

June 9, 2020

Subject : Management's Discussion and Analysis for the 1<sup>st</sup> quarter ending March 31, 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 1<sup>st</sup> quarter for the three-month period ended March 31, 2020. It is noted that the change in net profit (loss) was over than 20% compared with the previous year. The Company would explain in the Management's Discussion and Analysis for the 1<sup>st</sup> quarter period ending March 31, 2020 as follows:

### 1. Operating Results

Consolidated Statements of Comprehensive Income for the three-month period ended March 31, 2020 and 2019

Consolidated Financial Statements	The First quarter 2020		The First quarter 2019		Change	
	Million Baht	%	Million Baht	%	Million Baht	%
Sales and services	466	93%	470	97%	(4)	(1%)
Construction services	35	7%	17	3%	18	106%
<b>Total Revenues</b>	<b>501</b>	<b>100%</b>	<b>487</b>	<b>100%</b>	<b>14</b>	<b>3%</b>
Costs of sales and services	364		357		7	2%
Costs of Construction services	26		14		12	86%
<b>Total Costs of Sales and Services</b>	<b>390</b>	<b>78%</b>	<b>371</b>	<b>76%</b>	<b>19</b>	<b>5%</b>
Sales and services gross income	102		113		(11)	(10%)
Construction services gross income	9		3		6	200%
<b>Total Gross Income</b>	<b>111</b>	<b>22%</b>	<b>116</b>	<b>24%</b>	<b>(5)</b>	<b>(4%)</b>
Other income	34	7%	36	7%	(2)	(6%)
Selling and administrative expenses	(135)	(27%)	(113)	(23%)	(22)	(19%)
<b>Profit (Loss) from Operations</b>	<b>10</b>	<b>2%</b>	<b>39</b>	<b>8%</b>	<b>(29)</b>	<b>(74%)</b>
Profit in associated companies on equity method	11	2%	8	2%	3	38%
Finance costs	(10)	(2%)	(9)	(2%)	(1)	(11%)
<b>Profit (Loss) before Income Tax</b>	<b>11</b>	<b>2%</b>	<b>38</b>	<b>8%</b>	<b>(27)</b>	<b>(71%)</b>
Income tax	2	0%	(1)	(0%)	3	300%
Equity in non - controlling interests in subsidiaries	(5)	(1%)	(13)	(3%)	8	62%
<b>Net Profit (Loss) attributable to the Company</b>	<b>8</b>	<b>1.60%</b>	<b>24</b>	<b>4.93%</b>	<b>(16)</b>	<b>(67%)</b>
<b>Net Profit (Loss) per share attributable to the Company (Baht)</b>	<b>0.013</b>		<b>0.040</b>		<b>(0.027)</b>	<b>(67%)</b>

## 1.1 Analysis of overall Operating Results

For the 1<sup>st</sup> quarter of the year 2020, the consolidated financial statements of the Company presented total revenues amounting to Baht 485 million, increased by Baht 57 million or increased 13 percent from same quarter of previous year. Such change resulted from the increase in domestic construction service. 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 2nd quarter but the Company believe that the revenues trend will be increasing.

### Total Revenues

For the 1<sup>st</sup> quarter of this year, the consolidated financial statements of the Company's presented total revenues amounting to Baht 485 million, increased by Baht 57 million or increased 13 percent. This was mainly resulted from the increase in domestic sales of "Lucky" hi-tech buildings and domestic construction services. Total revenues in the 1<sup>st</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 401 million, increased by Baht 51 million or increased 15 percent from the 1<sup>st</sup> quarter of previous year.

- Revenues from renewable energy groups totaling Baht 67 million, decreased by Baht 2 million or decreased 3 percent from the 1<sup>st</sup> quarter of previous year.

- Revenues from domestic construction services of this year has one job amounting to Bath 17 million, increased by Baht 8 million or increased 89 percent from the 1<sup>st</sup> quarter of previous year.

### Other Income

The consolidated financial statements of the Company for the 1<sup>st</sup> quarter of this year presented other income decreasing from the 1<sup>st</sup> quarter of previous year by Baht 81 million, or decreased 69 percent. Other income in the 1st quarter of this year were mainly from dividends, additional currency adjustment from investment in an associated company's ordinary shares, which caused associated company transformed into subsidiary company and profits from sales of some investments in subsidiary company's ordinary shares.

## **Cost of Sales and Expenses**

- The consolidated financial statements of the Company presented total cost of sales for the 1<sup>st</sup> quarter of this year amounting to Baht 370 million, increased by Baht 46 million or increased 14 percent from the 1<sup>st</sup> quarter of previous year. The ratio of total cost of sales to total revenue for the 1<sup>st</sup> quarter of year 2020 and the 1<sup>st</sup> quarter of year 2019 was 78 percent and 76 percent, respectively.

- The consolidated financial statements of the Company presented selling and administrative expenses of the 1<sup>st</sup> quarter of this year amounting to Baht 113 million, increased by Baht 10 million or increased 8 percent from the 1<sup>st</sup> quarter of previous year. This was mostly resulted from increases 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 1<sup>st</sup> quarter and year 2019 in the 1<sup>st</sup> quarter was 23 percent and 29 percent, respectively.

- The consolidated financial statements of the Company presented finance cost for the 1st quarter of this year amounting to Baht 9 million, increased by Baht 6 million from the 1st 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 1<sup>st</sup> quarter of the year 2020 presented gross profit amounting to Baht 115 million, decreased by Baht 11 million or decreased 11 percent from the 1<sup>st</sup> quarter of previous year, The gross profit ratio for the 1<sup>st</sup> quarter of the year 2020 and the 1st quarter of the year 2019 was 22 percent and 24 percent, respectively. The gross profit for the 1st quarter in this year was decreasing because the increasing of sales in products with relatively low gross margins.

## **Net Profit (Loss)**

- The consolidated financial statements of the Company presented net profit amounting to Baht 23 million for the 1<sup>st</sup> quarter of the year 2020, and Baht 4 million for the 1<sup>st</sup> quarter of the year 2019. Net profit of this year decreased from previous year by Baht 19 million or decreased by 402 percent. This resulted from the increasing of costs of sales and the expenses of selling and administrative from the 1<sup>st</sup> quarter of previous year. Net profit ratio for the 1<sup>st</sup> quarter of the year 2020 was 4.74 percent, the 1<sup>st</sup> quarter of the year 2019 was 0.93 percent.

## 2. Financial positions

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

Consolidated financial statement	March 31, 2020		December 31, 2019		Change	
	Million Baht	%	Million Baht	%	Million Baht	%
<b>Assets</b>						
Cash and cash equivalents	574	10%	826	16%	(252)	(31%)
Trade accounts receivable - net	179	3%	272	5%	(93)	(34%)
Inventories – net	330	6%	220	4%	110	50%
Other current assets	276	5%	215	4%	61	28%
<b>Total Current Assets</b>	<b>1,359</b>	<b>24%</b>	<b>1,533</b>	<b>29%</b>	<b>(174)</b>	<b>(11%)</b>
Investments	886	16%	833	16%	53	6%
Property, plant and equipment - net	3,117	55%	2,787	53%	330	12%
Other non - current assets	293	5%	87	2%	206	237%
Total Non - Current Assets	4,296	76%	3,707	71%	589	16%
<b>Total Assets</b>	<b>5,655</b>	<b>100%</b>	<b>5,240</b>	<b>100%</b>	<b>415</b>	<b>8%</b>
<b>Liabilities and Shareholders' Equity</b>						
Short-term loans from financial institutions	63	1%	0	0%	63	100%
Short-term loans from related company	93	2%	53	1%	40	75%
Long-term loans from financial institutions; due within 1 year	249	4%	261	5%	(12)	(5%)
Trade accounts payable	165	3%	203	4%	(38)	(19%)
Other current liabilities	466	8%	427	8%	39	9%
<b>Total Current Liabilities</b>	<b>1,036</b>	<b>18%</b>	<b>944</b>	<b>18%</b>	<b>92</b>	<b>10%</b>
Long-term loans from financial institutions	1,544	27%	1,396	26%	148	11%
Employee benefits obligation	53	1%	39	1%	14	36%
Other non - current liabilities	212	4%	37	1%	175	473%
Total Non - Current Liabilities	1,809	32%	1,472	28%	337	23%
Total Liabilities	2,845	50%	2,416	46%	429	18%
Shareholders' equity to the Company's	2,498	44%	2,481	47%	17	1%
Shareholders' equity non-controlling interests' equity	312	6%	343	7%	(31)	(9%)
Total Shareholders' equity	2,810	50%	2,824	54%	(14)	(0%)
<b>Total Liabilities and Shareholders' Equity</b>	<b>5,655</b>	<b>100%</b>	<b>5,240</b>	<b>100%</b>	<b>415</b>	<b>8%</b>

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

### **Total Assets**

As at the end of the 1<sup>st</sup> quarter of the year 2020, the consolidated financial statements of the Company presented total assets amounting to Baht 5,372 million, increased by Baht 81 million or increased 1 percent from the end of December 31, 2019. This was mainly from the increase in 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 1<sup>st</sup> quarter of this year consisted of cash and cash equivalents 16 percent, trade accounts receivable 6 percent, net inventories 8 percent and other current assets 7 percent, investment in associated companies and other companies 16 percent, property, plant and equipment 46 percent and other non-current assets 1 percent. Whereby total assets at the end of previous year consisted of cash and cash equivalents 21 percent, trade accounts receivable 5 percent, net inventories 7 percent and other current assets 6 percent, investment in associated companies and other companies 15 percent, property, plant and equipment 45 percent and other non-current assets 1 percent.

- Cash and cash equivalents at the end of the 1<sup>st</sup> quarter of the year 2020 was Baht 886 million, decreased from the end of previous year by Baht 241 million, as follow:

Cash used for operating activities was Baht 254 million. This mostly used for purchase inventory, advance payment for purchase inventory, pay creditors and pay current liabilities.

Cash used for investing activities was Baht 85 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 from financing activities was Baht 90 million. This mostly derived from short-term loans of financial institutions and related company.

Cash from differences of conversion foreign exchange currency of financial statement of indirect subsidiaries was Baht 8 million, from the investment in solar cell farm in Japan by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company.

- Trade accounts receivable at the end of the 1<sup>st</sup> quarter of the year 2020 was Baht 309 million, decreased from the end of previous year of Baht 51 million. The balance of trade receivable at the end of the 1st quarter of the year 2020 of which 70% of such receivable was not yet due, 25% was overdue less than 3 months and 5% 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 1st quarter of this year, balance of allowance for doubtful account was Baht 5 million. Receivable turnover rate at the end of the 1st quarter of the year 2020 was 6.39, 6.19 at the end of previous year. Average debt collection at the end of the 1st quarter of the year 2020 was 57 days, end of previous year was 59 days. Receivable turnover was increased and average debt collection period was decrease because the average of receivable at the end of the 1st quarter of this year was decreased.

- Inventories balance at the end of the 1<sup>st</sup> quarter of the year 2020 was Baht 447 million, increased by Baht 63 million or increased 16 percent from the end of previous year. Mostly increased from products of furniture and the products of renewable energy groups. The inventory turnover rate at the end of the 1<sup>st</sup> quarter of the year 2020 was 3.50, and was 4.20 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 1<sup>st</sup> quarter of the year 2020 were Baht 842 million, increased by Baht 8 million or increased 1 percent from the end of previous year. This was resulted from recognition of increasing in profit on equity method from one associated company.

- Property, plant and equipment - net as at the end of the 1<sup>st</sup> quarter of the year 2020 was Baht 2,476 million, increased by Baht 44 million or increased 2 percent from the end of previous year. Mostly resulted from purchase of land and buildings 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 1<sup>st</sup> quarter of the year 2020 was Baht 293 million, increased by Baht 206 million or increased 237 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 1<sup>st</sup> quarter of this year the consolidated financial statements of the Company presented total liabilities of Baht 2,539 million, increased by Baht 108 million or increased 4 percent. Mostly increased from short-term loans and long-term loans from financial institutions and other non-current liabilities.

- As at the ended of the 1<sup>st</sup> quarter of this year, short term loan from financial institutions was Baht 63 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 1<sup>st</sup> quarter of this year, short term loan from related companies was Baht 91 million, increased by Baht 40 million or increased 75 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 1<sup>st</sup> quarter of this year, long term loan from financial institution due within one year was Baht 249 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 1<sup>st</sup> quarter of this year, other current liabilities was Baht 466 million, increased by Baht 39 million or increased 9 percent from previous year. Caused by liabilities arising from the advance payment of bathroom pods group.

- As at the ended of the 1<sup>st</sup> quarter of this year, long term loan from financial institution was Baht 1,544 million, increased by Baht 148 million from conversion foreign exchange currency of financial statement of solar cell farm in Japan which invested by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company. For the loan from financial institutions in Japan for the operation, the foreign exchange rate of the Baht tend to depreciate in the 1<sup>st</sup> quarter of this year.

- As at the ended of the 1<sup>st</sup> quarter of this year, other non-current liabilities was Baht 212 million, increased by Baht 175 million or increased 473 percent from previous year. Caused by liabilities arising from the advance payment of bathroom pods group. 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 1<sup>st</sup> quarter of this year, the consolidated financial statements of the Company presented the shareholders' equity of Baht 2,810 million, as at the ended of previous year was Baht 2,824 million, decreased by Baht 14 million. The cause are the decreasing of the equity in non-controlling interests in subsidiaries from the shareholders' restructuring and the dividend payment of the subsidiary company in the 1<sup>st</sup> quarter of this year.

Book value as at the ended of the 1<sup>st</sup> quarter of this year was Baht 4.74 per share, end of previous year Baht 4.76 per share, decreased by Baht 0.02 per share.

## 2.2 Liquidity and significant financial ratios

Statements of Cash flows for the three-month period ended March 31, 2020

<b>Consolidated financial statements</b>	<b>Unit : Million Baht</b>
Net cash from (used for) operating activities	(47)
Net cash from (used for) investing activities	(240)
Net cash from (used for) in financing activities	7
Cash from differences of conversion foreign exchange currency of financial statement of indirect subsidiaries	28
<b>Increase (Decrease) in cash and cash equivalents - net</b>	<b>(252)</b>
Cash and cash equivalents at beginning of period	<b>826</b>
<b>Cash and cash equivalents at end of period</b>	<b>574</b>

Liquidity of the consolidated financial statement of the Company as at the end of the 1<sup>st</sup> quarter of this year, the Company held cash and cash equivalents amounting to Baht 886 million, Baht 1,127 million at the end of previous year. Cash flow decreased by Baht 241 million, this was related to:

- Cash used for operating activities was Baht 47 million. This mostly resulted from increased of purchase inventory amounting to Baht 22 million, advance payment for purchase inventory of bathroom pods group amounting to Baht 37 million, repayment of general creditors amounting to Baht 26 million and payment of other current liabilities amounting to Baht 28 million.

- Cash used for investing activities was Baht 240 million. This mostly used for construction and machinery at Uthai Thani and Surat Thani for expand investment in renewable energy amounting to Baht 73 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 from financing activities was Baht 7 million. This mostly derived from short-term loans of financial institutions amounting to Baht 23 million and related company amounting to Baht 40 million.

- Cash from differences of conversion foreign exchange currency of financial statement of indirect subsidiaries was Baht 28 million, from the investment in solar cell farm in Japan by Bangphra Green Energy Company Limited, an indirect subsidiary of the Company.



The current ratio was decreased from 2.41 times as at the end of previous year to 2.77 times as at the end of the 1<sup>st</sup> quarter of this year. The quick ratio was decreased from 1.57 times as at the end of previous year to 1.66 times as at the end of the 1<sup>st</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 1<sup>st</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 0.94 times at the end of previous year to 0.90 times at the end of the 1<sup>st</sup> quarter of this year. The debt to equity ratio as at the end of the 1<sup>st</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, together with the decrease in shareholders' equity.

### **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%. 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