

Feb 11, 2016

Subject Management Discussion and Analysis for the period of three months and nine months ended 31st December 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 and nine months ended 31st December 2015 of the Company and its subsidiaries as details below:

(Unit: Baht millions)

Consolidated financial statement	For the period of three months ended 31 <sup>st</sup> Dec				For the period of nine months ended 31 <sup>st</sup> Dec			
	Oct - Dec 2015	Oct - Dec 2014	Change	% Change	Apr - Dec 2015	Apr - Dec 2014	Change	% Change
Revenue from sales & service	747.29	860.99	-113.70	-13.2%	2,321.65	2,459.72	-138.07	-5.6%
Other income	4.76	7.76	-3.00	-38.7%	24.72	31.20	-6.48	-20.8%
<b>Total revenue</b>	<b>752.05</b>	<b>868.75</b>	<b>-116.70</b>	<b>-13.4%</b>	<b>2,346.37</b>	<b>2,490.92</b>	<b>-144.55</b>	<b>-5.8%</b>
Cost of goods sold & service	668.60	776.35	-107.75	-13.9%	2,092.55	2,207.67	-115.12	-5.2%
Selling expenses	20.94	20.25	0.69	3.4%	59.04	58.06	0.98	1.7%
Administrative expenses	23.91	22.51	1.40	6.2%	71.88	72.16	-0.28	-0.4%
<b>Total expenses</b>	<b>713.45</b>	<b>819.11</b>	<b>-105.66</b>	<b>-12.9%</b>	<b>2,223.47</b>	<b>2,337.89</b>	<b>-114.42</b>	<b>-4.9%</b>
<b>Earning before interest and tax</b>	<b>38.60</b>	<b>49.64</b>	<b>-11.04</b>	<b>-22.2%</b>	<b>122.90</b>	<b>153.03</b>	<b>-30.13</b>	<b>-19.7%</b>
Financial expenses	-3.47	-4.81	1.34	-27.9%	-11.99	-12.74	0.75	-5.9%
Share of income from investment in associate	0.25	0.21	0.04	19.1%	0.77	0.47	0.30	63.8%
Corporate Income tax expenses	-7.86	-9.05	1.19	-13.2%	-23.28	-28.56	5.28	-18.5%
<b>Net profit for the period</b>	<b>27.52</b>	<b>35.99</b>	<b>-8.47</b>	<b>-23.5%</b>	<b>88.40</b>	<b>112.20</b>	<b>-23.80</b>	<b>-21.2%</b>
Profit Sharing for non-controlling interest of a subsidiary company	-7.32	-5.76	-1.56	27.1%	-20.12	-15.20	-4.92	32.4%
<b>Net profit for the company and its subsidiaries</b>	<b>20.20</b>	<b>30.23</b>	<b>-10.03</b>	<b>-33.2%</b>	<b>68.28</b>	<b>97.00</b>	<b>-28.72</b>	<b>-29.6%</b>

## 1. Operating Performance

For the period of three months ended 31st Dec 2015, the net profits for the company and its subsidiaries was Baht 20.20 million or decreased by 10.03 million which accounting for the decrease by 33.2 percent, the results for the current three month period compared to the same period of the previous year was declining. In the current quarter, the economy was still recovering slowly with support from domestic demand, continued government spending, better private spending from stimulation and the well recovery of tourism sector. However, exports of goods continued to contract as a result of the economic slowdown especially in China and ASEAN. Also, low oil prices in the world market has put pressure on the price of goods for export and put pressure in industrial sectors and private investment to remain at low levels. Thailand. However, the economic recovery in 2016 is expected to have a positive image from a series of stimulus measures began to push from the late quarter 3/2015 and accelerating spending under the budget spending and investment in Mega projects of government.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 7.32 million, increased by Baht 1.56 million from the same period of previous year.

For the period of nine months ended 31st Dec 2015, the Company and its subsidiaries had net operating profit of Baht 122.90 million which accounting for the decrease by 19.7 percent, Net profit for the company and its subsidiaries was 68.28 million or decrease by 29.6 percent when compared with the net profit of Baht 97.00 million of the same period of the previous year. Net profit decreased due to the overall production in the industrial sector has shrunk when compared to the previous year, due to the economic slowdown in both domestic and international.

### **1.1 Revenue**

For the period of three months ended 31st Dec 2015, the Company and its subsidiaries had revenue from sales and service of Baht 747.29 million compared with Baht 860.99 million in the same period of the previous year, which decreased by 13.2 percent. The sales decrease is due to lower in overall weight for the core products of stainless steel, fell from the same period last year. That was the consequence of the slowdown of manufacturing in the customer sectors in this year, together with declining of global market price of stainless steel from last year.

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.

For the period of nine months ended 31st Dec 2015, the Company and its subsidiaries had revenue from sales and service of Baht 2,321.65 million compared with Baht 2,459.72 million in the same period of the previous year, which accounting for the decrease by 5.6 percent. Sales decline caused by the weight of its overall sales are down from the same period last year as impacted by purchasing power and the slowdown of overall economic conditions both at local and international.

### **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 2015, the Company and its subsidiaries had other income of Baht 4.76 million and 24.72 million baht respectively, which decreased by 38.7 percent and 20.8 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 2015, the Company and its subsidiaries had cost of goods sold of Baht 668.60 million, or accounting for 88.90 percent of the total revenue, increase in comparing with Baht 776.35 million or accounting for 89.36 percent of total revenue of previous year. However, cost of good sold for the period of three months ended 31st Dec 2015 decreased by 13.9 percent while the decrease in sales & services was 13.2 percent from the same period of previous year.

For the period of nine months ended 31st Dec 2015, the Company and its subsidiaries had cost of goods sold of Baht 2,092.55 million, or accounting for 89.18 percent of the total revenue in comparing with Baht 2,207.67 million, or accounting for 88.63 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 nine months ended 31st Dec 2015, the Company and its subsidiaries had selling expenses of Baht 20.94 million and 59.04 million, compared with selling expenses of Baht 20.25 million and 58.06 million in the same periods of the previous year, or increased by 3.4 percent for three month period and increased by 1.7 percent for the nine months year respectively. The higher in selling expense was due mainly to normal rise in sell personal.

For the period of three months and nine months ended 31st Dec 2015, the selling expenses were 2.80 percent and 2.54 percent of total sales and service, compared with 2.35 percent and 2.36 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 period of three months and period of nine months ended 31st Dec 2015, the Company and its subsidiaries had administrative expenses of Baht 23.91 million and 71.88 million, compared with administrative expenses of Baht 22.51 million and 72.16 million in the same period of the previous year which increased by 6.2 percent and slightly decreased by 0.4 percent respectively. For the three months and nine months period, the company has a reserve for doubtful accounts of 4.08 and 5.65 million baht respectively. However, administrative expenses in the first nine months decreased due to cost control by management.

The major expenses are in area of 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 periods of three months and nine months ended 31st Dec 2015, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.25 million and 0.77 million in consolidated income statements in which increase by 19.1 percent and by 63.8 percent for three months and 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 2015, the Company and its subsidiaries had earning before interest and tax of Baht 38.60 million and Baht 122.90 million respectively. After deducting the financial costs of Baht -3.47 million and Baht -11.99 million, adding the share of income from investment of Baht 0.25 million and Baht 0.77 million, deducting the corporate income tax of Baht -7.86 million and Baht -23.28 million, the net profit of the Company and its subsidiaries were at Baht 20.20 million and Baht 68.28 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 22.2 percent and by 33.2 percent respectively, whereas the earning before interest and tax and net profit for the period of nine months were both decreased by 19.7 percent and 29.6 percent respectively.

In addition to the period of three month and nine months ended 31st Dec 2015, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 7.32 million and 20.12 million respectively. The profit sharing for three months and nine months increased by 27.1 percent and 32.4 percent respectively due to the better net profit of a subsidiary who manufacture the exhaust pipes. As a result, the

net profit for the company and its subsidiary were amount of Baht 20.20 million and 68.28 million respectively.

### **1.8 Corporate income tax**

For the period of three month and nine months of year ended 31st Dec 2015, the Company and its subsidiaries recognized corporate tax expenses by Baht 7.86 million and 23.28 million, decrease from the same period of previous year of Baht 9.05 million and 28.56 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, 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 7.32 million and 20.12 million for the periods of three month and nine months ended 31st Dec 2015.

### **1.10 Profitability**

For the period of three months ended 31st Dec 2015, the Company and its subsidiaries had gross profit margin of 10.53 percent compared with gross profit margin of 9.83 percent in the same period of the previous year. The better gross margin was the results of higher sales in exhaust pipes which has higher margin than the other products.

For the period of nine months ended 31st Dec 2015, the Company and its subsidiaries had gross profit margin of 9.87 percent compared with gross profit margin of 10.25 percent in the same period the previous year. The gross profit margin decreased by Baht 22.95 million or by 9.1% from the same period of previous year.

(Unit: Baht million)

Consolidated balance sheets	As at 31 <sup>st</sup> Dec 2015		As at 31 <sup>st</sup> Mar 2015	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	148.12	6.58%	134.81	5.63%
Short-term investment	-	-	20.03	0.83%
Account receivable, trade and others	678.99	30.14%	778.52	32.50%
Inventories, net	796.60	35.37%	823.80	34.39%
Other current assets	6.94	0.31%	7.90	0.33%
<b>Total current assets</b>	<b>1,630.65</b>	<b>72.40%</b>	<b>1,765.06</b>	<b>73.68%</b>
<b>Non-current assets</b>				
Investment in related company	8.91	0.40%	8.13	0.34%
Long-term investment	3.06	0.14%	3.08	0.13%
Property, plant and equipment, net	537.42	23.86%	545.46	22.77%
Intangible assets – net	0.46	0.02%	0.57	0.02%
Restricted fixed deposits	46.50	2.06%	46.00	1.92%
Deferred tax assets	21.94	0.97%	18.67	0.78%
Other non-current assets	3.43	0.15%	8.53	0.36%
<b>Total non-current assets</b>	<b>621.72</b>	<b>27.60%</b>	<b>630.44</b>	<b>26.32%</b>
<b>TOTAL ASSETS</b>	<b>2,252.37</b>	<b>100.00%</b>	<b>2,395.50</b>	<b>100.00%</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft and borrowing from financial institutions	325.18	14.44%	378.85	15.82%
Account payables, trade and others	375.71	16.68%	435.81	18.19%
Current portion of financial lease	4.15	0.18%	4.85	0.20%
Accrued corporate income tax	6.84	0.30%	15.54	0.65%
Other current liabilities	11.17	0.50%	12.91	0.54%
<b>Total current liabilities</b>	<b>723.05</b>	<b>32.10%</b>	<b>847.96</b>	<b>35.40%</b>
<b>Non-current liabilities</b>				
Financial lease obligations	1.29	0.06%	4.65	0.19%
Provision for employee benefit	24.82	1.10%	22.66	0.95%
<b>Total non-current liabilities</b>	<b>26.11</b>	<b>1.16%</b>	<b>27.31</b>	<b>1.14%</b>
<b>TOTAL LIABILITIES</b>	<b>749.16</b>	<b>33.26%</b>	<b>875.27</b>	<b>36.54%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	17.00%	383.00	15.99%
Premium on stock	519.67	23.07%	519.67	21.69%
Retained earnings				
Legal reserve	60.31	2.68%	57.71	2.41%
Un-appropriated	355.97	15.81%	366.91	15.32%
Non-controlling interest of a subsidiary	183.66	8.18%	192.94	8.05%
<b>Total shareholders' equity</b>	<b>1,503.21</b>	<b>66.74%</b>	<b>1,520.23</b>	<b>63.46%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,252.37</b>	<b>100.00%</b>	<b>2,395.50</b>	<b>100.00%</b>

## **2. Financial Status**

### **2.1 Assets**

As for the assets value as at 31st December and 31st March 2015, the Company and its subsidiaries had total assets of Baht 2,252.37 million and Baht 2,395.50 million respectively. The decrease was Baht 143.13 million, mainly decreased in account receivable and inventories. 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 December and 31st March 2015 the Company and its subsidiaries had net inventories of Baht 796.60 million (or 35.37 percent of total assets) and Baht 823.80 million (or 34.39 percent of total assets) respectively. The decrease was following the weak economic trend during the near term.
- 2.1.2 Trade account receivables, net – other parties: As at 31st December and 31st March 2015, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 678.99 million (or 30.14 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 lower sales in current quarter 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 31st December and 31st March 2015, the Company and its subsidiaries had Land, plant and equipments – net of Baht 537.42 million (or 23.86 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 31st December and 31st March 2015, the Company and its subsidiaries had net value of Baht 46.50 million and Baht 46.00 million (2.06 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 31st December and 31st March 2015, the Company and its subsidiaries had net value of Baht 21.94 million and Baht 18.67 million respectively (0.97 percent and 0.78 percent of total assets respectively).

### **2.2 Liabilities**

The total liabilities of the Company and its subsidiaries as at 31st December and 31st March 2015 stood at Baht 749.16 million and Baht 875.27 million respectively. The decreasing in liabilities was mainly to the settlement of trade creditor and short term loan by excessive operating cash flow.

### **2.3 Shareholders' equity**

As at 31st December and 31st March 2015, shareholders' equity was Baht 1,503.21 million and Baht 1,520.23 million respectively. The major changes were from the net profit amounting to Baht 88.38 million, dividend payment of Baht 105.40 million for company shareholders and minority shareholder in a subsidiary. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,318.95 million and Baht 184.26 million respectively.

Debt to Equity ratio, as at 31st December and 31st March 2015, the ratios were 0.50 and 0.58 times respectively. The decrease in ratio was due to the settlement of trade creditors and short term loan.

(Unit: Baht million)

<b>Consolidated cash flows statement</b>	<b>As at 31st December 2015</b>	<b>As at 31st December 2014</b>
Net cash from (used in) operating activities	215.95	20.85
Net cash used in investing activities	-38.95	-59.63
Net cash from (used in) financing activities	-163.63	100.50
Effect of exchange rate to cash and cash equivalent	-0.06	0.00
Net increase (decrease) in cash	13.31	61.72

### **3. Cash flows**

For the nine months period ended 31st December 2015, the Company and its subsidiaries generated net increase in cash from operating activities of Baht 215.95 million, consisting of baht 158.13 million positively from operating performance and net positive of Baht 57.82 million from working capital. Most decrease was in trade receivable and inventory but increases in trade creditors.

There was also net pay in investing activities of Baht -38.95 million that consist of spending for purchasing of pipe forming & polishing machines and upgrading machine & equipment of Baht -60.89 million and to net with the receiving from sales of short term investment of Baht 20.12 million.

The financing part was net increased by Baht -163.63 million. There were settlement of short term loan by Baht -53.67 million and payment of dividend by Baht -105.40 million.

In total, net cash for the nine month period was increased by Baht 13.31 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)  
Deputy Managing Director