



G STEEL Public Company Limited

Agreed upon procedures

7 May 2010



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Private & Confidential

Mr. Vijit Supinit
G Steel Public Company Limited
PASO Tower, Floor 18, 88 Silom Road,
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7 May 2010

Dear Sirs

Special Audit Report on G Steel Public Company Limited

According to letter ref. SEC. Chor. 5/2010 dated 25 January 2010, the Securities and Exchange Commission ("SEC") has ordered G Steel Public Company Limited ("GSteel" or "the Company") to perform a Special Audit, the scope of which is set out in an engagement letter dated 24 February 2010, and is attached as Appendix 1 to this report.

The objective of completing these agreed upon procedure is not to certify, verify or issue any opinion on the Company's financial statements, nor to conduct an audit according to generally accepted auditing standards. As such, I do not express an opinion on the Company's financial statements. I do, however, report the key findings and observations from the performance of these agreed upon procedures.

Yours faithfully,

Nirand Lilamethwat
Certified Public Accountant
Registration No. 2316

Important notice

Our work commenced on 3 March 2010 and our fieldwork was finally completed on 30 April 2010. We have not undertaken to update our report for events or circumstances arising after that date.

In preparing our report, our primary source has been G Steel Public Company Limited. ("GSteel" or "the Company") internal management information and representations made to us by management of GSteel. We do not accept responsibility for such information which remains the responsibility of management. Details of our principal information sources are set out in Appendix 2 and we have satisfied ourselves, so far as possible, that the information presented in our report is consistent with other information which was made available to us in the course of our work in accordance with the terms of our engagement letter. We have not, however, sought to establish the reliability of the sources by reference to other evidence.

As our procedures are limited in nature, they should not be relied upon to reveal all weaknesses, errors or irregularities that may have occurred or which may continue to occur in the future. The remedy of any control weakness identified, or implementation of recommendations made in our report, will be at GSteel's discretion to pursue.



KPMG Phoomchai Business Advisory Ltd., a company incorporated under Thai law, is a member of KPMG International, a Swiss cooperative



Glossary of terms

Amt	Amount	Jul	July
Apr	April	Kg	Kilogram
AR or A/R	Accounts receivable	M&E	Machinery and equipment
Aug	August	Mar	March
Avg	Average	Max	Maximum
BOT	Bank of Thailand	Min	Minimum
CEO	Chief executive officer	MT	Metric Ton
CFO	Chief financial officer	NCR	Non-Conformity Report
CIP	Construction in progress	No.	Number
COO	Chief operation officer	Nov	November
CSR	Corporate Social Responsibility	Oct	October
Dec	December	Out. A/P	Outstanding accounts payable
Dept.	Department	PO	Purchase order
EVP	Executive Vice President	Q	Quarter
Ex. Rate	Exchange Rate	QC	Quality control
Feb	February	Qty	Quantity
FY	Fiscal Year	Ref.	Reference
GSteel or the Company	G Steel Plc.	SBB	Steel Business Briefing
GJ	G J Steel Plc.	SEC	The Securities and Exchange Commission
HKD	Hong Kong Dollar	Sep	September
HRC	Hot Roll Coil	SEVP	Senior Executive Vice President
HSM	Hot Strip Mill	SGD	Singapore Dollar
ID	Identification	Special Audit	Scope of work performed according to the Agreed Upon Procedures as agreed with the Management
incl	include	THB	Thai Baht
Jan	January	USD	US Dollar
Jun	June	VAT	Value Added tax
		VP	Vice President

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Engagement background

Background of this engagement

- According to the auditor's report on GSteel's financial statement as at 30 September 2009 and 31 December 2009, the auditor issued a "disclaimer" opinion due to issues relating to credit sales of hot rolled coils, credit notes issued by raw material suppliers prior to 2006, credit sales of scrap material, inventory balances, the carrying value of property, advance payments received from customers, the absence of confirmation letters from financial institutions, trade and other accounts receivable balances, related parties, business alliances, trade and other accounts payable balances, machinery suppliers for the GSteel's expansion project and the Company's ability to continue as a going concern.
- The Securities and Exchange Commission ("SEC") subsequently ordered GSteel to provide an agreed-upon procedure report in respect of the Company's sales of hot rolled coils to selected new customers, trading transactions with alliances and related businesses, sales of unused degraded quality raw materials (iron scraps) and the offset of receivables arising against machinery purchase obligations, degraded quality raw materials (pig Iron mixed with soil debris), and advance payments for machinery and construction in progress.
- On 4 February 2010 the company's Board of Directors passed a resolution to appoint "Turnaround Steel Management LLC" to assist GSteel and its subsidiary (including GJS) in its recapitalization.
- Consequently, KPMG has been requested by GSteel to conduct an independent review by performing certain agreed upon procedures as set out in Appendix 1.

Company background

Background of the Company

- GSteel was established on 31 October 1995 and is engaged in the production and distribution of Hot Rolled Coil (“HRC”).
- GSteel’s products serve as raw materials for downstream industries such as cold-rolled coils, galvanised steel, steel pipe, structural steel products for construction, LPG containers, automobiles, electrical appliances and steel furniture.
- The Company’s head office is located at 88 PASO Tower, 18th Floor, Silom Road, Suriyawong, Bangrak, Bangkok 10500 Thailand. Its factory is located at SSP Industrial Park, 55 Moo 5, Nonglalog, Bankhai, Rayong 21120, Thailand.
- GSteel’s current production capacity is 1.8 million tons per year.
- The Company’s 2009 Annual Report (as at 26 February 2010) shows that the Company’s major shareholders include Superior Overseas (Thailand) Co., Ltd. (18.33%), Khunying Patama Leeswadtrakul (10.84%), Whiterock Global Fund and SPC (6.48%).
- On 4 February 2010 the company’s Board of Directors passed a resolution appointing Mr. Ahab Garas to the position of Co-CEO and Mr. Ari Levy to the position of CFO in order to ensure that appropriate levels of internal control have been reinstated and, where appropriate, strengthened. Following that resolution, the Company’s current management is shown in the table below and on the organization chart on the following page:

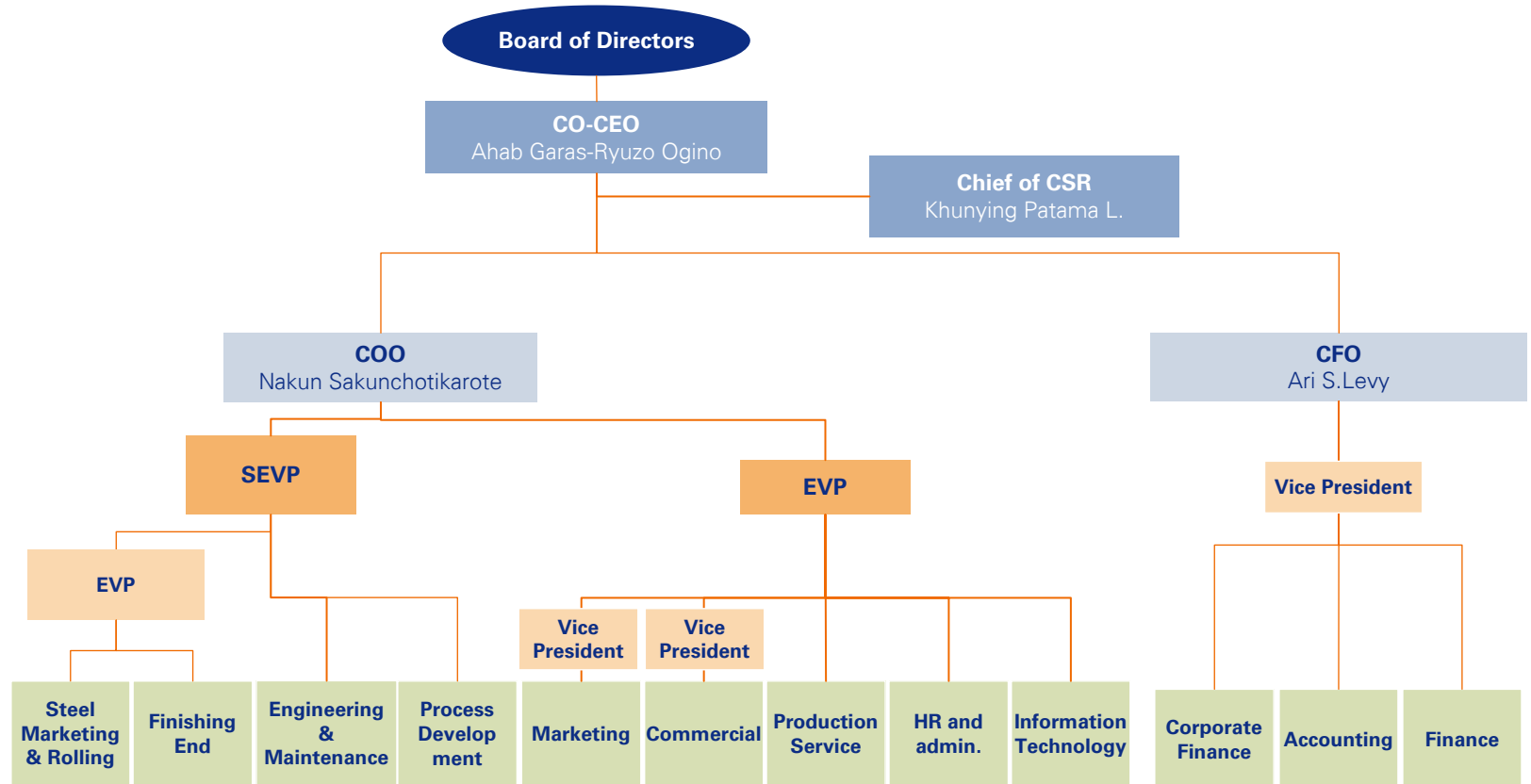
GSteel Management Team	
Name	Position
Mr.Ahab Garas	CO CEO
Mr.Ryuzo Ogino	CO CEO
Khunying Patama L.	Chief of CSR
Mr.Nakun s.	COO
Mr.Ari Levy	CFO

Source: Organisation Chart

Company background

Organization Structure

- Currently, GSteel operates under a team of management led by Mr. Ahab Garas and Mr. Ryuzo Ogino (Co-CEOs).
- Total number of employees as at 31 December 2009 was 676.



Source: Organization chart of GSteel

Summary of key findings

- We found no significant differences in pricing levels between customers.
- We found that in certain cases GSteel's internal control procedures relating to credit limits and credit terms were not followed. We also found that procedures were not performed to assess the financial position of each customer and to determine their ability to pay amounts due to the Company. This resulted in receivables which could not be collected.
- New customers, related parties and alliance partners were in certain cases granted more generous payment terms than established customers who often had to pay in advance.
- Lack of documentation prevented us from confirming that certain amounts were actually received from the customers to whom receipts were credited, although the amounts were in fact received by the Company. In some cases the records show that some counterparties paid on behalf of other counterparties.
- Sales of low grade scrap were made on generous payment terms although no assessment was made of the buyer's ability to pay.
- Although an independent third party was responsible for the scrap yard there was insufficient documentation to support inventory movements.
- The Company agreed not to re-open the bidding for a proposed scrap sale but to give a discount to the highest original bidder when it was discovered that the quantity of scrap available for sale after screening was less than had been expected.
- There was no evidence of supplier evaluation or cost/benefit analysis being performed in relation to expansion project machinery procurement, nor were suppliers' background, experiences or credentials considered.
- Some payments for machinery were made to third parties other than the machinery supplier, or were offset against debts of the supplier or third party without sufficient supporting documentation.
- There was no evidence that the Board of Directors had approved certain offsets under which machinery and equipment was accepted as offsets to long outstanding receivables.
- Certain of the Company's counterparties appeared related to one another by virtue of having the same directors and/or address.
- Some purchases which had apparently been made as part of the proposed expansion projects had not been installed but were found to be in storage in the production line and outdoor yard.
- During the period under review (2007 – 2009), GSteel was found to have weak internal controls in gathering and storing business documents specifically in its sale through to cash collection process.
- During the later part of the period under the review, there was little segregation of duty nor procedures in place to ensure that sufficient supporting documentation was collected or approved to enable transactions involving the Company's proposed high-value expansion projects to be accurately recorded in the Company's accounting records.
- Prior management appeared to make business decisions on accepting customers without obtaining the Board of Director's approval or appropriate authorization.
- During the review period, GSteel at times failed to properly comply with its own procedures and policies.
- As points arose during the course of our work, we discussed these with new management and the Board of Directors who have already taken steps to address the issues identified and protect against future recurrence.
- We understand that discussions are ongoing with the Major Shareholder to determine what, if any, opportunities may exist for him to assist the Company in collecting amounts owed to the Company which have previously been fully provisioned against.

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Selling of goods to selected new customers, alliances and related parties (1)

Summary of sales, trade receivables, credit limits and credit terms							
THB'000	Credit terms	2008			2009		
		Sales Amount	Credit Limit	AR Balance	Sales Amount	Credit Limit	AR Balance
Selected new customers							
A1	30 days	77,464	100,000	41,119	(3,843)	-	-
A2	30 days	550,386	100,000	268,546	124,964	-	178,846
A3	30-45 days	192,304	250,000	205,765	-	-	201,765
A4	30 days	249,588	280,000	135,154	-	-	133,954
Related parties							
B1	45 days	1,509,285	400,000	59,820	210,876	80,000	121,144
B2	30-60 days	1,416,575	500,000	207,565	452,516	60,000	180,922
B3	Cash	-	-	-	8,121	-	-
Alliances							
B4	45 days	2,330,408	450,000	77,897	1,870,264	20,000	391,230
B5	30-90 days	415,834	200,000	93,925	60,506	20,000	29,545
B6	30-60 days	1,140,401	450,000	144,695	329,939	60,000	91,086
B7	45 days	342,229	125,000	532	-	-	532
Other non-related parties							
D1	Cash	1,113,581	50,000	8,876	21,345	-	-
D2	Cash	325,798	150,000	97,610	723,072	20,000	60
D3	Cash	895,200	150,000	-	363,570	20,000	96
D4	Cash	906,969	-	-	944,726	100,000	158,173

Source: Summary of credit terms and credit limits

Note: information of alliances and related parties is in accordance with GSteel's financial statements as at 31 December 2009.

1. Sales to selected new customers alliances and related parties

- Our findings based on the performance of the procedures regarding sales transactions with selected new customers, alliances and related parties (as set out in Appendix 3) are as follows;
 - In 2008, the Company provided credit terms ranging from 30 days to 45 days and credit limits ranging from THB 100 - 280 million to the selected new customers in order to attract them from the Company's competitors, while most other customers had to pay by cash.
- Customer documentation in the customer master files includes only Company Affidavit and VAT Registration Certificate of the customers.
 - Management notes that these "selected new customers" are neither related party companies or alliance companies, according to management's classification.
- We found that GSteel did not request customers' financial statements nor consider their financial position, background, creditability and ability to pay debts before accepting and granting credit to them.
 - In 2009, the Company no longer provided credit terms to these customers (A1-A4).

Selling of goods to selected new customers, alliances and related parties (2)

1.1.1 Background of selected new customers

- A1 was incorporated in December 2007 and originally had registered share capital of THB 1 million which subsequently increased to THB 20 million. According to A1's financial statements as of 31 December 2008, A1 had net liabilities of THB 59.0 million. We visited A1's registered address, and found it to be a residential house without company sign
- A2 was incorporated in January 2003 and has registered share capital of THB 100 million. According to A2's financial statements as of 31 December 2008, A2 had net liabilities of THB 50 million. We visited A2's registered address and found that it is the office of a legal and accounting firm.
A1 and A2 are apparently representing a large steel processing company.
- A3 was incorporated in July 2004 and has registered share capital of THB 300 million. We visited A3's registered address, and found it to be a factory / warehouse facility. Based on discussions with on-site personnel, we were informed that the operations at this site ceased more than one year ago.
- A4 was incorporated in February 2008 and has registered share capital of THB 1 million. According to A4's financial statements as of 31 December 2008, A4 had net liabilities of THB 22.7 million. We visited A4's registered address and found it to be a residential building without company sign.
- Per financial statements submission form sent to the Department of Business Development for 2008, A1, A2 and A4 shared the same accountant.

1.1.2 Sales prices given to selected new customers

- We compared HRB sales prices given to selected new customers with market prices and prices given to other customers and found that;
 - Prices given to A1 (THB 31,100/MT) was insignificantly lower than the minimum market price of HRC (THB 31,346/MT) in the same period.
 - Prices given to A2 in April, July and October 2008 and A3 in June 2008 were 0.08 – 0.09% lower than the minimum HRC market price in the same periods.
 - Sales price given to A4 (THB 28,100/MT) was lower than sales prices of other customers (THB 29,500/MT – THB 29,770/MT) and SBB's minimum market price (THB 31,346 /MT) during the same period. Management advise that a sale price discount of up to 5% is in the normal course of business in order to attract selected new customers.

Sales prices analysis - selected new customers

Month	HRC specification	Selected new customers (THB/MT)				Non related parties (THB/MT)			SBB's market price		
		A1	A2	A3	A4	D5	D1	D4	Min	Max	Avg
Jan-08	1.70 mm - up x 1219 mm - 1524 mm x COIL	-	25,000	-	-	-	-	-	22,490	24,309	23,400
Apr-08	1.95 mm - up x 1219 mm - 1524 mm x COIL	-	27,500	-	-	-	-	-	29,898	30,842	30,370
May-08	1.95 mm - up x 1219 mm - 1524 mm x COIL	-	-	-	28,100	29,770	29,500	-	31,346	33,585	32,465
	1.95 mm - up x 960 mm - 1524 mm x COIL	31,100	-	-	-	-	-	-	31,346	33,585	32,465
Jun-08	1.95 mm - up x 900 mm -1524 mm x COIL	-	-	31,800	-	-	-	-	34,732	36,121	35,426
Jul-08	1.95 mm - up x 1219 mm - 1524 mm x COIL	-	33,250	-	-	34,500	-	32,000	34,880	36,215	35,547
Oct-08	1.95 mm - up x 980 mm - 1524 mm x COIL	-	17,000	-	-	-	-	-	21,882	23,597	22,740

Source: Purchase orders and sales invoices

Note: SBB market prices are converted to Thai Baht using BOT's rate

Remark: * Comparing the Company's selling price to the website www.steelbb.com ("SBB") benchmark may have comparability limitations as delivery terms (transport, port of delivery, etc), product grade/quality differentials and the foreign currency exchange rate may be different for the Company's sales and those which form the basis of the SBB benchmark

Selling of goods to selected new customers, alliances and related parties (3)

1.1.3 Sales to and collections from the selected new customers

- HRC sales to A1 were made in May 2008 and amounted to THB 77.5 million. According to related delivery notes, these HRCs were solely delivered to F, a company managed by a relative of GSteel's lead shareholder. There has been no sales transactions with A1 since May 2008.

The outstanding receivables as at 31 December 2008 of THB 41.1 million from A1 was paid off by A2 in 2009. This was in accordance with the instruction from A2.

- Sales to A2 were made during February 2008 and September 2009, totaling THB 675.3 million. The majority of HRCs sold to A2 were also delivered to F (47.4%).

As at 31 December 2009, the outstanding receivable from A2 amounted to THB 178.8 million. Allowance for doubtful debts of THB 176.1 million was made for the debts outstanding for more than 120 days.

- F is a value-added service provider who apparently acted on the instructions of A1 and A2.

- Sales to A3 of THB 192.3 million were made in June and July 2008. All HRCs sold to A3 were delivered to GSteel's non-related parties. Since July 2008, there have been no further sales transactions with A3. On 26 February 2009, A3 negotiated with GSteel to make installment payments based on a monthly basis commencing from February 2009 onwards. The payment terms are shown below:

- THB 0.5 million per month from February to December 2009
- THB 1.0 million per month from January to December 2010
- THB 5.0 million per month from January to December 2011
- THB 10.7 million per month from January to December 2012

Up to March 2010, the Company has collected the debts of THB 8.5 million which is in accordance with the payment schedule.

Nevertheless, allowance for doubtful debts has been fully made for the outstanding receivable from A3 of THB 201.8 million as at 31 December 2009.

- Sales to A4 totaling THB 249.6 million were made during May and June 2008. 42.6% of HRCs sold to A4 were delivered to D6, a non-related party of GSteel. There have been no sales transactions with A4 since June 2008.

On 25 February 2009, A4 negotiated with GSteel to make installment repayment on a monthly basis commencing from March 2009. Payment term for the monthly installments is as follow;

- THB 0.3 million per month from March to December 2009
- THB 2.0 million per month from January to December 2010
- THB 9.0 million per month from January to December 2011

Up to March 2010, the Company has collected debts of THB 9.0 million which is in accordance with the payment schedule.

As at 31 December 2009, allowance for doubtful debts has been fully made for the outstanding debt from A4 of THB 134.0 million.

- We found no payment evidences attached with receipt voucher (e.g. Pay-in Slip, copy of cheque, etc) for most of collections from the selected new customers. The table below illustrates that we could not identify the source of payment to the Company for 81% of payments collected from the selected new customers:

Unidentified source of payment			
THB'000	Total collections	Collection from unidentified source	%
Selected new customers			
A1	82,886	82,886	100%
A2	545,462	405,432	74%
A3	5,500	1,500	27%
A4	137,256	135,456	99%
Total	771,104	625,274	81%

- We were not provided with a complete set of supporting documentation for 3 transactions of sales to the selected new customers amounting to THB 40.3 million. Please see more detail of documents not received in Appendix 7.
- All new customers are now subject to a customer evaluation system based on an objective credit metrics system.

Selling of goods to selected new customers, alliances and related parties (4)

1.2 Sales to alliances and related parties

- Sales to alliances and related parties represented sales to the following companies
 - Related parties: B1, B2 and B3
 - Alliances: B4, B5, B6 and B7
- Based on GSteel's classification, "alliances" represent those companies which previously had shareholders or directors in common with GSteel or whose directors have direct or indirect relationships with GSteel's directors.
- Per the financial statement submission forms for 2008 sent to the Department of Business Development, B1, B4, B7 and B8 shared the same accountant and office.
- As shown in the table on page 9, credit terms granted to alliances and related parties (30 days to 90 days) are longer than normal credit terms (30 days to 45 days) granted to other customers. Credit limits provided to these customers in 2008 ranged between THB 125 -500 million which was higher than those offered to other customers.

Applying a new credit approval policy in 2009, GSteel reduced the credit limit for each customer to be double the customer's registered share capital.

- None of receivables from the alliances and the related parties is long outstanding. Thus, no allowance for doubtful is provided for the receivables.

1.2.1 Sales prices given to alliances and related parties

- Generally, sales prices given to alliances and related parties were not significantly different from the average HRC market price in the same periods. However, in May 2008, sales price given to B1 (THB 30,400/MT) was lower than the minimum market price (THB 31,436/MT) but was higher than the prices given to non-related parties (THB 29,500-29,770) . Management inform that the discount in sales prices of not more than 5% is in the normal course of business.

Sales prices analysis - alliances and related parties												
Month	HRC specification	Related parties (THB/MT)			Alliances (THB/MT)				Non related party (THB/MT)	SBB's market price		
		B1	B2	B3	B4	B5	B6	B7	D4	Min	Max	Avg
2006	1.95mm.Up1000mm.-1524mm.	19,000	18,700		18,900	18,550	18,800	-	18,800	13,620	21,943	18,490
	1.95mm.Up1219mm.-1524mm.			18,600						13,620	21,943	18,490
2007	1.95mm.Up930mm.-1524mm.	20,250	19,100	-	-	19,000	19,550	-	-	17,224	24,114	20,138
Jan-Mar 08	1.95mm.Up960mm.-1524mm.	25,050	-	-	-	-	-	-	25,440	21,966	29,073	25,331
May-08	1.95mm.Up960mm.-1524mm.	30,400	-	-	-	-	-	-	-	31,346	33,585	32,465
Aug-08	1.95mm.Up960mm.-1524mm.	-	-	-	32,000	-	-	32,100	32,000	32,991	34,071	33,531
2009	1.95mm.Up960mm.-1524mm.	16,900	-	-	-	-	-	-	-	13,474	20,210	16,895
	1.95mm.Up900mm.-1524mm.	-	17,400	17,400	16,900	17,700	17,800	-	-	13,474	20,210	16,895
	1.95mm.Up1219mm.-1524mm.	-	-	20,500	-	-	-	-	-	13,474	20,210	16,895

Source: Purchase orders and sales invoices

Selling of goods to selected new customers, alliances and related parties (5)

1.2.2 Sales to alliances and related parties

- We found that purchase orders received from B1, B4, B7 were authorised by the same person. Additionally, the purchase order from B4 was sent to GSteel from B1's fax number
- In July 2009, receivables from B2 totalling THB 60.0 million were paid by A2 (which B2 informed the Company was one of its customers)
- Even though the bank statement showed the money deposited, we found no payment evidences attached to receipt vouchers (e.g. Pay-in Slip, copy of cheque and etc) for 70% of the payments collected from alliances and related parties

Unidentified source of payment			
THB'000	Total collections	Collection from unidentified source	%
Alliances and related parties			
B1	315,152	206,362	65%
B2	253,635	160,493	63%
B3	33,077	-	0%
B4	319,645	186,605	58%
B5	159,208	159,208	100%
B6	272,275	177,296	65%
B7	117,130	110,554	94%
Total	1,437,045	1,000,518	70%

- We were not provided with a complete set of supporting documentation for 5 sales transactions with alliances and related parties, amounting to THB 64.8 million. Please see more detail of documents not received in Appendix 7.
- Internal audit has been instructed to check sufficient documentation exists to fully support cash receipts.

1.2.3 Other business transactions with B7 and B8

- Besides sales transactions, GSteel has other business transactions with B7 and B8 who provide transportation services and custom clearance services to GSteel, respectively
- Prices offered by B7 were not significantly different from the prices offered by these transportation companies
- In 2009, custom clearance fees charged from B8 were lower than the fee offered by H4 in the same period.
- We did not receive supporting documentation for 4 payment transactions paid to B7 and B8 for transportation and custom clearance as shown in Appendix 7

Price comparison - transportation expense						
THB/MT	H3 Oct-07	B7 Apr-06	B7 Feb-03	H2 Feb-03	B7 Jul-00	H1 Jun-99
Destination						
Poo Chao	300	290	255	275	225	215
Suksawad	320	310	270	275	225	215
Bangkok	320	310	270	275	235	225
Samutsakorn	350	340	295	295	245	235
Pathumthani	350	340	295	295	245	235
Nakornprathom	350	340	295	295	245	-
Samutsongkram	360	355	306	300	250	-
Chonburi	190	190	182	160	165	165
Rayong	115	112	122	115	65	-

Source: Quotations

Price comparison - customs clearance fee					
Size (feet)		Export (THB)		Import (THB)	
		B8 11-May-09	H4 31-May-09	B8 11-May-09	H4 31-May-09
20'	1st Container	3,500	4,000	3,500	4,000
	After 1st Container	1,500	1,500	1,500	1,500
40'	1st Container	4,000	5,000	5,000	5,000
	After 1st Container	1,500	1,500	1,500	1,500

Source: Quotations

Low quality scrap and related machinery for debt offsetting (1)

Low Quality Scrap								
		Invoice date	Description	Quantity (MT)	Unit Price/MT	(THB'000)		
						Amount	VAT	Amt incl VAT
1	B1	1 - 10 Nov 08	Bundles	100,000	11,750	1,175,001	82,250	1,257,251
				100,000		1,175,001	82,250	1,257,251
2	C1	11 - 20 Nov 08	Bundles	79,599	11,650	927,332	-	927,332
				79,599		927,332		927,332
3	C2	1 - 20 Nov 08	Pig Iron	16,478	17,900	294,952	-	294,952
			Clipping	31,552	11,900	375,474	-	375,474
			Bundle	51,776	11,800	610,954	-	610,954
			Shredded	10,388	11,900	123,615	-	123,615
			Heavy Old	4,808	11,500	55,298	-	55,298
			115,002		1,460,293	-	1,460,293	
Total			294,601		3,562,626	-	3,644,876	

Source: Low quality scrap sales invoices

2. Low quality scrap and related machinery for debt offsetting

- Our findings based on the performance of the procedures regarding low quality scrap sales, machinery purchases and the associated offset of accounts receivable and payable (as set out in Appendix 4) are as follows;

2.1 Sales of low quality scrap

- We were advised that low quality scrap represented scrap highly contaminated by non-ferrous chemical content (e.g. copper, brass, zinc, sulfur, and etc.) which was accumulated over a period of time. Producing HRC using these materials results in additional production time and cost. Therefore, only small amounts of low quality scrap was used in the Company's own production, but can be used by other types of steel producers. This together with a sharp increase in sales prices during the first nine months of 2008 resulted in sales of low quality scrap to B1 and two overseas suppliers (C1 and C2) in November 2008. The sales transactions were approved by the previous CEO.
- We found no customer evaluation (in terms of creditability, financial position and capability of paying debt) or selection evidence relating to such sales.
- Credit terms granted to these customers was 180 days which is considerably longer than normal credit terms granted to HRC customers (30 to 45 days).
- All customers are now subject to a customer evaluation system based on an objective credit metrics system.

2.2 Low quality scrap sales prices

- Low quality scrap was acquired from both local and overseas suppliers. Approximately 90% of the total was domestic scrap primarily acquired from B1 at approximately THB 10/kg to THB 14/kg.
- The Company subsequently entered into sales contracts in late October 2008 to sell such unusable scrap at THB 11.65/kg to THB 11.9/kg and unusable pig iron at THB 17.9/kg. These sales prices were based on GSteel's scrap purchase prices in September 2008 as follows;
 - Scrap: scrap purchase prices from B1 in September 2008 which were approximately THB 12/Kg – THB 14/Kg depending on type of scrap (e.g. bundles, clippings, shredded scrap and etc)
 - Pig Iron: average pig iron purchase price from I1 and I2 in September 2008 of approximately THB 23/Kgs.
- We found the sales prices higher than the average scrap market prices in October 2008 from SBB which was USD 282/MT or approximately THB 9/Kg.

Low quality scrap and related machinery for debt offsetting (2)

2.3 Delivery of low quality scrap

- Per lists of customers' drivers and truck IDs received from the Company, we found that the drivers' names and truck IDs of B1, C1 and C2 were the same.
- These truck IDs are registered under the name of B7 which is classified as an "alliance" party of GSteel.
- Normally, customers who arrange their own transportation must sign a "Property and Material Gate Pass" when entering and leaving the plant. In case of sales of low quality scrap, however, there were no Passes issued or delivery notes.
- The only goods received evidence in respect of such sales are signatures on shipment summary reports which were verbally confirmed by management to be the signatures of persons assigned by customers.
- Reviewing shipment summary reports on 10 and 20 November 2008, we found that on each day that shipments were made, each truck transported low quality scrap for two buyers and the highest number of trips per day for each truck was 16, with an average weight of 30 MT per trip per truck (refer to Appendix 12).
- The Company has no goods receipt evidence or confirmations from B1, C1 or C2 which confirm the destination of goods deliveries to these customers due to their consideration of such information as confidential and thus not disclosing it within the confirmations provided.

2.4 Collections of low quality scrap sales

Receivable for sales of low quality scrap			
Customer name	THB'000		
	B1	C1	C2
Receivable as at 30 Nov 08	1,257,251	927,332	1,460,293
Payment by cash	(62,532)	-	-
Receivable as at 31 Dec 08	1,194,719	927,332	1,460,293
Payment by cash	(329,021)	-	-
Settlement with F/A	(513,166)	(917,008)	-
Transfer to A/R - GJS	-	-	(992,237)
Receivable as at 31 Dec 09	352,532	10,324	468,056
Less Allowance for bad debts	(352,532)	(10,324)	(468,056)
Receivable, net as at 31 Dec 09	-	-	-

Source: management information

- Cash payments in respect of receivables for sales of low quality scrap have only been made by B1. These payments totalled THB 391.5 million (THB 62.5 million and THB 329.0 million in 2008 and 2009, respectively). Detail of the cash received is set out in Appendix 13.
- As the customers were not capable of repaying the debts due to their economic situation, outstanding receivables from B1 (the remainder), C1, C2 were subsequently offset against the following;
 - B1: payable to J for purchase of 6 Hi Reversing Cold Rolling Mill of USD 15.3 million. Only USD 15.0 million (THB 513.2 million) of the amount was offset against the receivable from B1. The remainder of USD 0.3 million was recorded as payable for purchase of machinery
 - C1: payable from C1 for purchase of coil box and cut to length line equipment totalling USD 27.3 million (THB 917.0 million)
 - C2: receivable from GJS of USD 29.8 million (THB 992.2 million) as GJS is obligated to pay the amount to GSteel on behalf of C2 in order to offset with its amount payable to C2 for purchase of Galvanising line machinery.
- According to correspondences between GSteel and B1 and the offsetting documentation, we understand that GSteel requested B1 to make payments to J of USD 15.0 million on behalf of GSteel. There is no formal written agreement from J to the offset, but we note that the payable confirmation provided by J notes a payable of USD 0.3 million.
- As at 31 December 2009, allowance for doubtful debts has been fully made for the outstanding receivables due from B1, C1 and C2.

Low quality scrap and related machinery for debt offsetting (3)

Settlement with machinery														
	Machinery purchase contracts				Import Date	Work Acceptance form		Offsetting transactions					Out. A/P	
	Supplier name	Contract date	Description	Price USD'000		Received date	Recipient's name	Offset Date	Receivable from	Ref. invoice no.	Offsetting amount (USD'000)	Ex. Rate	Amount (THB'000)	Amount (USD'000)
1	J	27-Apr-09	6 Hi Reversing Cold Rolling Mill	15,300	22/08/09	03/09/09	Senior Dept. Manager	26/06/09	B1	IOD0811019 - 22	10,000	34.22	342,208	300
								30/07/09	B1	IOD0811022 - 23	5,000	34.19	170,958	
	Total			15,300							15,000		513,166	300
2	C1	5-Feb-09	Part Accessories for Upgrade Reheating Furnace (Coil box)	9,423	04/10/09	14/10/09	Senior Dept. Manager	17/12/09	C1	IOD0811008 - 11	9,423	33.59	316,542	-
			Cut to length Line Equipment	3,590	10/07/09	20/10/09	Senior Dept. Manager	17/12/09	C1	IOD0811002 - 8	17,925	33.50	600,466	-
				14,335	04/10/09	20/10/09								
				17,925										
	Total			27,348							27,348		917,008	-
3	C2		GJS's machinery					16/11/09	A/R - C2 offset against A/R - GJS	IOO0811012 - 24	29,750	33.35	992,237	n/a
	Total										29,750		992,237	n/a

Source: Low quality scrap's offsetting documentations

Low quality scrap and related machinery for debt offsetting (4)

2.5 Machinery for debt offsetting

- Per our plant visit during 17 and 18 March 2010, we found HSM improvement machinery acquired from C2 of USD 13.4 million awaiting for another debt offsetting.
- The purchase agreement was made in November 2009. The machinery was shipped in December 2009 and arrived at the plant in early January 2010. The procurement of the machinery was approved in the Board of Directors' meeting dated 14 September 2009.
- Visiting the plant on 17 March 2010, we observed existence of machinery acquired from B1, C1 and C2 as shown in the pictures below.



**6 Hi Reversing Cold Rolling Mill
(J)**



Coil box (C1)



**Cut-to-length line equipment
(C1)**



HSM Improvement (C2)

Deteriorated and soil contaminated raw materials (1)

Scrap with soil reconciliation										
	Beginning Balance		Transfer		Move out		Adjust		Ending Balance	
	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)
2006 - 2008										
Aug - Dec 06	542	5,721					8,511	101,693	9,053	107,414
FY07	9,053	107,414					64	1,246	9,117	108,660
FY08	9,117	108,660	(617)	(7,376)			21,165	516,087	29,665	617,371
2009										
Q109	29,665	617,371					43,740	1,080,598	73,405	1,697,969
Q209	73,405	1,697,969	(8,121)	(187,820)			(630)	(13,639)	64,654	1,496,510
Q309	64,654	1,496,510	(6,872)	(159,106)	(3,377)	(78,171)	(1,365)	(31,357)	53,040	1,227,876
Q409	73,405	1,697,969	(3,521)	(81,471)	(5,758)	(133,306)	(2,072)	(48,042)	41,689	965,057
2010										
Q509	41,689	965,057	(758)	(17,551)	(3,568)	(82,578)		426	37,363	865,354

Source: Stock movement report 2006 - 2008

Scrap with soil of approximately 29,740 MT increasing during August 2006 and December 2008 mainly represented shredded and heavy old scraps acquired from overseas

The amount was mainly transferred from pig iron and acquired from I1 and I5 of 5,593 MT and 29,916 MT, respectively

Scrap with soil of 9,135 MT was sold to K1 during September and November 2009 and 3,567 MT was sold to K2 during January and February 2010.

Movement – contaminated pig iron										
	Beginning balance		Move In		Transfer		Adjust		Ending balance	
	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)	Qty (MT)	Amount (THB'000)
I033-08-08 (from I1)										
2008	-	-	27,125	729,670	(18,534)	(435,727)	(2,998)	(162,443)	5,593	131,500
Q109	5,593	131,500					(5,593)	(131,500)		
I034-09-08 (from I5)										
2008	-	-	31,500	956,502	(10,323)	(277,548)	11,886	(199,873)	33,063	878,827
Q109	33,063	878,827			(3,147)	(83,651)	(29,916)	(795,176)		

Source: Stock movement report 2006 - 2008

3. Deteriorated and soil contaminated raw materials

- According to management, there are several reasons why scrap had been contaminated by soil, including;
 - Corroding nature of steel raw material;
 - Deterioration caused by sea freight; and
 - Storekeeping at the yard, which has a mainly dirt floor.
- Findings based on our procedures regarding deteriorated and soil contaminated raw materials as setout in Appendix 5 are as follows;

3.1 Transfer of scrap to scrap with soil

- During the first quarter of 2009, scrap contaminated with soil increased significantly by 43,740 MT or 147.4% compared with the balance as at 31 December 2008. Approximately 35,000 MT of the total represents pig iron contaminated by rust and stones acquired from I1 and I5 during August and September 2008 (27,125 MT and 31,500 MT, respectively).
- For transfer of scrap to scrap with soil, we found no scrap transferring evidence from O, the third party which is engaged to manage the scrap yard.

Deteriorated and soil contaminated raw materials (2)

Purchase of pig iron by supplier								
THB'000	FY06		FY07		FY08		FY09	
	Qty (MT)	Amount	Qty (MT)	Amount	Qty (MT)	Amount	Qty (MT)	Amount
I1	37,209	431,210	217,099	2,907,909	112,126	1,941,689	-	-
G	15,030	185,343	22,514	271,673	-	-	784	10,721
I2	73,567	916,702	103,720	1,207,792	30,700	685,969	96,628	1,570,115
I3	44,818	534,564	68,700	799,680	50,260	655,563	7,620	114,449
I4	-	-	14,737	173,010	-	-	4,249	49,511
I5	-	-	-	-	31,500	1,044,151	-	-
I6	-	-	-	-	50,298	702,054	-	-
I7	-	-	-	-	500	9,818	-	-
I8	-	-	-	-	-	-	12,996	164,185
Total	170,624	2,067,819	426,770	5,360,064	275,384	5,039,244	122,277	1,908,981

Source: Detail of pig iron transactions during 2006 - 2009.

- The Company immediately discovered the contamination of rust and stones immediately after receiving the raw materials. However, the Company did not process to claim the material from I1 on time (45 days after vessel arrival). Moreover, the Company could not claim the raw materials from I5 as further quality claims cannot be accepted by the supplier after their surveyor issues an inspection certificate.
- Terms and conditions of the purchase contracts with I1 and I5 are summarized in Appendix 14.
- From FY09 onwards, the Company has not purchased pig iron from I1 or I5. According to the management, this is because the amounts due to these two suppliers have not yet been paid.
- According to I1's confirmation letter dated 23 March 2010, the amount due to I1 as at 31 December 2009 totaled USD 82.0 million. However, total payable to I1 (the net balance of receivable from and payable to I1) in GSteel's accounts amounted to only USD 76.5 million.
We are not provided with the reconciliation for the difference of USD 5.5 million.
- We have not yet received confirmation letter from I5.
- As at 31 December 2009, the Company had fully provided (THB 965.1 million) against the inventories of soiled scrap (41,689 MT).

Deteriorated and soil contaminated raw materials (3)

Bidding of scrap with soil									
			Bidding			Sales of scrap with soil			
No.	Bidders	Description	Quantity (MT)	Unit Price (THB/MT)	Total (THB'000)	Period	Quantity (MT)	Unit Price (THB/MT)	Total (THB'000)
Bidding dated 1 September 2009									
1	K1	Scrap with soil	5,000	2,800	14,000	Sep - Nov 09	9,135	800	7,308
2	K2		5,000	1,500	7,500	-	-	-	-
3	K3		5,000	1,200	6,000	-	-	-	-
4	K4		5,000	860	4,300	-	-	-	-
Bidding dated 6 January 2010									
1	K1	Scrap with soil	5,000	210	1,050	-	-	-	-
2	K2		5,000	1,070	5,000	Jan - Feb10	3,567	1,070	3,817
3	K5		5,000	500	2,500	-	-	-	-
Total							12,702		11,125

Source: Comparison summary and quotations

3.2 Sales of scrap to scrap with soil

- Due to liquidity problems, GSteel subsequently sold soiled scrap totaling 9,135 MT to K1 at THB 800/MT totaling THB 7.3 million. Based on the first bidding dated 1 September 2009, K1 won the bidding with the highest price (THB 2,800/MT). However, the latest executed price for the first bidding was THB 800/MT. According to management, this was because the Company screened part of scrap out of the stockpile awaiting to be sold to K1, which resulted in a significant decrease in the volume of scrap in that pile. As it was not what K1 initially agreed, K1 sent a correspondence dated 4 September 2009 to reduce the prescribed price to THB 800/MT (exclusive of VAT). Consequently, the Company accepted the price without re-opening bid.
- According to quotations for the second bidding dated 6 January 2010, K2 won the second bidding at THB 1,070/MT. Total scrap with soil sold to K2 was 3,567 MT or THB 3.8 million (inclusive of VAT).
- The Company has received all payments from K1 and K2. Details of sales and collection for scrap with soil are in Appendix 15 and 16.
- We visited the operating premises of K1, and found it to be a scrap trading company.

Deteriorated and soil contaminated raw materials (4)

3.3 Store keeping and physical inventory in respect of scrap with soil

- Per discussion with the Planning Department, the corroding nature of steel raw materials cannot be prevented as GSteel's stock yard is an outdoor yard grounded in soil. An indoor concrete yard could help to prevent scrap corrosion, but would require significant amounts of investment.
- Annual physical inventory counts before 2009 were performed by L1 which issued a one page certificate for the inspection of each stockpile (quantity only). As such, the quantity of scrap contaminated by soil or impurity percentage were not mentioned in the certificates issued by the surveyor.
- However, percentage of impurity was considered in the annual physical inventory for 2009 performed by L2. Unlike the one page certificate of L1, L2 issued stockpile survey report containing details of stockpiles surveyed including type of scrap, inspection date, density, impurity, quantity and supporting pictures.
- Based on the stockpile survey report dated 24-26 December 2009 from L2, the total measured quantity of scrap with soil (40,722 MT) is lower than the quantity in GSteel's accounts (41,689.6 MT) by 967.6 MT (THB 22.4 million). However, the different balance will have no impact on the financial statements as at 31 December 2009 as this scrap was fully provided for.

3.4 Production yield

- The Company's overall average production yield fell within a range of 80%-90%.
- In May 2009, the overall yield dropped to below 80% as GSteel purchased and used less pig iron and more shredded scrap in its production which subsequently led to decreases in raw material yield and the overall production yield.
- The overall yield in September 2009 increased significantly to 96.4%. This was because GSteel produced HRC for GJS (by using 9,785 MT of G's raw materials) due to GJS's production disruption.

Purchase of expansion project machinery (1)

Summary of Expansion Project Contract Value as at 31 December 2009						USD
Expansion Project	Advance Payment			Construction in Progress		
	Contract Value	Payment to Date	Outstanding Balance	Contract Value	Payment to Date	Outstanding Balance
HRC Production	209,537,337	79,329,164	130,208,173	34,371,571	34,371,571	-
Pickling & Oiling Line	3,600,000	2,600,000	1,000,000	43,950,629	43,793,566	157,063
Cut-to-Length & Slitting Line & Shearing Line	16,700,000	14,450,000	2,250,000	35,406,800	35,406,800	-
6 Hi Cold Roll Mill	24,500,000	19,513,203	4,986,797	48,700,000	48,400,000	300,000
Skinpass Mill Production Line	-	-	-	26,611,407	26,611,407	-
Others	1,142,857	285,714	857,143	20,782,246	20,695,892	86,353
Total	255,480,194	116,178,081	139,302,113	209,822,653	209,822,653	543,416

Source: GSteel Public Company Limited

4. Purchase of expansion project machinery

- GSteel's payments under the expansion project relate to:

- Machinery to increase capacity and improve product quality for Hot Rolled Coil Production Line
- Machinery for Pickling & Oiling Line
- Machinery for Cut-to-length & Slitting Line and Shearing Line
- Machinery for 6Hi Cold Roll Mill
- Machinery for Skinpass Mill Production Line and
- Other, including civil work of buildings for production lines, power distribution and technical consultant fee.

- Findings based on the performance of the procedures set out in Appendix 6 are as follows:

4.1 Purchasing contracts

- Total contract value of the Expansion Project as at 31 December 2009 was USD 465.3 million. GSteel has made payments to suppliers totaling USD 325.5 million, of which USD 116.2 million was recorded as advance payments and USD 209.3 million was recorded as construction in progress.

- Prior to 2004, two expansion project contracts valued at USD 7.6 million were executed, then subsequently approved by the Board of Directors in September 2004. The CEO at that time was granted authority by the Board for decision making and machinery procurement with a budget of USD 350 million. This ex-CEO was subsequently appointed by the then-current managing director as the expansion project team leader.
- As the value of total contracts executed under the expansion project exceeded the original budget during 2009, in December 2009, the Board of Directors re-ratified all additional payments for the expansion project.
- There was no evidence of a cost/benefit evaluation of this capital expenditure being carried out and no formal suppliers' selection process followed (other than for four contracts made recently).
- GSteel has entered into the contracts with suppliers who have relatively low registered capital, for example,
 - C1 is incorporated in Hong Kong with registered share capital of HKD 300.
 - C2 is incorporated in Singapore with registered share capital of SGD 1. C2 also sold machinery to GJS and purchased low quality scrap from GSteel.
 - M1 is incorporated in Hong Kong with registered share capital of HKD 100.

Purchase of expansion project machinery (2)

4.1 Purchasing contracts (continued)

- Some machinery suppliers are related:
 - C1 is related to M1 by having the same registered address in Hong Kong.
 - M2 is related to J by having the same authorized director and sharing the same address in Japan.
 - M8 is related to C2 by having the same authorized director.
- GSteel engaged M11 in June 2009 to perform the civil work related to cold rolled mill production line. This contract is worth THB 40.0 million with THB 10 million having been paid in advance. We found that M11 is a subsidiary of B3 (55% held) and B3 is 20% held by the family of the Company's Major Shareholder.
- Even though GSteel contracted M11 to perform civil works, GSteel purchased construction materials directly from several small construction material shops located in Bangkok, Chonburi, Chachengsoa, etc.

4.2 Value of machinery and storage condition

- Based on our review of the machinery assessment report, we note that the assessment value (under the depreciated replacement cost method) of expansion project machinery purchased were insignificantly different from the accounting value of such machinery as at 31 December 2009.
- In 2006, C1 delivered a crane to GSteel and charged a purchase price of USD 2.7 million. We found an invoice from M7 to C1 attached with the Bill of Lading and Packing List for the same crane specification for USD 0.74 million. We also found that in 2005, GSteel had purchased a crane directly from M7.
- During our plant visit on 17-18 March 2010, we found that some machinery parts have been installed into the production line. For those not yet installed, the machinery parts were found to be stored in disorganised manner within the production line area and company yard.
- New management is currently performing a review of the Company's fixed asset carrying values to assess whether any significant impairment may exist.

4.3 Letters of Confirmation

- We have received confirmation letters sent directly from C1, J, M2 and M3.
- While the confirmation letter of M3 showed a total amount paid by GSteel of USD 41.52 million, only USD 41.43 million was recorded in GSteel's book. The confirmation letter also showed supply contract payments of USD 40.8 million had been made and a further USD 0.7 million had been paid on the coordination agreement. These amounts had been recorded in GSteel's records as USD 41.0 million on the supply contract and USD 0.5 million on the coordination contract.
- Apart from the confirmation letter from M3, the outstanding balances stated in other confirmation letters received agree with the balances shown in the accounting records of GSteel.

Purchase of expansion project machinery (3)

4.4 Payment

- During our fieldwork, although most of documents we requested were available for our review, Appendix 7 contains details of documentation requested for certain transactions which was not available to us. Appendix 17 and 18 contains details of all payments transactions made under the expansion project.
- GSteel made payment to its machinery suppliers with cash (by money transfer or cheque issuance) and by offsetting machinery purchase obligations against trade receivables.
- GSteel has made cash payments directly to suppliers and to third parties.
- GSteel has offset the payables under machinery supply contracts against suppliers' and third parties' outstanding receivables to GSteel.
- When payment obligations were offset with third parties' receivable balances, transaction evidence was provided in the form of letters issued from GSteel to those third parties agreeing to reduce the receivable balances and instructing them to make payment to the relevant suppliers, but without obtaining the acknowledgement from the third parties.
- Contracts valued at USD 50.8 million were entered into with C1. USD 27.3 million of the payment obligations from these contracts were offset against C1's receivables from low quality scrap sales.
- Based on our review of payments made under contracts with J, USD 2 million was paid directly to J while GSteel made several payment transactions to N1, a company incorporated in Hong Kong (USD 1.2 million) and N4, a company incorporated in Thailand (USD 18.6 million).

Summary of machinery payment made to selected suppliers									USD'000
Machinery Suppliers	Status	No. of Contract	Contract Value	Payment Made as at 31 December 2009	Detail of Payment				Outstanding Balance
					Money to Suppliers	Money to Third Parties	Offset Transactions	No document or partially received	
C1	Advance payment	4	18,015	9,271	7,121	-	-	2,200	8,744
C1	Construction in progress	4	32,748	32,748	4,050	-	27,348	1,350	-
J	Construction in progress	3	48,700	48,400	2,000	19,800	23,400	3,200	3,000
M1	Advance payment	2	42,000	29,798	1,510	-	28,288	-	12,202
M2	Advance payment	2	20,300	17,050	1,820	10,230	5,000	-	3,250
M2	Construction in progress	11	95,427	95,427	29,131	32,538	8,320	25,438	-
M3	Advance payment	3	95,660	41,428	36,671	-	-	4,757	54,232
M4	Advance payment	1	30,400	12,138	12,138	-	-	-	18,262
M5	Advance payment	2	12,399	1,476	1,476	-	-	-	10,923
M6	Advance payment	2	6,733	771	771	-	-	-	5,961
M7	Construction in progress	1	1,120	1,120	952	-	-	168	-
M8	Construction in progress	1	1,851	1,851	1,851	-	-	-	-

Source: GSteel Public Company Limited

Note: "Advance payment" status represents the payment partially made under the contract, which the purchased machinery have not yet been fully manufactured and delivered. Once the machinery delivered, such paid payment will be transferred to "Construction in Progress".

Purchase of expansion project machinery (4)

4.4 Payment (continued)

- GSteel also offset the payable to J with two third parties.
 - Offset with the receivables from scrap sales of B1 of USD 15 million without formal acknowledgement from J. However, the balance confirmation letter provided by J shows an implicit agreement to the offset, as the confirmed balance is provided after the offset has been applied.
 - Offset with deposit balances of N5 (USD 8.4 million) by requesting N5 to make payment directly to N1 (another third party) without agreement from N5.
- Based on our review of payments made under contracts with M1, USD 1.5 million was paid directly by GSteel. In addition, GSteel requested three counterparties to transfer deposits or prepayments made with GSteel to M1 (M9: USD 10.7 million, N6: USD 5.9 million and I3: USD 11.6 million). We note that there was no acknowledgement from those third parties.
- Based on our review of payments made under contracts with M2, USD 31 million was paid to M2 and M10 (M2's parent company), with the following amounts paid to third parties:
 - N1, a company incorporated in Hong Kong: USD 32.9 million
 - N4, a company incorporated in Thailand: USD 5 million.
 - N2, a company incorporated in Thailand: USD 3.2 million. We visited N2's registered address and found it to be a residential apartment
 - N3, a company incorporated in Hong Kong: USD 1.7 million
- There were also offset transactions which GSteel requested three third parties to perform by transferring deposits or prepayments to M2 and N1 (N7: USD 8.3 million, I3: USD 3.5 million and N5: USD 1.5 million). We note that there was no acknowledgement from those third parties.

Control effectiveness review

5. Control effectiveness review

In addition to the internal control-related issues noted previously, we found other weaknesses in the Company's internal control framework as presented in Appendices 8-10 "Control Effectiveness Review".

Other observations

6. Other observations from special audit

- In performing the audit of the financial statements as of 31 December 2009 the auditor did not receive confirmations from certain suppliers and customers of their outstanding balances due from or to the Company as of the year end date. During the course of the special audit, information was received indicating that GSteel omitted to consider joint and several guarantees given to a third party on behalf of suppliers when preparing their financial statements. GSteel is currently in the process of negotiating the amount of such guaranteed liabilities and will reflect them as appropriate in their financial statements for the first quarter of 2010.
- Information has also been received from a supplier suggesting that amounts due to them are significantly understated in the Company's accounting records. Further clarification has been requested from the supplier. Any adjustments that need to be made will be reflected in the financial statements for the first quarter of 2010

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Terms of reference

Agree upon procedures

Our work will be conducted by performing process analysis in order to identify key risks and the effectiveness of the corresponding controls. Set out below is our approach for this assignment:

- Interview management to obtain critical business information within each selected business process;
- Gather information in respect of the process, risks associated to activities, the current control activities and control weaknesses through meeting and interview with management and key personnel responsible for operations and activities at the process level, and reviewing relevant document;
- Conduct a walkthrough of the selected processes and perform sample testing of existing controls against supporting documents;
- Identify control weakness and anomalies and develop recommendation for business improvement;
- Concur findings and recommendations with the concerned personnel to get their response or action plans to implement the proposed recommendations; and
- Report all findings and recommendations together with the response and/or proposed action plan of process owners to the senior executives.

Our detailed procedures

Sales to four (4) selected new customers (A1, A2, A3, and A4)

- Compare item sale price, credit term on sales to the four companies with sales to other companies within a similar time period
- Examine the location to which products are delivered and the means of transportation in comparison with other customers
- Examine irregularity in the delivery order, such as inconsistency with the terms of past delivery orders, inconsistency relative to orders of other customers or inconsistency with industry practice
- Inspect for existence of the premises of the customer
- Examine the source of payments received from customers

List of sales items with eight (8) alliances and related companies (B4, B5, B6, B7 and B8)

- Compare item sale price, credit terms and sales conditions with sales made to other companies within a similar time period
- Match collection received with invoiced amounts and products shipped
- Examine the source of payments received from customers
- Check consistency of documents and payments made to B8

Sales of unused degraded quality raw material (metal scrap) and purchase of machinery for debt offsetting in relation to three (3) companies (B1, C1 and C2)

- Summarise intercompany and related party loans
- Discuss with management the existence of other debt or debt-like items, including those held off-balance sheet
- Examine past credit notes to compare the quantities of low quality raw materials against the quantities sold.
- Confirm whether low quality raw materials are kept separately, and if so, review stock movement, period of sharp incline, causes and related documents.
- Examine the source of raw materials purchases against the destination of related payments.
- Examine report of stock take from previous years whether there are any signs of low quality raw materials found.
- Examine the prescribed price of the low quality raw materials.
- Examine irregularities of supporting documentation for sales of low quality raw materials
- Examine the origin of collections received
- Examine supporting bank transfer document for the purchase of machinery from J
- Examine the consistency of physical machinery with receipts, to the extent not covered by the independent appraiser.

Raw materials - Pig Iron (which is deteriorated and soil contaminated)

- Reconcile the quantity of soil-contaminated scrap between inventory movement report and sales to Lion Recycle Limited Partnership during 2009 and annual physical count report at year end 2009
- Obtain the list of suppliers of pig iron and send confirmation for total purchase of pig iron with suppliers (or review purchasing documents).
- Examine the list of payees for Pig Iron purchases
- Examine the quantity from withdrawal records of Pig Iron with the production input report
- Check monthly production yield and investigate the unusually low yield period
- Verify for existence of bidding
- Survey the operation premises of K1
- Inquire about the store keeping process for preventing the Pig Iron from deterioration and test the compliance
- Examine the quality review report of Pig Iron

Terms of reference (continued)

Construction in Progress and Advance Payment

- Request for supplier confirmation for machinery purchase
- Confirm balance confirmations from suppliers with respect to the receipt of cash advance and the extension on payment term
- Match the payment with received machinery and equipment

With respect to the scope of work detailed above, our work will consist primarily of review of Company accounting information provided by Company management, as well as inquiries, analysis and discussion with Company management. We would like to highlight that our procedures cannot be regarded and are not intended to be comprehensive and exhaustive for all local laws and regulations applicable to the entities. As our procedures are limited in nature, they should not be relied upon to reveal all weaknesses, errors or irregularities that may have occurred or which may continue to occur in the future. The remedy of any control weakness identified, or implementation of recommendations made in our report, will be at GSteel's discretion to pursue.

In the event that new issues are identified, we will discuss and agree with you any extended scope before performing any additional work.

Principal sources of information

General information

- Minutes of the Board of Directors (2006 – present)
- SBB prices (2006 – present)/ access right to SBB

Bank account information

- List of bank accounts (including name of bank, bank accounts no., purpose of use, and authorized signature)
- Bank statements and pass books (2006 – present)

Process flows and procedures

- Description or detail of process flow and control activities of sales and collections, raw materials procurement and management processes

Sales and collection

- Summary of sales by customers (2006 – present)
- Documents in relation to the selected new customers' evaluation and acceptance (e.g. company's affidavit, Memorandum of association, and etc.)
- Credit approval policy
- A/R sub-ledger (2006 – present)
- A/R Aging report (for year end 2006, 2007 and 2008, Q1, Q2, Q3 and Q4 2009 and as at latest available date)
- Breakdown of accounts receivable and allowance for doubtful debts by customer (for year end 2006, 2007 and 2008, and 2009)
- Details of all sales and collection transactions with the selected new customers, the alliances and the related parties
- Details of freight and shipping transactions with B7 and B8 and related payments.

Low quality scraps

- Details of all sales and collection transactions in relation to the sales of low quality scraps with C1, C2 and B1.
- Pricing and customer selection methods for sales of the low quality scraps
- Details in relation to the offsetting between A/R and machineries including;
- Documents in relation to sales of the low quality scraps consisting of invoices, receive voucher, receipts and collection evidences etc.

- Stock movement report (2006 – present)
- Non-Conformity Report (2006 – present)
- Inventory physical count report (2006 – present)
- Appraisal reports from independent appraisers in relation to the machineries acquired from C1, C2 and J

Scrap with soil

- Details of Pig Iron purchase transactions in the past. Information of each transaction should include;
- Monthly production yield report (2006 – present)
- Inventory physical count report (2006 – present)
- List of Pig Iron suppliers
- Summary of Pig Iron purchase volume and amount by supplier (2006 – present)
- Monthly production input report (2006 – present)
- Stock movement report (2006 – present)
- Pricing and customer selection methods for sales of scrap with soil
- List of bidders for sales of scrap with soil
- Details of sales transactions – scrap with soil

Advance payments for machinery and equipment

- Details of Advance payment transactions made to M&E suppliers
- MOU or confirmation letters from suppliers in respect of the extension of payment terms and receipt of machineries with details including suppliers' contact person, contact date and response date

Construction in progress

- List of machinery by project, contact amounts, amounts paid, outstanding amounts
- Details of fixed assets purchase transactions containing the following information
- Appraisal reports from independent appraisers for the machineries
- Purchase agreements

Discussions with the management, principally

- Mr. Narongchai Assawaputitkul, Head of Accounting Department
- Mr. Wuttichai Sresthabutra, Head of Office of CEO

Special audit procedures – Sales to selected new customer alliances and related parties

Special audit procedure

Our procedures regarding sales to selected new customers alliances and related parties are as follows;

New selected customers

- Our procedures regarding evaluation and acceptance of four selected new customers and the related credit approval procedures include;
 - Interviewed key personnel regarding evaluation and acceptance of the selected new customers
 - Reviewed customer master file
 - Reviewed customer profiles from Business on Line (“BOL”) and other publicly available information sources
 - Interview key personnel regarding credit approval procedure for the selected new customers
 - Reviewed summary of credit limits and terms granted to the selected new customers and other customers
 - Reviewed the selected new customers’ Financial Statements and related submission form sent to the Department of Business Development

- We reviewed supporting documentation for all sales to the selected new customers (totaling 336 transactions). The documentation includes summary of sales by customers for FY06 to FY09, purchase orders from the customers, GSteel’s sales orders, sales confirmations, description of transportations, delivery notes, tax invoices/receipts, receive vouchers, copy of cheques, pay-in slips, and bank statements.

We also selected 44 transactions of sales to other customers and compared sales prices with prices given to the selected new customers. HRC global market prices from SBB were also considered in the price comparison. It is noted that SBB’s market prices were translated from USD into Thai Baht using average BOT’s exchange rate for each month.

We note management’s comments that comparing the Company’s selling price to the SBB benchmark may have comparability limitations as delivery terms (transport, port of delivery, etc), product grade/quality differentials and the foreign currency exchange rate may be different for the Company’s sales and those which form the basis of the SBB benchmark.

- We visited the selected new customers’ operating premises.

Alliances and related parties

- We interview key personnel regarding credit approval procedure as well as revision of credit given to alliances and related parties. We also reviewed credit limits and terms granted to the selected new customers compared with those of other customers
- We selected 156 transactions (6 transactions for B3 and 25 transactions for other alliances and related parties) between 2006 and 2009 to review sales and collections transactions with the alliances and related parties.

We also selected 44 transactions of sales to other non-related parties to compare sales prices with prices given to alliances and related parties. HRC global market prices from SBB were also considered in the price comparison. It is noted that SBB’s market prices were translated from USD into Thai Baht using average BOT’s exchange rate for related month, quarter, and year.

We note management’s comments that comparing the Company’s selling price to the SBB benchmark may have comparability limitations as delivery terms (transport, port of delivery, etc), product grade/quality differentials and the foreign currency exchange rate may be different for the Company’s sales and those which form the basis of the SBB benchmark.

- We interviewed key personnel regarding type of business transactions with B7 and B8 and compared freight expenses and customs clearance fees charged by B7 and B8, respectively, with other freight and shipping companies by reviewing related quotations.
- We selected 50 transactions (25 transactions per each company) to review the consistency of documents and payments made to B7 and B8.

Special audit procedures – Low quality scrap and related machinery for debt offsetting

Special audit procedure

Our procedures regarding low quality scrap and related machinery for debt offsetting are as follows;

- Our procedures regarding sales of low quality scrap include;
 - Interviewed key personnel regarding the nature of low quality scrap, reason for selling, customer selection and pricing method, as well as credit terms provided.
 - Reviewed sales contracts, invoices, and inventory movement reports
 - Compared low quality scrap's sales price with scrap market prices from SBB
- Our procedures regarding delivery of low quality scrap include;
 - Interviewed key personnel regarding delivery method and procedure, name of related transportation companies, and destinations of the deliveries.
 - Reviewed summary of shipment reports and lists of drivers and truck ID
 - Obtained and reviewed confirmation letter received from the scrap buyers
- Our procedures on collections of low quality scrap sales include;
 - Interviewed key personnel regarding the debt settlements.
 - Reviewed collection evidences including receive voucher, invoices, copy of cheque, pay-in slip, and receipt
 - Reviewed debt offsetting evidences including debt settlement agreements/MOUs, receive vouchers, invoices as well as related machinery and equipment (M&E) purchase agreements, purchase invoices, bills of lading, packing lists, import declaration documentation, and work acceptance forms for such M&E.
 - Obtained and reviewed accounts payable confirmation letter from J, M&E supplier
- Our procedures regarding the existence of the M&E include;
 - Visited the plant and observed the existence of M&E
 - Interview key personnel regarding purchase of HMS improvement machine from C2, and reviewed purchase contract and minute of the Board of Directors' meeting for the approval of such purchase
- Our procedures regarding procurement, store keeping and detection of low quality scrap include;
 - Interviewed key personnel regarding procurement, store keeping and detection of low quality scrap.
 - Selected 60 purchase transactions of low quality scrap to review supporting documentation including invoices, payment vouchers, receipts, copy of cheques and pay-in slip
 - Reviewed stock movement report, annual physical inventory reports and non-conformity reports.

Special audit procedures – Deteriorated and soil contaminated raw materials

Special audit procedure

Our procedures regarding deteriorated and soil contaminated raw materials are as follows;

- Our procedures regarding nature and procurement of low quality scrap include;
 - Interviewed key personnel regarding the nature of scrap with soil, stock receiving and keeping process as well as reason for sharp increase in scrap with soil.
 - Reviewed stock movement reports, a list of pig iron suppliers classified by purchase quantity and amount, annual physical inventory reports, production input report, and non-conformity reports
 - Selected 32 purchase transactions of scraps subsequently transferred to scrap with soil to review supporting documentation including invoice, receiving slip, bill of lading, packing list, import declaration documentation, and debit advise from bank.
 - Obtained and reviewed supplier confirmation letters regarding amounts payable for purchases of pig iron
- Our procedures regarding sales of scrap with soil include;
 - Interviewed key personnel reason for selling, customer selection, pricing and customers' payment methods
 - Reviewed supporting documentation of all scrap with soil sales transactions including invoice, delivery notes, receipt, copy of cheques and pay-in slips
 - Observed the existence of K1's operation premise

Special audit procedures – Construction in progress and advance payment for the expansion project

Special audit procedure

Our procedures regarding construction in progress and advance payment for the expansion project are as follows;

- Our procedures regarding procurements of fixed assets for the Expansion Project include;
 - Interviewed key personnel regarding M&E procurement and related approval procedures, recording of advance payment and construction in progress (“CIP”), time lines and current status of the project
 - Reviewed minutes of the Board of Directors’ meetings, details of contract value, payment amount to date and receipts of M&E for each contract
- We requested for the confirmation letters from M&E suppliers with respect to the receipt of cash advance and the extension on payment terms
- We reviewed supporting documents regarding payments made for contracts under the Expansion Project. These supporting documentation include journal vouchers, invoices, bills of lading, packing lists, import declaration documentation, work acceptance forms, payment vouchers, debit advises from banks and offsetting documentation.

Appendix 7

Summary of documents not received (1)

List of non-received document										
No.	Customer Name	Ref. No.	Purchase Order	Sale Confirmation	Sale Index	Description of Transportation	Sale Invoice	Receive Voucher	Payment Voucher	Remark
Sales to selected new customers										
154	A2	DTD0803001	x	x	x	x	x			n/a
155	A2	DTD0803002	x	x	x	x	x			n/a
252	A2	ITD0807436						x		n/a not receive some of receiving slips
Sales to alliances and related Parties										
17	B1	ITD0809039						x		n/a no receive voucher and supporting doc.
18	B1	ITD0808158								n/a no credit notes provided
52	B2	ITD0601820	x	x						n/a
53	B2	ITD0601900	x	x						n/a
96	B5	ITD0912166						x		n/a no receive voucher and supporting doc.
Freight and custom clearance expenses										
2	B7	ITD0601675	n/a	n/a	n/a	n/a	n/a	n/a		x
24	B7	ITD0805242	n/a	n/a	n/a	n/a	n/a	n/a		x
25	B7	ITD0909171	n/a	n/a	n/a	n/a	n/a	n/a		x
8	B8	PPV0706743	n/a	n/a	n/a	n/a	n/a	n/a		x

Appendix 7

Summary of documents not received (2)

M2							
Contract Description	Contract Value	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries
HRC Additional equipment							
Ladle Heating Furnace and Aux	\$ 17,000,000.00	\$ 3,500,000.00	x	x	x	x	x
		\$ 5,200,000.00	x	x	x	x	
		\$ 8,075,000.00	x	x	x	x	
		\$ 225,000.00	x	x	x	x	
Skinpass Mill Project							
Finishing and Transfer Line Contract for Hot Skinpass Mill Line	\$ 4,670,000.00						x
Additional Equipment Contract for Hot Skinpass Mill Line	\$ 1,580,000.00						x
Additional Equipment Contract for Hot Skinpass Mill Line	\$ 105,000.00						
Upgrade Contract for Hot Skinpass Mill Line	\$ 8,660,000.00	\$ 1,732,000.00					x
		\$ 866,000.00					x
		\$ 2,598,000.00		x	x	x	x
		\$ 2,598,000.00					x
		\$ 866,000.00					x
Spare Work Roll Contract for Hot Skinpass Mill line	\$ 960,000.00	\$ 480,000.00					x
		\$ 120,000.00					x
		\$ 120,000.00					x
		\$ 240,000.00	x	x			x
Supervision Fee	\$ 85,000.00	\$ 40,000.00	x	x	x	x	x
		\$ 35,000.00					x
		\$ 10,000.00					x
PO Line Project							
Supply Contract for Pickling and Oiling Line with Acid Recovery Plant	\$ 43,400,000.00	\$ 2,500,000.00				x	
		\$ 2,000,000.00				x	
		\$ 1,340,000.00		x		x	
Cut to Length Project							
Purchase for Shearing	\$ 8,254,000.00	\$ 1,444,500.00					x
		\$ 777,800.00					x
		\$ 777,800.00					x
		\$ 4,320,000.00			x	x	x
		\$ 180,000.00					x
		\$ 200,000.00					x
		\$ 165,000.00					x
		\$ 388,900.00					x
Purchase for Slitting	\$ 7,820,000.00	\$ 7,820,000.00					x
Slitting Line_additional equipment	\$ 1,407,800.00	\$ 1,407,800.00					x
Heavy Gauge Shearing Line	\$ 16,700,000.00	\$ 5,000,000.00	x	x		x	

Appendix 7

Summary of documents not received (3)

J							
Contract Description	Contract Value	Agreement and PO	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt
The supply of 6 Hi Reversing Cold Rolling Mill							
The supply of 6 Hi Reversing Cold Rolling Mill	\$ 24,000,000.00		\$ 5,000,000.00				x
Additional Equipment for 6 Hi Reversing Cold Rolling Mill	\$ 9,400,000.00		\$ 562,500.00			x	x
			\$ 8,400,000.00		x	x	x
C1							
Contract Description	Contract Value	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries
HSM Expansion Project							
De-dusting system	\$ 9,000,000.00	\$ 50,000.00	x				x
Water Treatment	\$ 3,200,000.00	\$ 800,000.00	x	x	x	x	
1x80t crane, 1x80t crane CCM	\$ 5,400,000.00	\$ 1,350,000.00	x	x	x	x	
1x80t crane New Roll shop	\$ 2,700,000.00	\$ 675,000.00	x	x	x	x	
		\$ 675,000.00	x	x	x	x	
M1							
Contract Description	Contract Value	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries
HSM Expansion Project							
Revamping of Reheating Furnace	\$ 17,500,000.00	\$ 2,625,000.00			x	x	
		\$ 6,150,000.00			x	x	
6 Hi							
Batch Annealing Furnace	\$ 24,500,000.00		x	x	x	x	
M7							
Contract Description	Contract Value	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries
Skinpass Mill Project							
2 x 35 Tons Cranes for Skin Pass Mill Project	\$ 1,120,000.00	\$ 112,000.00					x
		\$ 112,000.00					x
		\$ 112,000.00					x
		\$ 112,000.00					x
		\$ 112,000.00					x
		\$ 112,000.00					x
		\$ 280,000.00					x
		\$ 165,746.00	x	x	x	x	x
		\$ 2,254.00	x	x	x	x	x

Appendix 7

Summary of documents not received (4)

M8						
Contract Description	Contract Value	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries
Skin Pass Line						
Skin Pass Line Inspection Service	\$1,851,315.87		x			n/a

M3							
Contract Description	Contract Value	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries Remark
HSM Expansion Project							
Design manufacture and supply of plant machine with accessories	\$ 87,130,000.00	\$ 1,056,618.40		x			n/a
		\$ 1,111,000.00		x			n/a
		\$ 1,590,103.41		x			n/a
		\$ 2,701,103.41		x			n/a
		\$ 2,701,103.41		x			n/a
		\$ 2,441,103.41		x			n/a
		\$ 260,000.00		x		x	n/a
		\$ 2,701,103.41		x			n/a
		\$ 2,701,103.41		x			n/a
		\$ 2,701,103.41		x		x	n/a No Bank receipt for USD 140,273.79 million

Appendix 7

Summary of documents not received (5)

M4							
Contract Description	Contract Value	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries
HSM Expansion Project							
Design, Manufacture and supply of machinery	\$ 30,400,000.00	\$ 1,300,500.00		x			n/a
		\$ 1,300,500.00		x			n/a
		\$ 1,300,500.00		x			n/a
		\$ 1,300,500.00		x			n/a

M5							
Contract Description	Contract Value	Instalment	Journal Voucher	Invoice	Payment Voucher	Bank Receipt	Received Machineries
HSM Expansion Project							
Supply of design, drawings, manufacture and supply of HSM level 1 and 2 system	\$ 3,690,000.00	\$ 184,500.00		x			n/a
		\$ 184,500.00		x			n/a
		\$ 184,500.00		x			n/a
		\$ 184,500.00		x			n/a

Appendix 8: Control effectiveness review

Sales and Delivery Process (1)

In the tables shown in Appendices 8, 9 and 10, we describe our observations from completing the Special Audit in the first column. The second column shows the potential control weaknesses which these observations suggest and the potential risks which may be created for the Company as a result of these weaknesses, whilst the third column shows the changes which new management has advised us they are currently implementing. As the scope of our agreed upon procedures does not cover any testing of these changes, we cannot comment on the actual exercise or appropriateness of these changes.

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
Sales and Logistic Process		
<p>Customer Evaluation and Acceptance</p> <ul style="list-style-type: none"> Per discussion with management, in the past, there was no formal customer evaluation and acceptance process and the Marketing team inquired of customer reputation from sources of people in the steel business due to a limited number of buyers in the industry. For customer selection procedures according to the Marketing Policy and Procedure established in October 2009, the marketing staff send the selected new customer Acceptance Sheet attached with Company Affidavit, VAT Registration Certificate and last two years financial statements to Management to evaluate and approve selected new customer, credit limit and credit term. 	<ul style="list-style-type: none"> In practice, GSteel does not request for financial statements from customers, only copy of Company Affidavit and VAT Registration Certificate are requested from customers. Customers are accepted without considering customer's financial position and background information. This increases the possibility of making sales to uncreditworthy customers, thus increasing the likelihood of bad debts. 	<ul style="list-style-type: none"> All new customers are subject to a customer evaluation system based on an objective credit metrics system.
<p>Credit Approval Policy</p> <ul style="list-style-type: none"> Per discussion with management, in the past, there was no credit approval policy. The Marketing Dept. considered credit limit and term to be provided based on sales volume and negotiation with customer. In addition, there was no authority limits for approval of credit limit and credit term. The new credit approval policy was established in October 2009. According to the new policy, credit limit granted to existing and selected new customers is not more than double the customers' registered share capital. For specific cases, the Credit Approval Committee (including EVP, SVP, Head of Commercial Division, Head of Accounting Division and Head of Finance Division) has authority to approve credit limit exceeding the maximum credit limit according to the policy. The Credit Approval Committee reviews appropriateness of credit limit and credit term semi-annually. 	<ul style="list-style-type: none"> Credit term and credit limit are granted to customers without considering their ability to pay back debts. The new established policy (credit limits not more than double the customers' registered share capital) may not be appropriate to reflect customers' capability of paying debts. Apart from registered share capital, the Company should also consider other factors (e.g. financial position, financial performance, financial ratios, and default history etc.) before granting credit to any customers. 	<ul style="list-style-type: none"> A detailed review has been made of all significant customers and credit terms and limits have been amended as appropriate.

Sales and Delivery Process (2)

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
Sales Process		
<p>Price Setting Policy</p> <ul style="list-style-type: none"> Per discussion with management, in the past, there was no formal price setting policy due to the competition in the local steel market. According to the price setting policy established in October 2009, the Company classifies customers into three classes (A, B and C) based on monthly sales volume. The price according to monthly price list is used as base price for class A. The prices given to class B and C customers will be lower than the base price by THB 0.20 and THB 0.40 per kilogram, respectively. For exceptional case, special price may be given to customers by the approval of three out of five members of the Price Approval Committee (including EVP, SVP, Head of Commercial Division, Head of Accounting Division and Head of Finance Division). 	<ul style="list-style-type: none"> No formal authority limits set up for approval of exceptional price. 	<ul style="list-style-type: none"> A log has been started to record quotes issued, prices offered and whether sales have been made.
<p>Order Acceptance</p> <ul style="list-style-type: none"> Upon receiving purchased order from customer, Marketing staff records the order into the system and prepares the following documents; <ul style="list-style-type: none"> Sales Requisition which will be authorised by the Co-CEO and sent to the Planning and Production Department to confirm pending order details. Sales Confirmation which will be authorised by Executive Vice President before sending to customer to confirm. Copy or duplicate of signed confirmation is returned to the Marketing team for filing. Master Loading and Shipping Instruction which will be authorised by VP of Commercial and Warehouse manager and sent to Logistics Department. 	<ul style="list-style-type: none"> GSteel does not review customer credit limits when accepting purchase order. Therefore outstanding receivables from some customers are higher than the credit limits approved. This subsequently leads to problem in respect of the debt collections. 	<ul style="list-style-type: none"> Sales orders can only be processed after reference has been made to existing accounts receivable balances, sales in process and customer's approved credit limit.
<p>Delivery Process</p> <ul style="list-style-type: none"> Receiving "Master Loading and Shipping Instruction" from the Marketing Department, Logistics staff issues "Description of Transportation" and "Delivery Note". The Delivery Note is sent with goods for customer to sign as evidence of receiving. Three copies of delivery notes are returned to Finance Department, Logistic Department and the transportation company, respectively. The Finance Department will place Delivery Notes for billing to customers. Upon the completion of goods delivery, the Marketing staff reviews Sale Index and send to Accounting Department. for issuing invoice and reducing stock from the system. 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> Internal audit has been instructed to check that recipients sign for all goods delivered.

Sales and Delivery Process (3)

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
Sales Process		
<p>Collection</p> <ul style="list-style-type: none"> After the Finance staff receives a cheque or an evidence of money transfer to GSteel's bank account, the accountant will send the original receipt to customer and prepare Receive Voucher to record the collection. 	<ul style="list-style-type: none"> For most of collections from the selected new customers alliances and related parties, we found no payment evidences attached with receive voucher (e.g. Pay-in Slip, copy of cheque and etc). Without evidences (e.g. Pay-in Slip, copy of cheque and bank statement etc) , existence and accuracy of collections as well as original source of payment cannot be verified. Payments are not matched to specific invoices. 	<ul style="list-style-type: none"> Internal audit has been instructed to check sufficient documentation exists to fully support cash receipts.
<p>Sales Return</p> <ul style="list-style-type: none"> There is no standard procedures or regulations for sales return. In addition, there are no authority limits set up for sales return. 	<ul style="list-style-type: none"> The goods may not be appropriately returned as there is no standard procedure to follow 	<ul style="list-style-type: none"> Standard procedures have been formulated.

Raw material procurement and management process (1)

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
Raw material procurement		
<p>Supplier selection</p> <ul style="list-style-type: none"> For selection of new domestic suppliers, the Purchasing staff will request documents including Company's Registration Certificate, VAT Certificate, and the Location's map from suppliers. In case of overseas suppliers, no information is requested. After that the purchasing staff will prepare supplier evaluation sheet form and score each supplier in terms of quality, price, delivery, service and credit term. In practice, it might not be possible to evaluate some conditions (e.g. quality, delivery, and service) of new suppliers. In this case, the consultation with concerned Group Manager or upper level is required. The evaluation form must be approved by VP and the Head of Commercial Division. Evaluation of the existing suppliers will be conducted twice a year. However, all information of those suppliers inactive more than one year will be removed from supplier master file. 	<ul style="list-style-type: none"> Suppliers are selected without sufficient information particularly for oversea suppliers. To be able to select more reliable suppliers, the Company may need to consider suppliers' background, capability of delivery and credentials in addition to just credit limit and terms and delivery terms. 	<ul style="list-style-type: none"> New policy has been formulated
<p>Raw material purchasing process</p> <ul style="list-style-type: none"> The Purchasing Dept. plans for raw material procurement based on "Raw Material and Consumable Weekly Forecast", "Yearly Production Plan", "Updated Monthly Production Plan" and outstanding balance of inventory. Receiving quotations from vendors, the Purchasing staff will compare prices, payment terms, and delivery dates. In case of sole distributor, the staff will compare the information with previous trading transaction before issuing purchase order ("PO"), PO approved by VP, EVP and authorised persons assigned by CEO/Assistant CEO will be sent to suppliers. 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> n/a
<p>Raw material receiving process</p> <p><i>Scrap and pig iron (local)</i></p> <ul style="list-style-type: none"> Purchasing Dept. provides a list of PO to be received to the Warehouse Dept on a daily basis. Upon arrival of raw materials, Quality Control Dept. ("QC") performs visual inspection to consider whether the contamination level of non-metallic materials is acceptable (e.g. soil and water) or whether the raw materials' specification meets the standard requirements. In case of unacceptable level of contamination, QC will reduce receiving weight as well as specify the reason in the weight ticket. For domestic raw materials, cost of raw materials and related payable amount are calculated and recorded using the actual scrap receiving weight (which has already been reduced). Then, Weight ticket, Weighing report, and delivery notes will be sent to the Warehouse Dept to record the receipt of raw materials into the system using raw material codes given by QC. "Receiving Slip" will then be prepared by the Warehouse staff, attached with Weighing report and sent to Warehouse Supervisor and Manager to verify and approve, respectively, on a daily basis. 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> n/a

Raw material procurement and management process (2)

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
Raw material procurement		
<p>Raw material receiving process</p> <p><u>Scrap and pig iron (import)</u></p> <p><i>For non-consignment raw materials:</i></p> <ul style="list-style-type: none"> Logistic Department will send a list of imported raw materials to be received to the Warehouse Department. Raw materials' quality (impurity) and quantity will be inspected and certified by a third party surveyor hired by the seller at the port agreed in the sales and purchase contract (normally at the loading port). The tolerant rate of impurity accepted by the Company is not more than 0.5% - 0.75% depending on each contract. Upon arrival of scrap, QC staff inspects supplier certificate (Surveyor's inspection certificate) before unloading scrap to the yard and performing outbound weight checking to get the net weight. Warehouse staff will record receipt of raw materials upon daily delivery of raw materials at the factory using material codes given by QC Dept. After receiving the whole shipment, variance between the weight at the discharge port and at the factory will be determined. If the variance is over 80 Kgs, the surveyor needs to investigate the root cause of such variance. However, if the variance is less than 80 Kgs, Warehouse staff will prepare "Lot End Report" to summarise weight gain or loss (by comparing the actual weight received with the weight in Bill of Lading) and send the report to Warehouse Manager for approval. The QC department decides whether to screen the scrap contaminated by soil. If necessary, the Warehouse department prepares an adjustment slip to amend production costs, immediately after the goods are received and screened. <p><i>For consignment raw materials:</i></p> <ul style="list-style-type: none"> In order to control quantity of consignment scrap, the Warehouse staff will record quantity received into the location "WH 35" in the system. These scraps are not yet considered as the Company's inventory until they are released to the Company's production line. Weight variance for these consignment materials will also be adjusted to production cost upon the final release of the pile to GSteel's production line. The cost adjustment commenced in August 2006 onwards, variances occurred before August 2006 were recorded as inventory and never removed or adjusted (scrap with soil). <p><u>Notes:</u> QC Dept will perform chemical composition analysis by selecting a sample from each stockpile to test chemical property after receiving of scrap. Chemical composition will be recorded and subsequently used by the Planning Dept for planning of raw material consumption.</p>	<ul style="list-style-type: none"> For receiving of import scrap and pig iron, QC does not perform quality inspection and only relies on certificate issued by a third party surveyor hired by the seller. Per discussion with management, the Company never received detailed inspection data from these surveyors. <p>Relying only on the surveyor certificate without conducting an inspection of the goods, GSteel might not detect the problem and process to claim from suppliers on time.</p> <p>Upon arrival of raw materials, the Company may need to request for inspection detail to ensure that the inspection is really conducted.</p> <ul style="list-style-type: none"> There should be a formal criteria or process for deciding whether which stockpile should be screened or adjusted immediately to cost of production. The Company discovered the contamination of rusts and stones right after receiving the raw materials. However, the Company did not process to claim the material from the supplier on time. Moreover, the Company could not claim the raw materials from another supplier as quality claim cannot be done after the surveyor issues the inspection certificate. Therefore, the Company should establish a standard policy or procedures in order to prevent similar kind of problems as well as review purchase agreements prudentially. 	<ul style="list-style-type: none"> Material being inspected on receipt and log prepared by supplier detailing quality when actually used.

Raw material procurement and management process (3)

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
Raw material management		
<p>Store keeping process</p> <p><i>Scrap and pig iron (local and import)</i></p> <ul style="list-style-type: none"> Both consignment and non-consignment scraps are piled in the scrap yard located in GSteel’s factory area. The scrap yard is managed and controlled by O, a third party. Domestic scraps are piled by type (cannot distinguished by source). Similar type of domestic scrap shares the same material code. However, scraps may be piled separately from its own type when they are from unknown and unreliable sources or when GSteel previously experienced production problem using raw material from such source. Import scraps are stored in the yard by shipment. Each shipment has specific material code. Warehouse Dept will review stock movement report and will inspect the non-movement scrap with O on a monthly basis. Physical count of inventory is performed annually by external surveyor. 	<ul style="list-style-type: none"> For scrap and pig iron, there is no specific report (e.g. stock aging report) for monitoring and managing of non-moving and obsolete stocks. Moreover, no immediate action is taken to manage those unusable scraps resulting in corrosion and a decrease in value of the scraps. The indoor concrete yard can prevent the corrosion of scrap, however, it requires a significant amount of investment. 	<ul style="list-style-type: none"> Ageing report being prepared on goods received note and materials code, and being reviewed by management.
<p>Stock transferring process</p> <p><i>Scrap and pig iron (local and import)</i></p> <ul style="list-style-type: none"> O will select scrap to be consumed in the production based on menu received from the Planning Dept. Per discussion with the Planning Dept Manager, scrap without conditions (e.g. local scrap and non-consignment scrap) tend to be utilised on the First in, First out basis. The use of consignment scrap, however, will be planned to optimise production cost, time, quality and finance. Warehouse staff prints “Daily scrap charging report” from Level 2 system and prepares transfer slip. The transfer slip attached with “Daily scrap charging report” will be send to Warehouse supervisor and manager to verify and approve, respectively. Warehouse staff also reconciles “Daily scrap charging report” from Level 2 System with the report from O. However, the report from O is not attached with transfer slip or filed. At the end of each month, Warehouse staff prepares Issue slip and attached with scrap charging report from level 2 system and sends to the Accounting Dept to record cost of raw material consumption. 	<ul style="list-style-type: none"> The reconciliation between report from O and Daily Scrap Charging Report should be formally prepared and approved by authorised persons as well as attached with transfer slip to be able to verify the accuracy of the scrap transfer. Planning Dept. has no documentation to control and distinguish such unusable scrap. Normally, theh Planning Dept Manager will memorise all low quality stockpiles and avoid using them. Thus, failure arisen from human error may incurred. Even through, GSteel has Non-Conformity Report (“NCR”) which is used for reporting problems from the production (including problems from using raw materials), however, we found that NCR is not usually prepared especially for problems in respect of low quality scrap. 	<ul style="list-style-type: none"> Daily scrap charging report being reconciled and approved.

Raw material procurement and management process (4)

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
<p>Raw material management</p>		
<p>Sales of raw material <u>Scrap and pig iron (local and import)</u></p> <ul style="list-style-type: none"> • Sales of raw materials are responsible by the Purchasing Department. Since sale of raw materials is not in the normal course of business, the Company has no standard evaluation and selection procedures for raw material buyers. There is also no specific credit approval policy regarding sales of raw materials. • For sales of scrap, Warehouse Dept. will received sales information e.g. type of scrap, quantity to be sold, Name of truck drivers, and Truck ID from Logistic Dept. When customer’s trucks arrive Warehouse staff will check consistency of actual Truck ID with the list received from Logistic Dept. Warehouse staff signs on “Weight tickets”, while person assigned by customers signs on “Shipment Summary Report” to confirm total goods receiving on each day. • Upon receiving daily “Internal” report from O showing total scrap transferred out, Warehouse Dept. will transfer raw material location from WH30 (raw materials to be used in the production) to WH40 (raw material awaiting to be sold). After loading the whole lot, Warehouse staff will inform Commercial Dept. to issue sales orders and sales information will automatically link to Finance Dept to record or post the sales transactions, issue tax invoice and reduce stock at the same time. 	<ul style="list-style-type: none"> • A lack of buyer evaluation and selection procedures may subsequently lead to uncollectible debts. • Per our review, there are delivery notes and Property and Material Gate Pass for some scrap sales. For sales of low quality scrap, however, none of both delivery note and Property and Material Gate pass existed. Due to a lack of the documentation, goods delivery to customers could not be proved. 	<ul style="list-style-type: none"> • Refer to “Customer Evaluation and Acceptance”

Fixed asset procurement and management process

Process procedures	Comment on potential risks and control weaknesses	Changes being implemented
Machinery Procurement for the Expansion Project		
<p>Supplier Selection</p> <ul style="list-style-type: none"> For procurement of machinery and equipment for both the existing production line and the expansion project, there is no standard procedures or regulations for supplier selection. Generally, the expansion team led by the Co-CEO considers and selects suppliers based on their reputations in the steel making industry or connection between the suppliers and the expansion team members. The comparison of price and terms of proposal were conducted with the same number of suppliers who are the trading companies without comparing with price or terms offered by the manufacturer. 	<ul style="list-style-type: none"> Without the standard procedures (e.g. comparison of price or product specification), supplier, purchase price as well as the assets acquired may not be appropriate. GSteel should do the survey or analyse the benefit or cost of using trading companies versus manufacturers. Even though the expansion project was approved in overall, every purchase of assets for any sub-projects should be requested and approved. 	<ul style="list-style-type: none"> All purchases of equipment are subject to a bidding process and Board of Director approval.
<p>Equipment receiving and Recording</p> <ul style="list-style-type: none"> Upon receiving of M&E, staff of the expansion team will prepare Work Acceptance Form and sends the form to the Head of Division to approve. In practice, the expansion team does not prepare "Work Acceptance Form" immediately upon arrival of M&E and also not inform the Accounting Department to record the fixed assets. Also, in case of making the advance payment, there is no standard procedure to follow up with the suppliers on progress of machinery production. The Accounting staff generally records CIP when the payment is made to supplier by not considering whether the M&E has already been received or not. Since there is a lack of communication between the Accounting Department (at the Bangkok office) and the Expansion team (at the plant), some fixed assets that have already been used are still recorded as CIP and not depreciated. There is also no Fixed Asset Register for the expansion project. 	<ul style="list-style-type: none"> Without standard procedures for receiving and recording of fixed assets, the Company may not record and depreciate its fixed assets appropriately. In addition, no standard procedure in following up the supplier on progress of machinery production may cause the delay in completion of production line or the recoverable value of advance payment. Due to a lack of Fixed Asset Register, the accountant may not effectively control fixed assets or CIP. 	<ul style="list-style-type: none"> Procedures are being formulated.

Low quality scrap – sales contracts

Sale contracts - Low quality scrap						
Company	Authorised signature	Contract date	Description	Contract price (included VAT)	Payment term	Other condition
B1	GSteel Previous CEO and Director	29-Oct-08	Steel scrap - Bundle 100,000 MT +/- 5% (THB 11,750 per MT)	1,257,250,000.00	180 days after completed delivery date	Buyer to arrange the transportation by themselves within November 2008
C1	GSteel Previous CEO and Director	30-Oct-08	Steel scrap - Bundle 75,000 MT +/- 10% (THB 11,650 per MT) - No VAT	873,750,000.00	180 days after completed delivery date	Buyer to arrange the transportation by themselves within November 2008
C2	GSteel Previous CEO and Director	30-Oct-08	<u>Total quantity = 109,500 MT +/-10% (No VAT)</u> Steel Scrap - Bundles: 50,000 MT THB 11,800 per MT Steel Scrap - Clippings: 30,000 MT THB 11,900 per MT Steel Scrap - Heavy old: 11,500 MT THB 4,500 per MT Steel Scrap - Shredded: 10,000 MT THB 11,900 per MT Pig Iron: 15,000 MT THB 17,900 per MT	1,386,250,000.00	180 days after completed delivery date	Buyer to arrange the transportation by themselves within November 2008

Source: Low quality scrap sales contracts

Low quality scrap – shipment summary

Low quality scrap – shipment summary							
Truck ID	10/11/2008 (Trips per day)			20/11/2008 (Trips per day)			Total
	B1	C2	Total	C1	C2	Total	
70-1811	9	7	16	5	7	12	
70-1786	8	6	14	4	5	9	
70-1707	9	5	14	3	5	8	
70-1693	9	5	14	4	5	9	
70-1418	9	5	14	3	6	9	
70-1110	9	5	14	3	5	8	
70-0840	9	6	15	4	5	9	
70-0809	9	6	15	4	5	9	
70-0717	8	5	13	4	5	9	
70-0709	9	5	14	4	5	9	
70-0198	9	5	14	4	5	9	
70-0170	8	5	13	4	5	9	
70-3124	9	5	14	4	5	9	
70-3199	9	6	15	4	5	9	
70-3217	9	6	15	4	4	8	
70-3543	9	6	15	3	4	7	
70-3837	9	5	14	3	4	7	
70-3929	9	5	14	3	4	7	
70-4414	9	6	15	3	4	7	
70-6665	9	6	15	3	4	7	
81-5570	9	6	15	3	4	7	
81-6478	9	6	15	3	4	7	
81-8343	9	5	14	3	4	7	
81-8525	9	5	14	2	4	6	
70-0620	9	5	14	5	5	10	
70-2845	9	5	14	4	5	9	
70-3954	9	5	14	4	4	8	
70-3584	9	5	14	4	4	8	
70-3190	9	5	14	3	4	7	
70-3150	9	6	15	6	6	12	
70-1817	8	5	13	4	6	10	
70-1813	-	2	2	2	5	7	
70-0711	8	5	13	4	4	8	
70-0681	9	5	14	5	4	9	
70-0216	9	5	14	4	4	8	
70-0068	9	5	14	3	5	8	
70-0211	-	-	-	1	-	1	
70-1812	4	1	5	1	-	1	

Source: Shipment summary reports

Low quality scrap – Cash received from B1

Cash received from B1										
No.	Received Voucher No.	Authorised person	Collection Date	Ref. Invoice no.	Amount (THB'000)	Cheque no.	Cheque amount (THB'000)	Name of payee	Payee's bank account no.	G steel's bank account
		Position								
2008										
1	RRV0805630	VP,VP	12-Sep-08	IOD0811018	2,000	6555682	2,000	unknown	unknown	0032877818
2	RRV0801418	VP,VP	12-Dec-08	IOD0811018	9,750	6555716	9,750	unknown	unknown	0032877818
3	RRV0801422	VP,VP	16-Dec-08	IOD0811018	19,000	6555738	unknown	unknown	unknown	0032877818
4	RRV0801429	VP,VP	19-Dec-08	IOD0811018	17,684	5256677	4,352	unknown	unknown	0032877818
						6555730	3,648			
						6555731	9,684			
5	RRV0801433	n/a	23-Dec-08	IOD0811018	11,299	6555746	5,400	B1	known	0032877818
						6555717	33,100	unknown	unknown	0032877818
6	RRV0801439	VP,VP	24-Dec-08	IOD0811018	2,800	6555762	2,800	unknown	unknown	0032877818
					62,533					
2009										
1	RRV0900042	VP,VP	23-Jan-09	IOD0811018	13,579	6555810	unknown	unknown	unknown	0032877818
2	RRV0900081	VP,VP	3-Feb-09	IOD0811018	32,500	6555826	32,000	unknown	unknown	0032877818
						6555856	500			
3	RRV0900091	VP,VP	10-Feb-09	IOD0811018-19	62,298	6555884	unknown	unknown	unknown	0032877818
4	RRV0900243	VP,VP	24-Apr-09	IOD0811019	23,000	0607221	unknown	unknown	unknown	0032877818
						0607259	unknown			
5	RRV0900285	VP,VP	7-May-09	IOD0811019	330	0607266	unknown	unknown	unknown	0032877818
6	RRV0900306	VP,VP	15-May-09	IOD0811019	7,750	1521863	unknown	unknown	unknown	0032877818
7	RRV0900326	VP,VP	21-May-09	IOD0811019	7,300	1521882-3	unknown	unknown	unknown	0032877818
8	RRV0900344	VP,VP	27-May-09	IOD0811019	12,450	0607347	unknown	unknown	unknown	0032877818
						1521911	unknown			
9	RRV0900619	VP,VP	3-Sep-09	IOD0811023	1,000	unknown	unknown	unknown	unknown	0032877818
10	RRV0900626	VP,VP	8-Sep-09	IOD0811023	13,300	1521941	13,300	unknown	unknown	0032877818
11	RRV0900642	VP,VP	11-Sep-09	IOD0811023-24	22,263	2680422	unknown	unknown	unknown	0032877818
12	RRV0900714	VP,VP	30-Sep-09	IOD0811024	12,707	2680444	13,808	unknown	unknown	0032877818
13	RRV0900862	VP,VP	11-Nov-09	IOD0811024	30,254	1842018	30,254	unknown	unknown	0032877818
14	RRV0900874	VP,VP	16-Nov-09	IOD0811024	18,893	4092683	37,238	unknown	unknown	0032877818
15	RRV0900890	VP,VP	23-Nov-09	IOD0811024	37,889	4092588	37,889	unknown	unknown	0032877818
16	RRV0900922	VP,VP	1-Dec-09	IOD0811024-25	13,516	4092617	13,516	unknown	unknown	0032877818
17	RRV0900986	VP,VP	23-Dec-09	IOD0811025	10,000	4092561	10,000	unknown	unknown	0032877818
18	RRV0900991	VP,VP	24-Dec-09	IOD0811025	10,000	unknown	unknown	unknown	unknown	0032877818
					329,029					

Source: Received voucher, Pay-In Slip and Copy of Cheque.

Purchase agreements – pig iron

Purchase contracts - Pig Iron					
Company	Contract date	Description	Contract price (included VAT)	Payment term	Other condition
I1	5-Aug-08	Basic Pig Iron of 30,000 MT +/-10% @ USD 680.0/MT	USD 20.4 million	Within 120 days from the date of bill of lading	<ul style="list-style-type: none"> - 0.5% franchise against B/L weight is allowed to cover shortage, excess weight, and impurities for Pig Iron. - Buyer has the right to lodge the claim to be supported by inspector certificate issued by agreed independent surveyor at discharge port within 45 days after vessel arrival.
I5	15-Jul-08	Basic Pig Iron of 30,000 MT +/-5% @ USD 885.0/MT	USD 26.55 million	Within 120 days from the date of bill of lading	<ul style="list-style-type: none"> - Tolerance of plus minus 0.5 percent on total quantity and total value allowed - Quality claim: as per inspection certificate issued by loadport independent inspection agency appointed by seller to be final

Source: Purchase contracts - pig iron

Appendix 15

Sales of scrap with soil – K1 (1)

Sales of Scrap with Soil – K1											
No.	Date	Client Name	Invoice					Payment			
			Date	Invoice No.	Product description	Quantity (MTs)	Unit price	Amount included VAT (THB'000)	Cheque		Amount (THB'000)
			Date	Invoice No.	Product description	Quantity (MTs)	Unit price	Amount included VAT (THB'000)	Date	No.	Amount (THB'000)
September											
1	14/09/09	K1	14/09/09	IOD0909019	Quarantined Heavy Old Soil Scrap	216.01	747.66	173	14/09/09	4292973	200
2	15/09/09	K1	15/09/09	IOD0900021	Quarantined Heavy Old Soil Scrap	209.70	747.66	168	15/09/09	37163	200
3	16/09/09	K1	16/09/09	IOD0909022	Quarantined Heavy Old Soil Scrap	133.93	747.66	107	16/09/09	2632723	48
4	17/09/09	K1	17/09/09	IOD0909023	Quarantined Heavy Old Soil Scrap	263.38	747.66	211	17/09/09	2632724	211
5	18/09/09	K1	18/09/09	IOD0909024	Quarantined Heavy Old Soil Scrap	261.11	747.66	209	18/09/09	2632725	213
6	21/09/09	K1	21/09/09	IOD0909025	Quarantined Heavy Old Soil Scrap	316.98	747.66	254	21/09/09	2632729	249
7	22/09/09	K1	22/09/09	IOD0909026	Quarantined Heavy Old Soil Scrap	285.56	747.66	228	22/09/09	2632732	228
8	23/09/09	K1	23/09/09	IOD0909032	Quarantined Heavy Old Soil Scrap	259.22	747.66	207	23/09/09	2632734	207
9	24/09/09	K1	24/09/09	IOD0909042	Quarantined Heavy Old Soil Scrap	235.72	747.66	188	24/09/09	2632737	189
10	25/09/09	K1	25/09/09	IOD0909045	Quarantined Heavy Old Soil Scrap	337.64	747.66	270	25/09/09	2632738	270
11	28/09/09	K1	28/09/09	IOD0909046	Quarantined Heavy Old Soil Scrap	128.63	747.66	103	28/09/09	2632740	103
12	29/09/09	K1	29/09/09	IOD0909047	Quarantined Heavy Old Soil Scrap	443.96	747.66	355	29/09/09	2632743	355
13	30/09/09	K1	30/09/09	IOD0909052	Quarantined Heavy Old Soil Scrap	284.90	747.66	228	30/09/09	2632746	228
						3,377		2,701			2,701
October											
14	01/10/09	K1	01/10/09	IOD0910001	Quarantined Heavy Old Soil Scrap	230.49	747.66	184	1/10/09	2632748	184
15	02/10/09	K1	02/10/09	IOD0910002	Quarantined Heavy Old Soil Scrap	253.06	747.66	202	2/10/09	2632751	202
16	05/10/09	K1	05/10/09	IOD0910003	Quarantined Heavy Old Soil Scrap	147.54	747.66	118	5/10/09	2632755	118
17	06/10/09	K1	06/10/09	IOD0910004	Quarantined Heavy Old Soil Scrap	268.17	747.66	215	6/10/09	2632758	215
18	07/10/09	K1	07/10/09	IOD0910005	Quarantined Heavy Old Soil Scrap	151.85	747.66	121	7/10/09	2632760	121
19	08/10/09	K1	08/10/09	IOD0910006	Quarantined Heavy Old Soil Scrap	360.70	747.66	289	8/10/09	2632761	289
20	09/10/09	K1	09/10/09	IOD0910007	Quarantined Heavy Old Soil Scrap	264.78	747.66	212	9/10/09	9763632	212
21	12/10/09	K1	12/10/09	IOD0910009	Quarantined Heavy Old Soil Scrap	296.01	747.66	237	12/10/09	2632764	237

Source: Sales of scrap with soil summary and sales invoice

Sales of scrap with soil – K1 (2)

Sales of Scrap with Soil – K1 (continued)											
No.	Date	Client Name	Invoice					Payment			
			Date	Invoice No.	Product description	Quantity (MTs)	Unit price	Amount included VAT (THB'000)	Cheque		Amount (THB'000)
									Date	No.	
22	13/10/09	K1	13/10/09	IOD0910010	Quarantined Heavy Old Soil Scrap	157.77	747.66	126	13/10/09	2632766	126
23	14/10/09	K1	14/10/09	IOD0910018	Quarantined Heavy Old Soil Scrap	99.52	747.66	80	14/10/09	2632766	80
24	15/10/09	K1	15/10/09	IOD0910019	Quarantined Heavy Old Soil Scrap	105.02	747.66	84	15/10/09	2632768	84
25	16/10/09	K1	16/10/09	IOD0910020	Quarantined Heavy Old Soil Scrap	75.39	747.66	60	16/10/09	2632770	60
26	19/10/09	K1	19/10/09	IOD0910021	Quarantined Heavy Old Soil Scrap	299.20	747.66	239	19/10/09	2632772	239
27	20/10/09	K1	20/10/09	IOD0910024	Quarantined Heavy Old Soil Scrap	357.12	747.66	286	20/10/09	2632773	286
28	21/10/09	K1	21/10/09	IOD0910025	Quarantined Heavy Old Soil Scrap	337.10	747.66	270	21/10/09	2632775	270
29	22/10/09	K1	22/10/09	IOD0910026	Quarantined Heavy Old Soil Scrap	312.68	747.66	250	22/10/09	2632776	250
30	26/10/09	K1	26/10/09	IOD0910027	Quarantined Heavy Old Soil Scrap	324.51	747.66	260	26/10/09	2632777	260
31	27/10/09	K1	27/10/09	IOD0910028	Quarantined Heavy Old Soil Scrap	308.16	747.66	247	27/10/09	2632778	247
32	28/10/09	K1	28/10/09	IOD0910030	Quarantined Heavy Old Soil Scrap	223.27	747.66	179	28/10/09	2632779	179
33	29/10/09	K1	29/10/09	IOD0910033	Quarantined Heavy Old Soil Scrap	138.58	747.66	111	29/10/09	2632780	111
34	30/10/09	K1	30/10/09	IOD0910035	Quarantined Heavy Old Soil Scrap	159.26	747.66	126	30/10/09	2632781	126
						4,870		3,896			3,896
November											
36	02/11/09	K1	02/11/09	IOD0911001	Quarantined Heavy Old Soil Scrap	437.53	747.66	350	02/11/09	2632785	350
37	03/11/09	K1	03/11/09	IOD0911003	Quarantined Heavy Old Soil Scrap	375.65	747.66	301	03/11/09	2632785	301
38	04/11/09	K1	04/11/09	IOD0911004	Quarantined Heavy Old Soil Scrap	75.08	747.66	60	04/11/09	2632788	60
						888		711			711
						9,135		7,308			7,308

Source: Sales of scrap with soil summary and sales invoice

Sales of scrap with soil – K2

Sales of scrap with soil – K2									
No.	Item	Quantity (MT)	Unit cost (THB'000/MT)	Amount inc VAT (THB'000)	Invoice		Sales order		Goods No Received Date
					Date	No.	Date	No	
January									
1	Quarantined Heavy Old Soil Scrap	151	1	161	14/01/10	IOD1001004	14/01/10	ODH1000002	14/01/10
2	Quarantined Heavy Old Soil Scrap	194	1	208	15/01/10	IOD1001006	15/01/10	ODH1000004	15/01/10
3	Quarantined Heavy Old Soil Scrap	177	1	189	18/01/10	IOD1001007	18/01/10	ODH1000005	18/01/10
4	Quarantined Heavy Old Soil Scrap	295	1	316	19/01/10	IOD1001010	19/01/10	ODH1000006	19/01/10
5	Quarantined Heavy Old Soil Scrap	92	1	98	20/01/10	IOD1001012	20/01/10	ODH1000007	20/01/10
6	Quarantined Heavy Old Soil Scrap	130	1	139	21/01/10	IOD1001013	21/01/10	ODH1000008	21/01/10
7	Quarantined Heavy Old Soil Scrap	182	1	195	22/01/10	IOD1001023	22/01/10	ODH1000009	22/01/10
8	Quarantined Heavy Old Soil Scrap	241	1	258	25/01/10	IOD1001026	25/01/10	ODH1000010	25/01/10
9	Quarantined Heavy Old Soil Scrap	338	1	361	26/01/10	IOD1001028	26/01/10	ODH1000011	26/01/10
10	Quarantined Heavy Old Soil Scrap	192	1	205	27/01/10	IOD1001029	27/01/10	ODH1000012	27/01/10
11	Quarantined Heavy Old Soil Scrap	97	1	104	28/01/10	IOD1001030	28/01/10	ODH1000013	28/01/10
12	Quarantined Heavy Old Soil Scrap	124	1	133	29/01/10	IOD1001032	29/01/10	ODH1000015	29/01/10
Total		2,213		2,367					
February									
13	Quarantined Heavy Old Soil Scrap	203	1	217	1/02/10	IOD1002001	1/02/10	ODH1000021	1/02/10
14	Quarantined Heavy Old Soil Scrap	223	1	239	2/02/10	IOD1002002	2/02/10	ODH1000022	2/02/10
15	Quarantined Heavy Old Soil Scrap	232	1	248	3/02/10	IOD1002003	3/02/10	ODH1000023	3/02/10
16	Quarantined Heavy Old Soil Scrap	225	1	241	4/02/10	IOD1002004	4/02/10	ODH1000024	4/02/10
17	Quarantined Heavy Old Soil Scrap	260	1	278	5/02/10	IOD1002005	5/02/10	ODH1000025	5/02/10
18	Quarantined Heavy Old Soil Scrap	137	1	147	8/02/10	IOD1002006	8/02/10	ODH1000027	8/02/10
19	Quarantined Heavy Old Soil Scrap	75	1	80	9/02/10	IOD1002008	9/02/10	ODH1000028	9/02/10
Total		1,355		1,450					
Grand total		3,568		3,817					

Source: Sales of scrap with soil summary, sales invoice, and delivery orders

List of expansion project contract – Advance payment (1)

Advance Payment for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers' Group	Paid to Others	Offset	No document or partially received		
			Curr	Value								
HSK Project							THB	USD	USD	USD	USD	
1	M3	Design manufacture and supply of plant machine with accessories	17-Jul-07	USD	87,130,000	41,427,736	45,702,264	-	36,670,880	-	-	4,756,856
2	M3	SUPERVISION PLUS TRAINING AGREEMENT	17-Jul-07	USD	6,070,000	-	6,070,000	-	-	-	-	-
3	M3	COORDINATION AGREEMENT	17-Jul-07	USD	2,460,000	-	2,460,000	-	-	-	-	-
4	M4	Design manufacture and supply of plant machine with accessories	18-Dec-07	USD	30,400,000	12,138,000	18,262,000	-	12,138,000	-	-	-
5	M5	Supply of design, drawings, manufacture and supply of HSM level 1 and 2 system	10-Jan-08	USD	3,690,000	1,476,000	2,214,000	-	1,476,000	-	-	-
6	M5	Supervision service for installation, testing	10-Jan-08	JPY	92,400,000	-	92,400,000	-	-	-	-	-
7	M6	Supply of design, drawings, manufacture and supply plant machine	18-Feb-08	THB	180,000,000	27,000,000	153,000,000	27,000,000	-	-	-	-
8	M6	Supervision service for civil works	18-Feb-08	THB	55,640,000	-	55,640,000	-	-	-	-	-
9	C1	1x80t crane	18-May-06	USD	2,700,000	2,025,000	675,000	-	675,000	-	-	1,350,000
10	C1	Water treatment	28-Jun-06	USD	3,200,000	2,400,000	800,000	-	1,600,000	-	-	800,000
11	C1	Dedusting system	5-Jul-06	USD	9,000,000	3,600,000	5,400,000	-	3,600,000	-	-	-
12	C1	Roll Grinding Machine	13-Feb-06	USD	3,115,000	1,246,000	1,869,000	-	1,246,000	-	-	-
13	M24	322 & 331 cranes for phase I	1-Aug-08	USD	4,319,178	-	4,319,178	-	-	-	-	-
14	M24	321 & 332 cranes for phase I	1-Aug-08	USD	3,617,822	-	3,617,822	-	-	-	-	-
15	M9	Overhead crane, Cap 80t (2 units)	1-Sep-05	USD	7,500,000	3,960,000	3,540,000	-	-	-	-	3,960,000
16	M1	Revamping of Reheating Furnace	20-Nov-07	USD	17,500,000	10,285,000	7,215,000	-	1,510,000	-	-	8,775,000
17	C2	HSM Quality improvement modification contract	16-Nov-09	USD	13,394,000	-	13,394,000	-	-	-	-	-

List of expansion project contract – Advance payment (2)

Advance Payment for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers' Group	Paid to Others	Offset	No document or partially received	
			Curr	Value							
PO Line											
18	M10	21-Dec-07	USD	3,600,000	2,600,000	1,000,000	-	980,000	1,620,000	-	-
CTL & STL											
19	M10	5-Feb-08	USD	16,700,000	14,450,000	2,250,000	-	840,000	8,610,000	5,000,000	-
6 Hi CRM											
20	M1	15-Jul-08	USD	24,500,000	19,513,203	4,986,797	-	-	-	19,513,203	-
Civil Work Contract											
21	M11	4-Jun-09	THB	40,000,000	10,000,000	30,000,000	-	-	-	-	10,000,000
Total			USD	238,896,000	115,120,939	123,775,061	-	60,735,880	10,230,000	24,513,203	19,641,856
			THB	275,640,000	37,000,000	238,640,000	27,000,000	-	-	-	10,000,000
			JPY	92,400,000	-	92,400,000	-	-	-	-	-

List of expansion project contract – Construction in progress (1)

Construction in Progress for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers or Suppliers' Group		Paid to Others	Offset	No document or partially received		
			Curr	Value			THB	USD			THB	USD	
HRC Production													
1	M12	9 column and pipe rack for diversion of gas line	18-Apr-08	THB	26,000,000	26,000,000	-	26,000,000	-	-	-	-	-
2	M12	Hydraulic room Modifications for roughing mill	17-Apr-08	THB	1,400,000	1,400,000	-	1,400,000	-	-	-	-	-
3	C1	1x80t crane New Roll shop	26-Apr-06	USD	2,700,000	2,700,000	-	-	1,350,000	-	-	-	1,350,000
4	C1	1x80t crane CCM	18-May-06	USD	2,700,000	2,700,000	-	-	2,700,000	-	-	-	-
5	M9	Jet Box Chemical energy system	11-Aug-05	USD	1,745,000	1,745,000	-	-	-	-	-	-	1,745,000
6	M2	Ladle Heating Furnace and Aux	15-Sep-05	USD	17,000,000	17,000,000	-	-	-	-	-	-	17,000,000
7	C1	Coil box & Finishing Mill motor equipment Mod.	9-Apr-09	USD	9,423,000	9,423,000	-	-	-	-	9,423,000	-	-
8	M13	Project of Installation New overhead crane - Cater bay and new roll shop	N/A	THB	4,400,000	4,400,000	-	4,400,000	-	-	-	-	-
Skinpass Mill Line													
9	M2	UE_Finishing and Transfer Line	28-Feb-05	USD	4,670,000	4,670,000	-	-	2,370,000	2,300,000	-	-	-
10	M2	UE_Roll Chock for Hot Skinpass Mill	1-Nov-05	USD	8,660,000	8,660,000	-	-	2,598,000	3,464,000	-	-	2,598,000
11	M2	Spare Work Roll	20-Apr-06	USD	960,000	960,000	-	-	480,000	480,000	-	-	-

List of expansion project contract – Construction in progress (2)

Construction in Progress for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers or Suppliers' Group		Paid to Others	Offset	No document or partially received		
			Curr	Value			THB	USD			THB	USD	
HRC Production													
12	M2	UE_Turnkey for skinpass	6-Aug-04	USD	1,570,000	1,570,000	-	THB	USD	USD	USD	THB	USD
								-	1,570,000	-	-	-	-
13	M2	Additional equipment - worm gear & wheel	1-Aug-06	USD	1,580,000	1,580,000	-	-	380,000	1,200,000	-	-	-
14	M2	Additional equipment - hot skinpass mill	15-Jun-05	USD	105,000	105,000	-	-	105,000	-	-	-	-
15	M8	Newlife South Asia_Skin Part Line Inspection	8-Jan-07	USD	1,851,316	1,851,316	-	-	1,851,316	-	-	-	-
16	M7	35t Bridge Crane	20-Jun-05	USD	1,120,000	1,120,000	-	-	952,000	-	-	-	168,000
17	M14	Skinpass Mill Machine	1-Aug-03	THB	252,336,449	252,336,449	-	-	-	-	-	252,336,449	-
18	M15	Wonderware and software toolbox top server	30-Aug-06	THB	1,241,129	1,241,129	-	-	-	-	-	1,241,129	-
19	M16	Shear Blades	13-Oct-06	THB	96,000	96,000	-	-	-	-	-	96,000	-
20	M17	Changing of curcuit Breaker	7-Nov-06	THB	197,885	197,885	-	197,885	-	-	-	-	-
Pickling & Oiling Line													
21	M2	UE_P&O contract	4-Nov-05	USD	43,400,000	43,400,000	-	-	20,090,000	17,470,000	-	-	5,840,000

List of expansion project contract – Construction in progress (3)

Construction in Progress for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers or Suppliers' Group	Paid to Others	Offset	No document or partially received		
			Curr	Value								
22 M18	Supply of polyurethane sealing compound (Acid proof material between granites and overall assembly) Installation and sealing granite blocks for picking line	19-Aug-08	USD	279,200	179,280	99,920	-	-	-	-	-	179,280
23 M19	Install power feeder of picking crane (4 Units)	21-Apr-08	THB	4,900,000	4,900,000	-	-	-	-	-	4,900,000	-
24 M12	ARP tank farm building of P&O Project	18-Apr-08	THB	2,000,000	-	2,000,000	-	-	-	-	-	-
25 M13	Project of Installation of a 30t crane (P&O)	15-May-07	THB	2,600,000	2,600,000	-	-	-	-	-	2,600,000	-
Cut-to-Length & Slitting & Shearing Line												
26 M2	UE_Purchase for Shearing	3-Jan-07	USD	8,254,000	8,254,000	-	-	1,346,700	2,587,300	4,320,000	-	-
27 M2	UE_Purchase for Slitting	28-Jul-06	USD	7,820,000	7,820,000	-	-	191,000	3,629,000	4,000,000	-	-
28 M2	UE_Slitting Line_additional equipment	16-Jul-07	USD	1,407,800	1,407,800	-	-	-	1,407,800	-	-	-
29 C1	CTL contract	5-Feb-09	USD	17,925,000	17,925,000	-	-	-	-	17,925,000	-	-

List of expansion project contract – Construction in progress (4)

Construction in Progress for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers or Suppliers' Group		Paid to Others	Offset	No document or partially received		
			Curr	Value									
6 Hi CRM													
30	J	Automatic Roll Shifting System for 6hi Reversing Cold Rolling Mill	27-Apr-09	USD	15,300,000	15,000,000	300,000	-	-	-	15,000,000	-	-
31	J	6hi reversing cold rolling mill	10-Jan-08	USD	24,000,000	24,000,000	-	-	2,000,000	19,600,000	-	-	2,400,000
32	J	Additional equipment of 6hi	10-Jan-08	USD	9,400,000	9,400,000	-	-	-	200,000	8,400,000	-	800,000
Power Distribution													
33	M19	Low voltage, Medium voltage switchgear and Installation work for power distribution of Picking & Oil and ARP, Slitting & Shearing line project	5-Feb-08	THB	27,000,000	26,457,114	542,886	22,310,000	-	-	-	4,147,113	-
34	M17	Electrical system New roll shop project	3-Jan-07	THB	4,450,000	4,450,000	-	4,150,000	-	-	-	300,000	-
35	M17	Low voltage for skin pass mill and roll shop project	6-Oct-05	THB	14,200,000	13,270,374	929,626	1,901,335	-	-	-	11,369,039	-
36	M19	Medium voltage for skin pass mill and roll shop project	6-Oct-05	THB	37,500,000	37,500,000	-	1,701,666	-	-	-	35,798,334	-

List of expansion project contract – Construction in progress (5)

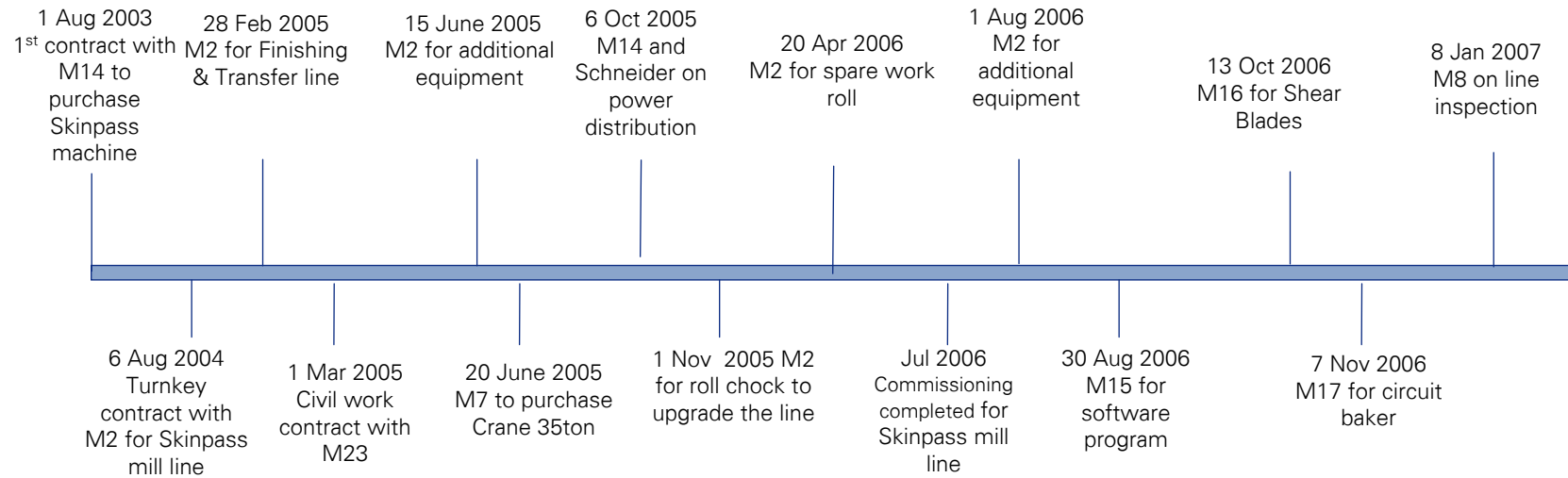
Construction in Progress for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers or Suppliers' Group	Paid to Others	Offset	No document or partially received		
			Curr	Value								
Technical service												
37 M20	Special engineering and special drafting support services for the CPL,ARP and other Expansion Project (USD 1,400 per month)	18-Jun-07	USD	79,604	79,604	-	-	79,604	-	-	-	-
38 M21	Preparation of market study report for cold rolled and zinc coated products (PO)	25-Aug-06	USD	91,000	91,000	-	-	-	-	-	-	91,000
39 M21	Assistance in finalisation of contracts for EPC packages for expansion project (PO)	25-Sep-06	USD	148,797	148,797	-	-	-	-	-	-	148,797
40 M21	Assistance in finalisation of contracts for expansion project (PO)	N/A	USD	514,078	514,078	-	-	490,202	-	-	-	23,876
New Warehouse												
41 M22	5T Electric overhead travelling crane & Installation (THB 4,650,000)	18-Jan-07	THB	4,650,000	4,650,000	-	-	-	-	-	4,650,000	-
42 M22	Hydraulic docklervler (THB 300,000)	24-Nov-06	THB	300,000	300,000	-	300,000	-	-	-	-	-

List of expansion project contract – Construction in progress (5)

Construction in Progress for Expansion Project	Description	Contract Date	Contract Value		Payment as at 31-Dec-09	Outstanding Payment	Suppliers or Suppliers' Group		Paid to Others	Offset	No document or partially received		
			Curr	Value									
Crane Roll shop													
43	M13	Project of Installation of a 35/15t crane (THB 4,700,000)	15-May-07	THB	4,700,000	4,700,000	-	4,230,000	-	-	-	470,000	-
Civil Work Contract													
44	Civil work for Expansion & New roll shop	Civil work	N/A	THB	368,946,415	368,946,415	-	-	-	-	-	368,946,415	-
45	Civil work for (Canteen, Change house, visit Kiosk, Guard house 1&2, Site Works, Factory signage, CCM building, Melt shop, Mrg office, Down coiler office, Work shop, Refractory and Warehouse)	Civil work	N/A	THB	234,910,565	234,910,565	-	-	-	-	-	234,910,565	-
Total				USD	182,703,795	182,303,875	399,920	-	38,553,822	52,338,100	59,068,000	-	32,343,953
				THB	991,828,443	988,355,931	3,472,512	66,590,886	-	-	-	921,765,044	-

Timeline of machinery contracts

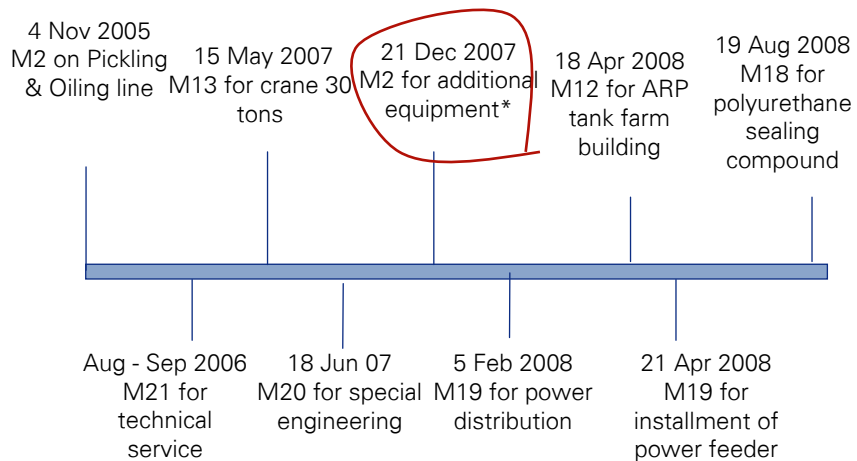
Timespan – Skinpass Mill Line



Source: GSteel Public Company Limited

Timeline of machinery contracts

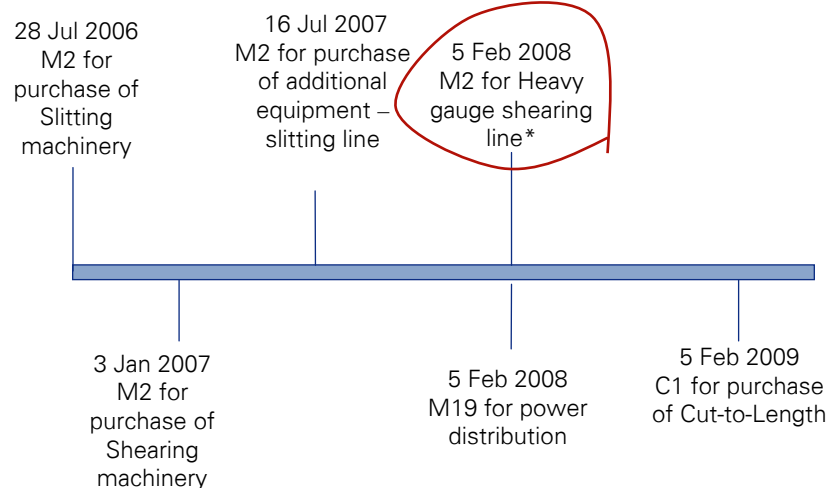
Timespan – Pickling & Oiling Line



Source: GSteel Public Company Limited

Note: *GSteel has partially made payment and not yet received the machinery, consequently such payment was recorded as advance payment.

Timespan – Cut-to-length/ Slitting/ Shearing Line

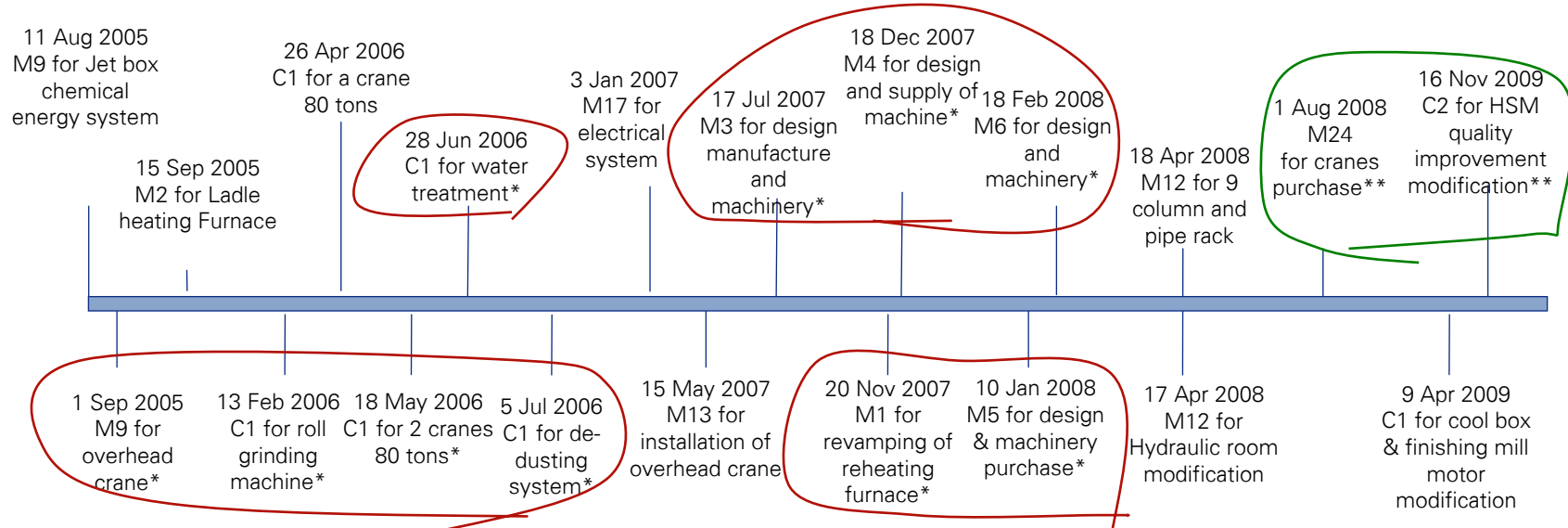


Source: GSteel Public Company Limited

Note: *GSteel has partially made payment and not yet received the machinery, consequently such payment was recorded as advance payment.

Timeline of machinery contracts

Timespan – Hot Rolled Coil Production



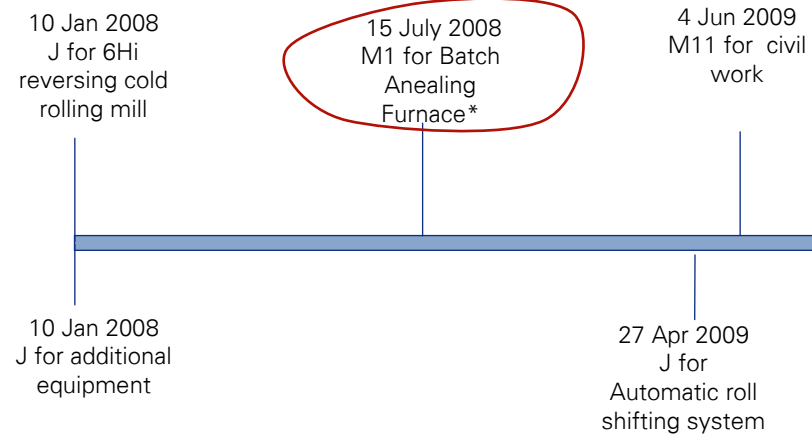
Source: GSteel Public Company Limited

Note: *GSteel has partially made payment and not yet received the machinery, consequently such payment was recorded as advance payment.

** GSteel still does not make any payment under these contracts.

Timeline of machinery contracts

Timespan – 6Hi Cold Rolled Mill Line



Source: GSteel Public Company Limited

Note: *GSteel has partially made payment and not yet received the machinery, consequently such payment was recorded as advance payment.