

# Annual Report 2017



ทุกวันต้องก้าวหน้ากว่าเมื่อวาน

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## Message from the Chairman of the Board Director

As you may be aware, given the sudden resignation of our CEO in December 2017, I have continued in my role as chairman so as to ensure the stability of the company. Unfortunately however, the rotating door of CEOs in the past year has resulted in difficulties in the transitional process and has also meant that relationships with clients have been significantly affected. We will need to redouble efforts to ensure a smoother management transition and that company operations are not affected by any of such changes– this will also serve to reassure our clients that we continue to remain a stable and trustworthy partner.

Against this backdrop, we recorded a profit of approximately 500 million baht which is less than targeted. However, considering the circumstances I would like to consider this an acceptable result. However, we were not awarded new projects in Japan in the previous year (and substantially all current projects are those which were awarded prior thereto) and therefore we will need to continue to push to ensure a healthy pipeline of work in the upcoming years.

Upon approval from this shareholders' meeting, we are proposing to adopt a temporary "group management approach" until our top management personnel have undergone the necessary Japanese language training and a capable management team can be selected and assembled. This is to ensure a more permanent solution to recent instability in management ranks. This was the original plan and the reason I stepped down earlier to pave the way for top management candidates training and selection. This was unfortunately side-tracked due to the inability to retain a CEO, but we are now committed again to continuing down this transitional path. As we like to continue receiving projects in Japan due to the much higher profit margins, it is essential that top management in the company is able to communicate effectively in Japanese (particularly as Japanese clients place significant emphasis on being able to communicate directly in Japanese with top management).

As to our facility preparations last year, at the Thai facility, we are now going to handle the Airport phase 2 project, in relation to which we are fabricating a 60 m long pipe without visible connection as in the Airport phase 1 project, by utilizing our newly introduced bending machine and our robot welding machine. At the Xiamen facility, we bought back shares from our previous Chinese counterparts at a favourable price to strengthen our position. The Xiamen facility will not only work on Japanese projects which are not suitable for the Thai facility but act as a gateway for any handling of raw materials in China, such as in relation to our upcoming Airport phase 2 project. At our Nasu facility, we wish to complete our land/ factory procurement procedure in due course, which will give us the necessary facilities in Japan to handle all design changes and additional works in the same manner as any other Japanese fabricator. We have also able to recruit Thai personnel in Japan holding appropriate stay permit, and are intending on training them back in Thailand and ensuring they have necessary licenses and qualifications before posting them back at the Nasu facility to solve ongoing issues around work permits issues.

With increasing labour costs here in Thailand the only way we can continue to compete is to explore ever more demanding and challenging project. This will be an incremental process requiring patience and continuous effort. To get to where we are now has been a more than 15 year process and we will need to continue to strive to improve and adapt in the upcoming years. While we expect to face challenges in the near future, we believe we will need to persevere as we have always done.

## Message from the Chairman of the Board Director (Cont.)

Against medical advice, I am now still trying to contribute my efforts towards establishing a new organization required to succeed in the future. However, I am ready to step down anytime as announced last year , once the company is ready .

This year all shareholders will need to make a critical decision. Whether we continue along the same path that we have gone down and continue to make decisions with a focus on Japanese market, or whether we should have a new management group take the company in a new direction. It will be crucial to ensure that management, shareholders and employees are aligned, whatever the path chosen is. We welcome suggestions at the shareholders' meeting as to proposed courses of action which ensuring a prosperous future for the company.

Again I would like to thank our 600+ employees who continue to put in the time and work to make all of this possible. Without their trust and faith in us, it would have been very difficult to get through what has been a turbulent year. We look forward to receiving your input during the shareholders' meeting and to work together to revitalize our company.



Dr. Naiyuan Chi  
Chairman of Board Director  
February 20, 2018

# Board of Directors And Top Managements

At December 30,2017

## Board of Directors



Dr.Naiyuan Chi Chairman of Board Director

## Member of Audit Committee



**Left to Right**

Mr.Tinakorn  
Gen.Titiwat

Seedasomboon  
Kamlang-Ek

Independent Director and Audit Committee  
Independent Director and Audit Committee

## Directors



**Left to Right**

Mr.Phairat  
Mr.Pornchai

Viwatborvornwong  
Phisarnanukunkit

Director and President  
Director and Senior Vice President

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## Board of Directors and Top Managements

**At December 30,2017**

**Dr.Naiyuan Chi**

- Chairman of Board Director

<b>1. Directorship</b>	<ul style="list-style-type: none"> <li>▪ Induction since 2005</li> <li>▪ 4 consecutive directorship periods</li> </ul>
<b>2. 2017 Meeting Attendance</b>	<ul style="list-style-type: none"> <li>▪ 14/15 Board Director Meetings</li> </ul>
<b>3. Stock Holding at December 29,2017</b>	<ul style="list-style-type: none"> <li>▪ 5,000,000 Shares or 1.00 %</li> </ul>
<b>4. Share changed in 2017</b>	<ul style="list-style-type: none"> <li>▪ Decreased 5,000,000 shares or 1.00%</li> </ul>
<b>5. Qualification</b>	<ul style="list-style-type: none"> <li>▪ Ph.D. of Engineering Kyoto University</li> <li>▪ Director Accreditation Program (DAP) Class 25th Year 2004</li> </ul>
<b>6. Present Position</b>	<ul style="list-style-type: none"> <li>▪ Chairman od Board Director</li> <li>▪ Director Tanaka Welding Center Co., Ltd.</li> </ul>

**Mr.Phairat Viwatborvornwong**

- Director
- The company ' s binding authority with Mr.Pornchai Phisarnanukunkit.
- President

<b>1. Directorship</b>	<ul style="list-style-type: none"> <li>▪ Induction since 2007</li> <li>▪ 3 consecutive directorship periods</li> </ul>
<b>2. 2017 Meeting Attendance</b>	<ul style="list-style-type: none"> <li>▪ 14/15 Board Director Meetings</li> </ul>
<b>3. Stock Holding at December 29,2017</b>	<ul style="list-style-type: none"> <li>▪ 10,000 shares or 0.002%</li> </ul>
<b>4. Share changed in 2017</b>	<ul style="list-style-type: none"> <li>▪ None</li> </ul>
<b>5. Qualification</b>	<ul style="list-style-type: none"> <li>▪ Bachelor of Civil Engineering Rajamangala Institute of Technology Tewes</li> <li>▪ Certificate of Director Accreditation Program (DAP) Class 70th Year 2008</li> </ul>
<b>6. Present Position</b>	<ul style="list-style-type: none"> <li>▪ Director Tanaka Welding Center Co., Ltd.</li> </ul>

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Better than yesterday, everyday

### Mr.Pornchai Phisarnanukunkit

- Director (Resigned from the position on January17, 2017 and Appointed again on July26, 2017)
- The company's binding authority with Mr.Phairat Viwatborvornwong.
- Senior Vice President of Production

1. Directorship	<ul style="list-style-type: none"><li>▪ Induction since October 2006</li><li>▪ 3 consecutive directorship periods</li></ul>
2. 2017 Meeting Attendance	<ul style="list-style-type: none"><li>▪ 7/7 Board Director Meetings</li></ul>
3. Stock Holding at December 29,2017	<ul style="list-style-type: none"><li>▪ None</li></ul>
4. Share changed in 2017	<ul style="list-style-type: none"><li>▪ None</li></ul>
5. Qualification	<ul style="list-style-type: none"><li>▪ Master of Business Administration ( Industrial Business Administration )</li><li>▪ Bachelor of Industrial Technology in Structures King Mongkuts Institute of Technology North Bangkok</li><li>▪ Certificate of Director Accreditation Program (DAP) Class 42nd Year 2005</li></ul>
6. Present Position	<ul style="list-style-type: none"><li>▪ Director Tanaka Welding Center Co., Ltd.</li></ul>

### Gen.Titiwat Kamlang-Ek

- Chairman of Audit Committee ( Appointed January 27,2018 )
- Independent Director

1. Directorship	<ul style="list-style-type: none"><li>▪ Induction since January 22,2016</li></ul>
2. 2017 Meeting Attendance	<ul style="list-style-type: none"><li>▪ 10/15 Board Director Meetings</li><li>▪ 3/4 Audit Committee Meetings</li></ul>
3. Stock Holding at December 29,2017	<ul style="list-style-type: none"><li>▪ None</li></ul>
4. Share changed in 2017	<ul style="list-style-type: none"><li>▪ None</li></ul>
5. Qualification	<ul style="list-style-type: none"><li>▪ Bachelor Chulachomkiao Royal Military Academy</li><li>▪ Certificate of Director Accreditation Program (DAP) Class 134th Year 2017</li></ul>

**Mr.Tinakorn Seedasomboon**

- Audit Committee
- Independent Director

<b>1. Directorship</b>	<ul style="list-style-type: none"><li>▪ Induction since December 2010</li><li>▪ 2 consecutive directorship period</li></ul>
<b>2. 2017 Meeting Attendance</b>	<ul style="list-style-type: none"><li>▪ 14/15 Board Director Meetings</li><li>▪ 4/4 Audit Committee Meetings</li></ul>
<b>3. Stock Holding at December 29,2017</b>	<ul style="list-style-type: none"><li>▪ None</li></ul>
<b>4. Share changed in 2017</b>	<ul style="list-style-type: none"><li>▪ None</li></ul>
<b>5. Qualification</b>	<ul style="list-style-type: none"><li>▪ Master of Business Administration The University of the Thai Chamber of Commerce (UTCC)</li><li>▪ Bachelor of Accounting , Bangkok University</li><li>▪ Certificate of Director Accreditation Program (DAP) Class 61st Year 2006</li><li>▪ Certificate of Director Certification Program (DCP) Class 92nd Year 2007</li><li>▪ Certificate of Audit Committee Program (ACP) Class 19th Year 2007</li><li>▪ Certificate of Role of the Chairman Program (RCP) Class 30th Year 2013</li><li>▪ Certificate of Advanced Audit Committee Program (AAP) Class 27th Year 2016</li></ul>
<b>6. Present Position</b>	<ul style="list-style-type: none"><li>▪ Independent Director and Audit Committee Qualitech Public Co., Ltd.</li><li>▪ President Praathid Accounting Co., Ltd.</li><li>▪ Independent Director DVMVS Co., Ltd.</li></ul>

**Mr.Tsuneo Kakuta**

- Asst. to Executive Chairman

<b>1. Stock Holding at December 29,2017</b>	<ul style="list-style-type: none"><li>▪ None</li></ul>
<b>2. Share changed in 2017</b>	<ul style="list-style-type: none"><li>▪ None</li></ul>
<b>3. Qualification</b>	<ul style="list-style-type: none"><li>▪ Bachelor of Sculpture Art Kyoto -Seika University Japan</li></ul>

**Ms.Mattawan Srisakda**

- Manager : Accounting and Financial Department

<b>1. Stock Holding at December 29,2017</b>	<ul style="list-style-type: none"><li>▪ 33,000 shares or 0.0066%</li></ul>
<b>2. Share changed in 2017</b>	<ul style="list-style-type: none"><li>▪ None</li></ul>
<b>3. Qualification</b>	<ul style="list-style-type: none"><li>▪ Bachelor of Business Administration ( Accounting ) Rangsit University</li></ul>



**Ms.Kanchalika Sangparinya**

- Company Secretary

<b>1. Stock Holding at December 29,2017</b>	<ul style="list-style-type: none"><li>▪ 67,500 shares or 0.014%</li></ul>
<b>2. Share changed in 2017</b>	<ul style="list-style-type: none"><li>▪ None</li></ul>
<b>3. Qualification</b>	<ul style="list-style-type: none"><li>▪ Bachelor of Business Administrator ( Computer Information Management ) Saint John 's University</li><li>▪ Bachelor of Accounting The University of the Thai Chamber Commerce</li><li>▪ Master of Business Administration ( International Business Management ) Saint John University</li></ul>

# Summary of Financial Information

## Separate financial statements

Details		2017	2016	2015
Total asset	Million Baht	3,482.93	3,706.18	3,594.24
Issued and paid-up share capital	Million Baht	500.00	500.00	500.00
Equity	Million Baht	2,561.99	2,833.72	2,397.77
Total Income	Million Baht	3,067.63	5,332.34	3,304.77
Total Expense	Million Baht	2,435.13	4,008.96	2,608.01
Net profit	Million Baht	539.43	1,163.64	654.41
Earnings per share	Baht	1.16	2.46	1.31
Book value	Baht	5.12	5.67	4.70
Par value	Baht	1.00	1.00	1.00
Dividend per share	Baht	0.60	1.36	0.70
Dividend to net income	%	0.50	0.55	0.53

## Consolidated financial statements

Details		2017	2016	2015
Total asset	Million Baht	3,746.84	3,826.41	3,793.24
Total Liability	Million Baht	1,196.02	985.30	1,426.15
Equity	Million Baht	2,550.82	2,841.11	2,367.10
Revenue from sales and rendering of services	Million Baht	3,103.85	5,680.25	3,586.71
Total Income	Million Baht	3,158.37	5,735.28	3,653.71
Total Expense	Million Baht	2,559.38	4,360.52	2,959.05
Gross profit	Million Baht	1,352.54	2,104.34	1,276.29
Net profit	Million Baht	495.22	1,225.78	615.71

# Corporate Information

Name of company	M.C.S. Steel Public Company Limited
Public company registered	0107548000048
Registered capital	500,000,000 Baht ( Fully paid up ) comprises 500,000,000 shares with 1 Baht of par value.

## Head office and Factory

70 Moo 2 Changyai Bangsai Ayutthaya 13290  
Tel : 035-372961-6  
Fax : 035-372967-8  
Website : [www.mcssteel.com](http://www.mcssteel.com)  
E-mail : [info@mcssteel.co.th](mailto:info@mcssteel.co.th)

## Other Reference

### A) Registrar

The Thailand Securities Depository Co.,Ltd.  
93 Ratchadaphisek Road, Dindaeng,  
Bangkok 10400, Thailand  
Tel : (66 2) 009 9000  
Fax : (66 2) 009 9991

### B) Auditor

Ms.Wannisa Ngambuathong  
Certified Public Accountant Registration No. 6838  
Dharmniti Auditing Co., Ltd.  
178 Dharmniti Building Floor 6-7 Soi Permsap (Prachachuen 20) Prachachuen Road,  
Bangsue, Bangkok, 10800 Thailand  
Tel : (66 2) 596-0500 Ext. 327 , (66 2) 596-0596  
Fax : (66 2) 586-0301

### C) Law Advisor

Paramee Law Co., Ltd.  
511/4 Prachauthit 117/1 Road  
Thungkhru, Bangkok 10140  
Tel : (66 2) 815-9523

### D) Bank

Bangkok Bank – Head Office ( Silom )  
Bangkok Bank – Pratunam Pra-In

# Business Overview and Policy

## Company Policy



**" We are a fabricator, erector and inspector of steel construction with the quality meets the international standard and the customer satisfaction"**

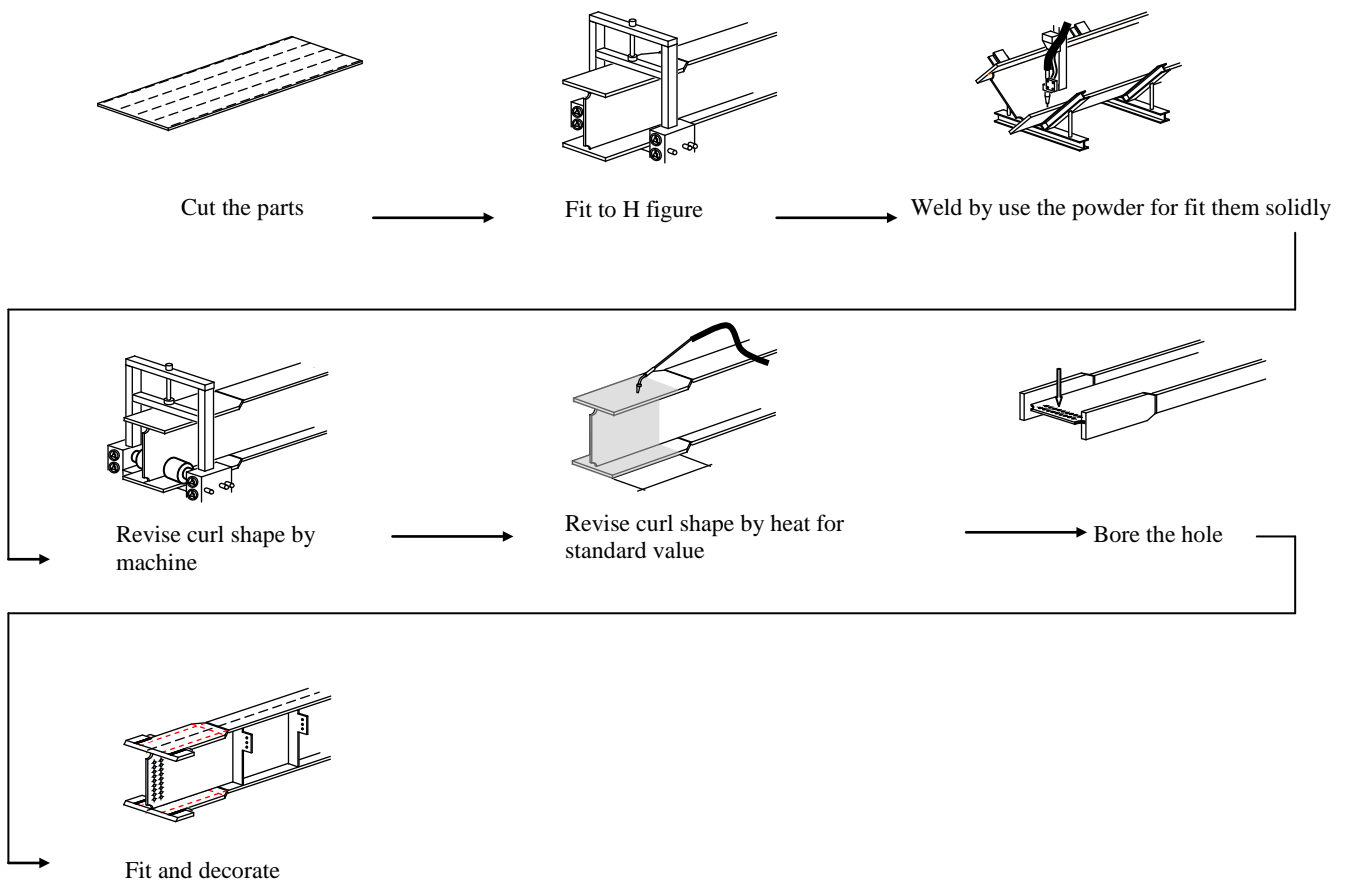
M.C.S. Steel Public Co., Ltd. ("Company") (formerly known as "M.C.S. International Co.,Ltd." and M.C.S. Hokoku Co.,Ltd.) was found in 1992 by a group of specialists in the steel and construction industry. This group is made up of 4 people consisting of Dr. Naiyuan Chi, Mr. Sompong Methasatidsuk, Mr. Manot Iwanuwat, and Suwat Uengphakon. The initial registered capital for the company was 15 million Baht. At present, the company has the registered capital of 500 million Baht, of which 500 million shares are paid-up common shares with the par value of 1 Baht per share. The primary purpose was for operating business in manufacturing and setting up general steel structure fabrications of small and medium sizes for buildings. Subsequently, the company has evolved to become a manufacturer of fabricated steel especially for steel structures to be used as a Beam and Column Box which have high resistance to earthquake, useful for construction of large and tall buildings. Furthermore, in 2003 the company has expanded its operations to invest in the agriculture business, but for two years in the organic fertilizer has not been successful because it has never been seriously supported by the government. Therefore in end of 2006 the company has decided to cancel this business. However the company will continue only small scale research and analysis by not expect the profit. The company operate the steel business.

The factory is located at Chang Yai Sub-district, Bang Sai District, Phra Nakhon Si Ayutthaya Province. The Steel business line is the business of the company. The company manufactures and sells large structured steel fabrications for large construction projects both domestically and internationally. There are mainly 2 types of structure steel fabrications, one to be used as a box column and the other to be used as a girder, which are both important parts of a building. MCS now consists of 13 Factories in 255 rai and have maximum capacity for 70,000 tons per year, And in 2016 ,the company have bought Robot Machines for producing Column and Pipe, It have produced since June of 2017 which get the capacity increase to 12,000 – 15,000 Tons per year for Column and Pipe.

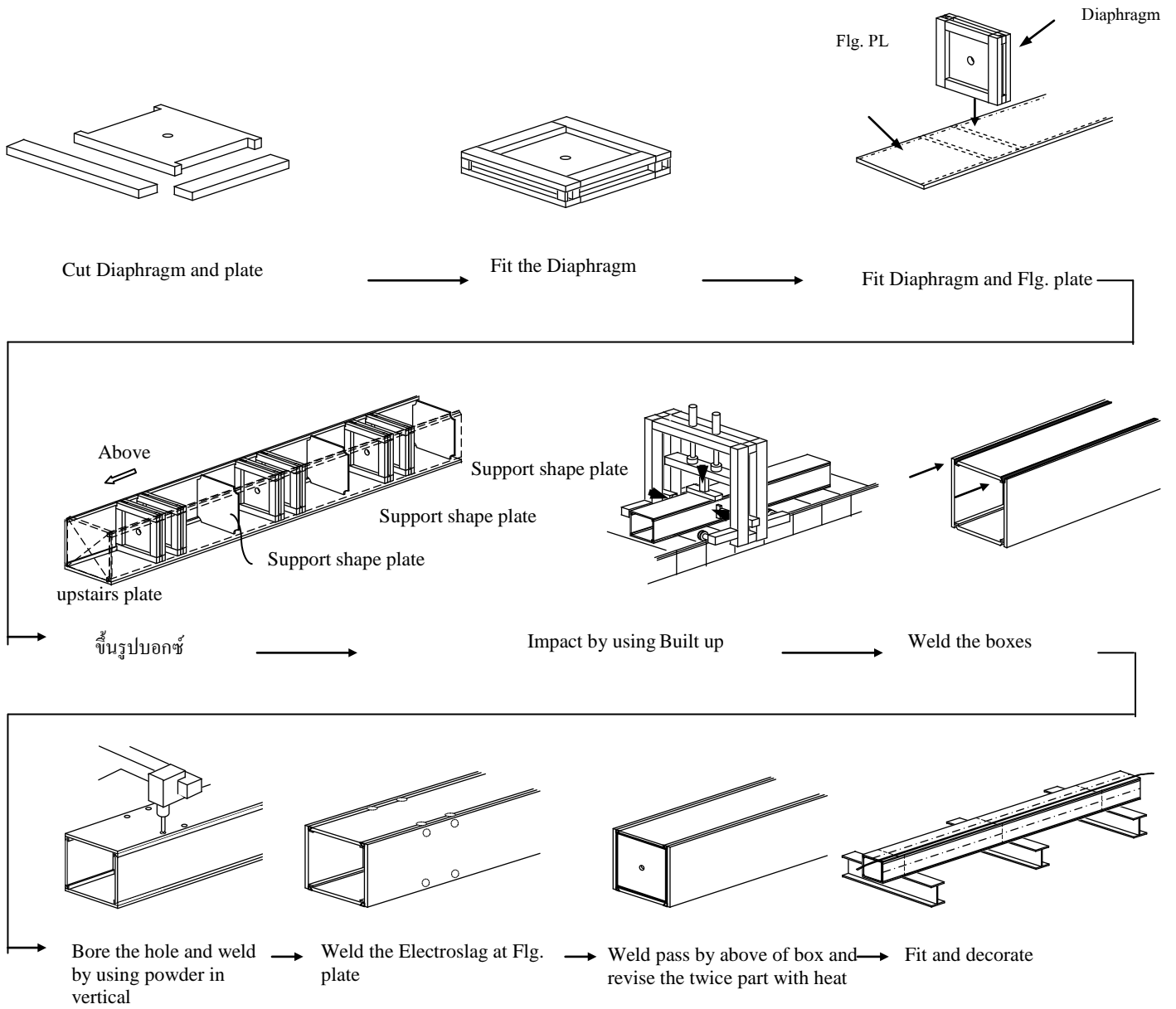


The procedure of structure steel fabrications will begin from bringing high-quality hot-rolled steel plates and cutting them into the desired size, then the pieces of steel will be put together by attaching them into different shapes, for instance a column box or beam. A connecting wire will be used to weld the steel plates together. Next, the related pieces, for example, steel wire, steel pipe, and steel plate are put together according to the blue print. The final step is to fine-tune the product to achieve the desired quality standards.

**Procedure of producing Beam**



**Procedure of producing Box**





The company mainly sell directly to customers, with the target market being large contractors and general customers with construction projects. In 2016 the company sells directly to customers in Japan all of the total sales. On average the company will receive purchasing orders from clients at least 6 months to 1 year in advance. This has made the company free of manufacture and sales problems. Furthermore, the products of the company are of high quality with the standard acceptable in Japan. The company has always maintained its product quality, by manufacturing its products consistently at a high standard. As such , MCS has obtained accredited certifications from domestic and international famous institutions including;

- 1998 H Class Fabricator from Japan Steel Rip Fabricating Association  
ISO 9002
- 2000 ISO 9001 : 2000
- 2006 ISO 17025 : 2005 ( Certificate of Laboratory and Accreditation )
- 2007 AISC ( American Institute of Steel Construction Ins. ) for Building Structure
- 2008 OHSAS 18001 : 2007 ( Occupational Health and Safety System )
- 2009 Upgraded ISO 9001 : 2000 to 9001: 2008
- 2010 Best Performance Award from SET
- 2011 S Grade : Certificate from Minister of land , infrastructure and transportation of Japan
- 2012 ISO 3834 Part2 ( International Institute Of Welding for steel fabrication of building and bridge structure )
- 2013 ISO : EN 1090 Part 2  
EN 1090 Part 2 ( Steel Fabrication of Building and Bridge Structure )
- 2015 ISO 14001 : 2004 Environmental Management System: EMS
- 2016 Upgraded ISO 9001 : 2008 to ISO 9001: 2015
- 2017 Recertified AISC, ISO 9001:2015, OHSAS 18001:2007, ISO/IEC 17025:2005, EN ISO 3834-2, ISO 14001:2004 and S-GRADE



## Significant Changes in 2017

1.

- **M.C.S. Steel-Xiamen Co., Ltd.**
- **Location : Xiamen , China**

- On April 1,2017 ,M.C.S. bought 35% shares of M.C.S. Steel-Xiamen Co., Ltd. in the total of 17 Million Yuan or around 84.16 Million Baht that it was making M.C.S. Steel-Xiamen Co., Ltd. to be as a subsidiary of the Company and MCS holding 74%.

2.

- **Other**

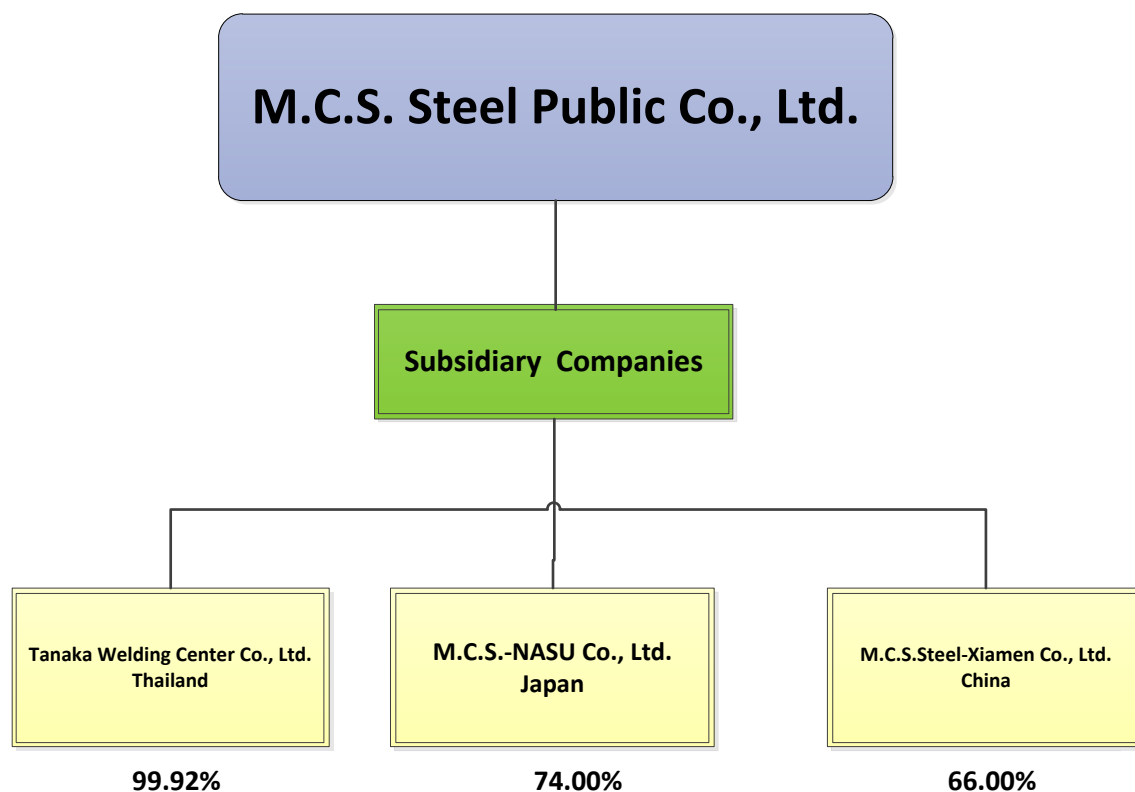
- On May 12,2017 , approved the company's share repurchase project ( Treasury Stock ) for financial management as 23,000,000 Shares or equal to 4.60% of paid-up capital which is 380 Million Baht in total.
- On September 27,2017 informed the end of the company's share repurchase project , Cumulative number of shares repurchased as 23,000,000 Shares or equal to 4.60% of paid-up capital which is 354,878,400 Baht in total.
- Constructed new office at same factory with a budget of 50.34 Million Baht.



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## Investment Structure

In year 2017 ,M.C.S. Steel Public Co., Ltd. There are 3 subsidiary companies as following;



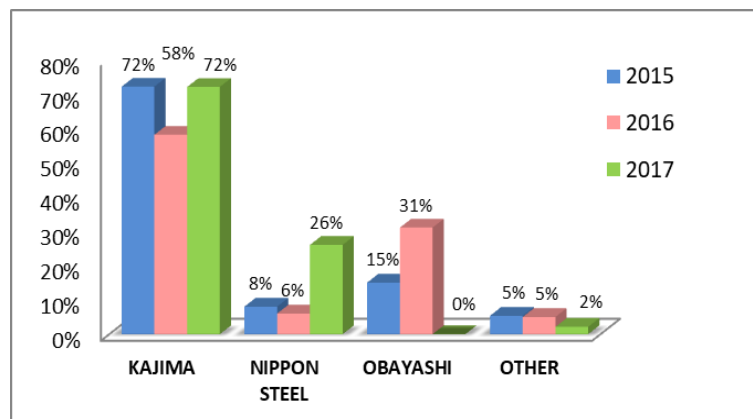
Company Name	Type of Business Location	Type of relation	Paid up Shares	Percentage of ownership (%)
<b><u>Subsidiary companies</u></b>				
Tanaka Welding Center Co., Ltd.	Construction Thailand	Shareholding and Co-Director	40,000,000 (Baht)	99.92
M.C.S. Steel Xiamen Co., Ltd.	Made to order China	Shareholding and Co-Director	7.8 Million US Dollar	74.00
M.C.S. NASU Co., Ltd.	Made to order Japan	Shareholding and Co-Director	50 Million (JPY)	66.00

## Sales Structure

Value : Baht

Product	2015		2016		2017	
	Value	%	Value	%	Value	%
1. Income from Sales of Steel Structure						
1.1 Domestic Sales	-	-	-	-	-	-
1.2 Export Sales	3,586,709,417	98.17	3,586,709,417	98.17	3,103,845,344	98.27
2. Income from sales of scraps	12,852,475	0.35	12,852,475	0.35	14,809,529	0.47
3. Other incomes	17,061,888	0.47	17,061,888	0.47	39,709,594	1.26
4. Gain on sales of investment	2,952,480	0.08	2,952,480	0.08	0	0.00
5. Gain on exchange rate	34,136,635	0.93	34,136,635	0.93	0	0.00
<b>Total revenues</b>	<b>3,653,712,895</b>	<b>100.0</b>	<b>3,653,712,895</b>	<b>100.0</b>	<b>3,158,364,467</b>	<b>100.0</b>

## Summary of Customers



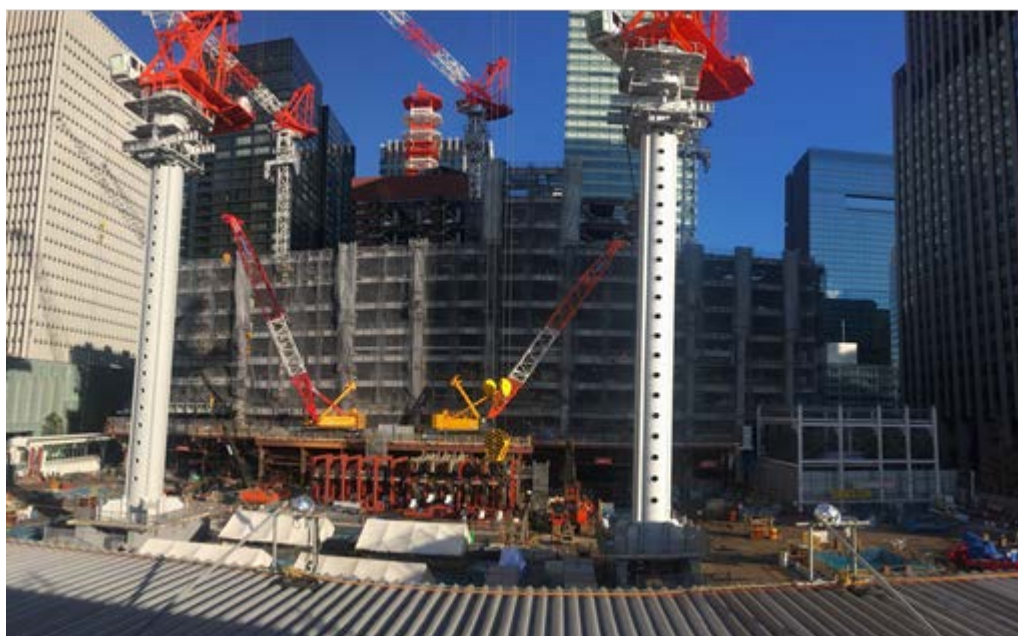
Year	Delivery Work ( Tons )
2013	37,815
2014	15,049
2015	48,866
2016	65,738
2017	43,897

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## Undelivered Work

At December 31,2017 , The company has undelivered work as below ;

No.	Project	Type	Location	Project value Million (JPY)	Expect year of complete	% of Undelivered work	Value of Undelivered work Million ( JPY )	Status of contract
1	Muromachi 3	High Building	Japan	2,175.62	2018	3.12%	67.79	Completed
2	OH1	High Building	Japan	6,764.40	2018	38.55%	2,607.63	Completed
3	Takeshiba	High Building	Japan	2,975.08	2018	84.85%	2,524.34	Completed
4	Toshimaku	High Building	Japan	666.37	2018	78.82%	525.21	Completed
5	Oomiya Daimon	High Building	Japan	603.92	2018	100.00%	603.92	Completed
6	Orix Matsubushi	Building	Japan	238.46	2018	100.00%	238.46	Completed
7	NAGOYA	Building	Japan	140.06	2018	100.00%	140.06	Completed
8	Yodobashi Camera	High Building	Japan	96.29	2018	100.00%	96.29	During operation
9	Funabashi 2	Building	Japan	1,432.85	2018	100.00%	1,432.85	During operation
10	AOT	Terminal	Thailand	1,139.71	2018	100.00%	1,139.71	During operation
<b>Total (Million JPY)</b>							<b>9,376.27</b>	
<b>Total (Million Baht) as Exchange rate on December 30,2017 : 100 JPY = 0.285982)</b>							<b>2,855.69</b>	



Project : OH1

# Risk Factor

## **Risk in relation to exchange rate**

All exporters inevitably are affected by movements in exchange rate. Although this company earns much of its income in Yen, the company has been less affected by exchange rate movements, as raw materials, which represent nearly 45% of production cost is denominated in the same currency, acting as a natural hedge against foreign exchange fluctuations. However, the fluctuation in the Thai and Japanese currencies in the calendar year 2017 has resulted in a sizeable not yet realized exchange rate loss. The current global "QE" movement have put pressure on governments to take measures in relation to their respective currencies, and our government is the few left not involved with such behavior yet. We can only expect coming volatile currency exchange movements, which will have a significant bearing on our operations.

## **Risk in relation to oil prices**

In the calendar year 2017, crude oil prices in the world market has been under a steadily upward pressure in most part of fiscal year. This has had some effect on transportation costs in all sectors, but particularly for exporters. The oil prices resulted in our transportation costs will affect our total cost which can be varying between 10% and 15% of our total cost. We anticipate that oil prices can be continue to remain volatile in 2018

## **Risk of major shareholders having influence in setting up management policy**

As at the end of the calendar year 2017, the Dr. Naiyuan Chi group has relinquished most of their holding of the company and Dr. Naiyuan chi also resigned from position of CEO. New arrangement can be expected during shareholder meeting.

## **Risk of depending on only a few major customers**

The company operates the business of fabricating and delivering large scale steel structures according to specifications defined by each project. Our major customers are Kajima Corporation, Takenaka Corporation and Obayashi Corporation which are three of the largest and leading construction companies in Japan, and from which more than 75% of the total revenue of the company during the calendar year 2017 was derived. Therefore the loss of any of these customers will significantly impact on the operations of this company. However, the company has announced plans to expand into other market as to reduce this risk and certain preparation work has been conducted during the calendar year 2017 and will continue into the calendar year 2018

### **Risk in relation to supply of raw material**

The main raw material used in fabricating steel structures is special hot rolled steel. The company orders special grade hot rolled steel from JFE steel corporation, the second largest steel mill in Japan as the main source of supply. The value of import is approximately 80% of total cost of raw material of this company. Achievement of the company's policy to spread the risk of depending on only one supplier for raw material is possible through procuring steel plates with the same characteristics and similar quality from SHINNITTETSU SUMIKIN corporation, in Japan and POSCO corporation in Korea. Also, the company has started to explore the possibility of purchasing materials from Chinese mills through our facility in China. The company has successfully utilized Chinese material., although Chinese steel costs more due to new Chinese government policy , we still expect that using Chinese material may give us an edge over our competitors in Japan in the coming years .However, mergers between large mills around the world in recent years have created unofficial cartels which may lead to higher prices. It will be a never ending subject for any fabricator, to secure raw materials in sufficient quantity, and at reasonable cost.

### **Risk in relation to the economic climate and the construction industry in Japan**

The business of the company is the supplying of large sized structural steel for high rise building, 90% of which are for big contractors in Japan. The calamitous events in the global economy have severely affected the construction industry, and the Japanese construction industry is no exception. With delays and cancellations becoming the norm, construction projects have never been as stable as before . Also, projects for major Japanese developers in and around central Tokyo have been largely delayed due to insufficient labor and material supply . However due to the 2020 Olympic games being awarded to Tokyo and new government policy, a turn around in construction investment has been started to reflect in the construction industry.



## Assets for Business Operation



Robot Column Welding 15 Ton



Robot Core Connection 3 Ton



New Office

(Unit : Thousand Baht)

Type of Asset	Ownership	Cost	Net Value	Security Value with Guaranteed Obligation	Obligations
(1) Land and Improvements	Owner	133,820	133,820	90,108	mortgaged
(2) Buildings and Structures	Owner	793,321	403,310	106,677	mortgaged
(3) Machinery and Equipment	Owner	968,385	384,512	2,852	mortgaged
(4) Office Equipment , Furniture and Vehicles	Owner	218,611	75,558	-	N.A.
(5) Assets under Construction	Owner	36,707	36,707	-	N.A.
<b>Total and Building and Equipment</b>		<b>2,150,844</b>	<b>1,033,907</b>	<b>199,638</b>	

# Shareholders And Dividend Payment Policy

## 1. Company 's Equity

Registered capital and paid-up capital of th Company as at 31 December 2017 was

Registered capital	amount	500,000,000	Baht
Total paid	amount	500,000,000	Baht
Common shares	amount	500,000,000	Shares
Par value per share		1.00	Baht

## 2. 2nd of share repurchase program

On May 12, 2017, the board director of Company approved the share repurchase program (Treasury Sock) for financial management purpose as details following ;

- The maximum amount for the share repurchase is Baht 380,000,000.
- Number of shares repurchased should not exceed 23,000,000 shares (at par value of 1 Baht per share) or not exceeding 4.6% of total paid-up capital.
- Procedure used for repurchasing of shares  
(/) on the Stock Exchange of Thailand
- The repurchase period : from June 1,2017 to November 30,2017

At September 26,2017 ( The end of the company 's share repurchase project ) ,  
Cumulative  
number of shares repurchased as 23,000,000 Shares or equal to 4.60% of paid-up capital  
which is 354,878,400.00 baht in total.

At present the total of share repurchase of 2 projects are 50,000,000 shares or  
10.00% of paid-up capital.

### 3. Dividend Payment Policy

A Policy dividend rate at least 50 percent of net profit (Separate Financial Statement) after tax and legal reserves , however , Company may make a dividend less defined above depending on financial performance, liquidity needs to be used as working capital for operations expansion and other factors involved in the management of the company. In the subsidiaries and dividend policy of subsidiary company and associated company will pay dividends to the company based on performance in each year.

The Company has paid dividends for the year 2009-2016 results as described below.

Year	Net Profit (Separate Financial)	Total of Dividend	%
	Million Baht	( Baht )	Of Net Profit
2009	586.80	0.60	51.12
2010	797.36	0.80	50.17
2011	490.08	0.50	51.02
2012	170.40	0.18	52.82
2013	354.18	0.20	28.25
2014	123.34	0.20	81.08
2015	654.41	0.70	51.92
2016	1,163.64	1.36	55.28
2017	539.43	0.60**	50.28

\*\* included which the dividend that prefer the AGM of 2018 to pay the additional dividend as 0.40 Baht per share for the operation of 2017 which will pay on May 7,2018.

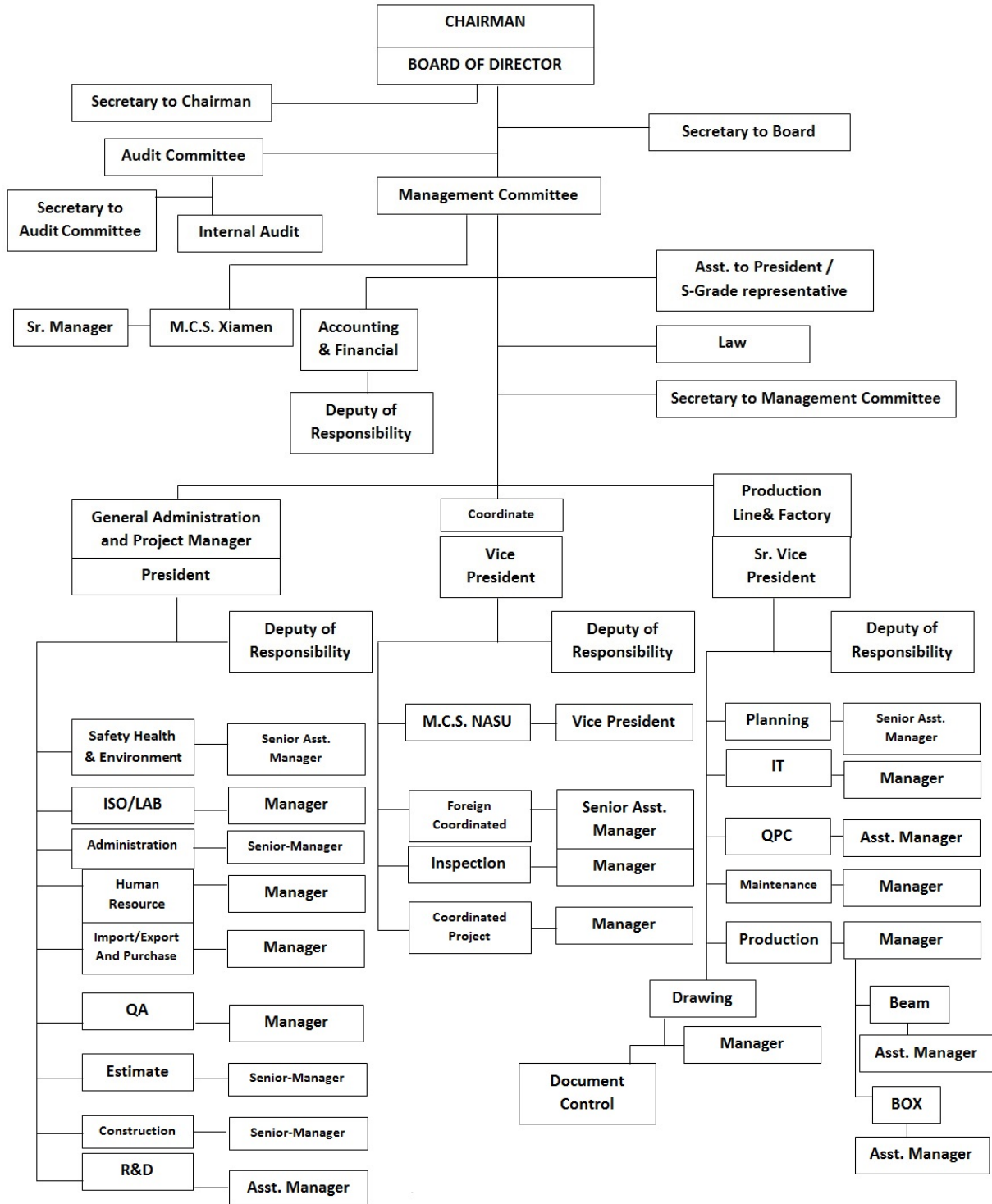
#### 4. Shareholders

List of top shareholders and percentage of shares holding as December 29,2017

	Name	Share(s)	Holding
			(%)
1	Thai NDVR Co., Ltd.	78,253,060.00	15.65
2	M.C.S. Steel Public Company Limited	50,000,000.00	10.00
3	Mr. Surachai Rathithong	36,500,000.00	7.30
	Mr. Surachai 's group	10,069,700.00	2.01
	<b>Total of Mr. Surachai 's group</b>	<b>46,569,700.00</b>	<b>9.31</b>
4	Mr. Harkishin Tanwani	31,187,400.00	6.24
5	THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED,	23,201,900.00	4.64
6	NORBAX, INC.	9,951,900.00	1.99
7	J.P. MORGAN BANK LUXEMBOURG S.A. LEND	8,141,200.00	1.63
8	N.C.B.TRUST LIMITED-AVIVA INVESTORS INVESTMENT FUNDS ICVC	7,603,200.00	1.52
9	Mr. Sompong Metasatidsuk	6,100,000.00	1.22
	Mr. Sompong 's group	840,200.00	0.17
	<b>Total of Mr. Sompong 's group</b>	<b>6,940,200.00</b>	<b>1.39</b>
10	Mr. Somkiat Terdtuntaweedet	6,580,400.00	1.32
11	Mr. Sunthorn Danthalermon	4,000,000.00	0.80
	Mr. Sunthorn 's group	1,811,500.00	0.36
	<b>Total of Mr. Sunthorn 's group</b>	<b>5,811,500.00</b>	<b>1.16</b>
12	Others	225,759,540.00	45.15
	<b>Total</b>	<b>500,000,000.00</b>	<b>100.00</b>

# Management Structure

## 1. Management Structure ( January 5,2018 )



The corporate management structure consists of 4 groups of directors which are :

- (1) Board of Director
- (2) Executive Director
- (3) Audit Committee
- (4) Top Managements

### **(1) The Board of Directors**

There are 5 persons at December 31,2017 ,determines business policy and has authority and duty to manage the company complying with objective , regulation and resolution from the shareholders meeting and disclose enough information all over for the shareholders or other person . The board of the directors may authorize director(s) or other person to do any responsibility for them.

Name	Position	Category	2017
			Total of Meeting
1. Dr.Naiyuan Chi	Chairman of Board Director	Director	14/15
2. Mr.Phairat Viwatborvornwong	Director Top Management	Executive Director	14/15
3. Mr.Pornchai Phisarnanukunkit	Director Top Management	Executive Director	7/7
4. Mr.Tinakorn Seedasomboon	Audit Committee	Independent Director	14/15
5. Gen. Titiwat Kamlang-Ek	Audit Committee	Independent Director	10/15

Ms.Kanchalika Sangparinya is the secretary to the Board of Directors

And Board Director Meeting No. 15/2017 on December 16,2017 changed the company's binding authority is authorized by signature of Mr.Phairat Viwatborvornwong and Mr.Pornchai Phisarnanukunkit may sign along with the company seal affixed which effect on December 18,2017

## **(2) Executive Director**

There are 3 persons at December,2017 including

<b>NO.</b>	<b>NAME</b>	<b>POSITION</b>	<b>CATEGORY</b>
1.	Dr.Naiyuan Chi	Chairman of Executive Committee	Executive Director
2.	Mr.Phairat Viwatborvornwong	President	Executive Director
3.	Mr.Pornchai Phisarnanukunkit	Senior Vice President of Production	Executive Director

## **(3) Audit Committee**

The Audit Committee of M.C.S. Steel Co, Ltd. (Public) consists of 3 company committee which is independent committee. The duties and responsibilities can be summarized as follows:

- 1) Verifying the precision and reliability of the company's financial statement quarterly and annually. The mentioned financial statement is conducted following the standard of account which is generally approved. The data is sufficiently reviewed and is in accordance with the regulations and notification of the SET Commission.
- 2) Monitoring and supervising the company's operation following the Good Management Practice. After the verification, the Audit Committee has agreed with the SET regulations, laws on securities and SET, as well as the laws related to the company's business.
- 3) Considering and verifying the report of risk management of the company by ordering the risk management and prevention. The report can be conducted by the financial audit and the company's executives among the changing situations in economics, society, and politics both domestic and international.
- 4) Considering and verifying the appropriateness of the internal control system by suggesting the guidance to the system improvement to be effective for the management and to be in agreement with the modern economic situations.
- 5) Supervising the audit, verifying the annual audit plan, and reporting the audit result. It reveals that the company's audit is sufficiently appropriate, covers the risky factors, and is effective for the management.



#### **(4) Top Managements**

At December 2017 ,The company has 6 persons composing of Chairman of Executive Committee , Chief Executive Officer, President , Asst. to Executive chairman , Senior Vice President ,Vice President and Manager of Accounting and Financial are management team of the company that operate in their responsibility line of work.

<b>NO.</b>	<b>NAME</b>	<b>POSITION</b>
1.	Dr.Naiyuan Chi	Chairman of Executive Committee
2.	None	Chief Executive Officer
3.	Mr.Phairat Viwatborvornwong	President
4.	Mr.Tsuneo Kakuta	Asst. to Executive Chairman
5.	Mr.Pornchai Phisarnanukunkit	Senior Vice President of Production
6.	Ms.Mattawan Srisakda	Manager : Accounting and Financial Department

#### **(5) Company Secretary**

Now , the company secretary is Ms.Kanchalika Sangparinya.

## Number of Employees

At the end of year 2017 have the employees ( Not included the Top Managements ) as followings;

Responsibilities	Total No. of Employees
	<b>2017</b>
Production Line and QA	403
Myanmar labor	87
Support Line	183
<b>Grand Total</b>	<b>673</b>



# Good Corporate Governance

The Board recognizes the importance of corporate governance compliance, covering the following matters.

## Section 1 Shareholders' rights

### 1. Shareholder Meeting

- 1) The company provides information regarding date time venue and meeting agenda in both Thai and English in advance through the company's website with clarifications and supporting reasons for each agenda or in support of requested resolution determined in an invitation letter to an ordinary session, as well as all attachments to meeting agenda and the Company assigns Thailand Securities Depository Co., Ltd (TSD) who the is the share registrar of the Company, to distribute the invitation letter for annual general meeting of shareholders and related documents to all shareholders at least 7 days prior to the meeting date. In case there are special agenda for the shareholders to help decide, the documents shall be mailed at the minimum of 14 days in advance, and the invitation letter shall be fully detailed including the following:
  - For the agenda about dividend yield approval, the document shall include the Company's dividend yield policy, the proposed dividend yield payment, and the payment rate, in case having revenue tax benefit of BOI
  - For the agenda about designation of board of directors, the document shall include their names, age, years of service, education, related training, work experience, the list of company they worked as board of directors, type of board, their share proportion in the Company, their meeting attendance in the past years, legal conflicts in the past 5 years, and remuneration of the proposed board of directors.
  - For the agenda about designation of auditors, the document shall include their names, the company they work for, license number, the number of years of servicing the Company, their independence and remuneration, all clearly written.
- 2) The company organizes shareholder meeting in Bangkok or nearby province on any of week days which are not during long holiday and make it available to register less for 90 minutes before the meeting. For any shareholder arrives after the closure of registration, the company opens an opportunity for them to observe the meeting. The meeting is always held in relatively convenient venue so shareholders can access by using public transportation. If any shareholder is inconvenient to attend the meeting, the company arranges to have a letter of power of attorney so that shareholder can determine his/her voting direction. one independent director or non executive director is assigned as an alternative for the shareholder's power of attorney.

## 2. Actions done on the day of shareholder meeting

- 1) The company arranges to have technology to be used in shareholder meeting by introducing barcode system to serve for registration process. For any shareholder forgets to bring barcode document to attend the meeting, the company will arrange registration staff to help by using identification number or full name of shareholder. In terms of vote counting for each agenda, for non-agreeable or no votes, they will be collected by using barcode system as well. As a result, the registration and vote counting will be operated with timeliness, correctness, and accuracy.



- 2) As for the Shareholder Ordinary Meeting in 2017 on 7 April 2017, the board included 4 Executive directors, 2 Non-Executive directors and 3 audit directors, amounting to the total of 9 directors attending the meeting, as well as management including senior vice president and vice presidents from each area, accounting and finance manager, several managers of the company, licensed auditor, external legal consultant, and the company's legal staff attending the meeting on that day. There were opportunities opened for shareholder to raise inquiries related to meeting agenda. For other matters, the company opened sufficient opportunities for shareholders to raise their concerns. Details regarding questions and answers were recorded in the meeting report prepared by the company.



- 3) In shareholder meeting, the company organizes to have voting by item by preparing voting billets in separation for board appointment where there is an opportunity for shareholders to appoint each director individually, as well as to vote on board remuneration in separation to board appointment.
3. Preparation of meeting report and shareholder meeting's decision disclosure
    - 1) Before meeting commencement, the company explains methods of voting for each agenda which are recorded in shareholder meeting report, covering voting procedure, questions and answers, and voting outcomes for each agenda on the number of agreeable votes, non-agreeable votes, and no votes. In addition, the name list of directors attending the meeting should also be recorded. Resolutions made in the shareholder meeting must be published on the following day through the Security Exchange of Thailand system in both Thai and English for shareholders' reference. The final report must also be published in the company's website.

## Section 2 Equal Treatment to All Shareholders

1. Information provided before the shareholder meeting
  - The company informs the AGM invitation , as well as agenda and opinions of the Board to SET and publishes the AGM invitation (Thai) through the company's website at least 30 days before meeting days and for English version publishes at least 7 days before meeting days . Such invitation letter must be done in both Thai and English.
2. Protection for minorities' rights
  - The company has criteria for minorities to propose any additional agenda prior to the meeting, as well as to propose a name for board appointment at least 1 months before shareholder meeting to represent its fairness and transparency.
  - As for board appointment agenda, the company opens an opportunity for shareholders to appoint each director individually.
3. Protection of the Use of Internal Information
  - The company determines the security and protection of internal information for the board, executives, and everyone in the company to comply with. The board, executives, and everyone in the company are prohibited from purchasing or selling any securities 1 month before it is being announced to the public, and all directors and executives are responsible to report on security holding by laws.
4. Board's Conflict of Interest
  - For the consideration of agenda related to any director, the Board should set a policy for all directors to clarify their conflict of interest at least before the consideration of such specific agenda and it should be recorded in the Board meeting report whereas such director should be suspended for participating in the consideration of such agenda.

5. Disclosure of related transactions required to be disclosed
  - The Company discloses details and reasons for making related transaction required to be disclosed in the annual report to the shareholders clearly. The annual report shall be examined by the Audit Committee whether they were made with reasonable causes or not.

### Section 3 Roles of Stakeholders

The company as focused on the rights of stakeholders in all segments. Whether internal stakeholders, including employees and executives of the company. Or external stakeholders such as creditors, competitors, etc. with details.

**Employees** : To treat employees with fairness and provide appropriate compensation.

**Creditors** : To follow the terms and conditions set forth in the contract.

**Customers** : To take care and responsibility with product quality and standards. Confidentiality of clients and a system for receiving complaints of customers to push for the settlement with fairness, and as soon as possible.

**Competition** : practices and rules within the industry or regulatory authorities required by treatment criteria of best practices in competition.

**Society** : a social responsibility by the business ethics like professionals and support activities to create social support and appropriate.

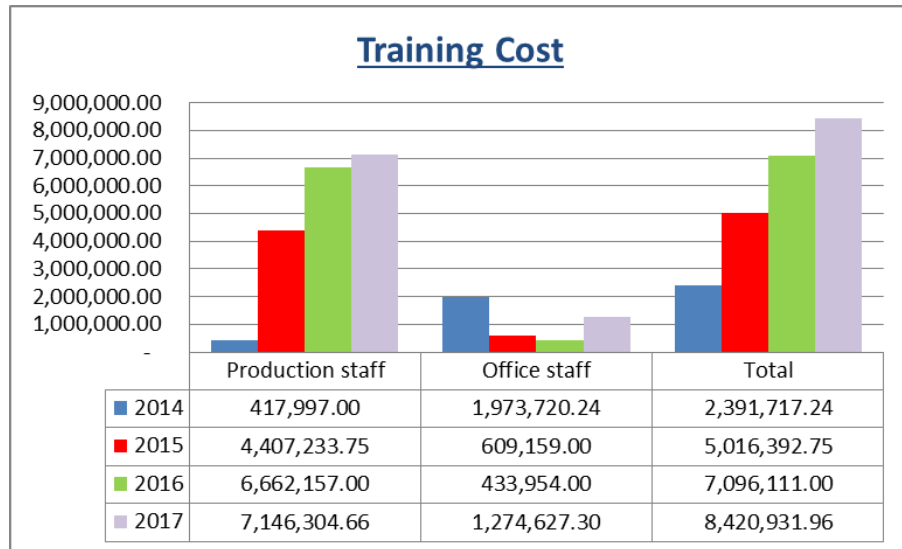
**The Company has established an action policy for the stakeholders as follows:**

- Ranging in **customer** care. The company set amount aside for work during the lifetime of the product after erection for a period of less two years, to give customers confidence in the quality of the product .
- The company have procedures and practices in the selection of **suppliers** or contractors which is defined as a written
- Operations are conducted in a systematic manner to ensure that our business is **environmentally , friendly and the community**. And in 2014 the company has applied for standard of ISO 14001 that already approved in early 2015, which ensures that the system of production do not harm the environment.



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- To treat all employees fairly.
  - Fair treatment to all employees and staff. Each year the company opens opportunities for all employees to develop their knowledge in several areas. In 2017, the budget 8,420,931 Baht for trainings including production staff and office staff as details;



- The Company has the policy and action guideline on safety by providing the employees working in the factory with safety helmet, shoes, gloves, goggles, and other safety equipment. Regarding working environment, the Company built a sport ground, exerciser rooms, and support exercise budgets for the employees such as the sponsoring employee football team. Every year, the Company organized a sport activity so that the employees can join and develop friendship with one another.



## Section 4 Information Disclosure and Transparency

The company realizes the importance of good business supervision to increase transparency and competitiveness, as well as to increase shareholder trust. All related parties have set a policy for supervising the business by covering these important principle.

- (1) Treating the shareholders and stakeholders equitably and fairly
- (2) The board of directors is determined to create added value to the business in the long run, manage the business and risks with care and diligence, do its duties with responsibility and capabilities as well as efficiency to create maximum benefits for shareholders, to assure that no conflicts of interest will take place, and to be responsible for all the decisions and actions it has made.
- (3) All operations will be conducted in a transparent manner and ready for inspection, with adequate disclosure of information to all the related parties.
- (4) A code of ethics is determined for the directors and employees to abide by, as well as preparing a Compliance Manual for employees.

Furthermore, the company will act with strict accordance to the rules and regulations set by the Securities and Exchange Commission and the Stock Exchange of Thailand. After the common shares of the company have been listed in the Stock Exchange of Thailand, the company will disclose its report on business supervision activities in the annual report related to, as well as in the form containing annual information (Type 56-1)

### ➤ Report of the company board of directors

The company board of directors is responsible for the financial statement of the company. Such financial statement is made according to the accounting standards acceptable in the whole of Thailand and audited by the certified auditor approved by the Securities Exchange Commission and the Stock Exchange of Thailand. For this matter, the audit committee will recheck the quality of the financial report and the internal audit report as well as the disclosure of important data sufficiently in the remarks attached to the financial statement. The audit committee will present its opinions to the company board of directors and the meeting of the shareholders respectively

### ➤ Relation with the investors

The company board of directors attaches utmost importance to the disclosure of accurate, complete, and transparent data to every investor. The company still attaches importance to the disclosure and provision of data to the share shareholders and general investors in accordance with the standards and criteria determined by the Securities Exchange Commission and the Stock Exchange of Thailand both by the data distribution channels and media of the Stock Exchange of Thailand and the web site of the company, [www.mcssteel.com](http://www.mcssteel.com) or the email address, [info@mcssteel.co.th](mailto:info@mcssteel.co.th). At present, the company has not set up the investor relations unit to provide the service on data of the company. So it has assigned Dr. Naiyuan Chi and/or Ms.Kanchalika Sangparinya to communicate with the shareholders, investors, analysts, and the general public.



In year 2017, the company gave the opportunities for Investor / Associate / Company in Stock Exchange of Thailand to visit the company as details ;

On April 24, of 2017, there were 30 persons from Office of Industrial Economics (OIE).



On April 26, 2017 , The investors and analyst from Kasikorn Securities.



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On September 6, 2017, There was Opportunity Day for the operation of Q2/2017 at Stock Exchange of Thailand.



On September 21, 2017, the students of Master degree and Ph.D. from King Mongkut's University of Technology North Bangkok.



On December 6, 2017, the foreign investors.



## Section 5 The Board's Responsibilities

### ➤ The leadership and their vision

The company board of directors consists of knowledgeable, capable, and business-experienced directors who will act to guide and determine the policies, vision, strategy, objectives, business missions, business plans, as well as the company's budget. The role of directors will also supervise that the management implements their assignments efficiently and effectively with responsibility, integrity, and due care in accordance with the code of best practices within the framework of laws, corporate objectives and regulations, and the decisions of the meeting of the shareholders. Furthermore, the board of directors has also arranged for the company to have a system of internal control, internal auditing, evaluation, and continuous tight and effective management. In addition, follow-up measures for such issues will always be taken.

The board of directors will determine and differentiate different roles and responsibilities of the board of directors and management. The level of authority will be clearly specified, and the roles, duties, and responsibilities will be continuously conveyed to the directors and employees.

### ➤ Business Ethics

The company has produced the Compliance Manual focusing on the conduct of business and the implementation of official rules. The company ensures that this manual has been acknowledged in writing by the directors, executives, and employees as their code of conduct. The company will monitor the implementation of the said manual regularly and put in place disciplinary actions.

### ➤ Keeping the Balance by Non-Top Management Directors

On February 26, 2018, the company has the board of directors consisting of 7 persons with knowledge, expertise, and experience in various fields. Three persons are top managements and four are independent directors who are also audit committee members for three persons and fully qualified according to the announcement of the Stock Exchange of Thailand on qualifications and scope of work of the audit committee to perform auditing and create checks and balance in the conduct of company activities in order to ensure fairness and maximum benefits for every shareholder.

### ➤ Merging or Separating the Positions

The chairman of board of directors is holding approx 1% of the shares (as of December 29, 2017) of all the paid up. However, since December 22, 2016 he resigned as the Chief Executive Officer and didn't have any authorized in the company. And the present, the company's binding authority is authorized by signature Mr. Phairat Viwatborvornwong and Mr. Pornchai Phisarnanukunkit may sign along with the company seal affixed.

## Remuneration of the company directors and top managements

The company has the policy of making attractive remuneration to the directors and top managements at the appropriate level. The remuneration will be linked to the performance of the company and determining the remuneration of the directors and top managements clearly and transparently with the approval of the meeting of the shareholders and it commensurate to the duties and responsibilities of each director and top management in the form of monthly remuneration, meeting honorariums and/or monthly salary and bonus.

In 2017 the company paid remuneration of the company directors as followings;

- Director

In 2017 ,have 15 Board Director Meetings , one Annual General Meeting and 4 Audit Committee Meetings.

Name	Position	Year	
		2016	2017
1. Dr.Naiyuan Chi	Chairman of Board Director	902,500	1,257,000
2. Mr.Sompong Metasatidsuk	Director Resigned on December 15,2017	710,000	1,125,000
3. Mr.Pornchai Phisarnanukunkit	Director	680,000	965,000
4. Mr.Phairat Viwatborvornwong	Director	695,000	1,065,000
5. Mr.Somyos Chiamchirungkorn	Director Resigned on July 25,2017	932,500	822,000
6. Police General Suwat Charnitthikul	Independent Director and Chairman of Audit Committee Resigned on December 2,2017	-	1,005,000
7. Mr.Tinakorn Seedasomboon	Independent Director and Audit Committee	785,000	1,140,000
8. Mr.Harkishin Tanwani	Director Resigned on December 15,2017	665,000	1,065,000
9. Dr.Surachai Ratitong	Director Resigned on December 15,2017	710,000	1,095,000
10. Gen. Titiwat Kamlang-Ek	Independent Director and Audit Committee	660,000	1,050,000

Remark :

1. Mr.Somyos Chiamchirungkorn resigned the director on July 25,2017.
2. Police General Suwat Charnitthikul resigned the director on December 2,2017.
3. Mr.Sompong Metasatidsuk resigned the director on December 15,2017.
4. Mr.Harkishin Tanwani resigned the director on December 15,2017.
5. Dr.Surachai Ratitong resigned the director on December 15,2017.

- Top Managements

Remuneration	Year	
	2017	
	Number	Total (Baht)
Salary and bonus	8	37,521,483
Provident Fund and Others	8	1,893,600

➤ The meeting of the board of directors

The company board of directors have regular meetings at least 4 times a year. For each meeting, the top managements team will prepare the information and details to facilitate consideration of the board. During the meeting, the board chairman will give ample time for the directors to consider the agenda items thoroughly and express their opinions fully. The meeting is verbally recorded and the approved records of the meeting are properly kept for inspection by the persons concerned. In 2017 the board of director held 15 meetings.

➤ The sub-committee

The company has the audit committee in addition to the company board of directors to increase efficiency and flexibility in the operation and in 2017 have 4 meetings for Audit Committee and present Ms.Kanchalika Sangparinya is the secretary to the Audit committee.

➤ The system of supervision and internal control

The company has established an internal audit working unit. It is an independent unit with a direct reporting line to the audit committee on internal audits and reports to the administrative chair on administrative work of the unit. The internal audit unit has the duty to evaluate the efficiency and effectiveness of the systems for internal control, risk evaluation and supervision of activities. It also has the function of an advisor, which supports the company so that it can achieve its objectives and business aims. The annual internal audit plans of the unit are approved by the audit committee. They use audit regulations which follow risk assessments or a risk based audit approach and key control points and emphasize protective control. Furthermore, there are risk assessments on corruption following a policy on whistleblowing, investigation and protection (a fraud whistleblowing protection policy).

The unit has the following roles and responsibilities:

1. In the role of an advisor, it organizes internal control evaluations through self-evaluation with the support of being an advisor, practical training of groups (CSA Facilitator) and the application of efficient tools in the evaluation. This will help to support the employees' development for good control and efficient working systems. Furthermore, internal control evaluation audits are supported through self-evaluation (CSA Validation). This is to make sure that for each step of the operations internal control has been used with appropriate self-evaluation. This serves to support the company in realizing strategies and aims it has set.

The internal audit unit undergoes quality assessment for work performance through itself annually and evaluations through independent, external organizations every 5 years.

2. It implements its duties to support the work of the audit committee as entrusted by the company board for successful achievements and is an advisor, which gives recommendations on various matters, for example on internal control as in the guidelines for internal control systems COSO 2013, on risk management, on business ethics and on information system safety.

3. It holds firmly to the structural frame of professional operations for internal audits according to international standards and the working unit charter and it revises the audit working manual annually in order to be sure that the quality of the work corresponds to international standards. This will support the company to have good systems for internal control, risk management and supervision as well as to create more value for stakeholders and develop the sustainability of the organization.

4. It supports the work of internal auditors so that they can conduct audits on all areas (integrated audits), for example on business systems, on information systems and on systems of engineering to emphasize the development of internal audit staff for professionalism and it supports the receipt of the IACP (Internal Audit Certificate Program), CPIAT (Certified Professional Internal Audit of Thailand), CIA (Certified Internal Auditor) and CFE (Certified Fraud Examiners).

In 2017, the Internal Audit Department performed the following actions:

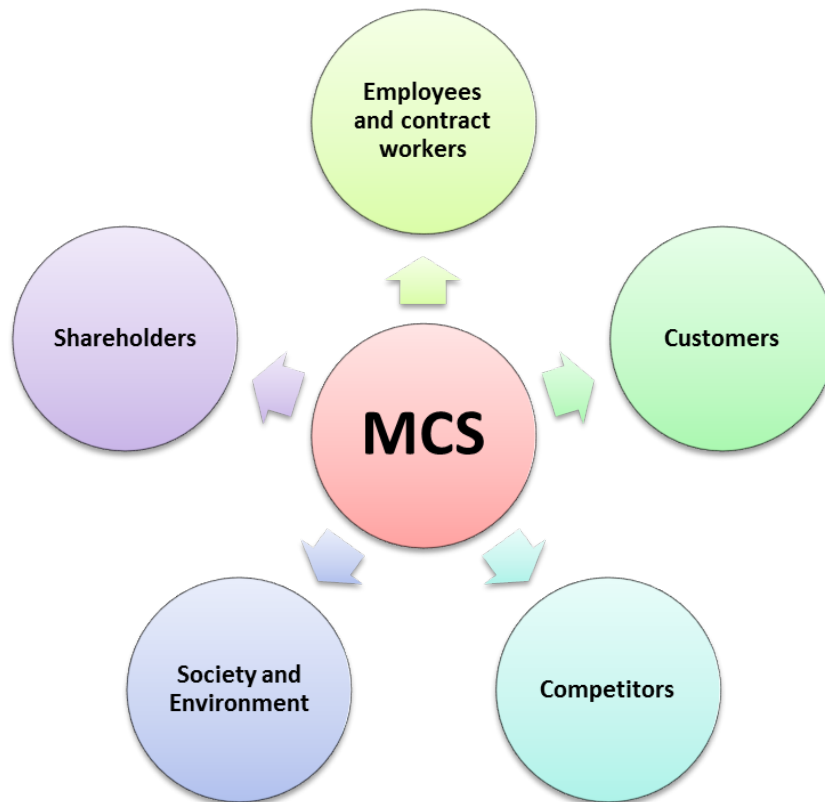
- 1) Determined the Company's Audit Universe.
- 2) Determined the types of risks of different operational systems and scope of risk management.
- 3) Audited the following systems :
  - Production Planning system
  - Management of Drawing and cut list system
  - Management of Estimate system
  - Management of Maintenance system

# Corporate Social Responsibility

M.C.S. Steel Public Company Limited was listed on the Stock Exchange of Thailand since July 2005. The Company is committed to promote our business growth along with setting up practices for social responsibility activities. Our CSR related activities in 2016 are as follows.

## Fair operations

The Company operates the business with fairness for the optimum benefits of all stakeholders, both internal and external ones.



- 1) **Employees and contract workers** The Company's employees and contract workers are compensated with proper remuneration based on their quantity and quality of work. Annual bonus payment is also awarded, varied by the Company's performance, an employee's working period and performance.
- 2) **Customers** Prior to delivery, the Company lets customers inspect products every time to guarantee an agreed level of quality. All products have a 2-year warranty after delivery to ensure the highest quality.
- 3) **Competitors** The Company has no unfair quotation policy in all forms. We never take advantage over competitors.
- 4) **Society and Environment** The Company takes into account impact on local communities and sets up a strict environmental management system. There have been so far no complaints from the communities or any related person regarding environmental impact arising from our operation.
- 5) **Shareholders** Our policy is to pay shareholders dividend for no less than 50 percent of our net profits. As for the Company's performance in 2017, we have approved to propose a dividend payment of 0.60 Baht per share (include the addition dividend as 0.20 Baht per share that prefer the Annual General Meeting of shareholders to pay on May7,2018) , which is 50.28% compared to the net profits (Separate Financial),  
And the company paid the interim dividend of 2017 as details ;

	Operation Result	Payment Date	BOI	NON BOI	Total
			Baht : Share	Baht : Share	Baht : Share
Interim Dividend No. 1	6 Months (Jan-Jun, 2017)	Sep 11,2017	-	0.20	0.20
Dividend No.2	6 Months (Jul-Dec, 2017)	May 7,2018	0.13	0.27	0.40
<b>Total</b>			<b>0.13</b>	<b>0.47</b>	<b>0.60</b>



## Respecting human rights and fair treatment of labor

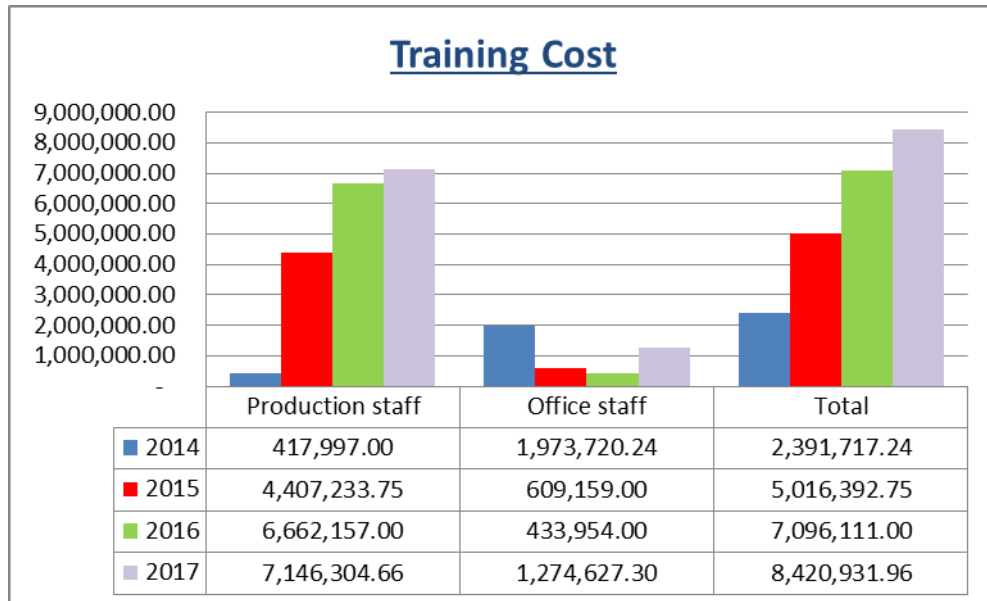
The Company focuses on respecting human rights as follows.

- 1) No violating fundamental rights regarding race, religion, gender, age, and disability of the employees. The Company currently employs 673 people. In 2014, we started hiring Myanmar workers. As of December 31, 2017, the Company employs foreign workers as follows.

Nationality	Person
Myanmar	90
Japanese	9
Chinese	5
Malaysia	1
<b>Total</b>	<b>105</b>

The Company recognizes human rights of all races, including those of employees with disabilities who receive equal benefits. By the end of 2017, the Company has employed 6 disabled employees, who are provided with the same level of compensation as that of regular employees. All employees receive equal working benefits.

- 2) The Company provides fair treatment of employees, compensating them with proper remuneration based on their quantity and quality of work. Employees from both production and administration departments are allowed to choose their required remuneration. The Company has improved work environment for employees' better quality of life. Work rotation and a request for promotion are allowed. We also provide various trainings to develop employee's working skills regularly.
- 3) The Company continues to support employees' education. Our main policy is that all employees must be trained to enhance their knowledge on an annual basis, which is consistent with the Company's motto - *"Better than yesterday, everyday"*. In 2017, we held more than 50 training, which is the total budget was 8.42 Million Baht.



The Company pays attention not only to the employees, but also to education of their children. We have granted scholarships since 2013,

And the during these past 5 years. The company have supported to education of employees 's children, The details are as follows.

Year	Amount ( Baht )
2013	509,200.00
2014	356,600.00
2015	428,900.00
2016	1,313,000.00
2017	1,660,000.00

- 4) Organize an election of a welfare committee from all employees in the Company. The committee term lasts two years. The current committee will serve until June 30, 2018. The welfare committee is responsible for accepting complaints about unfair treatment in the workplace, along with establishing a welfare fund of the Company to encourage employees'

savings. It was established since 2001; there are 538 members as of December 31, 2017.

- 5) Provide benefits to employees in all aspects as follows.
- Accommodation - Provide housing for employees and their families. Currently there are 410 employees and their families are 445 person, lived in the dormitory. And since 2015 ,Tanaka Welding Center Co., Ltd., a Company subsidiary, has built houses for sale at low prices as employee welfare. In its first phase, which started in 2015, 41 houses were sold and completely moved into by employees in 2016. Construction of 56 houses in the second phase has started in 2016 and employees are expected to move in by March 2018. There is a total of 97 houses for sale as employee welfare.



Phase I : 41 Houses



Phase II : 56 Houses

- Health - The Company recognizes the importance of employees' health. All employees will receive checkups before they start working. The Company also provides an annual health checkup; which was held together with influenza vaccination provision on June 11 ,2017. We arrange insurance for employees in case of accidents or illness. In addition, all employees are provided with medical welfare.
  
- Provident fund - it is provided to encourage employees' savings during retirement or leave. The Company provident fund has been managed by TMB Asset Management Co., Ltd. since 2005. The Company adds some money to its employees' saving - currently the Company adds start at 3% to 10% of employee's salary . The maximum adds for employees who have worked at company more than 10 years.
  
- Safety - the Company recognizes the importance of employees' safety by providing fundamental safety equipment in our plants such as caps, safety shoes, and glasses. The Company provides a life insurance to all employees from the first day of work to cover accidents both during and outside of working period.

### Responsibility to consumers (customers)

- 1) The Company inspects every piece of product before delivery to customers to ensure product quality. In 2017, customer representatives have inspected the quality of products for 121 times. The Company always surveys customers' satisfaction; average result was 89.08% in 2017 which increased from 2016 which the customers' satisfaction as 87.38%.



## Environmental management, occupational health and safety

- 1) The Company ensures compliance of occupational health and safety standard. We have been certified with OHSAS 18001 since 2008 until now. In 2015, we have been certified with ISO 14001. The Company recognizes the importance of environmental management by organizing environmental quality inspection twice a year. It covers all areas of the company and finds that drinking water quality / sewage, working area heat level, average risk level, and intensity of light in working area during day and night meet environmental standards. These results ensures that the Company business is safe for the environment.



- 2) There is a specific unit in the Company that controls and pushes forward implementation of occupational health and safety. In 2017, the Company appointed occupational health and safety committee (OSC) refer to HU 112/60 (The period from November 16,2017 to November 20,2018). The committee consists of 14 members in a working group who have been trained as required by law. The working group holds a meeting at least once a month to consider policies and plans for workplace safety, as well as promoting and supporting

safety activities among employees, contractors, and outsiders who operate in our workplace.

- 3) The Company operates a Health Risk Assessment or HRA annually among employees who have worked for more than one year. In 2017, the Company held an annual checkup on June 10, 2017, to assess a health risk level of employees. This is to ensure that employees receive a health checkup according to their risk factors, such as assessing lead in blood, lung conditions, hearing competency, as well as detecting inhalants in urine, and manganese.



### **Community and social development participation**

The Company recognizes the importance of energy management system and its effect to community. Hence, in 2017, we announced a concrete energy conservation policy to encourage effective participation of employees and workers in the following projects.

#### **1) Projects on concrete energy conservation**

- As the Company is aware of the importance of energy conservation, it has appointed an energy working team to ensure effectiveness of the Company's energy conservation according to Announcement No. HU 041/60. The working team will be responsible for the effectiveness and efficiency of the Company's energy conservation plan.

## 2) Solar Project

- The project started in September 2014 with a budget around Baht 2 million to save energy and environment. Based on measurements of solar power usage in 2017, it replaced usage of normal electricity for 13,308.70 kWh.



## 3) White Factory

- The Company has joined the White Factory project with the Ministry of since 2012 to prevent employees from abusing drugs and encourage more physical activities. We have provided exercise facilities for employees for their leisure and healthy lifestyle.



Annual Report  
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#### 4) **Other activities such as**

- Support of Children's Day in the community. The Company donated money to Rachakram municipality, Bang Sai district, Ayutthaya to support activities and food on Children's Day.

#### **Non-stop development for sustainable corporate**

The Company recognizes importance of continuous development in business and human resources, which reflects our motto:

**"Better than yesterday, everyday"**

The Board of Directors, executives and all employees are committed to follow this concept consistently and develop sustainable business growth. Both internal and external stakeholders can be assured of mutual benefits in the short run and long run.



## Related Party Transactions

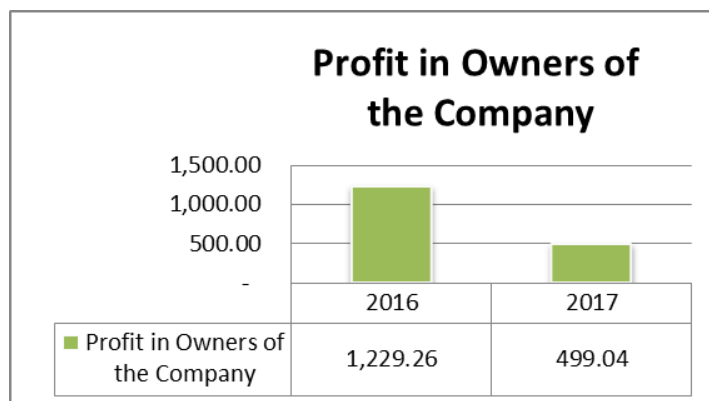
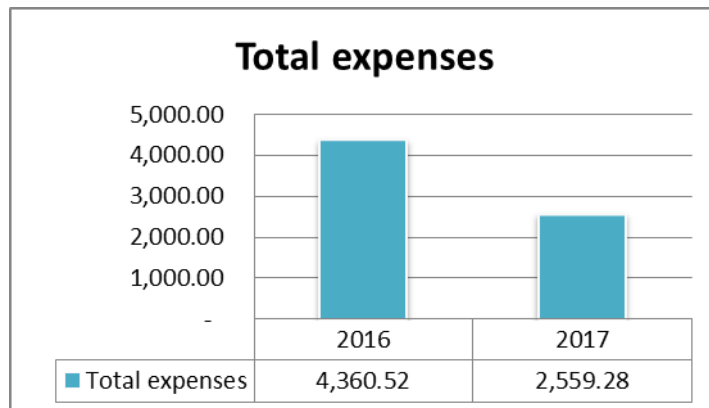
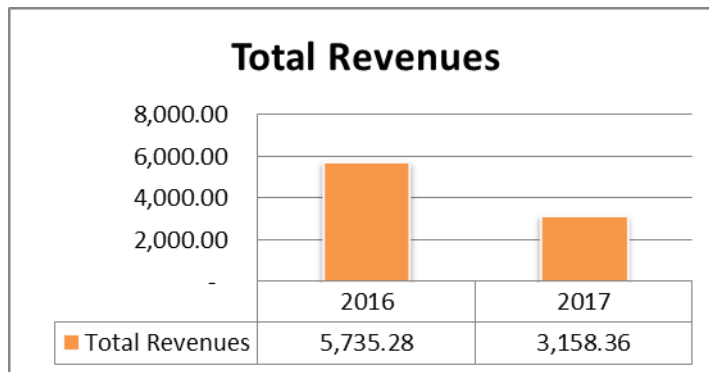
The significant transactions between the Company and its related companies reflected in the accompanying financial statements for the years ended December 31, 2017 are as follows :-

Name	Related	Type of Transaction	Summarize in 2017 ( Baht )	Reason/ Reasonableness
Tanaka Welding Center Co., Ltd.	Subsidiary	An ordinary and normal business	1,528,523	An ordinary and normal business transaction
		Asset and Service	1,582,754	An ordinary and normal business transaction
M.C.S. Nasu Co., Ltd.	Subsidiary	An ordinary and normal business	65,553,242	An ordinary and normal business transaction
		Supporting ordinary	2,366,179	An ordinary and normal business transaction
		Supporting ordinary	6,501,170	An ordinary and normal business transaction
M.C.S. Steel-Xiamen Co., Ltd.	Subsidiary	An ordinary and normal business	19,625,982	An ordinary and normal business transaction

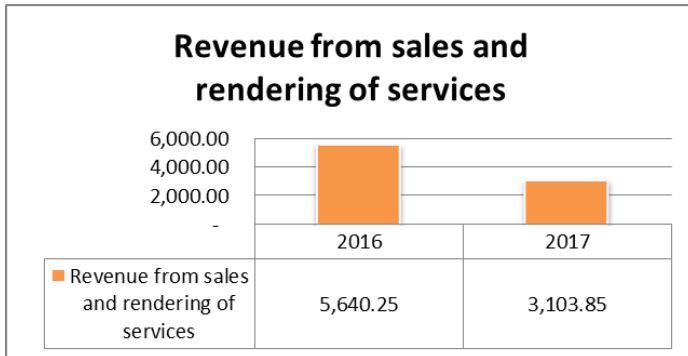
# Management Explanation and Analysis

## 1. Overview

In Year 2017, the company's total revenues were Baht 3,158.36 million which all of the revenue from export to Japan, The total expenses were Baht 2,559.27 million and the company's Profit in the owners of the company was Baht 499.04 million.



**2. Overall operation of year 2017**



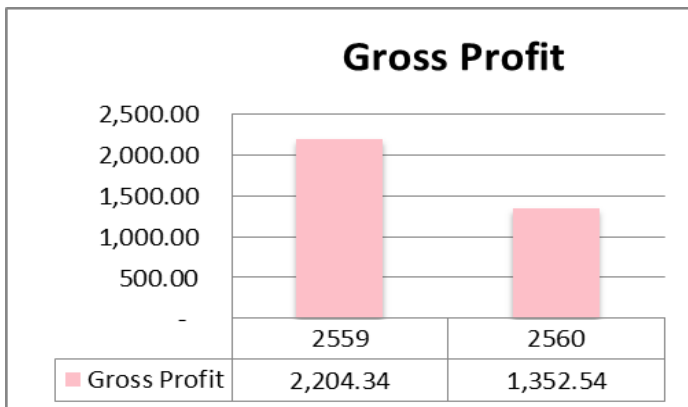
**Revenue from sales and rendering of services**

Revenue from sales and rendering of services were Baht 3,103.85 million in 2017, decreased of Baht 2,536.41 million from 2016, or 44.97%.



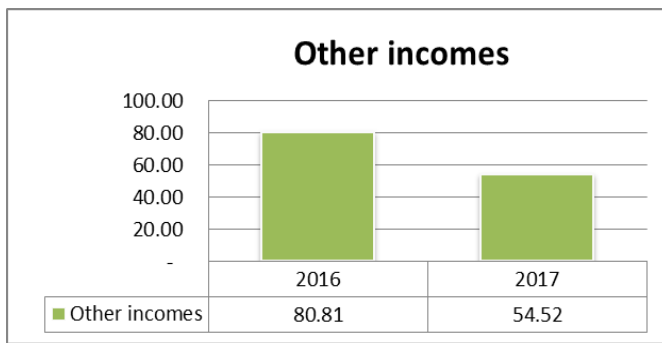
**Cost of sales of goods and rendering of service**

Cost of sales of goods and rendering of service were Baht 1,751.30 million in 2017, decreased of Baht 1,684.61 million from 2016, or 49.03%.



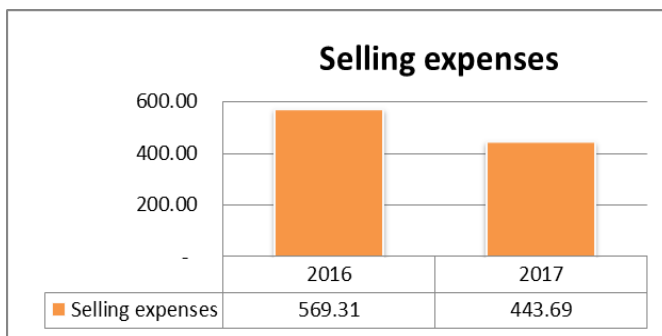
**The company's gross profit**

In Year 2017 ,The company's gross profit were Baht 1,352.54 million that decreased from 2016 which the company's gross profit were Baht 2,204.34 million ,and in 2017 ,the percentage of company's gross profit were 43.58% increased from 2016 that percentage of company's gross profit as 39.08 %



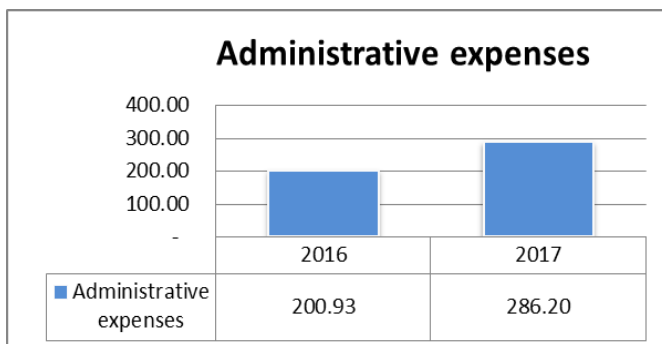
#### Other income

In Year 2017 ,The Company's other income was Baht 54.52 million, decreased of Baht 26.29 million from 2016.



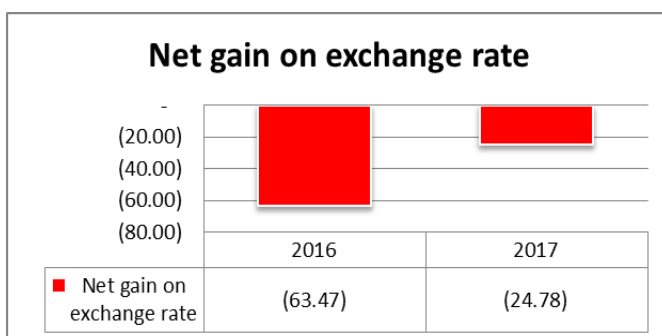
#### Selling Expenses

In Year 2017 ,The Company's selling expenses were Baht 443.69 million, decreased of Baht 125.62 million from 2016 due to in Year 2017 the export work decreased around 21,841 Tons from 2016.



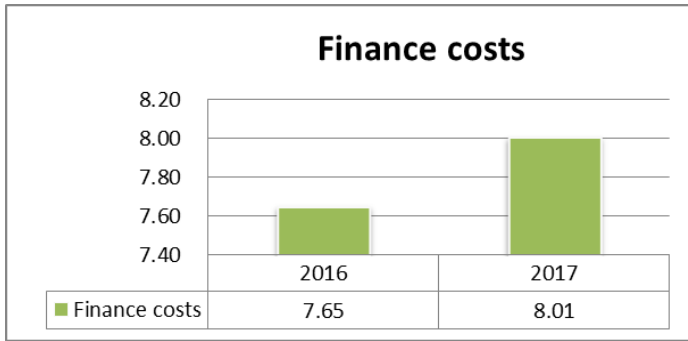
#### Administrative Expenses

In Year 2017, The Company's Administrative Expenses were Baht 286.20 million, increased of Baht 85.27 million from 2016 due to the Administrative Expenses from subsidiary company ( M.C.S. Steel –Xiamen Co., Ltd. ).



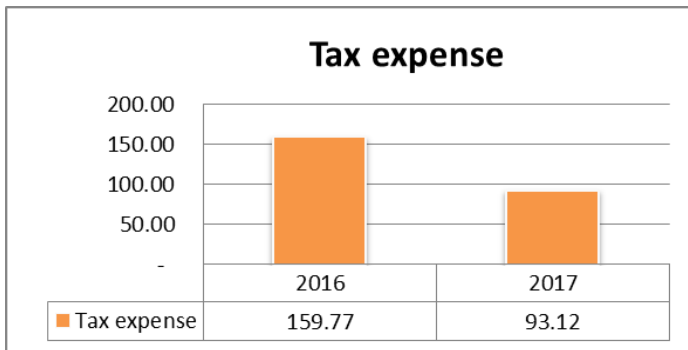
#### Net foreign exchange gain

In Year 2017, The Company's Net foreign exchange loss were Baht 24.78 million ,decreased from 2016 that the Company's Net foreign exchange loss as 63.47 Million ,due to the movement of Japanese Yen (JPY).



#### Finance cost

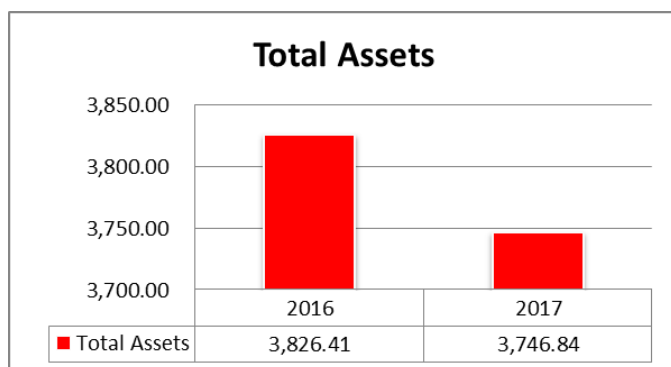
In Year 2017 ,The Company's Finance cost was Baht 8.01million, increased of Baht 0.36 million from 2016.



#### Tax expense

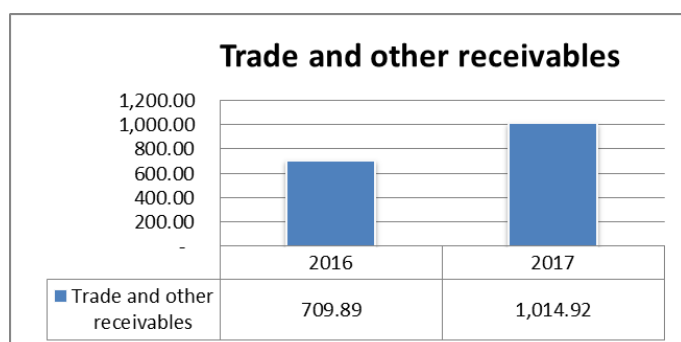
In Year 2017 ,The Company's tax expense was Baht 93.12 million, decreased of Baht 66.65 million from 2016 due to the net profit decreased.

## 2. Financial Statement



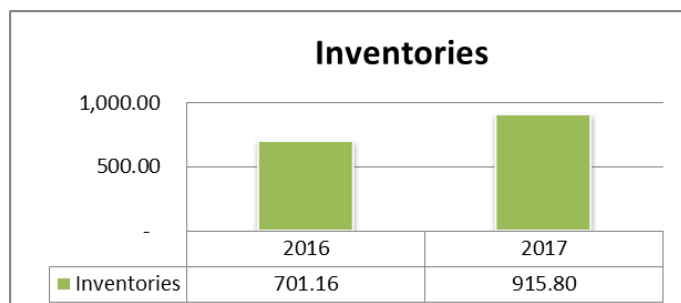
### Total Assets

At December 31 of 2017, The company's Total Assets were Baht 3,746.84 million, decreased of Baht 79.58 million or 2.08% from 2016.



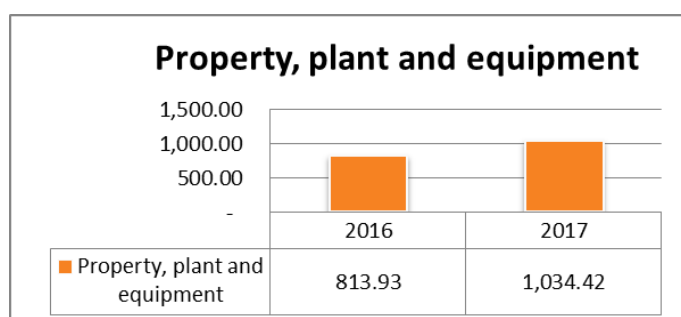
### Trade accounts receivable and retention receivables

At December 31 of 2017, The Company's Trade accounts receivable and retention receivables were Baht 1,014.92 million, increased of Baht 305.03 million or 42.97% from 2016.



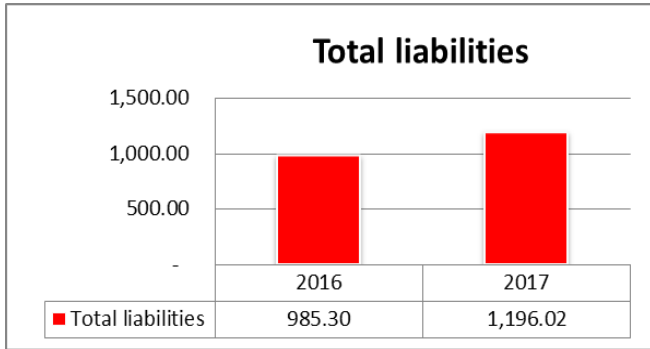
### Inventories

At December 31 of 2017, The Company's Inventories were Baht 915.80 million, increased of Baht 214.64 million or 30.61% from same period of 2016.



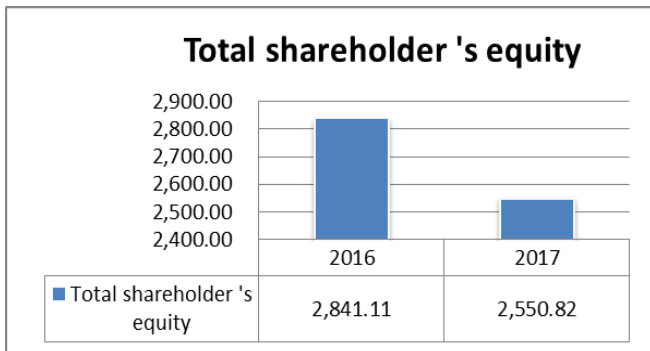
### Property, plant and equipment

At December 31 of 2017, The Company's Property, plant and equipment were Baht 1,034.42 million, increased of Baht 220.49 million or 27.09% from same period of 2016 due to the machines has been bought and some asset from subsidiary company ( M.C.S. Steel – Xiamen Co., Ltd. ).



#### Total liabilities

At December 31 of 2017, The company's total liabilities were Baht 1,196.02 million, increased of Baht 210.72 million or 21.39% from same period of 2016.



#### Equity

At December 31 of 2017, The shareholder 's equity was Baht 2,550.82 million, decreased of Baht 290.29 million or 10.22% from same period of 2016.

## Remuneration for Auditor

### (1) Audit Fee

The Company paid the audit fee to:

- The Company's auditor, in the previous accounting period, amounting - None-
- The audit firm of which the auditor is a member, persons or businesses related to the auditor and the audit firm of which the auditor is a member, in the previous accounting period, amounting to 3,490,000.00 Baht.

### (2) Non-audit fee

- 418,628 Baht



## Report of the Audit Committee

To All shareholders and stakeholders

The Audit Committee of M.C.S. Steel Co, Ltd. (Public) consists of 2 company committee (December 31,2017) which is independent committee. The qualification of Audit Committee is in accordance with the criteria regulated in the Notification of SET Commission. The Audit Committee consists of ;

- |                              |  |
|------------------------------|--|
| 1. Gen. Titiwat Kamlang-Ek   | Chairman of Audit Committee<br>Appointed January 27,2018 |
| 2. Mr. Tinakorn Seedasomboon | Audit Committee  |

In 2017, the Audit Committee had arranged 4 conferences. The duties and responsibilities can be summarized as follows:

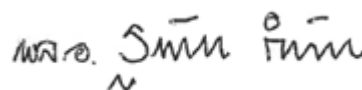
1. To verify the accuracy and reliability of quarterly financial statements for 2016 which have been prepared in accordance with generally accepted accounting principles with adequate revelation of financial data and are in conformity with the requirement and the Notice of the Securities and Exchange Commission and the Stock Exchange of Thailand.
2. On the aspect of supervision of the Company's operation according to the principle of good supervision, the Audit Committee, after consideration, has the opinion that the supervision of the business is in accordance with the standard and the requirements of the Stock Exchange of Thailand, the law concerning Securities and the Stock Exchange of Thailand, as well as laws related with the business of the Company.
3. To consider verification of risk assessment by following up to encourage the practices, to monitor the compliance, and to prevent the risk from occurrence, both from advice given by the auditors, and from work management of the Company in the situation of change in economy, sociality, both inside and outside of the country.
4. To consider verification of suitability of internal control system by submitting its advice for improvement of the internal control system to be effective with liquidity towards the Management to cope up with economic situation of the present world.
5. Regarding the supervision of the internal audit, the verification has been conducted on the audit plan for the year, work performance, report of audit result. The internal audit is suitable to cover the risk factors, and create efficiency of work management.
6. Assessment of work performance on the aspect of accounting audit, the Audit Committee has an opinion to submit it to the Board of Directors for approval of the Shareholders' Meeting to appoint , Mr.Peeradate Phongsathainsak (Registration number 4752) or Mr.Thanawut Piboonsawat (Registration number 6699) or Ms.Wannisa Ngambaothong (Registration number 6838) or Mr.Pojana Asawasontichai (Registration number 4891) or Ms.Suralit Ardsawang (Registration number 7517) or Mr.Suwat Maneekanoksakul (Registration number 8134) or Ms.Soraya Tintasuwan (Registration

## Report of the Audit Committee ( Cont.)

number 8658) , all of Auditors from Dharmniti Auditing Co., Ltd . as the auditor of the company for 2018. The auditor fees will pay not to exceed 4,000,000 Baht

Other than that, the Audit Committee performed their duties freely, having freedom to express their ideas, and advices to Management for the benefit of the Company, with good cooperation from all parties, for which I must thank you all on this occasion.

Yours Sincerely,



( Gen. Titiwat Kamlang-Ek )  
Chairman of Audit Committee  
March 5 ,2018

# Report of Auditor

To The Shareholders and Board of Directors of  
M.C.S. Steel Public Company Limited

## Opinion

I have audited the consolidated financial statements of M.C.S. Steel Public Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and I have audited the separate financial statements of M.C.S. Steel Public Company Limited (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of M.C.S. Steel Public Company Limited and its subsidiaries as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended and the separate financial position of M.C.S. Steel Public Company Limited as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

## Basis for Opinion

I conducted my audit in accordance with Thai Standards on Auditing. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Company in accordance with the Federation of Accounting Professions' Code of Ethics for Professional Accountants together with the ethical requirements that are relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Report of Auditor ( Cont.)

### EMPHASIS OF MATTER

I draw attention to Note 11 to the financial statements. On June 26, 2017, the Company has acquired the shares of M.C.S. Steel (Xiamen) Co., Ltd. from the former shareholders which represent 74% of the total shares that were issued of such company at present, the Company is in the process of assessing the fair value of identifiable assets acquired and liabilities assumed at the acquisition date. The assessment process is ongoing and shall be completed within measurement period of one year from the acquisition date pursuant to the period allowed by Thai Financial Reporting Standard No. 3 (revised 2016) : Business Combination. During the measurement period, the Company shall retrospectively adjust provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

My opinion to the financial statement is not qualified in respect of the above matters.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in my audit of the consolidated financial statements and separate financial statements of the current period. These matters were addressed in the context of my audit of the consolidated financial statements and separate financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

#### Provisions from goods warranty

The Company has a provision from goods warranty as at December 31, 2017 amounting to Baht 109.72 million (consolidated financial statement) and Baht 108.83 million (separate financial statements) in Note 19 in the notes to the financial statements.

The Company has a contractual obligation to be responsible for all expenses when the job does not follow the customer requirements, damaged work piece, not delivered as planned, etc. The term of products warranty is about two years after the date of completing installation by the customer. The period of warranty coverage is uncertain since it depends on the project of the customer and the amount of jobs that does not meet the criteria under the agreement. Moreover, the provisions require considerable judgment from the management and

## Report of Auditor ( Cont.)

are difficult in setting the timing and amount of provisions to be paid in the future. The warranty provisions contain amount that is significant to the financial statements.

### Risk response by auditor

Regarding my audit approach on such matter, I used the inquiry approach and obtain an understanding with the management in estimating and reviewing the provisions to assess the appropriateness of actual expense statistics information that occurred in the past which is used as a basis to compare with the rate used in calculating the provisions from goods warranty. I tested the detailed calculation of estimation movement and verified the evidence of actual payment of each job, and I considered the adequacy of the disclosures in accordance with Thai Financial Reporting Standards.

### Allowance for doubtful debts of the overseas subsidiary presented in the consolidated financial statements

On June 2017, the Company has acquired the shares of a subsidiary in China from the existing shareholders 74% of the shares sold. Presently, the Company is in the process of assessing the fair value of identifiable assets acquired and liabilities assumed as at the business acquisition date. It is expected to be finished in quarter 2 of 2018. However, from the audit of the financial statements of the subsidiary as at December 31, 2017, the subsidiary has trade accounts receivable and other receivable with net book value of Yuan 30.53 million (equivalent to Baht 155.16 million), that comprised a balance of trade accounts receivable and other receivable outstanding more than 1 year in the amount of Yuan 28.40 million (equivalent to Baht 144.29 million). The management of the subsidiary considers recording the allowance for doubtful debts only for the group with partial litigation in the amount of Yuan 5.65 million (equivalent to Baht 28.68 million) for trade accounts receivable and other receivable, the remaining Yuan 22.75 million (equivalent to Baht 115.61 million) is the balance before the parent company acquires the business. The management has considered recording the allowance for doubtful debts in the consolidated financial statements in the amount of Yuan 22.75 million (equivalent to Baht 115.61 million) in trade accounts receivable and other receivable as at December 31, 2017 in accordance with Note 8. The record of the allowance for doubtful debts requires the use of significant judgment from the management and the amount of the allowance for doubtful debts is significant.

## Report of Auditor ( Cont.)

Risk response by the auditor

Regarding my audit approach on such matter, I reviewed the working paper prepared by the auditor of the subsidiary in China (the component auditor). The component auditor tested trade accounts receivable and other receivable which include checking the accounts receivable aging and auditing the litigation document evidence of accounts receivable, subsequent cash from payment received after the end of the accounting period. Apart from the review, I inquired the component auditor, management and accounting officer of the subsidiary's to obtain an understanding of the event and nature of trade accounts receivable and other outstanding receivable and inquired the

appropriateness of recording the partial allowance for doubtful debts of trade accounts receivable and other outstanding receivable more than 1 year. And I considered the appropriateness of the allowance for doubtful debts and the adequacy of the disclosures in accordance with Thai Financial Reporting Standards.

### Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance in order for those charged with governance to correct the misstatement.

## **Report of Auditor ( Cont.)**

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements and separate financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and separate financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the consolidated financial statements and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and separate financial statements.

As part of an audit in accordance with Standards on Auditing, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may

## Report of Auditor ( Cont.)

involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements and separate financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and separate financial statements, including the disclosures, and whether the consolidated financial statements and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the consolidated financial



## Report of Auditor ( Cont.)

statements and separate financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner responsible for the audit resulting in this independent auditor's report is Miss Wannisa Ngambuathong.



(Miss Wannisa Ngambuathong)

Certified Public Accountant

Registration No. 6838

Dharmniti Auditing Company Limited

Bangkok, Thailand

February 23, 2018

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

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**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS  
AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and Board of Directors of  
M.C.S. Steel Public Company Limited

### **Opinion**

I have audited the consolidated financial statements of M.C.S. Steel Public Company Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and I have audited the separate financial statements of M.C.S. Steel Public Company Limited (the Company), which comprise the statement of financial position as at December 31, 2017, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of M.C.S. Steel Public Company Limited and its subsidiaries as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended and the separate financial position of M.C.S. Steel Public Company Limited as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

### **Basis for Opinion**

I conducted my audit in accordance with Thai Standards on Auditing. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Company in accordance with the Federation of Accounting Professions' Code of Ethics for Professional Accountants together with the ethical requirements that are relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **EMPHASIS OF MATTER**

I draw attention to Note 11 to the financial statements. On June 26, 2017, the Company has acquired the shares of M.C.S. Steel (Xiamen) Co., Ltd. from the former shareholders which represent 74% of the total shares that were issued of such company at present, the Company is in the process of

assessing the fair value of identifiable assets acquired and liabilities assumed at the acquisition date. The assessment process is ongoing and shall be completed within measurement period of one year from the acquisition date pursuant to the period allowed by Thai Financial Reporting Standard No. 3 (revised 2016) : Business Combination. During the measurement period, the Company shall retrospectively adjust provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

My opinion to the financial statement is not qualified in respect of the above matters.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in my audit of the consolidated financial statements and separate financial statements of the current period. These matters were addressed in the context of my audit of the consolidated financial statements and separate financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

#### Provisions from goods warranty

The Company has a provision from goods warranty as at December 31, 2017 amounting to Baht 109.72 million (consolidated financial statement) and Baht 108.83 million (separate financial statements) in Note 19 in the notes to the financial statements.

The Company has a contractual obligation to be responsible for all expenses when the job does not follow the customer requirements, damaged work piece, not delivered as planned, etc. The term of products warranty is about two years after the date of completing installation by the customer. The period of warranty coverage is uncertain since it depends on the project of the customer and the amount of jobs that does not meet the criteria under the agreement. Moreover, the provisions require considerable judgment from the management and are difficult in setting the timing and amount of provisions to be paid in the future. The warranty provisions contain amount that is significant to the financial statements.

#### Risk response by auditor

Regarding my audit approach on such matter, I used the inquiry approach and obtain an understanding with the management in estimating and reviewing the provisions to assess the appropriateness of actual expense statistics information that occurred in the past which is used as a basis to compare with the rate used in calculating the provisions from goods warranty. I tested the detailed calculation of estimation movement and verified the evidence of actual payment of each job, and I considered the adequacy of the disclosures in accordance with Thai Financial Reporting Standards.

Allowance for doubtful debts of the overseas subsidiary presented in the consolidated financial statements

On June 2017, the Company has acquired the shares of a subsidiary in China from the existing shareholders 74% of the shares sold. Presently, the Company is in the process of assessing the fair value of identifiable assets acquired and liabilities assumed as at the business acquisition date. It is expected to be finished in quarter 2 of 2018. However, from the audit of the financial statements of the subsidiary as at December 31, 2017, the subsidiary has trade accounts receivable and other receivable with net book value of Yuan 30.53 million (equivalent to Baht 155.16 million), that comprised a balance of trade accounts receivable and other receivable outstanding more than 1 year in the amount of Yuan 28.40 million (equivalent to Baht 144.29 million). The management of the subsidiary considers recording the allowance for doubtful debts only for the group with partial litigation in the amount of Yuan 5.65 million (equivalent to Baht 28.68 million) for trade accounts receivable and other receivable, the remaining Yuan 22.75 million (equivalent to Baht 115.61 million) is the balance before the parent company acquires the business. The management has considered recording the allowance for doubtful debts in the consolidated financial statements in the amount of Yuan 22.75 million (equivalent to Baht 115.61 million) in trade accounts receivable and other receivable as at December 31, 2017 in accordance with Note 8. The record of the allowance for doubtful debts requires the use of significant judgment from the management and the amount of the allowance for doubtful debts is significant.

Risk response by the auditor

Regarding my audit approach on such matter, I reviewed the working paper prepared by the auditor of the subsidiary in China (the component auditor). The component auditor tested trade accounts receivable and other receivable which include checking the accounts receivable aging and auditing the litigation document evidence of accounts receivable, subsequent cash from payment received after the end of the accounting period. Apart from the review, I inquired the component auditor, management and accounting officer of the subsidiary's to obtain an understanding of the event and nature of trade accounts receivable and other outstanding receivable and inquired the appropriateness of recording the partial allowance for doubtful debts of trade accounts receivable and other outstanding receivable more than 1 year. And I considered the appropriateness of the allowance for doubtful debts and the adequacy of the disclosures in accordance with Thai Financial Reporting Standards.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance in order for those charged with governance to correct the misstatement.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements and separate financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and separate financial statements, management is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the consolidated financial statements and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and separate financial statements.

As part of an audit in accordance with Standards on Auditing, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements and separate financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and separate financial statements, including the disclosures, and whether the consolidated financial statements and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my

independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the consolidated financial statements and separate financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner responsible for the audit resulting in this independent auditor's report is Miss Wannisa Ngambuathong.

(Miss Wannisa Ngambuathong)  
Certified Public Accountant  
Registration No. 6838

Dharmniti Auditing Company Limited  
Bangkok, Thailand  
February 23, 2018



**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**

**STATEMENT OF FINANCIAL POSITION**

**AS AT DECEMBER 31, 2017**

		In Baht				
		Consolidated		Separate		
		financial statements		financial statements		
		As at December 31,		As at December 31,		
Notes		2017	2016	2017	2016	
<b>CURRENT ASSETS</b>						
	Cash and cash equivalents	6	585,613,330	1,067,730,008	490,452,779	985,536,565
	Temporary investments	7	20,267,429	126,389,067	20,267,429	126,389,067
	Trade and other receivables	5, 8	1,014,920,577	709,890,725	1,028,308,566	707,361,951
	Inventories	9	915,798,286	701,158,436	805,702,911	677,007,910
	<b>Total current assets</b>		<b>2,536,599,622</b>	<b>2,605,168,236</b>	<b>2,344,731,685</b>	<b>2,496,295,493</b>
<b>NON-CURRENT ASSETS</b>						
	Pledged deposits at financial institutions	30.3	-	278,589,163	-	278,589,163
	Investments in associates	10	-	108,241,826	-	93,941,374
	Investments in subsidiary	11	-	-	271,389,849	51,206,570
	Property, plant and equipment	12	1,034,419,590	813,926,474	858,633,152	777,447,307
	Goodwill	11	130,531,046	8,003,208	-	-
	Land leasehold	13	33,409,757	-	-	-
	Intangible assets	14	6,704,470	7,685,205	3,595,353	4,521,973
	Deferred tax assets	15	4,408,913	3,998,031	4,408,913	3,998,031
	Other non-current assets		764,946	801,273	178,379	177,981
	<b>Total non-current assets</b>		<b>1,210,238,722</b>	<b>1,221,245,180</b>	<b>1,138,205,646</b>	<b>1,209,882,399</b>
	<b>TOTAL ASSETS</b>		<b>3,746,838,344</b>	<b>3,826,413,416</b>	<b>3,482,937,331</b>	<b>3,706,177,892</b>

Notes to financial statements form an integral part of the statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**

**STATEMENT OF FINANCIAL POSITION (CONT.)**

**AS AT DECEMBER 31, 2017**

**LIABILITIES**

		In Baht			
		Consolidated		Separate	
		financial statements		financial statements	
		As at December 31,		As at December 31,	
Notes		2017	2016	2017	2016
<b>CURRENT LIABILITIES</b>					
	Short-term loan	16	164,435,526	92,385,150	-
	Trade and other payables	5, 17	813,897,011	695,147,683	714,826,190
	Current portion of financial lease		6,953,763	7,533,972	-
	Income tax payable		80,173,938	86,458,453	80,121,773
	<b>Total current liabilities</b>		<b>1,065,460,238</b>	<b>881,525,258</b>	<b>794,947,963</b>
<b>NON-CURRENT LIABILITIES</b>					
	Financial lease		3,648,400	11,238,941	-
	Employee benefit obligations	18	17,166,905	15,360,568	17,166,905
	Provision for warranty	19	109,742,897	77,175,937	108,831,644
	<b>Total non-current liabilities</b>		<b>130,558,202</b>	<b>103,775,446</b>	<b>125,998,549</b>
	<b>TOTAL LIABILITIES</b>		<b>1,196,018,440</b>	<b>985,300,704</b>	<b>920,946,512</b>

Notes to financial statements form an integral part of the statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**

**STATEMENT OF FINANCIAL POSITION (CONT.)**

**AS AT DECEMBER 31, 2017**

**SHAREHOLDERS' EQUITY**

		In Baht			
		Consolidated		Separate	
		financial statements		financial statements	
		As at December 31,		As at December 31,	
Notes		2017	2016	2017	2016
<b>SHAREHOLDERS' EQUITY</b>					
<b>SHARE CAPITAL</b>					
Authorised share capital					
500 million ordinary shares of					
	Baht 1 each	500,000,000	500,000,000	500,000,000	500,000,000
Issued and paid-up share capital					
500 million ordinary shares of					
	Baht 1 each, fully paid	500,000,000	500,000,000	500,000,000	500,000,000
	<b>PREMIUM ON ORDINARY SHARES</b>	140,000,000	140,000,000	140,000,000	140,000,000
<b>RETAINED EARNINGS</b>					
Appropriated					
	Legal reserve	50,000,000	50,000,000	50,000,000	50,000,000
	Treasury share reserve	643,070,560	288,192,160	643,070,560	288,192,160
	Unappropriated	2,581,331,694	2,755,434,325	2,599,605,178	2,733,309,357
	<b>OTHER COMPONENTS OF SHAREHOLDERS' EQUITY</b>	(729,768,882)	(597,276,831)	(727,614,359)	(589,591,829)
	<u>Less</u> Treasury shares	(643,070,560)	(288,192,160)	(643,070,560)	(288,192,160)
	<b>NON-CONTROLLING INTERESTS</b>	9,257,092	(7,044,782)	-	-
	<b>TOTAL SHAREHOLDERS' EQUITY</b>	2,550,819,904	2,841,112,712	2,561,990,819	2,833,717,528
<b>TOTAL LIABILITIES AND</b>					
	<b>SHAREHOLDERS' EQUITY</b>	3,746,838,344	3,826,413,416	3,482,937,331	3,706,177,892

Notes to financial statements form an integral part of the statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

		In Baht			
		Consolidated		Separate	
		financial statements		financial statements	
Notes		2017	2016	2017	2016
<b>REVENUES</b>					
	Revenue from sales and rendering of services	3,103,845,344	5,640,250,958	3,030,250,752	5,252,284,047
	Other incomes	54,519,123	80,805,361	37,379,521	80,053,111
	Gain on sales and capital reduction of investment in associate	-	14,226,668	-	-
	<b>Total revenues</b>	<b>3,158,364,467</b>	<b>5,735,282,987</b>	<b>3,067,630,273</b>	<b>5,332,337,158</b>
<b>EXPENSES</b>					
	Cost of sales of goods and rendering of services	1,751,301,925	3,435,908,250	1,723,772,666	3,123,080,198
	Selling expenses	443,687,701	569,309,306	443,687,701	569,309,306
	Administrative expenses	286,200,939	200,928,637	194,745,617	174,477,062
	Loss on sales and capital reduction of investment in associate	-	-	-	18,759,505
	Net loss on exchange rate	24,777,427	63,466,954	28,368,260	67,683,788
	Loss from bad debt and uncollectible project	-	28,164,452	-	-
	Management benefit expenses	45,305,010	55,096,995	40,055,090	50,914,590
	Finance costs	8,006,202	7,649,987	4,501,756	4,735,447
	<b>Total expenses</b>	<b>2,559,279,204</b>	<b>4,360,524,581</b>	<b>2,435,131,090</b>	<b>4,008,959,896</b>
	Share of profit (loss) from investment in associate	(10,743,940)	10,793,164	-	-
	Profit before income tax revenue (expense)	588,341,323	1,385,551,570	632,499,183	1,323,377,262
	Income tax revenue (expense)	(93,119,571)	(159,770,057)	(93,065,030)	(159,740,293)
	Profit for the year	495,221,752	1,225,781,513	539,434,153	1,163,636,969
	<b>PROFIT FOR THE YEAR</b>	<b>495,221,752</b>	<b>1,225,781,513</b>	<b>539,434,153</b>	<b>1,163,636,969</b>

Notes to financial statements form an integral part of these statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**STATEMENT OF COMPREHENSIVE INCOME (CONT.)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

		In Baht			
		Consolidated		Separate	
		financial statements		financial statements	
Notes		2017	2016	2017	2016
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Item that may be reclassified subsequently to profit or loss					
Exchange differences on translating					
	financial statements	(132,492,051)	(76,518,141)	(138,022,530)	(52,443,064)
Item that will not be reclassified subsequently to profit or loss					
	Loss from the estimate base on actuarial	-	(1,668,035)	-	(1,668,035)
	Income tax expense	-	333,607	-	333,607
<b>OTHER COMPREHENSIVE INCOME</b>					
<b>FOR THE YEAR, NET OF INCOME TAX</b>		(132,492,051)	(77,852,569)	(138,022,530)	(53,777,492)
<b>TOTAL COMPREHENSIVE INCOME</b>					
<b>FOR THE YEAR</b>		<u>362,729,701</u>	<u>1,147,928,944</u>	<u>401,411,623</u>	<u>1,109,859,477</u>
<b>PROFIT (LOSS) ATTRIBUTABLE TO:</b>					
	Owners of the Company	499,035,701	1,229,262,149	539,434,153	1,163,636,969
	Non-controlling interests	(3,813,949)	(3,480,636)	-	-
		<u>495,221,752</u>	<u>1,225,781,513</u>	<u>539,434,153</u>	<u>1,163,636,969</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>					
<b>ATTRIBUTABLE TO:</b>					
	Owners of the Company	366,543,650	1,151,409,580	401,411,623	1,109,859,477
	Non-controlling interests	(3,813,949)	(3,480,636)	-	-
		<u>362,729,701</u>	<u>1,147,928,944</u>	<u>401,411,623</u>	<u>1,109,859,477</u>
<b>BASIC EARNINGS PER SHARE</b>	27	<u>1.08</u>	<u>2.60</u>	<u>1.16</u>	<u>2.46</u>

Notes to financial statements form an integral part of these statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

		In Baht										
		Consolidated financial statements										
	Note	Issued and Paid-up Share Capital	Premium on Ordinary Shares	Retained Earnings		Other Components of Shareholders' Equity		Total Equity		Non-controlling Interests	Total Shareholders' Equity	
				Appropriated	Unappropriated	Exchange Differences on Translating Financial Statements	Total Other Components of Shareholders' Equity	Attributable to Owners	Treasury shares			
				Legal Reserve	Treasury shares reserve							
For the year ended December 31, 2017												
Balance as at January 1, 2017		500,000,000	140,000,000	50,000,000	288,192,160	2,755,434,325	(597,276,831)	(597,276,831)	3,136,349,654	(288,192,160)	(7,044,782)	2,841,112,712
Treasury shares	20	-	-	-	354,878,400	(354,878,400)	-	-	-	(354,878,400)	-	(354,878,400)
Non-controlling interest on purchase business		-	-	-	-	-	-	-	-	-	20,115,823	20,115,823
Dividend paid	28	-	-	-	-	(318,259,932)	-	-	(318,259,932)	-	-	(318,259,932)
Comprehensive income (loss) for the year												
Profit (loss) for the year		-	-	-	-	499,035,701	-	-	499,035,701	-	(3,813,949)	495,221,752
Other comprehensive income (loss)		-	-	-	-	-	(132,492,051)	(132,492,051)	(132,492,051)	-	-	(132,492,051)
Total comprehensive income (loss) for the year		-	-	-	-	499,035,701	(132,492,051)	(132,492,051)	366,543,650	-	(3,813,949)	362,729,701
<b>Balance as at December 31, 2017</b>		<b>500,000,000</b>	<b>140,000,000</b>	<b>50,000,000</b>	<b>643,070,560</b>	<b>2,581,331,694</b>	<b>(729,768,882)</b>	<b>(729,768,882)</b>	<b>3,184,633,372</b>	<b>(643,070,560)</b>	<b>9,257,092</b>	<b>2,550,819,904</b>
For the year ended December 31, 2016												
Balance as at January 1, 2016		500,000,000	140,000,000	50,000,000	243,953,220	2,201,420,231	(520,758,690)	(520,758,690)	2,614,614,761	(243,953,220)	(3,564,146)	2,367,097,395
Treasury shares	20	-	-	-	44,238,940	(44,238,940)	-	-	-	(44,238,940)	-	(44,238,940)
Non-controlling interest on purchase business		-	-	-	-	-	-	-	-	-	-	-
Dividend paid	28	-	-	-	-	(629,674,687)	-	-	(629,674,687)	-	-	(629,674,687)
Comprehensive income (loss) for the year												
Profit (loss) for the year		-	-	-	-	1,229,262,149	-	-	1,229,262,149	-	(3,480,636)	1,225,781,513
Other comprehensive income (loss)		-	-	-	-	(1,334,428)	(76,518,141)	(76,518,141)	(77,852,569)	-	-	(77,852,569)
Total comprehensive income (loss) for the year		-	-	-	-	1,227,927,721	(76,518,141)	(76,518,141)	1,151,409,580	-	(3,480,636)	1,147,928,944
<b>Balance as at December 31, 2016</b>		<b>500,000,000</b>	<b>140,000,000</b>	<b>50,000,000</b>	<b>288,192,160</b>	<b>2,755,434,325</b>	<b>(597,276,831)</b>	<b>(597,276,831)</b>	<b>3,136,349,654</b>	<b>(288,192,160)</b>	<b>(7,044,782)</b>	<b>2,841,112,712</b>

Notes to financial statements form an integral part of these statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

In Baht

		Separate financial statements								
	Note	Issued and Paid-up Share Capital	Premium on Ordinary Shares	Retained Earnings		Unappropriated	Other Components of Shareholders' Equity		Total Shareholders' Equity	
				Appropriated	Treasury share reserve		Exchange Differences on Translating Financial Statements	Total Other Components of Shareholders' Equity		
				Legal Reserve				Treasury share		
For the year ended December 31, 2017										
Balance as at January 1, 2017		500,000,000	140,000,000	50,000,000	288,192,160	2,733,309,357	(589,591,829)	(589,591,829)	(288,192,160)	2,833,717,528
Treasury shares	20	-	-	-	354,878,400	(354,878,400)	-	-	(354,878,400)	(354,878,400)
Dividend paid	28	-	-	-	-	(318,259,932)	-	-	-	(318,259,932)
Comprehensive income (loss) for the year										
Profit (loss) for the year		-	-	-	-	539,434,153	-	-	-	539,434,153
Other comprehensive income (loss)		-	-	-	-	-	(138,022,530)	(138,022,530)	-	(138,022,530)
Total comprehensive income (loss) for the year		-	-	-	-	539,434,153	(138,022,530)	(138,022,530)	-	401,411,623
<b>Balance as at December 31, 2017</b>		<b>500,000,000</b>	<b>140,000,000</b>	<b>50,000,000</b>	<b>643,070,560</b>	<b>2,599,605,178</b>	<b>(727,614,359)</b>	<b>(727,614,359)</b>	<b>(643,070,560)</b>	<b>2,561,990,819</b>
For the year ended December 31, 2016										
Balance as at January 1, 2016		500,000,000	140,000,000	50,000,000	243,953,220	2,244,920,443	(537,148,765)	(537,148,765)	(243,953,220)	2,397,771,678
Treasury shares	20	-	-	-	44,238,940	(44,238,940)	-	-	(44,238,940)	(44,238,940)
Dividend paid	28	-	-	-	-	(629,674,687)	-	-	-	(629,674,687)
Comprehensive income (loss) for the year										
Profit (loss) for the year		-	-	-	-	1,163,636,969	-	-	-	1,163,636,969
Other comprehensive income (loss)		-	-	-	-	(1,334,428)	(52,443,064)	(52,443,064)	-	(53,777,492)
Total comprehensive income (loss) for the year		-	-	-	-	1,162,302,541	(52,443,064)	(52,443,064)	-	1,109,859,477
<b>Balance as at December 31, 2016</b>		<b>500,000,000</b>	<b>140,000,000</b>	<b>50,000,000</b>	<b>288,192,160</b>	<b>2,733,309,357</b>	<b>(589,591,829)</b>	<b>(589,591,829)</b>	<b>(288,192,160)</b>	<b>2,833,717,528</b>

Notes to financial statements form an integral part of these statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	In Baht			
	Consolidated		Separate	
	financial statements		financial statements	
	2017	2016	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before income tax	588,341,323	1,385,551,570	632,499,183	1,323,377,262
Adjustments for				
Depreciation and amortization	139,055,868	109,275,237	113,476,497	93,444,822
(Gain) on disposal of property, plant and equipment	(87,332)	(199,118)	(87,332)	(273,741)
(Gain) loss on sales and return fund of investment in associates	-	(13,995,948)	-	18,990,225
Unrealized (gain) loss on exchange rate	39,686,956	(140,079,665)	40,209,968	(140,079,665)
Loss from obsolete inventory (reversal)	733,188	-	733,188	-
Loss from bad debt and uncollectible project	-	28,164,452	-	-
Write off other non current assets	30,983,381	-	-	-
(Reversal) provision from other liabilities	-	(2,780,290)	-	(2,780,290)
Expenses for warranty	57,426,056	39,561,751	61,784,285	39,561,751
Expenses for employee benefit obligations	1,638,916	1,717,607	1,638,916	1,717,607
Interest income	(4,969,774)	(7,460,225)	(4,614,496)	(7,312,519)
Finance costs	7,752,714	5,345,353	4,638,828	4,336,664
Share of (profit) loss from investment in associate	10,743,940	(10,793,164)	-	-
Profit from operations before changes in operating assets and liabilities	871,305,236	1,394,307,560	850,279,037	1,330,982,116
Changes in operating assets and liabilities				
Trade and other receivables (increase) decrease	(360,991,361)	(201,757,035)	(318,667,857)	(218,610,226)
Loan to related party (increase)	-	-	-	(75,000,000)
Cash received from loan to related party	-	-	-	99,000,000
Inventories (increase) decrease	(283,746,459)	728,016,218	(145,670,108)	539,323,602
Pledged deposits at financial institutions (increase) decrease	275,527,355	(2,380,358)	275,527,355	(2,380,358)
Other non-current asset (increase) decrease	36,725	22,354	-	-
Trade and other payables increase (decrease)	295,342,599	(510,263,995)	6,545,748	(376,962,396)
Cash received from operations	797,474,095	1,407,944,744	668,014,175	1,296,352,738
Waranty paid	(23,940,770)	(25,902,349)	(23,940,770)	(21,139,348)
Employee benefit obligations paid	(165,440)	-	(165,440)	-
Income tax paid	(99,762,057)	(85,147,991)	(99,762,057)	(83,655,770)
Net cash provided by operating activities	673,605,828	1,296,894,404	544,145,908	1,191,557,620

Notes to financial statements form an integral part of the statements.



**M.C.S. STEEL PUBLIC COMPANY LIMITED AND SUBSIDIARIES**

**STATEMENT OF CASH FLOWS (CONT.)**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	In Baht			
	Consolidated		Separate	
	financial statements		financial statements	
	2017	2016	2017	2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	5,429,369	7,439,604	5,084,047	7,290,151
Cash paid for purchase of property, plant and equipment	(263,195,698)	(221,250,248)	(242,357,281)	(222,757,368)
Cash paid for purchase of intangible assets	(433,689)	(3,606,149)	(110,152)	(910,367)
Proceeds from sales of property, plant and equipment	136,016	1,035,785	136,016	989,958
(Increase) decrease in temporary investments	105,000,000	(25,000,000)	105,000,000	(25,000,000)
Cash paid for capital increase in subsidiary	-	-	(59,000,000)	-
Cash received from sales and return fund of investment in associates	-	63,569,203	-	63,569,203
Cash received (payments) for investment in subsidiary (net from cash and cash equivalents received)	(76,070,006)	-	(85,391,000)	-
Net cash used in investing activities	(229,134,008)	(177,811,805)	(276,638,370)	(176,818,423)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interest paid	(8,143,275)	(5,758,348)	(4,248,268)	(4,336,664)
Dividend paid	(318,259,932)	(629,674,687)	(318,259,932)	(629,674,687)
Increase (decrease) in short-term loan from financial institution	(13,542,405)	-	-	-
Cash payments for financial leases	(8,170,749)	(7,932,160)	-	-
Cash payment for treasury stock	(354,878,400)	(44,238,940)	(354,878,400)	(44,238,940)
Net cash provided (used in) financing activities	(702,994,761)	(687,604,135)	(677,386,600)	(678,250,291)
Increase (decrease) exchange rate differences on translating financial statements	(223,575,737)	15,176,149	(85,204,724)	63,854,126
Net increase (decrease) in cash and cash equivalents	(482,098,678)	446,654,613	(495,083,786)	400,343,032
Cash and cash equivalents at beginning of year	1,067,730,008	621,075,395	985,536,565	585,193,533
<b>Cash and cash equivalents end of year</b>	<b>585,631,330</b>	<b>1,067,730,008</b>	<b>490,452,779</b>	<b>985,536,565</b>
<b>Non-cash transaction</b>				
Transfer long-term investment as investment in associated	-	145,473,763	-	145,473,763
Purchase of fixed asset with financial lease	-	27,771,789	-	-

Notes to financial statements form an integral part of these statements.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**1. THE OPERATIONS AND OTHER INFORMATION OF THE COMPANY**

M.C.S. Steel Public Company Limited, (the “Company”), is incorporated in Thailand since 1992 and registered in the Stock Exchange of Thailand with its registered office at 70 Moo 2, Changyai, Bangsai, Ayutthaya. The principal businesses of the Company are production and distribution of structural steel products for building construction.

During the year 2017 and 2016 the Company has changed of investment in subsidiary and investment in associates as follows:

1) M.C.S. Steel (Xiamen) Co., Ltd.

In quarter 1 2016, the company has reclassified the long-term investment 39% of M.C.S. Steel (Xiamen) Co., Ltd. as investment in associate.

Later the Board of Directors’ meeting No. 3/2017 on February 23, 2017, approved acquire the 35% additional shares of M.C.S. Steel (Xiamen) Co., Ltd., from the original shareholder which the Company is formerly holding 39%. As a result, the total shareholding is 74% of the total shares. The objective of investment is to serve as a production base of work piece for China’s company in the amount of Baht 85.39 million. Such company will change from the associate to the subsidiary after the share transfer and it has been included in the consolidated financial statements preparation from June 30, 2017 onwards.

2) POSCO-China Dalian Fabricating Center

In Quarter 4/2015, the Board of Directors of POSCO-China Dalian Fabricating Center has the resolution to reduce the registered capital of M.C.S. Steel Public Company Limited only. The Company has USD 2.94 in the capital paid up ordinary share with former investment 49%. The associate company has reduced the capital USD 1.45 million. The remaining ordinary share capital of the Company is USD 1.49 million which represents 19.58%.

On February 1, 2016, the associate company has registered to reduce the capital with the government agency, and on February 17, 2016, the associate company has returned the investment to M.C.S. Steel Public Company Limited.

In Quarter 3/2016, the board of directors of the associate had the resolution to approve transferring the remaining shares that belong to M.C.S. Steel Public Company Limited to another company which is the former shareholder in POSCO-China Dalian Fabricating Center in the amount of USD 506,363. As at December 31, 2016, the Company has no outstanding balance of such investment.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

As at December 31, 2017, the Company's major shareholders are Thai NVDR Co., Ltd. (14.33% shareholding), registered company in Thailand, and Mr. Surachai Ratithong (7.30% shareholding), Thai nationality.

**2. BASIS FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

2.1 The accompanying consolidated financial statements include the financial statements of M.C.S. Steel Public Company Limited and the following subsidiaries in which the Company has controlled or invested over 50% of their voting rights.

These subsidiaries are detailed as follows:

Name	Business type	Country of registration	Percentage of shareholdings (%)	
			As at December 31,	
			2017	2016
<b>Subsidiaries</b>				
Tanaka Welding Center Co., Ltd.	Welder training and Real estate	Thailand	99.92	99.92
M.C.S. Nasu Co., Ltd.	Design and construction of Structural steel	Japan	66.00	66.00
M.C.S. Steel (Xiamen) Co., Ltd. *	Production and distribution of structural steel products	China	74.00	39.00

\* M.C.S. Steel (Xiamen) Co., Ltd. has changed the status from an associate company to a subsidiary since June 26, 2017.

- 2.2 These consolidate financial statements included the financial statements of M.C.S. Steel Public Company Limited and its subsidiaries and have been prepared on the same basis as that applied for the consolidated financial statements for the year ended December 31, 2016.
- 2.3 Outstanding balances between the Company and the subsidiaries, significant intercompany transactions, investment balance in the Company's books and share capital of the subsidiaries are eliminated from the consolidated financial statements.
- 2.4 Subsidiaries are fully consolidated in the consolidated financial statement as from the date of acquisition, being the date on which the Company obtains control until the end of such control.
- 2.5 The accounting policies of the subsidiaries for similar accounting transactions are the same as M.C.S. Steel Public Company Limited.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

2.6 Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries that are not held by the Company and are presented separately from the portion of owners of the parent.

2.7 Basis of preparation of the separate financial statements

The Company's separate financial statements accounted investments in subsidiaries and associates for using the cost method, net of valuation allowance for impairment.

**3. BASIS FOR THE PREPARATION OF FINANCIAL STATEMENTS**

3.1 Basis for the preparation of financial statements

The financial statements have been prepared in accordance with the accounting standards prescribed by Thai Accounts Act enunciated under the Accounting Profession Act B.E.2547 by complying with the financial reporting standards. The presentation of the financial statements has been made in compliance with the Notification of the Department of Business Development, the Ministry of Commerce, re : the financial statements presentation for public limited company, issued under the Accounting Act B.E.2543.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

The financial statements in Thai language are the official statutory financial statements of the Company. The financial statements in English language have been translated from such financial statements in Thai language.

All financial information presented has been rounded to the nearest thousand unless otherwise stated.

Functional and presentation currency

The management of the Company has specified the Japanese Yen currency as the functional currency and presented the consolidated and separate financial statements with Japanese Yen currency in accordance with the accounting standard TAS 21 (revised 2016): The effects of changes in foreign exchange rate. (Note 33)

The Company has presented the consolidated and separate financial statements in Thai Baht currency which follows the regulation of the local agency in Thailand that requires the Company to present the financial statements in Thai Baht currency by translated from Japanese Yen to Thai Baht by using the basis as mentioned in Note 4.14.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

3.2 The accounting standards are effective in the current year

The Federation of Accounting Professions (FAP) has issued Notifications to mandate the revised accounting standards, financial reporting standards, and interpretations of accounting and financial reporting standards, which are effective for the fiscal year beginning on or after January 1, 2017 are as follows:

TAS 1 (revised 2016)	Presentation of Financial Statements
TAS 2 (revised 2016)	Inventories
TAS 7 (revised 2016)	Statement of Cash Flows
TAS 8 (revised 2016)	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 10 (revised 2016)	Events After the Reporting Period
TAS 11 (revised 2016)	Construction Contracts
TAS 12 (revised 2016)	Income Taxes
TAS 16 (revised 2016)	Property, Plant and Equipment
TAS 17 (revised 2016)	Leases
TAS 18 (revised 2016)	Revenue
TAS 19 (revised 2016)	Employee Benefits
TAS 20 (revised 2016)	Accounting for Government Grants and Disclosure of Government Assistance
TAS 21 (revised 2016)	The Effects of Changes in Foreign Exchange Rates
TAS 23 (revised 2016)	Borrowing Costs
TAS 24 (revised 2016)	Related Party Disclosures
TAS 26 (revised 2016)	Accounting and Reporting by Retirement Benefit Plans
TAS 27 (revised 2016)	Separate Financial Statements
TAS 28 (revised 2016)	Investments in Associates and Joint Ventures
TAS 29 (revised 2016)	Financial Reporting in Hyperinflationary Economies
TAS 33 (revised 2016)	Earnings Per Share
TAS 34 (revised 2016)	Interim Financial Reporting
TAS 36 (revised 2016)	Impairment of Assets
TAS 37 (revised 2016)	Provisions, Contingent Liabilities and Contingent Assets

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS (CONT.)**

**DECEMBER 31, 2017**

TAS 38 (revised 2016)	Intangible assets
TAS 40 (revised 2016)	Investment Property
TAS 41 (revised 2016)	Agriculture
TAS 104 (revised 2016)	Accounting for Trouble Debt Restructuring
TAS 105 (revised 2016)	Accounting for Investments in Debt and Equity Securities
TAS 107 (revised 2016)	Financial Instruments Disclosure and Presentation
TFRS 2 (revised 2016)	Share-Based Payment
TFRS 3 (revised 2016)	Business Combinations
TFRS 4 (revised 2016)	Insurance Contracts
TFRS 5 (revised 2016)	Non-current Assets Held for Sale and Discontinued Operations
TFRS 6 (revised 2016)	Exploration for and Evaluation of Mineral Resources
TFRS 8 (revised 2016)	Operating Segments
TFRS 10 (revised 2016)	Consolidated Financial Statements
TFRS 11 (revised 2016)	Joint Arrangements
TFRS 12 (revised 2016)	Disclosure of Interests in Other Entities
TFRS 13 (revised 2016)	Fair Value Measurement
TSIC 10 (revised 2016)	Government Assistance - No Specific Relation to Operating Activities
TSIC 15 (revised 2016)	Operating Leases - Incentives
TSIC 25 (revised 2016)	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
TSIC 27 (revised 2016)	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
TSIC 29 (revised 2016)	Service Concession Arrangements: Disclosure
TSIC 31 (revised 2016)	Revenue-Barter Transactions Involving Advertising Services
TSIC 32 (revised 2016)	Intangible Assets - Web Site Costs
TFRIC 1 (revised 2016)	Changes in Existing Decommissioning, Restoration and Similar Liabilities
TFRIC 4 (revised 2016)	Determining whether an Arrangement contains a Lease

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

TFRIC 5 (revised 2016)	Right to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
TFRIC 7 (revised 2016)	Applying the Restatement Approach under TAS 29 (revised 2016) Financial Reporting in Hyperinflationary Economics
TFRIC 10 (revised 2016)	Interim Financial Reporting and Impairment
TFRIC 12 (revised 2016)	Service Concession Arrangements
TFRIC 13 (revised 2016)	Customer Loyalty Programmes
TFRIC 14 (revised 2016)	TAS 19 (revised 2016)-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
TFRIC 15 (revised 2016)	Agreements for the Construction of Real Estate
TFRIC 17 (revised 2016)	Distributions of Non - cash Assets to Owners
TFRIC 18 (revised 2016)	Transfers of Assets from Customers
TFRIC 20 (revised 2016)	Stripping Costs in the Production Phase of a Surface Mine
TFRIC 21 (revised 2016)	Levies

The management of the Company and its subsidiaries evaluated that these revised accounting standards, financial reporting standard, accounting standard interpretations and financial reporting standards interpretations do not have any significant impact on the financial statements in current year.

#### **4. SIGNIFICANT ACCOUNTING POLICIES**

##### **4.1 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and all deposits at financial institutions with the original maturities of three months or less from the date of acquisition, excluding deposit at financial institutions used as collateral.

##### **4.2 Temporary investments**

Temporary investments is time deposits with maturity term over 3 months up to 12 months and without obligation.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

4.3 Allowance for doubtful accounts

Allowance for doubtful accounts is provided at the estimated collection losses on receivables. Such estimate is based on the Company's collection experiences and a review of the current status of each receivable.

4.4 Inventories

4.4.1 Inventories

Inventories are stated at the lower of cost or net realizable value. The cost of inventories of the Company and its subsidiary are calculated by using the first-in, first-out method.

Net realizable value is the estimate of the selling price in the ordinary course of business, less the estimated cost of completion and estimated costs necessary to make sale. Allowance is made, where necessary, for obsolete and slow-moving inventories (if any).

4.4.2 Land and project development cost

Land and project development cost of the subsidiary are stated at the lower of cost and net realizable value. The project cost consists of cost of land, development cost, construction cost, miscellaneous expenses of the project and borrowing costs. Borrowing costs will be stopped to recognize as cost whenever the construction project have been completed or stop development.

Borrowing costs for the construction or production of an asset that necessarily takes a substantial period of time to get ready for use or sale (if any) that have been included as capitalized until the assets are ready to be used according to the purpose. The other borrowing costs are recognized as expenses in the period incurred. Borrowing costs consist of interest and other costs arising from the borrowing.

Project development costs are stated at the lower of cost and net realizable value.



**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

4.5 Investments in associates and subsidiary

Associates are all entities over which the Company has significant influence but not control generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are stated at cost net from allowance on decline in value (if any).

Subsidiaries are entities over which the Company has the power to control their financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The financial statements of the subsidiaries are consolidated from the date the Company exercises control over the subsidiaries until the date that control power ceases.

Investment in subsidiaries in separate financial statement

Investment in subsidiary is accounted for under the cost method less allowance for impairment loss on the investment, (if any). The Company recognizes impairment loss (if any) on the investment in the statement of comprehensive income.

Investments in associates and subsidiary are presented by the cost method in the separate financial statements.

Investments in associates are presented by the equity method in the consolidated financial statements.

In the case where impairment of investment is occurred, the impairment loss of investment will be charged to the statement of comprehensive income.

On disposal of an investment, the difference between net disposal proceeds and the carrying amount is recognized in profit or loss.

If the Company disposes of part of its holding of a particular investment, the deemed cost of the part sold is determined using the weighted average method applied to the carrying value of the total holding of the investment.

Goodwill in consolidated financial statement

Goodwill represents the excess of the cost of investment over the fair value of investment, which the Company shares in the net identifiable assets of the subsidiary at the date of acquisition. Goodwill on acquisition of a subsidiary is presented as a separate line in the consolidated financial statement.

The goodwill recognized is tested annually for impairment and carried at cost less accumulated impairment losses. The impairment of goodwill is determined by calculating the realizable value based on the value-in-use calculation. Such calculation requires the use of estimates made by management. The allowance for impairment loss on goodwill is not reversed.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

As for the cost of acquiring an investment that is lower than the fair value of the share of net assets of the subsidiary, the difference is negative goodwill and will be recognized immediately in the statement of comprehensive income.

**4.6 Property, plant and equipment**

Land of the Company is stated at cost less provision for impairment (if any.)

Plant and equipment of the Company and its subsidiaries are stated at cost, less accumulated depreciation and allowance for impairment (if any.)

Depreciation of plant and equipment of the Company and its subsidiaries is calculated by the straight-line method over the estimated useful lives of the assets as follows:

Building	20 years
Machinery and equipment	5-10 years
Office furniture, fixtures and equipment	3-5 years
Vehicles	5 years

In the case where impairment of property, plant and equipment is occurred, the loss on impairment will be charged to the statement of comprehensive income.

Dismantling, moving and renovating assets location cost which the Company obligates when receiving such asset is recognized as the cost of assets and depreciated them.

The Company and its subsidiaries has reviewed the residual value and useful life of the assets every year.

The depreciation for each asset component is calculated on the separate components when each component has significant cost compared to the total cost of that asset.

Depreciation is included in determining income.

No depreciation is provided on land, construction in progress and equipment under installation.

Property, plant and equipment are written off at disposal. Gains or losses arising from sale or write-off of assets are recognized in the statement of comprehensive income.

**4.7 Land leasehold**

Leasehold is stated by cost less accumulated amortization. Amortization is calculated by the straight line method over the lease agreement period.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

4.8 Intangible assets

Intangible asset consists of computer software.

Intangible asset is stated at costs less accumulated amortization.

Amortization is calculated by the straight-line method, based on the estimated useful lives of the assets as follows:

Computer Software	5-10 years
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4.9 Impairment

The carrying amounts of the assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amounts of asset is estimated. The Company recognizes impairment loss when the recoverable amount of an asset is lower than its carrying amount. The recoverable amount is the higher of the asset's fair value less cost to sell or its value in use. The Company determines the value in use by estimating the present value of future cash flows generated by the asset, discounted using a pre-tax discount rate which reflects current market assessments of the time value of money and the risk specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. The calculation reflects the amount that the Company could obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

The Company recognizes an impairment loss as expense in the statement of comprehensive income.

Reversal of an impairment loss

The Company reverses impairment loss of asset (if any), which had been recognized in the prior periods, if there is an indicator for impairment may no longer exist or may have decreased which the recoverable amount must be estimated.

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4.10 Employee benefit obligations

4.10.1 Post-employment benefit upon retirement

The Company and its subsidiary have accounted for post-employment benefits obligation under the Thai Labor Protection Act based on actuarial assumptions using Projected Unit Credit Method at the end of reporting period, such as discount rates, expected rates of salary increase and turnover rates.

The expense for defined employee benefit plans is recognized as personnel expenses in the statement of comprehensive income.

The actuarial gains (losses) are recognized in other comprehensive income and transferred immediately to the retained earnings in the period in which they arise.

4.10.2 Provident fund

The contribution for employees under provident fund scheme is recorded as expenses when incurred.

4.11 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

4.12 Revenue and expense recognition

Revenue is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognized if there is continuing management involvement with the goods or there are significant uncertainties regarding recovery of the consideration due, associated costs or the probable return of goods. Revenue is presented by deducting discounts.

Revenues from services are recognized as revenue when the services are rendered.

Revenues from dividend from investments are recognized as income when the dividend is declared.

Other incomes are recognized on an accrual basis.

Expenses are recognized on an accrual basis.

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4.13 Leases

Operating lease

Leases in which substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating lease. Rentals applicable to such operating leases are charged as an expense to the statement of comprehensive income on the straight-line basis over lease term.

Finance lease

Lease in which substantially all the risk and reward of ownership, other than legal title is transferred to the Company is accounted for as a finance lease. The Company capitalized the asset and liabilities in statements of financial position in the amount at the lower of estimated present value of the underlying lease payments or at the fair value of the leased asset at the contractual date. The leased assets are depreciated using the straight-line method over their estimated useful lives. Financial charge is calculated by the effective interest rate method over the term of contracts. Financial charge and depreciation are recognized as expenses in the statements of comprehensive income.

4.14 Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

4.14.1 Current tax

Current tax represents tax currently payable which is based on taxable profit for the period. Taxable profit differs from profit before income tax expenses as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable in other years and it further excludes items that are never taxable. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

4.14.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit (tax base). Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for temporary differences to the extent that it is probable that taxable profits will be available against which those temporary differences can be utilized.

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The carrying amount of deferred tax assets is reviewed at each of the end of reporting period date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the assets is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off the current tax assets against current tax liabilities and the Company and its subsidiaries intend to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously.

Current and deferred tax are recognized as income or expenses and included in profit or loss for the period except when a transaction or event which is recognized in the other comprehensive income or directly in equity.

**4.15 Foreign currency transactions**

a) **Functional and presentation currency**

The Group's financial statements are presented in Thai Baht, which is different from the Group's functional currency of JPY. Each entity in the Group determines its own functional currency. Items of each entity included in the consolidated financial statements are measured using the functional currency of that entity.

b) **Transaction and balance**

Transactions in foreign currencies occurred during the year are converted into functional currency at the rates of exchange prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies outstanding at the end of the year are converted into functional currency at the exchange rates prevailing on that date as determined by the Bank of Thailand. Gains or losses on conversion are included in the statement of comprehensive income.

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**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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c) Group companies

The translation of financial statements in the company group that uses the functional currency that is different from the currency used to presentation currency for the purpose of preparing the financial statements should use the following exchange rates.

- a. Assets and liabilities are converted at the closing rate at the statements of financial position date.
- b. Shareholders' equity is converted using the exchange rate at the rate prevailing on the transaction date.
- c. Revenues and expenses are converted using the exchange rate at the average rate during the year.

Gain (loss) on translation of the financial statements is recorded in other comprehensive income and is shown as the difference of the exchange rate from the translation of financial statements as shown under shareholders' equity in the statement of financial position.

Goodwill and adjustment of fair value arising from the acquisition of business unit overseas is considered as assets and liabilities of the business unit overseas. It is converted by using the closing rate as at the statement of financial position date.

4.16 Basic earnings per share

Basic earnings per share are computed by dividing profit attributable to the owners of the parent for the year by the weighted average number of ordinary shares which are issued during the year and held by outside party. The Company does not have any potential ordinary shares to dilute the earnings per share.

4.17 Use of accounting estimates and judgments by the management

The preparation of financial statements in conformity with Thai Financial Reporting Standards required the management of the Company and its subsidiary to exercise judgment in order to determine the accounting policies, estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Although these estimates are based on management's reasonable consideration of current events, actual results may differ from these estimates. Significant judgments and estimates are as follows:

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**Allowance for doubtful accounts**

In determining an allowance for doubtful accounts, the management needs to make judgement and estimates based upon, among other things, past collection history, aging profile of outstanding debts and the prevailing economic condition.

**Allowance for declining in value of inventory**

The determination of allowance for declining in the value of inventory, requires management to make judgements and estimates of the loss expected to occur. The allowance for decline in net realizable value is estimated based on the selling price expected in the ordinary course of business less selling expense. The provision for obsolete slow-moving and deteriorated inventory, is estimated based on the approximate useful life of each type of inventory. The allowance for diminution in value of inventory as determined is compared with the original balance in the books of account and the increase or decrease in the allowance for diminution in value of inventory will be recognized as cost of sales and service in profit or loss.

**Leases**

In determining whether a lease is to be classified as an operating lease or finance lease, the management is required to use judgments in evaluating the conditions and details of the agreement whether significant risk and rewards of ownership of the leased asset has been transferred.

**Property, plant and equipment/Depreciation**

In determining depreciation of plant and equipment, the management is required to make estimates of the useful lives and residual values of the plant and equipment and to review the estimated useful lives and residual values when there are any changes.

In addition, the management is required to review property, plant and equipment for impairment on a periodical basis and record the impairment loss when it is determined that the recoverable amount is lower than the carrying amount. This requires judgement regarding forecast of future revenues and expenses relating to the assets subject to the review.



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**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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**Deferred tax assets**

Deferred tax assets are recognized for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the temporary differences and losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of estimated future taxable profits.

**Post-employment benefits under defined benefit plans**

The obligation under the defined benefit plan is determined based on actuarial techniques. Such determination is made based on various assumptions, including discount rate, future salary increase rate, mortality rate and staff turnover rate.

**Provision for warranty**

A provision for warranty is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. This provision included all loss from their normal operation.

**Litigation**

The Company has contingent liabilities as a result of litigation. The management has used judgement to assess the results of the litigation and believed that it will win the case. However for prudent reason, the management has displayed judgement to set up certain provision for litigation as at the end of the reporting period.

**5. RELATED PARTY TRANSACTIONS**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

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**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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Relationships with related parties were as follows:

Company	Country of incorporation/ Nationality	Type of business	Percentage of holding		Relationship		Percentage of the Company's substitution in Board of Directors of subsidiary/associate	
			As at December 31,		As at December 31,		As at December 31,	
			2017	2016	2017	2016	2017	2016
			%	%			%	%
Tanaka Welding Center Co., Ltd.	Thailand	Welder training and Real estate	99.92	99.92	Subsidiary	Subsidiary	100.00	100.00
M.C.S. Nasu Co., Ltd.	Japan	Design and construction of structural steel	66.00	66.00	Subsidiary	Subsidiary	66.00	66.00
M.C.S. Steel (Xiamen) Co., Ltd.	China	Production and distribution of structural steel products	74.00	39.00	Subsidiary	Associate	-	-
T.K.C. Co., Ltd.	Japan	Design	25.00	25.00	Associate	Associate	25.00	25.00

The pricing policies for particular types of transactions are explained further below:

<b>Transactions</b>	<b>Pricing policies</b>
Revenue from sales	Mutually agreed price
Other income	Mutually agreed price
Interest income	Contract price
Cost of service	Mutually agreed price
Administrative expense	Mutually agreed price
Purchase assets	Contract price

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
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Significant transactions for the year ended December 31, 2017 and 2016 with related parties were as follows :

	In Thousand Baht			
	Consolidated Financial Statements		Separate Financial Statements	
	For the year ended December 31,		For the year ended December 31,	
	2017	2016	2017	2016
<b>Transactions with subsidiaries:</b>				
Tanaka Welding Center Co., Ltd.				
Other income	-	-	1,528	399
Interest income	-	-	-	270
	-	-	1,528	669
Purchase assets	-	-	1,688	2,569
M.C.S. Nasu Co., Ltd.				
Revenue from contractors	-	-	2,236	866
Cost of service			65,920	248,637
Administrative expenses	-	-	6,134	3,586
	-	-	72,054	252,223
M.C.S. Steel (Xiamen) Co., Ltd.				
Cost of service	-	-	18,312	-
	-	-	18,312	-
<b>Transactions with associate:</b>				
M.C.S. Steel (Xiamen) Co., Ltd.				
Cost of service	-	265,178	-	265,178
	-	265,178	-	265,178

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
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The significant outstanding balances with related parties as at December 31, 2017 and 2016 are as follows:

	In Thousand Baht			
	Consolidated Financial Statements		Separate Financial Statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
<b>Trade and other receivables - related party</b>				
Subsidiary				
M.C.S. Nasu Co., Ltd.	-	-	171	1,010
Tanaka Welding Center Co., Ltd.	-	-	3,547	2,022
M.C.S. Steel (Xiamen) Co., Ltd.	-	-	47,107	-
	-	-	50,825	3,032
Associate				
M.C.S. Steel (Xiamen) Co., Ltd.	-	17,721	-	17,721
	-	17,721	-	17,721
<b>Trade payable and other payables - related party</b>				
Subsidiary				
M.C.S. Nasu Co., Ltd.	-	-	10,632	34,203
M.C.S. Steel (Xiamen) Co., Ltd.	-	-	20,234	-
	-	-	30,866	34,203
Associate				
M.C.S. Steel (Xiamen) Co., Ltd.	-	27,975	-	27,975
	-	27,975	-	27,975

**Management benefit expenses**

Management benefit expenses represent the benefits paid to the Company's management such as salaries and related benefit including the benefit paid by other means. The Company's management is the persons who are defined under the Securities and Exchange Act.

Management benefit expenses for the year ended December 31, 2017 and 2016, are as follows :

	In Thousand Baht			
	Consolidated Financial Statements		Separate Financial Statements	
	For the year ended December 31,		For the year ended December 31,	
	2017	2016	2017	2016
Management				
Management benefit expenses				
Short-term employee benefits	45,080	54,796	39,830	50,614
Post-employment benefits	225	301	225	301
Total	45,305	55,097	40,055	50,915

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
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**6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents were as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Cash on hand	947	840	501	506
Cash at banks - current and savings accounts	578,077	841,899	483,362	760,040
Deposit at bank - fixed account with maturity of 3 months or less	6,589	224,991	6,590	224,991
<b>Total</b>	<b>585,613</b>	<b>1,067,730</b>	<b>490,453</b>	<b>985,537</b>

Cash and cash equivalents based on currency denomination as at December 31, 2017 and 2016, were as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Thai Baht (THB)	308,482	494,693	275,476	487,674
Japanese Yen (JPY)	218,550	436,002	170,981	360,828
Chinese Yuan (CNY)	14,585	-	-	-
United States Dollars (USD)	43,996	137,035	43,996	137,035
<b>Total</b>	<b>585,613</b>	<b>1,067,730</b>	<b>490,453</b>	<b>985,537</b>

**7. TEMPORARY INVESTMENTS**

Temporary investments were as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Short-term deposits at financial institutions	20,267	126,389	20,267	126,389
<b>Total</b>	<b>20,267</b>	<b>126,389</b>	<b>20,267</b>	<b>126,389</b>

As at December 31, 2017 and 2016, the Company's short-term deposits at financial institutions are fixed deposits 6 months, with annual interest rates of 1.35 % and 1.20 - 1.55%, respectively.

Temporary investments of the Company as at December 31, 2017 and 2016 were denominated entirely in Thai Baht.

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**8. TRADE AND OTHER RECEIVABLES**

Trade and other receivables were as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Trade receivables - other companies	1,043,434	692,259	904,339	692,314
<u>Less</u> Allowance for doubtful accounts	(106,934)	(23,299)	-	(23,299)
Total trade receivables	936,500	668,960	904,339	669,015
Other receivables				
Product and service advance payment	37,514	-	83,644	-
Raw material delivered to contractor	-	17,721	977	17,721
Revenue department receivables	27,835	6,419	27,835	6,060
Other receivables	56,043	22,450	17,124	20,225
<u>Less</u> Allowance for doubtful accounts	(42,971)	(5,659)	(5,610)	(5,659)
Total other receivables	78,421	40,931	123,970	38,347
Total	1,014,921	709,891	1,028,309	707,362

Aging analysis for trade receivables was as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Within credit terms	911,277	667,840	904,339	667,895
Overdue:				
Less than 3 months	14,789	-	-	-
3 - 6 months	10,315	281	-	281
6 - 12 months	119	839	-	839
Over 12 months	106,934	23,299	-	23,299
	1,043,434	692,259	904,339	692,314
<u>Less</u> Allowance for doubtful accounts	(106,934)	(23,299)	-	(23,299)
Total	936,500	668,960	904,339	669,015

The normal credit terms granted by the Company range is from 30 days to 180 days.

As at December 31, 2017, the Company has a declining in allowance for doubtful accounts at the amount of Baht 23.30 million due to the Company has written-off in the full amount

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Trade receivables based on currency denomination as at December 31, 2017 and 2016 were as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Japanese Yen (JPY)	904,637	668,960	904,339	669,015
Chinese Yuan (CNY)	31,863	-	-	-
United States Dollars (USD)	-	-	-	-
<b>Total</b>	<b>936,500</b>	<b>668,960</b>	<b>904,339</b>	<b>669,015</b>

**9. INVENTORIES**

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Work in progress	333,563	66,635	296,762	75,564
Raw materials	367,484	398,023	359,127	398,023
Spare parts and factory supplies	96,921	119,812	95,007	119,812
Goods in transit	62,115	90,600	62,115	90,600
Project development costs				
Land	-	5,560	-	-
Work in process	54,333	16,709	-	-
Property for sale	8,690	10,810	-	-
<b>Total</b>	<b>923,106</b>	<b>708,149</b>	<b>813,011</b>	<b>683,999</b>
<b>Less Allowance for decline in value</b>				
of inventories	(7,308)	(6,991)	(7,308)	(6,991)
<b>Inventories - net</b>	<b>915,798</b>	<b>701,158</b>	<b>805,703</b>	<b>677,008</b>

As at December 31, 2017 and 2016, the Company's total raw materials are mortgaged as collateral for bank overdrafts limit, trust receipt limit, letter of credit limit, packing credit limit, aval promissory note limit and letter of guarantee limit with a local financial institution.

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**10. INVESTMENTS IN ASSOCIATES**

Investments in associates accounted for by cost method on the separate financial statements were as follows:

	Ownership interest (%)		Paid-up capital		In Thousand Baht					
					Cost method		Allowance for impairment		At Cost - Net	
	As at December 31,		As at December 31,		As at December 31,		As at December 31,		As at December 31,	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Associates</b>										
T.K.C. Co., Ltd.	25.00	25.00	YEN 12 million	YEN 12 million	-	1,029	-	(1,029)	-	-
M.C.S. Steel (Xiamen) Co., Ltd.	-	39.00	-	YUAN 64 million	-	109,629	-	(15,688)	-	93,941
POSCO - China Dailian Steel Fabricating Center	-	-	-	-	-	-	-	-	-	-
<b>Total</b>					<b>-</b>	<b>110,658</b>	<b>-</b>	<b>(16,717)</b>	<b>-</b>	<b>93,941</b>

Investments in associates accounted for by equity method in the consolidated financial statements were as follows:

	Ownership interest (%)		Paid-up capital		In Thousand Baht					
					Equity method		Allowance for impairment		Equity method - Net	
	As at December 31,		As at December 31,		As at December 31,		As at December 31,		As at December 31,	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Associates</b>										
T.K.C. Co., Ltd.	25.00	25.00	YEN 12 million	YEN 12 million	-	-	-	-	-	-
M.C.S. Steel (Xiamen) Co., Ltd.	-	39.00	-	YUAN 64 million	-	123,930	-	(15,688)	-	108,242
POSCO - China Dailian Steel Fabricating Center	-	-	-	-	-	-	-	-	-	-
<b>Total</b>					<b>-</b>	<b>123,930</b>	<b>-</b>	<b>(15,688)</b>	<b>-</b>	<b>108,242</b>



**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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Share of profit (loss) of associates for the years ended December 31, 2017 and 2016, were as follows:

	In Thousand Baht	
	Consolidated financial statements	
	2017	2016
POSCO-China Dailian Steel Fabricating Center	-	(3,507)
M.C.S. Steel (Xiamen) Co., Ltd.	(10,744)	14,300
Total	(10,744)	10,793

Summarized financial information in respect of M.C.S. Steel (Xiamen) Co., Ltd. (Associated company) of the material associate;

	In Thousand Baht	
	2017	2016
Current assets	-	257,483
Non-current assets	-	218,456
Current liabilities	-	(260,883)
Non-current liabilities	-	-
Net assets of the associate	-	215,056
Revenue	-	277,873
Profit(loss) for the year	-	36,668
Other comprehensive income for the year	-	-
Total comprehensive income for the year	-	36,668

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**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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Reconciliation of the above summarized financial information to the carrying amount of the interest in M.C.S. Steel (Xiamen) Co., Ltd. recognized in the consolidated financial statements;

	In Thousand Baht	
	2017	2016
Net assets of the associate	-	215,056
Proportion of the interest (%)		
- M.C.S. Steel (Xiamen) Co., Ltd.	-	39
Share of net assets	-	83,872
Other adjustments		
Allowance for impairment	-	20,817
Exchange differences on translating financial statements	-	3,553
Carrying amount of the interest in		
- M.C.S. Steel (Xiamen) Co., Ltd.	-	108,242

10.1 In the second quarter 2017, the Company has acquired the shares of M.C.S. Steel (Xiamen) Co., Ltd. from 39% to 74% shareholding of the Company. As a result, the status has changed from the associate to the subsidiary as at June 26, 2017 (see Note 11).

10.2 POSCO-China Dalian Steel Fabricating Center (POSCO - CDSFC)

In the first quarter of 2016, the Company received back its investment from POSCO-China Dalian Fabricating Center which has resulted in the loss from capital reduction of Baht 11.87 million in the separate financial statements and the profit of Baht 20.30 million in the consolidated financial statements.

In the third quarter of 2016, the board of directors of the associated company has approved transferring the remaining shares that belong to M.C.S. Steel Public Company Limited to another company (Posco China Dalian Plate Processing Center LTD.) which is the former shareholder in POSCO-China Dalian Fabricating Center in the amount of USD 506,363. On October 11, 2016, the Company has received the share payment. This has resulted in the loss from sales in the amount of Baht 30.63 million in the separate financial statements and the loss from sales in the amount of Baht 6.08 million in the consolidated financial statements. As at December 31, 2016, the Company no longer has outstanding balance in the investment account of such company.

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**11. INVESTMENTS IN SUBSIDIARY**

Investments in subsidiary in the separate financial statements which use the cost method were as follows:

		In Thousand Baht										
Type of business	Country of incorporation	Ownership Interest (%)		Paid-up capital		Cost method		Allowance for impairment		At Cost - Net		
		As at December 31,		As at December 31,		As at December 31,		As at December 31,		As at December 31,		
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
Tanaka Welding Center Co., Ltd.	Welder training and Real estate	Thai	99.92	99.92	Baht 99 million	Baht 40 million	93,193	41,044	-	-	93,193	41,044
M.C.S. Nasu Co., Ltd.	Design and construction of structural steel	Japan	66.00	66.00	Yen 50 million	Yen 50 million	9,564	10,162	-	-	9,564	10,162
M.C.S. Steel (Xiamen) Co., Ltd.	Production and distribution of structural steel product	China	74.00	-	Yuan 64 million	-	183,397	-	(14,764)	-	168,633	-
Total							286,154	51,206	(14,764)	-	271,390	51,206

The subsidiaries that have material non-controlling interests

The Company has consolidated M.C.S. Nasu Co., Ltd. and M.C.S. Steel (Xiamen) Co., Ltd. that have material non-controlling interest:

		In Thousand Baht					
Name of Company	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests (%)		Profit(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		by non-controlling interests (%)		controlling interests		interests	
		2017	2016	2017	2016	2017	2016
Tanaka Welding Center Co., Ltd.	Thailand	0.08	0.08	-	(2)	-	32
M.C.S. Nasu Co., Ltd.	Japan	34	34	(6,262)	(3,479)	(6,455)	(7,077)
M.C.S. Steel (Xiamen) Co., Ltd.	China	26	-	(4,404)	-	15,712	-
Total						9,257	(7,045)

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The summarized financial information in respect of M.C.S. Steel (Xiamen) Co., Ltd. before intragroup eliminations.

	In Thousand Baht	
	2017	2016
Current assets	111,353	-
Non-current assets	184,901	-
Current liabilities	(241,421)	-
Non-current liabilities	-	-
Net assets	54,833	-
Non-Controlling interests	15,712	-

	In Thousand Baht	
	2017	2016
Revenue	76,885	-
Profit(loss) attributable to the non-controlling interests	(4,404)	-
Dividends paid to non-controlling interests	-	-
Net cash inflow(outflow) from operating activities	18,423	-
Net cash inflow(outflow) from investing activities	(1,544)	-
Net cash inflow(outflow) from financing activities	(10,086)	-
Net cash inflow(outflow)	6,793	-

The summarized financial information in respect of M.C.S. Nasu Co., Ltd. before intragroup eliminations.

	In Thousand Baht	
	2017	2016
Current assets	66,517	123,876
Non-current assets	28,091	41,374
Current liabilities	(105,001)	(151,523)
Non-current liabilities	(4,560)	(11,239)
Net assets	(14,953)	2,488
Non-Controlling interests	-	(7,077)

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	In Thousand Baht	
	2017	2016
Revenue	99,590	593,936
Profit(loss) attributable to the non-controlling interests	-	(3,479)
Dividends paid to non-controlling interests	-	-
Net cash inflow(outflow) from operating activities	(14,673)	52,571
Net cash inflow(outflow) from investing activities	(686)	(3,752)
Net cash inflow(outflow) from financing activities	(8,848)	(9,142)
Net cash inflow(outflow)	(24,207)	39,677

- 11.1 At the extraordinary meeting of the subsidiary company's shareholders No. 1/2017 held on February 20, 2017, it was approved to increase the registered capital from Baht 40 million to Baht 99 million by issuing new ordinary shares of 990,000 shares at par value of Baht 100 per share. The subsidiary company had registered change of the registered capital with the Ministry of Commerce on February 22, 2017.
- 11.2 On June 26, 2017, the Company has acquired the 35% additional shares of M.C.S. Steel (Xiamen) Co., Ltd. from the original shareholder which the Company is formerly holding 39%. As a result, the total shareholding is 74% of the total sold shares of such company amounting CNY 17 million or Baht 85.39 million. The objective of the investment is to serve as a production base of workpiece for China's company. Such company will change from the associate to the subsidiary after the share transfer and it has been included in the consolidated financial statements preparation from June 26, 2017, onwards.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
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The value of acquired assets and the liabilities received from the shares of M.C.S. Steel (Xiamen) Co., Ltd. as at June 30, 2017 which is the closest date to the acquisition date are consisted of the following transactions:

Information as at June 30, 2017.

	Yuan	Baht
<u>Assets</u>		
Cash and cash equivalents	1,857,197	9,428,895
Trade and other receivables	34,889,113	177,130,249
Inventories	9,907,197	50,298,334
Plant and equipment	28,378,209	144,074,719
Intangible assets	6,759,074	34,315,473
Other Non-current assets	6,173,402	31,342,050
<u>Liabilities</u>		
Short-term loan	17,258,000	85,635,330
Trade and other payable	32,538,862	161,459,973
Net assets acquired	38,167,330	199,494,417
<u>Less</u> non-controlling interest 26%	(9,923,505)	(51,868,548)
Net assets from the additional purchase	28,243,825	147,625,869
<u>Less</u> Return in the additional purchase 35%	(17,000,000)	(85,391,000)
Fair value of the subsidiary's shares - previously held 39%	(19,075,080)	(94,356,730)
Goodwill	(7,831,255)	(32,121,861)
Return from the purchase	17,000,000	85,391,000
<u>Less</u> cash and cash equivalents of the acquired company	(1,857,197)	(9,428,895)
Cash inflow on acquisition of investment, net of cash and cash equivalents acquired	15,142,803	75,962,105

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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The information additionally presented as at December 31, 2017 is because the subsidiary has adjusted to reduce the value of its partial assets such as trade accounts receivable and other receivable in the financial statement as at December 31, 2017 which are the assets acquired by the company as at the business acquisition date. The value of remaining assets and liabilities are under assessment process and are not completed yet as follows :

	Yuan	Baht
<u>Assets</u>		
Cash and cash equivalents	1,857,197	9,320,994
Trade and other receivables	12,137,378	60,915,680
Inventories	9,907,197	49,722,736
Plant and equipment	28,378,209	142,425,973
Intangible assets	6,759,074	33,922,778
Other Non-current assets	6,173,402	30,983,381
<u>Liabilities</u>		
Short-term loan	17,258,000	86,615,313
Trade and other payable	32,538,862	163,307,669
Net assets acquired	15,415,595	77,368,560
<u>Less non-controlling interest 26%</u>	(4,008,055)	(20,115,826)
Net assets from the additional purchase	11,407,540	57,252,734
<u>Less Return in the additional purchase 35%</u>	(17,000,000)	(85,391,000)
Fair value of the subsidiary's shares - previously held 39%	(19,075,080)	(94,861,123)
Goodwill	(24,667,540)	(122,999,389)
Return from the purchase	17,000,000	85,391,000
<u>Less cash and cash equivalents of the acquired company</u>	(1,857,197)	(9,320,994)
Cash inflow on acquisition of investment, net of cash and cash equivalents acquired	15,142,803	76,070,006

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
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Such item has an effect on goodwill previously presented in the amount of Yuan 7,831,255 (equivalent to Baht 32.12 million) to be Yuan 24,667,540 (equivalent to Baht 123 million). However, at present, the Company is in the process of assessing the fair value of identifiable assets acquired and liabilities assumed at the acquisition date. The assessment process is on going and shall be completed within measurement period of one year from the acquisition date pursuant to the period allowed by Thai Financial Reporting Standard No. 3 (revised 2016): Business Combination. During the measurement period, the Company shall retrospectively adjust provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date.

11.3 Goodwill

Movements of goodwill during in the years are as follow :

	In Baht	
	Consolidated Financial Statement	
	As at December 31, 2017	As at December 31, 2018
Goodwill	8,003,208	7,772,676
Increase	156,350,948	-
<u>Add Less : Exchange translating differences</u>	<u>(33,823,110)</u>	<u>230,532</u>
Net goodwill	<u>130,531,046</u>	<u>8,003,208</u>



**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

**12. PROPERTY, PLANT AND EQUIPMENT**

Consolidated financial statements (In Thousand Baht)							
	Balance as at January 1, 2017	Increase from acquisition of investment	Additions	Disposals	Transfer in/ (Transfer out) reclassification	Effect from Translation of The financial Statements	Balance as at December 31, 2017
<b>Cost:</b>							
Land	145,677	-	-	-	-	(8,583)	137,094
Building	566,576	173,825	3,196	-	89,970	(39,733)	793,834
Machinery and equipment	691,074	106,861	23,405	-	202,637	(60,293)	963,684
Office furniture, fixtures and Equipment	56,903	74,339	14,078	(2,481)	-	2,013	144,852
Vehicles	68,825	9,804	7,650	(3,575)	-	(4,244)	78,460
Total cost	<u>1,529,055</u>	<u>364,829</u>	<u>48,329</u>	<u>(6,056)</u>	<u>292,607</u>	<u>(110,840)</u>	<u>2,117,924</u>
<b>Accumulated depreciation:</b>							
Building	307,724	72,423	30,832	-	-	(20,968)	390,011
Machinery and equipment	454,585	79,028	79,698	-	-	(32,847)	580,464
Office furniture, fixtures and Equipment	39,467	62,119	10,487	(2,432)	-	921	110,562
Vehicles	15,821	8,833	15,984	(3,226)	-	(1,512)	35,900
Total accumulated depreciation	<u>817,597</u>	<u>222,403</u>	<u>137,001</u>	<u>(5,658)</u>	<u>-</u>	<u>(54,406)</u>	<u>1,116,937</u>
Building under construction and machinery and equipment under installation	105,947	-	214,867	-	(292,607)	8,500	36,707
Less Allowance for impairment	(3,479)	-	-	-	-	205	(3,274)
Property, plant and equipment	<u>813,926</u>						<u>1,034,420</u>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS (CONT.)**

**DECEMBER 31, 2017**

	Consolidated financial statements (In Thousand Baht)					
	Balance as at January 1, 2016	Additions	Disposals	Transfer in/ (Transfer out) reclassification	Effect from Translation of The financial Statements	Balance as at December 31, 2016
<b>Cost:</b>						
Land	139,154	2,719	-	-	3,804	145,677
Building	529,662	15,800	-	7,578	13,536	566,576
Machinery and equipment	634,528	14,510	(998)	25,829	17,205	691,074
Office furniture, fixtures and Equipment	45,820	12,406	(2,324)	-	1,001	56,903
Vehicles	5,841	65,337	(1,653)	-	(700)	68,825
<b>Total cost</b>	<b>1,355,005</b>	<b>110,772</b>	<b>(4,975)</b>	<b>33,407</b>	<b>34,846</b>	<b>1,529,055</b>
<b>Accumulated depreciation:</b>						
Building	275,166	26,611	-	-	5,947	307,724
Machinery and equipment	386,347	58,961	(974)	-	10,251	454,585
Office furniture, fixtures and Equipment	33,143	5,912	(617)	-	1,029	39,467
Vehicles	2,736	14,002	(879)	-	(38)	15,821
<b>Total accumulated depreciation</b>	<b>697,392</b>	<b>105,486</b>	<b>(2,470)</b>	<b>-</b>	<b>17,189</b>	<b>817,597</b>
<b>Building under construction and machinery and equipment under installation</b>	<b>11,637</b>	<b>138,250</b>	<b>-</b>	<b>(33,407)</b>	<b>(10,533)</b>	<b>105,947</b>
<b>Less Allowance for impairment</b>	<b>(4,704)</b>	<b>-</b>	<b>1,670</b>	<b>-</b>	<b>(445)</b>	<b>(3,479)</b>
<b>Property, plant and equipment</b>	<b>664,546</b>					<b>813,926</b>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS (CONT.)**

**DECEMBER 31, 2017**

	Separate financial statements (In Thousand Baht)					
	Balance as at January 1, 2017	Additions	Disposals	Transfer in/ (Transfer out) reclassification	Effect from Translation of The financial Statements	Balance as at December 31, 2017
Cost:						
Land	145,677	-	-	-	(8,583)	137,094
Building	566,577	2,420	-	89,970	(42,086)	616,881
Machinery and equipment	656,100	3,911	-	202,637	(55,906)	806,742
Office furniture, fixtures and Equipment	56,903	13,586	(2,481)	-	(3,615)	64,393
Vehicles	42,790	7,573	-	-	(2,833)	47,530
Total cost	1,468,047	27,490	(2,481)	292,607	(113,023)	1,672,640
Accumulated depreciation:						
Building	307,724	27,001	-	-	(21,871)	312,854
Machinery and equipment	437,467	68,192	-	-	(30,240)	475,419
Office furniture, fixtures and Equipment	39,467	8,504	(2,432)	-	(2,439)	43,100
Vehicles	8,410	8,842	-	-	(1,185)	16,067
Total accumulated depreciation	793,068	112,539	(2,432)	-	(55,735)	847,440
Building under construction and machinery and equipment under installation	105,947	214,867	-	(292,607)	8,500	36,707
Less Allowance for impairment	(3,479)	-	-	-	205	(3,274)
Property, plant and equipment	777,447					858,633

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS (CONT.)**

**DECEMBER 31, 2017**

	Separate financial statements (In Thousand Baht)					Balance as at December 31, 2016
	Balance as at January 1, 2016	Additions	Disposals	Transfer in/ (Transfer out) reclassification	Effect from Translation of The financial Statements	
Cost:						
Land	139,154	2,719	-	-	3,804	145,677
Building	529,663	15,800	-	7,578	13,536	566,577
Machinery and equipment	600,511	14,512	(948)	25,829	16,196	656,100
Office furniture, fixtures and Equipment	45,820	12,406	(2,324)	-	1,001	56,903
Vehicles	5,841	39,070	(1,421)	-	(700)	42,790
Total cost	<u>1,320,989</u>	<u>84,507</u>	<u>(4,693)</u>	<u>33,407</u>	<u>33,837</u>	<u>1,468,047</u>
Accumulated depreciation:						
Building	275,166	26,611	-	-	5,947	307,724
Machinery and equipment	374,972	53,571	(948)	-	9,872	437,467
Office furniture, fixtures and Equipment	33,143	5,912	(617)	-	1,029	39,467
Vehicles	2,736	6,454	(742)	-	(38)	8,410
Total accumulated depreciation	<u>686,017</u>	<u>92,548</u>	<u>(2,307)</u>	<u>-</u>	<u>16,810</u>	<u>793,068</u>
Building under construction and machinery and equipment under installation	11,637	138,250	-	(33,407)	(10,533)	105,947
Less Allowance for impairment	<u>(4,704)</u>	<u>-</u>	<u>1,670</u>	<u>-</u>	<u>(445)</u>	<u>(3,479)</u>
Property, plant and equipment	<u>641,905</u>					<u>777,447</u>

	In Thousand Baht			
	Consolidated Financial Statement		Separate Financial Statement	
	For the years ended December 31,		For the years ended December 31,	
	2017	2016	2017	2016
Depreciation charged to the statements of comprehensive income				
Cost of sales and services	107,863	89,679	92,582	76,741
Administrative expenses	29,138	15,807	19,957	15,807
Total	<u>137,001</u>	<u>105,486</u>	<u>112,539</u>	<u>92,548</u>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
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The gross amount of the Company's fully depreciated property, plant and equipment that was still in use as at December 31, 2017 and 2016 amounted to Baht 496.27 million and Baht 429.88 million, respectively.

As at December 31, 2017 and 2016, the Company's land and building with a net book value of Baht 196.79 million and Baht 223.03 million are mortgaged as collateral for bank overdrafts limit, trust receipt limit, letter of credit limit, packing credit limit, aval promissory note limit, letter of guarantee limit and forward contract and as at December 31, 2017 and 2016, the Company gives the commitment not to sell, transfer or make any restriction to the machinery with a net book value of Baht 2.85 million and Baht 10.23 million, respectively, for the mentioned credit limits with a local financial institution.

13. LEASEHOLD

This account is consisted of :

	In Thousand Baht	
	Consolidated financial statements	
	2017	2016
Land leasehold beginning balance	-	-
Increase from acquisition of investment	33,923	-
Amortized during the year	(925)	-
Effect from translation of the financial statements of foreign subsidiaries	412	-
Land leasehold ended balance	33,410	-

Land leasehold is the leasehold of product showroom with the period from January 2011 to September 2033.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS (CONT.)**

**DECEMBER 31, 2017**

**14. INTANGIBLE ASSETS**

	Consolidated financial statements (In Thousand Baht)				
	Balance as at January 1, 2017	Additions	Disposals	Effect from Translation of The financial Statements	Balance as at December 31, 2017
Cost:					
Computer software	17,349	434	-	(1,005)	16,778
Total cost	17,349	434	-	(1,005)	16,778
Accumulated depreciation:					
Computer software	9,664	1,129	-	(720)	10,073
Total accumulated depreciation	9,664	1,129	-	(720)	10,073
Intangible assets	<u>7,685</u>				<u>6,705</u>

	Consolidated financial statements (In Thousand Baht)				
	Balance as at January 1, 2016	Additions	Disposals	Effect from Translation of The financial Statements	Balance as at December 31, 2016
Cost:					
Computer software	13,439	3,607	-	303	17,349
Total cost	13,439	3,607	-	303	17,349
Accumulated depreciation:					
Computer software	8,309	1,204	-	151	9,664
Total accumulated depreciation	8,309	1,204	-	151	9,664
Intangible assets	<u>5,130</u>				<u>7,685</u>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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	Separate financial statements (In Thousand Baht)				Balance as at December 31, 2017
	Balance as at January 1, 2017	Additions	Disposals	Effect from Translation of The financial Statements	
Cost:					
Computer software	13,213	110	-	(761)	12,562
Total cost	13,213	110	-	(761)	12,562
Accumulated depreciation:					
Computer software	8,691	938	-	(662)	8,967
Total accumulated depreciation	8,691	938	-	(662)	8,967
Intangible assets	<u>4,522</u>				<u>3,595</u>

	Separate financial statements (In Thousand Baht)				Balance as at December 31, 2016
	Balance as at January 1, 2016	Additions	Disposals	Effect from Translation of The financial Statements	
Cost:					
Computer software	12,039	910	-	264	13,213
Total cost	12,039	910	-	264	13,213
Accumulated depreciation:					
Computer software	7,663	896	-	132	8,691
Total accumulated depreciation	7,663	896	-	132	8,691
Intangible assets	<u>4,376</u>				<u>4,522</u>

	In Thousand Baht			
	Consolidated Financial Statement		Separate Financial Statement	
	For the years ended December 31,		For the years ended December 31,	
	2017	2016	2017	2016
Depreciation charged to the statements of comprehensive income				
Administrative expenses	1,129	1,204	938	896
Total	<u>1,129</u>	<u>1,204</u>	<u>938</u>	<u>896</u>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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**15. DEFERRED TAX ASSETS**

According to Section 3 of the Royal Decree No. 555 B.E. 2555 issued under the Revenue Code regarding the corporate income tax rate reduction effective on December 27, 2012, the corporate income tax rate was reduced from 30% to 20% of net income for accounting period beginning on or after January 1, 2013 but not later than December 31, 2014.

According to Section 3 of the Royal Decree No. 577 B.E. 2557 issued under the Revenue Code regarding maintain of the corporate income tax rate effective on November 3, 2014, the corporate income tax rate was maintained at 20% of net income for accounting period beginning on or after January 1, 2015 but not later than December 31, 2015.

The corporate income tax for the years ended December 31, 2017 and 2016 are calculated by using tax rate at 20% for income before tax of the Company and its subsidiary after adding back transactions which are non-deductible expenses and deducting exempted income under the Revenue Code.

**15.1 Deferred tax assets and deferred tax liabilities as follows:-**

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Deferred tax assets	4,409	3,998	4,409	3,998
Deferred tax liabilities	-	-	-	-
	4,409	3,998	4,409	3,998

Changes in deferred tax assets for the year ended December 31, 2017 and 2016, were as follows:

	In Thousand Baht					
	Consolidated financial statements					
	Balance as at	Recognized in		Recognized in	Exchange	Balance as at
	December 31,	Profit and Loss		Other	translating	December 31,
2016	Additions	Utilized/ Reversal	Comprehensive Income	differences	2017	
Deferred tax assets resulted from						
Allowance for decline in value						
in inventories	858	1,097	-	-	16	1,971
Employee benefit obligations	3,140	-	(700)	-	(2)	2,438
Total deferred tax assets	3,998	1,097	(700)	-	14	4,409



**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS (CONT.)**

**DECEMBER 31, 2017**

	In Thousand Baht					
	Consolidated financial statements					
	Balance as at December 31, 2015	Recognized in Profit and Loss Additions	Recognized in Other Utilized/ Reversal	Recognized in Other Comprehensive Income	Exchange translating differences	Balance as at December 31, 2016
Deferred tax assets resulted from						
Allowance for doubtful accounts	5,502	-	(5,444)	-	(58)	-
Allowance for decline in value in inventories	700	155	-	-	3	858
Allowance for impairment of investments	4,430	-	(4,382)	-	(48)	-
Allowance for impairment of property, plant and equipment	337	-	(334)	-	(3)	-
Employee benefit obligations	2,468	344	-	320	8	3,140
Provision from lawsuit	562	-	(556)	-	(6)	-
Account payables forward contract	6,588	-	(6,519)	-	(69)	-
Total deferred tax assets	<u>20,587</u>	<u>499</u>	<u>(17,235)</u>	<u>320</u>	<u>(173)</u>	<u>3,998</u>

	In Thousand Baht					
	Separate financial statements					
	Balance as at December 31, 2016	Recognized in Profit and Loss Additions	Recognized in Other Utilized/ Reversal	Recognized in Other Comprehensive Income	Exchange translating differences	Balance as at December 31, 2017
Deferred tax assets resulted from						
Allowance for decline in value in inventories	858	1,097	-	-	16	1,971
Employee benefit obligation	3,140	-	(700)	-	(2)	2,438
Total deferred tax assets	<u>3,998</u>	<u>1,097</u>	<u>(700)</u>	<u>-</u>	<u>14</u>	<u>4,409</u>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS (CONT.)**

**DECEMBER 31, 2017**

	In Thousand Baht					
	Separate financial statements					
	Balance as at December 31, 2015	Recognized in Profit and Loss		Recognized in Other Comprehensive Income	Exchange translating differences	Balance as at December 31, 2016
		Additions	Utilized/ Reversal			
Deferred tax assets resulted from						
Allowance for doubtful accounts	5,502	-	(5,444)	-	(58)	-
Allowance for decline in value in inventories	700	155	-	-	3	858
Allowance for impairment of investments	4,430	-	(4,382)	-	(48)	-
Allowance for impairment of property, plant and equipment	337	-	(334)	-	(3)	-
Employee benefit obligation	2,468	344	-	320	8	3,140
Provision from lawsuit	562	-	(556)	-	(6)	-
Account payable forward contract	6,588	-	(6,519)	-	(69)	-
Total deferred tax assets	<u>20,587</u>	<u>499</u>	<u>(17,235)</u>	<u>320</u>	<u>(173)</u>	<u>3,998</u>

15.2 Income tax expense (income)

Major components of tax expense (income)

For the years ended December 31, 2017 and 2016 consisted of:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	2017	2016	2017	2016
Income tax expense (income) shown in profit or loss :				
Current tax expense:				
Income tax expense for the year	93,587	141,887	93,532	141,887
Deferred tax expense (income):				
Changes in temporary differences relating to the original recognition and reversal	(396)	16,736	(396)	16,736
Currency translation differences	(71)	1,147	(71)	1,117
Total	<u>93,120</u>	<u>159,770</u>	<u>93,065</u>	<u>159,740</u>

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15.3 A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate

For the years ended December 31, 2017 and 2016 which are summarized as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	2017	2016	2017	2016
Accounting profit (loss) for the period	535,244	1,337,506	582,926	1,274,764
The applicable tax rate (%)	20.00	20.00	20.00	20.00
Tax expense (income) at the applicable tax rate	107,049	267,501	116,585	254,953
Reconciliation items:				
Tax effect of expenses that are not deductible in determining tax profit:				
- Expenses not allowed as expenses in determining taxable profit	14,973	10,204	14,973	10,204
- Expenses allowed increase in determine taxable	(4,946)	(4,306)	(4,946)	(4,306)
Tax effect of income or profit that are not required in determining taxable profit:				
- The exemption of profit of the promoted business(BOI)	(33,080)	(118,964)	(33,080)	(118,964)
- Others	9,591	(12,548)	-	-
Total reconciliation items	(13,462)	(125,614)	(23,053)	(113,066)
Total tax expense (income)	93,587	141,887	93,532	141,887

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15.4 A numerical reconciliation between the average effective tax rate and the applicable tax rate

For the years ended December 31, 2017 and 2016 are summarized as follows:

	Consolidated financial statements			
	2017		2016	
	Tax amount	Tax rate	Tax amount	Tax rate
	(In Thousand Baht)	(%)	(In Thousand Baht)	(%)
Accounting profit (loss) before tax expense for the year	535,244		1,337,506	
Tax expense (income) at the applicable tax rate	107,049	20.00	267,501	20.00
Reconciliation items	(13,462)	(2.52)	(125,614)	(9.39)
Tax expense (income) at the average effective tax rate	<u>93,587</u>	<u>17.48</u>	<u>141,887</u>	<u>10.61</u>

	Separate financial statements			
	2017		2016	
	Tax amount	Tax rate	Tax amount	Tax rate
	(In Thousand Baht)	(%)	(In Thousand Baht)	(%)
Accounting profit (loss) before tax expense for the year	582,926		1,274,764	
Tax expense (income) at the applicable tax rate	116,585	20.00	254,953	20.00
Reconciliation items	(23,053)	(3.95)	(113,066)	(8.87)
Tax expense (income) at the average effective tax rate	<u>93,532</u>	<u>16.05</u>	<u>141,887</u>	<u>11.13</u>

Profit before income tax expenses were calculated by assumed that function currency is Thai Baht for the purpose of tax calculation.

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**16. SHORT-TERM LOAN**

As at December 31, 2017, a Japan subsidiary had short-term loan from financial institution in the amount of Yen 300 million with interest rate at TIBOR+ 1.25% per annum, maturity on April 27, 2019. The short-term loan is guaranteed by the company.

As at December 31, 2017, a China subsidiary had short-term loan from financial institution in the amount of Yuan 15.66 million with interest rate at 5.4180% per annum, maturity less than one year. The loan is guaranteed by the construction on the subsidiary's land. (See Note 13)

**17. TRADE AND OTHER PAYABLES**

Trade and other payables were as follows:

	In Thousand Baht			
	Consolidated		Separate	
	financial statements		financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Trade payables	401,900	374,874	319,216	351,214
Other payables	36,609	42,242	27,263	51,078
Accrued expenses	375,388	278,032	368,347	296,712
Total	813,897	695,148	714,826	699,004

Trade payables based on currency denomination as at December 31, 2017 and 2016 were as follows:

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	In Thousand Baht			
	Consolidated		Separate	
	financial statements		financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Thai Baht (THB)	20,137	11,776	18,322	9,066
Japanese Yen (JPY)	301,677	363,098	297,540	342,148
Chinese Yuan (CNY)	76,732	-	-	-
United States Dollars (USD)	3,354	-	3,354	-
<b>Total</b>	<b>401,900</b>	<b>374,874</b>	<b>319,216</b>	<b>351,214</b>

**18. EMPLOYEE BENEFIT OBLIGATIONS**

18.1 The Company and its Subsidiary provided employee benefit obligations under the Labour protection Act, which are considered as unfunded defined benefit plans.

Movements in the present value of the employee benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

The statements of financial position

	In Thousand Baht			
	Consolidated Financial Statements		Separate Financial Statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Defined benefit obligations, at the beginning of the year	15,361	12,085	15,361	12,085
Current service costs and interest	2,029	1,718	2,029	1,718
Employee benefit obligations paid	(165)	-	(165)	-
Loss from the estimate base on actuarial	-	1,600	-	1,600
Exchange differences on translating financial statement	(58)	(42)	(58)	(42)
<b>Defined benefit obligations, at the end of the year</b>	<b>17,167</b>	<b>15,361</b>	<b>17,167</b>	<b>15,361</b>

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18.2 Expenses recognized in the statement of comprehensive income for the year ended December 31, 2017 and 2016 are as follows :

	In Thousand Baht			
	Consolidated Financial Statements		Separate Financial Statements	
	For the year ended December 31,		For the year ended December 31,	
	2017	2016	2017	2016
<b>The statement of comprehensive income</b>				
<b>Recognized in profit or loss</b>				
Current service costs	1,639	1,305	1,639	1,305
Interest on obligation	390	413	390	413
Total	<u>2,029</u>	<u>1,718</u>	<u>2,029</u>	<u>1,718</u>

18.3 The main assumptions in the assessment financial assumptions

	Percentage			
	Consolidated Financial Statement		Separate Financial Statement	
	2017	2016	2017	2016
<b>For the year ended December 31, 2017 and 2016</b>				
Discount rate	2.75	2.75	2.75	2.75
Salary increase rate	5.00	5.00	5.00	5.00
Employee turnover rate	0 - 45.84 (200% of Thai Standard Table)	0 - 45.84 (200% of Thai Standard Table)	0 - 45.84 (200% of Thai Standard Table)	0 - 45.84 (200% of Thai Standard Table)
Mortality rate	75 of Mortality Table 2008	75 of Mortality Table 2008	75 of Mortality Table 2008	75 of Mortality Table 2008

Assumptions regarding future mortality are based on published statistics and mortality tables.

18.4 Gain and loss from the estimate based on actuarial principles recognized in the statement of comprehensive income for the year ended December 31, 2017 and 2016 arise from

Recognize in other of comprehensive income

	In Thousand Baht			
	Consolidated Financial Statements		Separate Financial Statements	
	2017	2016	2017	2016
Improvement from experience	-	682	-	682
Population assumption	-	-	-	-
Financial assumption	-	918	-	918
Total	<u>-</u>	<u>1,600</u>	<u>-</u>	<u>1,600</u>
Exchange differences on translating financial statement	-	68	-	68
Total	<u>-</u>	<u>1,668</u>	<u>-</u>	<u>1,668</u>

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18.5 Sensitivity analysis

The results of sensitivity analysis for significant assumptions that affect the present value of the long-term employee benefit obligations as at December 31, 2017 and 2016 are summarized below :

	In Thousand Baht							
	Consolidated Financial Statements				Separate Financial Statements			
	2017		2016		2017		2016	
	increase	decrease	increase	decrease	increase	decrease	increase	decrease
Discount rate (Changing 0.5%)	(621)	661	(621)	661	(621)	661	(621)	661
Future salary increase rate (Changing 1%)	1,481	(1,328)	1,481	(1,328)	1,481	(1,328)	1,481	(1,328)

**19. PROVISION FOR WARRANTY**

	In Thousand Baht	
	Consolidated financial statements	Separate financial statements
<b>Balance as at January 1, 2016</b>	63,741	53,439
Provisions increased	78,342	78,342
Provisions used	(25,902)	(21,139)
Provisions reversed	(38,780)	(38,780)
Translation of financial statements differences	(225)	(225)
<b>Balance as at December 31, 2016</b>	77,176	71,637
Provisions increased	67,944	67,944
Provisions used	(23,941)	(23,941)
Provisions reversed	(10,518)	(6,160)
Translation of financial statements differences	(918)	(648)
<b>Balance as at December 31, 2017</b>	109,743	108,832



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**20. TREASURY SHARES AND TREASURY SHARE RESERVE**

At the Board of Directors' Meeting No.8/2015, held on September 22, 2015, the Company's directors resolved to approve the share repurchase program for financial management purposes in the amount not exceeding Baht 500 million. The number of ordinary shares to be repurchased is 50 million shares (par value of Baht 1 per share), which is not exceeding 10% of the total number of paid-up share capital of the Company. The Company shall repurchase its ordinary shares through the Stock Exchange of Thailand during the period from October 12, 2015 to April 11, 2016.

At the Board of Directors' Meeting No.5/2017, held on May 12, 2017, the Company's directors resolved to approve the share repurchase program for financial management purposes in the amount not exceeding Baht 380 million. The number of ordinary shares to be repurchased is 23 million shares (par value of Baht 1 per share), which is not exceeding 10% of the total number of paid-up share capital of the Company. The Company shall repurchase its ordinary shares through the Stock Exchange of Thailand during the period from September 1, 2017 to November 30, 2017.

As at December 31, 2017, the details of the treasury shares buy back are as follows:

	Consolidated Financial Statements/ Separate Financial Statements		
	Balance as at January 1, 2017	Addition during period	Balance as at December 31, 2017
The value of treasury shares buy back (Thousand Baht)	288,192	354,878	643,070
The number of treasury shares buy back (Thousand shares)	27,000	23,000	50,000
Average price per share (Baht)	10.67	15.43	12.86
Percentage of the number of treasury shares buy back to the number of shares issued by the company	5.40	4.60	10.00

**TREASURY SHARE RESERVE**

The Notification of the Office of the Securities and Exchange Commission No. Kor.Lor.Tor. Chor.Sor.(Wor.) 2/2005 and the Notification of the Federation of Accounting Professions No.Sor.Sor.Wor. Bor. Chor. 016/2005 have a guideline for the public companies who repurchase their own shares to have the outstanding balance of treasury shares not exceeding the retained earnings and are required to appropriate their retained earnings to the treasury share reserve equal to the amount paid to acquire the shares. The Company has appropriated the retained earnings as reserve for treasury shares buy back in the full amount in Quarter 4/2017.

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**21. PREMIUM ON ORDINARY SHARES**

Section 51 of the Public Companies Act B.E. 2535 requires companies to set aside share subscription monies received in excess of the par value of the shares issued to a reserve account (“share premium”). Share premium is not available for dividend distribution.

**22. LEGAL RESERVE**

Section 116 of the Public Companies Act B.E. 2535 requires that a public company shall allocate not less than 5% of its annual net profit, less any accumulated losses brought forward, to a reserve account (“legal reserve”), until this account reaches an amount not less than 10% of the registered authorised capital. The legal reserve is not available for dividend distribution

**23. GAIN (LOSS) FROM EXCHANGE RATE**

Gain (loss) from exchange rate transactions for the year ended December 31, 2017 and 2016 were as follows:

	In Thousand Baht			
	Consolidated Financial Statements		Separate Financial Statements	
	For the year ended December 31,		For the year ended December 31,	
	2017	2016	2017	2016
Realized gain (loss) on exchange rate	14,910	(172,095)	11,842	(176,312)
Unrealized gain (loss) on exchange rate	(39,687)	140,080	(40,210)	140,080
Realized and unrealized gain (loss) from fair valuation				
from foreign currency forward contracts	-	(31,452)	-	(31,452)
	(24,777)	(63,467)	(28,368)	(67,684)

The unrealized transaction will recognized profit (loss) from the actual exchange rate upon receiving and paying and when there is exchange from YEN currency to Baht currency in accordance with the forward contract.

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**24. PROVIDENT FUND EXPENSE**

Provident fund contributions made by the Company for its employees and recorded as expense in the statements of comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	For the years ended December 31,		For the years ended December 31,	
	2017	2016	2017	2016
Provident fund contribution	3,793	3,289	3,793	3,289

**Defined contribution plans**

The defined contribution plans comprise provident funds established by the Company for its employees. Membership to the funds is on a voluntary basis. Contributions are made monthly by the employees at rates ranging from 3% to 7% of their basic salaries and by the Company at rates ranging from 3% to 7% of the employees' basic salaries. The provident funds are registered with the Ministry of Finance as juristic entities and are managed by a licensed Fund Manager.

**25. EXPENSES BY NATURE**

Significant expenses by nature for the years ended December 31, 2017 and 2016 were as follows :

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	2017	2016	2017	2016
Changes in of finished goods and work in progress	(266,928)	559,525	(221,198)	404,946
Raw materials used	1,147,116	2,015,227	1,013,230	1,906,012
Indirect material and consumables used	127,821	193,534	126,152	183,195
Personnel expenses	353,175	411,483	312,241	363,549
Subcontract cost	43,131	373,209	40,463	399,222
Depreciation and amortisation	101,025	122,435	87,499	108,102
Rework and repair expenses	26,829	45,486	44,050	83,046
Drawing expenses	32,126	53,797	45,740	53,797
Repair and maintenance expenses	25,466	32,793	23,367	24,942
Freight expenses	304,180	491,942	304,180	491,942
Transportation	19,745	36,038	19,499	32,528

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**26. PROMOTIONAL PRIVILEGES**

26.1 By virtue of the provisions of the Industrial Investment Promotion Act of B.E. 2520, the Company has been granted by the Board of Investment (“BOI”) for the Board of Investment Certificate No 1696(2)/2558 which is the privileges relating to the manufacturing of gasket under Fabrication of metal structure products or platform repair. The privileges granted include:

- (a) exemption from payment of import duty on machinery approved by the BOI;
- (b) exemption from import duty on raw materials and essential materials imported for use specifically in producing for export for a period of one year as from the date of first import;
- (c) exemption from import duty on import goods to export for a period of one year as from the date of first import;
- (d) exemption from payment of income tax for certain operations for a period of five years from the date on which the income is first derived from such operations at 100% of the amount invested excluding land and working capital, limit at the maximum of Baht 183.875 million (income starts from January 1, 2015 to December 31, 2019).
- (e) exemption from dividends paid from promoted operations which are exempted from corporate income tax are exempted from inclusion in the determination of income tax for the period that exemption from payment of corporate income tax.

As a promoted company, the Company must comply with certain terms and conditions prescribed in the promotional certificate.

Summary of revenue from promoted and non-promoted businesses for the years ended December 31, 2017 and 2016 are as follow:

		Separate Financial Statement (In Thousand Baht)					
		For the year ended December 31,					
		Promoted operations		Non-promoted operations		Total	
		2017	2016	2017	2016	2017	2016
Revenue from export sales		932,708	2,466,153	2,097,543	2,786,131	3,030,251	5,252,284
		<u>932,708</u>	<u>2,466,153</u>	<u>2,097,543</u>	<u>2,786,131</u>	<u>3,030,251</u>	<u>5,252,284</u>

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26.2 By virtue of the provisions of the Industrial Investment Promotion Act of B.E. 2520, the Company has been granted by the Board of Investment (“BOI”) for the Board of Investment Certificate No 59-1184-0-00-1-0 which is the privileges relating to the manufacturing of gasket under Fabrication of metal structure products or platform repair. The privileges granted include:

- (a) exemption from payment of import duty on machinery approved by the BOI;
- (b) exemption from import duty on raw materials and essential materials imported for use specifically in producing for export for a period of one year as from the date of first import;
- (c) exemption from import duty on import goods to export for a period of one year as from the date of first import;
- (d) exemption from payment of income tax for certain operations for a period of five years from the date on which the income is first derived from such operations at 100% of the amount invested excluding land and working capital, limit at the maximum of Baht 195.38 million (Not yet implemented).
- (e) exemption from dividends paid from promoted operations which are exempted from corporate income tax are exempted from inclusion in the determination of income tax for the period that exemption from payment of corporate income tax.

**27. BASIC EARNINGS (LOSS) PER SHARE**

The calculations of earnings (loss) per share for the year ended December 31, 2017 and 2016 were based on the profit (loss) for the year attributable to ordinary shareholders of the Company and the number of weighted outstanding ordinary shares during the year held by shareholder as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	2017	2016	2017	2016
Profit (loss) attributable to ordinary Shareholders of the Company (Thousand Baht)				
- Owners of the Company	499,036	1,229,262	539,434	1,163,637
Basic earnings (loss) per share (Baht)	1.08	2.60	1.16	2.46
Issued and paid-up share capital				
Number of ordinary shares as at January 1, (Thousand Shares)	473,000	500,000	473,000	500,000
<u>Less Treasury shares (Thousand Shares)</u>	<u>(23,000)</u>	<u>(27,000)</u>	<u>(23,000)</u>	<u>(27,000)</u>
Number of ordinary shares as at December 31, (Thousand Shares)	<u>450,000</u>	<u>473,000</u>	<u>450,000</u>	<u>473,000</u>
Weighted average number of ordinary shares (Thousand Shares)	<u>463,261</u>	<u>473,564</u>	<u>463,261</u>	<u>473,564</u>

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**28. DIVIDENDS**

On August 15, 2017, the Board of Directors Meeting passed a resolution to approve the payment of dividends from the earnings that are all non-promoted investment from the operation in six-month period of 2017 to shareholders of Baht 0.20 per share, totaling Baht 91.22 million. The dividends of Baht 91.22 million were paid to the shareholders on September 11, 2017.

On April 7, 2017, the Annual General Meeting of the Company's shareholders passed a resolution to approve the payment of dividends from retained earnings of Baht 0.48 per share, totaling Baht 227.04 million. The dividends of Baht 227.04 million were paid to the shareholders on May 9, 2017.

On November 11, 2016, the Annual General Meeting of the Company's shareholders passed a resolution to approve the payment of dividends from retained earnings of Baht 0.44 per share, totaling Baht 220.00 million. The dividends of Baht 220.00 million were paid to the shareholders on December 13, 2016.

On August 11, 2016, the Annual General Meeting of the Company's shareholders passed a resolution to approve the payment of dividends from retained earnings of Baht 0.44 per share, totaling Baht 220.00 million. The dividends of Baht 220.00 million were paid to the shareholders on September 9, 2016.

On April 5, 2016, the Annual General Meeting of the Company's shareholders passed a resolution to approve the payment of dividends from retained earnings of Baht 0.45 per share, totaling Baht 213.43 million. The dividends of Baht 213.43 million were paid to the shareholders on April 29, 2016.

**29. FINANCIAL INSTRUMENTS**

**Financial risk management policies**

The Company and its subsidiaries is exposed to normal business risks from changes in market interest rates and currency exchange rates and from non-performance of contractual obligations by counterparties. The Company and its subsidiaries does not hold or issue derivative financial instruments for speculative or trading purposes.

Risk management is integral to the whole business of the Company and its subsidiaries. The Company and its subsidiaries has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Company and its subsidiaries risk management process to ensure that an appropriate balance between risk and control is achieved.

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**Capital management**

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Company and its subsidiaries defines as result from operating activities divided by total shareholders' equity, excluding non-controlling interests and also monitors the level of dividends to ordinary shareholders.

**Foreign currency risk**

The Company and its subsidiaries is exposed to foreign currency risk relating to purchases and sales which are denominated in foreign currencies.

As at December 31, 2017 and 2016, the Company and its subsidiaries were exposed to foreign currency risk in respect of financial assets and liabilities denominated in the following currencies:

		In Thousand Baht				
		Consolidated financial statements		Separate financial statements		
Notes		2017	2016	2017	2016	
<b>Thai Baht (BAHT)</b>						
	Cash and cash equivalents	6	308,482	494,693	275,476	487,674
	Temporary investments	7	20,267	126,389	20,267	126,389
	Trade account payables	17	(20,137)	(11,776)	(18,322)	(9,066)
	<b>Net exposure</b>		<b>308,612</b>	<b>609,306</b>	<b>277,421</b>	<b>604,997</b>
<b>Chinese Yuan (CNY)</b>						
	Cash and cash equivalents	6	14,585	-	-	-
	Trade accounts receivable	8	31,863	-	-	-
	Short-term loan	16	77,494	-	-	-
	Trade account payables	17	(76,732)	-	-	-
	<b>Net exposure</b>		<b>47,210</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>United States Dollars(USD)</b>						
	Cash and cash equivalents	6	43,996	137,035	43,996	137,035
	Trade accounts payables	17	(3,354)	-	(3,354)	-
	<b>Net exposure</b>		<b>40,642</b>	<b>137,035</b>	<b>40,642</b>	<b>137,035</b>

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**Credit risk**

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Company and its subsidiaries Group as and when they fall due.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

**Liquidity risk**

The Company and its subsidiaries monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company and its subsidiaries operations and to mitigate the effects of fluctuations in cash flows.

**Determination of fair values**

A number of the Company and its subsidiaries accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

As most of the Company and its subsidiary's financial assets and financial liabilities are short term in natures. The Company and its subsidiary's management believe that the carrying amounts of the financial assets and liabilities approximate to their fair values with no materially effect on the Company's and its subsidiary's operating results.



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**DECEMBER 31, 2017**

**30. COMMITMENTS WITH NON-RELATED PARTIES**

30.1 Commitments with non-related parties which are obligations from non-cancellable operating lease agreements. The Company entered into operating lease agreements with a local company for periods of 48 months in which the Company has to pay as the following:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
<b>Term of payment</b>				
Less than one year	1,158	1,648	1,158	1,648
More than one year but not exceed five years	912	2,070	912	2,070
<b>Total</b>	<b>2,070</b>	<b>3,718</b>	<b>2,070</b>	<b>3,718</b>

30.2 Details of other commitments as at December 31, 2017 and 2016 were as follows:

	In Thousand Baht							
	Consolidated financial statements				Separate financial statements			
	Foreign Currency		Equivalent to Baht		Foreign Currency		Equivalent to Baht	
	As at December 31,		As at December 31,		As at December 31,		As at December 31,	
2017	2016	2017	2016	2017	2016	2017	2016	
<b>Other commitments</b>								
Raw materials purchases								
- JPY	279,531	-	951,983	-	279,531	-	951,983	-
- USD	2	-	5	-	2	-	5	-
- BAHT			4,602	2,688			4,602	2,688
<b>Total</b>			<b>956,590</b>	<b>2,688</b>			<b>956,590</b>	<b>2,688</b>
Construction material purchase								
- BAHT			11,149	1,789			-	-
Other								
- BAHT			6,329	5,402			6,283	5,402
Letter of credit								
- JPY	279,546	419,864	81,498	129,297	279,546	419,864	81,498	129,297
Letters of guarantee for subsidiary								
- JPY	300,000	300,000	86,940	92,385	300,000	300,000	86,940	92,385

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

The Company's certain fixed deposit land and building were mortgaged or collateral and there is restriction on certain machinery for the above credit facilities, as at December 31, 2017 and 2016, the Company has unutilized credit facilities from a financial institution as follows:

	In Thousand Baht			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
Bank overdrafts limit	5,000	5,000	5,000	5,000
Trust receipt, Letter of credit and packing credit limit	840,568	744,040	840,568	744,040
Aval promissory note limit	10,000	10,000	10,000	10,000
Letter of guarantee limit	857,691	377,615	857,691	377,615
	1,713,259	1,136,655	1,713,259	1,136,655

30.3 As at December 31, 2016, the company's fixed deposit in the amount of Baht 278.59 million. Which are pledged as collateral for letters of guarantee.

30.4 As at December 31, 2017, the Company not have the forward contracts.

**31. SIGNIFICANT AGREEMENTS WITH RELATED PARTIES**

31.1 Steel-frame product service agreement

The Company entered into a steel frame product service agreement with MIHAMA STEEL LOGISTICS CO., LTD. to obtain the logistic services for shipping the goods to port in Japan, which included coordination with the customer, loading and storage until delivery. As well as the inspection services, additional repair any damage on ship. The service fee is based on weight or project volume as the condition in agreements and relevant market considerations. On the condition, unless either party thereto gives written notice to the other of its intention to terminate this agreement not later than 6 months prior to the expiration date.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

31.2 Service agreement

The Company entered into a fabrication steel service agreement with M.C.S. Steel (Xiamen) Co., Ltd. to conduct the fabrication work according to design drawing and to delivery according to the project schedule. Under the agreement the Company has to prepay for material to M.C.S. Steel (Xiamen) Co., Ltd. to provide procurement main steel materials used in the project as requirement identifying in agreement.

31.3 Expert Hiring Agreement

On December 1, 2014, the Company entered into the Expert Hiring Agreement with Tanaka Welding Center Co., Ltd. (“the hirer”), a subsidiary of the Company, to be advisory or management on execution and accounting. The agreement is with the service rate as stipulated in the agreement.

31.4 Technical Advice Agreement

The Company has entered into the technical advice agreement from M.C.S. Nasu Company Limited on January 1, 2017 which is a subsidiary of the Company. This agreement is prepared for the employer and the employee to gain the benefit each other from technology that each of them has expertise. The employee has to provide the ongoing technical advice that is necessary to the production business to the employer. The service fee is JPY 10 million monthly and this agreement period is due on December 31, 2017. If either party does not inform in advance not less than 2 months before maturity, it is considered this agreement shall be extended another 12 months.

31.5 Support Agreement

The Company has entered into the support agreement with METROPOLO LIMITED (“employee”). The employee’s company is responsible for providing support and sales coordination to export the steel piece to the customer. The compensation rate depends on the weight of the work piece exported and compensation for sales coordination as mutual agreement. The agreement period is from January 1, 2017 to March 31, 2019. On November 24, 2017, the Company has notified to terminate the support agreement with METROPOLO LIMITED (“employee”) as the Company has changed its policy in securing work which is to be effective from December 28, 2017.

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

**32. CONTINGENT LIABILITIES**

The Company was liable to banks in respect to the following guarantees:

	In Thousand Baht							
	Consolidated financial statements				Separate financial statements			
	Foreign Currency		Equivalent to Baht		Foreign Currency		Equivalent to Baht	
	As at December 31,		As at December 31,		As at December 31,		As at December 31,	
2017	2016	2017	2016	2017	2016	2017	2016	
Electricity usage								
- BAHT		7,309	7,309			7,309	7,309	
Product delivery								
- JPY	-	1,558,942	-	480,076	-	1,558,942	-	480,076

**33. SEGMENT INFORMATION**

Operating segment information is reported in a manner consistent with the internal reports that are regularly reviewed by the chief operating decision maker in order to make decisions about the allocation of resources to the segment and assess its performance.

For management purposes, the company and its subsidiaries are organized into business units based on their products and services. The company and its subsidiaries services have two reportable segments as follows:

Segment 1	Local
Segment 2	Overseas

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
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Information about reportable segments for the years ended December 31, 2017 and 2016 were as follows:

	In Thousand Baht															
	For the years ended December 31,															
	Thailand						Overseas						Elimination of inter-segment revenues		Total	
	Local		Overseas		Total		Japan		China		Total					
	Real estate	Fabrication and sell of structural steel		Fabrication and sell of structural steel			Fabrication and sell of structural steel		Fabrication and sell of structural steel							
2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
<b>Geographical segment</b>																
Revenue from external customers	-	42,704	3,030,251	5,252,284	3,030,251	5,294,988	30,057	-	43,558	343,353	73,615	343,353	-	-	3,103,866	5,638,341
Inter-segment revenue	1,688	2,569	-	-	1,688	2,569	65,533	-	19,415	248,637	84,948	248,637	(86,657)	(249,296)	(21)	1,910
Total revenue from sale and service															3,103,845	5,640,251
Share of loss from investments																
in associates					(10,793)	10,793					-	-	-	-	(10,793)	10,793
Reportable segment profit																
before income tax expense					634,385	1,376,345					(46,044)	9,207	-	-	588,341	1,385,552
Reportable segment assets					3,484,483	3,718,560					262,355	107,853	-	-	3,746,838	3,826,413

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

**34. FUNCTIONAL CURRENCY FINANCIAL STATEMENTS**

The statements of financial position as at December 31, 2017 and 2016 and statements of comprehensive income for the year ended December 31, 2017 and 2016 presented in JPY currency which is used in its operations as major sales and purchases transaction are denominated in JPY currency. The detail are as follows:

**Statements of financial position**

	In Thousand Yen			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
<b>Asset</b>				
Current assets				
Cash and cash equivalents	2,020,708	3,467,213	1,692,349	3,200,308
Temporary investments	69,934	410,420	69,934	410,420
Trade and other receivables	3,502,069	2,305,211	3,548,265	2,296,999
Inventories	3,160,039	2,276,854	2,780,146	2,198,431
Total current assets	<u>8,752,750</u>	<u>8,459,698</u>	<u>8,090,694</u>	<u>8,106,158</u>
Non-current assets				
Pledged deposits at financial institutions	-	904,656	-	904,656
Investments in associates	-	346,459	-	305,053
Investments in subsidiary	-	-	936,453	166,282
Property, plant and equipment	3,569,352	2,643,043	2,962,786	2,524,585
Goodwill	425,948	25,989	-	-
Land leasehold	115,283	-	-	-
Intangible assets	23,134	24,956	12,406	14,684
Deferred tax assets	15,213	12,983	15,213	12,983
Other non-current assets	2,640	2,602	616	578
Total non-current assets	<u>4,151,570</u>	<u>3,960,688</u>	<u>3,927,474</u>	<u>3,928,821</u>
<b>Total assets</b>	<u><u>12,904,320</u></u>	<u><u>12,420,386</u></u>	<u><u>12,018,168</u></u>	<u><u>12,034,979</u></u>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

**Statements of financial position (continued)**

	In Thousand Yen			
	Consolidated financial statements		Separate financial statements	
	As at December 31,		As at December 31,	
	2017	2016	2017	2016
<b>Liabilities and shareholders' equity</b>				
Current liabilities				
Short-term loan	567,399	300,000	-	-
Trade and other payables	2,808,493	2,257,336	2,466,568	2,269,860
Current portion of financial lease	23,994	24,465	-	-
Income tax payable	276,647	280,754	276,467	280,754
Total current liabilities	<u>3,676,533</u>	<u>2,862,555</u>	<u>2,743,035</u>	<u>2,550,614</u>
Non-current liabilities				
Financial lease	12,589	36,496	-	-
Employee benefit obligations	59,236	49,880	59,236	49,880
Provision for warranty	378,604	250,611	375,532	232,624
Total non-current liabilities	<u>450,429</u>	<u>336,987</u>	<u>434,768</u>	<u>282,504</u>
Total liabilities	<u>4,126,962</u>	<u>3,199,542</u>	<u>3,177,803</u>	<u>2,833,118</u>
Shareholders' equity				
Share capital				
Authorized share capital	<u>1,330,549</u>	<u>1,330,549</u>	<u>1,330,549</u>	<u>1,330,549</u>
Issued and paid-up share capital	1,330,549	1,330,549	1,330,549	1,330,549
Premium on ordinary shares	371,008	371,008	371,008	371,008
Retained earnings				
Appropriated				
Legal reserve	153,579	153,579	153,579	153,579
Treasury share reserve	2,122,223	962,655	2,122,223	962,655
Unappropriated	6,521,634	7,371,048	6,985,229	7,346,725
Other components of shareholder's equity	367,123	(7,985)	-	-
Equity attributable to owners of the Company	10,866,116	10,180,854	10,962,588	10,164,516
<u>Less</u> treasury share	(2,122,223)	(962,655)	(2,122,223)	(962,655)
Non-controlling interest	33,465	2,645	-	-
Total shareholders' equity	<u>8,777,358</u>	<u>9,220,844</u>	<u>8,840,365</u>	<u>9,201,861</u>
<b>Total liabilities and shareholders' equity</b>	<u><u>12,904,320</u></u>	<u><u>12,420,386</u></u>	<u><u>12,018,168</u></u>	<u><u>12,034,979</u></u>

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

**Statements of comprehensive income**

	In Thousand Yen			
	Consolidated financial statements		Separate financial statements	
	For the years ended December 31,		For the years ended December 31,	
	2017	2016	2017	2016
Revenues				
Revenue from sales and rendering of services	10,431,833	17,168,310	10,186,366	15,983,053
Other incomes	178,285	247,621	122,391	245,320
Gain on sales and capital reduction of investment in associate	-	57,828	-	-
Net gain on exchange rate	-	-	-	-
Total revenues	<u>10,610,118</u>	<u>17,473,759</u>	<u>10,308,757</u>	<u>16,228,373</u>
Expenses				
Cost of sales of goods and rendering of services	5,881,368	10,500,637	5,789,164	9,509,206
Selling expenses	1,488,927	1,775,340	1,488,927	1,775,341
Administrative expenses	954,105	613,633	650,562	535,408
Loss on sales and capital reduction of investment in associate	-	-	-	55,080
Net loss on exchange rate	81,898	192,736	93,706	209,437
Loss from bad debt and uncollectible project	-	82,694	-	-
Management benefit expenses	150,979	169,523	133,527	156,655
Finance costs	26,539	20,095	14,817	14,745
Total expenses	<u>8,583,816</u>	<u>13,354,658</u>	<u>8,170,703</u>	<u>12,255,872</u>
Share of profit (loss) from investment in associate	<u>(34,790)</u>	<u>30,575</u>	<u>-</u>	<u>-</u>
Profit before income tax revenue (expense)	1,991,512	4,149,676	2,138,054	3,972,501
Income tax revenue (expense)	<u>(312,626)</u>	<u>(490,042)</u>	<u>(312,446)</u>	<u>(489,051)</u>
Profit for the year	<u>1,678,886</u>	<u>3,659,634</u>	<u>1,825,608</u>	<u>3,483,450</u>
<b>Profit (loss) for the year</b>	<u>1,678,886</u>	<u>3,659,634</u>	<u>1,825,608</u>	<u>3,483,450</u>
<b>Other comprehensive income (loss)</b>				
Item that will not be reclassified subsequently to profit or loss				
Exchange differences on translating financial statements	375,108	-	-	-
Loss from the estimate base on actuarial	-	(5,139)	-	(5,139)
Income tax expense	-	1,028	-	1,028
<b>Total Other comprehensive income (loss)</b>				
-net income tax	375,108	(2,753)	-	(4,111)
<b>Total comprehensive income for the year</b>	<u>2,053,994</u>	<u>3,656,881</u>	<u>1,825,608</u>	<u>3,479,339</u>



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**NOTES TO FINANCIAL STATEMENTS (CONT.)**  
**DECEMBER 31, 2017**

**Statements of comprehensive income (continued)**

	In Thousand Yen			
	Consolidated financial statements		Separate financial statements	
	For the year ended December 31,		For the year ended December 31,	
	2017	2016	2017	2016
Share of profit (loss) attributable to :				
Owners of the Company	1,714,413	3,659,726	1,825,608	3,483,450
Non-controlling interest	(35,527)	(92)	-	-
Profit for the year	<u>1,678,886</u>	<u>3,659,634</u>	<u>1,825,608</u>	<u>3,483,450</u>
Share of profit (loss) of total comprehensive income				
Owners of the Company	2,086,521	3,655,615	3,656,973	3,479,339
Non-controlling interest	(35,527)	(92)	-	-
Total comprehensive income for the year	<u>2,053,994</u>	<u>3,655,523</u>	<u>3,656,973</u>	<u>3,479,339</u>
<b>Earnings (loss) per share</b>				
Basic earnings per share (Yen)	3.70	7.73	3.94	7.36
Number of weighted ordinary shares (thousand shares)	463,261	473,564	463,261	473,564

**35. THE REVISED ACCOUNTING STANDARDS ARE NOT YET EFFECTIVE IN THE CURRENT YEAR**

The Federation of Accounting Professions (FAP) has issued Notifications to mandate the use of accounting standards, financial reporting standards, and interpretations of accounting and financial reporting standards that are revised.

These revised accounting standards which are effective for the fiscal year beginning on or after January 1, 2018 are as follows:

TAS 1 (revised 2017)	Presentation of Financial Statements
TAS 2 (revised 2017)	Inventories
TAS 7 (revised 2017)	Statement of Cash Flows
TAS 8 (revised 2017)	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 10 (revised 2017)	Events After the Reporting Period
TAS 11 (revised 2017)	Construction Contracts
TAS 12 (revised 2017)	Income Taxes
TAS 16 (revised 2017)	Property, Plant and Equipment
TAS 17 (revised 2017)	Leases

**M.C.S. STEEL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARIES**  
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TAS 18 (revised 2017)	Revenue
TAS 19 (revised 2017)	Employee Benefits
TAS 20 (revised 2017)	Accounting for Government Grants and Disclosure of Government Assistance
TAS 21 (revised 2017)	The Effects of Changes in Foreign Exchange Rates
TAS 23 (revised 2017)	Borrowing Costs
TAS 24 (revised 2017)	Related Party Disclosures
TAS 26 (revised 2017)	Accounting and Reporting by Retirement Benefit Plans
TAS 27 (revised 2017)	Separate Financial Statements
TAS 28 (revised 2017)	Investments in Associates and Joint Ventures
TAS 29 (revised 2017)	Financial Reporting in Hyperinflationary Economies
TAS 33 (revised 2017)	Earnings Per Share
TAS 34 (revised 2017)	Interim Financial Reporting
TAS 36 (revised 2017)	Impairment of Assets
TAS 37 (revised 2017)	Provisions, Contingent Liabilities and Contingent Assets
TAS 38 (revised 2017)	Intangible assets
TAS 40 (revised 2017)	Investment Property
TAS 41 (revised 2017)	Agriculture
TFRS 2 (revised 2017)	Share-Based Payment
TFRS 3 (revised 2017)	Business Combinations
TFRS 4 (revised 2017)	Insurance Contracts
TFRS 5 (revised 2017)	Non-current Assets Held for Sale and Discontinued Operations
TFRS 6 (revised 2017)	Exploration for and Evaluation of Mineral Resource
TFRS 8 (revised 2017)	Operating Segments
TFRS 10 (revised 2017)	Consolidated Financial Statements
TFRS 11 (revised 2017)	Joint Arrangements
TFRS 12 (revised 2017)	Disclosure of Interests in Other Entities
TFRS 13 (revised 2017)	Fair Value Measurement
TSIC 10 (revised 2017)	Government Assistance - No Specific Relation to Operating Activities
TSIC 15 (revised 2017)	Operating Leases - Incentives

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TSIC 25 (revised 2017)	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
TSIC 27 (revised 2017)	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
TSIC 29 (revised 2017)	Service Concession Arrangements: Disclosure
TSIC 31 (revised 2017)	Revenue-Barter Transactions Involving Advertising Services
TSIC 32 (revised 2017)	Intangible Assets - Web Site Costs
TFRIC 1 (revised 2017)	Changes in Existing Decommissioning, Restoration and Similar Liabilities
TFRIC 4 (revised 2017)	Determining whether an Arrangement contains a Lease
TFRIC 5 (revised 2017)	Right to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
TFRIC 7 (revised 2017)	Applying the Restatement Approach under TAS 29 (revised 2017) Financial Reporting in Hyperinflationary Economics
TFRIC 10 (revised 2017)	Interim Financial Reporting and Impairment
TFRIC 12 (revised 2017)	Service Concession Arrangements
TFRIC 13 (revised 2017)	Customer Loyalty Programmes
TFRIC 14 (revised 2017)	TAS 19 (revised 2017)-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
TFRIC 15 (revised 2017)	Agreements for the Construction of Real Estate
TFRIC 17 (revised 2017)	Distributions of Non - cash Assets to Owners
TFRIC 18 (revised 2017)	Transfers of Assets from Customers
TFRIC 20 (revised 2017)	Stripping Costs in the Production Phase of a Surface Mine
TFRIC 21 (revised 2017)	Levies

The management of the Company and its subsidiaries believe that these accounting standards, financial reporting standards, accounting standard interpretations and financial reporting standards interpretations which are revised will not have any significant impact on the financial statements for the year when they are initially applied.

**36. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved for issue by the Board of Directors on February 23, 2018.



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