

4. Risk Factor

1. Business Risks

1.1 Entire Dependency on Major Raw Material Supplier

We purchase main materials - Aluzinc-coated cold-rolled steel with and without clean COLORBOND, solely from BlueScope Steel (Thailand) Company Limited (“BlueScope Steel”), which is 86.64 of total raw material. Therefore, discontinuance of BlueScope Steel will have significant impact on our operation.

However, BlueScope Steel is a major manufacturer of cold-roll Aluzinc coated metal sheets and is one of the two supplier in COLORBOND metal sheet in Thailand. It is also a subsidiary of BlueScope Steel Limited in Australia. Currently, BlueScope Steel’s production capacity is approximately 380,000 tons per annum which, more than previous year around 100,000.00 tons. The quantity considered well beyond our annual requirements. In addition, BlueScope Steel ranks its customers based on order volume and frequency to determine selling prices and credit facility grant on a case-by-case basis. We have forged business relationship with BlueScope Steel for several years since 1997, through regular raw material orders which clean records of defaults. Because of strong business ties and trust, we ranked in first rate customer (Red Customer). We contribute 4% to BlueScope Steel’s total sales. In addition, we managed to enter into agreements for more favorable terms and conditions related to raw material procurement. Among the agreement, we are granted to use its emblem “Steel Supplied by BlueScope Steel” long with our own ROLLFORM ® brand name on our products. Due to the aforementioned reasons, we are convinced that BlueScope Steel will continue delivering their products to the industry with ongoing customers’ acceptance, and remain being our major raw material supplier. However, we are alternatively able to import the same type of raw materials from manufacturers in Korea and Japan.

1.2 Having Associated Company of BlueScope Steel as Competitor

A sole supplier on company raw material, BlueScope Steel, has BlueScope Lysaght (Thailand) Co., Ltd., as shareholder and committee. BlueScope Lysaght (Thailand) Co., Ltd., was founded in 1988, performing the business of manufacture and distribute of coated metal sheet roll form, same as ours, with the same raw materials from BlueScope Steel. Therefore, BlueScope Lysaght (Thailand) Co., Ltd., has the advantage on the condition and price, which will not allow us to compete in the same market. This will affect the company operation in the future.

The major shareholder of both companies, which is BlueScope Limited Australia, has the clear cut policy to separate two businesses, the manufacture of steel coated metal sheet and roll forming metal sheet therefore BlueScope Steel has treated BlueScope Lysaght (Thailand) Co., Ltd., in the same manner as other roll former. BlueScope Lysaght (Thailand) Co., Ltd., is also rated as an outstanding customer (Red customer) as same as Steel Intertech (Thailand) Co., Ltd., which assured us that both conditions and prices received is in the competitive level. However, BlueScope Lysaght (Thailand) Co., Ltd., has the market share of 29%, which the company has the 5%. BlueScope Lysaght (Thailand) Co., Ltd. would get a lower price from the high volume order. To be competitive in the market, the company focuses on the speedy services in meet

customers' time line and brand building "ROLLFORM" to develop company's own market. The number of customers, who realize the quality and the services under the mentioned brand, has been continuously growing, enable direct sales to the project owner, which are large-scale project, therefore decrease in sales to small-scale project.

1.3 Raw Material Price Volatility

In general business operation, reserved raw material is required to meet customers' demand. The major raw material of the company is cold-roll metal sheet, which is 79.52% of the total raw materials. The price of the coated metal sheet is tied to the price of the cold-roll steel sheet, if the market price is lower than the stocked raw material, the company will not be competitive in the market, likewise, if the market price is increased and the company doesn't have enough stock.

However, the company has been followed the raw material price trend, and adjust the ratio of reserved raw material. The company has price strategy to go long with the cost of material, which reduces the effect of Raw Material price Volatility.

1.4 Installation Service by Subcontractor

The company does not have its own installation team; it hires a subcontractor with the ratio of revenue to sales and installation in fiscal year 2006, 2007, 2008 and 2009 to be 40.78%, 27.11%, 38.03 and 49.40 respectively. As the ration of sales and installation has been continuously decreased, the company risks losing installation control. If the company cannot hire the subcontractor or cannot control the installation quality, these may cause installation delay, which will effect cost of project and affect the company's operation expenses.

However, the company was decreasing in sales and installation, the company still managed the installation which can be controlled payment and also remain the high quality by the significant method follow:

(1) Selection of Subcontractors: We do not hire installation personnel of our own. Instead, we hire qualified subcontractors to carry out installation service to customers, which enables us to be more cost efficient than hiring full-time personnel. Selection criteria for qualified subcontractors are composed of previous accomplishment records, financial position, available workforce, output quality and operation potentials. As of December 31, 2009, we maintained 22 qualified subcontractors; most of them have been in business more than 5 years. We do not rely on only a few subcontractors and never have problem of lacking workforce or unfinished project.

(2) Installation quality control: Every projects have been controlled by our engineering personnel (site supervisor), on the installation quality, as well as evaluated after the completion to assure the project owner of the installation quality. Subcontractor provides 1 year warranty after work delivered.

(3) Punctual Delivery: Our subcontractors are required to report the installation progress of 15 days periodically, which allows the company to take immediate action if the installation is behind schedule. However, subcontractors are subject to total indemnification for any delay caused by their own action.

1.5 Competitive Pressure from substitute Products

The major product that the company manufactures and distributes is Aluzinc coated roll forming metal sheet for wall and roof, which can be substituted by other products, e.g. asbestos, zinc coated steel sheet, which offers customer choices. Not only the metal sheet price is higher in comparison to concrete tiles or zinc coated steel sheet. If customers chose other substituted products, this will affect the company's future revenue.

However, each product has its own strength and weakness. The qualification of the company's products is high resistance in erosion and anti-leakage, with the maximum usage of 30 years, no environmental effect, easy and fast installation, which are necessary qualifications needed by industrial plants, who are the targeted customers. These qualifications cannot be replaced by other products. Risk from substituted products is low, considering the continuously increasing in sales.