

**Management Discussion and Analysis Quarter 2 Ending 30 June 2019**

**Highlights**

	Unit : million Baht	Q 2/2019	Q 2/2018
Group	Group Revenues	5,192	7,815
	Group EBITDA	640	555
	Group Net Profit (Loss)	(223)	(1,401)
HRC	HRC Sales (k tons)	260	377
	HRC Production Volume (k tons)	306	363
	HRC Average Selling Price (Bht/Ton)	19,940	20,709
	Unit : million Baht	30-Jun-19	31-Dec-18
Group	Total Assets	29,683	30,632
	Total Liabilities	19,179	20,532
	Total Equity	(433)	172
	Minority	10,937	9,928

Q2/2019, the Company and subsidiary's total net loss equals Baht 223 million, loss decreased by Baht 1,178 million or 84% comparing with same period of last year which posted total net loss Baht 1,401 million. Revenue from sale of goods amounted to Baht 5,192 million, decreased by Baht 2,623 million or 34% YoY.

Separate financial statement, the Company had total net loss Baht 917 million, loss decreased by Baht 139 million or 13% comparing with same period of last year which posted total net loss Baht 1,056 million. Revenue from sale of goods amounted to Baht 1,264 million, increased by Baht 217 million or 21% comparing with same period of last year which posted revenue from service-tolling Baht 1,047 million.

Net loss of the Company and subsidiary was decreased which resulted from net gain on foreign exchange. In Q2/2019, the Company and subsidiary posted net gain from foreign exchange Baht 434 million while same period of last year posted net loss from foreign exchange Baht 736 million. For net loss, the major factor came from shutdown in Apr2019 which start temporary shutdown from February – April 2019 because GJ Steel has terminated the Scrap Metal Tolling Agreement. The Company has been seeking funds from an external source for working capital purpose and preparing to get ready to produce for own sale again and can resume the operation in early of May 2019. The Company still has fixed cost for the period of shutdown while doesn't have sale revenue including cost per ton still high for production period which resulted from depreciation and the increase of cost from raw material handling by the Company itself after terminate contract with

service provider in late year 2018 however the Company invests in fixed asset in Q3/2019 to increase raw material handling's efficiency. In addition, net loss came from low sale volume which affected from the increasing of import volume from foreign country in May and June 2019.

### **Business Outlook**

Post termination of Tolling Activities in January, 2019, the production at the Company came to a halt due to lack of working capital. During the quarter, the Company entered into Credit Agreement Facility with Link Capital I (Mauritius) obtaining a credit limit of USD 70 Million for working capital and resumed operations from early May 2019 after a shutdown of three months.

The operations at the plant resumed smoothly due to meticulous planning and smooth implementation. Since then, the Company has started to gradually re acquire the old customers who had established alternative supply sources through competitors or resorted to cheaper imports.

Overall Domestic HRC market conditions remained subdued with downward pressure on HRC prices due to global trade tensions, high levels of imports and slowdown in Thai economy.

While various representations are being made to the relevant Authorities to provide necessary safeguards against the Imports of HRC, there has been sharp increase in the imports especially of Hot Dip Galvanized and Alloy Steel grades during the current period.

These factors are likely to impact the results of Q3 2019 but with the completion of Government formation process, discussions on providing stimulus to revive the economy and enforcement of Anti-Dumping and Countervailing of Foreign Products Act, we are expecting improvement in the sentiments from Q4 onwards.

### **Performance**

#### **Revenue from sale and cost of sale**

Total revenue from sales of the Company and subsidiary's amounted to Baht 5,192 million, decreased by Baht 2,623 million or 34% YoY. Mainly came from the decrease of sale volume. The Company and subsidiary recorded a sales volume of 260 thousand tons, decreased by 117 thousand tons or 31% YoY which affected from final resolution by the Trade Interests and Remedies Committee to get no extension of the safeguard measures for imported hot-rolled steel sheets with alloy (expire on 26 February 2019) and the trade war between United States-China which Chinese steel spilled into Thailand and ASEAN. Volume of import flat steel product from foreign country to Thailand increase in May and June 2019. For price, average selling price of Q2/2019 was 19,940 Baht/ton, decreased comparing with same period of last year which had average selling price 20,709 Baht/ton. (Separated Financial Statement: Total revenue from sales amounted to Baht 1,264 million (sale volume 63 thousand tons) comparing with same period of last year which recorded revenue from service-tolling Baht 1,047 million, increased because year 2019 the Company has revenue from sale of goods while has revenue from service - Tolling in year 2018 since raw materials was provide by GJ Steel.)

Consolidated cost of goods sold amounted to Baht 5,266 million, decreased by Baht 2,616 million or 33% YoY (Separate: cost of goods sold amounted to Baht 1,457 million comparing with same period of last year which posted cost of goods sold and cost of services Baht 1,266 million)

Consolidated gross loss amounting to Baht 75 million or gross loss margin 1% which same rate as last year. The Company posted gross loss Baht 193 million or gross loss margin 15%, decreased comparing with last year which had gross loss Baht 220 million or gross loss margin 21%. The decrease of gross loss and gross loss margin mainly came from some depreciation which does not been included for tolling service. However, the Company still had gross loss because cost per ton still high which resulted from depreciation, idle cost which was fixed cost of the shutdown months, together with the increase of cost resulted from raw material handling by the Company itself after terminate contract with service provider on late year 2018. However, the Company invests in fixed asset in Q3/2019 to increase raw material handling's efficiency.

#### **Net gain on foreign exchange rate**

Consolidated net gain on foreign exchange amounted to Baht 434 million. The gain is attributed to the appreciation of the Thai Baht versus the US dollar. (Separate: Baht 325 million).

#### **Gain from compromise debt**

Consolidated gain from compromise debt amounted to Baht 40 million which resulted from the Company sign compromise agreement with some creditors, and the Company gets extension for the repayment and interest haircut, so the Company recorded gain from compromise debt.

#### **Selling expenses**

Total selling expenses of the Company and subsidiary amounting to Baht 64 million, decreased by Baht 30 million YoY according to the decreasing of sale volume (Separate: Baht 17 million, increased by Baht 17 million YoY due to the return to produce for own sale.)

#### **Administrative expense**

Total administrative expense of the Company and subsidiary amounted to Baht 263 million, increased by Baht 61 million YoY. The majority of increasing was resulted from the additional set up provision for employee benefits in respect of increasing the rate of benefit of an employee who has past service 20 years or more from 300 days to 400 days according to the announcement of Labour Protection Act in the Government Gazette on 5 April 2019, which is effective dated 5 May 2019. The Company and subsidiary recorded provision for employee benefits in Q2/2019 Baht 45 million (Separate: Administrative expense Baht 121 million, increased by Baht 99 million YoY which mainly came from no allocation from administrative expense to be tolling service expense like year 2018 and from recurring fee Baht 19 million which paid to SSG Capital Management (Mauritius) Limited according to Financial Advisory Services Agreement.

## **Other Expenses**

The Company and subsidiary's other expenses amounted to Baht 23 million. For Separate, amounted to Baht 785 million which resulted from loss on impairment of investment in subsidiaries Baht 763 million, comparing with same period of last year which posted for other expenses by Baht 95 million.

## **Financial cost**

The Company and subsidiary had total financial cost amounted to Baht 296 million, increased by Baht 28 million YoY. The Company posted financial cost Baht 209 million, increased by Baht 44 million YoY. Major factor came from the Company entered into loan Agreement with Link Capital I (Mauritius) Limited on 2 April 2019 for the amount of USD 70 million which consist of a non-revolving working capital facility USD 30 million and a standby letter of credit facility USD 40 million. The Company gradually withdraws the loan for full amount in April 2019.

## **Financial position**

### **Total Assets**

As of 30 June 2019, the Company and subsidiary has total asset amounted to Baht 29,683 million, decreased by Baht 950 million or 3% from year ended 2018 which has total asset Baht 30,632 million. Total assets separate into current assets amounted to Baht 5,125 million, decreased 6% from year 2018 and non-current assets amounted to Baht 24,577 million, decreased 2% from year 2018. Current assets mainly came from the decrease of inventory of subsidiary, however cash and cash equivalents for both the Company and subsidiary increase. Non-current assets mainly decreased from depreciation.

### **Cash and cash equivalent**

The Company and subsidiary had cash and cash equivalent as at 30 June 2019 amounted to Baht 622 million, increased Baht 364 million (the Company increase by Baht 34 million and the subsidiary increased by Baht 330 million) or increased by 141% from year ended 2018 since the Company and subsidiary has

- Net cash flows provided by operating activities Baht 605 million
- Net cash flows used in investing activities Baht 23 million. Purchasing of property, plant and equipment Baht 40 million and the company sell assets (BOI) to Free Zone in order to alleviate import duty tax, VAT and penalty burden Baht 17 million.
- Net cash flows from financing activities Baht 992 million. Resulted from the Company entered into loan Agreement with Link Capital I (Mauritius) Limited on 2 April 2019 for part of a non-revolving working capital facility USD 30 million

(See more details in Statement of cash flows)

### **Trade accounts receivable**

As of 30 June 2019, the Company and subsidiary has trade accounts receivable amounted to Baht 1,029 million, deducted allowance for doubtful account Baht 956 million, remaining net trade accounts receivable amounted to Baht 73 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 59 million.

### **Inventories**

Inventories as of 30 June 2019 of the Company and subsidiary amounted to Baht 3,840 million or 13% of total assets, decreased Baht 771 million from year ended 2018. The decrease of inventory of subsidiary was the main factor which decreasing in finished goods, raw materials and consumables. For the Company, inventories increase by Baht 1,018 million from the return to produce for own sale after produce for tolling service from November 2017 to 31 January 2019.

### **Total liabilities**

Total liabilities of the Company and subsidiary as at 30 June 2019 amounted to Baht 19,179 million, decreased Baht 1,353 million or 7% from year ended 2018 which resulted from;

#### **Current liabilities decreased Baht 2,447 million derived from:**

- Short-term loan from related parties decreased Baht 1,146 million which mainly came from the repayment of subsidiary.
- Trade accounts payable decreased Baht 692 million, mainly came from subsidiary. Trade accounts payable of the Company increase by Baht 646 million due to the return to produce for own sale.
- Other payables and accrued expenses decreased by Baht 382 million. Major factor came from the Company sign compromise agreement so it was reclassified to Liabilities under rehabilitation plan and compromise in Non- current liabilities.
- Short-term loan from other parties decreased Baht 107 million resulted from the Company sign compromise agreement and it was reclassified as Non- current liabilities instead.

#### **Non-current liabilities increased Baht 1,095 million derived from:**

- Long-term loan from related party increased Baht 844 million. On 2 April 2019, the Company entered into loan Agreement with Link Capital I (Mauritius) Limited for the amount of USD 70 million which consist of a non-revolving working capital facility USD 30 million and a standby letter of credit facility USD 40 million.
- Liabilities under rehabilitation plan and compromise agreement increase Baht 334 million, which occurs from the Company sign compromise agreement with some creditors 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.

### **Shareholders' equity**

As of 30 June 2019, the Company and its subsidiaries had the shareholders' equity of Baht 10,504 million which increased by Baht 403 million or 4% from year ended 2018 due to its subsidiaries issue a right offering to raise additional capital for all shareholder and received cash from issuance of new ordinary shares Baht 1,429 million.

**Consolidated Statement of Financial Position**

Assets	30 June 2019	31 December 2018	+ (-) %
	<i>(in thousand Baht)</i>		
<b>Current assets</b>			
Cash and cash equivalents	621,869	258,184	141%
Temporary investment - trading security	6,445	11,496	(44%)
Trade accounts receivable	73,044	13,804	429%
Amounts receivable from related parties	-	-	-
Inventories	3,840,366	4,611,491	(17%)
Other current assets	583,688	565,995	3%
<b>Total current assets</b>	<b>5,125,412</b>	<b>5,460,970</b>	<b>(6%)</b>
<b>Non-current assets</b>			
Investments in subsidiaries	-	-	-
Advance payment for purchases of property, plant and equipment	210,000	210,000	0%
Property, plant and equipment	23,564,293	24,384,466	(3%)
Intangible assets	11,194	11,540	(3%)
Other non-current assets	771,982	565,467	37%
<b>Total non-current assets</b>	<b>24,557,469</b>	<b>25,171,473</b>	<b>(2%)</b>
<b>Total assets</b>	<b>29,682,881</b>	<b>30,632,443</b>	<b>(3%)</b>

**Consolidated Statement of Financial Position (Continued)**

<b>Liabilities and equity</b>	30 June 2019	31 December 2018	+ (-) %
	<i>(in thousand Baht)</i>		
<b>Current liabilities</b>			
Short-term loans from financial institution	212,503	212,503	0%
Trade accounts payable	1,647,996	2,339,819	(30%)
Amount due to related parties	-	-	-
Liabilities under rehabilitation plan and compromise	531,482	659,013	(19%)
Current portion of long-term loan from related party	314,000	314,000	0%
Current portion of bonds	479,569	505,934	(5%)
Short-term loan from related parties	123,661	1,269,364	(90%)
Short-term loan from other parties	-	107,424	(100%)
Loan from shareholder	3,850	3,850	0%
Advances received from customers	69,563	42,666	63%
Other payables and accrued expenses	7,057,786	7,440,181	(5%)
Accrued interest expenses	5,514,111	5,473,957	1%
Provisions	426,120	434,458	(2%)
Other current liabilities	323,933	348,859	(7%)
<b>Total current liabilities</b>	<b>16,704,574</b>	<b>19,152,028</b>	<b>(13%)</b>
	30 June 2019	31 December 2018	+ (-) %
	<i>(in thousand Baht)</i>		
<b>Non-current liabilities</b>			
Liabilities under rehabilitation plan and compromise	334,264	-	-
Long-term loan from related parties	1,961,634	1,117,518	76%
Other payables and accrued expenses	-	117,928	(100%)
Accrued interest expenses	-	-	-
Provision	-	-	-
Employee benefit obligations	177,681	143,059	24%
Other non-current liabilities	1,172	1,389	(16%)
<b>Total non-current liabilities</b>	<b>2,474,751</b>	<b>1,379,894</b>	<b>79%</b>
<b>Total liabilities</b>	<b>19,179,325</b>	<b>20,531,922</b>	<b>(7%)</b>
<b>Liabilities and equity</b>			
<b>Equity</b>			
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	(25,504,986)	(24,899,544)	2%
<b>Equity attributable to owners of the Company</b>	<b>(433,023)</b>	<b>172,419</b>	<b>(351%)</b>
Non-controlling interests	10,936,579	9,928,102	10%
<b>Total equity</b>	<b>10,503,556</b>	<b>10,100,521</b>	<b>4%</b>
<b>Total liabilities and equity</b>	<b>29,682,881</b>	<b>30,632,443</b>	<b>(3%)</b>



**Summary of Consolidated Financial Results**

	Quarter 2 2019	Quarter 2 2018	+ (-) %
	<i>(in thousand Baht)</i>		
<b>Income</b>			
Revenue from sale of goods	5,191,636	7,814,882	(34%)
Revenue from service - Tolling	-	-	-
Reversal of bad and doubtful debts	3,981	-	-
Net foreign exchange gain	433,627	-	-
Gain from compromise debt	40,212	-	-
Other income	28,056	16,616	69%
<b>Total income</b>	<b>5,697,512</b>	<b>7,831,498</b>	<b>(27%)</b>
<b>Expenses</b>			
Cost of sale			
- Cost of goods sold	5,106,404	7,712,704	(34%)
- Idle cost	103,254	125,087	(17%)
- Loss on devaluation of inventories (Reversal)	56,625	44,640	27%
Total cost of sale	5,266,283	7,882,431	(33%)
Cost of services - Tolling	-	-	-
Selling expenses	64,472	94,618	(32%)
Administrative expenses	262,605	201,931	30%
Loss on confirmed purchase orders for undelivered raw materials	7,896	15,248	(48%)
Bad and doubtful debts	-	6,175	(100%)
Net foreign exchange loss	-	736,335	(100%)
Other expenses	22,844	26,846	(15%)
Finance costs	296,397	268,771	10%
<b>Total expenses</b>	<b>5,920,497</b>	<b>9,232,355</b>	<b>(36%)</b>
Loss before income tax expense	(222,985)	(1,400,857)	(84%)
Income tax expense	-	-	-
<b>Loss for the period</b>	<b>(222,985)</b>	<b>(1,400,857)</b>	<b>(84%)</b>
<b>Other comprehensive income for the period</b>	-	-	-
<b>Total comprehensive income for the period</b>	<b>(222,985)</b>	<b>(1,400,857)</b>	<b>(84%)</b>

**Summary of Consolidated Financial Results (Continued)**

	Quarter 2 2019	Quarter 2 2018	+ (-) %
	<i>(in thousand Baht)</i>		
<b>Profit (loss) attributable to :</b>			
Owners of the Company	(159,925)	(1,027,977)	(84%)
Non-controlling interests	(63,060)	(372,880)	(83%)
<b>Loss for the period</b>	<b>(222,985)</b>	<b>(1,400,857)</b>	<b>(84%)</b>
<b>Comprehensive income (loss) attributable to :</b>			
Owners of the Company	(159,925)	(1,027,977)	(84%)
Non-controlling interests	(63,060)	(372,880)	(83%)
<b>Total comprehensive loss for the period</b>	<b>(222,985)</b>	<b>(1,400,857)</b>	<b>(84%)</b>
<b>Earnings (loss) per share</b>			
Basic earnings (loss) per share	<b>(0.02)</b>	<b>(0.15)</b>	<b>(87%)</b>

**Consolidated Statement of Cash Flow**

	30 June		+ (-) %
	2019	2018	
	<i>(in thousand Baht)</i>		
<b><i>Cash flows from operating activities</i></b>			
Profit (loss) for the period	(1,026,122)	(905,729)	13%
<i>Adjustments for</i>			-
Depreciation and amortisation	895,183	925,671	(3%)
Interest income	(1,686)	(1,830)	(8%)
Finance costs	576,231	535,347	8%
Dividend income	-	(208)	(100%)
Unrealized loss (gain) on exchange rate	(628,140)	238,487	(363%)
Loss (gain) on adjustment in value of securities	4,634	2,188.00	112%
Gain from compromise debt	(84,615)	-	-
Bad and doubtful debts expense (Reversal of)	- 11,691.00	1,620	(822%)
Loss on impairment of assets	-	41,574.00	(100%)
Provision for court case claim	45,151.00	49,529	(9%)
Provision for a guarantee of subsidiary (Reversal of)	-	-	-
Withholding tax write-off	1	25,658	(100%)
Loss on devaluation of inventories (Reversal of)	(28,195)	40,783.00	(169%)
Gain from debt restructuring	-	91.00	(100%)
Loss on confirmed purchase orders of undelivered raw material (Reversal of)	- 29,252.00	23,955.00	(222%)
Reversal of loss on impairment of investment in subsidiaries	-	-	-
Loss from disposal of assets	492	40	1130%
Employee benefit obligations	48,422	6,653	628%
	(239,587)	983,647	(124%)
<b><i>Changes in operating assets and liabilities</i></b>			
Trade accounts receivable	(59,262)	(167,567)	(65%)
Amount due from related parties	-	9,585	(100%)
Inventories	799,319	(253,766)	(415%)
Other current assets	296	(150,190)	(100%)
Other non-current assets	(256,627)	(41,413)	520%
Trade accounts payable	(662,224)	848,318	(178%)
Advance received from customers	27,374	(55,282)	(150%)
Other payables and accrued expenses	(179,853)	(230,277)	(22%)
Other current liabilities	(22,029)	33,356	(166%)
Employee benefit paid	(3,506)	(115)	2949%
Cash received (paid) for Income tax	(8,647)	(100,004)	(91%)
<b>Net cash from (used in) operating activities</b>	<b>(604,746)</b>	<b>876,292</b>	<b>(169%)</b>

**Consolidated Statement of Cash Flow (Continued)**

	30 June		+ (-) %
	2019	2018	
	<i>(in thousand Baht)</i>		
<b><i>Cash flows from investing activities</i></b>			
Interest received	1,686	1,830	(8%)
Purchase of property, plant and equipment	(40,272)	(30,728)	31%
Purchase of intangible assets	(1,608)	(2,031)	(21%)
Proceeds from disposal of property, plant and equipment	16,836	-	-
Proceeds from disposal of temporary investment	417	23	1713%
Proceeds from disposal of investment in subsidiary	-	68,000	(100%)
<b>Net cash from (used in) investing activities</b>	<b>(22,941)</b>	<b>37,094</b>	<b>(162%)</b>
<b><i>Cash flows from financing activities</i></b>			
Receive from non-controlling interests from increase capital of subsidiary	1,429,157	-	-
Finance costs paid	(225,361)	(287,132)	(22%)
Repayment of liabilities from terminated rehabilitation plan and compromise	(34,191)	(3,162)	981%
Proceeds (Repayment) from short-term loans from other parties	-	(55)	(100%)
Proceeds (Repayment) from short-term loans from related parties	(1,108,905)	(179,134)	519%
Proceeds (Repayment) from long-term loans from related parties	931,263	(346,421)	(369%)
Payment for financial lease liabilities	(251)	(205)	22%
<b>Net cash from (used in) financing activities</b>	<b>991,712</b>	<b>(816,109)</b>	<b>(222%)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>364,025</b>	<b>97,277</b>	<b>274%</b>
Cash and cash equivalents at 1 January	258,184	590,830	(56%)
Effect of exchange rate changes on balances held in foreign currencies	(340)	1,546	(122%)
<b>Cash and cash equivalents at 30 June</b>	<b>621,869</b>	<b>689,653</b>	<b>(10%)</b>