

May 28, 2014

Subject Management Discussion and Analysis for the year ended 31<sup>st</sup> March 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 year ended 31<sup>st</sup> March 2014 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the year ended 31 <sup>st</sup> March			
	Apr 2013 - Mar 2014 *	Apr 2012 - Mar 2013 **	Change	% Change
Revenue from sales & service	3,358.67	2,889.38	469.29	16.2%
Other income ***	35.85	54.16	-18.31	-33.8%
<b>Total revenue</b>	<b>3,394.52</b>	<b>2,943.54</b>	<b>450.98</b>	<b>15.3%</b>
Cost of goods sold & service	2,987.11	2,542.06	445.05	17.5%
Selling expenses	69.51	63.29	6.22	9.8%
Administrative expenses	105.79	83.99	21.80	26.0%
<b>Total expenses</b>	<b>3,162.41</b>	<b>2,689.34</b>	<b>473.07</b>	<b>17.6%</b>
<b>Earning before interest and tax</b>	<b>232.11</b>	<b>254.20</b>	<b>-22.09</b>	<b>-8.7%</b>
Finance cost	-16.59	-17.94	1.35	7.5%
Share of profit from investment in associate	1.09	2.11	-1.02	-48.3%
Corporate Income tax expenses ***	-42.01	-28.47	-13.54	47.6%
<b>Net profit</b>	<b>174.60</b>	<b>209.90</b>	<b>-35.30</b>	<b>-16.8%</b>
Minority interest in subsidiary	-25.95	-44.00	18.05	-41.0%
<b>Net profit of the Company ***</b>	<b>148.65</b>	<b>165.90</b>	<b>-17.25</b>	<b>-10.4%</b>

\* Including full year performance of a new subsidiary

\*\* Including two month performance (Feb'13 & Mar'13) of a new subsidiary

\*\*\* Restating from apply the new accounting standard "Income Tax"

## 1. Operating Performance

For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had net profit of Baht 148.65 million or decreased by 17.25 million or 10.4 percent from previous year, compared with the net profit of Baht 165.90 million in previous year. Sales growth came by including full performance of a new subsidiary whereas only two month included in previous year. The current profit performance decreased due mainly to the decrease in sales and gross margin of a subsidiary who is the manufacturer of exhausted pipe in the automotive industry, in which this year the industry suffered from big slowing down. Beside, there was no gain from the merger of the current year, as in previous years of Baht 14.50 million. In addition the Company and its subsidiaries have been affected by the loss of the exchange rate, mainly due to the sharp depreciation of the baht in the first three months. The corporate tax also increased from a subsidiary, who is the manufacturer of exhausted pipe in automotive industry, due to the expiration of income tax exemption for investment promotion since June 2013. The current year performance included full year net profit of a new subsidiary for Baht 31.05 million whereas there was two month (Feb-Mar 2013) net profit of Baht 6.40 million of a new subsidiary in previous year, as part of the total performance.

The profit before interest and tax decreased by Baht 22.09 million whereas corporate tax increased by Baht 13.54 million after restating, financial cost decreased by Baht 1.35 million and profit sharing to minority shareholders also decreases by Baht 18.05 million in current year.

## **1.1 Revenue**

For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had revenue from sales and service of Baht 3,358.67 million compared with Baht 2,889.38 million in the same period of the previous year, which increased by 16.2 percent. The increased was due mainly to the including full year sales of a new subsidiary where as there was two month included in previous year. The company and its old subsidiaries had negative impacts in volumes of automotive parts and exhaust pipe following to the slowing down in automotive industry. In addition, average selling price in some products for the company and its old subsidiaries decreased following to global market prices of raw materials.

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.

The Company and its subsidiaries' revenue from the sales of goods are mostly revenue from domestic sales. For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had revenue from domestic sales of 99.33 percent of total revenue from sales. The higher proportion of domestic sale to port was due to the lower in export of exhausted automotive. Apart from that, domestic sale was also supported by combining sale from a new subsidiary.

## **1.2 Other income**

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had other income of Baht 35.85 million or decreased by 33.80 percent from the same period previous year. This was owing to the realization of gain from bargaining in acquisition price of Baht 14.50 million (after restating) in previous year whereas there was no such transaction in current 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 year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had cost of goods sold of Baht 2,987.11 million, or accounting for 88.00 percent of the total revenue in comparing with Baht 2,542.06 million, or accounting for 86.36 percent of total revenue of previous year. Cost of goods sold increased by 17.5 percent whereas sales & service increased by 16.2 percent.

## **1.4 Selling expenses**

Selling expenses consist of sale staff expenses, transportation expenses, promotional expenses. For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had selling expenses of Baht 69.51 million, compared with selling expenses of Baht 63.29 million in the same period of the previous year which increased by 9.8 percent. The increase in expenses was mainly due to the inclusion of the full year expenses of the new subsidiary whereas there was selling expense from a new subsidiary for only two month in the previous year.

For the period of year ended 31st Mar 2014, the selling expenses were 2.05 percent, slightly decreased when comparing to 2.15 percent of total revenue 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 year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had administrative expenses of Baht 105.79 million, compared with administrative expenses of Baht 83.99 million in the same period of the previous year which increased by 26.0 percent. The increase in expenses was mainly due to the inclusion of the full year expenses of the new subsidiary whereas there was selling expense from a new subsidiary for only two month in the previous year.

For the year ended 31<sup>st</sup> March 2014, the administrative expenses were 3.12 percent of total revenue, increased in compared with administrative expenses of 2.86 percent of total revenue in the same period the previous year.

## **1.6 Earning (loss) before interest and tax and Net Profit (loss)**

For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had profit before interest and tax of Baht 232.11 million. After deducting the finance cost of Baht 16.59 million, income tax of Baht 42.01 million, net profit sharing to minority shareholders of subsidiary of Baht 25.95 million and adding the profit sharing from investment in related of Baht 1.09 million , the net profit of the Company and its subsidiaries stood at Baht 148.65 million. When comparing to the profit before interest and tax and the net profit of the same period of the previous year which stood at Baht 254.20 million and Baht 165.90 million respectively, the net profit of the present year decreased by 10.4 percent.

## **1.7 Share of income from investment in associate**

In April 2009, the Company invested in the ordinary shares of Mory Lohakit (Thailand) Co.,Ltd. by holding 49 percent of total shares. As for the accounting year ended 31<sup>st</sup> March 2014 and 2013, the company and its subsidiary recognized share of profit by equity method of Baht 1.09 million and Baht 2.11 million respectively. The decrease in share of profit for period was due mainly to the lower service rate since 1 April 2013 as well as the declining in sales of a new subsidiary who is the manufacturer of exhausted pipe in automotive industry.

## **1.8 Corporate income tax**

For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had corporate tax of Baht 42.01 million or increase by 47.6 percent. Although, company was benefit from new lower tax rate 20.0 percent in current year from 23% in previous year. However, BOI exemption of corporate tax for a subsidiary company was end by June 2013, such subsidiary company start to 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.

## **1.9 Profit sharing to minority shareholders of subsidiary company**

On Oct 1 2010, the company sold partial investment in a subsidiary company to Japanese alliance, Mory Industrial Inc., As of 31st March 2014, the Company and its subsidiaries recognized profit sharing to minority shareholders according to the percentage of its shareholding in full year which was amount by 25.95 million, decreased from amount by 18.05 million of previous year by 41.0 percent. The decreased was due mainly to the slowing in sales and profit of a new subsidiary who is the manufacturer of exhausted pipe in automotive industry.

### **1.10 Profitability**

For the year ended 31<sup>st</sup> March 2014 the Company and its subsidiaries had gross profit margin of 11.06 percent compared with gross profit margin of 12.02 percent in the same period the previous year. The decrease in gross profit margin was owing to the declining in profitable product sales in automotive industry.

For the year ended 31<sup>st</sup> March 2014, the Company and its subsidiaries had net profit margin of 4.38 percent compared with net profit of 5.64 percent in the same period of the previous year. The decrease in net profit was mainly from the lower in gross margin as well as increase in selling and administrative expenses.

(Unit: Baht million)

Consolidated balance sheets	As at 31 <sup>st</sup> Mar 2014		As at 31 <sup>st</sup> Mar 2013	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	63.94	2.78%	87.28	3.55%
Short-term investment	5.00	0.22%	70.51	2.87%
Account receivable, trade and others	758.19	33.00%	855.39	34.77%
Inventories, net	831.65	36.20%	896.04	36.43%
Other current assets	7.64	0.34%	6.66	0.27%
<b>Total current assets</b>	<b>1,666.42</b>	<b>72.54%</b>	<b>1,915.88</b>	<b>77.89%</b>
<b>Non-current assets</b>				
Investment in related company	7.44	0.32%	11.25	0.46%
Long-term investment	3.01	0.13%	3.21	0.13%
Other long-term investment	-	-	5.00	0.20%
Property, plant and equipment, net	549.01	23.90%	447.90	18.21%
Intangible assets – net	0.35	0.02%	0.48	0.02%
Restricted fixed deposits	46.00	2.00%	46.00	1.87%
Deferred tax assets *	21.80	0.95%	26.99	1.09%
Other non-current assets	3.34	0.14%	3.17	0.13%
<b>Total non-current assets</b>	<b>630.95</b>	<b>27.46%</b>	<b>544.00</b>	<b>22.11%</b>
<b>TOTAL ASSETS</b>	<b>2,297.37</b>	<b>100.00%</b>	<b>2,459.88</b>	<b>100.00%</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft and borrowing from financial institutions	273.37	11.90%	469.90	19.10%
Account payables, trade and others	499.23	21.73%	531.50	21.61%
Current portion of financial lease	7.59	0.33%	4.35	0.18%
Accrued corporate income tax	17.00	0.74%	25.11	1.02%
Other current liabilities	12.76	0.56%	8.44	0.34%
<b>Total current liabilities</b>	<b>809.95</b>	<b>35.26%</b>	<b>1,039.30</b>	<b>42.25%</b>
<b>Non-current liabilities</b>				
Financial lease obligations	7.52	0.32%	8.03	0.32%
Provision for employee benefit	27.96	1.22%	25.33	1.03%
<b>Total non-current liabilities</b>	<b>35.48</b>	<b>1.54%</b>	<b>33.36</b>	<b>1.35%</b>
<b>TOTAL LIABILITIES</b>	<b>845.43</b>	<b>36.80%</b>	<b>1,072.66</b>	<b>43.60%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.67%	383.00	15.57%
Premium on stock	519.67	22.62%	519.67	21.13%
Retained earnings				
Legal reserve	48.49	2.11%	38.05	1.55%
Un-appropriated	318.93	13.88%	272.85	11.09%
Non-controlling interest of a subsidiary	181.85	7.92%	173.65	7.06%
<b>Total shareholders' equity</b>	<b>1,451.94</b>	<b>63.20%</b>	<b>1,387.22</b>	<b>56.40%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,297.37</b>	<b>100.00%</b>	<b>2,459.88</b>	<b>100.00%</b>

\* - Restating from apply the new accounting standard "Income Tax"

## **2. Financial Status**

### **2.1 Assets**

As for the assets value as at 31st March 2014 and 2013 the Company and its subsidiaries had total assets of Baht 2,297.37 million and Baht 2,459.88 million respectively. The decrease was Baht 162.51 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 March 2014 and 2013 the Company and its subsidiaries had net inventories of Baht 831.65 million (or 36.20 percent of total assets) and Baht 896.04 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 March 2014 and 2013, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 758.19 million (or 33.00 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 March 2014 and 2013, the Company and its subsidiaries had Land, plant and equipments – net of Baht 549.01 million (or 23.90 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 March 2014 and 2013 the Company and its subsidiaries had net value of Baht 46.00 million (2.00 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 March 2014 and 2013 the Company and its subsidiaries had net value of Baht 21.80 million and Baht 26.99 million respectively (0.95 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 March 2014 and 2013 stood at Baht 845.43 million and Baht 1,072.66 million respectively. The major decreasing in liabilities was trade payable, short term loan and trust receipt.

### **2.3 Shareholders' equity**

As at 31st March 2014 and 2013, shareholders' equity was Baht 1,451.94 million and Baht 1,387.22 million respectively. The major changes were from the net profit amounting to Baht 148.65 million, dividend payment by Baht 109.68 million and non-controlling interest portion

stood by Baht 181.85 million for the share capital and earnings of minority shareholders in a subsidiary.

Debt to Equity ratio, as at 31st March 2014 and 2013, the ratios were at 0.58 times and 0.77 times respectively.

(Unit: Baht million)

<b>Consolidated cash flows statement</b>	<b>As at 31st Mar 2014</b>	<b>As at 31st Mar 2013</b>
Net cash from (used in) operating activities	376.45	180.29
Net cash used in investing activities	-85.17	-52.81
Net cash from (used in) financing activities	-314.69	-94.07
Effect of exchange rate to cash and cash equivalent	0.07	0.02
Net increase (decrease) in cash	-23.34	33.43

### **3. Cash flows**

For the year ended 31st Mar 2014, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 376.45 million, consisting of baht 259.91 million positively from operating performance and net of baht 116.53 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 85.17 million, partly receiving from sale short term investment and dividend received of Baht 70.97 million and Baht 5.11 million respectively and to net with payment for capital investment of Baht -166.18 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 -314.68 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 year ended 31th Mar 2014 by Baht -23.34 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)  
Deputy Managing Director