VEGA STEEL INDUSTRIES (RSA) PROPRIETARY LIMITED
(Registration No. 2009/007501/07)

FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2016

PREPARER

Prepared under the supervision of L Maharaj (Accountant)

LEVEL OF ASSURANCE

Audited

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The financial statements set out on pages 4 to 15 were approved by the board of directors on 13 May 2016 and signed on their behalf by:

Director

DIRECTORS' REPORT

The directors present their report for the year ended 31 March 2016.

REVIEW OF ACTIVITIES

The company carries on the business of importing, exporting and trading of steel and alloy castings and related components.

The business and operations of the company continued during the year under review as in the past and we have nothing further to report thereon.

The results of the business and the state of its affairs are set out in the attached financial statements and do not, in our opinion, require any further comment.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No material fact or circumstance has occurred between the accounting date and the date of this report.

STATEMENT OF RESPONSIBILITY

The directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The auditor is responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

The directors are also responsible for the company's systems of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue operation for the foreseeable future.

SHARE CAPITAL

There were no changes in the authorised or issued share capital of the company during the year under review.

NON-CURRENT ASSETS

There were no major changes in the nature or policy relating to the use of non-current assets during the year under review.

DIVIDENDS

No dividends were declared or paid to the shareholder during the year under review.

EMPLOYEES

The average number of employees for the year under review was 2.

DIRECTORS

The following directors held office throughout the year under review and to the date of this report:

B K Shah	
J F J Spede	(Resigned 8 May 2015)
P R Shah	
R A Gilani	
H K Patel	(Appointed 8 May 2015)

SECRETARY

The company has no secretary.

HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

The company is a wholly owned subsidiary of Vega Industries (Middle East) FZC, a company incorporated in Ajman Free Zone, Ajman, United Arab Emirates and its ultimate holding company is AIA Engineering Limited, a company incorporated in India.

Chartered Accountants (SA)
Registered Auditors

Tuffias Sandberg KSi
A member of KS International

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

VEGA STEEL INDUSTRIES (RSA) PROPRIETARY LIMITED

We have audited the financial statements of Vega Steel Industries (RSA) Proprietary Limited set out on pages 4 to 15, which comprise the statement of financial position as at 31 March 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International 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 auditor's judgement, 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 auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vega Steel Industries (RSA) Proprietary Limited at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2016, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between this report and the audited financial statements. The Directors' Report is the responsibility of the directors. Based on reading the Directors' Report we have not identified material inconsistencies between this report and the audited financial statements. However, we have not audited the Directors' Report and accordingly do not express an opinion thereon.

Muller

ASHLEY MULLER
Partner
Registered Auditor

13 May 2016

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STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2016

	Note	2016 R	2015 R
ASSETS			
Non-current assets			
Plant and equipment	2	9 148	24 743
Current assets		159 023 571	165 185 565
Inventories	3	56 344 427	102 661 876
Trade and other receivables	4	50 053 114	40 760 934
Cash and cash equivalents		49 916 045	20 082 755
Current tax asset		2 709 985	1 680 000
Total assets		159 032 719	165 210 308
EQUITY AND LIABILITIES			
Equity		3 564 362	3 055 382
Issued capital	5	100	100
Retained earnings		3 564 262	3 055 282
Current liabilities		155 468 357	162 154 926
Loan payable	7	1 879 041	4 576 931
Trade and other payables	8	153 589 316	157 577 995
Total equity and liabilities		159 032 719	165 210 308

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2016

	Issued capital R	Retained earnings (accumulated losses) R	Total R
Balance at 31 March 2014	100	(2 381 647)	(2 381 547)
Profit and total comprehensive income for the year	-	5 436 929	5 436 929
Balance at 31 March 2015	100	3 055 282	3 055 382
Profit and total comprehensive income for the year	-	508 980	508 980
Balance at 31 March 2016	100	3 564 262	3 564 362

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 R	2015 R
REVENUE	9	337 434 657	360 629 881
COST OF SALES		(329 699 101)	(328 600 472)
GROSS PROFIT		7 735 556	32 029 409
Other income		2 106 011	1 165 911
Operating costs		(9 312 572)	(27 758 391)
PROFIT BEFORE TAX	10	528 995	5 436 929
Tax	11	(20 015)	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		508 980	5 436 929

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2016

	2016 R	2015 R
Net cash flows from operating activities	32 531 180	(26 472 043)
Profit before tax	528 995	5 436 929
Adjustments for:		
Interest received	(2 106 011)	(1 165 911)
Finance costs	-	839
Depreciation	15 595	12 733
Operating profit before working capital changes	(1 561 421)	4 284 590
Working capital changes	33 036 590	(30 241 705)
Inventories	46 317 449	(25 823 485)
Trade and other receivables	(9 292 180)	(5 410 963)
Trade and other payables	(3 988 679)	992 743
Cash generated from operations	31 475 169	(25 957 115)
Interest received	2 106 011	1 165 911
Tax paid	(1 050 000)	(1 680 000)
Finance costs	-	(839)
Net cash flows from financing activities		
Loans payable (repaid) raised	(2 697 890)	1 793 298
Net increase (decrease) in cash and cash equivalents	29 833 290	(24 678 745)
Cash and cash equivalents at beginning of year	20 082 755	44 761 500
Cash and cash equivalents at end of year	49 916 045	20 082 755

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 General information

Vega Steel Industries (RSA) Proprietary Limited is a company incorporated in South Africa.

The address of its registered office and principal place of business is 263 – 265 Kent Avenue, Ferndale, Randburg, 2194.

The principal business of the company is importing, exporting and trading of steel and alloy castings, and related components.

Vega Steel Industries (RSA) Proprietary Limited is a wholly owned subsidiary of Vega Industries (Middle East) FZC and its ultimate holding company is AIA Engineering Limited.

The financial statements were authorised for issue by the board of directors on 13 May 2016.

1.2 Basis of preparation

The financial statements are prepared on the historical cost basis, except as otherwise indicated in the notes to the financial statements, and incorporate the following principal accounting policies, which except as otherwise indicated, are consistent with those applied in the previous year.

The financial statements have been presented in South African Rand, and all amounts have been rounded to the nearest Rand.

The financial statements are prepared on the going concern basis.

1.3 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Companies Act of South Africa.

1.4 Plant and equipment

Plant and equipment are tangible items that:

- are held for use in the production or supply of goods or services, or for administrative purposes; and
- are expected to be used during more than one year.

Plant and equipment is initially recorded at cost, and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes all costs incurred to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the straight line method to write off the cost of each asset, to their residual values over their estimated useful lives. The estimated useful lives applicable to each category of plant and equipment are as follows:

Category	Years
Computer equipment	- 3
Furniture and fittings	- 6
Office equipment	- 5

At each reporting date management assesses whether there is any indication that an asset may be impaired. If any such indication exists, management estimates the recoverable amount of the asset. If there is no indication of impairment, it is not necessary to estimate the recoverable amount.

Gains and losses on disposals are recognised in profit or loss on disposal.

1.5 Financial instruments

Financial instruments included on the statement of financial position include cash and cash equivalents, trade and other receivables, trade and other payables and loans payable. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

1.6 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Where necessary, allowance is made for obsolete, slow moving and defective inventories.

1.7 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of the company's business. Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Trade and other receivables are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An estimate is made for doubtful receivables based on a review of all outstanding amounts at reporting date. Doubtful debts are impaired and expensed during the year in which they are identified.

1.8 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, bank deposits and other short-term highly liquid investments with original maturities of three months or less. They are initially recognised at transaction price and subsequently measured at amortised cost.

1.9 Share capital and equity

Ordinary shares are classified as equity.

Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments.

1.10 Borrowings

Borrowings are initially recognised at transaction price, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the total amount payable is recognised over the terms of the borrowings in accordance with the company's accounting policy for borrowing costs.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

1.11 Income Tax

Tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable income for the year plus under/over provisions in prior periods.

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

1.11 Income Tax (Continued)

Deferred Tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

1.12 Trade and other payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business. Most obligations are on normal credit terms and do not bear interest.

Trade and other payables are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest method. In practice they are usually recognised at the amount of the related invoice.

1.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Sales of goods are recognised when the goods are delivered to the customer, which then assumes total control over the acquired products, and when there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Other income earned by the company are recognised on the following basis:

- *Interest income is recognised on the accrual basis, using the effective interest method.*

1.14 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.15 Operating lease agreements

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases.

Rental expense on operating leases is recognised on a straight-line basis over the term of the relevant lease unless the lease payments are structured to increase in line with expected general inflation in which case the expense is recognised in accordance with the expected payments.

1.16 Employee benefits

Employee benefit costs are recognised in profit or loss as incurred.

1.17 Key sources of estimation uncertainty and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Plant and equipment

Plant and equipment is depreciated on the straight line method over its useful life to residual value. Residual values and useful lives are based on management's best estimates and actual future outcomes may differ from these estimates.

Allowance for doubtful debts of trade debtors

An allowance for impairment of trade debtors is established when there is objective evidence that the company will not be able to collect amounts due within reasonable time.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves an exercise of significant judgement and estimates of the outcome of future events.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Tax expense

Taxes are a matter of interpretation and subject to changes. Estimations of normal company tax and capital gains tax are based on management's interpretation thereof.

Allowance for obsolete, slow moving and defective inventories

Judgement is required to establish whatever inventory is obsolete, redundant or slow moving and the extent to which cost exceeds net realisable value.

2. PLANT AND EQUIPMENT

	Cost 2016 R	Accumulated depreciation 2016 R	Carrying value 2016 R	Carrying value 2015 R
Computer equipment	40 474	(35 601)	4 873	12 776
Furniture and fittings	1 052	(877)	175	350
Office equipment	20 500	(16 400)	4 100	11 617
	62 026	(52 878)	9 148	24 743

Details of movement

	Carrying value 2016 R	Depreciation 2016 R	Carrying value 2016 R
Computer equipment	12 776	(7 903)	4 873
Furniture and fittings	350	(175)	175
Office equipment	11 617	(7 517)	4 100
	24 743	(15 595)	9 148

3. INVENTORIES

	2016 R	2015 R
Merchandise	56 344 427	102 661 876

The total value of inventories measured at net realisable value is R Nil (2015: R Nil)

4. TRADE AND OTHER RECEIVABLES

	2016 R	2015 R
Trade receivables – third parties	48 032 219	40 419 811
Others (aggregate of immaterial items)	2 020 895	341 123
	50 053 114	40 760 934

There were 3 customers who represented more than 10% each of the total balance of trade receivables.

Ageing of trade receivables – third parties

	2016 R	2015 R
Not due	45 222 544	32 276 444
0 – 30 days	2 809 675	7 355 322
31 – 60 days	-	788 045
	48 032 219	40 419 811

By transaction currency

	2016 R	2015 R
ZAR	48 032 219	40 419 811

		2016 R	2015 R
5.	**SHARE CAPITAL**		
	Authorised		
	1 000 ordinary shares of R1 each	1 000	1 000
	Issued		
	100 ordinary shares of R1 each	100	100
6.	**DEFERRED TAX**		
	Balance at beginning of year	-	-
	Recognised in profit and loss	-	-
	Balance at end of year	-	-
	Comprises:		
	Estimated tax losses	-	219 255
	Valuation allowance	-	(219 255)
		-	-
7.	**LOAN PAYABLE**		
	Vega Industries (Middle East) FZC	1 879 041	4 576 931
	Unsecured, interest free and repayable on demand.		
8.	**TRADE AND OTHER PAYABLES**		
	Trade payables – third parties	2 967 801	3 684 423
	Trade payables – related parties	150 521 515	153 793 572
		153 489 316	157 477 995
	Others (aggregate of immaterial items)	100 000	100 000
		153 589 316	157 577 995
	Ageing of trade payables – third parties		
	0 – 30 days	2 196 059	3 225 430
	31 – 60 days	83 725	187 805
	61 – 90 days	163 019	120 849
	>90 days	524 998	150 339
		2 967 801	3 684 423
	By transaction currency		
	ZAR	2 967 801	3 684 423

		2016 R	2015 R
9.	**REVENUE**		
	Sale of goods	337 434 657	360 629 881
10.	**OPERATING PROFIT**		
	Operating profit is arrived at after taking into account:		
	INCOME		
	Interest received	2 106 011	1 165 911
	EXPENSES		
	Depreciation	15 595	12 733
	Loss on foreign exchange	-	12 733 441
	Operating lease payments		
	- property	188 765	183 173
	- motor vehicle	33 709	96 415
11.	**TAX**		
	South African normal tax		
	- current	20 015	-

12. RELATED PARTIES

During the year, the company entered into the following transactions, and had the following balances with related parties:

2016	Purchases/ services from related parties R	Sales to related parties R	Related party creditor R	Related party debtor R
Vega Industries (Midde East) FZC - Holding company	272 479 979	-	150 521 515	-
2015				
Vega Industries (Midde East) FZC - Holding company	351 986 431	-	153 793 572	-

Sales to and purchases from related parties

Sales to and purchases from related parties are determined by management.
Services from related parties represents management fees.
Loans to and from related parties are disclosed in Note 7.

13. COMMITMENTS

Operating leases

The future minimum lease payments payable under non-cancellable operating leases are:

	2015 R	2014 R
Within one year	-	118 418
Later than one year but within five years	-	39 473
Later than five years	-	-
	-	157 891

MANAGEMENT INFORMATION

VEGA STEEL INDUSTRIES (RSA) PROPRIETARY LIMITED

DETAILED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2016

	2016 R	2015 R
REVENUE	337 434 657	360 629 881
COST OF SALES	(329 699 101)	(328 600 472)
Inventory at beginning of the year	(102 661 876)	(76 838 391)
Purchases	(283 381 652)	(354 423 957)
	(386 043 528)	(431 262 348)
Inventory at end of the year	56 344 427	102 661 876
GROSS PROFIT	7 735 556	32 029 409
OTHER INCOME	2 106 011	1 165 911
Interest received	2 106 011	1 165 911
	9 841 567	33 195 320
OPERATING COSTS	(9 312 572)	(27 758 391)
Advertising	-	2 250
Auditors remuneration	113 540	105 090
Bank charges	29 291	26 473
Commission	1 179 796	1 030 193
Computer expenses	15 114	7 508
Courier and postage	5 515	6 237
Depreciation	15 595	12 733
Donations	2 000	2 000
Entertainment	-	4 580
Foreign exchange losses	-	12 733 441
Freight expenses	3 947 229	9 331 757
General expenses	5 332	6 221
Insurance	385 187	125 287
Interest expense	-	839
Management fees	1 795 650	-
Penalties	323 539	-
Printing and stationery	1 373	1 313
Professional fees	404 303	415 003
Rent, electricity and water	188 765	183 173
Salaries and wages	844 064	3 490 255
Telephone and fax	18 948	23 804
Travelling expenses	3 622	153 819
Vehicle lease expenditure	33 709	96 415
Profit for the year	528 995	5 436 929