

Aug 14, 2014

Subject Management Discussion and Analysis for the period of three months ended 30th June 2014

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 2014 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 2014 - June 2014	Apr 2013 - June 2013	Change	% Change
Revenue from sales & service	770.86	833.24	-62.38	-7.5%
Other income	9.19	8.08	1.11	13.7%
Total revenue	780.05	841.32	-61.27	-7.3%
Cost of goods sold & service	688.53	729.64	-41.11	-5.6%
Selling expenses	18.12	17.32	0.80	4.6%
Administrative expenses	24.17	29.22	-5.05	-17.3%
Total expenses	730.82	776.18	-45.36	-5.8%
Earning before interest and tax	49.23	65.14	-15.91	-24.4%
Financial expenses	-4.13	-4.94	0.81	-16.4%
Share of income from investment in associate	0.12	0.32	-0.20	-62.5%
Corporate Income tax expenses	-9.11	-9.40	0.29	-3.1%
Net profit for the period	36.11	51.12	-15.01	-29.4%
Profit Sharing for non-controlling interest of a subsidiary company	-4.07	-8.53	4.46	-52.3%
Net profit for the company and its subsidiaries	32.04	42.59	-10.55	-24.8%

1. Operating Performance

For the period of three months ended 30th June 2014, the net profit was Baht 32.04 million, decreased by 10.55 million or declining by 24.8 percents in which performance for the company and its subsidiaries in the current three-month period compared to the same period a year earlier, the manufacturing industries have declined due to the considerable acceleration of vehicle production in the previous year, slowdown of orders from overseas, lower demands from both domestic and oversea market of electrical appliance, slow down in general economic as well as the uncertainty of the domestic situation in the past.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 4.07 million, decreased by Baht 4.46 million from the same period of previous year due to the declining 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 2014, the Company and its subsidiaries had revenue from sales and service of Baht 770.86 million compared with Baht 833.24 million in the same period of the previous year or decreased by 7.5 percents. In general, volumes in stainless steel products decreased from the same period of previous year due to the impact of concern over the political situation in the country and the slowing down of revenue base and economy as a whole, especially the major customers in the automotive industry, with car production fell.

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 2014, the Company and its subsidiaries had other income of Baht 9.19 million which increased by 13.7 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 2014, the Company and its subsidiaries had cost of goods sold of Baht 688.53 million, or accounting for 88.27 percent of the total revenue in comparing with Baht 729.64 million or accounting for 86.73 percent of total revenue of previous year. The said ratio for the period of three months ended 30th June 2014 was slightly increased from the same period of previous year by 1.54 percent due to the relative smaller size in production following the decrease in sale volume.

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 2014, the Company and its subsidiaries had selling expenses of Baht 18.12 million, compared with selling expenses of Baht 17.32 million in the same period of the previous year which increased by Baht 0.80 million or 4.6 percent. The relative higher in selling expense was due to reversal of provision for doubtful debt following the settlement of amount 1.02 million of an overdue customer in the same period of last 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 2014, the Company and its subsidiaries had administrative expenses of Baht 24.17 million, compared with administrative expenses of Baht 29.22 million in the same period of the previous year which decreased by 17.3 percent. The lower in administrative expense was due mainly to the recording of loss from exchange rate in the same period of previous year in which Baht appreciation turn to depreciation rapidly whereas no exchange loss in current period due to its full hedging.

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 2014 was 3.10 percent of total revenue, lower in compared with administrative expenses of 3.47 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 2014, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.12 million in consolidated

income statements in which decreased by Baht 0.20 million or 62.5 percent in comparison with the same period of previous year.

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

For the period of three months ended 30th June 2014, the Company and its subsidiaries had profit before interest and tax of Baht 49.23 million. After deducting the financial expense of Baht 4.13 million and income tax of Baht 9.11 million and adding the share of income from investment of Baht 0.12 million, the net profit of the Company and its subsidiaries was at Baht 36.11 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 65.14 million and Baht 51.12 million respectively, the profit before interest and tax and net profit of the present period decreased by 24.4 percent and 29.4 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 4.07 million for the present period which decreased from the amount of Baht 8.53 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 2014 was Baht 32.04 million from Baht 42.59 million in the same period of previous year.

1.8 Corporate income tax

For the year ended 30th June 2014, the Company and its subsidiaries recognized corporate tax expenses by 9.11 million or decreased by 3.1 percent, when comparing to corporate tax expenses by 9.40 million in the same period of previous year. This was mainly due to lower earnings from operations. In addition, its subsidiary who is the pipe manufacturers in the automotive industry recorded income tax in full for current three month period whereas partial tax recorded in the same period of previous year due to the tax exemption from promotional investment which was expired since June 2013.

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 4.07 million for the three month period ended 30th June 2014. It was decreased from amount of Baht 8.53 million in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2014, the Company and its subsidiaries had gross profit margin of 10.68 percent compared with gross profit margin of 12.43 percent in the same period of the previous year. The lower gross margin was due mainly to the lower in sales and production of profitable automotive pipes.

(Unit: Baht million)

Consolidated balance sheets	As at 30 st Jun 2014		As at 31 st Mar 2014	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	76.15	3.27%	63.94	2.78%
Short-term investment	5.00	0.21%	5.00	0.22%
Account receivable, trade and others	722.17	31.04%	758.19	33.00%
Inventories, net	859.47	36.95%	831.65	36.20%
Other current assets	8.05	0.35%	7.64	0.34%
Total current assets	1,670.84	71.82%	1,666.42	72.54%
Non-current assets				
Investment in related company	7.57	0.33%	7.44	0.32%
Long-term investment	3.11	0.13%	3.01	0.13%
Property, plant and equipment, net	572.70	24.62%	549.01	23.90%
Intangible assets – net	0.31	0.01%	0.35	0.02%
Restricted fixed deposits	46.00	1.98%	46.00	2.00%
Deferred tax assets	22.39	0.96%	21.80	0.95%
Other non-current assets	3.41	0.15%	3.34	0.14%
Total non-current assets	655.49	28.18%	630.95	27.46%
TOTAL ASSETS	2,326.33	100.00%	2,297.37	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	261.28	11.23%	273.37	11.90%
Account payables, trade and others	516.01	22.18%	499.23	21.73%
Current portion of financial lease	5.62	0.24%	7.59	0.33%
Accrued corporate income tax	26.45	1.14%	17.00	0.74%
Other current liabilities	6.97	0.30%	12.76	0.56%
Total current liabilities	816.33	35.09%	809.95	35.26%
Non-current liabilities				
Financial lease obligations	6.63	0.28%	7.52	0.32%
Provision for employee benefit	28.27	1.22%	27.96	1.22%
Total non-current liabilities	34.90	1.50%	35.48	1.54%
TOTAL LIABILITIES	851.23	36.59%	845.43	36.80%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.46%	383.00	16.67%
Premium on stock	519.67	22.34%	519.67	22.62%
Retained earnings				
Legal reserve	48.49	2.09%	48.49	2.11%
Un-appropriated	351.07	15.09%	318.93	13.88%
Non-controlling interest of a subsidiary	172.87	7.43%	181.85	7.92%
Total shareholders' equity	1,745.10	63.41%	1,451.94	63.20%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,326.33	100.00%	2,297.37	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th June and 31st March 2014, the Company and its subsidiaries had total assets of Baht 2,326.33 million and Baht 2,297.37 million respectively. The increase was Baht 28.96 million mainly decreased in trade receivable but increased in 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 2014 the Company and its subsidiaries had net inventories of Baht 859.47 million (or 36.95 percent of total assets) and Baht 831.65 million (or 36.20 percent of total assets) respectively. The increase in value of inventory was mainly resulted from higher market price of various material types in current period when compared to the same date ending of period in previous year.
- 2.1.2 Trade account receivables, net – other parties: As at 30th June and 31st March 2014, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 722.17 million (or 31.04 percent of total assets) and Baht 758.19 million (or 33.00 percent of total assets) respectively. The decreased in trade account receivables was the result of slowing down of sales in some major customers following their industry, especially automotive industry.
- 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 2014, the Company and its subsidiaries had Land, plant and equipments – net of Baht 572.70 million (or 24.62 percent of total assets) and Baht 549.01 million (or 23.90 percent of total assets) respectively. The increase in value was due to the continuous investment of new construction of plant, new machine and production infrastructure.
- 2.1.4 Restricted fix deposit: As at 30th June and 31st March 2014, the Company and its subsidiaries had net value of Baht 46.00 million (1.98 percent and 2.00 percent of total assets respectively). The restricted fix deposit was used as guarantee for loans from financial institution.
- 2.1.5 Deferred tax assets: As at 30th June and 31st March 2014, the Company and its subsidiaries had net value of Baht 22.39 million and Baht 21.80 million respectively (0.96 percent and 0.95 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th June and 31st March 2014 stood at Baht 851.23 million and Baht 845.43 million respectively. The increasing in liabilities was trade payable whereas short term loan decreased.

2.3 Shareholders' equity

As at 30th June and 31st March 2014, shareholders' equity was Baht 1,475.10 million and Baht 1,451.94 million respectively. The major changes were from the net profit amounting to Baht 36.21 million and non-controlling interest portion stood by Baht 172.86 million for the share capital and earnings of minority shareholders in a subsidiary.

Debt to Equity ratio, as at 30th June and 31st March 2014, the ratios were the same at 0.58 times and 0.58 times respectively.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th June 2014	As at 30th June 2013
Net cash from (used in) operating activities	62.30	100.96
Net cash used in investing activities	-22.15	38.24
Net cash from (used in) financing activities	-27.97	-163.30
Effect of exchange rate to cash and cash equivalent	0.04	0.05
Net increase (decrease) in cash	12.22	-24.05

3. Cash flows

For the period ended 30th June 2014, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 62.30 million, consisting of baht 68.38 million positively from operating performance and net of baht -6.08 million insignificantly decrease in working capital. There were also net pay in investing activities of Baht -22.15 million, the net spending for capital investment of Baht -22.43 million for the new construction of plant and upgrading the plant equipment to support production. The other part of cash flow was decreased by Baht -27.97 million in financing activities, due mainly to the settlement in short term loan. In total, company had net increase in cash flow for period ended 30th June 2014 by Baht 12.21 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director