

Feb 12, 2015

Subject Management Discussion and Analysis for the period of three months and nine months ended 31st December 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 and nine months ended 31st December 2014 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 31 <sup>st</sup> Dec				For the period of nine months ended 31 <sup>st</sup> Dec			
	Oct - Dec 2014	Oct - Dec 2013	Change	% Change	Apr - Dec 2014	Apr - Dec 2013	Change	% Change
Revenue from sales & service	860.99	820.98	40.01	4.9%	2,459.72	2,527.90	-68.18	-2.7%
Other income	7.76	6.12	1.64	26.8%	31.20	24.08	7.12	29.6%
<b>Total revenue</b>	<b>868.75</b>	<b>827.10</b>	<b>41.65</b>	<b>5.0%</b>	<b>2,490.92</b>	<b>2,551.98</b>	<b>-61.06</b>	<b>-2.4%</b>
Cost of goods sold & service	776.35	730.30	46.05	6.3%	2,207.67	2,238.01	-30.34	-1.4%
Selling expenses	20.25	16.78	3.47	20.7%	58.06	51.14	6.92	13.5%
Administrative expenses	22.51	26.47	-3.96	-15.0%	72.16	80.10	-7.94	-9.9%
<b>Total expenses</b>	<b>819.11</b>	<b>773.55</b>	<b>45.56</b>	<b>5.9%</b>	<b>2,337.89</b>	<b>2,369.25</b>	<b>-31.36</b>	<b>-1.3%</b>
<b>Earning before interest and tax</b>	<b>49.64</b>	<b>53.55</b>	<b>-3.91</b>	<b>-7.3%</b>	<b>153.03</b>	<b>182.73</b>	<b>-29.70</b>	<b>-16.3%</b>
Financial expenses	-4.81	-3.88	-0.93	24.0%	-12.74	-12.89	0.15	-1.2%
Share of income from investment in associate	0.21	0.21	0.00	0.0%	0.47	0.87	-0.40	-46.0%
Corporate Income tax expenses	-9.05	-9.81	0.76	-7.7%	-28.56	-32.68	4.12	-12.6%
<b>Net profit for the period</b>	<b>35.99</b>	<b>40.07</b>	<b>-4.08</b>	<b>-10.2%</b>	<b>112.20</b>	<b>138.03</b>	<b>-25.83</b>	<b>-18.7%</b>
Profit Sharing for non-controlling interest of a subsidiary company	-5.76	-5.37	-0.39	7.3%	-15.20	-20.51	5.31	-25.9%
<b>Net profit for the company and its subsidiaries</b>	<b>30.23</b>	<b>34.70</b>	<b>-4.47</b>	<b>-12.9%</b>	<b>97.00</b>	<b>117.52</b>	<b>-20.52</b>	<b>-17.5%</b>

## 1. Operating Performance

For the period of three months ended 31st Dec 2014, the net profits for the company and its subsidiaries was Baht 30.23 million or decreased by 4.47 million which accounting for the decrease by 12.9 percent, the results for the current three month period compared to the same period of the previous year was declining due to the high competition as well as more cost control by price bargaining from customers. In addition, economic conditions were still not yet recovered and the domestic spending remains in slow recovery. Despite domestic fuel prices were going down but household debt remained high. The stimulus support from government sectors was considered insufficient at this stage. The demand from foreign market remains weak due to the slowing down of demands from China, Japan and Europe. As such, manufacturing sectors who are the customers of the company and its subsidiaries, such as automotive, electronics or construction are still affected by the weak demand of both domestic and foreign markets. However, the production section tends to recover better in future.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 5.76 million, slightly increased by Baht 0.39 million from the same period of previous year.

For the period of nine months ended 31st Dec 2014, the Company and its subsidiaries had net operating profit of Baht 153.03 million which accounting for the decrease by 16.3 percent, Net profit for the company and its subsidiaries was 97.00 million or decrease by 17.5 percent when compared with the net profit of Baht 117.52 million of the same period of the previous year. The decrease in net profit for nine months was due to the considerable acceleration of vehicle production in the previous year, slowdown of orders from overseas and lower demands from both domestic and overseas market of electrical appliance.

### **1.1 Revenue**

For the period of three months ended 31st Dec 2014, the Company and its subsidiaries had revenue from sales and service of Baht 860.99 million compared with Baht 820.98 million in the same period of the previous year, which increased by 4.9 percent. The sales increase is due to higher in overall weight for the core products, mainly in stainless steel and aluminum as the result of pushing sales for stainless pipes and aluminum using in general industries together with the fragile recovery of automotive industry.

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 2014, the Company and its subsidiaries had revenue from sales and service of Baht 2,459.72 million compared with Baht 2,527.90 million in the same period of the previous year, which accounting for the decrease by 2.7 percent. In general, volumes in main products decreased from the same period of previous year due to the concern over the political situation in the country at the beginning of the year and the slowing down of domestic and global economics during the year as a whole.

### **1.2 Other income**

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the periods of three months and nine months ended 31st Dec 2014, the Company and its subsidiaries had other income of Baht 7.76 million and 31.20 million baht respectively, which increased by 26.8 percent and 29.6 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 2014, the Company and its subsidiaries had cost of goods sold of Baht 776.35 million, or accounting for 89.36 percent of the total revenue, increase in comparing with Baht 730.30 million or accounting for 88.30 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 31st Dec 2014 increased by 6.3 percent, increase than the increase in sales & services by 4.9 percent from the same period of previous year.

For the period of nine months ended 31st Dec 2014, the Company and its subsidiaries had cost of goods sold of Baht 2,207.67 million, or accounting for 88.63 percent of the total revenue in comparing with Baht 2,238.01 million, or accounting for 87.70 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 2014, the Company and its subsidiaries had selling expenses of Baht 20.25 million and 58.06 million, compared with selling expenses of Baht 16.78 million and 51.14 million in the same periods of the previous year, or increased by 20.7 percent for three month period and increased by 13.5 percent for the nine months year respectively. The higher in selling expense was due mainly to normal rise in sell personal costs together with the reversal of bad debt by a subsidiary in first quarter of previous year following the settlement of an overdue customer.

For the period of three months and nine months ended 31st Dec 2014, the selling expenses were 2.35 percent and 2.36 percent of total sales and service, compared with 2.04 percent and 2.02 percent 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 and period of nine months ended 31st Dec 2014, the Company and its subsidiaries had administrative expenses of Baht 22.51 million and 72.16 million, compared with administrative expenses of Baht 26.47 million and 80.10 million in the same period of the previous year which decreased by 15.0 percent and decreased by 9.9 percent respectively. The lower in administrative expense was due mainly to the previous year records of loss in exchange rate due to Baht sharp depreciation.

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 periods of three months and nine months ended 31st Dec 2014, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.21 million and 0.47 million in consolidated income statements in which unchanged for three month period and decreased by 46.0 percent for nine months respectively in comparison with the same period of previous year.

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

For the periods of three months and nine months ended 31st Dec 2014, the Company and its subsidiaries had earning before interest and tax of Baht 49.64 million and Baht 153.03 million respectively. After deducting the financial costs of Baht -4.81 million and Baht -12.74 million, adding the share of income from investment of Baht 0.21 million and Baht 0.47 million, deducting the corporate income tax of Baht -9.05 million and Baht -28.56 million, the net profit of the Company and its subsidiaries were at Baht 30.23 million and Baht 97.00 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 7.3 percent and by 10.2 percent respectively, whereas the earning before interest and tax and net profit for the period of nine months were both decreased by 16.3 percent and 18.7 percent respectively.

In addition to the period of three month and nine months ended 31st Dec 2014, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 5.76 million and 15.20 million respectively. The profit sharing for nine months decreased by 25.9 percent from the lower of net profit of its relate subsidiary. As a result, the net profit for the company and its subsidiary were amount of Baht 30.23 million and 97.00 million respectively.

## **1.8 Corporate income tax**

For the period of three month and nine months of year ended 31st Dec 2014, the Company and its subsidiaries recognized corporate tax expenses by Baht 9.05 million and 28.56 million, decrease from the same period of previous year of Baht 9.81 million and 32.68 million as the result of lower operating profit.

## **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 5.76 million and 15.20 million for the periods of three month and nine months ended 31st Dec 2014.

## **1.10 Profitability**

For the period of three months ended 31st Dec 2014, the Company and its subsidiaries had gross profit margin of 9.83 percent compared with gross profit margin of 11.05 percent in the same period of the previous year. This was owing to the competition and more cost control by manufacturer who are customers

For the period of nine months ended 31st Dec 2014, the Company and its subsidiaries had gross profit margin of 10.25 percent compared with gross profit margin of 11.47 percent in the same period the previous year. The gross profit margin decreased by Baht 37.84 million or by 13.1% from the same period of previous year.

(Unit: Baht million)

Consolidated balance sheets	As at 31 <sup>st</sup> Dec 2014		As at 31 <sup>st</sup> Mar 2014	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	125.66	4.98%	63.94	2.78%
Short-term investment	-	-	5.00	0.22%
Account receivable, trade and others	768.02	30.45%	758.19	33.00%
Inventories, net	974.82	38.65%	831.65	36.20%
Other current assets	11.30	0.45%	7.64	0.34%
<b>Total current assets</b>	<b>1,879.80</b>	<b>74.53%</b>	<b>1,666.42</b>	<b>72.54%</b>
<b>Non-current assets</b>				
Investment in related company	7.91	0.31%	7.44	0.32%
Long-term investment	2.98	0.12%	3.01	0.13%
Property, plant and equipment, net	551.72	21.88%	549.01	23.90%
Intangible assets – net	0.25	0.01%	0.35	0.02%
Restricted fixed deposits	46.00	1.82%	46.00	2.00%
Deferred tax assets	21.72	0.86%	21.80	0.95%
Other non-current assets	11.88	0.47%	3.34	0.14%
<b>Total non-current assets</b>	<b>642.46</b>	<b>25.47%</b>	<b>630.95</b>	<b>27.46%</b>
<b>TOTAL ASSETS</b>	<b>2,522.26</b>	<b>100.00%</b>	<b>2,297.37</b>	<b>100.00%</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft and borrowing from financial institutions	473.48	18.77%	273.37	11.90%
Account payables, trade and others	524.48	20.79%	499.23	21.73%
Current portion of financial lease	5.70	0.23%	7.59	0.33%
Accrued corporate income tax	6.45	0.26%	17.00	0.74%
Other current liabilities	7.53	0.30%	12.76	0.56%
<b>Total current liabilities</b>	<b>1,017.64</b>	<b>40.35%</b>	<b>809.95</b>	<b>35.26%</b>
<b>Non-current liabilities</b>				
Financial lease obligations	5.44	0.22%	7.52	0.32%
Provision for employee benefit	28.55	1.13%	27.96	1.22%
<b>Total non-current liabilities</b>	<b>33.99</b>	<b>1.35%</b>	<b>35.48</b>	<b>1.54%</b>
<b>TOTAL LIABILITIES</b>	<b>1,051.63</b>	<b>41.69%</b>	<b>845.43</b>	<b>36.80%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	15.19%	383.00	16.67%
Premium on stock	519.67	20.60%	519.67	22.62%
Retained earnings				
Legal reserve	48.49	1.92%	48.49	2.11%
Un-appropriated	335.48	13.30%	318.93	13.88%
Non-controlling interest of a subsidiary	183.99	7.30%	181.85	7.92%
<b>Total shareholders' equity</b>	<b>1,470.63</b>	<b>58.31%</b>	<b>1,451.94</b>	<b>63.20%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,522.26</b>	<b>100.00%</b>	<b>2,297.37</b>	<b>100.00%</b>

## **2. Financial Status**

### **2.1 Assets**

As for the assets value as at 31st Dec and 31st March 2014, the Company and its subsidiaries had total assets of Baht 2,522.26 million and Baht 2,297.37 million respectively. The increase was Baht 224.89 million, mainly increased 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 2014 the Company and its subsidiaries had net inventories of Baht 974.82 million (or 38.65 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 due to higher reservation of raw material in the current period when comparing to the same period in previous year.
- 2.1.2 Trade account receivables, net – other parties: As at 31st Dec and 31st March 2014, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 768.02 million (or 30.45 percent of total assets) and Baht 758.19 million (or 33.00 percent of total assets) respectively. The increased in trade account receivables was small but higher percent due to its comparison to bigger asset size.
- 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 2014, the Company and its subsidiaries had Land, plant and equipments – net of Baht 551.72 million (or 21.88 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 31st Dec and 31st March 2014, the Company and its subsidiaries had net value of Baht 46.00 million (1.82 percent and 2.00 percent of total assets respectively). The restricted fix deposit by a subsidiary was used as guarantee for loans from financial institution.
- 2.1.5 Deferred tax assets: As at 31st Dec and 31st March 2014, the Company and its subsidiaries had net value of Baht 21.72 million and Baht 21.80 million respectively (0.86 percent and 0.95 percent of total assets respectively).

### **2.2 Liabilities**

The total liabilities of the Company and its subsidiaries as at 31st Dec and 31st March 2014 stood at Baht 1,051.63 million and Baht 845.43 million respectively. The increasing in liabilities was mainly with short term loan in order to procure more raw material.

### **2.3 Shareholders' equity**

As at 31st Dec and 31st March 2014, shareholders' equity was Baht 1,470.63 million and Baht 1,451.94 million respectively. The major changes were from the net profit amounting to Baht 112.20 million, dividend payment of Baht 93.49 million for company shareholders and minority shareholder in a subsidiary and non-controlling interest portion stood by Baht 183.99 million for the share capital and earnings of minority shareholders in a subsidiary.

Debt to Equity ratio, as at 31st Dec and 31st March 2014, the ratios were 0.72 times and 0.58 times respectively. The higher ratio responded to the higher short term loan in order to buy raw materials to serve future demand of main customers.

(Unit: Baht million)

<b>Consolidated cash flows statement</b>	<b>As at 31st Dec 2014</b>	<b>As at 31st Dec 2013</b>
Net cash from (used in) operating activities	20.85	286.39
Net cash used in investing activities	-59.63	-48.78
Net cash from (used in) financing activities	100.50	-263.20
Effect of exchange rate to cash and cash equivalent	0.00	0.09
Net increase (decrease) in cash	61.72	-25.50

### **3. Cash flows**

For the period ended 31st Dec 2014, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 20.85 million, consisting of baht 165.60 million positively from operating performance and net of baht -144.75 million mostly used to buy raw material. There were also net pay in investing activities of Baht -59.63 million, the net spending for the new construction of plant and upgrading the plant equipment to support production. The financing part of cash flow was net increased by Baht 100.50 million. Most activities were net financing of short term loan by Baht 200.12 million and payment of dividend by Baht -93.49 million. In total, company had net increase in cash flow for period ended 31st Dec 2014 by Baht 61.72 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)  
Deputy Managing Director