumulated amortisation	229		(3,134,215,631)	(2,583,555,788)
III. Long-term assets in progress	240	15	19,653,728,293	17,409,440,583
1. Long-term construction in progress	242		19,653,728,293	17,409,440,583
IV. Other long-term assets	260		155,035,373,562	156,941,024,591
1. Long-term prepayments	261	11	99,701,854,485	112,105,248,239
2. Long-term reserved spare parts	263	16	55,333,519,077	44,835,776,352
TOTAL ASSETS (270=100+200)	270		2,683,863,149,307	2,990,310,833,013

The accompanying notes are an integral part of these financial statements


BALANCE SHEET (Continued)


As at 31 December 2018

Unit: VND

RESOURCES	Codes	Notes	Closing balance	Opening balance
C. LIABILITIES	300		1,966,566,292,809	1,903,267,007,614
I. Current liabilities	310		1,966,566,292,809	1,903,267,007,614
1. Short-term trade payables	311	17	427,372,770,926	612,278,037,798
2. Short-term advances from customers	312		713,824,900	12,865,988,514
3. Taxes and amounts payable to the State budget	313	14	883,495,354	3,413,639,418
4. Payables to employees	314		10,288,782,455	11,380,989,406
5. Short-term accrued expenses	315	18	11,966,624,731	13,912,808,950
6. Short-term unearned revenue	318		169,648,635	169,648,636
7. Other current payables	319	19	66,117,156,667	28,033,618,748
8. Short-term loans and obligations under finance leases	320	20	1,444,910,743,249	1,219,020,065,684
9. Bonus and welfare funds	322		4,143,245,892	2,192,210,460
D. EQUITY	400		717,296,856,498	1,087,043,825,399
I. Owners' equity	410	21	717,296,856,498	1,087,043,825,399
1. Owners' contributed capital	411		738,303,930,000	738,303,930,000
- Ordinary shares carrying voting rights	411a		738,303,930,000	738,303,930,000
2. Share premium	412		123,194,121,321	123,194,121,321
3. Other owners' capital	414		8,835,568,717	8,835,568,717
4. Investment and development fund	418		173,215,412,737	173,215,412,737
5. Accumulated (losses)/Retained earnings	421		(326,252,176,277)	43,494,792,624
- Retained earnings accumulated to the prior year end	421a		-	-
- (Losses)/Retained earnings of the current year	421b		(326,252,176,277)	43,494,792,624
TOTAL RESOURCES (440=300+400)	440		2,683,863,149,307	2,990,310,833,013


 Pham Van Minh
 Preparer


 Dang Thi Tuyet Dung
 Chief Accountant


 Satoshi Sugino
 Senior Deputy General Director
 Authorization letter No. 948/UQ-VIS
 dated 21 December 2018

28 February 2019


The accompanying notes are an integral part of these financial statements

INCOME STATEMENT



For the year ended 31 December 2018

Unit: VND

ITEMS	Codes	Notes	Current year	Prior year
1. Gross revenue from goods sold and services rendered	01	24	5,313,513,901,235	6,149,639,450,515
2. Deductions	02	24	84,674,869,426	44,520,305,224
3. Net revenue from goods sold and services rendered (10=01-02)	10		5,228,839,031,809	6,105,119,145,291
4. Cost of sales	11	25	5,389,258,587,892	5,895,922,223,761
5. Gross (loss)/profit from goods sold and services rendered (20=10-11)	20		(160,419,556,083)	209,196,921,530
6. Financial income	21	27	24,932,002,987	10,021,535,641
7. Financial expenses	22	28	86,516,098,746	82,954,036,004
- In which: Interest expense	23		83,872,663,486	81,781,025,836
8. Selling expenses	25	29	14,833,974,912	19,437,352,275
9. General and administration expenses	26	29	81,388,348,278	60,497,035,157
10. Operating (loss)/profit (30=20+(21-22)-(25+26))	30		(318,225,975,032)	56,330,033,735
11. Other income	31	30	111,387,085	233,819,702
12. Other expenses	32	31	8,137,588,330	1,297,130,418
13. Losses from other activities (40=31-32)	40		(8,026,201,245)	(1,063,310,716)
14. Accounting (loss)/profit before tax (50=30+40)	50		(326,252,176,277)	55,266,723,019
15. Current corporate income tax expense	51	32	-	11,771,930,395
16. Net (loss)/profit after corporate income tax (60=50-51)	60		(326,252,176,277)	43,494,792,624
17. Basic earnings per share (*)	70	33	(4,419)	638


Pham Van Minh
Preparer


Dang Thi Tuyet Dung
Chief Accountant



Satoshi Sugino
Senior Deputy General Director
Authorization letter No. 948/UQ-VIS
dated 21 December 2018

28 February 2019

CASH FLOW STATEMENT

For the year ended 31 December 2018

Unit: VND

ITEMS	Codes	Current year	Prior year
I. CASH FLOWS FROM OPERATING ACTIVITIES			
1. (Loss)/Profit before tax	01	(326,252,176,277)	55,266,723,019
2. Adjustments for:			
Depreciation and amortisation of fixed assets and investment properties	02	89,296,719,029	90,814,084,454
Provisions	03	92,947,579,706	4,873,392,909
Foreign exchange loss/(gain) arising from translating foreign currency items	04	1,931,406,080	(130,740,931)
Gain from investing activities	05	(18,040,301,649)	(8,681,686,368)
Interest expense	06	83,872,663,486	81,781,025,836
3. Operating (loss)/profit before movements in working capital	08	(76,244,109,625)	223,922,798,919
Decreases in receivables	09	322,600,908,078	28,035,846,771
(Increase)/decrease in inventories	10	(421,469,591,596)	23,956,321,551
(Decrease)/increase in payables (excluding accrued loan interest and corporate income tax payable)	11	(165,709,579,813)	84,211,016,665
Decreases in prepaid expenses	12	19,775,568,298	8,008,745,969
Interest paid	14	(84,141,172,002)	(81,932,394,240)
Corporate income tax paid	15	-	(18,905,614,852)
Other cash inflows	16	-	3,637,245
Other cash outflows	17	(4,249,395,000)	(461,200,000)
Net cash (used in)/generated by operating activities	20	(409,437,371,660)	266,839,158,028
II. CASH FLOWS FROM INVESTING ACTIVITIES			
1. Acquisition and construction of fixed assets and other long-term assets	21	(18,218,808,933)	(12,028,829,563)
2. Proceeds from sale, disposal of fixed assets and other long-term assets	22	68,181,818	1,681,818,182
3. Cash outflow for lending, buying debt instruments of other entities	23	-	(399,223,126,574)
4. Cash recovered from lending, selling debt instruments of other entities	24	199,223,126,574	-
5. Interest earned, dividends and profits received	27	21,943,532,684	8,507,564,649
Net cash generated by/(used in) investing activities	30	203,016,032,143	(401,062,573,306)

The accompanying notes are an integral part of these financial statements

CASH FLOW STATEMENT (continued)

For the year ended 31 December 2018

Unit: VND

ITEMS	Codes	Current year	Prior year
III. CASH FLOWS FROM FINANCING ACTIVITIES			
1. Proceeds from share issue and owners' contributed capital	31	-	368,931,641,321
2. Proceeds from borrowings	33	6,048,310,989,688	6,025,003,948,149
3. Repayment of borrowings	34	(5,822,420,312,123)	(6,231,432,953,127)
4. Dividends and profits paid	36	(36,860,104,950)	-
Net cash generated by financing activities	40	189,030,572,615	162,502,636,343
Net (decrease)/increase in cash (50=20+30+40)	50	(17,390,766,902)	28,279,221,065
Cash at the beginning of the year	60	38,747,453,680	10,347,757,599
Effects of changes in foreign exchange rates	61	(2,949,614)	120,475,016
Cash at the end of the year (70=50+60+61)	70	21,353,737,164	38,747,453,680

Pham Van Minh
Preparer

Dang Thi Tuyet Dung
Chief Accountant



Satoshi Sugino
Senior Deputy General Director
Authorization letter No. 948/UQ-VIS
dated 21 December 2018

28 February 2019

NOTES TO THE FINANCIAL STATEMENTS

These notes are an integral part of and should be read in conjunction with the accompanying financial statements

1. GENERAL INFORMATION**Structure of ownership**

Vietnam - Italy Steel Joint Stock Company (the "Company") was incorporated in accordance with Decision No. 1748/QĐ-BXD dated 26 December 2003 of the Minister of Construction on the conversion of Vietnam-Italy Steel Plant owned by Song Da 12 Company - Song Da Corporation into Joint Stock Company.

The Company was granted the first Enterprise Registration and Tax Registration Certificate No. 0900222647 dated 20 February 2004 by the Department of Planning and Investment of Hung Yen province. According to the 16th amendment dated 16 July 2018 (merger of Song Da Steel Joint Stock Company, business code 0200763016), the Company's charter capital is VND 738,303,930,000, par value is VND 10,000 per share.

The Company's head office is located in Pho Noi A Industrial Zone, Giai Pham Commune, Yen My District, Hung Yen Province, S.R.Vietnam.

Dependent entities of the Company as of 31 December 2018 include:

- Representative Office of Vietnam-Italy Steel Joint Stock Company in Hung Yen
- Vietnam-Italy Joint Stock Company – Hai Phong Branch

The number of employees as at 31 December 2018 was 824 (31 December 2017: 862).

Operating industry and principal activities

The Company's principal activities include:

- Producing iron, steel, cast iron;
- Wholesale of metals and metal ores. Details: Iron, steel;
- Wholesale of machinery, equipment and other spare parts. Details: Wholesale of machinery, equipment and spare parts for producing iron, steel, cast iron;
- Other remaining business supporting services remaining not yet allocated. Details: Trading, importing and exporting materials, spare parts for steel industry;
- Manufacture of other metal products not elsewhere classified. Details: production of materials, equipment and spare parts for the steel industry.

The principal activities of the Company is production and distribution of wire rods and bars from Ø6 to Ø 8 and D10 to D40, respectively.

Normal production and business cycle

The Company's normal production and business cycle is carried out for a time period of 12 months or less.



Characteristics of the business activities in the fiscal year which have impact on the financial statements

On 22 February 2018, the Company received the resignation letter of Mr. Dang Ngoc Hung, member of the Board of Management. On 09 March 2018, the Annual General Meeting of Shareholders in 2018 elected Mr. Yoichi Hoshino into the Board of Management. On 25 and 26 June 2018, the Company received the resignation letters of 04 members of the Board of Management, including Mr. Le Hong Khue, Mr. Truong Xuan Thanh, Mr. Nguyen Thanh Ha, Mr. Nguyen Thuong Nguyen and 01 member of Supervisory Board who is Ms. Nguyen Thuy Ha. On 10 July 2018, the Extra General Meeting of Shareholders in 2018 was held and elected four members of the Board of Management and one member of the Supervisory Board. Mr. Minoru Sakurai, Mr. Satoshi Oda, Mr. Toshimasa Zako, Mr. Nguyen Duy Luan were appointed to the Board of Management and Ms. Le Van Chi was voted to the Supervisory Board. On 24 August 2018, the Company received the resignation letter of Mr. Bui Anh Tuan – Head of Supervisory Board. Mr. Tuan quit from 01 September 2018 and the Company has not appointed this position.

In year 2018, Kyoei Steel Ltd. purchased additional shares of 39,723,677 and hold 54,490,677 shares as at 31 December 2018, equivalent to 73.81% number of outstanding shares in circulation of Vietnam-Italy Steel Joint Stock Company and the Company became the subsidiary of Kyoei Steel Ltd. (see details in Note 21).

Disclosure of information comparability in the financial statements

Comparative figures are the figures of the Company's audited financial statements for the year ended 31 December 2017. There are some figures of the Balance sheet as at 01 January 2018 were reclassified (see details in Note 38).

2. ACCOUNTING CONVENTION AND FINANCIAL YEAR

Accounting convention

The accompanying financial statements, expressed in Vietnam Dong (VND), are prepared under the historical cost convention and in accordance with Vietnamese Accounting Standards, accounting regime for enterprises and legal regulations relating to financial reporting.

The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Vietnam.

Financial year

The Company's financial year begins on 01 January and ends on 31 December.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, which have been adopted by the Company in the preparation of these financial statements, are as follows:

Estimates

The preparation of financial statements in conformity with Vietnamese Accounting Standards, accounting regime for enterprises and legal regulations relating to financial reporting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these accounting estimates are based on the management's best knowledge, actual results may differ from those estimates.

Cash

Cash comprise cash on hand and demand deposits.

Held-to-maturity investments

Held-to-maturity investments comprise investments that the Company has the positive intent or ability to hold to maturity, including term deposits.

Held-to-maturity investments are recognised on a trade date basis and are initially measured at acquisition price plus directly attributable transaction costs. Post-acquisition interest income from held-to-maturity investments is recognised in the income statement on accrual basis. Pre-acquisition interest is deducted from the cost of such investments at the acquisition date.

Held-to-maturity investments are measured at cost less provision for doubtful debts.

Provision for doubtful debts relating to held-to-maturity investments is made in accordance with prevailing accounting regulations.

Receivables

Receivables represent the amounts recoverable from customers or other debtors and are stated at book value less provision for doubtful debts.

Provision for doubtful debts is made for receivables that are overdue for six months or more, or when the debtor is in dissolution, in bankruptcy, or is experiencing similar difficulties and so may be unable to repay the debt.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution. The Company uses perpetual method in inventory accounting.

The evaluation of necessary provision for inventory obsolescence follows current prevailing accounting regulations which allow provisions to be made for obsolete, damaged, or sub-standard inventories and for those which have costs higher than net realisable values as at the balance sheet date.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation.

The costs of purchased tangible fixed assets comprise their purchase prices and any directly attributable costs of bringing the assets to their working condition and location for their intended use.

The costs of self-constructed or manufactured assets are the actual construction or manufacturing cost plus installation and test running costs.

11/01/2011

Tangible fixed assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Current year</u>
	Years
Buildings and structures	10 - 30
Machinery and equipment	5 - 11
Motor vehicles, transmission equipment	6 - 8
Office equipment	4 - 5
Living plants	20

Intangible assets and amortisation

Intangible assets represent land use right and computer software that are stated at cost less accumulated amortisation. Computer software is amortized using the straight-line method over the period of 5 years.

Intangible assets of the Company's branch in Hai Phong represent the amount of compensation for site clearance plant construction recorded as land use rights and are stated at cost less accumulated amortisation. Intangible assets are amortized on a straight-line basis over the remaining period of 29 years under land rental contract.

Construction in progress

Properties in the course of construction for production, rental or administrative purposes, or for other purposes, are carried at cost. Cost includes costs that are necessary to form the assets in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Prepayments

Prepayments include:

- Prepayments of office rentals are amortised in the income statement on a straight-line basis over the lease term.
- Goodwill represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of Song Da Steel Joint Stock Company at the date of acquisition. Goodwill is amortised on the straight-line basis over 10 years.
- Other types of long-term prepayments comprise costs of tools, supplies, repair cost of fixed assets and other costs which are expected to provide future economic benefits to the Company. These expenditures have been capitalised as long-term prepayments, and are allocated to the income statement using the straight-line method in accordance with the current prevailing accounting regulations.

Payable provisions

Payable provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Board of Directors' best estimate of the expenditure required to settle the obligation as at the balance sheet date.

Revenue recognition

Revenue from the sale of goods is recognised when all five (5) following conditions are satisfied:

- (a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the Company; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue of a transaction involving the rendering of services is recognised when the outcome of such transactions can be measured reliably. Where a transaction involving the rendering of services is attributable to several periods, revenue is recognised in each period by reference to the percentage of completion of the transaction at the balance sheet date of that period. The outcome of a transaction can be measured reliably when all four (4) following conditions are satisfied:

- (a) the amount of revenue can be measured reliably;
- (b) it is probable that the economic benefits associated with the transaction will flow to the Company;
- (c) the percentage of completion of the transaction at the balance sheet date can be measured reliably; and
- (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable interest rate.

Foreign currencies

Transactions arising in foreign currencies are translated at exchange rates ruling at the transaction date. The balances of monetary items denominated in foreign currencies as at the balance sheet date are retranslated at the exchange rates on the same date. Exchange differences arising from the translation of these accounts are recognised in the income statement.

Borrowing costs

Borrowing costs are recognised in the income statement in the year when incurred unless they are capitalised in accordance with Vietnamese Accounting Standard No. 16 "Borrowing costs". Accordingly, borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. For specific borrowings for the purpose of construction of fixed assets and investment properties, borrowing costs are capitalised even when the construction period is under 12 months.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years (including loss carried forward, if any) and it further excludes items that are never taxable or deductible.

Deferred tax is recognised on significant differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using balance sheet liability method. Deferred tax liabilities are generally recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The determination of the tax currently payable is based on the current interpretation of tax regulations. However, these regulations are subject to periodic variation and their ultimate determination depends on the results of the tax authorities' examinations.

As at 31 December 2018, the Company had an accumulated loss of VND 326,252,176,277. This loss will be determined depended on the results of tax authorities' examinations and may be used to offset against the taxable profits of the following years but not exceeding 05 years from the year in which the loss was incurred. The utilisation of this loss depends on the future profitability of the Company. The Company has not recorded any deferred tax assets arising from this loss due to the uncertainty of timing of future profits.

Other taxes are paid in accordance with the prevailing tax laws in Vietnam.

4. CASH

	<u>Closing balance</u> VND	<u>Opening balance</u> VND
Cash on hand	331,469,957	481,850,823
Bank demand deposits	21,022,267,207	38,265,602,857
	<u>21,353,737,164</u>	<u>38,747,453,680</u>

5. HELD-TO-MATURITY INVESTMENTS

	<u>Closing balance</u>		<u>Opening balance</u>	
	Cost	Carrying amount	Cost	Carrying amount
Short-term held-to-maturity investments (i)	200,000,000,000	200,000,000,000	399,223,126,574	399,223,126,574

- (i) Represent deposits with the original terms of 6 months at commercial banks with interest rate at 6.7% p.a.

6. TRADE RECEIVABLES

	Closing balance	Opening balance
	VND	VND
a. Short-term trade receivables	628,862,467,660	725,022,708,185
- Dat Viet Steel Joint Stock Company	235,186,800,424	72,564,670,116
- Viet Yvestment Company Limited	103,754,191,212	-
- Truong Phat Trade Investment and Development Company Limited	58,169,023,710	1,922,332,330
- Nhat Nam Joint Stock Company	55,390,788,820	37,658,256,900
- Phat Linh Trading and Production Joint Stock Company	50,478,363,473	19,924,857,513
- SNG Vietnam Company Limited	40,163,974,818	-
- Ha Minh Trade and Services Joint Stock Company	10,220,668,839	804,961,060
- Lam Anh Company Limited	24,736,157,967	5,001,690,425
- Hanoi Steel Materials Joint Stock Company	-	9,095,195,483
- Chan My Company Limited	-	4,129,505,697
- Bac Thai Metal Joint Stock Company	-	61,708,175,100
- B.C.H Joint Stock Company	-	459,965,647,640
- Other	50,762,498,397	52,247,415,921
b. Trade receivables from related parties (Details stated in Note 36)	225,982,556,351	605,246,067,972
	854,845,024,011	1,330,268,776,157

7. SHORT-TERM ADVANCE TO SUPPLIERS

	Closing balance	Opening balance
	VND	VND
a. Short-term advances to suppliers	10,842,102,608	8,698,293,328
- Viet Nhat Furnace heat Company Limited	3,680,700,000	-
- Sumitomo Shoji Machinex Co., Ltd	1,422,309,000	-
- JT Union Industry Ltd	-	2,044,440,000
- Others	5,739,093,608	6,653,853,328
b. Advances to related parties (Details stated in Note 36)	1,484,093,952	-
	12,326,196,560	8,698,293,328

8. OTHER RECEIVABLES

	Closing balance	Opening balance
	VND	VND
a. Current		
- Receivables from scrap steel insufficiently delivered (i)	81,339,495,924	46,506,364,961
- Deposits and mortgages (ii)	65,712,057,103	5,693,707,941
- Receivables from Soc Son Steel Rolling Joint Stock Company (iii)	11,215,867,481	11,215,867,481
- Receivables from deposit interest	4,846,027,397	8,386,214,866
- Advances	2,970,238,711	3,073,288,231
- Other receivables	3,380,435,219	3,472,509,298
	169,464,121,835	78,347,952,778
b. Non-current		
- Receivables from construction of the route to the Hai Phong steel billet plant (iv)	10,591,428,201	10,591,428,201
	10,591,428,201	10,591,428,201

- (i) Representing the value of insufficient steel compared to the invoice of foreign suppliers arising at the Company's branch in Hai Phong.
- (ii) Representing deposits and mortgages at the Joint Stock Commercial Bank for Foreign Trade of Vietnam - Hai Duong Branch and Bank for Investment and Development of Vietnam - North Hung Yen Branch.
- (iii) Representing the advance for Soc Son Steel Rolling Joint Stock Company (formerly known as Hung Yen Metal Joint Stock Company) but the contract is no longer feasible. The Company made provision for bad debt of 100% for this receivable (Note 09).
- (iv) Representing the receivable from the People's Committee of Hai Phong City for the cost of the construction of the road to the steel billet plant in Hai Phong. In the year, the Company evaluated and intended to collect this receivable by deduction into payables obligation to Hai Phong city's budget and decided to reclassify the opening balance (Note 38).

VIETNAM - ITALY STEEL JOINT STOCK COMPANY
NOTES TO THE FINANCIAL STATEMENTS (Continued)

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9. BAD DEBTS

Opening balance		Closing balance	
VND	VND	VND	VND
11,215,867,481	11,215,867,481	11,215,867,481	11,215,867,481
Over 3 years	Over 3 years	Over 3 years	Over 3 years
3,887,712,397	3,887,712,396	7,775,424,793	7,775,424,793
Over 2 years	Over 2 years	Over 3 years	Over 3 years
901,518,637	-	901,518,637	901,518,637
Over 3 years	Over 3 years	Over 3 years	Over 3 years
3,471,657,661	1,780,161,741	5,251,819,402	5,251,819,402
From 2 years	From 2 years	Over 3 years	Over 3 years
to under 3 years	to under 3 years	Over 3 years	Over 3 years
11,578,862,909	4,962,369,818	16,541,232,727	16,541,232,727
From 2 years	From 2 years	Over 3 years	Over 3 years
to under 3 years	to under 3 years	Over 2 years	Over 2 years
1,695,927,569	9,151,197	1,705,078,766	1,705,078,766
From 1 years	From 1 years	Over 2 years	Over 2 years
to under 2 years	to under 2 years	Over 3 years	Over 3 years
2,479,939,424	-	2,479,939,424	2,479,939,424
Over 3 years	Over 3 years	Over 3 years	Over 3 years
17,817,834,016	7,636,214,579	25,454,048,595	25,454,048,595
From 2 years	From 2 years	Over 3 years	Over 3 years
to under 3 years	to under 3 years	Over 3 years	Over 3 years
2,093,093,016	-	2,093,093,016	2,093,093,016
Over 3 years	Over 3 years	Over 3 years	Over 3 years
1,699,021,488	-	1,699,021,488	1,699,021,488
Over 3 years	Over 3 years	Over 3 years	Over 3 years
1,094,509,467	-	1,094,509,467	1,094,509,467
Over 3 years	Over 3 years	Over 3 years	Over 3 years
967,312,980	-	967,312,980	967,312,980
Over 3 years	Over 3 years	Over 3 years	Over 3 years
23,660,580,820	1,204,992,580	22,455,588,240	22,455,588,240
- Others	- Others	Over 3 years	Over 3 years
1,254,478,160	-	1,254,478,160	1,254,478,160
- Kawamin Pacific Pte Ltd	-	Over 3 years	Over 3 years
1,245,190,921	-	1,245,190,921	1,245,190,921
- Global Metcorp Limited	-	Over 3 years	Over 3 years
1,699,021,488	-	1,699,021,488	1,699,021,488
- Lite Rose	-	Over 3 years	Over 3 years
2,573,914,431	-	2,573,914,431	2,573,914,431
- United Metals FZE	-	Over 3 years	Over 3 years
27,816,590,302	-	27,816,590,302	27,816,590,302
- L.A Scrap Export INC	-	Over 3 years	Over 3 years
2,121,805,298	-	2,121,805,298	2,121,805,298
- Quoc Bao Materials and Trading Co., Ltd.	-	Over 3 years	Over 3 years
384,716,863	-	384,716,863	384,716,863
- Song Da 6.03 Enterprise - Song Da 6 Joint Stock Company	-	Over 2 years	Over 2 years
16,541,232,727	-	16,541,232,727	16,541,232,727
- Song Da 3 Joint Stock Company	-	Over 3 years	Over 3 years
5,251,819,402	306,923,880	4,944,895,522	4,944,895,522
- Tay Nguyen Branch - Song Da 10.1 Joint Stock Company	-	Over 3 years	Over 3 years
901,518,637	-	901,518,637	901,518,637
- Hai Nam Materials Trading and Import-Export Joint Stock Company	-	Over 3 years	Over 3 years
7,525,424,793	2,257,627,438	5,267,797,355	5,267,797,355
- Song Da 10.6 and 10.3 Enterprise - Song Da 10 Joint Stock Company	-	Over 3 years	Over 3 years
11,215,867,481	-	11,215,867,481	11,215,867,481
- Soc Son Steel Rolling Joint Stock Company	-	Over 3 years	Over 3 years

As at 31 December 2018, the Company made provision for bad debts according to guidance in Circular 228/2009/TT-BTC dated 02 December 2009 of the Ministry of Finance. Recoverable amount of bad debts is determined at cost less provisions for debts.

10. INVENTORIES

	Closing balance		Opening balance	
	Cost	VND Provision	Cost	VND Provision
Goods in transit	37,359,615,710	(2,188,835,252)	36,436,568,679	-
Raw materials	703,211,020,263	(49,165,794,645)	367,344,999,159	-
Tools and supplies	1,499,659,932	-	1,756,402,866	-
Finished goods	201,072,213,942	(21,596,227,546)	129,802,640,621	-
Merchandise	3,147,310	-	211,804,099	-
	943,145,657,157	(72,950,857,443)	535,552,415,439	

During the year 2018, the Company made provisions for devaluation of raw materials amounting to VND 49,165,794,645 (2017: VND 0), devaluation of goods in transit amounting to VND 2,188,835,252 (2017: VND 0) and devaluation of finished goods amounting to VND 21,596,227,546 (2017: VND 0) since the net realizable values of these inventories are less than the book values.

11. PREPAYMENTS

	Closing balance	Opening balance
	VND	VND
a. Current		
- Factory equipment and tools	9,615,777,631	12,759,455,996
- Imported refractory materials expenses	-	1,915,473,719
- Others	183,330,980	486,558,715
	9,799,108,611	15,161,488,430
b. Non-current		
- Office rental at HH4 Building, My Dinh	32,544,102,504	33,334,647,504
- Goodwill (i)	48,856,180,337	63,153,826,169
- Others	18,301,571,644	15,616,774,566
	99,701,854,485	112,105,248,239

- (i) Goodwill arising on the acquisition of Song Da Steel Joint Stock Company into the Company. Goodwill is amortized over a period of 10 years from 2012.

12. INCREASES, DECREASES IN TANGIBLE FIXED ASSETS

	Buildings and structures	Machinery and equipment	Office equipment	Motor vehicles and transmission equipment	Living plants	Total
	VND	VND	VND	VND	VND	VND
COST						
Opening balance	515,874,548,741	796,571,406,401	2,597,962,108	65,779,839,329	928,210,158	1,381,751,966,737
Additions	2,283,665,999	855,925,000	590,720,000	4,183,580,000	-	7,913,890,999
Transfer from construction in progress	758,946,017	7,464,807,753	-	-	-	8,223,753,770
Other increases	-	211,290,000	-	-	-	211,290,000
Disposals	-	-	-	(376,934,000)	-	(376,934,000)
Other decreases	(887,921,090)	(28,900,000)	(287,428,078)	-	-	(1,204,249,168)
Closing balance	518,029,239,667	805,074,529,154	2,901,254,030	69,586,485,329	928,210,158	1,396,519,718,338
ACCUMULATED DEPRECIATION						
Opening balance	273,811,865,665	644,103,036,461	1,290,411,175	54,001,835,315	309,291,811	973,516,440,427
Charge for the year	30,784,803,073	53,878,984,465	299,592,964	4,115,433,872	46,410,504	89,125,224,878
Disposals	-	-	-	(376,934,000)	-	(376,934,000)
Other decreases	(456,695,706)	(23,298,882)	(287,428,078)	-	-	(767,422,666)
Closing balance	304,139,973,032	697,958,722,044	1,302,576,061	57,740,335,187	355,702,315	1,061,497,308,639
NET BOOK VALUE						
Opening balance	242,062,683,076	152,468,369,940	1,307,550,933	11,778,004,014	618,918,347	408,235,526,310
Closing balance	213,889,266,635	107,115,807,110	1,598,677,969	11,846,150,142	572,507,843	335,022,409,699

As at 31 December 2018, the cost of tangible fixed assets includes of VND 370,306,879,650 (as at 31 December 2017: VND 338,798,376,236) of assets which have been fully depreciated but are still in use.

As stated in Note 20, as at 31 December 2018, imported machinery and equipment of the steel rolling plant and the entire of works, machinery and equipment of coal gasification station of the Company's steel rolling plant in Pho Noi A Industrial Park have been mortgaged to secure short-term loans from Vietnam Joint Stock Commercial Bank for Industry and Trade - Hung Yen Branch. As at 31 December 2018, these assets have been fully depreciated.

As described in Note 20, as at 31 December 2018, the technical infrastructure, workshops and works on land (except coal gasification station) of the Company in Giai Pham Commune, Yen My District, Hung Yen Province have been mortgaged to secure short-term loans from Joint Stock Commercial Bank for Investment and Development of Vietnam - North Hung Yen Branch and Hung Yen Branch.

As described in Note 20, as at 31 December 2018, properties are buildings, structures; devices; machinery and equipment, motor vehicles of the Company in Hai Phong Branch - Nam Cau Kien Industrial Zone, Hoang Dong Commune, Thuy Nguyen District, Hai Phong under the mortgage contract No. 160080A/TC/NHNTHD dated 13 February 2017; 160080B/TC/NHNTHD dated 07 November 2016; 160080C/TC/NHNTHD dated on 07 November 2016 have been mortgaged to secure short-term loans from Joint Stock Commercial Bank for Foreign Trade of Vietnam - Hai Duong Branch.

13. INCREASES, DECREASES IN INTANGIBLE ASSETS

	Land use rights	Computer Software	Total
	VND	VND	VND
COST			
Opening balance	10,169,135,751	-	10,169,135,751
Additions	-	1,000,000,000	1,000,000,000
Closing balance	10,169,135,751	1,000,000,000	11,169,135,751
ACCUMULATED DEPRECIATION			
Opening balance	2,583,555,788	-	2,583,555,788
Charge for the year	350,659,848	199,999,995	550,659,843
Closing balance	2,934,215,636	199,999,995	3,134,215,631
NET BOOK VALUE			
Opening balance	7,585,579,963	-	7,585,579,963
Closing balance	7,234,920,115	800,000,005	8,034,920,120

Land use rights of the Company's Hai Phong branch represents the expenses for land compensation and site clearance for construction of the plant in Hai Phong. The land use rights are amortised under the straight-line basis over the remaining lease term of 29 years.

14. TAXES AND OTHER RECEIVABLES FROM/PAYABLES TO THE STATE BUDGET

	Opening balance	Payable/ Receivable during the year	Paid/Received during the year	Closing balance
	VND	VND	VND	VND
a. Receivables				
Corporate income tax	5,533,082,063	-	-	5,533,082,063
Personal income tax	1,877,731,569	-	-	1,877,731,569
	7,410,813,632	-	-	7,410,813,632
b. Payables				
Value added tax	2,790,518,544	108,075,639,229	110,866,157,773	-
- <i>Output value added tax</i>	2,790,518,544	811,084,077	3,601,602,621	-
- <i>Value added tax on imported goods</i>	-	107,170,457,122	107,170,457,122	-
- <i>Value added tax paid on behalf of foreign contractors</i>	-	94,098,030	94,098,030	-
Import tax	-	7,860,171,306	7,860,171,306	-
Land rentals	-	1,550,957,194	1,550,957,194	-
Other taxes	623,120,874	2,084,779,283	1,824,404,803	883,495,354
- <i>Personal income tax</i>	623,120,874	2,009,835,983	1,749,461,503	883,495,354
- <i>Resources tax</i>	-	70,943,300	70,943,300	-
- <i>Business tax</i>	-	4,000,000	4,000,000	-
	3,413,639,418	119,571,547,012	122,101,691,076	883,495,354

15. LONG-TERM ASSETS IN PROGRESS

	Closing balance	Opening balance (Restated)
	VND	VND
Long-term construction in progress		
- Acquisition	2,378,856,993	6,954,911,792
- Construction	14,335,646,331	10,454,528,791
- Maintainance	2,939,224,969	-
	19,653,728,293	17,409,440,583
<i>In which: Significant works accounted for over 10% of total value)</i>		
- Houses for employees in Thien Huong town (Hai Phong branch)	9,724,953,421	9,394,528,791

16. LONG-TERM REVERSED SPARE PARTS

Represent materials and spare parts reserved for replacement and prevention for damage of the billet and steel production line with a reserve time of over 12 months.

17. SHORT-TERM TRADE PAYABLES

	Closing balance		Opening balance	
	Amount	VND Amount able to be paid off	Amount	VND Amount able to be paid off
a. Short-term trade payables				
- Thai Trung Steel Rolling Joint Stock Company	154,358,322,668	154,358,322,668	55,273,219,980	55,273,219,980
- Viet Trung Minerals and Metallurgy Company Limited	61,367,626,024	61,367,626,024	-	-
- Shinsho Corporation	26,281,426,067	26,281,426,067	-	-
- Electronic Installation Joint Stock Company I	24,528,115,975	24,528,115,975	-	-
- Thuy Nguyen Electricity	252,779,890	252,779,890	28,993,384,375	28,993,384,375
- B.C.H Joint Stock Company	3,472,016,837	3,472,016,837	21,550,246,595	21,550,246,595
- RHI Refractories Asia Pacific Pte. Ltd.	16,426,432,574	16,426,432,574	21,003,311,642	21,003,311,642
- Trung Thanh Private Enterprise	-	-	20,435,576,839	20,435,576,839
- Others	35,339,481,060	35,339,481,060	43,343,438,470	43,343,438,470
b. Trade payables to related parties (Details stated in Note 54)	105,346,569,831	105,346,569,831	421,678,859,897	421,678,859,897
	427,372,770,926	427,372,770,926	612,278,037,798	612,278,037,798

18. SHORT-TERM ACCRUED EXPENSES

	<u>Closing balance</u>	<u>Opening balance</u>
	VND	VND
- Bulk purchase discount payables	6,166,088,120	3,574,485,030
- Transportation and repair expenses	1,312,249,405	2,351,957,535
- Accruals for loan interest	1,057,521,711	1,326,030,227
- Electricity expenses	983,777,559	1,299,765,828
- Accruals for salary payment in annual leave	768,583,231	723,995,638
- Steel billet purchased payables	-	3,663,933,400
- Other accruals	1,678,404,705	972,641,292
	<u>11,966,624,731</u>	<u>13,912,808,950</u>

19. OTHER PAYABLES

	<u>Closing balance</u>	<u>Opening balance</u>
	VND	VND
a. Current payables	66,117,156,667	14,426,618,748
- Refractory materials expenses	44,340,074,483	-
- Import costs	17,348,679,799	-
- Short-term deposits received	1,264,096,723	10,814,096,723
- Dividends and profits payable	281,129,388	226,037,838
- Salary based accruals	35,634,009	206,126,029
- Others	2,847,542,265	3,180,358,158
b. Other current payables to related parties (Details stated in Note 36)	-	13,607,000,000
	<u>66,117,156,667</u>	<u>28,033,618,748</u>

20. SHORT-TERM LOANS

	Opening balance		In the year		Closing balance	
	Amount	VND Amount able to be paid off	Increases	VND Decreases	Amount	VND Amount able to be paid off
Short-term loans	1,219,020,065,684	1,219,020,065,684	6,048,310,989,688	5,822,420,312,123	1,444,910,743,249	1,444,910,743,249
	1,219,020,065,684	1,219,020,065,684	6,048,310,989,688	5,822,420,312,123	1,444,910,743,249	1,444,910,743,249

Bank	Credit limit period	Closing balance	Opening balance
		VND	VND
Joint Stock Commercial Bank for Foreign Trade of Vietnam - Hai Duong Branch	Until 30 November 2019	573,077,760,290	549,875,095,931
Vietnam Joint Stock Commercial Bank for Industry and Trade - Hung Yen Branch	Until 31 May 2019	334,784,195,121	499,913,772,701
Mizuho bank - Hanoi branch	Until 23 January 2020	225,448,371,404	-
Joint Stock Commercial Bank for Investment and Development of Vietnam - North Hung Yen Branch	Until 31 March 2019	174,294,911,743	32,998,913,089
Joint Stock Commercial Bank for Investment and Development of Vietnam - Hung Yen Branch	Until 31 March 2019	137,305,504,691	136,232,283,963
		1,444,910,743,249	1,219,020,065,684

Short-term loans are provided in the form of a credit line. These loans can be withdrawn in Vietnam dong or other convertible foreign currencies and bear interest at the rates as agreed between the Company and the banks at each time of withdrawal. The loans are used to pay for purchase of materials and other purposes for business operations. Interest is paid monthly or weekly under announcement of Mizuho banks and monthly under announcement of the remaining banks.

Loans at Joint Stock Commercial Bank for Foreign Trade of Vietnam - Hai Duong Branch are secured by properties are houses, structures; devices; machinery and equipment, motor vehicles of the Company in Hai Phong Branch - Nam Cau Kien Industrial Zone, Hoang Dong Commune, Thuy Nguyen District, Hai Phong under the mortgage contract No. 160080A/TC/NHNTHD dated 13 February 2017; 160080B/TC/NHNTHD dated 07 November 2016; 160080C/TC/NHNTHD dated on 07 November 2016. The total value of the mortgage is VND 448,172,083,000.

Loans from Vietnam Joint Stock Commercial Bank for Industry and Trade - Hung Yen Branch are secured by assets which are all machinery and equipment imported for the steel rolling plant and all construction works, machinery and equipment of the Company's coal gasification station in Pho Noi A Industrial Zone, Giai Pham Commune, Yen My District, Hung Yen Province. Under the mortgage contract No. 300054100-03/HDTVC/Vietinbank-VIS dated 27 September 2012 and amendments between Vietnam Joint Stock Commercial Bank for Industry and Trade - Hung Yen Branch and the Company, the original cost of collaterals is VND 224,909,995,046. As at 31 December 2018, all of the mortgage assets have been fully depreciated.

Loans from Joint Stock Commercial Bank for Investment and Development of Vietnam - North Hung Yen Branch and Hung Yen Branch are secured by assets which are technical infrastructures, workshops and works on land (except Coal gasification plant in Giai Pham commune, Yen My district, Hung Yen Province. The value of collaterals which are technical infrastructures, workshops and works on land (except coal gasification station) according to the valuation minutes dated 18 September 2018 is VND 65,896,204,700.

Loans from Mizuho bank – Hanoi branch are secured by guarantee letter of Kyoei Steel Ltd. – the parent company, the maximum loan period is 12 months. Credit limit remaining date is 23 January 2019. Unless the bank has notification of terminating contract according to decision of the bank on or by credit limit remaining date, the loan contract is automatically extended for 12 months.

21. OWNERS' EQUITY

Movement in owners' equity

	Owners' contributed capital	Share premium	Other owners' capital	Investment and development fund	Retained earnings	Total
	VND	VND	VND	VND	VND	VND
Prior year's opening balance	492,202,620,000	363,790,000	8,835,568,717	173,215,412,737	1,496,315,971	676,113,707,425
Capital increase	246,101,310,000	122,830,331,321	-	-	-	368,931,641,321
Profit for the year	-	-	-	-	43,494,792,624	43,494,792,624
Allocated to bonus and welfare fund	-	-	-	-	(1,496,315,971)	(1,496,315,971)
Current year's opening balance	738,303,930,000	123,194,121,321	8,835,568,717	173,215,412,737	43,494,792,624	1,087,043,825,399
Loss for the year	-	-	-	-	(326,252,176,277)	(326,252,176,277)
Allocated to bonus and welfare fund (*)	-	-	-	-	(6,579,596,124)	(6,579,596,124)
Dividend declared (*)	-	-	-	-	(36,915,196,500)	(36,915,196,500)
Current year's closing balance	738,303,930,000	123,194,121,321	8,835,568,717	173,215,412,737	(326,252,176,277)	717,296,856,498

(*) According to the Decree of Annual General Meeting of Shareholders dated 09 March 2018, the Company:

- Distributed to bonus and welfare fund amounting to VND 6,579,596,124;
- Distributed dividends (5% of charter capital) amounting to VND 36,915,196,500.

Charter capital

According to the 16th amended Enterprise Registration Certificate dated 16 July 2018, the Company's charter capital is VND 783,303,930,000.

As at 31 December 2018, the charter capital has been fully contributed by the shareholders as follows:

Shareholders	Ownership rate		Contributed capital	
	Closing balance	Opening balance	Closing balance	Opening balance
	%	%	VND	VND
- Kyoei Steel Ltd. (*)	73.81%	20.00%	544,906,770,000	147,670,000,000
- Thai Hung Trading Joint Stock Company	20.00%	51.01%	147,670,050,000	376,621,870,000
- Mr. Le Thanh Thuc	0.00%	5.00%	-	36,915,400,000
- Others	6.19%	23.99%	45,727,110,000	177,096,660,000
	100%	100%	738,303,930,000	738,303,930,000

(*) In 2018, Kyoei Steel Co., Ltd. acquired 39,723,677 shares, bringing the number of shares to 54,490,677 shares as at 31 December 2018, equivalent to 73.81% of the number of shares in circulation of Vietnam-Italy Steel Joint Stock Company.

	Closing balance	Opening balance
	VND	VND
Shares		
Number of shares issued to the public		
+) Ordinary shares	73,830,393	73,830,393
+) Preference shares	-	-
Number of outstanding shares in circulation		
+) Ordinary shares	73,830,393	73,830,393
+) Preference shares	-	-

22. OFF BALANCE SHEET ITEMS

	Closing balance	Opening balance
	VND	VND
Foreign currency		
United States Dollar ("USD")	54,090	741
Euro ("EUR")	357	363
Japanese Yen ("JPY")	137,024	363
Assets held under trust	12,631,484,881	-

23. BUSINESS AND GEOGRAPHICAL SEGMENTS

As at 31 December 2018, for management purposes, the Company is organized into two business divisions: Steel billet production at Hai Phong branch and steel rolling and distribution of finished products in Hung Yen. The Company prepared segment report by these two divisions.

The principal activities of the two business divisions are as follows:

- Steel billet production at Hai Phong branch: steel billet from steel scrap.
- Steel rolling and distribution of finished products at the Company's head office in Hung Yen: rolling steel billets and distributing finished steel products to the market.

The information about the business activities of the Company is as follows:

Primary report by business segment

CURRENT YEAR

Items	Headquarter at Hung Yen VND	Hai Phong Branch VND	Offset VND	Total VND
Assets				
Segment assets	2,912,382,221,348	809,486,762,717	(1,038,005,834,758)	2,683,863,149,307
Total assets				2,683,863,149,307
Liabilities				
Segment liabilities	1,798,317,599,350	1,207,059,798,954	(1,038,811,105,495)	1,966,566,292,809
Total liabilities				1,966,566,292,809
Net sales	5,778,368,708,508	4,174,726,105,731	(4,724,255,782,430)	5,228,839,031,809
Cost of sales	5,860,616,072,119	4,253,703,568,940	(4,725,061,053,167)	5,389,258,587,892
Segment income	(82,247,363,611)	(78,977,463,209)	805,270,737	(160,419,556,083)
Selling and General and administration expenses				96,222,323,190
Profit from operation				(256,641,879,273)
Financial income				24,932,002,987
Financial expense				86,516,098,746
Other losses				(8,026,201,245)
(Loss) before tax				(326,252,176,277)
Corporate income tax expense				-
(Loss) after tax				(326,252,176,277)

PRIOR YEAR

Items	Headquarter at Hung Yen VND	Hai Phong Branch VND	Offset VND	Total VND
Assets				
Segment assets	2,665,962,402,666	1,291,947,412,915	(967,598,982,568)	2,990,310,833,013
Total assets				2,990,310,833,013
Liabilities				
Segment liabilities	1,360,123,548,231	1,510,742,441,951	(967,598,982,568)	1,903,267,007,614
Total liabilities				1,903,267,007,614
Net sales	4,815,832,694,070	4,736,858,688,014	(3,447,572,236,793)	6,105,119,145,291
Cost of sales	4,723,493,324,438	4,620,001,136,116	(3,447,572,236,793)	5,895,922,223,761
Segment income	92,339,369,632	116,857,551,898	-	209,196,921,530
Selling and General and administration expenses				79,934,387,432
Profit from operation				129,262,534,098
Financial income				10,021,535,641
Financial expense				82,954,036,004
Other losses				(1,063,310,716)
Profit before tax				55,266,723,019
Corporate income tax expense				11,771,930,395
Profit after tax				43,494,792,624

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24. REVENUE

	Current year VND	Prior year VND
Sales of merchandise and services		
- Sales of finished goods/merchandise	5,313,513,901,235	6,149,639,450,515
	5,313,513,901,235	6,149,639,450,515
In which:		
Revenue from related parties (Details stated in Note 36)	2,213,183,042,918	1,944,591,448,862
Deductions		
a. Sales discount	42,431,782,083	38,826,440,524
b. Sales return	42,243,087,343	5,693,864,700
	84,674,869,426	44,520,305,224

25. COST OF SALES

	Current year VND	Prior year VND
Cost of finished goods sold	5,316,307,730,449	5,895,922,223,761
Provision for devaluation inventory	72,950,857,443	-
	5,389,258,587,892	5,895,922,223,761

26. PRODUCTION COST BY NATURE

	Current year VND	Prior year VND
Raw materials and consumables	4,055,140,490,482	4,635,883,352,182
Labour	130,260,363,557	131,638,155,815
Depreciation and amortisation	89,296,719,029	90,814,084,454
Provisions	92,947,579,706	4,873,392,909
Out-sourced services	372,095,444,528	444,913,673,535
Other monetary expenses	16,237,611,135	23,853,169,317
	4,755,978,208,437	5,331,975,828,212

27. FINANCIAL INCOME

	Current year VND	Prior year VND
Bank interest	18,403,345,215	8,507,564,649
Foreign exchange gain	6,161,004,738	1,041,767,811
Other financial income	367,653,034	472,203,181
	24,932,002,987	10,021,535,641

28. FINANCIAL EXPENSES

	<u>Current year</u> VND	<u>Prior year</u> VND
Interest expense	83,872,663,486	81,781,025,836
Foreign exchange loss	2,181,245,010	1,173,010,168
Other financial expenses	462,190,250	-
	<u>86,516,098,746</u>	<u>82,954,036,004</u>

29. SELLING EXPENSES AND GENERAL AND ADMINISTRATION EXPENSES

	<u>Current year</u> VND	<u>Prior year</u> VND
General and administration expenses		
Labour cost	26,529,865,994	23,782,295,535
Provision expense	19,996,722,263	4,873,392,909
Outsourced services	19,987,109,804	18,289,356,767
Other expenses	14,874,650,217	13,551,989,946
	<u>81,388,348,278</u>	<u>60,497,035,157</u>
Selling expenses		
Labour cost	3,967,889,741	4,685,138,956
Outsourced services	9,385,991,306	6,174,459,672
Others	1,480,093,865	8,577,753,647
	<u>14,833,974,912</u>	<u>19,437,352,275</u>

30. OTHER INCOME

	<u>Current year</u> VND	<u>Prior year</u> VND
Sale, disposal of fixed assets	68,181,818	174,121,719
Others	43,205,267	59,697,983
	<u>111,387,085</u>	<u>233,819,702</u>

31. OTHER EXPENSES

	<u>Current year</u> VND	<u>Prior year</u> VND
Penalties received	7,595,152,574	104,379,954
Others	542,435,756	1,192,750,464
	<u>8,137,588,330</u>	<u>1,297,130,418</u>

32. CORPORATE INCOME TAX EXPENSE

	Current year VND	Prior year VND
Current corporate income tax expense		
Corporate income tax expense based on taxable profit in the current year	-	11,506,565,838
Adjustments for corporate income tax expense in previous years to the current year	-	265,364,557
Total current corporate income tax expense	-	11,771,930,395

The current corporate income tax expense for the year was computed as follows:

	Current year VND	Prior year VND
(Loss)/Profit before tax	(326,252,176,277)	55,266,723,019
Adjustments for taxable profit	35,579,097,088	2,266,106,172
<i>Add back: non-deductible expenses</i>	35,579,097,088	2,266,106,172
Taxable profit	(290,673,079,189)	57,532,829,191
<i>Taxable profit at normal tax rate of 20%</i>	-	57,532,829,191
Corporate income tax expense based on taxable profit in the current year	-	11,506,565,838

33. BASIC (LOSSES)/EARNINGS PER SHARE

	Current year VND	Prior year (Restated) VND
- Accounting (losses)/profit after corporate income tax	(326,252,176,277)	43,494,792,624
- Allocated to bonus and welfare fund under Decree of the Annual General Meeting of shareholders	-	(6,579,596,124)
- (Losses)/Profit to determine basic earning per share	(326,252,176,277)	36,915,196,500
- Average ordinary shares in circulation for the year	73,830,393	57,865,788
Basic (losses)/earnings per share	(4,419)	638

As presented in Note 21, Decree of Annual General Meeting of Shareholders dated 09 March 2018 approved plan of allocation to Bonus and Welfare fund, which lead to restating basic earnings per share for the financial year ended 31 December 2017 as follows:

	Prior year	
	Reported VND	Restated VND
- Accounting/profit after corporate income tax	43,494,792,624	43,494,792,624
- Allocated to bonus and welfare fund under Decree of the Annual General Meeting of shareholders	-	(6,579,596,124)
- Profit to determine basic earning per share	43,494,792,624	36,915,196,500
- Average ordinary shares in circulation for the year	57,865,788	57,865,788
Basic earnings per share	752	638

34. COMMITMENTS

	<u>Current year</u>	<u>Prior year</u>
	VND	VND
Minimum operating expenses charged to the income statement:	2,117,441,200	1,991,715,000

At the balance sheet date, the Company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	<u>Closing balance</u>	<u>Opening balance</u>
	VND	VND
Minimum lease payment in the future under non-cancellable operating lease under the following terms:		
Within one year	1,372,752,108	1,286,659,563
In the second to fifth year inclusive	5,491,008,432	5,491,008,432
After five years	18,553,146,847	19,719,276,847
	<u>25,416,907,387</u>	<u>26,496,944,842</u>

Operating lease payments represent:

- Land rental in Hung Yen under the land lease contract No. 194/HD-TD dated 01 September 2017 between the People's Committee of Hung Yen province and the Company. Rental period is to 01 March 2036.

- Land rental in Hai Phong under the land lease contract between the People's Committee of Hai Phong City and the Company. Rental period is from 28 April 2010 to 08 May 2039.

35. OTHER INFORMATION

According to the Decision of High People's Court of Hanoi city dated 12 October 2017, Hung Yen Metal Joint Stock Company (currently referred to Soc Son Steel Rolling Joint Stock Company) has to pay about VND 17.9 billion to the Company. The Company is representing other receivables of VND 11.2 billion from Hung Yen Metal Joint Stock Company and made provision of 100% for this receivables (Note 9). The Company does not record the remaining receivable amounting to about VND 6.7 billion because the Board of Directors assessed that recoverability of this amount is uncertain.

36. RELATED PARTY TRANSACTIONS AND BALANCES

List of related parties with significant transactions and balances for the year:

Related parties	Relationship
Kyoei Steel Ltd.	Parent company
Kyoei Steel Vietnam Company Limited	Member of parent company
Thai Hung Trading Joint Stock Company	Shareholder
Thai Hung Trading Company Limited	Member of major shareholder

During the year, the Company entered into the following significant transactions with its related parties:

	<u>Current year</u>	<u>Prior year</u>
	VND	VND
Sales		
	2,213,183,042,918	1,944,591,448,862
Thai Hung Trading Joint Stock Company	1,609,885,094,568	1,808,408,716,272
Thai Hung Trading Company Limited	307,441,392,970	136,182,732,590
Kyoei Steel Vietnam Company Limited	295,856,555,380	-
Purchases		
	2,372,408,867,829	3,244,192,447,235
Thai Hung Trading Joint Stock Company	2,321,318,844,368	3,244,192,447,235
Kyoei Steel Ltd.	220,939,363	-
Kyoei Steel Vietnam Company Limited	50,869,084,098	-

Significant related party balances as at the balance sheet date were as follows:

	<u>Closing balance</u>	<u>Opening balance</u>
	VND	VND
Receivables	225,982,556,351	605,246,067,972
Thai Hung Trading Joint Stock Company	205,159,352,457	605,246,067,972
Kyoei Steel Vietnam Company Limited	346,934,608	-
Thai Hung Trading Company Limited	20,476,269,286	-
Advance to suppliers	1,484,093,952	-
Kyoei Steel Vietnam Company Limited	1,484,093,952	-
Payables	105,346,569,831	421,678,859,897
Thai Hung Trading Joint Stock Company	58,950,593,941	421,678,859,897
Kyoei Steel Vietnam Company Limited	46,395,975,890	-
Other payables	-	13,607,000,000
Thai Hung Trading Joint Stock Company	-	13,607,000,000

Remuneration paid to the Company's Board of Directors during the year was as follows:

	<u>Current year</u>	<u>Prior year</u>
	VND	VND
Salaries, bonus and other benefit in kinds	3,626,298,755	2,515,290,282
	3,626,298,755	2,515,290,282

37. SUBSEQUENT EVENTS

The Company signed with Sumitomo Mitsui Banking Corporation - Hanoi Branch a credit limit contract No.HNI-18-089 dated 16 November 2018 and appendix of amendment of the contract on 31 January 2019. Accordingly, the loan limit of this contract is USD 25 million with the disbursement duration to 22 January 2020 inclusive. The contract is guaranteed by the guarantee letter of Kyoei Steel Ltd. - Parent company.

The Company signed with MUFG Bank, Ltd. - Hanoi City Branch a general contract of credit transactions on 28 January 2019, credit limit contract No.FL/002/19 on 29 January 2019 and Appendix of credit contract No.FL/002/19 on 28 January 2019. Accordingly, the loan limit of this contract is USD 25 million, the withdrawal period is from 28 January 2019 to 23 January 2020. The limit contract is guaranteed by guarantee letter of Kyoei Steel Co., Ltd. - Parent company.

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38. COMPARATIVE FIGURES

Certain comparative figures of the balance sheet have been reclassified as follows:

	Previously reported amount	Reclassification	Amount after reclassification
	VND	VND	VND
Other long-term receivables	-	10,591,428,201	10,591,428,201
Long-term construction in progress	28,000,868,784	(10,591,428,201)	17,409,440,583



Pham Van Minh
Preparer



Dang Thi Tuyet Dung
Chief Accountant



Satoshi Sugino
Senior Deputy General Director
Authorization letter No. 948/UQ-VIS
dated 21 December 2018

28 February 2019

