

Management Discussion and Analysis Quarter 1 Ending 31 March 2019

Highlights

	Unit : million Baht	Q 1/2019	Q 1/2018
Group	Group Revenues	3,398	8,148
	Group EBITDA	(85)	1,223
	Group Net Profit (Loss)	(803)	495
HRC	HRC Sales (k tons)	177	389
	HRC Production Volume (k tons)	139	382
	HRC Average Selling Price (Bht/Ton)	19,160	20,939
	HRC Cash Margin (Bht/Ton)	(58)	1,927
	Unit : million Baht	31-Mar-19	31-Dec-18
Group	Total Assets	28,560	30,632
	Total Liabilities	19,262	20,532
	Total Equity	(273)	172
	Minority	9,570	9,928

Q1/2019, the Company and subsidiary's total net loss equals Baht 803 million, decreased by Baht 1,298 million or 262% comparing with same period of last year which posted total net profit Baht 495 million. Total revenue from sales and services amounted to Baht 3,398 million, decreased by Baht 4,750 million or 58% YoY.

Separate financial statement, the Company had total net loss Baht 355 million, decreased by Baht 474 million or 400% comparing with same period of last year which posted total net profit Baht 119 million. Total revenue from sales and services amounted to Baht 274 million, decreased by Baht 1,021 million or 79% YoY.

Net loss resulted from total revenue from sales and services of the Company and subsidiary decrease together with high level of cost of goods sold so cause gross loss. Total revenue decreased due to the decrease of sale volume and selling price. Sale volume decrease cause by production volume decrease. Both company and subsidiary was temporary shutdown in Q1/2019. The company shutdown from February to April after GJ Steel terminate service tolling agreement on 31 January 19 because the company waiting for sign new loan agreement for working capital purpose and preparing to get ready to produce for own sale again. For GJ Steel, production disruptions resulting from breakdown of critical gear and transformer so impact to production volume in January and

stop production in February 2019. For cost of goods sold, high level of fixed cost of the company and subsidiary cannot covered by the decreased revenue resulting from the decrease of production together with Graphite Electrode's price which part of conversion cost higher than same period of last year.

Performance

Revenue from sale and cost of sale

Total revenue from sales and services of the Company and subsidiary's amounted to Baht 3,398 million, decreased by Baht 4,750 million or 58% YoY (Separated Financial Statement: Total revenue from sales and services amounted to Baht 274 million, decreased by Baht 1,021 million or 79% YoY) resulted from the decreasing in sale volume and average selling price.

For sale volume, the Company and subsidiary recorded a sales volume of 177 thousand tons, decreased by 212 thousand tons or 54% YoY. (Separated Financial Statement: The company has no sale volume but produce for GJ Steel's tolling 48 thousand tons comparing with same period of last year which recorded sale volume by 1.5 thousand tons and GJ Steel's tolling 203 thousand tons). The decreasing of sale volume was caused by the decreasing of production volume of both company and subsidiary. Q1/2019, the company produce only in January for GJ Steel's tolling. The company temporary shutdown for 3 months after ended date of tolling service agreement on 31 January 2019 for fund sourcing and preparing to get ready to produce for own sale again. For GJ Steel, production disruptions resulting from breakdown of critical gear and transformer so impact to production volume in January and stop production in February 19. For selling price, average selling price of Q1/2019 is 19,160 baht/ton which decrease comparing with 20,939 baht/ton of last year.

Consolidated cost of goods sold and cost of service amounted to Baht 4,053 million, decreased by Baht 3,568 million or 47% YoY (Separate: Baht 556 million, decreased by Baht 835 or 60% YoY), according to the decreasing of sale volume.

Consolidated gross loss amounting to Baht 655 million (gross loss margin 19%) comparing with same period of last year which recorded gross profit Baht 527 million (gross profit margin 6%). For the company, recorded gross loss amounted to Baht 282 million (gross loss margin 103%) comparing with same period of last year which recorded gross loss Baht 96 million (gross loss margin 7%). The increasing of gross loss resulted from high fixed cost especially depreciation of both company and subsidiary so revenue from the decreased of production volume/sale volume could not cover the cost, together with Graphite Electrode's price which is a part of conversion cost higher than same period of last year.

Net gain on foreign exchange rate

Consolidated net gain on foreign exchange amounted to Baht 287 million. The gain is attributed to the appreciation of the Thai Baht versus the US dollar. (Separate: Baht 169 million).

Gain from compromise

Consolidated gain from compromise amounted to Baht 44 million which resulted from the company sign compromise agreement with some creditor, and the company gets extension for the repayment and interest hair cut so the company recorded gain from compromise.

Selling expenses

Total selling expenses of the Company and subsidiary amounting to Baht 45 million, decreased by Baht 50 million YoY (Separate: Baht 0.09 million, decreased by Baht 3 million YoY), according to the decreasing in sale volume.

Administrative expense

Total administrative expense of the Company and subsidiary amounted to Baht 198 million, nearby numbers with same period of last year. (Separate: Baht 48 million, increased by Baht 24 million YoY. The major reason came from the reduction of expenses allocation from administrative expense to be tolling service expense.)

Other Expenses

Other expenses of the Company and subsidiary amounted to Baht 27 million. For Separate, Other expenses amounted Baht 102 million which resulted from loss on sale fixed assets amounted to Baht 2,349 million and reversal of loss on impairment of assets amounted to Baht (2,348) million, affected from the company sell assets (BOI) to Free Zone in order to alleviate import duty tax, VAT and penalty burden which can see detail in Note no. 10 Property, plant and equipment in subject Impairment evaluation. And loss on impairment of investment in subsidiaries Baht 65 million as well as provision for court case claim Baht 25 million comparing with same period of last year which recorded other expenses Baht 76 million which resulted from loss on impairment of assets Baht 42 million and provision for court case claim Baht 25 million.

Financial cost

The Company and subsidiary has total financial cost amounted to Baht 280 million, increased by Baht 13 million YoY. (Separate: Baht 167 million, nearby numbers with same period of last year.)

Financial position

Total Assets

As of 31 March 2019, the Company and subsidiary has total asset amounted to Baht 28,560 million, decreased by Baht 2,073 million or 7% from year ended 2018 which has total asset Baht 30,632 million. Total assets separate into current assets amounted to Baht 3,702 million, decreased 32% from year 2018 and non-current assets amounted to Baht 24,858 million, decreased 1% from year 2018. Current assets mainly decreased from the decrease of inventory, cash and cash equivalents. Non-current assets mainly decreased from depreciation.

Cash and cash equivalent

The Company and subsidiary has cash and cash equivalent as at 31 March 2019 amounted to Baht 166 million, decreased Baht 93 million or 36% from year ended 2018 since the Company and subsidiary has

- Net cash flows provided by operating activities Baht 62 million
- Net cash flows used in investing activities Baht 16 million. Purchasing of property, plant and equipment Baht 26 million and the company sell assets (BOI) to Free Zone in order to alleviate import duty tax, VAT and penalty burden Baht 10 million.
- Net cash flows used in financing activities Baht 138 million. Mainly came from the finance costs paid Baht 110 million which mostly from subsidiary, repayment short-term loans from related party Baht 28 million of subsidiary.

(See more details in Statement of cash flows)

Trade accounts receivable

As of 31 March 2019, the Company and subsidiary has trade accounts receivable amounted to Baht 1,048 million, deducted allowance for doubtful account Baht 1,025 million, remaining net trade accounts receivable amounted to Baht 23 million. (At the end of year 2018, the Company and subsidiary has trade accounts receivable amounted to Baht 1,041 million, deducted allowance for doubtful account Baht 1,027 million, remaining net trade accounts receivable amounted to Baht 14 million). Net account receivable was increased by Baht 9 million.

Inventories

Inventories as of 31 March 2019 of the Company and subsidiary amounted to Baht 2,965 million or 10% of total assets, decreased Baht 1,647 million from year ended 2018. The decrease of inventory of subsidiary was the main part. The inventory of the subsidiary decreased by Baht 1,485 million which came from the decrease of finished good and goods in transit. For the company, inventories decrease by baht 83 million from the decreased of raw materials and consumables.

Total liabilities

Total liabilities of the Company and subsidiary as at 31 March 2019 amounted to Baht 19,262 million, decreased Baht 1,269 million or 6% from year ended 2018 which resulted from;

Current liabilities decreased Baht 1,272 million derived from:

- Trade accounts payable decreased Baht 1,210 million, mainly came from subsidiary which Trade accounts payable decreased by Baht 1,192 million.
- Short-term loan from other parties decreased Baht 51 million, resulted from the company sign compromise agreement and get extension for the repayment from the creditor.
- Short-term loan from related parties decreased Baht 34 million.
- Advances received from customers increased Baht 65 million.
- Accrued interest expenses increased Baht 42 million.
- Liabilities under rehabilitation plan increased Baht 28 million.

Non-current liabilities increased Baht 2 million derived from:

- Liabilities under rehabilitation plan and compromise agreement increase Baht 108 million, which occurs from the company sign compromise agreement with some creditor so the company get extension for the repayment, then, liabilities under rehabilitation plan and compromise agreement in current liabilities is reclassified to Non-current liabilities instead
- Other payables and accrued expenses decreased Baht 88 million
- Long-term loan from related party decreased Baht 20 million

Shareholders' equity

As of 31 March 2019 the Company and its subsidiaries had the shareholders' equity of Baht 9,297 million which decreased by Baht 803 million or 8% from year ended 2018 due to net loss of the Company and its subsidiaries.

Summary of Consolidated Financial Results

Assets	31 March	31 December	+ (-) %
	2019	2018	
	<i>(in thousand Baht)</i>		
Current assets			
Cash and cash equivalents	165,526	258,184	(56%)
Temporary investment-trading security	8,736	11,496	(32%)
Trade accounts receivable	22,669	13,804	39%
Amounts receivable from related parties	-	-	-
Inventories	2,964,610	4,611,491	(56%)
Other current assets	540,672	565,995	(5%)
Total current assets	3,702,213	5,460,970	(48%)
Non-current assets			
Investments in subsidiaries	-	-	-
Advance payment for purchases of property, plant and equipment	210,000	210,000	0%
Property, plant and equipment	23,980,809	24,384,466	(2%)
Intangible assets	11,520	11,540	(0%)
Other non-current assets	655,323	565,467	14%
Total non-current assets	24,857,652	25,171,473	(1%)
Total assets	28,559,865	30,632,443	(7%)

Summary of Consolidated Financial Results

	31 March	31 December	
	2019	2018	+ (-) %
<i>(in thousand Baht)</i>			
Liabilities and equity			
Current liabilities			
Short-term loans from financial institution	212,503	212,503	0%
Trade accounts payable	1,129,472	2,339,819	(107%)
Amount due to related parties	-	-	-
Current portion of liabilities under rehabilitation plan and compromising	630,993	659,013	(4%)
Current portion of long-term loan from related party	314,000	314,000	0%
Current portion of bonds	496,063	505,934	(2%)
Short-term loan from related parties	1,235,587	1,269,364	(3%)
Short-term loan from other parties	56,524	107,424	(90%)
Loan from shareholder	3,850	3,850	0%
Advances received from customers	107,726	42,666	60%
Other payables and accrued expenses	7,427,003	7,440,181	(0%)
Accrued interest expenses	5,515,640	5,473,957	1%
Provisions	421,938	434,458	(3%)
Other current liabilities	329,055	348,859	(6%)
Total current liabilities	17,880,354	19,152,028	(7%)
Non-current liabilities			
Liabilities under rehabilitation plan and compromising - net of current portion	107,789	-	100%
Long-term loan from related party	1,097,151	1,117,518	(2%)
Other payables and accrued expenses	29,479	117,928	(300%)
Employee benefit obligations	146,427	143,059	2%
Other non-current liabilities	1,281	1,389	(8%)
Total non-current liabilities	1,382,127	1,379,894	0%
Total liabilities	19,262,481	20,531,922	(7%)

Summary of Consolidated Financial Results

	31 March	31 December	
	2019	2018	+ (-) %
	<i>(in thousand Baht)</i>		
Liabilities and equity			
Equity			
Share capital			
Authorised share capital	48,775,744	48,775,744	0%
Issued and paid-up share capital	34,250,905	34,250,905	0%
Warrants	14,050	14,050	0%
Additional (Discount) paid in capital:			
Share discount	(10,163,276)	(10,163,276)	0%
Premium on capital reduction	206,307	206,307	0%
Retained earnings (deficit)			
Appropriated:			
Legal reserve	763,977	763,977	0%
Unappropriated	(25,345,061)	(24,899,544)	2%
Equity attributable to owners of the Company	(273,098)	172,419	163%
Non-controlling interests	9,570,482	9,928,102	(4%)
Total equity (Capital deficiency)	9,297,384	10,100,521	(9%)
Total liabilities and equity	28,559,865	30,632,443	(7%)

Condensed Consolidated Statement of Financial Position

	31 March 2019	31 March 2018	+ (-) %
	<i>(in thousand Baht)</i>		
Income			
Revenue from sale	3,397,969	8,148,384	(140%)
Revenue from service - Tolling	-	-	-
Reversal of bad and doubtful debts expense	7,710	4,555	41%
Reversal of loss on confirmed purchase orders for undelivered raw material	37,148	-	100%
Net foreign exchange gains	287,367	583,786	(103%)
Gain from compromising	44,403	-	100%
Other incomes	25,210	8,791	65%
Total income	3,799,807	8,745,516	(130%)
Expenses			
Cost of sale			
- Cost of goods sold	3,684,363	7,549,072	(105%)
- Idle cost	453,231	67,098	85%
- Loss on devaluation of inventories (Reversal of)	(84,820)	4,850	106%
Total Cost of sale	4,052,774	7,621,020	(88%)
Cost of services - Tolling	-	-	-
Selling expenses	45,082	94,853	(110%)
Administrative expenses	197,832	199,991	(1%)
Other expenses	27,422	67,948	(148%)
Finance costs	279,834	266,576	5%
Total expenses	4,602,944	8,250,388	(79%)
Profit (loss) before income tax expense	(803,137)	495,128	162%
Income tax expense	-	-	-
Profit (loss) for the years	(803,137)	495,128	162%
Other comprehensive income (loss) for the years	-	-	-
Total comprehensive income (loss) for the years	(803,137)	495,128	162%

Condensed Consolidated Statement of Financial Position

	31 March	31 March	
	2019	2018	+ (-) %
	<i>(in thousand Baht)</i>		
Profit (loss) attributable to :			
Owners of the Company	(445,517)	196,625	144%
Non-controlling interests	(357,620)	298,503	183%
Profit (loss) for the years	(803,137)	495,128	162%
Total comprehensive income (loss) attributable to:			
Owners of the Company	(445,517)	196,625	144%
Non-controlling interests	(357,620)	298,503	183%
Total comprehensive income (loss) for the years	(803,137)	495,128	162%
Earnings (loss) per share			
Basic earning (loss) per share	(0.07)	0.03	143%

Consolidated Statement of Cash Flow

	Three month period ended		
	31 March		
	2019	2018	+ (-) %
	<i>(in thousand Baht)</i>		
<i>Cash flows from operating activities</i>			
Profit (loss) for the years	(803,137)	495,128	162%
<i>Adjustments for</i>			-
Depreciation and amortisation	438,041	461,208	(5%)
Interest income	(11)	(26)	(136%)
Finance costs	279,834	266,576	5%
Unrealised (gain) loss on exchange rate	(191,684)	(530,938)	(177%)
	2,401	556	77%
Gain on compromise debt	(44,403)	-	100%
Bad and doubtful debts expense (Reversal of)	(7,710)	(4,555)	41%
Loss on impairment of assets	-	41,607	-
Provision for a gurantee of subsidiary	-	-	-
Withholding tax write-off	-	15,873	-
Loss on devaluation of inventories (Reversal of)	(84,820)	4,850	106%
Reversal of loss on confirmed purchase orders			-
for raw material	(37,148)	-	100%
Loss on impairment of investment in subsidiaries	-	-	-
Loss on written off of assets	431	6	99%
Provision for court case claim	24,628	24,627	0%
Employee benefit obligations	3,368	3,327	1%
	(420,210)	778,239	285%
<i>Changes in operating assets and liabilities</i>			
Trade accounts receivable	(27,751)	(161,023)	(480%)
Amount due from related parties	-	(182)	-
Inventories	1,731,701	(402,325)	123%
Other current assets	39,837	(56,501)	242%
Other non-current assets	(107,977)	(14,169)	87%
Trade accounts payable	(1,203,547)	786,407	165%
Advances received from customers	65,060	(7,236)	111%
Other payable and accrued expenses	13,019	(166,212)	1377%
Other current liabilities	(19,070)	30,985	262%
Employee benefit paid	-	(115)	-
Income tax paid	(8,626)	(57,720)	(569%)
Net cash flows provided by (used in) operating activities	62,436	730,148	(1069%)

Consolidated Statement of Cash Flow

	Three month period ended		
	31 March		
	2019	2018	+ (-) %
	<i>(in thousand Baht)</i>		
<i>Cash flows from investing activities</i>			
Interest received	11	26	(136%)
Purchase of property, plant and equipment	(26,018)	(5,584)	79%
Purchase of intangible assets	(947)	-	100%
Cash received (payment) to long-term loans	10,292	-	100%
Proceeds from disposal of temporary investment	359	-	100%
Proceeds from disposal of investment in subsidiary	-	68,000	-
Net cash flows provided by (used in) investing activities	(16,303)	62,442	483%
<i>Cash flows from financing activities</i>			
Finance costs paid	(109,949)	(171,939)	(56%)
Payment of liabilities under rehabilitation plan and compromise debt	(367)	(1,010)	(175%)
Proceeds(Repayment) of short-term loans from other parties	-	(55)	-
Proceeds(Repayment) of short-term loans from related parties	(27,916)	(162,313)	(481%)
Proceeds(Repayment)from long-term loans from related parties	-	(197,083)	-
Payment for financial lease liabilities	(125)	(125)	0%
Net cash flows provided by (used in) financing activities	(138,357)	(532,525)	(285%)
Net increase (decrease) in cash and cash equivalents	(92,224)	260,065	382%
Cash and cash equivalents at 1 January	258,184	590,830	(129%)
Effect from exchange rate changes on balances held in foreign currencies	(434)	(345)	21%
Cash and cash equivalents at 31 March	165,526	850,550	(414%)