

Feb 9, 2017

Subject Management Discussion and Analysis for the periods of three months and nine months ended 31st December 2016

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 periods of three months and nine months ended 31st December 2016 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

| Consolidated financial statement                                    | For the period of three months ended 31st Dec |                |              |               | For the period of nine months ended 31st Dec |                 |              |              |
|---|---|----------------|--------------|---------------|--|-----------------|--------------|--------------|
|   | Oct - Dec 2016                                | Oct - Dec 2015 | Change       | % Change      | Apr - Dec 2016                               | Apr - Dec 2015  | Change       | % Change     |
| Revenue from sales & service  | 839.34  | 747.29         | 92.05        | 12.3%         | 2,397.25                                     | 2,321.65        | 75.60        | 3.3%         |
| Other income  | 5.96  | 4.76           | 1.20         | 25.2%         | 19.70  | 24.72           | -5.02        | -20.3%       |
| <b>Total revenue</b>  | <b>845.30</b>                                 | <b>752.05</b>  | <b>93.25</b> | <b>12.4%</b>  | <b>2,416.95</b>                              | <b>2,346.37</b> | <b>70.58</b> | <b>3.0%</b>  |
| Cost of goods sold & service  | 736.71  | 668.60         | 68.11        | 10.2%         | 2,097.84                                     | 2,092.55        | 5.29         | 0.3%         |
| Selling expenses  | 15.30   | 20.94          | -5.64        | -26.9%        | 51.67  | 59.04           | -7.37        | -12.5%       |
| Administrative expenses   | 26.03   | 23.91          | 2.12         | 8.9%          | 75.97  | 71.88           | 4.09         | 5.7%         |
| <b>Total expenses</b>   | <b>778.04</b>                                 | <b>713.45</b>  | <b>64.59</b> | <b>9.1%</b>   | <b>2,225.48</b>                              | <b>2,223.47</b> | <b>2.01</b>  | <b>0.1%</b>  |
| <b>Earning before interest and tax</b>                              | <b>67.26</b>                                  | <b>38.60</b>   | <b>28.66</b> | <b>74.2%</b>  | <b>191.47</b>                                | <b>122.90</b>   | <b>68.57</b> | <b>55.8%</b> |
| Financial expenses  | -1.91   | -3.47          | 1.56         | -45.0%        | -6.67  | -11.99          | 5.32         | -44.4%       |
| Share of income from investment in associate                        | 0.42  | 0.25           | 0.17         | 68.0%         | 1.22   | 0.77            | 0.45         | 58.4%        |
| Corporate Income tax expenses                                       | -13.11  | -7.86          | -5.25        | 66.8%         | -36.87                                       | -23.28          | -13.59       | 58.4%        |
| <b>Net profit for the period</b>                                    | <b>52.66</b>                                  | <b>27.52</b>   | <b>25.14</b> | <b>91.4%</b>  | <b>149.15</b>                                | <b>88.40</b>    | <b>60.75</b> | <b>68.7%</b> |
| Profit Sharing for non-controlling interest of a subsidiary company | -9.82   | -7.32          | -2.50        | 34.2%         | -28.54                                       | -20.12          | -8.42        | 41.9%        |
| <b>Net profit for the company and its subsidiaries</b>              | <b>42.84</b>                                  | <b>20.20</b>   | <b>22.64</b> | <b>112.1%</b> | <b>120.61</b>                                | <b>68.28</b>    | <b>52.33</b> | <b>76.6%</b> |

## 1. Operating Performance

For the period of three months ended 31st Dec 2016, the net profits for the company and its subsidiaries was Baht 42.84 million or increased by 22.64 million which accounting for 112.6 percent, the results for the current three month period was better when comparing to the same period of the previous year and earlier quarters. Mainly due to sales and gross margin in quarter were getting better, especially sales and gross margin of the exhaust products in the automotive industry remained as the performance driving factor, together with decrease in selling expenses in quarter as no bed debt provision required to reserve while there was last year. In addition, the continuation in improvement and development of process still has been focusing while cautious in selling of stainless steel sheet and strip to the wholesalers, who may be in risk of impact by the unwell economy recovery.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 9.82 million, increased by Baht 2.50 million from the same period of previous year due to the better sales and net profit of a subsidiary company who manufacture and supply the automotive exhausted pipes to automotive industry.

For the period of nine months ended 31st Dec 2016, the Company and its subsidiaries had net operating profit of Baht 191.47 million which accounting for the increase by 55.8 percent, Net profit for the company and its subsidiaries was 120.61 million or increase by

76.6 percent when compared with the net profit of Baht 52.33 million of the same period of the previous year. Net profit increased for the nine months due to the overall management to focus on improvement in relating to any process inefficiency, together with higher sales and gross margin of automotive exhausted pipes in automotive customer group.

### **1.1 Revenue from sales & service**

For the period of three months ended 31st Dec 2016, the Company and its subsidiaries had revenue from sales and service of Baht 839.34 million compared with Baht 747.29 million in the same period of the previous year, which increased by 12.3 percent. The sales remained increase by more weight sold in almost product groups, although the average selling prices fell in most of product groups following the lower global material prices comparing to the same period of previous year.

The sales of company and its subsidiaries mostly came from Copper, Aluminum and Stainless products.

For the period of nine months ended 31st Dec 2016, the Company and its subsidiaries had revenue from sales and service of Baht 2,397.25 million compared with Baht 2,321.65 million in the same period of the previous year, increase by 3.3 percent due to the more weight sold in most product group.

### **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 2016, the Company and its subsidiaries had other income of Baht 5.96 million and 19.70 million baht respectively, which increased by 25.2 percent and decrease by 20.3 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 2016, the Company and its subsidiaries had cost of goods sold of Baht 736.71 million, or accounting for 87.14 percent of the total revenue, the percentage decrease in comparing with Baht 668.60 million or accounting for 88.90 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 31st Dec 2016 increased by 10.2 percent, lower increase in percentage than the increase in sales & services by 12.3 percent from the same period of previous year.

For the period of nine months ended 31st Dec 2016, the Company and its subsidiaries had cost of goods sold of Baht 2,097.84 million, or accounting for 86.80 percent of the total revenue in comparing with Baht 2,092.55 million, or accounting for 89.18 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 periods of three months and nine months ended 31st Dec 2016, the Company and its subsidiaries had selling expenses of Baht 15.30 million and 51.67 million, compared with selling expenses of Baht 20.94 million and 59.04 million in the same periods of the previous year, or decreased by 26.9 percent for three months period and decreased by 12.5 percent for the nine months respectively. The majority of selling

expense was sale personal expenses and logistic expenses. However, the decrease in selling expenses in this year was mainly due to the bad debt reserve last year while no more reserve required this year.

For the period of three months and nine months ended 31st Dec 2016, the selling expenses were 1.82 percent and 2.16 percent of total sales and service, compared with 2.80 percent and 2.54 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 periods of three months and nine months ended 31st Dec 2016, the Company and its subsidiaries had administrative expenses of Baht 26.03 million and 75.97 million, compared with administrative expenses of Baht 23.91 million and 71.88 million in the same period of the previous year which increased by 8.9 percent and 5.7 percent respectively..

The major expenses are in area of admin 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 ended 31st Dec 2016, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.42 million and 1.22 million in consolidated income statements in which increased by 68.0 percent for three months period and increased by 58.4 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 2016, the Company and its subsidiaries had earning before interest and tax of Baht 67.26 million and Baht 191.47 million respectively. After deducting the financial costs of Baht -1.91 million and Baht -6.67 million, adding the share of income from investment of Baht 0.42 million and Baht 1.22 million, deducting the corporate income tax of Baht -13.11 million and Baht -36.87 million, the net profit of the Company and its subsidiaries were at Baht 52.66 million and Baht 149.15 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 increased by 74.2 percent and by 91.4 percent respectively, whereas the earning before interest and tax and net profit for the period of nine months were both increased by 55.8 percent and 68.7 percent respectively.

In addition to the periods of three months and nine months ended 31st Dec 2016, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 9.82 million and 28.54 million respectively. The higher profit sharing was due to the higher in net profit of a subsidiary. As a result, the net profit for the company and its subsidiary were amount of Baht 42.84 million and 120.61 million respectively.

### **1.8 Corporate income tax**

For the periods of three months and nine months ended 31st Dec 2016, the Company and its subsidiaries recognized corporate tax expenses by Baht 13.11 million and 36.87 million, increase from the same period of previous year of Baht 7.86 million and 23.28 million as the result of higher 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 9.82 million and 28.54 million for the periods of three months and nine months ended 31st Dec 2016.

### **1.10 Profitability**

For the period of three months ended 31st Dec 2016, the Company and its subsidiaries had gross profit margin of 12.23 percent, compared with gross profit margin of 10.53 percent in the same period of the previous year. This was owing to high gross margin of exhausted pipes in automotive industry from the continuation of process improvement during the years together with lower sales in wholesaler channel which normally had lower gross margin.

For the period of nine months ended 31st Dec 2016, the Company and its subsidiaries had gross profit margin of 12.49 percent compared with gross profit margin of 9.87 percent in the same period the previous year. The gross profit margin increased by Baht 70.31 million.

(Unit: Baht million)

| Consolidated balance sheets                              | As at 31st Dec 2016 |                | As at 31 <sup>st</sup> Mar 2016 |                |
|--|---------------------|----------------|---------------------------------|----------------|
|  | Amount              | %              | Amount                          | %              |
| <b>Assets</b>  |                     |                |                                 |                |
| <b>Current Assets</b>                                    |                     |                |                                 |                |
| Cash and cash equivalents                                | 206.47              | 9.23%          | 177.64                          | 8.01%          |
| Short-term investment                                    | 3.02                | 0.13%          | 4.51                            | 0.20%          |
| Account receivable, trade and others                     | 717.46              | 32.06%         | 762.17                          | 34.37%         |
| Inventories, net   | 748.91              | 33.47%         | 664.35                          | 29.96%         |
| Other current assets                                     | 5.85                | 0.26%          | 4.97                            | 0.23%          |
| <b>Total current assets</b>                              | <b>1,681.71</b>     | <b>75.15%</b>  | <b>1,613.64</b>                 | <b>72.77%</b>  |
| <b>Non-current assets</b>                                |                     |                |                                 |                |
| Investment in related company                            | 10.55               | 0.47%          | 9.33                            | 0.42%          |
| Long-term investment                                     | 2.55                | 0.11%          | 3.16                            | 0.14%          |
| Property, plant and equipment, net                       | 468.29              | 20.93%         | 519.22                          | 23.42%         |
| Intangible assets – net                                  | 0.81                | 0.04%          | 0.43                            | 0.02%          |
| Restricted fixed deposits                                | 46.88               | 2.09%          | 46.50                           | 2.10%          |
| Deferred tax assets                                      | 23.25               | 1.04%          | 21.49                           | 0.97%          |
| Other non-current assets                                 | 3.76                | 0.17%          | 3.63                            | 0.16%          |
| <b>Total non-current assets</b>                          | <b>556.09</b>       | <b>24.85%</b>  | <b>603.76</b>                   | <b>27.23%</b>  |
| <b>TOTAL ASSETS</b>                                      | <b>2,237.80</b>     | <b>100.00%</b> | <b>2,217.40</b>                 | <b>100.00%</b> |
| <b>LIABILITIES</b>                                       |                     |                |                                 |                |
| <b>Current liabilities</b>                               |                     |                |                                 |                |
| Bank overdraft and borrowing from financial institutions | 97.10               | 4.34%          | 252.95                          | 11.41%         |
| Account payables, trade and others                       | 540.26              | 24.14%         | 362.82                          | 16.36%         |
| Current portion of financial lease                       | 1.29                | 0.06%          | 3.48                            | 0.16%          |
| Accrued corporate income tax                             | 13.39               | 0.60%          | 15.17                           | 0.68%          |
| Other current liabilities                                | 9.01                | 0.40%          | 13.05                           | 0.59%          |
| <b>Total current liabilities</b>                         | <b>661.05</b>       | <b>29.54%</b>  | <b>647.47</b>                   | <b>29.20%</b>  |
| <b>Non-current liabilities</b>                           |                     |                |                                 |                |
| Financial lease obligations                              | -                   |                | 1.16                            | 0.05%          |
| Provision for employee benefit                           | 33.18               | 1.48%          | 30.02                           | 1.36%          |
| <b>Total non-current liabilities</b>                     | <b>33.18</b>        | <b>1.48%</b>   | <b>31.18</b>                    | <b>1.41%</b>   |
| <b>TOTAL LIABILITIES</b>                                 | <b>694.23</b>       | <b>31.02%</b>  | <b>678.65</b>                   | <b>30.61%</b>  |
| <b>SHAREHOLDERS' EQUITY</b>                              |                     |                |                                 |                |
| Shareholder equity                                       |                     |                |                                 |                |
| Registered capital                                       | 383.00              |                | 383.00                          |                |
| Issued and Paid up capital                               | 383.00              | 17.12%         | 383.00                          | 17.27%         |
| Premium on stock   | 519.67              | 23.22%         | 519.67                          | 23.44%         |
| Retained earnings  |                     |                |                                 |                |
| Legal reserve  | 68.80               | 3.07%          | 65.30                           | 2.94%          |
| Un-appropriated  | 385.75              | 17.24%         | 376.49                          | 16.98%         |
| Non-controlling interest of a subsidiary                 | 186.35              | 8.33%          | 194.29                          | 8.76%          |
| <b>Total shareholders' equity</b>                        | <b>1,543.57</b>     | <b>68.98%</b>  | <b>1,538.75</b>                 | <b>69.39%</b>  |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>        | <b>2,237.80</b>     | <b>100.00%</b> | <b>2,217.40</b>                 | <b>100.00%</b> |

## **2. Financial Status**

### **2.1 Assets**

As for the assets value as at 31st Dec 2016 and 31st March 2016, the Company and its subsidiaries had total assets of Baht 2,237.80 million and Baht 2,217.40 million respectively. The increase was Baht 20.40 million, mainly increased in inventories and cash equivalent items. 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 subsidiary who is the finish goods 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 2016 and 31st March 2016 the Company and its subsidiaries had net inventories of Baht 748.91 million (or 33.47 percent of total assets) and Baht 664.35 million (or 29.96 percent of total assets) respectively. The increase was following the better sales trend in the short term.
- 2.1.2 Trade account receivables, net – other parties: As at 31st Dec 2016 and 31st March 2016, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 717.46 million (or 32.06 percent of total assets) and Baht 762.17 million (or 34.37 percent of total assets) respectively.
- 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 2016 and 31st March 2016, the Company and its subsidiaries had Land, plant and equipments – net of Baht 468.29 million (or 20.93 percent of total assets) and Baht 519.22 million (or 23.42 percent of total assets) respectively. During the period, there was no significant investment.
- 2.1.4 Restricted fix deposit: As at 31st Dec 2016 and 31st March 2016, the Company and its subsidiaries had net value of Baht 46.88 million (or 2.09 percent of total assets) and Baht 46.50 million (or 2.10 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 2016 and 31st March 2016, the Company and its subsidiaries had net value of Baht 23.25 million and Baht 21.49 million respectively (1.04 percent and 0.97 percent of total assets respectively).

### **2.2 Liabilities**

The total liabilities of the Company and its subsidiaries as at 31st Dec 2016 and 31st March 2016 stood at Baht 694.23 million and Baht 678.65 million respectively. The increasing in liabilities was mainly to the purchase of raw material although there was settlement of short term loan by excessive operating cash flow.

### **2.3 Shareholders' equity**

As at 31st Dec 2016 and 31st March 2016, shareholders' equity was Baht 1,543.57 million and Baht 1,538.75 million respectively. The major changes were from the net profit amounting to Baht 120.61 million, dividend payment of Baht 107.24 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,357.22 million and Baht 186.35 million respectively.

Debt to Equity ratio, as at 31st Dec 2016 and 31st March 2016, the ratios were 0.45 and 0.44 times respectively.

(Unit: Baht million)

| <b>Consolidated cash flows statement</b>            | <b>As at 31st Dec<br/>2016</b> | <b>As at 31st Dec<br/>2015</b> |
|---|--------------------------------|--------------------------------|
| Net cash from (used in) operating activities        | 338.78                         | 215.95                         |
| Net cash used in investing activities               | -7.16                          | -39.45                         |
| Net cash from (used in) financing activities        | -302.93                        | -163.13                        |
| Effect of exchange rate to cash and cash equivalent | 0.14                           | -0.06                          |
| Net increase (decrease) in cash                     | 28.83                          | 13.31                          |

### **3. Cash flows**

For the nine month ended 31st Dec 2016, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 338.78 million, consisting of baht 215.87 million positively from operating performance and net positive of Baht 122.92 million from working capital. Most increase was in trade creditors from raw material procurement.

There was also net pay in investing activities of Baht -7.16 million with no major investment during the year.

The financing part was net Baht -302.93 million. There were settlement of short term loan by Baht -155.86 million and payment of dividend by Baht -143.72 million.

In total, net cash for the year was increased by Baht 28.83 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)  
Deputy Managing Director