



MILL 019/2013

May 10, 2013

Subject: Clarification of the financial statements as of December 31, 2012 (Addition)
Attention: The President
The Stock Exchange of Thailand

Regarding the submission of 2012 financial statements of MILLCON Steel Industries Public Company Limited, an auditor did not express a disclaimer opinion on the financial statements due to the significant matter of trading transactions with the business alliances and the substantial doubt on the group companies' abilities to continue as a going concern.

Hence to ensure all the shareholders and investors getting sufficient information, we herewith clarify the mentioned doubt as follow:-

1. Significant Trading Transactions

Auditor reported significant transactions dealt with business alliances being individuals or entities which are management's relatives or a former employee of related parties as disclosed in Note 8 especially trading transaction represented 20% of the consolidated revenue from sales for the year ended 2012 and trade accounts receivable represented 26% as of December 31, 2012. In addition, those business alliances might have received direct and indirect business support from the company and the relatives of the Group's management. Those 6 business alliances include Insight Steel Co., Ltd., Simba Steel Co., Ltd., Triple O Trading Co., Ltd., Jarasrunroj Co., Ltd., Deesinchai Steel Co., Ltd. and Platinum Auto Services Co., Ltd.

1.1 Summary of business alliances' detail includes date of registration, registered capital, paid-up capital, type of business, shareholders, amount of share, director, management and related individual with relationship status.

Clarification and details:-

1. Insight Steel Company Limited

Registration No.	0105543048822
Date of Registration	May 23, 2000
Registered Capital	250,000,000
Paid-up Capital	250,000,000
Registered Office	No. 77,79,81 Soi Pattanakarn 64, Pravet, Bangkok
Type of Business	Distributor of Metal and Metal Ore
Directors	1. Mr. Paiboon Pilanta-owart 2. Mr. Somboon Pilanta-owart



	3. Ms. Pattanee Chaimanas 4. Ms. Pimsiri Chaimanas
Major shareholder At April 30, 2011	Mr.Paiboon Pilanta-owart Shareholding 99.99%
Relationship	As of April 11, 2012, Mrs. Sujitra Leeswadtrakul is a shareholder holding not more than 0.50% interest of the group. Mr. Paiboon Pilanta-owart, directors and major shareholders of Insight Steel Company Limited, married Mrs. Sujitra Leeswadtrakul who is an aunt of Mr. Sittichai Leeswadtrakul, Managing Director and director of the company.

2. Simba Inter Company Limited

Registration No.	0105551044873
Date of Registration	April 22, 2008
Registered Capital	5,000,000
Paid-up Capital	5,000,000
Registered Office	No. 333 Somdejrapinklao Road, Bangyeekan, Bangplad, Bangkok
Type of Business	Distributor of Metal and Metal Ore
Director	1. Ms. Somrudee Tungpanyawong
Major shareholder At July 31, 2010	Ms. Somrudee Tungpanyawong Shareholding 80%
Relationship	As of April 11, 2012, Ms. Somrudee Tungpanyawong is a shareholder holding 9,034,500 shares or 0.58% interest of the group and it was not found that Ms. Somrudee Tungpanyawong is a shareholder of the subsidiaries or preferred stock of the company. That share amount does not effect in an ability to govern the financial and operation of the group. Mr. Soonthorn Jitboontaweek was former major shareholder and later dropped all of his share in July 2010. Mr. Soonthorn married Ms. Suttirat Leeswadtrakul, management and director of the company and its subsidiaries on January 15, 2011.



3. Triple O Trading Company Limited

Registration No.	0105550020423
Date of Registration	February 21, 2007
Registered Capital	10,000,000
Paid-up Capital	10,000,000
Registered Office	No. 20 Soi Ekachai 50, Bangbon, Bangkok
Type of Business	Distributor of Construction Materials
Director	1. Mr. Pramote Kiattiyospakdee
Major shareholder At April 30, 2011	Mr. Pramote Kiattiyospakdee Shareholding 99.95%
Relationship	As of April 11, 2012, Mr. Pramote Kiattiyospakdee is a major shareholder and the authorized director holding 0.54% interest of the Group. That share amount does not effect in an ability to govern the financial and operation of the group. Mr. Pramote Kiattiyospakdee was former Sales Representative of R.S.P. Steel Company Limited, related business.

4. Jarasungroj Company Limited

Registration No.	0105543008529
Date of Registration	January 25, 2000
Registered Capital	2,000,000
Paid-up Capital	2,000,000
Registered Office	No. 88/8 Prommarad Road, Bangbon, Bangkok
Type of Business	Distributor of Construction Materials
Director	1. Mr. Pitak Jarasungroj
Major shareholder At April 29, 2012	1. Ms. Muihok Sae-nguy Shareholding 10% 2. Mr. Sinchai Vongsakul Shareholding 10% 3. Ms. Pornpimol Umpan Shareholding 5% 4. Ms. Rungrat Boonyachareanmit Shareholding 10% 5. Mr. Pitak Jarasungroj Shareholding 25% 6. Mr. Pinit Jarasungroj Shareholding 20% 7. Ms. Jindarat Jarasungroj Shareholding 20%
Relationship	As of April 11, 2012, none of directors holding share or preferred stock



บริษัท มิลล์คอนสตีลอินดัสทรีส์ จำกัด (มหาชน)

MILLCON STEEL INDUSTRIES PUBLIC COMPANY LIMITED

	<p>of the company and its subsidiaries.</p> <p>Mr. Pitak Jarasrunroj, Director and one of major shareholders of Jarasrongrote Company Limited, is a son of Mrs. Sujinda Leeswadtrakul, an aunt of Mr. Sittichai Leeswadtrakul. Hence, Mr. Pitak Jarasrunroj and Mr. Sittichai Leeswadtrakul are relatives.</p>
--	--

5. *Deesinchai Company Limited

Registration No,	0105546124511
Date of Registration	October 13, 2003
Registered Capital	100,000,000
Paid-up Capital	100,000,000
Registered Office	No. 272 Soi Watchannork, Rama 3 Road, Bangkorlaem, Bangkok
Type of Business	Production and Distributor of Steel Products
Director	1. Mr. Sarawut Nitisupa
Major shareholder At April 30, 2012	Mr. Sarawut Nitisupa Shareholding 75%
Relationship	Mr. Sarawut Nitisupa is director and major shareholder of Deesinchai Company Limited and close to Mr. Somdej Leeswadtrakul, an uncle of Mr. Sittichai Leeswadtrakul. Hence both Mr. Sarawut Nitisupa and Mr. Sittichai Leeswadtrakul are relatives.

6. Platinum Auto Services Company Limited

Registration No,	0105550027487
Date of Registration	March 12, 2007
Registered Capital	80,000,000
Paid-up Capital	80,000,000
Registered Office	No. 272 Soi Watchannork, Rama 3 Road, Bangkorlaem, Bangkok
Type of Business	Rental and Maintenance all types of Vehicles
Directors	1. Mr. Anupong Kuttikul 2. Mr. Pongpan Sajjawattana 3. Mr. Narongchai Jitmaleerat
**Major shareholder	1.Mr.Anupong Kuttikul Shareholding 58.13%



At May 3, 2012	<p>2.Ms.Rungrapee Chakijdee Shareholding 11.19%</p> <p>3.Ms.Woraporn Saitanya Shareholding 8.15%</p> <p>4.Mr.Jinnanut Tasanalanjakorn Shareholding 5.68%</p> <p>5.Ms.Sri-ubol Intara-umnuy Shareholding 3.75%</p> <p>6.Ms.Nisa Rungrattana-ubol Shareholding 8.15%</p> <p>7.Ms.Kulwadee Sricrutpan Shareholding 3.75%</p>
Relationship	<p>As of April 11, 2012, Mr. Anupong Kuttikul, one of authorized directors is a shareholder of the Group holding 0.56% interest of the Group and it was not found that Mr. Anupong Kuttikul holding share of its subsidiaries and preferred stock. That share amount does not effect on an ability to govern the financial and operation of the group.</p> <p>Mr. Anupong Kuttikul, directors of Platinum Auto Company Limited, is a relative of Mr. Thitipong Tangpoonphonvivat, management and director of its subsidiaries.</p>

Remark * Deesinchai Company Limited and Platinum Auto Services Company Limited rent office same place.

** Living Land Capital Public Company Limited hold Platinum Auto Company Limited accounting for 100% on Mar 11,2013

1.2 Below is a summary of the commercial transactions between each business alliances in term of source, duration of the business relationship, 2012 revenue and profit, liabilities and ratio of total trade receivable as of December 31, 2012.

Business alliances	Period of business relationship (Years)	Sales of Goods	Percentage of total revenue	Trade Account Receivable	Percentage of total receivable	Not Overdue	Overdue 1-3 months
Insight Steel Co., Ltd.	13	1,904,706,254.60	11.57	515,588,823.72	17.01	499,356,748.26	15,172,784.89
Simba Inter Co., Ltd.	5	520,292,549.20	3.16	76,280,369.36	2.52	20,371,748.92	55,908,620.44
Triple O Trading Co., Ltd.	6	610,649,237.36	3.71	154,859,208.21	5.11	35,164,587.94	119,694,620.49
Jarasrunroj Co., Ltd.	3	236,528,205.38	1.44	46,376,260.83	1.53	44,859,826.85	1,316,409.23
Deesinchai Steel Co., Ltd.	10	22,235,348.00	0.14	-	-	-	-
* Platinum Auto Services Co., Ltd.	5	-	-	-	-	-	-
Total		3,294,411,595	20.02	793,104,662.12	26.16	599,752,911.97	192,092,435.05

Remark *The Company rent car from Platinum Auto Services Co., Ltd. value 8,733,079 Baht



บริษัท มิลล์คอนสตีลอินดัสทรีส์ จำกัด (มหาชน)

MILLCON STEEL INDUSTRIES PUBLIC COMPANY LIMITED

The explanation for our business relation with business alliances and other customers due to the company has run in this steel business for long time and named as one of the manufacturer and trading in steel industry of Thailand. Therefore, the introduction of Millcon among previous customers has been continuous.

Above percentages calculated from sales of goods and services amounting Baht 16,457,055.53 and note and trade account receivables before allowance for doubtful accounts amounting Baht 3,031,625,270. Baht 599.7 million of trade business alliances 's account receivable of Baht 793 million has not yet reached the due. However, there was an existence of overdue account receivable for 1-3 months amounting Baht 192 million as of December, 2012.

Those trading transactions are treated with normal terms and conditions such as discount on cash payment, advance payment, deposit or rebate. Criteria for customer's credit granting are general information, trading duration as well as payment history of the customer which will be determined in a normal course including the competitive pricing compared with others and the average of credit term's period is 60 days determined as normal business term.

In addition, the limit of credit term of each customer was verified by salesperson and a president based on reputation and creditability of each customers among steel industry. Regarding to the extension of credit line, salesperson and a president considered from the amount of sale and credit history.

This is to ensure that the business alliances have good credit history and none of issue jeopardizing the company. There is an existence of 5-15 years of the business relationship along with long history in steel industry, some of which are management's relatives. Currently the company received full payment in Q1 2013 amounting Baht 793,017,462.26 and another payment amounting Baht 87,199.86 on April 2, 2013.

From January 1 – April 30, 2013, the group has total revenue amounting Baht 909,461,378.20 and trade account receivable amounting Baht 508,117,386.45 not yet due.

Allowance for trade account receivable

Involving account manager, salesperson or distributor compile the current event analysis together with account receivable aging to perform an assessment of allowance of doubtful account and propose to the managing director and assistant managing director of both parties for further approval. Below are guidelines on account receivable aging and customer's current event analysis for an allowance for doubtful account assessment:-



- 1) Overdue account receivable for 4-6 months, estimate allowance for doubtful account equal to 25% for assumed partly collectible and 50% for circumstance of an absence and consider a lawsuit filing.
- 2) Overdue account receivable for 6-12 months, estimate allowance for doubtful account equal to 50% for assumed partly collectible, 75% for receivable account with an existing of a tendency of uncollectible or lawsuit filing and 100% for uncollectible account receivable.
- 3) Overdue account receivable for more than 12 months, estimate 100% allowance for doubtful account.

Remark The Company have policy provision for trade receivable of 6 companies same other company.

2. Investigation Outcome on sales and purchase transactions dealing with business alliances

The auditor's report was submitted to the committee of the group to notify of the significant trading transactions, seek for cooperation to perform further investigation in accordance with the law section 89/25 of the Securities and Exchange Act (No. 4) B.E. 2551 and the audit committee submitted the report to the Stock Exchange of Thailand (SET) and Office of Securities and Exchange Commission (SEC) on March 29, 2013.

To summarize the main issues of audit committee regarding to concern issue, the result of the investigation and the comments of audit committee for the issue mentioned above

According to the auditor's report dated March 15, 2013, performed an investigation on aforementioned transactions and relationship of all related parties; management or directors of the company and its subsidiaries and business alliances directors and major shareholders of the business alliances do not have a relationship and does not have the status of a related party under the meaning and definition of The Securities and Exchange Act B.E. 2535 (including its amendments), Notification of the Capital Market Supervisory Board No. Tor Chor. 21/2551 "Related party transactions basis" and Notification of The SET Board of Governors "Disclosure of Information and Other Acts of a Listed Company for related transactions B.E. 2546 dated November 19 B.E. 2546 (including its amendments). It directed to the substance of the relationship, and not merely the legal form of capability to govern the group's financial and operation.

3. Ability to continue as a going concern of the group companies with current liabilities in excess of the consolidated current assets amounting Baht 3,425 million

Auditor's report (Note 1) indicates an existence of factor uncertainty that may cast significant doubt about the ability to continue as a going concern of the group companies due to current liabilities in excess of the consolidated current assets amounting Baht 3,425 million. The consolidated current liabilities mainly include short-term loans from promissory note and trust receipt of Baht 6,909 million which will be due during January and June 2013 and long-term loans from a financial



institution of Baht 1,727 million which were reclassified to short-term loans as some of the financial ratios were not complied with the financial covenants specified in the long-term loans agreement.

3.1 The causes of current liabilities in excess of the consolidated current assets amounting Baht 3,425 million

Referring 2012 financial statements, the causes of excess current liabilities are as follow:-

- 1) Reclassification of long-term loans from a financial institution amounting Baht 1,727 million to short-term loans as the group was unable to abide by the financial ratio in compliance with the financial covenants specified in the long-term loans agreement.
- 2) Project expenses payable approximate amount Baht 20 million will be due in a year.
- 3) In Q3 2012, the group paid off long-term loans from foreign financial institute (DEUTSCHE INVESTITIONS - UND ENTWICKLUNGSGESELLSCHAFT MBH) amounting Euro 14 million or Baht 562 million in discounted cash flow.
- 4) Prior the Billet commercial run of Green Mill project, the group used short-term loans for purchasing raw material in preparation of the test run. Asset value of Baht 366 million was considered as a part of machinery and booked under fixed asset category (Property, plant and equipment) in accordance with accounting standard TAS 16.
- 5) The group made further investment to improve the machinery efficiency to drive the highest production according to the project's adviser spending Baht 750 million of internal cash flow.

3.2 The cause of inability to abide by certain financial ratios in compliance with the financial covenants specified in the long-term loans agreement resulted in reclassification of long-term loans to short-term loans amounting Baht 1,727 million.

Those unmaintained financial ratios are debt to equity ratio partly incurred from raising working capital from a financial institution to cover the raw material expenses and a sufficient inventory for log orders and a commercial start up of Green Mill Project in 2012 which was initiated to produce billet in both commercial grade as raw materials for steel bar and special grade for value added was unable to make the most of its profitability.

Long-term loan agreement of a financial institution defines debt to equity ratio of consolidated at 2.5 : 1 while the financial statement as of December 31, 2012 represented 3.13 : 1. However, the group was able to maintain other financial ration in compliance with the agreement.

The group is in negotiation process with an attempt to amend the certain financial ratio with the financial institution to raise liquidity and supplement capital structure

Hence, we would like to clarify that the group does not affected by the reclassification of long-term loans to short-term loans and maintain the right of remaining credit limit with the financial institution under the terms and conditions as in normal course.

3.3 Operation plan for solving the liquidity issue



The company requested for an increasing credit limit from a financial institution for purchasing raw material for billet production. This is to boost sales volume and to allow more liquidity. The group intended to raise capital to be used as working capital. This is subject to consideration in the next Annual General Meeting of the Shareholders (AGM) to be held on May 21, 2013.

4. Impairment of new product development expenditure amounting Baht 16.38 million

Note 16 RE: Intangible assets-net indicated loss from an impairment provision of new product development amounting to Baht 16.38 million or 44% of booked value as of January 1, 2012.

4.1 New Product Development Expenditure

The group produced thread deformed bar called “ONE Bar” as the latest “Know How” developed to remove steel joining problem. One Bar is generated through hot rolling process with threading made along the entire length. Steel can splice with coupler because of such thread. This will better strengthen the steel joining than fastening or welding and reduce waste of steel texture during the process. One Bar can be used in substitution for deformed bar in general. Moreover, it helps saving cost of construction and labor.

- Criteria for Value Determination

Value of this Know How of “One Bar” is determined by the cost of product development. Steel bar will be made with threading to help splicing with coupler. Such cost includes tools, materials, raw material and other expenditure during the production. Net value after net realizable value amounting Baht 47,657,413.36 million as of December 31, 2009.

Assets and intangible assets that are subject to amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use for the purposes of assessing impairment. Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date in accordance with the note of financial statements as of December 31, 2012 Clause 2.11 The Impairment of Asset.

- The Causes of an Impairment of New Product Development Expenditure

Sales volume of One Bar does not meet the target as it is new to the market and replaceable for of the unified method in building and construction. The group needs to put more effort in marketing to build new product reputation. Most of customers are in Australia and New Zealand. Orders received are normally the whole project from customers’ auction, but the goods delivery depends on each phased required by customers. We do not stock goods due to the high cost of inventory. However, the group plans an allowance for impairment of new product development Expenditure at Baht 16.38 million. This calculation used a cash flow projections



บริษัท มิลล์คอนสตีลอินดัสทรีส์ จำกัด (มหาชน)

MILLCON STEEL INDUSTRIES PUBLIC COMPANY LIMITED

based on financial budgets approved by management covering a five-year period. The cash flow projections beyond the five-year period are extrapolated using the estimated growth rates at 0% per annum.

4.2 Utilization plan for an existing asset amounting Baht 16.38 million and approach to mitigate the consequence of such circumstance

The group plans to promote marketing both inside and outside the country especially Australia and New Zealand where the major customers are based. We satisfy with the outcome of the ONE Bar's promotion during the customer visit in Australia at the end of last year. Orders have been made from inside and outside the country and expected to be constant so that the company can make the most of the aforementioned asset.

Please be informed accordingly.

Yours sincerely,

.....

Mrs. Pirom Sawpayon

Director