

August 13, 2020

Subject : Management's Discussion and Analysis for the 2<sup>nd</sup> quarter ending June 30, 2020,

Change in operation results was over 20 percent

Attn : The President

The Stock Exchange of Thailand

Siam Steel International Public Company Limited has submitted the consolidated financial statements of the 2<sup>nd</sup> quarter for the three-month period ended June 30, 2020. It is noted that the change in net profit (loss) was over than 20 percent compared with the previous year. The Company would explain in the Management's Discussion and Analysis for the 2<sup>nd</sup> quarter period ending June 30, 2020 as follows:

## 1. Operating Results

Consolidated Statements of Comprehensive Income for the three-month period ended June 30, 2020 and 2019

Consolidated Financial Statements	The Second quarter 2020		The Second quarter 2019		Change	
	Million Baht	%	Million Baht	%	Million Baht	%
Sales and services	490	95%	611	100%	(121)	(20%)
Construction services	26	5%	0	0%	26	100%
<b>Total Revenues</b>	<b>516</b>	<b>100%</b>	<b>611</b>	<b>100%</b>	<b>(95)</b>	<b>(16%)</b>
Costs of sales and services	341		445		(104)	(23%)
Costs of Construction services	19		0		19	100%
<b>Total Costs of Sales and Services</b>	<b>360</b>	<b>70%</b>	<b>445</b>	<b>73%</b>	<b>(85)</b>	<b>(19%)</b>
Sales and services gross income	149		166		(17)	(10%)
Construction services gross income	7		0		7	100%
<b>Total Gross Income</b>	<b>156</b>	<b>30%</b>	<b>166</b>	<b>27%</b>	<b>(10)</b>	<b>(6%)</b>
Other income	15	3%	25	4%	(10)	(40%)
Selling and administrative expenses	(123)	(24%)	(162)	(27%)	39	24%
<b>Profit (Loss) from Operations</b>	<b>48</b>	<b>9%</b>	<b>29</b>	<b>5%</b>	<b>19</b>	<b>66%</b>
Profit in associated companies on equity method	(4)	(1%)	3	0%	(7)	(233%)
Finance costs	(10)	(2%)	(10)	(2%)	0	0%
<b>Profit (Loss) before Income Tax</b>	<b>34</b>	<b>7%</b>	<b>22</b>	<b>4%</b>	<b>12</b>	<b>55%</b>
Income tax	(3)	(1%)	(2)	(0%)	(1)	(50%)
Equity in non - controlling interests in subsidiaries	(11)	(2%)	(15)	(2%)	4	27%
<b>Net Profit (Loss) attributable to the Company</b>	<b>20</b>	<b>3.88%</b>	<b>5</b>	<b>0.82%</b>	<b>15</b>	<b>315%</b>
<b>Net Profit (Loss) per share attributable to the Company (Baht)</b>	<b>0.033</b>		<b>0.008</b>		<b>0.025</b>	<b>315%</b>

## **1.1 Analysis of overall Operating Results**

For the 2<sup>nd</sup> quarter of the year 2020, the consolidated financial statements of the Company presented total revenues amounting to Baht 516 million, decreased by Baht 95 million or decreased 16 percent from same quarter of previous year. Such change resulted from the decrease in domestic sales of furniture and “Lucky” hi-tech buildings System . However, this year the Company still has the action plan of human resources development in marketing and production, as well as increasing new products to response the customer’s requirements to enable sales volume increase, including to expand investment in renewable energy business in order to generate stable income in the future. Even with the effect of the COVID-19 spreading situation in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter but the Company believe that the revenues trend will be increasing.

### **Total Revenues**

For the 2<sup>nd</sup> quarter of this year, the consolidated financial statements of the Company’s presented total revenues amounting to Baht 516 million, decreased by Baht 95 million or decreased 16 percent from the same quarter of previous year. This was mainly resulted from the decrease in domestic sales of furniture and “Lucky” hi-tech buildings. Total revenues in the 2<sup>nd</sup> quarter of this year consisted of following income:

- Revenues from domestic sales of furniture, “LUCKY” Hi-tech Building System and flood protection wall totaling Baht 367 million, decreased by Baht 121 million or decreased 25 percent from the 2<sup>nd</sup> quarter of previous year.

- Revenues from renewable energy groups totaling Baht 123 million, equal with the 2<sup>nd</sup> quarter of previous year.

- Revenues from domestic construction services of this year has two jobs amounting to Bath 26 million, increased by Baht 26 million or increased 100 percent from the 2<sup>nd</sup> quarter of previous year.

### **Other Income**

The consolidated financial statements of the Company for the 2<sup>nd</sup> quarter of this year presented other income decreasing from the 2<sup>nd</sup> quarter of previous year by Baht 10 million, or decreased 40 percent. Other income in the 2<sup>nd</sup> quarter of this year were mainly from rents and service charges.

### **Cost of Sales and Expenses**

- The consolidated financial statements of the Company presented total cost of sales for the 2<sup>nd</sup> quarter of this year amounting to Baht 360 million, decreased by Baht 85 million or decreased 19 percent from the 2<sup>nd</sup> quarter of previous year. The ratio of total cost of sales to total revenue for the 2<sup>nd</sup> quarter of year 2020 and the 2<sup>nd</sup> quarter of year 2019 was 70 percent and 73 percent, respectively.

- The consolidated financial statements of the Company presented selling and administrative expenses of the 2<sup>nd</sup> quarter of this year amounting to Baht 123 million, decreased by Baht 39 million or decreased 24 percent from the 2<sup>nd</sup> quarter of previous year. This was mostly resulted from decreases of transportation and installation expenses for bathroom pods group and salary expenses. The ratio of selling and administrative expenses to total revenues for the year 2020 in the 2<sup>nd</sup> quarter and year 2019 in the 2<sup>nd</sup> quarter was 24 percent and 27 percent, respectively.

- The consolidated financial statements of the Company presented finance cost for the 2<sup>nd</sup> quarter of this year amounting to Baht 10 million, equal with the 2<sup>nd</sup> quarter of previous year. This was resulted from interest expenses of loans from financial institutions in Japan and construction of solar cell farm in Japan which invested by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company, and loan from domestic financial institution for investment in renewable energy business.

### **Gross Profit**

- The consolidated financial statements of the Company for the 2<sup>nd</sup> quarter of the year 2020 presented gross profit amounting to Baht 156 million, decreased by Baht 10 million or decreased 6 percent from the 2<sup>nd</sup> quarter of previous year, The gross profit ratio for the 2<sup>nd</sup> quarter of the year 2020 and the 2<sup>nd</sup> quarter of the year 2019 was 30 percent and 27 percent, respectively. The gross profit for the 2<sup>nd</sup> quarter in this year was increasing because the increasing of sales in products with relatively high gross margins.

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

- The consolidated financial statements of the Company presented net profit amounting to Baht 20 million for the 2<sup>nd</sup> quarter of the year 2020, and Baht 5 million for the 2<sup>nd</sup> quarter of the year 2019. Net profit of this year increased from previous year by Baht 15 million or increased by 315 percent. This resulted from the decreasing of costs of sales and the expenses of selling and administrative from the 2<sup>nd</sup> quarter of previous year. Net profit ratio for the 2<sup>nd</sup> quarter of the year 2020 was 3.88 percent, the 2<sup>nd</sup> quarter of the year 2019 was 0.82 percent.

## 2. Financial positions

Statements of Financial positions as at June 30, 2020 and December 31, 2019

Consolidated financial statement	June 30, 2020		December 31, 2019		Change	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>Assets</b>						
Cash and cash equivalents	595	11%	826	16%	(231)	(28%)
Trade accounts receivable - net	172	3%	272	5%	(100)	(37%)
Inventories – net	286	5%	220	4%	66	30%
Other current assets	229	4%	215	4%	14	7%
<b>Total Current Assets</b>	<b>1,282</b>	<b>23%</b>	<b>1,533</b>	<b>29%</b>	<b>(251)</b>	<b>(16%)</b>
Investments	859	16%	833	16%	26	3%
Property, plant and equipment - net	3,026	56%	2,787	53%	239	9%
Other non - current assets	292	5%	87	2%	205	236%
Total Non - Current Assets	4,177	77%	3,707	71%	470	13%
<b>Total Assets</b>	<b>5,459</b>	<b>100%</b>	<b>5,240</b>	<b>100%</b>	<b>219</b>	<b>4%</b>
<b>Liabilities and Shareholders' Equity</b>						
Short-term loans from financial institutions	61	1%	0	0%	61	100%
Short-term loans from related company	103	2%	53	1%	50	94%
Long-term loans from financial institutions; due within 1 year	240	4%	261	5%	(21)	(8%)
Trade accounts payable	118	2%	203	4%	(85)	(42%)
Other current liabilities	426	8%	427	8%	(1)	(0%)
<b>Total Current Liabilities</b>	<b>948</b>	<b>17%</b>	<b>944</b>	<b>18%</b>	<b>4</b>	<b>0%</b>
Long-term loans from financial institutions	1,422	26%	1,396	26%	26	2%
Employee benefits obligation	53	1%	39	1%	14	36%
Other non - current liabilities	205	4%	37	1%	168	454%
Total Non - Current Liabilities	1,680	31%	1,472	28%	208	14%
Total Liabilities	2,628	48%	2,416	46%	212	9%
Shareholders' equity to the Company's	2,513	46%	2,481	47%	32	1%
Shareholders' equity non-controlling interests' equity	318	6%	343	7%	(25)	(7%)
Total Shareholders' equity	2,831	52%	2,824	54%	7	0%
<b>Total Liabilities and Shareholders' Equity</b>	<b>5,459</b>	<b>100%</b>	<b>5,240</b>	<b>100%</b>	<b>219</b>	<b>4%</b>

## **2.1 Analysis of the financial position of the Company and its subsidiaries as at June 30, 2020 and December 31, 2019**

### **Total Assets**

As at the end of the 2<sup>nd</sup> quarter of the year 2020, the consolidated financial statements of the Company presented total assets amounting to Baht 5,459 million, increased by Baht 219 million or increased 4 percent from the end of December 31, 2019. This was mainly from the increase in inventories, property, plant, equipment and other non-current assets.

Total assets presented in the consolidated financial statements of the Company as at the end of the 2<sup>nd</sup> quarter of this year consisted of cash and cash equivalents 11 percent, trade accounts receivable 3 percent, net inventories 5 percent and other current assets 4 percent, investment in associated companies and other companies 16 percent, property, plant and equipment 56 percent and other non-current assets 5 percent. Whereby total assets at the end of previous year consisted of cash and cash equivalents 16 percent, trade accounts receivable 5 percent, net inventories 4 percent, other current assets 4 percent, investment in associated companies and other companies 16 percent, property, plant and equipment 53 percent and other non-current assets 2 percent.

- Cash and cash equivalents at the end of the 2<sup>nd</sup> quarter of the year 2020 was Baht 595 million, decreased from the end of previous year by Baht 231 million, as follow:

Cash from operating activities was Baht 42 million. This mostly from the operating, payment from trade accounts receivable and the changing in the inventories.

Cash used for investing activities was Baht 255 million. This mostly used for construction and machinery at Uthai Thani and Surat Thani for expand investment in renewable energy and the sales of some investments in subsidiary company's ordinary shares, which caused subsidiary company transformed into associated company and cash flow decreased form the consolidated financial statement.

Cash used for financing activities was Baht 44 million. This mostly used for long term loan from financial institution and the dividend payment.

Cash from differences of conversion foreign exchange currency of financial statement of indirect subsidiaries was Baht 29 million, from the investment in solar cell farm in Japan by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company and get loss from exchange rate in foreign currency deposit with Baht 3 million.

- Trade accounts receivable at the end of the 2<sup>nd</sup> quarter of the year 2020 was Baht 172 million, decreased from the end of previous year of Baht 100 million. The balance of trade accounts receivable at the end of the 2<sup>nd</sup> quarter of the year 2020 of which 95 percent of such receivable was not yet due, 4 percent was overdue less than 3 months and 1 percent was overdue more than 3 months. However, the Company and its subsidiaries have monitored closely for the debts collection. The company will consider the possibility of receiving the payment of debt. In addition, in the case of some debtors being in the process of collection, the Company will provide the appropriate proceed to record the allowance for doubtful accounts. At the end of the 2<sup>nd</sup> quarter of this year, balance of allowance for doubtful account was Baht 3 million. Receivable turnover rate at the end of the 2<sup>nd</sup> quarter of the year 2020 was 9.94, 9.22 at the end of previous year. Average debt collection at the end of the 2<sup>nd</sup> quarter of the year 2020 was 37 days, end of previous year was 40 days. Receivable turnover was increased and average debt collection period was decrease because the average of receivable at the end of the 2<sup>nd</sup> quarter of this year was decreased.

- Inventories balance at the end of the 2<sup>nd</sup> quarter of the year 2020 was Baht 286 million, increased by Baht 66 million or increased 30 percent from the end of previous year. Mostly increased from products of furniture. The inventory turnover rate at the end of the 2<sup>nd</sup> quarter of the year 2020 was 6.61, and was 7.48 at the end of previous year. The decrease from previous year caused by increase in the average inventory value.

- Investments at the end of the 2<sup>nd</sup> quarter of the year 2020 were Baht 859 million, increased by Baht 26 million or increased 3 percent from the end of previous year. This was resulted from recognition of increasing in profit on equity method from associated company.

- Property, plant and equipment - net as at the end of the 2<sup>nd</sup> quarter of the year 2020 was Baht 3,026 million, increased by Baht 239 million or increased 9 percent from the end of previous year. Mostly resulted from investment in buildings and machines for expansion of biomass production business in Uthai Thani and Surat Thani and the investment in an associated company's ordinary shares, which caused associated company transformed into subsidiary company

- Non-current assets as at the end of the 2<sup>nd</sup> quarter of the year 2020 was Baht 292 million, increased by Baht 205 million or increased 236 percent from previous year. This was mainly resulted from the recognition of the right according to the lease agreement for solar cell farm in Japan which invested by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company, IFRS 16 Leases, which effected from the year 2020.

### **Total liabilities**

As at the end of the 2<sup>nd</sup> quarter of this year the consolidated financial statements of the Company presented total liabilities of Baht 2,628 million, increased by Baht 212 million or increased 9 percent. Mostly increased from short-term loans from financial institutions and related companies and other non-current liabilities.

- As at the ended of the 2<sup>nd</sup> quarter of this year, short term loan from financial institutions was Baht 61 million. Most are loans in the renewable energy group for purchasing the machines and the promissory note of the subsidiary company for the operation.

- As at the ended of the 2<sup>nd</sup> quarter of this year, short term loan from related companies was Baht 103 million, increased by Baht 50 million or increased 94 percent from previous year. Most are loans of companies in the renewable energy group. Which is an indirect subsidiary of the company, loans from related companies to spend in the business.

- As at the ended of the 2<sup>nd</sup> quarter of this year, long term loan from financial institution due within one year was Baht 240 million. This loan borrowed from financial institution in domestic for investment in solar cell farm project in Japan and the loan from financial institutions in Japan for the construction of this project which invested by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company.

- As at the ended of the 2<sup>nd</sup> quarter of this year, trade accounts payable was Baht 118 million, decreased by Baht 85 million or decreased 42 percent from previous year.

- As at the ended of the 2<sup>nd</sup> quarter of this year, other current liabilities was Baht 426 million, decreased by Baht 1 million from previous year. Caused by liabilities arising from the advance payment of bathroom pods group.

- As at the ended of the 2<sup>nd</sup> quarter of this year, long term loan from financial institution in Japan was Baht 1,422 million, increased by Baht 26 million of solar cell farm in Japan which invested by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company.

- As at the ended of the 2<sup>nd</sup> quarter of this year, other non-current liabilities was Baht 205 million, increased by Baht 168 million or increased 454 percent from previous year. This was mainly resulted from the recognition of the liabilities according to the lease agreement for solar cell farm in Japan which invested by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company, IFRS 16 Leases, which effected from the year 2020.

### **Shareholders' equity**

At the ended of the 2<sup>nd</sup> quarter of this year, the consolidated financial statements of the Company presented the shareholders' equity of Baht 2,831 million, as at the ended of previous year was Baht 2,824 million, increased by Baht 7 million. This resulted from the 1<sup>st</sup> and 2<sup>nd</sup> quarter of this year, the consolidated financial statements of the company have a net profit.

Book value as at the ended of the 2<sup>nd</sup> quarter of this year was Baht 4.77 per share, end of previous year Baht 4.76 per share, increased by Baht 0.01 per share.

## 2.2 Liquidity and significant financial ratios

Statements of Cash flows for the six-month period ended June 30, 2020

Consolidated financial statements	Unit : Million Baht
Net cash from (used for) operating activities	42
Net cash from (used for) investing activities	(255)
Net cash from (used for) in financing activities	(44)
Cash from differences of conversion foreign exchange currency of financial statement of indirect subsidiaries and foreign currency deposit	26
<b>Increase (Decrease) in cash and cash equivalents - net</b>	<b>(231)</b>
Cash and cash equivalents at beginning of period	<b>826</b>
<b>Cash and cash equivalents at end of period</b>	<b>595</b>

Liquidity of the consolidated financial statement of the Company as at the end of the 2<sup>nd</sup> quarter of this year, the Company held cash amounting to Baht 595 million, Baht 826 million at the end of previous year. Cash flow decreased by Baht 231 million, this was related to:

- Cash from operating activities was Baht 42 million. This mostly resulted from the operating amounting to Baht 135 million, payment from trade accounts receivable amounting to Baht 26 million and the changing in the inventories amounting to Baht 21 million.

- Cash used for investing activities was Baht 255 million. This mostly used for construction and machinery at Uthai Thani and Surat Thani for expand investment in renewable energy amounting to Baht 83 million and the sales of some investments in subsidiary company's ordinary shares, which caused subsidiary company transformed into associated company and cash flow decreased form the consolidated financial statement amounting to Baht 192 million.

- Cash used for financing activities was Baht 44 million. This mostly used for long term loan from financial institution amounting to Baht 79 million and the dividend payment amounting to Baht 33 million.

- Cash from differences of conversion foreign exchange currency of financial statement of indirect subsidiaries was Baht 29 million, from the investment in solar cell farm in Japan by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company and get loss from exchange rate in foreign currency deposit with Baht 3 million.

The current ratio was decreased from 1.62 times as at the end of previous year to 1.35 times as at the end of the 2<sup>nd</sup> quarter of this year. The quick ratio was decreased from 1.16 times as at the end of previous year to 0.81 times as at the end of the 2<sup>nd</sup> quarter of this year. However, both ratios represented positive favorable liquidity of the Company and its subsidiaries.



In consideration of the ability for the debt repayment as at the end of the 2<sup>nd</sup> quarter of this year and the end of previous year, the Company and its subsidiaries still maintained middle ability for debt payment. Considering from the debt to equity ratio, Showing 0.86 times at the end of previous year to 0.93 times at the end of the 2<sup>nd</sup> quarter of this year. The debt to equity ratio as at the end of the 2<sup>nd</sup> quarter of this year was increased from the end of previous year, This was effect from the amount of total liabilities increased from the end of the previous year.

### **3. Significant factors that may affect the future of finance position or future operation**

#### **The spread of COVID-19**

The spread of COVID-19 has impacted the business operations of the Company and its subsidiaries especially for the domestic sales of furniture, thus the sales trend in 2<sup>nd</sup> and 3<sup>rd</sup> quarter also with the revenue to be decreasing around 30 percent. Thus, the Company has plan by reducing production costs and operating expenses in accordance with the expected revenue in which the Company expects that the impact of the COVID-19 should affect the business operations of the Company only in the short term.

For the funding sources, the financial institutions still support the operations of the Company as usual as the Company has collateral pledged with the financial institutions to cover the credit limit. For the liquidity of operation, the Company expects that the impact of the COVID-19 should affect the Company only in the short term

Nevertheless, when there are any obvious indication to the value of assets in the financial statements of the Company may be affected by the consideration of impairment of assets, the Company will promptly record the provision for impairment so the financial statements will reflect the true value for the benefit of the all relevant parties.

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

If local political is not stable, it will result in the government's spending. Government spending to stimulate the economy will be reduced. As a result, the industrial growth will be shrunken, the order will also be reduced.

#### **Foreign market**

There was shrunken in foreign market because the Covid-19 is not ease up, the purchase order may be reduced.

**Raw material pricing**

Steel is core raw material for production. If steel price are fluctuated, it may affect the orders and production costs.

**Foreign Exchange Rate**

If the Baht is strengthens against foreign currency continuously, this may affect the Company's sales in Baht value. In addition, the Company may lose ability in its competitiveness compared to competitors and may get loss from exchange rates.

Please be informed,

Yours sincerely,

( Mr. Surapol Kunanantakul )  
President  
Siam Steel International Public Company Limited