

Nov 11, 2019

Subject Management Discussion and Analysis for the period of three months and the period of 1st half ended 30th September 2019

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 the period of 1st half ended 30th September 2019 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 30 th Sept				For the period of 1st half ended 30 th Sept			
	July - Sept 2019	July - Sept 2018	Change	% Change	Apr - Sept 2019	Apr - Sept 2018	Change	% Change
Revenue from sales & service	745.69	844.39	-98.70	-11.7%	1,465.51	1,698.16	-232.65	-13.7%
Other income	4.68	7.79	-3.11	-39.9%	9.94	12.82	-2.88	-22.5%
Total revenue	750.37	852.18	-101.81	-12.0%	1,475.45	1,710.98	-235.53	-13.8%
Cost of goods sold & service	658.94	741.76	-82.82	-11.2%	1,297.29	1,485.01	-187.72	-12.6%
Selling expenses	17.89	16.73	1.16	6.9%	33.40	32.83	0.57	1.7%
Administrative expenses	30.03	28.30	1.73	6.1%	66.31	55.83	10.48	18.8%
Total expenses	706.86	786.79	-79.93	-10.2%	1,397.00	1,573.67	-176.67	11.2%
Earning before interest and tax	43.51	65.39	-21.88	-33.5%	78.45	137.31	-58.86	-42.9%
Financial expenses	-0.87	-1.30	0.43	-33.1%	-2.03	-2.63	0.60	-22.8%
Share of income from investment in associate	0.55	0.40	-0.15	-37.5%	1.07	0.82	0.25	30.5%
Corporate Income tax expenses	-8.35	-12.72	4.37	-34.4%	-14.93	-26.83	11.90	-44.4%
Net profit for the period	34.84	51.77	-16.93	-32.7%	62.56	108.67	-46.11	-42.4%
Profit Sharing for non-controlling interest of a subsidiary company	-12.24	-14.47	2.23	-15.4%	-22.43	-28.05	5.62	-20.0%
Net profit for the company and its subsidiaries	22.60	37.30	-14.70	-39.4%	40.13	80.62	-40.49	-50.2%

1. Operating Performance

For the period of three months ended 30th Sept 2019, the net profits for the company and its subsidiaries was Baht 22.60 million or decreased by 14.70 million which was -39.4 percent, the results for the current three-month period was declined when comparing to the same period of the previous year. The main reasons was the weaken sales due to the impact of trade wars that have the broad impact on global supply chain and through Thailand's exports. As such, company customers who are the manufacturers for export have delay purchasing to their weaker demand. The selling price of various products has also decreased according to the price of global raw materials and the increasing in competition among entrepreneurs under the situation of excess supply from products and raw materials coming in from various countries. Therefore those factors have been affecting sales both in terms of quantity, selling price and eventually resulting to softer gross profit of various group products in higher competition. In terms of expenses in the current quarter, the company has controlled the selling and administrative expenses for more efficiency.

For the period of 1st half ended 30th Sept 2019, the Company and its subsidiaries reported operating profit of Baht 78.45 million, a decrease of 42.9 percent and net profit of Baht 40.13 million or decreased by 50.2% while compared to the same period of last year which the net profit was Baht 80.62 million. Due to the economic downturn in 1st half of year, the

foreign purchasing power was greatly contracted by trade impacts and the higher competition in view of excess supply. These factors affect the sales volume and selling price. Therefore has a direct impact on the company's gross profit and net profit. Moreover, the Company and its subsidiaries have set aside provision in first quarter for additional employee benefits at the amount of approximately 7.7 million baht in order to comply with the Labor Protection Act, revised and announced in 2019.

1.1 Revenue

For the period of three months ended 30th Sept 2019, the Company and its subsidiaries had revenue from sales and service of Baht 745.69 million compared with Baht 844.39 million in the same period of the previous year, which decreased by 11.7 percent. The decrease in sales was due to lower in overall selling price among stainless steel products together with lower global material price and higher sale competition.

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

For the period of 1st half of year ended 30th Sept 2019, the Company and its subsidiaries had revenue from sales and service of Baht 1,465.51 million compared with Baht 1,698.16 million in the same period of the previous year or slightly decreased by 13.7 percent. The decrease in sales was the result of a six-month sales decline in all product groups, especially in the first quarter.

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 and period of 1st half ended 30th Sept 2019, the Company and its subsidiaries had other income of Baht 4.68 million and 9.94 million baht respectively, which decreased by 39.9 percent and 22.5 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 30th Sept 2019, the Company and its subsidiaries had cost of goods sold of Baht 658.94 million, or stood at 87.82 percent of the total revenue, decrease in comparing with Baht 741.76 million or stood at 87.04 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 30th Sept 2019 decreased by 11.2 percent, the lower decrease in cost than the decrease in sales & services by 11.7 percent from the same period of previous year.

For the period of 1st half ended 30th Sept 2019, the Company and its subsidiaries had cost of goods sold of Baht 1,297.29 million, or stood at 87.93 percent of the total revenue in comparing with Baht 1,485.01 million, or stood at 86.79 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 1st half ended 30th Sept 2019, the Company and its subsidiaries had selling expenses of Baht 17.89 million and 33.40 million, compared with selling expenses of Baht 16.73 million and 32.83 million in the

same periods of the previous year, or increased by 6.9 percent for three month period and increased by 1.7 percent for the 1st half year respectively. The majority of selling expense was sale personal expenses annually adjusted as normal.

The increased by 6.9 percent in this quarter was due to the three month period in the previous year being lower than usual when a subsidiary reverse a bad debt of 1 million baht in that period.

For the period of three months and 1st half ended 30th Sept 2019, the selling expenses were 2.40 percent and 2.28 percent of total sales and service respectively, compared with 1.98 percent and 1.93 percent in the same periods 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 1st half ended 30th Sept 2019, the Company and its subsidiaries had administrative expenses of Baht 30.03 million and 66.31 million, compared with administrative expenses of Baht 28.30 million and 55.83 million in the same period of the previous year which increased by 6.1 percent and increase by 18.8 percent respectively. The major expenses are mainly in area of personnel costs due to salary normally increased year by year and other administrative expenses.

The higher administration expenses in 1st half ended 30th Sept 2019 by 18.8 percent was due to the Company and its subsidiaries have set aside provision in first quarter for additional employee benefits at the amount of approximately 7.7 million baht in order to comply with the Labor Protection Act, revised and announced in 2019.

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 1st half year ended 30th Sept 2019, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.55 million and 1.07 million in consolidated income statements respectively

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

For the period of three months and period of 1st half ended 30th Sept 2019, the Company and its subsidiaries had earning before interest and tax of Baht 43.51 million and Baht 78.45 million respectively. After deducting the financial costs of Baht -0.87 million and Baht -2.03 million, adding the share of income from investment of Baht 0.55 million and Baht 1.07 million, deducting the corporate income tax of Baht -12.24 million and Baht -22.43 million, the net profit of the Company and its subsidiaries were at Baht 34.84 million and Baht 62.56 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 -33.5 percent and by -32.7 percent respectively, whereas the earning before interest and tax and net profit for the period of 1st half were both decreased by -42.9 percent and -42.4 percent respectively.

In addition to the period of three month and period of 1st half ended 30th Sept 2019, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 12.24 million and 22.43 million respectively. The lower profit sharing was due to the lower in net profit of a subsidiary. As a result, the net profit for the company and its subsidiary were amount of Baht 22.60 million and 40.13 million respectively.

1.8 Corporate income tax

For the period of three month and 1st half of year ended 30th Sept 2019, the Company and its subsidiaries recognized corporate tax expenses by Baht 8.35 million and 14.93 million, decrease from the same period of previous year of Baht 12.72 million and 26.83 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. 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 12.24 million and 22.43 million for the period of three month and 1st half year ended 30th Sept 2019.

1.10 Profitability

For the period of three months ended 30th Sept 2019, the Company and its subsidiaries had gross profit margin of 11.63 percent, compared with gross profit margin of 12.15 percent in the same period of the previous year. This was mainly due to lower sales in the higher margin segment like stainless steel and lower in overall sales.

For the period of 1st half ended 30th Sept 2019, the Company and its subsidiaries had gross profit margin of 11.48 percent compared with gross profit margin of 12.55 percent in the same period the previous year. The gross profit margin decreased by Baht -44.93 million.

(Unit: Baht million)

Consolidated balance sheets	As at 30 th Sept 2019		As at 31 st Mar 2019	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	290.57	12.83%	314.32	13.40%
Short-term investment	3.80	0.17%	4.38	0.19%
Account receivable, trade and others	653.92	28.89%	673.05	28.70%
Inventories	679.18	30.00%	716.37	30.54%
Other current assets	4.04	0.18%	5.91	0.25%
Total current assets	1,631.51	72.07%	1,714.03	73.08%
Non-current assets				
Restricted bank deposits	46.18	2.04%	46.18	1.97%
Investment in associate	10.74	0.48%	9.67	0.41%
Long-term investment	4.58	0.20%	3.51	0.15%
Property, plant and equipment	538.16	23.77%	544.27	23.20%
Intangible assets	1.91	0.08%	0.37	0.02%
Deferred tax assets	18.28	0.81%	15.56	0.66%
Other non-current assets	12.49	0.55%	11.94	0.51%
Total non-current assets	632.34	27.93%	631.50	26.92%
TOTAL ASSETS	2,263.85	100.00%	2,345.53	100.00%
LIABILITIES				
Current liabilities				
Short term loans from banks	60.49	2.67%	92.25	3.93%
Account payables, trade and others	495.36	21.88%	516.82	22.03%
Income tax payable	17.48	0.77%	20.12	0.86%
Other current liabilities	5.59	0.25%	8.56	0.37%
Total current liabilities	578.92	25.57%	637.75	27.19%
Non-current liabilities				
Provision for long-term employee benefits	51.88	2.29%	41.37	1.76%
Total non-current liabilities	51.88	2.29%	41.37	1.76%
TOTAL LIABILITIES	630.80	27.86%	679.12	28.95%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.92%	383.00	16.33%
Premium on stock	519.67	22.96%	519.67	22.16%
Retained earnings				
Legal reserve	75.07	3.32%	74.90	3.19%
Un-appropriated	439.92	19.43%	468.04	19.96%
Non-controlling interest of the subsidiary	215.39	9.51%	220.80	9.41%
Total shareholders' equity	1,666.69	72.14%	1,666.41	71.05%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,278.45	100.00%	2,345.53	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th September and 31st March 2019, the Company and its subsidiaries had total assets of Baht 2,263.85 million and Baht 2,345.53 million respectively. Cash, trade accounts receivable and inventory decreased by 23.75 million baht, 19.13 million baht and 37.19 million baht respectively, following the contraction in sales. 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 September and 31st March 2019 the Company and its subsidiaries had net inventories of Baht 679.18 million (or 30.00 percent of total assets) and Baht 716.37 million (or 30.54 percent of total assets) respectively. The decrease in inventories were mainly following the lower sales and decrease in global material price.
- 2.1.2 Trade account receivables – other parties: As at 30th September and 31st March 2019, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 653.92 million (or 28.89 percent of total assets) and Baht 673.05 million (or 28.70 percent of total assets) respectively. Trade receivables decreased in following to the lower sales.
- 2.1.3 Land, plant and equipments - Land and improvements, building, machinery, office equipments, vehicles and work on progress of construction: As at 30th September and 31st March 2019, the Company and its subsidiaries had Land, plant and equipments – net of Baht 538.16 million (or 23.77 percent of total assets) and Baht 544.27 million (or 23.20 percent of total assets) respectively.
- 2.1.4 Restricted bank deposit: As at 30th September and 31st March 2019, the Company and its subsidiaries had net value of Baht 46.18 million (or 2.04 percent of total assets and 1.97 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 September and 31st March 2019, the Company and its subsidiaries had net value of Baht 18.28 million and Baht 15.56 million respectively (0.81 percent and 0.66 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th September and 31st March 2019 stood at Baht 630.80 million and Baht 679.12 million respectively. The decrease in liabilities was mainly due to decreasing in current liabilities, reflecting lower purchases of raw materials in the meantime. In addition, the company and its subsidiaries have additional long-term liabilities following the setting of one time provision for additional employee benefits of approximately 7.7 million baht in order to comply with the Labor Protection Act. Revised and announced in 2019.

2.3 Shareholders' equity

As at 30th September and 31st March 2019, shareholders' equity was Baht 1,633.05 million and Baht 1,666.41 million or decrease by 33.36 million. The major changes were the net profit amounting to Baht 62.56 million and dividend payment of Baht 96.78 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,417.66 million and Baht 215.39 million respectively.

Debt to Equity ratio as at 30th September and 31st March 2019 were 0.39 and 0.41 times respectively. The lower D/E ratio was due to lower current liabilities as a result of lower raw material purchase and the contraction of sales in this quarter.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th Sept 2019	As at 30th Sept 2018
Net cash from (used in) operating activities	125.13	-79.25
Net cash used in investing activities	-20.31	-125.16
Net cash from (used in) financing activities	-128.54	-36.89
Effect of exchange rate to cash and cash equivalent	-0.03	0.01
Net increase (decrease) in cash	-23.75	-241.29

3. Cash flows

For the year ended 30th September 2019 and 2018, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 125.13 million, consisting of baht 95.92 million positively from operating performance and net positive in working capital of Baht 29.21 million. The net positive cash flow in working capital came from smaller amounts of account receivable and inventory over net negative cash flow for payment of trade payable.

Net cash flow from investing activities was -20.31 million baht, with regular investment in system and upgrading some production equipment.

The financing part was net Baht -128.54 million by settlement of short term loan -31.76 million and payment of dividend by Baht -96.78 million.

In total, net cash for the period was decreased by Baht -23.75 million.

Sincerely yours,

(Mr.Vittawat Akarapongpisak)
Deputy Managing Director