

REVIEW REPORT OF THE INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED

We have reviewed the consolidated balance sheet of Sahaviriya Steel Industries Public Company Limited and its subsidiaries and the balance sheet of Sahaviriya Steel Industries Public Company Limited as at June 30, 2004 and the related consolidated and Company's statements of income for the quarter and six-month period then ended and the related consolidated and Company's statements of changes in shareholders' equity and cash flows for the six-month period then ended. These financial statements are the responsibility of the Company's management as to their correctness and completeness of the presentation. Our responsibility is to report on these financial statements based on our review. The consolidated financial statements of Sahaviriya Steel Industries Public Company Limited and its subsidiaries and the Company's financial statements of Sahaviriya Steel Industries Public Company Limited for the quarter and six-month period ended June 30, 2003 presented herein for comparison were reviewed by another auditor of the same firm, whose report thereon dated July 25, 2003, stated that nothing had come to her attention that caused her to believe that the consolidated and the Company's financial statements were not presented fairly, in all material respects, in accordance with generally accepted accounting principles.

We conducted our review in accordance with the Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provided less assurance than an audit in accordance with generally accepted auditing standards, and accordingly, we do not express an opinion.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated and the Company's financial statements as described in the first paragraph are not presented fairly, in all material respects, in accordance with generally accepted accounting principles.

The consolidated financial statements of Sahaviriya Steel Industries Public Company Limited and its subsidiaries and the Company's financial statements of Sahaviriya Steel Industries Public Company Limited for the year ended December 31, 2003 were audited in accordance with generally accepted auditing standards, by another auditor of the same firm, whose report thereon dated January 30, 2004 expressed an unqualified opinion on those statements. The consolidated and the Company's balance sheets as at December 31, 2003 presented herein for comparison, were derived from such financial statements. We have not performed any other audit procedures subsequent to such another auditor's report date.

BANGKOK
July 21, 2004

Thanawan Anuratbodee
Certified Public Accountant (Thailand)
Registration No. 3440
DELOITTE TOUCHE TOHMATSU JAIYOS

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

BALANCE SHEETS

BAHT : '000

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | "Unaudited" | | "Unaudited" | |
| | As at | As at | As at | As at |
| | June 30, | December 31, | June 30, | December 31, |
| | 2004 | 2003 | 2004 | 2003 |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 1,065,606 | 108,399 | 1,004,000 | 47,049 |
| Current investments (Note 4) | 2,500,994 | 17,495 | 2,500,994 | - |
| Trade accounts and notes receivable | | | | |
| Related parties (Note 13.3) | 1,589,711 | 1,787,097 | 1,573,126 | 1,765,818 |
| Others | 827,081 | 939,795 | 819,963 | 936,744 |
| | <u>2,416,792</u> | <u>2,726,892</u> | <u>2,393,089</u> | <u>2,702,562</u> |
| <u>Less</u> Allowance for doubtful accounts | | | | |
| (Note 14) | (405,051) | (405,051) | (400,095) | (400,095) |
| Trade accounts and notes receivable - net | <u>2,011,741</u> | <u>2,321,841</u> | <u>1,992,994</u> | <u>2,302,467</u> |
| Short-term loans and advances to | | | | |
| related parties (Note 13.2) | 7,018 | 3,051 | 7,554 | 3,062 |
| Inventories (Note 5) | 7,320,120 | 8,433,439 | 7,332,135 | 8,450,417 |
| Other current assets | | | | |
| Advance payments | 530,776 | 682,993 | 532,953 | 682,989 |
| Refundable value-added-tax | 2,665 | 32,456 | - | 28,265 |
| Other receivables | 488 | 470 | 698 | 707 |
| Prepaid expenses | 31,980 | 14,396 | 29,182 | 13,310 |
| Deposit at bank used as collateral | 16,200 | 16,200 | - | - |
| Others | 82,672 | 31,106 | 72,124 | 18,635 |
| Total Current Assets | <u>13,570,260</u> | <u>11,661,846</u> | <u>13,472,634</u> | <u>11,546,901</u> |
| NON-CURRENT ASSETS | | | | |
| Investments using the equity method | | | | |
| (Note 13.1) | 561,621 | 561,621 | 1,389,536 | 1,328,764 |
| Property, plant and equipment - net (Note 6) | 17,465,675 | 17,009,451 | 15,412,641 | 15,061,607 |
| Other non-current assets (Note 7) | 46,870 | 68,592 | 5,942 | 13,004 |
| Total Non-Current Assets | <u>18,074,166</u> | <u>17,639,664</u> | <u>16,808,119</u> | <u>16,403,375</u> |
| TOTAL ASSETS | <u><u>31,644,426</u></u> | <u><u>29,301,510</u></u> | <u><u>30,280,753</u></u> | <u><u>27,950,276</u></u> |

See notes to the interim financial statements

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

BALANCE SHEETS (CONTINUED)

BAHT : '000

| | CONSOLIDATED | | THE COMPANY ONLY | |
|---|---------------------|---------------------|-------------------------|---------------------|
| | "Unaudited" | | "Unaudited" | |
| | As at | As at | As at | As at |
| | June 30, | December 31, | June 30, | December 31, |
| | 2004 | 2003 | 2004 | 2003 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Bank overdrafts and short-term loans from financial institutions (Note 8) | | | | |
| Short-term loans | - | 290,000 | - | 290,000 |
| Trade finance loans | 200,849 | - | 200,849 | - |
| Trade accounts and notes payable | 202,573 | 1,211,787 | 207,014 | 1,194,118 |
| Current portion of long-term loans (Note 9) | 495,637 | 240,663 | 284,000 | - |
| Current portion of debentures (Note 10) | 360,000 | - | 360,000 | - |
| Current portion of liabilities under hire-purchase agreements | 2,032 | 6,179 | 373 | 2,627 |
| Other current liabilities | | | | |
| Accrued expenses | 156,878 | 209,151 | 164,476 | 219,224 |
| Others | 236,376 | 134,861 | 192,133 | 72,163 |
| Total Current Liabilities | <u>1,654,345</u> | <u>2,092,641</u> | <u>1,408,845</u> | <u>1,778,132</u> |
| NON-CURRENT LIABILITIES | | | | |
| Long-term loans (Note 9) | 7,738,754 | 6,794,016 | 7,316,000 | 6,400,000 |
| Debentures (Note 10) | 3,040,000 | 4,000,000 | 3,040,000 | 4,000,000 |
| Other non-current liabilities | | | | |
| Liabilities under hire-purchase agreements | 934 | 4,706 | 175 | 3,451 |
| Total Non-Current Liabilities | <u>10,779,688</u> | <u>10,798,722</u> | <u>10,356,175</u> | <u>10,403,451</u> |
| TOTAL LIABILITIES | <u>12,434,033</u> | <u>12,891,363</u> | <u>11,765,020</u> | <u>12,181,583</u> |

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES
BALANCE SHEETS (CONTINUED)

BAHT : '000

| | CONSOLIDATED | | THE COMPANY ONLY | |
|---|---------------------|---------------------|-------------------------|---------------------|
| | "Unaudited" | | "Unaudited" | |
| | As at | As at | As at | As at |
| | June 30, | December 31, | June 30, | December 31, |
| | 2004 | 2003 | 2004 | 2003 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| (CONTINUED) | | | | |
| SHAREHOLDERS ' EQUITY | | | | |
| SHARE CAPITAL | | | | |
| Authorized share capital | | | | |
| 1,310,150,000 ordinary shares of | | | | |
| Baht 10.00 each | <u>13,101,500</u> | <u>13,101,500</u> | <u>13,101,500</u> | <u>13,101,500</u> |
| Issued and paid-up share capital | | | | |
| 1,310,128,000 ordinary shares of | | | | |
| Baht 10.00 each, fully paid | 13,101,280 | 13,101,280 | 13,101,280 | 13,101,280 |
| ADDITIONAL PAID-IN (DISCOUNT ON) CAPITAL | | | | |
| Discount on ordinary share capital | (2,171,280) | (2,171,280) | (2,171,280) | (2,171,280) |
| Unrealized increment per assets appraisal | | | | |
| (Note 6.2) | 5,736,989 | 5,984,283 | 5,736,989 | 5,984,283 |
| RETAINED EARNINGS (DEFICIT) | | | | |
| Unappropriated (Deficit) | <u>1,848,744</u> | <u>(1,145,590)</u> | <u>1,848,744</u> | <u>(1,145,590)</u> |
| Total Company Shareholders' Equity | 18,515,733 | 15,768,693 | 18,515,733 | 15,768,693 |
| MINORITY INTEREST | <u>694,660</u> | <u>641,454</u> | <u>-</u> | <u>-</u> |
| Total Shareholders' Equity | <u>19,210,393</u> | <u>16,410,147</u> | <u>18,515,733</u> | <u>15,768,693</u> |
| TOTAL LIABILITIES AND | | | | |
| SHAREHOLDERS' EQUITY | <u>31,644,426</u> | <u>29,301,510</u> | <u>30,280,753</u> | <u>27,950,276</u> |

See notes to the interim financial statements

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

**STATEMENTS OF INCOME
FOR THE QUARTERS ENDED JUNE 30,
"UNAUDITED"**

BAHT : '000

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|-------------------------|-----------------------|-------------------------|-----------------------|
| | 2004 | 2003 | 2004 | 2003 |
| REVENUES | | | | |
| Revenues from the sales of goods | 7,545,981 | 7,315,786 | 7,545,541 | 7,315,296 |
| Revenues from the rendering of services | 61,483 | 65,031 | - | - |
| Other income | | | | |
| Gain on exchange | - | 8,269 | - | 8,269 |
| Others | 18,898 | 29,448 | 18,875 | 27,354 |
| Share of profit from investment using the equity method | - | - | 28,903 | 36,049 |
| Total Revenues | <u>7,626,362</u> | <u>7,418,534</u> | <u>7,593,319</u> | <u>7,386,968</u> |
| EXPENSES | | | | |
| Cost of the sales of goods | 5,687,835 | 6,129,082 | 5,776,871 | 6,229,020 |
| Cost of the rendering of services | 69,489 | 79,161 | - | - |
| Selling and administrative expenses | 115,899 | 206,987 | 102,100 | 198,781 |
| Doubtful accounts (Reversal) (Note 7) | - | (3,489) | - | - |
| Other expenses | | | | |
| Loss on exchange | 32,720 | - | 32,720 | - |
| Loss on disposal of equipment and obsolescence | 155,979 | 7,852 | 155,822 | 7,817 |
| Others | 1,560 | - | 1,533 | - |
| Directors' remuneration | 3,630 | 6,960 | 3,470 | 6,800 |
| Total Expenses | <u>6,067,112</u> | <u>6,426,553</u> | <u>6,072,516</u> | <u>6,442,418</u> |
| INCOME BEFORE INTEREST AND INCOME TAX EXPENSES | 1,559,250 | 991,981 | 1,520,803 | 944,550 |
| INTEREST EXPENSE | 106,260 | 192,470 | 102,003 | 186,166 |
| INCOME TAX EXPENSE | 11,188 | 8,108 | - | - |
| INCOME AFTER TAX | 1,441,802 | 791,403 | 1,418,800 | 758,384 |
| NET INCOME OF MINORITY INTEREST | (23,002) | (33,019) | - | - |
| NET INCOME | <u><u>1,418,800</u></u> | <u><u>758,384</u></u> | <u><u>1,418,800</u></u> | <u><u>758,384</u></u> |

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

STATEMENTS OF INCOME (CONTINUED)

FOR THE QUARTERS ENDED JUNE 30,

"UNAUDITED"

BAHT : '000

| | | CONSOLIDATED | | THE COMPANY ONLY | |
|-------------------------------------|--------------------|---------------------|-------------|-------------------------|-------------|
| | | 2004 | 2003 | 2004 | 2003 |
| EARNINGS PER SHARE (Note 11) | | | | | |
| Basic earnings per share | BAHT | 1.08 | 0.89 | 1.08 | 0.89 |
| Diluted earnings per share | BAHT | - | 0.60 | - | 0.60 |
| WEIGHTED AVERAGE NUMBER | | | | | |
| OF ORDINARY SHARES | | | | | |
| Basic earnings per share | '000 SHARES | 1,310,128 | 853,000 | 1,310,128 | 853,000 |
| Diluted earnings per share | '000 SHARES | - | 1,310,143 | - | 1,310,143 |

See notes to the interim financial statements

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

STATEMENTS OF INCOME

FOR THE SIX-MONTH PERIODS ENDED JUNE 30,

"UNAUDITED"

BAHT : '000

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2004 | 2003 | 2004 | 2003 |
| REVENUES | | | | |
| Revenues from the sales of goods | 16,615,269 | 14,990,094 | 16,613,663 | 14,988,770 |
| Revenues from the rendering of services | 120,822 | 127,566 | - | - |
| Other income | | | | |
| Gain on exchange | - | 63,947 | - | 64,253 |
| Others | 31,587 | 41,128 | 32,339 | 37,359 |
| Share of profit from investment using the equity method | - | - | 65,066 | 77,395 |
| Total Revenues | <u>16,767,678</u> | <u>15,222,735</u> | <u>16,711,068</u> | <u>15,167,777</u> |
| EXPENSES | | | | |
| Cost of the sales of goods | 12,942,700 | 12,537,767 | 13,120,973 | 12,734,431 |
| Cost of the rendering of services | 136,928 | 141,383 | - | - |
| Selling and administrative expenses | 246,104 | 407,463 | 220,345 | 374,681 |
| Doubtful accounts (Reversal) (Note 7) | (11,021) | (15,936) | - | - |
| Other expenses | | | | |
| Loss on exchange | 3,793 | - | 2,605 | - |
| Loss on disposal of equipment and obsolescence | 159,970 | 8,033 | 159,786 | 7,860 |
| Others | 1,560 | - | 1,533 | - |
| Directors' remuneration | 4,640 | 7,885 | 4,320 | 7,565 |
| Total Expenses | <u>13,484,674</u> | <u>13,086,595</u> | <u>13,509,562</u> | <u>13,124,537</u> |
| INCOME BEFORE INTEREST AND INCOME TAX EXPENSES | 3,283,004 | 2,136,140 | 3,201,506 | 2,043,240 |
| INTEREST EXPENSE | 215,962 | 418,337 | 207,172 | 405,344 |
| INCOME TAX EXPENSE | 15,376 | 9,016 | - | - |
| INCOME AFTER TAX | 3,051,666 | 1,708,787 | 2,994,334 | 1,637,896 |
| NET INCOME OF MINORITY INTEREST | (57,332) | (70,891) | - | - |
| NET INCOME | <u><u>2,994,334</u></u> | <u><u>1,637,896</u></u> | <u><u>2,994,334</u></u> | <u><u>1,637,896</u></u> |

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

STATEMENTS OF INCOME (CONTINUED)

FOR THE SIX-MONTH PERIODS ENDED JUNE 30,

"UNAUDITED"

BAHT : '000

| | | CONSOLIDATED | | THE COMPANY ONLY | |
|-------------------------------------|-------------------|---------------------|-------------|-------------------------|-------------|
| | | 2004 | 2003 | 2004 | 2003 |
| EARNINGS PER SHARE (Note 11) | | | | | |
| Basic earnings per share | BAHT | 2.29 | 1.92 | 2.29 | 1.92 |
| Diluted earnings per share | BAHT | - | 1.30 | - | 1.30 |
| WEIGHTED AVERAGE NUMBER | | | | | |
| OF ORDINARY SHARES | | | | | |
| Basic earnings per share | '000 SHARE | 1,310,128 | 853,000 | 1,310,128 | 853,000 |
| Diluted earnings per share | '000 SHARE | - | 1,310,143 | - | 1,310,143 |

See notes to the interim financial statements

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
CONSOLIDATED
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2004 AND 2003
"UNAUDITED"

BAHT : '000

| | Issued and Paid-up Ordinary Share Capital | Discount on Ordinary Share Capital | Unrealized Increment per Assets Appraisal | Unappropriated Retained Earnings (Deficit) | Minority Interest | Total |
|------------------------------------|--|---|--|---|------------------------------|-------------------|
| Beginning balance, January 1, 2003 | 8,530,000 | - | 6,268,939 | (5,848,037) | 397,173 | 9,348,075 |
| Amortization | - | - | (161,056) | - | - | (161,056) |
| Net income | - | - | - | 1,637,896 | - | 1,637,896 |
| Minority interest increase | - | - | - | - | 68,899 | 68,899 |
| Ending balance, June 30, 2003 | <u>8,530,000</u> | <u>-</u> | <u>6,107,883</u> | <u>(4,210,141)</u> | <u>466,072</u> | <u>10,893,814</u> |
| Beginning balance, January 1, 2004 | 13,101,280 | (2,171,280) | 5,984,283 | (1,145,590) | 641,454 | 16,410,147 |
| Amortization | - | - | (247,294) | - | - | (247,294) |
| Net income | - | - | - | 2,994,334 | - | 2,994,334 |
| Minority interest increase | - | - | - | - | 53,206 | 53,206 |
| Ending balance, June 30, 2004 | <u>13,101,280</u> | <u>(2,171,280)</u> | <u>5,736,989</u> | <u>1,848,744</u> | <u>694,660</u> | <u>19,210,393</u> |

See notes to the interim financial statements

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
THE COMPANY ONLY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2004 AND 2003
"UNAUDITED"

BAHT : '000

| | Issued and Paid-up Ordinary Share Capital | Discount on Ordinary Share Capital | Unrealized Increment per Assets Appraisal | Unappropriated Retained Earnings (Deficit) | Total |
|------------------------------------|--|---|--|---|-------------------|
| Beginning balance, January 1, 2003 | 8,530,000 | - | 6,268,939 | (5,848,037) | 8,950,902 |
| Amortization | - | - | (161,056) | - | (161,056) |
| Net income | - | - | - | 1,637,896 | 1,637,896 |
| Ending balance, June 30, 2003 | <u>8,530,000</u> | <u>-</u> | <u>6,107,883</u> | <u>(4,210,141)</u> | <u>10,427,742</u> |
| Beginning balance, January 1, 2004 | 13,101,280 | (2,171,280) | 5,984,283 | (1,145,590) | 15,768,693 |
| Amortization | - | - | (247,294) | - | (247,294) |
| Net income | - | - | - | 2,994,334 | 2,994,334 |
| Ending balance, June 30, 2004 | <u>13,101,280</u> | <u>(2,171,280)</u> | <u>5,736,989</u> | <u>1,848,744</u> | <u>18,515,733</u> |

See notes to the interim financial statements

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30,

"UNAUDITED"

BAHT : '000

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|---------------------|-------------|-------------------------|-------------|
| | 2004 | 2003 | 2004 | 2003 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income | 2,994,334 | 1,637,896 | 2,994,334 | 1,637,896 |
| Items to reconcile net income to net cash flows from operations | | | | |
| Doubtful accounts (Reversal) | (11,021) | (15,936) | - | - |
| Depreciation | 293,716 | 300,061 | 251,539 | 261,412 |
| Unrealized gain from temporary investment | - | (3,325) | - | - |
| Provision for diminution in value of inventories (Reversal) | (4,012) | (958) | (4,012) | (958) |
| Provision for obsolete equipment | 77,865 | - | 77,865 | - |
| Additional (reduction in) interest on debt restructuring | (1,062) | 130,020 | - | 132,399 |
| Realized gain on exchange rate | - | (94,632) | - | (94,632) |
| Unrealized loss on exchange rate | 12,546 | 44,268 | 12,546 | 44,268 |
| Gain on sales of temporary investment | - | (1,324) | - | - |
| Loss on disposal of equipment | 82,105 | 38,350 | 81,921 | 38,176 |
| Gain on redemption of debentures before maturity | (4,751) | - | (4,751) | - |
| Share of profit from investment using the equity method | - | - | (65,066) | (77,395) |
| Minority interest | 57,332 | 70,891 | - | - |
| Net income from operations before changes in operating assets and liabilities | 3,497,052 | 2,105,311 | 3,344,376 | 1,941,166 |
| Operating assets (increase) decrease | | | | |
| Trade accounts and notes receivable - related parties | 197,385 | (239,218) | 192,692 | (235,644) |
| Trade accounts and notes receivable - others | 100,730 | 132,246 | 104,796 | 131,929 |
| Inventories | 1,117,331 | 407,457 | 1,122,294 | 427,709 |
| Short-term loans and advances to related parties | 33 | (3) | (492) | 24 |
| Advance to director | - | 2,742 | - | - |
| Advance payments | 152,217 | (99,790) | 150,037 | (99,656) |
| Refundable valued-added-tax | 29,791 | 79,079 | 28,265 | 79,079 |
| Other receivables | 11,003 | 6,473 | 9 | (5,449) |
| Prepaid expenses | (17,584) | (21,914) | (15,872) | (20,475) |
| Other current assets - others | (51,565) | 10,110 | (53,490) | (2,509) |
| Other non-current assets | 21,721 | (3,580) | 7,062 | (3,977) |
| Operating liabilities increase (decrease) | | | | |
| Trade accounts and notes payable | (1,005,785) | 1,935,229 | (983,675) | 1,929,062 |
| Accrued expenses | (52,273) | (64,459) | (54,748) | (59,350) |
| Other current liabilities - other | 97,721 | 56,554 | 116,175 | 52,700 |
| Net cash provided by operating activities | 4,097,777 | 4,306,237 | 3,957,429 | 4,134,609 |

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,
"UNAUDITED"

BAHT : '000

| | CONSOLIDATED | | THE COMPANY ONLY | |
|---|-------------------------|-----------------------|-------------------------|----------------------|
| | 2004 | 2003 | 2004 | 2003 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Increase in current investment | (2,483,499) | (100,000) | (2,500,994) | - |
| Cash paid for purchases of property, plant and equipment | (1,161,330) | (235,298) | (1,005,358) | (216,452) |
| Proceeds from sales of current investment | - | 102,136 | - | - |
| Short-term loans and advances to related parties | (4,000) | - | (4,000) | - |
| Net cash used in investing activities | <u>(3,648,829)</u> | <u>(233,162)</u> | <u>(3,510,352)</u> | <u>(216,452)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Short-term loans decrease | (290,000) | (420,000) | (290,000) | (420,000) |
| Trade finance loans increase (decrease) | 200,654 | (2,204,666) | 200,654 | (2,204,666) |
| Cash repayment of long-term loans | (119,226) | (1,411,654) | - | (1,304,212) |
| Proceeds from long-term loans | 1,320,000 | - | 1,200,000 | - |
| Cash repayment for early redemption of debentures | (595,249) | - | (595,249) | - |
| Cash repayment of long-term liabilities under hire-purchase agreements | (5,420) | (2,531) | (5,531) | (1,375) |
| Cash payment of long-term liabilities for purchase of land | <u>(2,500)</u> | <u>(1,500)</u> | <u>-</u> | <u>-</u> |
| Net cash provided by (used in) financing activities | <u>508,259</u> | <u>(4,040,351)</u> | <u>509,874</u> | <u>(3,930,253)</u> |
| Net increase (decrease) in cash and cash equivalents | 957,207 | 32,724 | 956,951 | (12,096) |
| Cash and cash equivalents as at January 1 | <u>108,399</u> | <u>111,109</u> | <u>47,049</u> | <u>44,540</u> |
| Cash and cash equivalents as at June 30 | <u><u>1,065,606</u></u> | <u><u>143,833</u></u> | <u><u>1,004,000</u></u> | <u><u>32,444</u></u> |
| Supplemental cash flow information: | | | | |
| Cash paid for interest | 246,397 | 338,237 | 234,135 | 322,545 |
| Non-cash transactions: | | | | |
| Vehicles acquired under hire-purchase agreements | - | 3,659 | - | 3,219 |
| Transfer of long-term loans to current portion | 495,637 | 1,132,009 | 284,000 | 898,818 |
| Transfer of debentures to current portion | 360,000 | - | 360,000 | - |
| Amortization of unrealized increment per asset appraisal | 251,419 | 163,048 | 243,000 | 158,983 |

See notes to the interim financial statements

SAHAVIRIYA STEEL INDUSTRIES PUBLIC COMPANY LIMITED AND SUBSIDIARIES
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE QUARTERS AND SIX-MONTH PERIODS ENDED JUNE 30, 2004 AND 2003
“UNAUDITED”

1. BUSINESS OPERATIONS OF THE COMPANY AND SUBSIDIARIES

From 2002, the Government continuously issued various measures regarding the antidumping and countervailing of imported goods with the measures which are still in effect as follows:

1. On May 22, 2003, the Committee on Dumping and Subsidies, Department of Foreign Trade, Ministry of Commerce, by Sections 7, 49, 51, 53, 57 and 73 (1) of the Antidumping and Countervailing Act B.E. 2542, issued the announcement that the Committee had an ultimate judgement on May 16, 2003 that there was a dumping and a damage from the dumping of coil and non-coil hot rolled steel originated from 14 countries according to Section 19 (1) of the Antidumping and Countervailing Act B.E. 2542, thus the antidumping duties are imposed which minimum and maximum rates are in the range between 3.45% to 128.11% of CIF value for the period of 5 years from May 22, 2003, except the imported hot rolled steel for re-export.
2. On July 11, 2003, the Committee on Dumping and Subsidies, Department of Foreign Trade, Ministry of Commerce issued the announcement approving the exemption of antidumping duties for coil and non-coil hot rolled steel imported for cold-rolling and further processing for downstream users and assigned the Department of Foreign Trade to monitor the import under the pre-determined volume for the period of 5 years from July 21, 2003 to May 26, 2008.
3. On March 11, 2004, the Committee on Dumping and Subsidies, Department of Foreign Trade, Ministry of Commerce issued the announcement approving the antidumping duties for coil and non-coil hot rolled steel originated from 14 countries at zero percent of CIF for the period of 6 months from March 19, 2004 to September 18, 2004.

As a result of continuous measures of the Government as mentioned above, the Company has significant amount of profit from its operations attributable to significant increase in sales volume, which domestic demand for hot rolled steel increased from economic recovery in construction and auto-mobile industries and the increase in average prices of hot rolled steel which is in line with the increase in world market price.

2. BASIS FOR PREPARATION OF THE CONSOLIDATED AND COMPANY'S FINANCIAL STATEMENTS

- 2.1 The interim consolidated and Company's financial statements are presented in accordance with the Notification of the Department of Commercial Registration (Currently the Department of Business Development) dated September 14, 2001 regarding "The Brief Particulars in the Financial Statements B.E. 2544".

The Company prepares its interim financial statements in conformity with accounting standards related to interim financial statements and practices generally accepted in Thailand.

- 2.2 The results of operations for the six-month period ended June 30, 2004 are not necessarily indicative of the operating results anticipated for the full year.
- 2.3 The consolidated and the Company's balance sheets as at December 31, 2003, presented herein for comparison, have been derived from the financial statements of the Company for the year then ended which have been audited.

- 2.4 Certain financial information which is normally included in the annual financial statements prepared in accordance with generally accepted accounting principles, but which is not required for interim reporting purposes, has been omitted. Therefore, the interim financial statements should be read in conjunction with the financial statements and notes thereto included in the audited financial statements for the year ended December 31, 2003.
- 2.5 The consolidated financial statements include the accounts of the Company, Prachuap Port Company Limited and West Coast Engineering Company Limited of which the Company has a holding of 51% and 99.99%, respectively, after eliminating inter-company transactions and balances.
- 2.6 Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent assets and liabilities. The actual results may differ from those estimates.
- 2.7 The interim consolidated and Company's financial statements are presented in accordance with the Explanation of the Department of Business Development dated November 5, 2003 regarding "The Brief Particulars in the Financial Statements (No.2) B.E.2546" by presenting the premium on ordinary shares in the net amount after offsetting with the discount on ordinary shares in the interim financial statements for the six-month period ended June 30, 2004. Such reclassification has been made to the interim financial statements for the six-month period ended June 30, 2003 to conform to the classification used in the current period's interim financial statements.
- 2.8 The financial statements for the year ended December 31, 2003 have been reclassified to conform to the classifications presented in the interim financial statements for the six-month period ended June 30, 2004. Such reclassification is as follows:
- Accounts payable for fixed assets and other payable totalling Baht 26,323,173 which was previously presented as part of trade accounts and notes payable in the financial statements for 2003 was reclassified to be presented as part of other current liabilities.

The interim financial statements for the quarter and six-month period ended June 30, 2003 have been reclassified to conform to the classifications presented in the interim financial statements for the quarter and six-month period ended June 30, 2004. Such reclassification is as follows:

- Commission expenses for the quarter and six-month period ended June 30, 2003 of Baht 6,341,177 and Baht 7,682,289, respectively which were previously presented as a deduction from revenues from the sales of goods, were reclassified to be presented as part of selling and administrative expenses.
- 2.9 Additional information regarding related party transactions has been disclosed in Note 13 to the interim financial statements for the quarter and six-month period ended June 30, 2004, and such additional information has also been disclosed to the interim financial statements for the quarter and six-month period ended June 30, 2003 to conform to the disclosure in the current period's interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company uses the same accounting policies and calculation method in these interim financial statements as those used in the financial statements for 2003.

4. CURRENT INVESTMENTS

Current investments consist of the following:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|-------------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 |
| Fixed deposit for 1 year | - | 17,495 | - | - |
| Bonds and treasury bills, net | 2,500,994 | - | 2,500,994 | - |
| | <u>2,500,994</u> | <u>17,495</u> | <u>2,500,994</u> | <u>-</u> |

Bonds and treasury bills of Baht 2,500,993,573 as of June 30, 2004 comprise bonds of the Bank of Thailand with face value of Baht 1,505,000,000 and maturity of 3-5 months and treasury bills of the Bank of Thailand with face value of Baht 1,000,000,000 and maturity of 3 months, which are presented net of deferred interest income amounting to Baht 4,006,427.

5. INVENTORIES

Inventories consist of the following:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|---|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 |
| Finished goods | 1,931,493 | 2,535,057 | 1,941,183 | 2,550,903 |
| Raw materials | 3,871,124 | 3,853,250 | 3,885,569 | 3,874,624 |
| Spare parts and consumable goods | 974,620 | 961,577 | 962,500 | 941,335 |
| Goods in transit | 807,678 | 1,352,362 | 807,678 | 1,352,362 |
| | <u>7,584,915</u> | <u>8,702,246</u> | <u>7,596,930</u> | <u>8,719,224</u> |
| <u>Less</u> Allowance for loss on diminution in value of spare parts and consumable goods | <u>(264,795)</u> | <u>(268,807)</u> | <u>(264,795)</u> | <u>(268,807)</u> |
| | <u>7,320,120</u> | <u>8,433,439</u> | <u>7,332,135</u> | <u>8,450,417</u> |

As at June 30, 2004 and December 31, 2003, all finished goods and raw materials are pledged as collateral for short-term and long-term loans from banks (see Notes 8 and 9).

6. PROPERTY, PLANT AND EQUIPMENT - NET

- 6.1 As at June 30, 2004 and December 31, 2003, certain land, buildings and machinery representing approximately 84% and 89%, respectively of the total net book value of such assets are mortgaged as collateral for bank overdrafts, loans from banks, long-term loans and debentures (see Notes 8, 9 and 10).

- 6.2 In 2002, the Company engaged an independent professional appraiser, American Appraisal (Thailand) Limited, to reappraise the plant facilities for the second time after the first reappraisal in 1997. In 2003, Prachuap Port Company Limited engaged such company to reappraise its berth and facilities for the second time after the first reappraisal in 1998. The appraisal reports submitted by the appraiser were as of December 11, 2002 and August 28, 2003, respectively.

The results of the second appraisals of the Company and subsidiary were as follows:

| | The Company only | Baht : '000 Subsidiary |
|---------------------------|-------------------------|-----------------------------------|
| Appraisal increment - net | | |
| Land | 3,902 | 3,689 |
| Buildings | 241,085 | 1,919 |
| Machinery | 5,365,065 | - |
| Facilities | 10,700 | - |
| Berth and facilities | - | 126,348 |

The increment from the appraisal was recorded in the accounts as unrealized increment per assets appraisal and was included as a part of shareholders' equity. The decrease was recorded in the statement of income for the year the revaluation was performed.

The method of appraisal for the value of buildings, machinery, berth and facilities was the depreciated replacement cost to reflect the unexpired service potential of the assets with regard to age and condition.

In addition, the Company and such subsidiary has evaluated the recoverable amounts by using the discounted cash flow method, and have determine that the recoverable amounts to be higher than the appraisal values from such depreciated replacement cost basis.

The Company and such subsidiary have a policy to review and adjust the depreciated appraisal value of assets on a periodic basis.

As at June 30, 2004 and December 31, 2003, the Company, subsidiary and related company have recorded unrealized appraisal increment for assets and recognized unrealized increment per assets appraisal in the shareholders' equity as follows:

| CONSOLIDATED AND THE COMPANY ONLY | | | | | |
|---|-----------------|-----------------|------------------|---------------------------------|------------------|
| June 30, 2004 | | | | | |
| | Land | Building | Machinery | Berth and Facilities | Total |
| | Baht'000 | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Unrealized increment per assets appraisal of : | | | | | |
| The Company | 3,902 | 209,767 | 4,806,592 | 9,304 | 5,029,565 |
| The subsidiary | 1,706 | 1,137 | - | 142,960 | 145,803 |
| The related company | - | - | 561,621 | - | 561,621 |
| | <u>5,608</u> | <u>210,904</u> | <u>5,368,213</u> | <u>152,264</u> | <u>5,736,989</u> |

CONSOLIDATED AND THE COMPANY ONLY
December 31, 2003

| | Land | Building | Machinery | Berth and Facilities | Total |
|---|-----------------|-----------------|------------------|---------------------------------|------------------|
| | Baht'000 | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Unrealized increment per assets appraisal of : | | | | | |
| The Company | 3,902 | 220,041 | 5,038,852 | 9,770 | 5,272,565 |
| The subsidiary | 1,847 | 1,266 | - | 146,984 | 150,097 |
| The related company | - | - | 561,621 | - | 561,621 |
| | <u>5,749</u> | <u>221,307</u> | <u>5,600,473</u> | <u>156,754</u> | <u>5,984,283</u> |

6.3 The Company has the assets which are fully depreciated but are still in use as follows:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|--------------------------|------------------------------|--------------------------|------------------------------|
| | June 30, 2004 | December 31, 2003 | June 30, 2004 | December 31, 2003 |
| | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Cost of assets (excluded appraisal increase) before fully depreciated | <u>354,331</u> | <u>335,910</u> | <u>268,235</u> | <u>255,332</u> |

6.4 The Company may be affected by the Supreme Court's verdict to demolish its building and structures, having the book value of Baht 23.3 million, located on the leased land under dispute. Currently, the case is pending in the Supreme Court and the ultimate outcome is unknown.

6.5 As at June 30, 2004 and December 31, 2003, the Company and subsidiary capitalized interest expenses incurred from loans for the construction projects as part of cost of assets in the amount of Baht 24.1 million and Baht 4.5 million, respectively.

6.6 As at June 30, 2004, the Company has obsolete equipment with net book value of Baht 78 million and the incremental value from appraisal of Baht 52 million which the Company expects to dispose it within 2004. The Company has fully provided an allowance for obsolescence of such equipment in the quarter ended June 30, 2004.

7. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|--------------------------|------------------------------|--------------------------|------------------------------|
| | June 30, 2004 | December 31, 2003 | June 30, 2004 | December 31, 2003 |
| | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Deposits | 46,870 | 68,592 | 5,942 | 13,004 |
| Receivable from cancellation of shipbuilding contract | <u>99,629</u> | <u>110,650</u> | <u>-</u> | <u>-</u> |
| | 146,499 | 179,242 | 5,942 | 13,004 |
| <u>Less</u> Allowance for doubtful account | | | | |
| - Receivable from cancellation of shipbuilding contract | <u>(99,629)</u> | <u>(110,650)</u> | <u>-</u> | <u>-</u> |
| | <u>46,870</u> | <u>68,592</u> | <u>5,942</u> | <u>13,004</u> |

Receivable from cancellation of shipbuilding contract represented the transaction of Prachuap Port Company Limited which cancelled the shipbuilding contract with the supplier relating to the tugboats. The supplier agreed to return all the money paid of USD 3.81 million or Baht 167.96 million within fifteen installments from July 8, 2002 to March 8, 2007. From 2002 to June 30, 2004, the subsidiary received total repayment of USD 1.55 million or Baht 68.33 million. However, the subsidiary has fully provided an allowance for doubtful debt for the remaining amount as at June 30, 2004 and December 31, 2003, due to the uncertainty of the recoverability.

8. BANK OVERDRAFTS AND SHORT-TERM LOANS FROM FINANCIAL INSTITUTIONS

As at June 30, 2004 and December 31, 2003, the Company had short-term trade financing facilities from financial institutions according to the loan agreement dated September 15, 2003 with a total maximum credit limit of Baht 17,000 million. The trade financing facilities included bank overdraft, letters of credit, trust receipts, promissory notes, bills discounted, packing credits and banks' letters of guarantee.

Such short-term loans are secured by the mortgage of land, buildings and machinery (see Note 6.1) and the assignment of insurance proceeds to the lenders including the pledge of raw materials and finished products owned by the Company (see Note 5).

As at June 30, 2004 and December 31, 2003, the Company had unused short-term credit facilities of Baht 8,982 million and Baht 8,605 million, respectively, from the revolving trade financing facilities. Fee and withdrawal terms are in accordance with the long-term loan agreement.

9. LONG-TERM LOANS

Long-term loans consist of the following:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|--------------------------|------------------------------|--------------------------|------------------------------|
| | June 30, 2004 | December 31, 2003 | June 30, 2004 | December 31, 2003 |
| | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Loan repayable semi-annually from March 2005 onwards | 5,600,000 | 5,600,000 | 5,600,000 | 5,600,000 |
| Loan repayable semi-annually from June 2005 onwards | 1,000,000 | - | 1,000,000 | - |
| Loan repayable semi-annually from September 2005 onwards | 1,000,000 | 800,000 | 1,000,000 | 800,000 |
| Loan repayable monthly from April 2002 - May 2003 and semi-annually from June 2003 onwards | 429,544 | 548,770 | - | - |
| Loan repayable monthly from March 2005 onwards | 200,000 | 80,000 | - | - |
| | <u>8,229,544</u> | <u>7,028,770</u> | <u>7,600,000</u> | <u>6,400,000</u> |
| <u>Less</u> Current portion | <u>(495,637)</u> | <u>(240,663)</u> | <u>(284,000)</u> | <u>-</u> |
| | <u>7,733,907</u> | <u>6,788,107</u> | <u>7,316,000</u> | <u>6,400,000</u> |
| Deferred interest expenses | 4,847 | 5,909 | - | - |
| | <u><u>7,738,754</u></u> | <u><u>6,794,016</u></u> | <u><u>7,316,000</u></u> | <u><u>6,400,000</u></u> |

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The Company and subsidiary have long-term loan agreements as follows:

1. On September 15, 2003, the Company and the lending banks entered into the credit facilities agreement. The details of such loans are as follows:
 - 1.1 Long-term loans amounting to Baht 8,000 million with the lending banks which consist of convertible debentures of Baht 2,400 million, that were all converted into ordinary shares in December 2003, and long-term loan of Baht 5,600 million with 10 year maturity, interest rates at an average MLR less 1.5% per annum from the agreement date to the third year, at an average MLR less 1% per annum from the third year to the fifth year and at an average MLR less 0.5% per annum from the fifth year onwards, such interest rates must not be less than interest rate of secured debentures (see Note 10) plus 0.75% per annum. The interest is payable quarterly and principal repayment will be increased proportionately and payable semi-annually starting from March 31, 2005.
 - 1.2 Short-term loan for trade financing with maximum credit of Baht 17,000 million with the existing lenders and other financial institutions (see Note 8).

Subsequently, on December 29, 2003, the Company and the existing lenders entered into the credit facility agreement for additional long-term loans of Baht 2,000 million with 3.5-year maturity and fixed interest rate at 3.75% per annum. The interest is payable semi-annually and principal repayment is payable in an equal amount semi-annually starting from June 2005. As at June 30, 2004, the Company has already made a withdrawal of Baht 1,000 million and as at December 31, 2003, the Company had not yet made any withdrawal of such long-term loan.

2. On September 11, 2003, the Company entered into a long-term loan agreement with a financial institution amounting to Baht 1,000 million with 10-year maturity, fixed interest rate at 4% per annum from the agreement date to September 30, 2008 and at an average MLR less 0.5% per annum from October 1, 2008 onwards. The interest is payable quarterly and principal repayment will be increased proportionately and payable semi-annually starting from September 30, 2005. As at June 30, 2004 and December 31, 2003, the Company has already made a withdrawal of Baht 1,000 million and Baht 800 million, respectively.

Such loans per items 1 and 2 above are secured by the mortgage of land, buildings, machinery and the assignment of insurance proceeds to the lenders including the pledge of raw materials and finished products owned by the Company (see Notes 5 and 6.1).

In addition, both loan agreements contain certain covenants regarding the operations, financial ratios and financial position, maintenance of shareholders' equity in Prachuap Port Company Limited at not less than 51% of issued and paid up capital of such subsidiary and prohibition of dividend payments higher than 60% of net income in each fiscal year. The agreements also include the covenant on forbidding the Company to pledge its investment in shares or create any obligation thereon. The Company thus has to comply with certain conditions contained in such loan agreements.

3. Prachuap Port Company Limited, a subsidiary, entered into the debt restructuring agreement with its lending bank on March 30, 1999 and an amendment agreement on June 30, 1999. Modification of the terms of debt included :

- 3.1 Extension of all long-term and short-term principal loan amounts and reduction of interest thereof to a long-term loan in the amount of Baht 832.5 million with 9-year maturity, 3-year grace period of principal repayment with principal repayment monthly in the fourth year from April 2002 and principal repayment every 6 months starting from the fifth year on June 30, 2003 with interest payable monthly at interest rate below MLR of such bank during the first 7 years and thereafter at MLR of such bank.
- 3.2 Modification of terms of payment of Baht 199 million accrued interest into Baht 86 million long-term loan with maturity of 3 years and 1 month, 2-year grace period for principal repayment, no interest charge during the whole life of loan and monthly principal repayment starting from the third year on April 30, 2001. The remaining Baht 113 million is considered as debt forgiveness, provided that such subsidiary complies with the terms of debt restructuring agreement and makes payments in full for the two portions of long-term loan. Such loan is guaranteed by certain directors and the mortgage of land as collateral.

Subsequently, such subsidiary received the letter from the bank to forgive the debt of Baht 113 million, which was effective on October 1, 2003, therefore the subsidiary recognized such amount as gain from debt forgiveness in the statement of income for the year ended December 31, 2003.

Deferred interest expenses represent the cumulative effects of the change in interest rates to be paid at the floating rates for the restructured debts at the date of restructuring and the balance sheet date.

4. On September 5, 2003, such subsidiary entered into the new long-term loan agreement with a commercial bank totaling Baht 650 million with 6 year maturity, and bearing interest rate at 3 month fixed deposit rate of the bank plus 3%, 3.5%, 4% per annum for the first two years, the third year, and the fourth year onward, respectively. Interest is payable monthly and the grace period for principal is one and a half years, which will be ended in February 2005. The first installment payment will be due on the last working day of March 2005 and the following installment payment will be payable at the end of each month. Such long-term loan is secured by the mortgage of land and building and expanding berth construction. As at and June 30, 2004 and as at December 31, 2003, such subsidiary has already made a withdrawal of Baht 200 million and Baht 80 million, respectively.

The above loan agreement contains certain covenants regarding the operations, financial ratios and financial position. The subsidiary thus has to comply with certain conditions contained in the above loan agreement.

10. DEBENTURES

Debentures consist of the following:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|-----------------------------|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 |
| Debentures | 3,400,000 | 4,000,000 | 3,400,000 | 4,000,000 |
| <u>Less</u> Current portion | (360,000) | - | (360,000) | - |
| | <u>3,040,000</u> | <u>4,000,000</u> | <u>3,040,000</u> | <u>4,000,000</u> |

On September 17, 2003, the Company had proceeds from sales of debentures to institutional investors totaling Baht 4,000 million with detail as follows:

1. Secured amortizing debentures No. 1 series 1 of 1,800,000 units with total value of Baht 1,800 million with 3.5 years maturity, which principal will be equally redeemed semi-annually starting from March 17, 2005 and will be due in 2007. The interest rate is fixed at 3.5% per annum and payable semi-annually.

Secured amortizing debentures No. 1 series 2 of 1,450,000 units with total value of Baht 1,450 million with 4.5 years maturity, which principal will be equally redeemed semi-annually starting from September 17, 2007 and will be due in 2008. The interest rate is floated at the average of 6 month fixed deposit rates of 4 commercial banks plus 2.75% per annum and payable semi-annually.

2. Secured debentures No. 2 of 750,000 units with total value of Baht 750 million with 5 years maturity after issuing date of debentures, which will be due in 2008. The interest rate is floated at the average of 6-month fixed deposit rates of 4 commercial banks plus 3% per annum and payable semi-annually.

Subsequently on April 23, 2004, the Company has redeemed certain portion of such secured debentures of 600,000 units with total face value of Baht 600 million in the amount of Baht 595 million.

The debentures are secured by the mortgage of land, buildings, and machinery at current production capacity (see Note 6.1) and machinery which will be acquired for production capacity expansion project. The proceeds from these debentures were used to repay a portion of long-term loans under restructuring debt agreement and/or investing in the expansion project.

11. EARNINGS PER SHARE

For the quarter and six-month period ended June 30, 2004, the Company does not have any ordinary shares equivalent for calculation of diluted earnings per share.

For the quarter and six-month period ended June 30, 2003, the Company had convertible debentures of Baht 2,400 million which the initial conversion price was lower than the average fair value of ordinary shares. Therefore, the diluted earnings per share was presented.

12. FOREIGN EXCHANGE RISK MANAGEMENT

As at June 30, 2004 and December 31, 2003, assets and liabilities in foreign currencies consist of the following:

| | | CONSOLIDATED AND THE COMPANY ONLY | |
|-------------|------------------|-----------------------------------|----------------------|
| | | June 30, 2004 | December 31, 2003 |
| Assets | - US Dollar | 9,085,083 | 12,601,271 |
| Liabilities | - US Dollar | 8,000,133 | 24,673,997 |
| | - Italian Lira | 51,770,995 | 51,770,995 |
| | - Deutsche Mark | 16,159 | 16,159 |
| | - Yen | 37,600 | 37,600 |
| | - Euro | 945,353 | 268,800 |
| | - Pound Sterling | 7,966 | 13,675 |
| | - Swiss Franc | - | 396 |
| | | | .../10 |

As at June 30, 2004, the Company did not enter into hedging contracts to cover assets which are due for receipt in 2004. However, the Company entered into hedging contracts of EUR 0.5 million for liabilities which are due in 2004.

As at December 31, 2003, the Company did not enter into any hedging contracts to cover assets which are due for receipt in 2004 or for liabilities which are due in 2004.

13. TRANSACTIONS WITH RELATED PARTIES

The Company and subsidiaries have transactions with related parties. These related parties are investee companies and/or having mutual directors or companies which directors are major shareholders and/or have common directors, and the Company employees' savings cooperative. The financial statements reflect the effects of these transactions on the basis determined by the Company and the subsidiaries and the related parties and are in the ordinary course of business.

13.1 Investments in subsidiary, associated, and related parties

| | | June 30, 2004 | | | | | | |
|---|--|-------------------|--|-------------------|------------------|--------------------|--------------------------|-----------------------------|
| | Types of business | Relationship | Issued and paid up capital Baht'000 | % of Shareholding | Cost Baht'000 | Equity Baht'000 | Consolidated Baht'000 | Dividend Amount Baht'000 |
| Subsidiary companies | | | | | | | | |
| West Coast Engineering Company Limited | Maintenance services | Shareholder | 75,000 | 99.99 | 75,000 | 104,901 | - | - |
| Prachuap Port Company Limited | Deep - sea port services | Shareholder | 400,000 | 51.00 | 204,000 | 723,014 | - | - |
| Related companies | | | | | | | | |
| Thai Coated Steel Sheet Company Limited | Producer of electro - galvanized coils | Shareholder | 2,206,900 | 3.70 | 293,999 | - | - | - |
| Thai Cold Rolled Steel Sheet Public Company Limited | Producer of cold rolled coils | Shareholder | 10,703,000 | 8.77 | 938,125 | 561,621 | 561,621 | - |
| | | | | | <u>1,511,124</u> | <u>1,389,536</u> | <u>561,621</u> | <u>-</u> |
| | | December 31, 2003 | | | | | | |
| | Types of Business | Relationship | Issued and Paid up Capital Baht'000 | % of Shareholding | Cost Baht'000 | Equity Baht'000 | Consolidated Baht'000 | Dividend Amount Baht'000 |
| Subsidiary companies | | | | | | | | |
| West Coast Engineering Company Limited | Maintenance Service | Shareholder | 75,000 | 99.99 | 75,000 | 99,508 | - | - |
| Prachuap Port Company Limited | Deep-sea port services | Shareholder | 400,000 | 51.00 | 204,000 | 667,635 | - | - |
| Related companies | | | | | | | | |
| Thai Coated Steel Sheet Company Limited | Producer of electro - galvanized coils | Shareholder | 2,206,900 | 3.70 | 293,999 | - | - | - |
| Thai Cold Rolled Steel Sheet Public Company Limited | Producer of cold rolled Coils | Shareholder | 10,703,000 | 8.77 | 938,125 | 561,621 | 561,621 | - |
| | | | | | <u>1,511,124</u> | <u>1,328,764</u> | <u>561,621</u> | <u>-</u> |

13.2 Loans and advances between the Company and subsidiary, associated, and related parties

| | Balance as at December 31, 2003 Baht'000 | Additions Baht'000 | Repayments/ Settlements Baht'000 | Balance as at June 30, 2004 Baht'000 |
|-------------------------|--|-----------------------|--|--|
| CONSOLIDATED | | | | |
| Short-term loan | | | | |
| Related parties | <u>3,000</u> | <u>4,000</u> | <u>-</u> | <u>7,000</u> |
| Advances | | | | |
| Related parties | <u>51</u> | <u>1,111</u> | <u>(1,144)</u> | <u>18</u> |
| Total | <u>3,051</u> | <u>5,111</u> | <u>(1,144)</u> | <u>7,018</u> |
| THE COMPANY ONLY | | | | |
| Short-term loan | | | | |
| Related parties | <u>3,000</u> | <u>4,000</u> | <u>-</u> | <u>7,000</u> |
| Advances | | | | |
| Subsidiary company | 11 | 626 | (101) | 536 |
| Related parties | <u>51</u> | <u>1,111</u> | <u>(1,144)</u> | <u>18</u> |
| Total | <u>62</u> | <u>1,737</u> | <u>(1,245)</u> | <u>554</u> |
| Total | <u>3,062</u> | <u>5,737</u> | <u>(1,245)</u> | <u>7,554</u> |

13.3 Business transactions

Transactions with related parties in the balance sheet are mainly as follows:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|---|------------------------------|----------------------------------|------------------------------|----------------------------------|
| | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 | June 30, 2004 Baht'000 | December 31, 2003 Baht'000 |
| Trade accounts and notes receivable | | | | |
| Related parties | 1,589,711 | 1,787,097 | 1,573,126 | 1,765,818 |
| Less Allowance for doubtful account | <u>(4,956)</u> | <u>(4,956)</u> | <u>-</u> | <u>-</u> |
| Trade accounts and notes receivable - net | <u>1,584,755</u> | <u>1,782,141</u> | <u>1,573,126</u> | <u>1,765,818</u> |
| Advance payments | | | | |
| Subsidiary company | <u>-</u> | <u>-</u> | <u>2,279</u> | <u>-</u> |
| Other receivables | | | | |
| Subsidiary company | - | - | 394 | 423 |
| Related parties | <u>128</u> | <u>118</u> | <u>-</u> | <u>-</u> |
| | <u>128</u> | <u>118</u> | <u>394</u> | <u>423</u> |
| Other current assets - others | | | | |
| Subsidiary companies | - | - | 334 | 280 |
| Related parties | <u>14,696</u> | <u>14,966</u> | <u>14,180</u> | <u>14,415</u> |
| | <u>14,696</u> | <u>14,966</u> | <u>14,514</u> | <u>14,695</u> |
| Other assets | | | | |
| Related parties | <u>4,840</u> | <u>4,840</u> | <u>3,591</u> | <u>3,591</u> |
| Trade accounts payable | | | | |
| Subsidiary companies | - | - | 30,984 | 23,467 |
| Related parties | <u>3,765</u> | <u>18,909</u> | <u>3,715</u> | <u>18,799</u> |
| | <u>3,765</u> | <u>18,909</u> | <u>34,699</u> | <u>42,266</u> |
| Accrued expenses | | | | |
| Subsidiary companies | - | - | 17,372 | 17,730 |
| Related parties | <u>28,061</u> | <u>23,676</u> | <u>28,061</u> | <u>23,676</u> |
| | <u>28,061</u> | <u>23,676</u> | <u>45,433</u> | <u>41,406</u> |

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Transactions with related parties in the statement of income are mainly as follows:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|---|---|------------------|------------------|------------------|
| | For the quarters ended June 30, | | | |
| | 2004 | 2003 | 2004 | 2003 |
| | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Sales | | | | |
| Related parties | <u>3,704,864</u> | <u>3,247,791</u> | <u>3,704,609</u> | <u>3,247,703</u> |
| Service income | | | | |
| Related parties | <u>32,180</u> | <u>35,727</u> | <u>-</u> | <u>-</u> |
| Other income (before deduction of the related costs) | | | | |
| Subsidiary company | - | - | 1,104 | 1,151 |
| Related parties | <u>46,238</u> | <u>44,318</u> | <u>46,183</u> | <u>43,516</u> |
| | <u>46,238</u> | <u>44,318</u> | <u>47,287</u> | <u>44,667</u> |
| Cost of sales | | | | |
| Subsidiary companies | - | - | 93,702 | 91,416 |
| Related parties | <u>681,437</u> | <u>46,345</u> | <u>681,437</u> | <u>46,345</u> |
| | <u>681,437</u> | <u>46,345</u> | <u>775,139</u> | <u>137,761</u> |
| Selling and administrative expenses | | | | |
| Subsidiary company | - | - | 5,339 | 6,430 |
| Related parties | <u>49,938</u> | <u>53,980</u> | <u>49,005</u> | <u>52,949</u> |
| | <u>49,938</u> | <u>53,980</u> | <u>54,344</u> | <u>59,379</u> |
| | | | | |
| | CONSOLIDATED | | THE COMPANY ONLY | |
| | For the six-month period ended June 30, | | | |
| | 2004 | 2003 | 2004 | 2003 |
| | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Sales | | | | |
| Related parties | <u>8,225,029</u> | <u>6,440,219</u> | <u>8,224,630</u> | <u>6,439,902</u> |
| Service income | | | | |
| Related parties | <u>63,697</u> | <u>68,599</u> | <u>-</u> | <u>-</u> |
| Other income (before deduction of the related costs) | | | | |
| Subsidiary company | - | - | 2,175 | 2,262 |
| Related parties | <u>101,525</u> | <u>94,674</u> | <u>101,384</u> | <u>92,349</u> |
| | <u>101,525</u> | <u>94,674</u> | <u>103,559</u> | <u>94,611</u> |
| Cost of sales | | | | |
| Subsidiary companies | - | - | 178,109 | 187,750 |
| Related parties | <u>712,147</u> | <u>85,490</u> | <u>712,147</u> | <u>85,490</u> |
| | <u>712,147</u> | <u>85,490</u> | <u>890,256</u> | <u>273,240</u> |
| Selling and administrative expenses | | | | |
| Subsidiary company | - | - | 12,003 | 15,350 |
| Related parties | <u>107,783</u> | <u>127,531</u> | <u>105,868</u> | <u>125,530</u> |
| | <u>107,783</u> | <u>127,531</u> | <u>117,871</u> | <u>140,880</u> |

The Company has policies to sell the products to shareholders' group and related parties at the same price sold to the third party subject to purchased volumes and related marketing factors.

Other income, which is fine charged for delayed payments, is fixed by the management at the funding cost. Other income from sale of scrap material is realized based on scrap weight and at the price determined by the Company.

Transportation expenses which are recorded as production cost are payable at the rates agreed in the transportation agreement based on cargo weight and distance.

Selling and administrative expenses which are freight expenses are payable at the rates agreed in the transportation agreement based on cargo weight and distance. Rent of the office and warehouse are as agreed under the lease agreement. Service charge for employees' accommodation is fixed on a year by year basis as agreed with the owner.

Prachuap Port Company Limited charges for port services rendered to the Company, related parties and third parties at the rates approved by the Ministry of Transportation.

West Coast Engineering Company Limited charges the fees for maintenance services rendered to the Company at the rates agreed in the long-term maintenance service agreement and to related parties and third parties at terms and conditions normally applicable to transactions of the same nature.

14. ADDITIONAL DISCLOSURE FOR QUALITY OF ASSETS

As at June 30, 2004, the Company and a subsidiary have customers who defaulted on payments. The following summarizes such accounts receivables aging:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|-----------------------|--------------------|-----------------------|--------------------|
| | Number of Accounts | Amount Baht'000 | Number of Accounts | Amount Baht'000 |
| 3 - 6 months | 1 | 1 | - | - |
| 6 - 12 months | 2 | 55 | - | - |
| Over 12 months | 7 | 405,051 | 6 | 400,095 |
| Total | | <u>405,107</u> | | <u>400,095</u> |
| Allowance for doubtful accounts recorded | | <u>405,051</u> | | <u>400,095</u> |

As at December 31, 2003, the Company and a subsidiary have customers who defaulted on payments. The following summarizes such accounts receivable aging:

| | CONSOLIDATED | | THE COMPANY ONLY | |
|--|-----------------------|--------------------|-----------------------|--------------------|
| | Number of Accounts | Amount Baht'000 | Number of Accounts | Amount Baht'000 |
| 3 - 6 months | 1 | 211 | - | - |
| 6 - 12 months | 1 | 6,207 | 1 | 6,207 |
| Over 12 months | 6 | 398,844 | 5 | 393,888 |
| Total | | <u>405,262</u> | | <u>400,095</u> |
| Allowance for doubtful accounts recorded | | <u>405,051</u> | | <u>400,095</u> |

15. BUSINESS SEGMENT INFORMATION

Business segment information for the Company and subsidiaries is as follows:

| | Types of business | Revenues and other income | | Net income | | Assets employed | |
|--|----------------------------------|---------------------------------|-----------|------------|----------|-----------------|--------------|
| | | For the quarters ended June 30, | | | | June 30, | December 31, |
| | | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | Baht'000 | Baht'000 | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Sahaviriya Steel Industries Public Company Limited | Manufacturer of hot rolled coils | 7,593,319 | 7,386,968 | 1,418,800 | 758,384 | 30,280,753 | 27,950,276 |
| West Coast Engineering Company Limited | Maintenance Services | 90,065 | 84,671 | 6,799 | 4,488 | 165,972 | 175,270 |
| Prachuap Port Company Limited | Deep-sea port services | 92,071 | 93,575 | 45,097 | 38,150 | 2,119,027 | 2,034,056 |
| | | 7,775,455 | 7,565,214 | 1,470,696 | 801,022 | 32,565,752 | 30,159,602 |
| Less Inter-company transactions | | (149,093) | (146,680) | (28,894) | (9,619) | (921,326) | (858,092) |
| | | 7,626,362 | 7,418,534 | 1,441,802 | 791,403 | | |
| Less Minority interest in net income | | | | (23,002) | (33,019) | | |
| Net income | | | | 1,418,800 | 758,384 | | |
| Total assets | | | | | | 31,644,426 | 29,301,510 |

| | Types of business | Revenues and other income | | Net income | | Assets employed | |
|--|----------------------------------|--|------------|------------|-----------|-----------------|--------------|
| | | For the six-month periods ended June 30, | | | | June 30, | December 31, |
| | | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | | Baht'000 | Baht'000 | Baht'000 | Baht'000 | Baht'000 | Baht'000 |
| Sahaviriya Steel Industries Public Company Limited | Manufacturer of hot rolled coils | 16,711,068 | 15,167,777 | 2,994,334 | 1,637,896 | 30,280,753 | 27,950,276 |
| West Coast Engineering Company Limited | Maintenance Services | 160,362 | 152,516 | 8,271 | 6,219 | 165,972 | 175,270 |
| Prachuap Port Company Limited | Deep-sea port services | 185,929 | 200,859 | 108,445 | 134,523 | 2,119,027 | 2,034,056 |
| | | 17,057,359 | 15,521,152 | 3,111,050 | 1,778,638 | 32,565,752 | 30,159,602 |
| Less Inter-company transactions | | (289,681) | (298,417) | (59,384) | (69,851) | (921,326) | (858,092) |
| | | 16,767,678 | 15,222,735 | 3,051,666 | 1,708,787 | | |
| Less Minority interest in net income | | | | (57,332) | (70,891) | | |
| Net income | | | | 2,994,334 | 1,637,896 | | |
| Total assets | | | | | | 31,644,426 | 29,301,510 |

16. COMMITMENTS, LETTERS OF GUARANTEE AND CONTINGENCIES

- 16.1 The Company has capital commitments regarding the agreements for construction of plant, purchases of machinery and equipment including Pickling and Oiling Plant Project, Capacity Expansion Project and related expenses amounting to approximately Baht 417.64 million, USD 54.83 million, and EUR 2.48 million as at June 30, 2004 and Baht 369.32 million, USD 56.63 million, and EUR 3.95 million as at December 31, 2003.

The Company has commitments to banks regarding the outstanding letters of credit amounting to approximately USD 88.96 million and EUR 31.59 million as at June 30, 2004 and USD 56.86 million and EUR 4.98 million as at December 31, 2003.

The two subsidiaries have capital commitments regarding capital expenditure and construction contract amounting to approximately Baht 341.57 million and Baht 451.96 million as at June 30, 2004 and December 31, 2003, respectively.

- 16.2 The Company and subsidiaries have letters of guarantee issued by banks on their behalf amounting to approximately Baht 105.65 million and Baht 94.4 million as at June 30, 2004 and December 31, 2003, respectively in the normal course of business.
- 16.3 On April 9, 2003, Pongprasasana Sub-district Office filed a lawsuit against the Company to claim for fee of usage of water from Bangsaphan Dam with the claim of approximately Baht 19 million. On May 30, 2003, the Company defended to the court that the Pongprasasana Sub-district Office has no legal power to administer the collection of water usage fee and has no right to file the lawsuit to the court. Currently, the lawsuit is pending in the Prachuapkirikan Provincial Court.
- 16.4 The Company was sued by Forestry Department in a civil case regarding the construction project of road to the berth in the amount of approximately Baht 4.9 million which is pending in the court.
- 16.5 On March 23, 2004 and March 30, 2004, the Company was the co-defendant in two civil cases involving the total claims of Baht 126 million as a result of incorrect issuing of bills of lading by forwarding agents. The cases are pending in the Civil Court.