

Aug 10, 2016

Subject Management Discussion and Analysis for the period of three months ended 30th June 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 period of three months ended 30th June 2016 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 30th June			
	Apr 2016 - June 2016	Apr 2015 - June 2015	Change	% Change
Revenue from sales & service	744.99	785.75	-40.76	-5.2%
Other income	7.06	11.02	-3.96	-35.9%
Total revenue	752.05	796.77	-44.72	-5.6%
Cost of goods sold & service	646.00	711.68	-65.68	-9.2%
Selling expenses	19.87	19.10	0.77	4.0%
Administrative expenses	25.02	24.51	0.51	2.1%
Total expenses	690.89	755.29	-64.40	-8.5%
Earning before interest and tax	61.16	41.48	19.68	47.4%
Financial expenses	-2.72	-4.86	2.14	-44.0%
Share of income from investment in associate	0.40	0.27	0.13	48.1%
Corporate Income tax expenses	-11.74	-7.53	-4.21	55.9%
Net profit for the period	47.10	29.36	17.74	60.4%
Profit Sharing for non-controlling interest of a subsidiary company	-10.00	-5.74	-4.26	74.2%
Net profit for the company and its subsidiaries	37.10	23.62	13.48	57.1%

1. Operating Performance

For the period of three months ended 30th June 2016, the net profit was Baht 37.10 million, increased by 13.48 million or increasing by 57.1 percents in which performance for the company and its subsidiaries in the current three-month period compared to the same period of a year earlier, Mainly due to the gross margin of the exhaust products in the automotive industry has improved from the development of process continues in the coming years. The more cautious in selling stainless steel sheet and strip to the wholesalers, which normally has a lower gross margin and may be affected by the slow down economy together with the lower of average sale price of almost every product category in the current quarter. As a result, total sales decreased but the company still managed to push the gross margin better. In total, net income was improved by higher gross margin and lower finance costs while other expenses remain stable.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 10.00 million, increased by Baht 4.26 million from the same period of previous year due to the increase in net profit of a subsidiary company who manufacture and supply the automotive exhausted pipes to automotive industry.

1.1 Revenue

For the period of three months ended 30th June 2016, the Company and its subsidiaries had revenue from sales and service of Baht 744.99 million compared with Baht 785.75 million in the same period of the previous year or decreased by 5.2 percents. The weight of stainless steel sheet and strip in channel sales to wholesale sales fell following the slowing down of economy and company put more careful in sales to this segment. While the average selling price of almost every product group in the

current quarter was reduced from same quarter of previous year. As a result, overall sales fell consequently, although the weight of products sold in some segments were growing.

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.

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 ended 30th June 2016, the Company and its subsidiaries had other income of Baht 7.06 million which decreased by 35.9 percent from the same period previous 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 products consisting of cold rolled stainless steel sheet, Copper, Aluminum, Brass, Galvanized iron with various type as coil, sheet, pipe and axle. The Company and its subsidiaries procure finish quality product for sales as well as raw material for manufacture to quality product and sales. For the period of three months ended 30th June 2016, the Company and its subsidiaries had cost of goods sold of Baht 646.00 million, or accounting for 85.90 percent of the total revenue in comparing with Baht 711.68 million or accounting for 89.32 percent of total revenue of previous year. The cost of goods sold of the company and its subsidiaries decreased by 9.2 percent compared with the same period last year. While revenues from sales and services decreased by 5.2 percent, mainly due to the ongoing improvement and development of processes in recent years, which currently resulted in lower production costs and the sales in the current quarter had the proportion of higher product margin in comparison with previous year.

1.4 Selling expenses

Selling expenses consist of sale staff expenses, transportation expenses and promotion expenses. For the period of three months ended 30th June 2016, the Company and its subsidiaries had selling expenses of Baht 19.87 million, compared with selling expenses of Baht 19.10 million in the same period of the previous year which increased by Baht 0.77 million or 4.0 percent. The increase was mainly due to the normally rise in personnel costs.

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 ended 30th June 2016, the Company and its subsidiaries had administrative expenses of Baht 25.02 million, compared with administrative expenses of Baht 24.51 million in the same period of the previous year which slightly increased by 2.1 percent.

The other increase is in area of personnel costs due to salary normally increased year by year and other administrative expenses. As such, the administrative expenses for the period of three months ended 30th June 2016 was 3.33 percent of total revenue, slightly higher in compared with administrative expenses of 3.08 percent of total revenue in the same period of the previous year.

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 ended 30th June 2016, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.40 million in consolidated income statements in which increased by Baht 0.13 million or 48.1 percent in comparison with the same period of previous year.

1.7 Earning (loss) before interest and tax and Net Profit (loss) for the period

For the period of three months ended 30th June 2016, the Company and its subsidiaries had profit before interest and tax of Baht 61.16 million. After deducting the financial expense of Baht 2.72 million and income tax of Baht 11.74 million and adding the share of income from investment of Baht 0.40 million, the net profit of the Company and its subsidiaries was at Baht 47.10 million. When comparing to the profit before interest and tax and the net profit of the same period of the previous year which were at Baht 41.48 million and Baht 29.36 million respectively, the profit before interest and tax and net profit of the present period increased by 47.4 percent and 60.4 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 10.00 million for the present period which increased by Baht 5.74 million from the same period of previous year. Therefore, the net profit for the company and its subsidiary for the three months ended as of 30th June 2016 was Baht 37.10 million from Baht 23.62 million in the same period of previous year.

1.8 Corporate income tax

For the three months ended 30th June 2016, the Company and its subsidiaries recognized corporate tax expenses by 11.74 million or increased by 55.9 percent, when comparing to corporate tax expenses by 7.53 million in the same period of previous year. This was mainly due to higher earnings from operations.

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 was amount by 10.00 million for the three month period ended 30th June 2016. It was increased from amount of Baht 5.74 million in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2016, the Company and its subsidiaries had gross profit margin of 13.29 percent compared with gross profit margin of 9.43 percent in the same period of the previous year. The higher gross margin was due mainly to the higher margin products in exhausted pipe following its ongoing improvement and development in production process as well as lower sale in wholesalers segment where these sales had low margin.

(Unit: Baht million)

Consolidated balance sheets	As at 30 th June 2016		As at 31 st Mar 2016	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	183.74	8.26%	177.64	8.01%
Short-term investment	4.51	0.20%	4.51	0.20%
Account receivable, trade and others	718.90	32.31%	762.17	34.37%
Inventories, net	727.51	32.69%	664.35	29.96%
Other current assets	4.96	0.22%	4.97	0.23%
Total current assets	1,639.62	73.68%	1,613.64	72.77%
Non-current assets				
Investment in related company	9.73	0.44%	9.33	0.42%
Long-term investment	3.11	0.14%	3.16	0.14%
Property, plant and equipment, net	498.75	22.41%	519.22	23.42%
Intangible assets – net	0.41	0.02%	0.43	0.02%
Restricted fixed deposits	46.50	2.09%	46.50	2.10%
Deferred tax assets	23.67	1.06%	21.49	0.97%
Other non-current assets	3.63	0.16%	3.63	0.16%
Total non-current assets	585.80	26.32%	603.76	27.23%
TOTAL ASSETS	2,225.42	100.00%	2,217.40	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	159.48	7.17%	252.95	11.41%
Account payables, trade and others	428.83	19.27%	362.82	16.36%
Current portion of financial lease	2.79	0.12%	3.48	0.16%
Accrued corporate income tax	28.77	1.29%	15.17	0.68%
Other current liabilities	6.84	0.31%	13.05	0.59%
Total current liabilities	626.71	28.16%	647.47	29.20%
Non-current liabilities				
Financial lease obligations	1.04	0.05%	1.16	0.05%
Provision for employee benefit	31.07	1.39%	30.02	1.36%
Total non-current liabilities	32.11	1.44%	31.18	1.41%
TOTAL LIABILITIES	658.82	29.60%	678.65	30.61%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	17.21%	383.00	17.27%
Premium on stock	519.67	23.35%	519.67	23.44%
Retained earnings				
Legal reserve	65.30	2.94%	65.30	2.94%
Un-appropriated	413.54	18.58%	376.49	16.98%
Non-controlling interest of a subsidiary	185.09	8.32%	194.29	8.76%
Total shareholders' equity	1,566.60	70.40%	1,538.75	69.39%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,225.42	100.00%	2,217.40	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th June 2016 and 31st March 2016, the Company and its subsidiaries had total assets of Baht 2,225.42 million and Baht 2,217.40 million respectively. The increase was Baht 8.02 million, mainly increased in inventories but decreased in account receivable. 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 30th June 2016 and 31st March 2016 the Company and its subsidiaries had net inventories of Baht 727.51 million (or 32.69 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 30th June 2016 and 31st March 2016, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 718.90 million (or 32.31 percent of total assets) and Baht 762.17 million (or 34.37 percent of total assets) respectively. The decreased in value was due to the lower sales in current quarter than the same quarters of previous year.
- 2.1.3 Land, plant and equipments - Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 30th June 2016 and 31st March 2016, the Company and its subsidiaries had Land, plant and equipments – net of Baht 498.75 million (or 22.41 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 30th June 2016 and 31st March 2016, the Company and its subsidiaries had net value of Baht 46.50 million (2.09 percent and 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 30th June 2016 and 31st March 2016, the Company and its subsidiaries had net value of Baht 23.67 million and Baht 21.49 million respectively (1.06 percent and 0.97 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th June 2016 and 31st March 2016 stood at Baht 658.82 million and Baht 678.65 million respectively. The decreasing in liabilities was mainly to the settlement of trade creditor and short term loan by excessive operating cash flow but higher trade creditor from procurement of raw material.

2.3 Shareholders' equity

As at 30th June 2016 and 31st March 2016, shareholders' equity was Baht 1,566.60 million and Baht 1,538.75 million respectively. The major changes were from the net profit amounting to Baht 47.06 million, dividend payment of Baht 19.20 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,381.51 million and Baht 185.09 million respectively.

Debt to Equity ratio, as at 30th June 2016 and 31st March 2016, the ratios were 0.42 and 0.44 times respectively. The decrease in ratio was due to lower in total liabilities and profit incurred during the period

(Unit: Baht million)

Consolidated cash flows statement	As at 30th June 2016	As at 30th June 2015
Net cash from (used in) operating activities	119.35	48.22
Net cash used in investing activities	0.13	-0.82
Net cash from (used in) financing activities	-113.49	-76.84
Effect of exchange rate to cash and cash equivalent	0.11	0.06
Net increase (decrease) in cash	6.10	-29.38

3. Cash flows

For the quarter ended 30th June 2016, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 119.35 million, consisting of baht 88.74 million positively from operating performance and net positive of Baht 30.61 million from working capital. Most decrease was in trade receivable and most increased were in inventory and trade creditors.

There was also net pay in investing activities of Baht 0.13 million with no major investment during the quarter.

The financing part was net Baht -113.49 million. There were settlement of short term loan by Baht -93.48 million and payment of dividend by Baht -19.20 million.

In total, net cash for the year was increased by Baht 6.10 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director