

Aug 14, 2013

Subject Management Discussion and Analysis for the period of three months ended 30th June 2013

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 2013 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 2013 - June 2013 **	Apr 2012 - June 2012 *	Change	% Change
Revenue from sales & service	833.24	606.83	226.41	37.3%
Other income	8.08	6.77	1.31	19.4%
Total revenue	841.32	613.60	227.72	37.1%
Cost of goods sold & service	729.64	535.41	194.23	36.3%
Selling expenses	17.32	14.85	2.47	16.6%
Administrative expenses	29.22	15.50	13.72	88.5%
Total expenses	776.18	565.76	210.42	37.2%
Earning before interest and tax	65.14	47.84	17.30	36.2%
Financial expenses	-4.94	-4.56	-0.38	8.3%
Share of income from investment in associate	0.32	0.74	-0.42	-56.8%
Corporate Income tax expenses	-9.40	-5.81	-3.59	61.8%
Net profit for the period	51.12	38.21	12.91	33.8%
Profit Sharing for non-controlling interest of a subsidiary company	-8.53	-7.71	-0.82	10.6%
Net profit for the company and its subsidiaries	42.59	30.50	12.09	39.6%

* - Restating from apply the new financial reporting standard about Deferred Tax

** - Including three month period performance of a new subsidiary

1. Operating Performance

For the period of three months ended 30th June 2013, the net profit was Baht 42.59 million, increased by 12.09 million or highly increase by 39.6 percent in which sales and profit growth came by including a new subsidiary performance in three month period, compared with the net profit of Baht 30.50 million of the same period of the previous year. This was owing to the positive factor in automotive industry where there are backlog carried over to this year. Moreover, the tax saving is another benefit from reducing corporate tax rate from 23 percent in previous year to 20 percent in the current accounting year. The current period report has included net profit of a new subsidiary of Baht 9.15 million as a part of total performance whereas there was none in the same period of previous year.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 8.53 million, increased by Baht 0.82 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 automotive industry.

1.1 Revenue

For the period of three months ended 30th June 2013, the Company and its subsidiaries had revenue from sales and service of Baht 833.24 million including amount by Baht 207.23 million of a new subsidiary, compared with Baht 606.83 million in the same period of the previous year or highly increased by 37.3 percent as 34.2 percent contributed by new subsidiary company. In general, average selling price in some products decreased following to global market prices of raw materials but weight sale volume increased from the same period of previous year. The sales of a new subsidiary company mostly came from Copper and Aluminum whereas Stainless products were the main products of Company and its old subsidiaries.

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 2013, the Company and its subsidiaries had other income of Baht 8.08 million which increased by 19.4 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 products consisting of cold rolled stainless steel sheet, Copper, Aluminum, Brass, Galvanized iron with various type as coil, sheet, pipe and axle. The Company and its subsidiaries procure finish quality product for sales as well as raw material for manufacture to quality product and sales. For the period of three months ended 30th June 2013, the Company and its subsidiaries had cost of goods sold of Baht 729.64 million, or accounting for 86.73 percent of the total revenue in comparing with Baht 535.41 million or accounting for 87.26 percent of total revenue of previous year. The said ratio for the period of three months ended 30th June 2013 was slightly decreased from the same period of previous year by 0.5 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 2013, the Company and its subsidiaries had selling expenses of Baht 17.32 million, compared with selling expenses of Baht 14.85 million in the same period of the previous year which increased by Baht 2.47 million or 16.6 percent. The higher in selling expense was due mainly to the including of selling expenses from a new subsidiary company where there was none in the same period of previous year.

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 2013, the Company and its subsidiaries had administrative expenses of Baht 29.22 million, compared with administrative expenses of Baht 15.50 million in the same period of the previous year which increased by 88.5 percent. The higher in administrative expense was due mainly to the including of expenses from a new subsidiary company where there was none in the same period of previous year and the recording of loss from exchange rate from the subsequent heading transactions of some foreign debts. It was due to the situation of earlier appreciation in Baht currency before sharply fluctuation to depreciation in Baht currency.

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 2013 were 3.47 percent of total revenue, compared with administrative expenses of 2.53 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 2013, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.32 million in consolidated income statements in which decreased by Baht 0.42 million or 56.8 percent in comparison with the same period of previous year. The decreases in share of profit due mainly to decrease in commission rate to associated company.

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

For the period of three months ended 30th June 2013, the Company and its subsidiaries had profit before interest and tax of Baht 65.14 million. After deducting the financial expense of Baht 4.94 million and income tax of Baht 9.40 million and adding the share of income from investment of Baht 0.32 million, the net profit of the Company and its subsidiaries was at Baht 51.12 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 47.84 million and Baht 38.21 million respectively, the profit before interest and tax and net profit of the present period increased by 36.2 percent and 33.8 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 8.53 million for the present period which increased from the amount of Baht 0.82 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 2013 was Baht 42.59 million from Baht 30.50 million in the same period of previous year.

1.8 Corporate income tax

For the year ended 30th June 2013, the Company and its subsidiaries recognized corporate tax expenses by 9.40 million or increased by 61.8 percent, when comparing to corporate tax expenses by 5.81 million in the same period of previous year, the higher was due to include Baht 2.34 million of corporate tax from a new subsidiary company whereas there was none last year. Starting from June 2013, a subsidiary company who produce automotive pipes has used up its period of corporate tax exemption by BOI privilege and recorded its corporate tax.

The corporate tax rate in current year is reduced to 20 percent from 23 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 8.53 million for the three month period ended 30th June 2013. It was increased from amount of Baht 7.71 million in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2013, the Company and its subsidiaries had gross profit margin of 12.43 percent compared with gross profit margin of 11.77 percent in the same period of the previous year. The higher gross margin was due mainly to the higher in sales of profitable automotive pipes.

(Unit: Baht million)

Consolidated balance sheets	As at 30 th June 2013		As at 31st March 2013 *	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	63.23	2.81%	87.28	3.55%
Short-term investment	-	-	70.51	2.87%
Account receivable, trade and others	801.91	35.67%	855.39	34.77%
Inventories, net	819.80	36.46%	896.03	36.43%
Other current assets	6.83	0.30%	6.66	0.27%
Total current assets	1,691.77	75.24%	1,915.87	77.89%
Non-current assets				
Investment in related company	6.67	0.29%	11.25	0.46%
Long-term investment	3.06	0.14%	3.21	0.13%
Other long-term investment	5.00	0.22%	5.00	0.20%
Property, plant and equipment, net	466.94	20.77%	447.90	18.21%
Intangible assets – net	0.48	0.02%	0.48	0.02%
Restricted fixed deposits	46.00	2.05%	46.00	1.87%
Other non-current assets	28.48	1.27%	30.16	1.22%
Total non-current assets	556.62	24.76%	544.00	22.11%
TOTAL ASSETS	2,248.39	100.00%	2,459.87	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	329.40	14.65%	469.89	19.10%
Account payables, trade and others	417.21	18.56%	531.50	21.61%
Current portion of financial lease	6.32	0.28%	4.35	0.18%
Accrued corporate income tax	32.38	1.44%	25.11	1.02%
Other current liabilities	12.80	0.57%	8.44	0.34%
Total current liabilities	798.11	35.50%	1,039.29	42.25%
Non-current liabilities				
Financial lease obligations	5.04	0.22%	8.03	0.32%
Provision for employee benefit	24.88	1.10%	25.33	1.03%
Total non-current liabilities	29.84	1.32%	33.36	1.35%
TOTAL LIABILITIES	827.95	36.82%	1,072.65	43.60%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	17.04%	383.00	15.57%
Premium on stock	519.67	23.12%	519.67	21.13%
Retained earnings				
Legal reserve	38.05	1.69%	38.05	1.55%
Un-appropriated	315.29	14.02%	272.84	11.09%
Non-controlling interest of a subsidiary	164.43	7.31%	173.66	7.06%
Total shareholders' equity	1,420.44	63.18%	1,387.22	56.40%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,248.39	100.00%	2,459.87	100.00%

* - Restating from apply the new financial reporting standard about Deferred Tax

2. Financial Status

2.1 Assets

As for the assets value as at 30th June and 31st March 2013 the Company and its subsidiaries had total assets of Baht 2,248.39 million and Baht 2,459.87 million respectively. The decrease was Baht 211.48 million mainly decreased in trade receivable and inventories. Since the Company and its subsidiaries operated integrated stainless center which provided many kinds of services such as procurement, transformation, manufacture and stainless products wholesale and a new subsidiary who is the trader of metal and non-ferrous metal. 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 2013 the Company and its subsidiaries had net inventories of Baht 819.80 million (or 36.46 percent of total assets) and Baht 896.03 million (or 36.43 percent of total assets) respectively. The decrease in value of inventory was resulted more domestic procurement, thus the turnover of inventories was better.
- 2.1.2 Trade account receivables, net – other parties: As at 30th June and 31st March 2013, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 801.91 million (or 35.67 percent of total assets) and Baht 855.39 million (or 34.77 percent of total assets) respectively. The decreased in trade account receivables was the result of slowing down of sales due to long holidays during current period.
- 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 2013, the Company and its subsidiaries had Land, plant and equipments – net of Baht 466.94 million (or 20.77 percent of total assets) and Baht 447.90 million (or 18.21 percent of total assets) respectively. The increase in value was due to the purchase of machines for forming and cutting by the company and its subsidiary.
- 2.1.4 Restricted fix deposit: As at 30th June and 31st March 2013 the Company and its subsidiaries had net value of Baht 46.00 million (2.05 percent and 1.87 percent of total assets respectively). The restricted fix deposit was used as guarantee for loans from financial institution.

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th June and 31st March 2013 stood at Baht 827.95 million and Baht 1,072.65 million respectively. The major increasing in liabilities was trade payable, short term loan and trust receipt.

2.3 Shareholders' equity

As at 30th June and 31st March 2013, shareholders' equity was Baht 1,420.44 million and Baht 1,387.22 million respectively. The major changes were from the net profit amounting to Baht 51.12 million and non-controlling interest portion stood by Baht 164.43 million.

Debt to Equity ratio, as at 30th June and 31st March 2013, the ratios were at 0.58 times and 0.77 times respectively.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th June 2013	As at 30th June 2012
Net cash from (used in) operating activities	100.96	68.75
Net cash used in investing activities	38.24	-21.31
Net cash from (used in) financing activities	-163.30	-31.09
Effect of exchange rate to cash and cash equivalent	0.05	0.07
Net increase (decrease) in cash	-24.05	16.42

3. Cash flows

For the period of three months ended 30th June 2013, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 100.96 million, consisting of baht 78.63 million positively from operating performance and net of baht 22.33 million increase in working capital due to the decreases of trade receivable, inventories and trade payable, following the slowing down in sales and purchases in three month period. There were also net receiving in investing activities of Baht 38.24 million by sale short term investment of Baht 70.95 million and purchase forming and cutting machines of Baht -38.64 million. The other part of cash flow by Baht -163.30 in financing activities was due to the settlement in short term loan and trust receipt. In total, company had the net decrease in cash flow for period of three months ended 30th June 2013 by Baht -24.05 million.

Sincerely yours,

Signed: Mr. Anan Manatchinapisit
(Mr. Anan Manatchinapisit)
Deputy Managing Director