

Feb 12, 2014

Subject Management Discussion and Analysis for the period of three months and the period of nine months ended 31th December 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 and the period of nine months ended 31th December 2013 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 31 th Dec				For the period of nine months ended 31 th Dec			
	Oct - Dec 2013 **	Oct - Dec 2012	Change	% Change	Apr - Dec 2013 **	Apr - Dec 2012	Change	% Change
Revenue from sales & service	820.98	733.83	87.15	11.9%	2,527.90	2,028.21	499.69	24.6%
Other income	6.12	5.31	0.81	15.3%	24.08	20.98	3.10	14.8%
Total revenue	827.10	739.14	87.96	11.9%	2,551.98	2,049.19	502.79	24.5%
Cost of goods sold & service	730.30	639.34	90.96	14.2%	2,238.01	1,784.01	454.00	25.4%
Selling expenses	16.78	15.31	1.47	9.6%	51.14	44.85	6.29	14.0%
Administrative expenses	26.47	23.01	3.46	15.0%	80.10	55.39	24.71	44.6%
Total expenses	773.55	677.66	95.89	14.2%	2,369.25	1,884.25	485.00	25.7%
Earning before interest and tax	53.55	61.48	-7.93	-12.9%	182.73	164.94	17.79	10.8%
Financial expenses	-3.88	-4.07	0.19	-4.7%	-12.89	-13.58	0.69	-5.1%
Share of income from investment in associate	0.21	0.49	-0.28	-57.1%	0.87	1.70	-0.83	-48.8%
Corporate Income tax expenses *	-9.81	-5.56	-4.25	76.4%	-32.68	-16.60	-16.08	96.9%
Net profit for the period	40.07	52.34	-12.27	-23.4%	138.03	136.46	1.57	1.2%
Profit Sharing for non-controlling interest of a subsidiary company	-5.37	-13.94	8.57	-61.5%	-20.51	-33.18	12.67	-38.2%
Net profit for the company and its subsidiaries	34.70	38.40	-3.70	-9.6%	117.52	103.28	14.24	13.8%

* - 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 31th Dec 2013, the net profits for the company and its subsidiaries was Baht 34.70 million or decreased by 3.70 million which accounting for 9.6 percent in which sales and profit growth came by including a new subsidiary performance in three month period, compared with the net profit for the company and its subsidiaries of Baht 38.40 million of the same period of the previous year. Automotive industry and other key industries were slowing down following the weaker purchasing power together with political impacts to consumption and investment. As the consequence, sales and profits of the company and its subsidiaries were impacted and slowing down too. Although, 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. But the BOI exemption of corporate tax for a subsidiary company was end by June 2013, such subsidiary company recognized corporate tax in current period. In addition, the company and its subsidiaries recorded additional corporate tax from a new subsidiary as a part of consolidated performance. Therefore, the overall corporate tax for the company and its subsidiaries increased by Baht 4.25 million or increased by 76.4 percent. The current period report has included net profit of a new subsidiary of Baht 6.02 million as a part of total performance whereas there was none in the same period of previous year.

For the period of nine months ended 31st Dec 2013, the Company and its subsidiaries had net operating profit of Baht 182.73 million which accounting for the increase by 10.8 percent, Net profit for the company and its subsidiaries was 117.52 million or increase by 13.8 percent when compared with the net profit of Baht 103.28 million of the same period of the previous year. The increase in net profit for nine months year was due to sale growth by 24.6 percent. In addition, the slowing down in sale of a subsidiary who is the manufacturer of automotive pipes reduced the profit sharing for non-controlling interest by 38.2 percent. Even the company and its subsidiaries were impacted from loss in exchange rate due to Baht sharp depreciation in first quarter and increase in corporate tax of a subsidiary who is the manufacturer of exhausted pipes. The nine months period report has included net profit of a new subsidiary of Baht 23.99 million as parts of total performance whereas there was none in the same period of previous year.

1.1 Revenue

For the period of three months ended 31st Dec 2013, the Company and its subsidiaries had revenue from sales and service of Baht 820.98 million compared with Baht 733.83 million in the same period of the previous year, which increased by 11.9 percent as contributed by including sales of a new subsidiary company. In general, pipe sales in automotive industry are slowing down in line to its industry. Average selling price in some products for the company and its old subsidiaries decreased following to global market prices of raw materials. Therefore sales of the Company and its subsidiary declined 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.

For the period of nine months ended 31st Dec 2013, the Company and its subsidiaries had revenue from sales and service of Baht 2,527.90 million compared with Baht 2,028.21 million in the same period of the previous year, which accounting for the increase by 24.6 percent due to including sales from a new subsidiary. Average selling price in most products for the company and its subsidiaries decreased, as been following to global market prices of raw materials. Therefore sales declined even weight most sale volume increased, except automotive volumes decreased, from the same period of previous year.

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 2013, the Company and its subsidiaries had other income of Baht 6.12 million and 24.08 million baht respectively, which increased by 15.3 percent and 14.8 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 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 2013, the Company and its subsidiaries had cost of goods sold of Baht 730.30 million, or accounting for 88.30 percent of the total revenue, increase in comparing with Baht 639.34 million or accounting for 86.50 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 31st Dec 2013 increased by 14.2 percent, increase than sales growth by 11.9 percent from the same period of previous year. Increase in cost of good sold was from higher production fix cost as the consequent from lower volume of sales of automotive pipes.

For the period of nine months ended 31st Dec 2013, the Company and its subsidiaries had cost of goods sold of Baht 2,238.01 million, or accounting for 87.70 percent of the total revenue in comparing with Baht 1,784.01 million, or accounting for 87.06 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 2013, the Company and its subsidiaries had selling expenses of Baht 16.78 million and 51.14 million, compared with selling expenses of Baht 15.31 million and 44.85 million in the same periods of the previous year, or increased by 9.6 percent for three month period and increased by 14.0 percent for the nine months year respectively. 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.

For the period of three months and nine months ended 31st Dec 2013, the selling expenses were 2.04 percent and 2.02 percent of total sales and service, compared with 2.09 percent and 2.21 percent in the same period of previous year. The decrease in percent was mainly due to the lower percentage of selling expenses to sales & service of a new subsidiary company which is a part in group.

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 2013, the Company and its subsidiaries had administrative expenses of Baht 26.47 million and 80.10 million, compared with administrative expenses of Baht 23.01 million and 55.39 million in the same period of the previous year which increased by 15.0 percent and 44.6 percent respectively. The higher in administrative expense was due mainly to the including of administrative expenses from a new subsidiary company where there was none in the same period of previous year. In first quarter, there was loss in exchange rate due to Baht sharp depreciation included as part of administrative expenses for the period of nine months.

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 2013, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.21 million and 0.87 million in consolidated income statements in which decreased by 57.1 percent for three month period and decreased by 48.8 percent for nine months year respectively in comparison with the same period of previous year. The decreases in share of profit for three month and nine months period were due mainly to the lower service rate since 1 April 2013.

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 2013, the Company and its subsidiaries had earning before interest and tax of Baht 53.55 million and Baht 182.73 million respectively. After deducting the financial costs of Baht 3.88 million and Baht 12.89 million, adding the share of income from investment of Baht 0.21 million and Baht 0.87 million, deducting the corporate income tax of Baht 9.81 million and Baht 32.68 million, the net profit of the Company and its subsidiaries were at Baht 40.07 million and

Baht 138.03 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 three months were both decreased by 12.9 percent and by 23.4 percent respectively, whereas the earning before interest and tax and net profit for the period of nine months were both increased by 10.8 percent and 1.2 percent respectively.

In addition to the period of three month and period of nine months ended 31 Dec 2013, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 5.37 million and 20.51 million respectively. The lower profit sharing was due to the lower in net profit of a subsidiary. As a result, the net profit for the company and its subsidiary increase to amount of Baht 34.70 million and 117.52 million respectively.

1.8 Corporate income tax

For the period of three month and nine months of year ended 31th Dec 2013, the Company and its subsidiaries recognized corporate tax expenses by Baht 9.81 million and 32.68 million, increase from the same period of previous year of Baht 5.56 million and 16.60 million as the result of corporate tax rate deduction to 20 percent from 23 percent in previous year. However, BOI exemption of corporate tax for a subsidiary company was end by June 2013, such subsidiary company recognized corporate tax in current period. In addition, the company and its subsidiaries also recorded additional corporate tax from a new subsidiary as a part of consolidated performance. Therefore, the overall corporate tax for the company and its subsidiaries increased by Baht 4.25 million or increased by 76.4 percent for three month period and also increased by Baht 16.08 million or increased by 96.9 percent for nine months period.

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 5.37 million and 20.51 million for the period of three month and for the period of nine months ended 31th Dec 2013.

2.0 Profitability

For the period of three months ended 31th Dec 2013, the Company and its subsidiaries had gross profit margin of 11.05 percent compared with gross profit margin of 12.88 percent in the same period of the previous year. This was owing to the decreasing of sales in profitable automotive products. However, the gross profit margin decreased by 3.81 million even including of gross margin from a new subsidiary company. The Company and its subsidiaries had net profit margin of 4.20 percent, compared with net profit margin of 5.20 percent in the same period of the previous year. Decrease in net profit rate was due mainly to the lower of gross margin rate, higher in administrative expenses and corporate tax.

For the period of nine months ended 31th Dec 2013, the Company and its subsidiaries had gross profit margin of 11.47 percent compared with gross profit margin of 12.04 percent in the same period the previous year. The gross profit margin increased by 45.69 million, owing to the including of gross margin from a new subsidiary company.

(Unit: Baht million)

Consolidated balance sheets	As at 31 th Dec 2013		As at 31 th March 2013	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	61.77	2.66%	87.28	3.55%
Short-term investment	5.00	0.22%	70.51	2.87%
Account receivable, trade and others	777.40	33.46%	855.39	34.77%
Inventories, net	856.73	36.87%	896.03	36.43%
Other current assets	8.00	0.34%	6.66	0.27%
Total current assets	1,708.90	73.55%	1,915.87	77.89%
Non-current assets				
Investment in related company	7.22	0.31%	11.25	0.46%
Long-term investment	2.78	0.12%	3.21	0.13%
Other long-term investment	-	-	5.00	0.20%
Property, plant and equipment, net	533.33	22.96%	447.90	18.21%
Intangible assets – net	0.39	0.02%	0.48	0.02%
Restricted fixed deposits	46.00	1.98%	46.00	1.87%
Deferred tax assets *	21.36	0.92%	26.99	1.09%
Other non-current assets	3.34	0.14%	3.17	0.13%
Total non-current assets	614.42	26.45%	544.00	22.11%
TOTAL ASSETS	2,323.32	100.00%	2,459.87	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	324.26	13.96%	469.89	19.10%
Account payables, trade and others	524.92	22.59%	531.50	21.61%
Current portion of financial lease	7.91	0.34%	4.35	0.18%
Accrued corporate income tax	8.00	0.34%	25.11	1.02%
Other current liabilities	7.15	0.31%	8.44	0.34%
Total current liabilities	872.24	37.54%	1,039.29	42.25%
Non-current liabilities				
Financial lease obligations	9.09	0.39%	8.03	0.32%
Provision for employee benefit	26.85	1.16%	25.33	1.03%
Total non-current liabilities	35.94	1.55%	33.36	1.35%
TOTAL LIABILITIES	908.18	39.09%	1,072.65	43.60%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.48%	383.00	15.57%
Premium on stock	519.67	22.37%	519.67	21.13%
Retained earnings				
Legal reserve	38.05	1.64%	38.05	1.55%
Un-appropriated	298.01	12.83%	272.84	11.09%
Non-controlling interest of a subsidiary	176.41	7.59%	173.66	7.06%
Total shareholders' equity	1,415.14	60.91%	1,387.22	56.40%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,323.32	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 31st Dec and 31st March 2013 the Company and its subsidiaries had total assets of Baht 2,323.32 million and Baht 2,459.87 million respectively. The decrease was Baht 136.55 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 31st Dec and 31st March 2013 the Company and its subsidiaries had net inventories of Baht 856.73 million (or 36.87 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 from more domestic procurement, thus the turnover of inventories was better.
- 2.1.2 Trade account receivables, net – other parties: As at 31st Dec and 31st March 2013, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 777.40 million (or 33.46 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 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 31st Dec and 31st March 2013, the Company and its subsidiaries had Land, plant and equipments – net of Baht 533.33 million (or 22.96 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 investment of new construction of plant and production infrastructure.
- 2.1.4 Restricted fix deposit: As at 31st Dec and 31st March 2013 the Company and its subsidiaries had net value of Baht 46.00 million (1.98 percent and 1.87 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 31st Dec and 31st March 2013 the Company and its subsidiaries had net value of Baht 21.36 million and Baht 26.99 million respectively (0.92 percent and 1.09 percent of total assets respectively). The Company and its subsidiaries apply a new reporting standard this year in subject of corporate tax and restating the comparative number of previous year. As such, the Company and its subsidiary realize the deferred tax assets following to its accounting treatment.

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 31st Dec and 31st March 2013 stood at Baht 908.18 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 31st Dec and 31st March 2013, shareholders' equity was Baht 1,415.14 million and Baht 1,387.22 million respectively. The major changes were from the net profit amounting to Baht 117.09 million, dividend payment by Baht 91.92 million and non-controlling interest portion stood by Baht 176.41 million for the share capital and earnings of minority shareholders in a subsidiary. Debt to Equity ratio, as at 31st Dec and 31st March 2013, the ratios were at 0.64 times and 0.77 times respectively.

(Unit: Baht million)

Consolidated cash flows statement	As at 31th Dec 2013	As at 31th Dec 2012
Net cash from (used in) operating activities	286.39	198.68
Net cash used in investing activities	-48.78	-67.96
Net cash from (used in) financing activities	-263.20	-119.13
Effect of exchange rate to cash and cash equivalent	0.09	-0.07
Net increase (decrease) in cash	-25.50	11.52

3. Cash flows

For the period of nine months ended 31th Dec 2013, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 286.39 million, consisting of baht 189.80 million positively from operating performance and net of baht 96.59 million increase in working capital due to the decreases of trade receivable, inventories, following the slowing down in sales. There were also net pay in investing activities of Baht 48.78 million, partly receiving from sale short term investment and dividend received of Baht 80.94 million and Baht 4.90 million respectively and net with payment for capital investment of Baht -127.16 million due to the new construction of plant and upgrading the plant equipment to support production. The other part of cash flow was decreased by Baht -263.20 million in financing activities, due mainly to the settlement in short term loan and trust receipt. In total, company had the net decrease in cash flow for period of nine months ended 31th Dec 2013 by Baht -25.50 million.

Sincerely yours,

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