

Feb 14, 2013

Subject Management Discussion and Analysis for the period of three months and the period of nine months ended 31st December 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 and the period of nine months ended 31st December 2012 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 31 st Dec				For the period of nine months ended 31 st Dec			
	Oct - Dec 2012	Oct - Dec 2011	Change	% Change	Apr - Dec 2012	Apr - Dec 2011	Change	% Change
Revenue from sales & service	733.83	445.27	288.56	64.8%	2,028.21	1,685.06	343.15	20.4%
Other income	5.31	11.45	-6.14	-53.6%	20.98	26.79	-5.81	-21.7%
Total revenue	739.26	456.72	282.54	61.9%	2,049.19	1,711.85	337.34	19.7%
Cost of goods sold & service	639.34	407.66	231.68	56.8%	1,784.01	1,504.84	279.17	18.6%
Selling expenses	15.31	11.22	4.09	36.5%	44.85	35.47	9.38	26.4%
Administrative expenses	23.01	14.66	8.55	57.0%	55.39	49.82	5.57	11.2%
Total expenses	677.66	433.54	244.12	56.3%	1,884.25	1,590.13	294.12	18.5%
Earning before interest and tax	61.48	23.18	38.30	165.2%	164.94	121.72	43.22	35.5%
Financial expenses	-4.06	-5.92	1.86	-31.4%	-13.58	-15.24	1.66	-10.9%
Share of income from investment in associate	0.49	0.12	0.37	308.3%	1.70	1.03	0.67	65.1%
Corporate Income tax expenses	-6.72	-4.63	-2.09	45.1%	-18.49	-20.75	2.26	-10.9%
Net profit for the period	51.19	12.75	38.44	301.5%	134.57	86.76	47.81	55.1%
Profit Sharing for non-controlling interest of a subsidiary company	-13.84	-2.24	-11.60	517.9%	-33.06	-16.09	-16.97	105.5%
Net profit for the company and its subsidiaries	37.35	10.51	26.84	255.4%	101.51	70.67	30.84	43.6%

1. Operating Performance

For the period of three months ended 31st Dec 2012, the Company and its subsidiaries had net operating profit higher than the same period of previous year by Baht 38.30 million. However, the net profit for the company and its subsidiaries was Baht 37.35 million, increased by 26.84 million which accounting for 255.4 percent, compared with the net profit of Baht 10.51 million of the same period of the previous year. When compared with previous quarter, the present quarter's net profit increased by 11.0 percent from the previous quarter's net profit of Baht 33.66 million. The profit performance for present quarter was good itself and much better than the same quarter in previous year also due to previous year low base impacted by mega flooding. In addition, there were some positive factors to present quarter performance from the growth in automotive industrial supported by order backlogs carried over and the first car policy from government as well as sales growth in electrical appliances and construction. Total revenue grew up by 61.8 percent, higher than 56.3 percent increased mostly by variable expenses in total overall expenses which also included the irregular professional expenses for services render to investigate the acquisition. The financial cost was lower in quarter due to positive cash flow and there was also the benefit taken in corporate tax rate cut to 23 percent in this year from 30 percent in previous year.

For the period of nine months ended 31st Dec 2012, the Company and its subsidiaries had net operating profit of Baht 164.94 million which accounting for the increase by 35.5 percent, Net profit for the company and its subsidiaries was 101.51 million, increase by Baht 30.84 million or 43.6 percent when compared with the net profit of Baht 70.67 million of the same period of the previous year. The increase for nine months year was due to sale growth by 20.4 percent and better gross profit margin in which attributable from the growth of exhausted pipe for automotive industry and lower corporate tax rate in the current year.

1.1 Revenue

For the period of three months ended 31st Dec 2012, the Company and its subsidiaries had revenue from sales and service of Baht 733.83 million compared with Baht 445.27 million in the same period of the previous year, which increased by 64.8 percent. When compared with previous quarter, the present quarter revenue grown by 6.7 percent from previous quarter. This was mainly due from the increasing in sales of exhausted pipes and stainless parts for automotive industry to support higher demand in vehicles and production capacity of automotive industry in present quarter and when comparing with the lower sales in previous year which severely impacted by Mega flooding in many provinces of Thailand. The incident hardly impacted both direct and indirect to industrial production capacities in various levels. More specific, automotive and home appliance customers which are the key business base of the Company and its subsidiary have been highly impacted both production and distribution. The Company and its subsidiaries' revenue from the sales of goods are mostly revenue from domestic sales. For the period of three months ended 31st Dec 2012, the Company and its subsidiaries had revenue mostly from domestic sales of 98.86 percent of total revenue from sales.

For the period of nine months of year ended 31st Dec 2012, the Company and its subsidiaries had revenue from sales and service of Baht 2,028.21 million compared with Baht 1,685.06 million in the same period of the previous year, which accounting for the increase by 20.4 percent. The increased was due mainly to the increase in volumes of automotive parts and exhaust pipe and without impacts of Mega flooding like last year. The Company and its subsidiaries had revenue from domestic sales of 99.2 percent of total revenue from sales. The proportion of domestic sale to port was higher due the growth in sales whereas the lower in export to India caused by big protest inside a major car manufacturer as well as the problem of depreciation of currency value in India.

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 and period of nine months ended 31st Dec 2012, the Company and its subsidiaries had other income of Baht 5.31 million and 20.98 million baht respectively, which decreased by 53.6 percent and 21.7 percent from the same periods of previous year. The significant other income is income from scrap sales which were 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 special grade stainless which the Company and its subsidiaries process. For the period of three months ended 31st Dec 2012, the Company and its subsidiaries had cost of goods sold of Baht 639.34 million, or accounting for 86.50 percent of the total revenue, decrease in comparing with Baht 407.66 million or accounting for 89.26 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 31st Dec 2012 increased by 56.8 percent, less than the increase in sales by 64.8 percent from the same period of previous year.

For the period of nine months ended 31st Dec 2012, the Company and its subsidiaries had cost of goods sold of Baht 1,784.01 million, or accounting for 87.96 percent of the total revenue, decreased in comparing with Baht 1,504.84 million, or accounting for 87.91 percent of total revenue of previous year.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses, commissions and promotion expenses. For the period of three months and period of nine months ended 31st Dec 2012, the Company and its subsidiaries had selling expenses of Baht 15.31 million and 44.85 million, compared with selling expenses of Baht 11.22 million and 35.47 million in the same periods of the previous year, or increased by 36.5 percent for three month period and increased by 26.4 percent for the nine months year respectively. For the period of three months and nine months ended 31st Dec 2012, the selling expenses were 2.09 percent and 2.21 percent of total sales and service, compared with 2.52 percent and 2.10 percent in the same period of previous year. The increase in expenses was due mainly to the comparing to low delivery expenses and low marketing expenses in the same period of previous year which impacted by Mega flooding incident. However percentages of selling expenses to sales were lower than previous year for the period of three months and nine months.

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 and period of nine months ended 31st Dec 2012, the Company and its subsidiaries had administrative expenses of Baht 23.01 million and 55.39 million, compared with administrative expenses of Baht 14.66 million and 49.82 million in the same period of the previous year which increased by 57.0 percent and 11.2 percent respectively. This was due to the recognition of professional expenses for services render to investigate the acquisition, amounting by Baht 4.26 million in present quarter.

The major expenses are in area of personnel costs due to salary normally increased year by year and other administrative expenses.

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 and nine months year ended 31st Dec 2012, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.49 million and 1.70 million in consolidated income statements in which increased by Baht 308.3 percent for three month period and increase by 65.1 percent for nine months year respectively in comparison with the same period of previous year. The increases in share of profit is following the growth trend of automotive industry.

1.7 Earning (loss) before interest and tax and Net Profit (loss)

For the period of three months and period of nine months ended 31st Dec 2012, the Company and its subsidiaries had earning before interest and tax of Baht 61.48 million and Baht 164.94 million respectively. After deducting the financial costs of Baht 4.06 million and Baht 13.58 million, adding the share of income from investment of Baht 0.49 million and Baht 1.70 million, deducting the corporate income tax of Baht 6.72 million and Baht 18.49 million, the net profit of the Company and its subsidiaries were at Baht 51.19 million and Baht 134.57 million. When comparing to the same periods of the previous year, the earning before interest and tax and net profit for the period of the present period for three months period were increased by 165.2 percent and by 301.5 percent respectively, whereas the earning before interest and tax and net profit for the period of nine months were both increased by 35.5 percent and 55.1 percent respectively.

In addition to the period of three month and period of nine months ended 31st Dec 2012, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 13.84 million and 33.06 million respectively. The higher profit sharing was due to the higher net profit of a subsidiary. As a result, the net profit for the company and its subsidiary increase to amount of Baht 37.35 million and 101.51 million respectively.

1.8 Corporate income tax

For the period of three month and nine months of year ended 31st Dec 2012, the Company and its subsidiaries recognized corporate tax expenses by Baht 6.72 million and 18.49 million, increase from the same period of previous year of Baht 4.63 million and 20.75 million as the result of corporate tax rate deduction to 23 percent from 30 percent in 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 through the period of its holding which was amount by Baht 13.84 million and 33.06 million for the period of three month and nine months year ended 31st Dec 2012.

1.10 Profitability

For the period of three months ended 31st Dec 2012, the Company and its subsidiaries had gross profit margin of 12.88 percent compared with gross profit margin of 8.45 percent in the same period of the previous year. The gross profit margin increased by 56.88 million, owing to increase in sale volume when comparing with the same period of previous year. Lower cost of goods due to higher production scale than last year when there was Mega flooding incident. The Company and its subsidiaries had net profit margin of 6.98 percent, compared with net profit margin of 2.86 percent in the same period of the previous year. Increase in net profit was due mainly to the lower of financial expenses and corporate tax.

For the period of nine months ended 31st Dec 2012, the Company and its subsidiaries had gross profit margin of 12.04 percent compared with gross profit margin of 10.70 percent in the same period the previous year. The gross profit margin increased by 63.98 million, owing to the increase in sale volume in overall and better gross margin rate.

(Unit: Baht million)

Consolidated balance sheets	As at 31st December 2012		As at 31st March 2012	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	65.38	3.51%	53.85	3.54%
Account receivable, trade and others	675.77	36.30%	541.54	35.56%
Inventories, net	720.96	38.72%	553.95	36.38%
Other current assets	7.37	0.40%	7.03	0.46%
Total current assets	1,469.48	78.93%	1,156.37	75.94%
Non-current assets				
Investment in related company	10.84	0.58%	9.14	0.60%
Property, plant and equipment, net	372.98	20.04%	349.50	22.95%
Intangible assets – net	0.23	0.01%	0.37	0.02%
Restricted fixed deposits	5.00	0.27%	5.00	0.33%
Other non-current assets	3.15	0.17%	2.46	0.16%
Total non-current assets	392.20	21.07%	366.47	24.06%
TOTAL ASSETS	1,861.68	100.00%	1,522.84	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	234.23	12.58%	266.17	17.48%
Account payables, trade and others	543.92	29.22%	223.12	14.65%
Current portion of financial lease	4.08	0.22%	3.63	0.24%
Accrued corporate income tax	6.34	0.34%	9.35	0.61%
Other current liabilities	6.28	0.34%	6.07	0.40%
Total current liabilities	794.85	42.70%	508.34	33.38%
Non-current liabilities				
Financial lease obligations	8.95	0.48%	9.57	0.63%
Provision for employee benefit	16.40	0.88%	16.07	1.05%
Total non-current liabilities	23.35	1.36%	25.64	1.68%
TOTAL LIABILITIES	820.20	44.06%	533.98	35.06%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital				
Issued and Paid up capital	320.00	-	320.00	-
Premium on stock	320.00	17.19%	320.00	21.01%
Retained earnings	330.67	17.76%	330.67	21.72%
Legal reserve	24.56	1.32%	24.46	1.61%
Un-appropriated	207.92	11.17%	183.32	12.04%
Non-controlling interest of a subsidiary	158.33	8.50%	130.41	8.56%
Total shareholders' equity	1,041.48	55.94%	988.86	64.94%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,861.68	100.00%	1,522.84	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 31st Dec and 31st March 2012 the Company and its subsidiaries had total assets of Baht 1,861.68 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 31st Dec and 31st March 2012 the Company and its subsidiaries had net inventories of Baht 720.96 million (or 38.72 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 in automotive industry.
- 2.1.2 Trade account receivables, net – other parties: As at 31st Dec and 31st March 2012, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 675.77 million (or 36.30 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 31st Dec 2012.
- 2.1.3 Land, plant and equipments--Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 31st Dec and 31st March 2012, the Company and its subsidiaries had Land, plant and equipments – net of Baht 372.98 million (or 20.04 percent of total assets) and Baht 349.50 million (or 22.95 percent of total assets) respectively. The increase in value was from the efficiency upgrading of a shearing machine of company and purchase of machines for exhausted pipe in a subsidiary.

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 31st Dec and 31st March 2012 stood at Baht 820.20 million and Baht 533.98 million respectively. The major increasing in liabilities was trade payable whereas short term loan and trust receipt were decreased.

As at 31st Dec and 31st March 2012 the Company and its subsidiaries reserved provision for employee benefit of Baht 16.40 million (or 0.88 percent of total assets) and Baht 16.07 million (or 1.05 percent of total assets) respectively.

2.3 Shareholders' equity

As at 31st Dec and 31st March 2012, shareholders' equity was Baht 1,041.48 million and Baht 988.86 million respectively. The major changes were from the net profit amounting to Baht 134.57 million, dividend paid by Baht 81.95 million and non-controlling interest portion by Baht 158.33 million.

Debt to Equity ratio, as at 31st Dec and 31st March 2012, the ratios were at 0.79 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 31st Dec 2012	As at 31st Dec 2011
Net cash from (used in) operating activities	198.68	114.67
Net cash used in investing activities	-67.96	-45.72
Net cash from (used in) financing activities	-119.13	-46.95
Effect of exchange rate to cash and cash equivalent	-0.06	0.10
Net increase (decrease) in cash	11.53	22.10

3. Cash flows

For the nine months year ended 31st Dec 2012, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 198.68 million, consisting of baht 189.21 million positively from operating performance and baht 9.48 million increase in working capital by more credit time from trade supplier to support higher in account receivable and inventories due the growth in sale in last three month and sourcing raw material. There were also some investing activities of Baht -67.96 million by mostly purchasing of machine for automotive pipe of a subsidiary and efficiency upgrading of a shearing machine. The other part of cash flow by Baht -119.93 million in financing activities was due to the dividend payment by Baht -81.95 million and paid back of short term loan from financial institute Baht -33.11 million. In total, company had the net decrease in cash flow for period of three months ended 31st Dec 2012 by Baht 11.53 million.

Sincerely yours,

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