

May 29, 2017

Subject Management Discussion and Analysis for the year ended 31st March 2017

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 31st March 2017 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the year ended 31 st March			
	Apr 2016 - Mar 2017	Apr 2015 - Mar 2016	Change	% Change
Revenue from sales & service	3,199.82	3,176.85	22.97	0.7%
Other income	26.23	30.16	-3.93	-13.0%
Total revenue	3,226.05	3,207.01	19.04	0.6%
Cost of goods sold & service	2,773.60	2,858.66	-85.06	-3.0%
Selling expenses	67.99	75.20	-7.21	-9.6%
Administrative expenses	104.79	99.32	5.47	5.5%
Total expenses	2,946.38	3,033.18	-86.80	-2.9%
Earning before interest and tax	279.67	173.83	105.84	60.9%
Finance cost	-8.02	-14.91	6.89	-46.2%
Share of profit from investment in associate	1.66	1.20	0.46	38.3%
Income tax expenses	-54.32	-33.40	-20.92	62.6%
Net profit	218.99	126.72	92.27	72.8%
Minority interest in subsidiary	-42.43	-29.02	-13.41	46.2%
Net profit of the Company	176.56	97.70	78.86	80.7%

1. Operating Performance

For the year ended 31st March 2017 the Company and its subsidiaries had net profit of Baht 176.56 million or increased by 78.86 million or 80.7 percent from previous year, compared with the net profit of Baht 97.70 million in previous year. Net profit increased for the year 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. The recovery of the Thai economy in 2016-2017 was gradual. It is supported by large investment projects in the mega construction and economic stimulating from government sector such as large construction projects involving road and rail transport networks as well as strong robust in tourism industry. This helped to fuel private consumption and investment.

The profit before interest and tax increased by Baht 105.84 million whereas corporate tax increased by 20.92 million, financial cost decreased by Baht 6.89 million and profit sharing to minority shareholders also increased by Baht 13.41 million in current year.

1.1 Revenue

For the year ended 31st March 2017, the Company and its subsidiaries had revenue from sales and service of Baht 3,199.82 million compared with Baht 3,176.85 million in the same period of the previous year, which slightly increased by 0.7 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 majority sales of Company comprised of metal like stainless steel and non-ferrous metal like copper and aluminum whereas sales of a new subsidiary company mostly came from Stainless Copper and Aluminum as the main product groups among various industries, mainly in particular for automotive, electrical appliance and construction.

The Company and its subsidiaries' revenue from the sales of goods are mostly revenue from domestic sales. For the year ended 31st March 2017, the Company and its subsidiaries had revenue from domestic sales of 99.20 percent of total revenue from sales and services.

1.2 Other income

Other income consists of interest income, gain from asset sales and revenue from scrap sales. For the year ended 31st March 2017, the Company and its subsidiaries had other income of Baht 26.23 million or decreased by 13.0 percent from the same period previous year. This was owing to the less scrap from production as well as lower scrap price during the 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 31st March 2017, the Company and its subsidiaries had cost of goods sold of Baht 2,773.60 million, or accounting for 85.98 percent of the total revenue in comparing with Baht 2,858.66 million, or accounting for 89.14 percent of total revenue of previous year. Cost of goods sold decreased by 3.0 percent whereas sales & service increased by 0.7 percent.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses, promotional expenses. For the year ended 31st March 2017, the Company and its subsidiaries had selling expenses of Baht 67.99 million, compared with selling expenses of Baht 75.20 million in the same period of the previous year which decreased by 9.6 percent. 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 reserved last year while only small reserve required this year

For the period of year ended 31st March 2017, the selling expenses were 2.12 percent, decreased when comparing to 2.37 percent of revenue from sales and service 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 31st March 2017, the Company and its subsidiaries had administrative expenses of Baht 104.79 million, compared with administrative expenses of Baht 99.32 million in the same period of the previous year which increased by 5.5 percent.

For the year ended 31st March 2017, the administrative expenses was 3.25 percent of total revenue, slightly increased in compared with administrative expenses of 3.10 percent of total revenue in the same period of the previous year.

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

For the year ended 31st March 2017, the Company and its subsidiaries had profit before interest and tax of Baht 279.67 million. After deducting the finance cost of Baht 8.02 million, income tax of Baht 54.32 million, net profit sharing to minority shareholders of subsidiary of Baht 42.43 million and adding the profit sharing from investment in related of Baht 1.66 million , the net profit of the Company and its subsidiaries stood at Baht 176.56 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 173.83 million and Baht 97.70 million respectively, the net profit of the present year increased by 80.7 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 31st March 2017 and 2016, the company and its subsidiary recognized share of profit by equity method of Baht 1.66 million and Baht 1.20 million respectively. The increase in share of profit for period was due mainly to the higher sales of a new subsidiary who is the manufacturer of exhausted pipe in automotive industry.

1.8 Income tax expense

For the year ended 31st March 2017, the Company and its subsidiaries had corporate tax of Baht 54.32 million or increase by 62.6 percent due to the higher in operating profit.

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 2017, 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 42.43 million, increased from amount by 13.41 million of previous year by 46.2 percent. The increased was due mainly to the higher sales and profit of a subsidiary who is the manufacturer of exhausted pipe in automotive industry.

1.10 Profitability

For the year ended 31st March 2017, the Company and its subsidiaries had higher gross profit margin of 13.32 percent compared with gross profit margin of 10.02 percent in the same period 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 year ended 31st March 2017, the Company and its subsidiaries had net profit margin of 5.47 percent compared with net profit of 3.05 percent in the same period of the previous year. The increase in net profit was mainly from the higher in gross margin.

(Unit: Baht million)

Consolidated balance sheets	As at 31 st Mar 2017		As at 31 st Mar 2016	
	Amount	%	Amount	%
<u>Assets</u>				
<u>Current Assets</u>				
Cash and cash equivalents	237.45	10.45%	177.64	8.01%
Short-term investment	21.35	0.94%	4.51	0.20%
Account receivable, trade and others	679.83	29.93%	762.17	34.37%
Inventories, net	792.71	34.90%	664.35	29.96%
Other current assets	5.71	0.25%	4.97	0.23%
Total current assets	1,737.05	76.47%	1,613.64	72.77%
<u>Non-current assets</u>				
Investment in related company	10.99	0.48%	9.33	0.42%
Long-term investment	2.73	0.12%	3.16	0.14%
Property, plant and equipment, net	448.52	19.75%	519.22	23.42%
Intangible assets – net	0.76	0.03%	0.43	0.02%
Restricted fixed deposits	45.98	2.03%	46.50	2.10%
Deferred tax assets	21.60	0.95%	21.49	0.97%
Other non-current assets	3.83	0.17%	3.63	0.16%
Total non-current assets	534.41	23.53%	603.76	27.23%
TOTAL ASSETS	2,271.46	100.00%	2,217.40	100.00%
<u>LIABILITIES</u>				
<u>Current liabilities</u>				
Bank overdraft and borrowing from financial institutions	53.56	2.36%	252.95	11.41%
Account payables, trade and others	531.90	23.42%	362.82	16.36%
Current portion of financial lease	1.17	0.05%	3.48	0.16%
Accrued corporate income tax	29.49	1.30%	15.17	0.68%
Other current liabilities	8.23	0.36%	13.05	0.59%
Total current liabilities	624.35	27.49%	647.47	29.20%
<u>Non-current liabilities</u>				
Financial lease obligations	-		1.16	0.05%
Provision for employee benefit	31.07	1.36%	30.02	1.36%
Total non-current liabilities	31.07	1.36%	31.18	1.41%
TOTAL LIABILITIES	655.42	28.85%	678.65	30.61%
<u>SHAREHOLDERS' EQUITY</u>				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.86%	383.00	17.27%
Premium on stock	519.67	22.88%	519.67	23.44%
Retained earnings				
Legal reserve	72.60	3.20%	65.30	2.94%
Un-appropriated	440.35	19.39%	376.49	16.98%
Non-controlling interest of a subsidiary	200.42	8.82%	194.29	8.76%
Total shareholders' equity	1,616.04	71.15%	1,538.75	69.39%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,271.46	100.00%	2,217.40	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 31st March 2017 and 2016, the Company and its subsidiaries had total assets of Baht 2,271.46 million and Baht 2,217.40 million respectively. The increase was Baht 54.06 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 March 2017 and 2016 the Company and its subsidiaries had net inventories of Baht 792.71 million (or 34.90 percent of total assets) and Baht 664.35 million (or 29.96 percent of total assets) respectively
- 2.1.2 Trade account receivables, net – other parties: As at 31st March 2017 and 2016, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 679.83 million (or 29.93 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 March 2017 and 2016, the Company and its subsidiaries had Land, plant and equipments – net of Baht 448.52 million (or 19.75 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 March 2017 and 2016, the Company and its subsidiaries had net value of Baht 45.98 million (or 2.03 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 March 2017 and 2016, the Company and its subsidiaries had net value of Baht 21.60 million and Baht 21.49 million respectively (0.95 percent and 0.97 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 31st March 2017 and 2016 stood at Baht 655.42 million and Baht 678.65 million respectively. The decreasing 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 March 2017 and 2016, shareholders' equity was Baht 1,616.04 million and Baht 1,538.75 million respectively. The major changes were from the net profit amounting to Baht 221.01 million, dividend payment of Baht 143.72 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,415.62 million and Baht 200.42 million respectively.

Debt to Equity ratio as at 31st March 2017 and 2016 were 0.41 and 0.44 times respectively.

(Unit: Baht million)

Consolidated cash flows statement	As at 31st Mar 2017	As at 31st Mar 2016
Net cash from (used in) operating activities	430.18	325.84
Net cash used in investing activities	-23.84	-48.02
Net cash from (used in) financing activities	-346.59	-234.89
Effect of exchange rate to cash and cash equivalent	0.06	-0.09
Net increase (decrease) in cash	59.81	42.84

3. Cash flows

For the year ended 31st Mar 2017, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 430.18 million, consisting of baht 311.30 million positively from operating performance and net positive of Baht 118.88 million from working capital. Most increase was in trade creditors from raw material procurement.

There was also net pay in investing activities of Baht -23.84 million with no major investment during the year.

The financing part was net Baht -346.59 million. There were settlement of short term loan by -199.39 million and payment of dividend by Baht -143.72 million.

In total, net cash for the year was increased by Baht 59.81 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director