

Aug 14, 2012

Subject Management Discussion and Analysis for the period of three months ended 30th June 2012

To President of the Stock Exchange of Thailand
Secretary of the Office of Securities and Exchange Commission

Lohakit Metal Plc. (the "Company") would like to notify the financial status and operating performance for the period of three months ended 30th June 2012 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 30th June			
	Apr 2012 - June 2012	Apr 2011 - June 2011	Change	% Change
Revenue from sales & service	606.83	564.06	42.77	7.6%
Other income	6.77	7.11	-0.34	-4.8%
Total revenue	613.60	571.17	42.43	7.4%
Cost of goods sold & service	535.41	497.23	38.18	7.7%
Selling expenses	14.85	9.49	5.36	56.5%
Administrative expenses	15.50	18.92	-3.42	-18.1%
Total expenses	565.76	525.64	40.12	7.6%
Earning before interest and tax	47.84	45.53	2.31	5.1%
Financial expenses	-4.56	-3.89	-0.67	17.2%
Share of income from investment in associate	0.74	0.32	0.42	131.3%
Corporate Income tax expenses	-5.79	-8.37	2.58	-30.8%
Net profit for the period	38.23	33.59	4.64	13.8%
Profit Sharing for non-controlling interest of a subsidiary company	-7.73	-4.90	-2.83	57.8%
Net profit for the company and its subsidiaries	30.50	28.69	1.81	6.3%

1. Operating Performance

For the period of three months ended 30th June 2012, the Company and its subsidiaries had operating profit higher than the same period of previous year. The net profit was Baht 30.50 million, increased by 1.81 million which accounting for 6.3 percent, compared with the net profit of Baht 28.69 million of the same period of the previous year. This was owing to the sale growth by 7.6 percent and tax saving by Baht 2.58 million from the same period of previous year. The tax saving is the benefit from reducing corporate tax from 30 percent in previous year to 23 percent in the current accounting year.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 7.73 million, increased by Baht 2.83 million from the same period of previous year due to the expansion of sales and net profit in a subsidiary company who manufacture and supply the automotive exhausted pipes to the expanding automotive industry.

1.1 Revenue

For the period of three months ended 30th June 2012, the Company and its subsidiaries had revenue from sales and service of Baht 606.83 million compared with Baht 564.06 million in the same period of the previous year or increased by 7.6 percent. In general, average selling price in some products decreased following to global market prices of raw materials but weight sale volume of exhausted pipe increased from the same period of previous year. The automotive industry has now been recovered from impacts of Mega

Flooding incurred by the end of previous year as well as the recovery in exhausted pipe sales in a subsidiary company whereas sale quantities in automotive parts and exhaust pipe of a subsidiary had impacts from Tsunami incident in the same period of previous year.

The Company and its subsidiaries' revenue from the sales of goods are mostly revenue from domestic sales. For the period of three months ended 30th June 2012, the Company and its subsidiaries had revenue from domestic sales of 98.5 percent of total revenue from sales, higher than 96.5 percent in previous year. The higher proportion of domestic sale to port increased by the high rise in domestic car manufacturing to support the high backlog orders which were pending and unable to manufacture during the Mega Flooding period.

1.2 Other income

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the period of three months ended 30th June 2012, the Company and its subsidiaries had other income of Baht 6.77 million which decreased by 4.8 percent from the same period previous year. The significant other income is income from scrap sales which are the results from the processing of cold rolled stainless steel sheet and coil such cut to length as per customers' requirements. The Company and its subsidiaries therefore sold scrap and recorded as the other income.

1.3 Cost of goods sold

Major cost of goods sold are cost of raw material such cold rolled stainless steel sheet and coil and D-Stainless which the Company and its subsidiaries process. For the period of three months ended 30th June 2012, the Company and its subsidiaries had cost of goods sold of Baht 535.41 million, or accounting for 87.26 percent of the total revenue in comparing with Baht 497.23 million or accounting for 87.05 percent of total revenue of previous year. Cost of good sold for the period of three months ended 30th June 2012 slightly increased from the same period of previous year by 0.2 percent.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses and promotion expenses. For the period of three months ended 30th June 2012, the Company and its subsidiaries had selling expenses of Baht 14.85 million, compared with selling expenses of Baht 9.49 million in the same period of the previous year which increased by Baht 5.36 million or 56.5 percent. The higher in selling expense was due mainly to the reversal of expense in the same period of previous year after the settlement of an overdue amount of Baht 4.04 million from a customer who has liquidity problem and company fully reserved as doubtful provision beforehand.

1.5 Administrative expenses

Administrative expenses consist of executive expenses and staff expenses other than sale department, office rental expenses and other management and administrative expenses. For the period of three months ended 30th June 2012, the Company and its subsidiaries had administrative expenses of Baht 15.50 million, compared with administrative expenses of Baht 18.92 million in the same period of the previous year which decreased by 18.1 percent. The lower in administrative expense was due to tax reserved expenses in the same period of previous year for an amount of Baht 2.5 million to reserve for tax surcharge. The other increase is in area of personnel costs due to salary normally increased year by year and other administrative expenses. As such, the administrative expenses for the period of three months ended 30th June 2012 were 2.53 percent of total revenue, compared with administrative expenses of 3.31 percent of total revenue in the same period of the previous year.

1.6 Share of income from investment in associate

In April 2009, the Company invested in the ordinary shares of Mory Lohakit (Thailand) Co.,Ltd. ,who is the marketing and sale force for the company and its subsidiaries and joint venture, by holding 49 percent of total shares. As for the period of three months ended 30th June 2012, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.74 million in consolidated income statements in which increased by Baht 0.42 million or 131.3 percent in comparison with the same period of previous year. The increases in share of profit due mainly to the sale expansion in a subsidiary.

1.7 Earning (loss) before interest and tax and Net Profit (loss) for the period

For the period of three months ended 30th June 2012, the Company and its subsidiaries had profit before interest and tax of Baht 47.84 million. After deducting the financial expense of Baht 4.56 million and income tax of Baht 5.79 million and adding the share of income from investment of Baht 0.74 million, the net profit of the Company and its subsidiaries was at Baht 38.23 million. When comparing to the profit before interest and tax and the net profit of the same period of the previous year which were at Baht 45.53 million and Baht 33.59 million respectively, the profit before interest and tax and net profit of the present period increased by 5.1 percent and 13.8 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 7.73 million for the present period which increased from the amount of Baht 4.90 million in the same period of previous year. Therefore, the net profit for the company and its subsidiary for the three months ended as of 30th June 2012 was Baht 30.50 million from Baht 28.69 million in the same period of previous year.

1.8 Corporate income tax

For the year ended 30th June 2012, the Company and its subsidiaries recognized corporate tax expenses by 5.79 million or decreased by 30.8 percent, when comparing to corporate tax expenses by 8.37 million in the same period of previous year, as the result of using new corporate tax at 23 percent from 30 percent in the same period of previous year.

1.9 Profit Sharing for non-controlling interest of a subsidiary company

On Oct 1' 2010, the company sold partial investment in a subsidiary company to Japanese alliance, Mory Industrial Inc. the Company and its subsidiaries recognized profit sharing to minority shareholders according to the percentage of shareholding of net profit in subsidiary was amount by 7.73 million for the three month period ended 30th June 2012. It was increased from amount of Baht 4.90 million in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2012, the Company and its subsidiaries had gross profit margin of 11.77 percent compared with gross profit margin of 11.85 percent in the same period of the previous year. The gross profit margin slightly decreased mostly owing to the high manufacturing of backlog orders for cars in which margin for car exhausted pipes were lower than margin for motorcycle pipes.

(Unit: Baht million)

Consolidated balance sheets	As at 31st March 2012		As at 31st March 2012	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	70.26	4.30%	53.85	3.54%
Account receivable, trade and others	556.68	34.09%	541.54	35.56%
Inventories, net	617.83	37.83%	553.95	36.38%
Other current assets	15.20	0.93%	7.03	0.46%
Total current assets	1,259.97	77.15%	1,156.37	75.94%
Non-current assets				
Investment in related company	9.89	0.61%	9.14	0.60%
Property, plant and equipment, net	355.60	21.77%	349.50	22.95%
Intangible assets – net	0.29	0.02%	0.37	0.02%
Restricted fixed deposits	5.00	0.30%	5.00	0.33%
Other non-current assets	2.47	0.15%	2.46	0.16%
Total non-current assets	373.25	22.85%	366.47	24.06%
TOTAL ASSETS	1,633.22	100.00%	1,522.84	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	242.11	14.82%	266.17	17.48%
Account payables, trade and others	321.35	19.68%	223.12	14.65%
Current portion of financial lease	4.55	0.28%	3.63	0.24%
Accrued corporate income tax	14.73	0.90%	9.35	0.61%
Other current liabilities	4.78	0.29%	6.07	0.40%
Total current liabilities	587.52	35.97%	508.34	33.38%
Non-current liabilities				
Financial lease obligations	7.70	0.47%	9.57	0.63%
Provision for employee benefit	16.05	0.98%	16.07	1.05%
Total non-current liabilities	23.75	1.45%	25.64	1.68%
TOTAL LIABILITIES	611.27	37.42%	533.98	35.06%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital				
Issued and Paid up capital	320.00	-	320.00	-
Premium on stock	320.00	19.59%	320.00	21.01%
Retained earnings	330.67	20.25%	330.67	21.72%
Legal reserve	24.46	1.50%	24.46	1.61%
Un-appropriated	213.82	13.09%	183.32	12.04%
Non-controlling interest of a subsidiary	133.00	8.15%	130.41	8.56%
Total shareholders' equity	1,021.95	62.58%	988.86	64.94%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,633.22	100.00%	1,522.84	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th June and 31st March 2012 the Company and its subsidiaries had total assets of Baht 1,633.22 million and Baht 1,522.84 million respectively since the Company and its subsidiaries operated integrated stainless center which provided many kinds of services such as procurement, transformation, manufacture and stainless product wholesale. Therefore, the Company and its subsidiaries' major assets are inventories, account receivables, land, plant and equipment as details below:

- 2.1.1 Inventories: As at 30th June and 31st March 2012 the Company and its subsidiaries had net inventories of Baht 617.83 million (or 37.83 percent of total assets) and Baht 553.95 million (or 36.38 percent of total assets) respectively. The increase in value of inventory was resulted from the buffering of raw material to support the future production of automotive industry.
- 2.1.2 Trade account receivables, net – other parties: As at 30th June and 31st March 2012, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 556.68 million (or 34.09 percent of total assets) and Baht 541.54 million (or 35.56 percent of total assets) respectively. The increased in trade account receivables was the result of the growth in sales for the three month period ended 30th June 2012.
- 2.1.3 Land, plant and equipments--Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 30th June and 31st March 2012, the Company and its subsidiaries had Land, plant and equipments – net of Baht 355.60 million (or 21.77 percent of total assets) and Baht 349.50 million (or 22.95 percent of total assets) respectively. The increase in value was from the purchase of machine for exhausted pipe in a subsidiary.

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th June and 31st March 2012 stood at Baht 611.28 million and Baht 533.98 million respectively. The major increasing in liabilities was trade payable.

By 1st April 2011, The Company and its subsidiaries have adopted the new accounting standard no. 19 in topic of provision for long term employee benefit which is compulsory for all listed companies for the first time in this accounting year. The company and its subsidiary reserved the initial amount of Baht 12.73 million by classify out of retained earning brought forward of the accounting year.

As at 30th June and 31st March 2012 the Company and its subsidiaries reserved provision for employee benefit of Baht 16.05 million (or 0.98 percent of total assets) and Baht 16.07 million (or 1.05 percent of total assets) respectively.

2.3 Shareholders' equity

As at 30th June and 31st March 2012, shareholders' equity was Baht 1,021.94 million and Baht 988.86 million respectively. The major changes were from the net profit amounting to Baht 30.50 million from the three month period and the existing non-controlling interest portion was Baht 133.00 million.

Debt to Equity ratio, as at 30th June and 31st March 2012, the ratios were at 0.60 times and 0.54 times respectively. The higher ratio was reflected by the material sourcing with using more suppliers' credit.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th June 2012	As at 30th June 2011
Net cash from (used in) operating activities	68.75	85.76
Net cash used in investing activities	-21.31	-12.92
Net cash from (used in) financing activities	-31.09	-44.12
Effect of exchange rate to cash and cash equivalent	0.07	0.05
Net increase (decrease) in cash	16.42	28.77

3. Cash flows

For the period of three months ended 30th June 2012, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 68.75 million, consisting of baht 59.00 million positively from operating performance and baht 9.75 million from the increase in working capital mostly was dominated by credit from account payable even with negative working capital from the lower in account receivable and inventories. There were also some investing activities of Baht -21.31 million by mostly purchasing of machine for automotive pipe of a subsidiary. The other part of cash flow by Baht -31.09 in financing activities was due to the settlement in short term loan and trust receipt. In total, company had the net increase in cash flow for period of three months ended 30th June 2012 by Baht 16.42 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director