

Aug 14, 2015

Subject Management Discussion and Analysis for the period of three months ended 30th June 2015

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 2015 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 2015 - June 2015	Apr 2014 - June 2014	Change	% Change
Revenue from sales & service	785.75	770.86	14.89	1.9%
Other income	11.02	9.19	1.83	19.9%
Total revenue	796.77	780.05	16.72	2.1%
Cost of goods sold & service	711.68	688.53	23.15	3.4%
Selling expenses	19.10	18.12	0.98	5.4%
Administrative expenses	24.51	24.17	0.34	1.4%
Total expenses	755.29	730.82	24.47	3.4%
Earning before interest and tax	41.48	49.23	-7.75	-15.7%
Financial expenses	-4.86	-4.13	-0.73	17.7%
Share of income from investment in associate	0.27	0.12	0.15	125.0%
Corporate Income tax expenses	-7.53	-9.11	1.58	-17.3%
Net profit for the period	29.36	36.11	-6.75	-18.7%
Profit Sharing for non-controlling interest of a subsidiary company	-5.74	-4.07	-1.67	41.0%
Net profit for the company and its subsidiaries	23.62	32.04	-8.42	-26.3%

1. Operating Performance

For the period of three months ended 30th June 2015, the net profit was Baht 23.62 million, decreased by 8.42 million or declining by 26.3 percents in which performance for the company and its subsidiaries in the current three-month period compared to the same period a year earlier, Mainly caused by the weak economic environment, consumers are still cautious in their spending because consumers are concerning about economic instability, drought, declining in agricultural income and exports remain stagnant following the economic slowdown of the ASEAN and China, while other major economic partners such as the US, Japan and Europe are still not fully recovered. Both domestic and foreign demands are weak. These are resulting to the low level of industrial production of all the goods for sale in the domestic and export markets in the automotive, electronics and other industries. That has also affected and continues to affect the upstream industrial businesses in which the Company and its subsidiaries are parts of them and had such an impact as well. In terms of gross profit and net profit, they declined toward pressure on profit from fierce competition and price negotiation due to cost control of customers together with more sales in the trade channel, which has a lower gross margin. The overall economic slowdown longer than anticipation required closely monitoring over the economic recovery of Thailand in the second half of 2015.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 5.74 million, increased by Baht 1.67 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 2015, the Company and its subsidiaries had revenue from sales and service of Baht 785.75 million compared with Baht 770.86 million in the same period of the previous year or increased by 1.9 percents. The overall weight of the product groups increased from the same period of the previous year due to the sales efforts in the various channels to maintain overall sales during the weak economic environment. While average prices fell in almost all categories, according to the drop of global market prices of raw materials during the global economic situation has not recovered.

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 2015, the Company and its subsidiaries had other income of Baht 11.02 million which increased by 19.9 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 2015, the Company and its subsidiaries had cost of goods sold of Baht 711.68 million, or accounting for 89.32 percent of the total revenue in comparing with Baht 688.53 million or accounting for 88.27 percent of total revenue of previous year. The said ratio for the period of three months ended 30th June 2015 was increased from the same period of previous year by 3.4 percent due to the pressure on profit from fierce competition and price negotiation to cost control of customers together with more sales in the trade channel, which has a lower gross margin.

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 2015, the Company and its subsidiaries had selling expenses of Baht 19.10 million, compared with selling expenses of Baht 18.12 million in the same period of the previous year which increased by Baht 0.98 million or 5.4 percent. The increase was mainly from the provision in doubtful debt of Baht 1.40 million, while other selling expenses were under control.

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 2015, the Company and its subsidiaries had administrative expenses of Baht 24.51 million, compared with administrative expenses of Baht 24.17 million in the same period of the previous year which slightly increased by 1.4 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 2015 was 3.08 percent of total revenue, slightly higher in compared with administrative expenses of 3.10 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 2015, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.27 million in consolidated income statements in which increased by Baht 0.15 million or 125.0 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 2015, the Company and its subsidiaries had profit before interest and tax of Baht 41.48 million. After deducting the financial expense of Baht 4.86 million and income tax of Baht 7.53 million and adding the share of income from investment of Baht 0.27 million, the net profit of the Company and its subsidiaries was at Baht 29.36 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 49.23 million and Baht 36.11 million respectively, the profit before interest and tax and net profit of the present period decreased by 15.7 percent and 18.7 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 5.47 million for the present period which increased by Baht 4.07 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 2015 was Baht 23.62 million from Baht 32.04 million in the same period of previous year.

1.8 Corporate income tax

For the year ended 30th June 2015, the Company and its subsidiaries recognized corporate tax expenses by 7.53 million or decreased by 17.3 percent, when comparing to corporate tax expenses by 9.11 million in the same period of previous year. This was mainly due to lower 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 5.74 million for the three month period ended 30th June 2015. It was increased from amount of Baht 4.07 million in the same period of previous year.

1.10 Profitability

For the period of three months ended 30th June 2015, the Company and its subsidiaries had gross profit margin of 9.43 percent compared with gross profit margin of 10.68 percent in the same period of the previous year. The lower gross margin was due mainly to the pressure on profit from fierce competition and price negotiation to cost control of customers together with more sales in the trade channel, which has a lower gross margin.

(Unit: Baht million)

Consolidated balance sheets	As at 30 th June 2015		As at 31 st Mar 2015	
	Amount	%	Amount	%
Assets				
Current Assets				
Cash and cash equivalents	105.43	4.45%	134.81	5.63%
Short-term investment	-	-	20.03	0.83%
Account receivable, trade and others	727.61	30.73%	778.52	32.50%
Inventories, net	895.62	37.82%	823.80	34.39%
Other current assets	8.92	0.38%	7.90	0.33%
Total current assets	1,737.58	73.38%	1,765.06	73.68%
Non-current assets				
Investment in related company	8.40	0.36%	8.13	0.34%
Long-term investment	3.19	0.13%	3.08	0.13%
Property, plant and equipment, net	546.11	23.06%	545.46	22.77%
Intangible assets – net	0.53	0.02%	0.57	0.02%
Restricted fixed deposits	46.00	1.94%	46.00	1.92%
Deferred tax assets	19.84	0.84%	18.67	0.78%
Other non-current assets	6.42	0.27%	8.53	0.36%
Total non-current assets	630.49	26.62%	630.44	26.32%
TOTAL ASSETS	2,368.07	100.00%	2,395.50	100.00%
LIABILITIES				
Current liabilities				
Bank overdraft and borrowing from financial institutions	325.06	13.73%	378.85	15.82%
Account payables, trade and others	451.27	19.05%	435.81	18.19%
Current portion of financial lease	4.70	0.20%	4.85	0.20%
Accrued corporate income tax	23.89	1.01%	15.54	0.65%
Other current liabilities	8.54	0.36%	12.91	0.54%
Total current liabilities	813.46	34.35%	847.96	35.40%
Non-current liabilities				
Financial lease obligations	3.83	0.16%	4.65	0.19%
Provision for employee benefit	23.17	0.98%	22.66	0.95%
Total non-current liabilities	27.00	1.14%	27.31	1.14%
TOTAL LIABILITIES	840.46	35.49%	875.27	36.54%
SHAREHOLDERS' EQUITY				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	16.17%	383.00	15.99%
Premium on stock	519.67	21.94%	519.67	21.69%
Retained earnings				
Legal reserve	57.71	2.44%	57.71	2.41%
Un-appropriated	390.63	16.50%	366.91	15.32%
Non-controlling interest of a subsidiary	176.60	7.46%	192.94	8.05%
Total shareholders' equity	1,527.61	64.51%	1,520.23	63.46%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,368.07	100.00%	2,395.50	100.00%

2. Financial Status

2.1 Assets

As for the assets value as at 30th June and 31st March 2015, the Company and its subsidiaries had total assets of Baht 2,368.07 million and Baht 2,395.50 million respectively. The decrease was Baht 27.43 million, mainly decreased in cash on hand. 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 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 and 31st March 2015 the Company and its subsidiaries had net inventories of Baht 895.62 million (or 37.82 percent of total assets) and Baht 823.80 million (or 34.39 percent of total assets) respectively. The increase in present period due mainly to the raw material of aluminum, copper and other in order to prepare for next phrase.
- 2.1.2 Trade account receivables, net – other parties: As at 30th June and 31st March 2015, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 727.61 million (or 30.73 percent of total assets) and Baht 778.52 million (or 32.50 percent of total assets) respectively. The decreased in value was due to the sale size in current quarter which usually lower than the other quarters.
- 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 and 31st March 2015, the Company and its subsidiaries had Land, plant and equipments – net of Baht 546.11 million (or 23.06 percent of total assets) and Baht 545.46 million (or 22.77 percent of total assets) respectively. During the period, there were the investments to upgrade machine and production equipments to reach the better efficiency.
- 2.1.4 Restricted fix deposit: As at 30th June and 31st March 2015, the Company and its subsidiaries had net value of Baht 46.00 million (1.94 percent and 1.92 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 and 31st March 2015, the Company and its subsidiaries had net value of Baht 19.84 million and Baht 18.67 million respectively (0.84 percent and 0.78 percent of total assets respectively).

2.2 Liabilities

The total liabilities of the Company and its subsidiaries as at 30th June and 31st March 2015 stood at Baht 840.46 million and Baht 875.27 million respectively. The decreasing in liabilities was mainly to pay back the short term loan by excessive operating cash flow.

2.3 Shareholders' equity

As at 30th June and 31st March 2015, shareholders' equity was Baht 1,527.61 million and Baht 1,520.23 million respectively. The major changes were from the net profit amounting to Baht 29.36 million, dividend payment of Baht 22.08 million for company shareholders and minority shareholder in a subsidiary and non-controlling interest portion stood by Baht 176.60 million for the share capital and earnings of minority shareholders in a subsidiary.

Debt to Equity ratio, as at 30th June and 31st March 2015, the ratios were 0.55 and 0.58 times respectively. The decrease in ratio was due to the pay back of short term loan.

(Unit: Baht million)

Consolidated cash flows statement	As at 30th June 2015	As at 30th June 2014
Net cash from (used in) operating activities	48.22	62.30
Net cash used in investing activities	-0.82	-22.15
Net cash from (used in) financing activities	-76.84	-27.97
Effect of exchange rate to cash and cash equivalent	0.06	0.04
Net increase (decrease) in cash	-29.38	12.22

3. Cash flows

For the period of three month ended 30th June 2015, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 48.22 million, consisting of baht 63.91 million positively from operating performance and net of Baht -15.69 million working capital. Most decrease was in trade receivable but increases in inventories and trade creditors. There were also net pay in investing activities of Baht -0.82 million, the net spending for upgrade machine and equipment was Baht -21.82 million but receiving from sales of short term investment of Baht 20.12 million. The financing part of cash flow was net increased by Baht -76.84 million. There were net paying back of short term loan by Baht -53.78 million and payment of dividend by Baht -22.08 million. In total, company had net decrease in cash flow for the period by Baht -29.38 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)
Deputy Managing Director