

February 13, 2015

Attn : The President  
The Stock Exchange of Thailand

Subject : Management's Discussion and Analysis for the second quarter period ending 31 December 2014

As shown in the financial statements of the second quarter for the three-month period ended of December 31, 2014 for Siam Steel International Public Company Limited, indicated net profit (loss) of the changed performance over 20% compared with the same quarter of last year.

We would like to report on Management's Discussion and Analysis for the second quarter period ending 31 December 2014 as follows :

### 1. Operating Results

Statements of Comprehensive Income for the three-month period ended 31 December 2014 and 2013

Consolidated F/S	The Second Quarter		The Second Quarter		Change	
	2014/2015		2013/2014			
	Million Baht	%	Million Baht	%	Million Baht	%
Domestic Sales and Services - Net	395	91%	495	95%	(100)	(20%)
Export Sales and Services - Net	37	9%	28	5%	9	32%
<b>Total Revenues</b>	<b>432</b>	<b>100%</b>	<b>523</b>	<b>100%</b>	<b>(91)</b>	<b>(17%)</b>
Domestic Costs of Sales and Services	319		423		(104)	(25%)
Export Costs of Sales and Services	35		42		(7)	(17%)
<b>Total Costs of Sales and Services</b>	<b>354</b>	<b>82%</b>	<b>465</b>	<b>89%</b>	<b>(111)</b>	<b>(24%)</b>
Domestic Gross Income	76		72		4	6%
Export Gross Income	2		(14)		16	114%
<b>Total Gross Income</b>	<b>78</b>	<b>18%</b>	<b>58</b>	<b>11%</b>	<b>20</b>	<b>34%</b>
Other Income	1	0%	24	5%	(23)	(96%)
Selling and Administrative Expenses	(111)	(26%)	(116)	(22%)	5	4%
Compensation for defect products	0	(0%)	(189)	(36%)	189	100%
<b>Income (Loss) from Operations</b>	<b>(32)</b>	<b>(7%)</b>	<b>(223)</b>	<b>(43%)</b>	<b>191</b>	<b>86%</b>
Equity in Net Income of Associated Companies	15	3%	17	3%	(2)	(12%)
Financial Costs	0	0%	0	0%	0	0%
<b>Income before Income Tax</b>	<b>(17)</b>	<b>(4%)</b>	<b>(206)</b>	<b>(39%)</b>	<b>189</b>	<b>92%</b>
Income Tax	(3)	(1%)	44	8%	(47)	(107%)
Non - Controlling Interests in Subsidiaries	(2)	0%	(2)	0%	0	
<b>Net Profit of the Company's Shareholders</b>	<b>(22)</b>	<b>(5%)</b>	<b>(164)</b>	<b>(31%)</b>	<b>142</b>	<b>87%</b>
<b>Net Profit of the Company's per Share (Baht)</b>	<b>(0.04)</b>		<b>(0.28)</b>		<b>0.24</b>	<b>87%</b>

## 1.1 Analysis of Operating Results

As the second quarter 2014/2015, the consolidated financial statements of the Company's total revenues amounted to Baht 432 million, decreased by Baht 91 million or 17 percent from the second quarter 2013/2014. This was mainly due to the decrease of sales of furniture from sales agents of the company and the decrease of one subsidiary. However, the Company has action plans of human resources development in marketing and production, as well as design and development of new products to response to customer's needs and to increase sales volume, thus, revenues should be increased.

### Total Revenues

The consolidated financial statements of the Company's total revenues in the second quarter of this year was Baht 432 million, decreased by Baht 91 million or 17 percent from the second quarter of last year. This was mainly resulted from the decrease of domestic sales and services of furniture and the decrease of sales from one subsidiary. The total revenues in the second quarter of this year are as the following;

- Domestic sales and services of furniture and "Lucky" Hi-tech Building System amounted to Baht 394 million, decreased by Baht 101 million or 20 percent from the second quarter of last year. This was due to the decrease of domestic sales of furniture from one subsidiary.

- There was revenue from 1 construction work in the second quarter of this year. This was revenue recognition Baht 1 million, increased from the second quarter of last year that there was no revenue.

- Domestic sales and services of furniture and "Lucky" Hi-tech Building System amounted to Baht 37 million, increased by Baht 9 million or 32 percent from last year. This was mainly due from export sales of "Lucky" Hi-tech Building System.

### Other Income

The consolidated financial statements of the Company's other income in the second quarter 2014/2015 was Baht 23 million or decreased 96 percent. Most of them were decreased from bank interest, profit of reversal of allowance for decline value of investment from one related company. Also, this year there was loss in foreign exchange rate by Baht 7 million, while there was profit in the foreign exchange rate by Baht 4 million last year.

### Cost and Expenses

The consolidated financial statements of the Company's total cost in the second quarter 2014/2015 was Baht 354 million, decreased by Baht 111 million or 24 percent from the second quarter 2013/2014. This was mainly decreased in total revenues, and the second quarter of last year, there was fix cost from "Lucky" Hi-tech Building System of special projects that were small quantity and not worth to the cost. The second quarter of this year, there was no such cost, thus cost of sales decreased. For total cost rate of total revenues in the second quarter 2014/2015 and the second quarter 2013/2014 were 82 percent and 89 percent respectively.

- The consolidated financial statements of the Company's selling and administrative expenses in the second quarter 2014/2015 was Baht 111 million, decreased by Baht 5 million or 4 percent from the second quarter of last year. This was mainly resulted from a decrease in sales. The selling and administrative expenses rate of total revenues in the second quarter 2014/2015 and 2013/2014 were 26 percent and 22 percent respectively. The ratio of selling and administrative expenses was not reduced, this resulted from the fixed cost while total revenue decreased.

- The consolidated financial statements of the Company's compensation in product defects was Baht 189 million, resulting from the defects of prefabricated buildings exported to our 3 international customers. The Company has already exported completely to the customers with revenue recognition since 2009/2010 to 2012/2013. Afterwards, in the second quarter of 2013/2014 those 3 customers have notified to the company resulting in the product defects and asked for the compensation due to the production. After the negotiation with the customers, the Company is required to pay the compensation to the customers amounted Baht 189 million being 5.13% of the revenues from those 3 customers and such customers are not related to the Company.

- The consolidated financial statements of the Company's corporate income tax in the second quarter 2014/2015 were included current tax expenses under the Revenue Code amounted to Baht 2 million and deferred tax income amounted to Baht 1 million, net deferred income tax was recognized in expenses amounted to Baht 3 million. For the second quarter 2013/2014 corporate income tax included current tax expenses under the Revenue Code amounted to Baht 2 million and deferred income tax was recognized in profit amounted to Baht 46 million, net deferred income tax was recognized in profit amounted to Baht 44 million,

### **Gross Profit**

The consolidated financial statements of the Company's gross profit in the second quarter 2014/2015 was Baht 78 million, increased by Baht 20 million or 34 percent from the second quarter 2013/2014. The gross profit ratio in the second quarter 2014/2015 and 2013/2014 represented 18 and 11 respectively, as the increase of gross profit due to the second quarter 2014/2015 there was no construction cost of prefabricated building of special project. But in the second quarter 2013/2014, there was some fixed cost of prefabricated buildings of special project which was small quantity and not worth to the cost.

### **Net Profit (Loss)**

The consolidated financial statements of the Company's net loss in the second quarter 2014/2015 was Baht 22 million, and the second quarter 2013/2014 was loss Baht 164 million. This year, there was loss decreased Baht 142 million or 87 percent from last year. This was resulted from the second quarter of last year, there was the Company's compensation of product defects was Baht 189 million from sales of prefabricated buildings to 3 Australian customers that the Company has completely exported to those customers and all known as revenue recognition from 2009/2010 to 2012/2013. In the second quarter 2013/2014, those 3 customers requested for the claim costs of defective products from manufacturing defects. After the negotiation with the customers, the Company is required to pay the compensation to the customers for Baht 189 million being 5.13% of the revenues from such customers. Those customers were not related to the Company. This year there was loss decreased, resulted from the Company's gross profit increased from the previous year Baht 20 million. Gross profit rate increased from 11% last year to 18% this year. This resulted from the second quarter of this year, there was no production cost of prefabricated building of special project. In the second quarter of last year, there was fixed cost of prefabricated building in special project in small quantity which is not worth to the cost. For the second quarter 2014/2015 and 2013/2014, net loss ratio was 5 percent and 31 percent respectively.

## 2. Financial Positions

Statements of Financial positions as at 31 December 2014 and 30 June 2014

Consolidated F/S	31 December 2014		30 June 2014		Change	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>Assets</b>						
Cash and cash equivalents	236	8%	333	11%	(97)	(29%)
Trade accounts receivable - net	443	16%	450	15%	(7)	(2%)
Inventories - net	390	14%	390	13%	0	0%
Other current assets	20	1%	22	2%	(2)	(9%)
<b>Total Current Assets</b>	<b>1,089</b>	<b>39%</b>	<b>1,195</b>	<b>41%</b>	<b>(106)</b>	<b>(9%)</b>
Investments	759	27%	725	25%	34	5%
Property, plant and equipment - net	732	26%	750	26%	(18)	(2%)
Other non - current assets	229	8%	241	8%	(12)	(5%)
Total Non - Current Asset	1,720	61%	1,716	59%	4	0%
<b>Total Assets</b>	<b>2,809</b>	<b>100%</b>	<b>2,911</b>	<b>100%</b>	<b>(102)</b>	<b>(4%)</b>
<b>Liabilities and Shareholders' Equity</b>						
Short – term loans from financial institution	-	-	53	2%	(53)	(100%)
Trade accounts payable	136	5%	184	6%	(48)	(26%)
Other current liabilities	136	5%	120	4%	16	13%
<b>Total Current Liabilities</b>	<b>272</b>	<b>10%</b>	<b>357</b>	<b>12%</b>	<b>(85)</b>	<b>(24%)</b>
Employee benefits obligation	23	1%	22	1%	1	5%
Other non - current liabilities	2	0%	2	0%	0	0%
Total Non – Current Liabilities	25	1%	24	1%	1	4%
Total Liabilities	297	11%	381	13%	(84)	(22%)
Shareholders' equity to the Company's	2,323	83%	2,337	80%	(14)	(1%)
Shareholders' equity non-controlling interests' equity	189	7%	193	7%	(4)	(2%)
Total Shareholders' equity	2,512	89%	2,530	87%	(18)	(1%)
<b>Total Liabilities and Shareholders' Equity</b>	<b>2,809</b>	<b>100%</b>	<b>2,911</b>	<b>100%</b>	<b>(102)</b>	<b>(4%)</b>

## **2.1 Analysis of the Financial Position of the Company, subsidiaries and its joint ventures as at 31 December 2014 and 30 June 2014**

### **Total Assets**

As at the end of second quarter 2014/2015 the consolidated financial statements of the Company had total assets of Baht 2,809 million, decreased by Baht 102 million or 4 percent from June 30, 2014. This was mainly due to the decrease in cash and cash equivalent.

As at the end of second quarter 2014/2015, the total assets of the consolidated financial statement of the Company were comprised of the following items;

- Cash and cash equivalents were 8 percent and 11 percent respectively.
- Trade accounts receivable were 16 percent and 15 percent respectively.
- Inventories were 14 percent and 13 percent respectively.
- Other current assets were 1 percent and 2 percent respectively.
- Investment in the associated companies and other companies were 27 percent and 25 percent respectively.
- Property, plant and equipment were 26 percent and 26 percent respectively.
- Other non-current assets were 8 percent and 8 percent respectively.

- Cash and cash equivalents as at second quarter 2014/2015 was Baht 236 million, decreased by Baht 97 million from June 30, 2014. This was due to net cash provided for operating activities in trade account payable and one subsidiary company had inventories increased, and cash payment for short-term loan to financial institution.

- Trade accounts receivable as at the end of second quarter 2014/2015 was Baht 443 million which were current trade accounts receivable 48 percent, over due trade accounts receivable less than 3 months at 26 percent, and over due trade accounts receivable over 3 months at 26 percent. However, the trade accounts receivable, by, subsidiaries and its joint ventures have been followed closely the collections. Some debtors have been in the process of debt collection would be considered allowance for doubtful accounts. Thus, as at December 31, 2014 the allowance for doubtful accounts Baht 45 million for account receivable from one Australian customer, special project of prefabricated buildings Baht 44 million, and others Baht 1 million. The Company, subsidiaries and its joint ventures considered that it was sufficient. For the receivable turnover times were 4.15 as at December 31, 2014 and 3.73 as at September 30, 2014 and account receivable days were 88 as at December 31, 2014, and 98 days as at June 30, 2014 the receivable turnover times was increased and account receivable days was decreased, mainly due to trade accounts receivable was decreased.

- Inventories as at the end of second quarter 2014/2015 was Baht 390 million, equal to the end of last year. The current ratio of inventory as at the end of December 31, 2014 was 2.92 and 4.10 from last year, decreased from last year. This was due to the end of December 31, 2014. There was cost of sales decreased according to the revenue decreased.

- Investments as at the end of second quarter 2014/2015 were Baht 759 million, increased by Baht 34 million or 5 percent from June 30, 2014. This was mainly due to increase in equity in net income of one associated company, as the result increased in value investments.

- Property, plant and equipment - net as at the end of second quarter 2014/2015 was Baht 732 million, decreased by Baht 18 million or 2 percent. This was mainly due to the depreciation of buildings and equipment for the period.

#### **Total liabilities**

As at end of second quarter 2014/2015, the consolidated financial statements of the Company had total liabilities of Baht 297 million, decreased by Baht 84 million or 22 percent from last year for the payment of short term loan of bill of exchange and trust receipt by Baht 53 million, accounts payable by Baht 48 million, and other current liability increased by Baht 16 million. This was mainly cash advanced from one exported customer.

#### **Shareholders' equity**

As at end of second quarter 2014/2015, the consolidated financial statements of the Company had the shareholders' equity of Baht 2,512 million while as at June 30, 2014 was Baht 2,530 million, decreased by Baht 18 million or 1 percent. This was resulted from the first quarter and the second quarter of this year, the consolidated financial statements of the Company had net loss amounted Baht 15 million and non-controlling interests in subsidiaries decreased by Baht 3 million.

Book value as at second quarter 2014/2015 was Baht 4.24 per share, while as at June 30, 2014 was Baht 4.27 per share, decreased by baht 0.03 per share or 1 percent from the previous year.

## 2.2 Liquidity and key financial ratios

Statements of Cash flows for the three-month period ended 31 December 2014

Consolidated F/S	Unit : Million Baht
Net cash from operating activities	(30)
Net cash used in investing activities	(4)
Net cash used in financing activities	(63)
<b>Decrease in cash and cash equivalents - net</b>	<b>(97)</b>
Cash and cash equivalents at beginning of period	333
<b>Cash and cash equivalents at end of period</b>	<b>236</b>

Liquidity of the consolidated financial statement of the Company as at the end of second quarter 2014/2015 had balance cash and cash equivalents at the end of period was Baht 236 million while as at June 30, 2014 of Baht 333 million, cash flow decreased by Baht 97 million, this was mainly due to :-

- Cash flows from operating activities decreased by Baht 30 million from trade accounts payable and inventory increased from one subsidiary.
- Cash flows from investing activities decreased by Baht 4 million, most used in plant and equipment.
- Cash flows from financing activities increased by Baht 63 million, decreased in short-term loans bill of exchange and trust receipt by Baht 53 million and decreased from dividend paid to non-controlling interest by subsidiary by Baht 10 million.

For the current ratio as at June 30, 2014 and December 31, 2014 were 3.35 and 4.00 respectively, the quick ratio as at June 30, 2014 and December 31, 2014 were 2.19 and 2.50 respectively. It was showing that the Company subsidiaries and its joint ventures had good liquidity assets.

The Company, subsidiaries and its joint ventures had good capacity to pay liabilities. The debt ratios as at June 30, 2014 and December 31, 2014 were 0.15 and 0.12 respectively.

## 3. Main factors which may affect future operations and finance positions

### **The stability of local political**

If local political is instable, it may lessen the government's spending to stimulate the economy. As a result, the industrial growth will be fallen and the order is also reduced.

### **Foreign market**

As the world economy has not been recovered, foreign market still have contraction. As a result, the order may be reduced.

### **Raw Material Pricing**

Steel is the main raw material for production. If prices of steel are fluctuated, this may affect the orders and production costs.

**Foreign Exchange Rate**

If the Baht is appreciating against the foreign currency, this may affect the Company's sales getting less. Also, the Company may lose their competitiveness compared to its competitors and may get loss from the exchange rate.

Please be informed accordingly.

Yours sincerely,

( Mr. Surasak Kunanantakul )

Vice President