

August 14, 2018

Subject Management Discussion and Analysis for the period of three months ended 30<sup>th</sup> June 2018

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 30<sup>th</sup> June 2018 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 2018 - June 2018	Apr 2017 - June 2017	Change	% Change
Revenue from sales & service	853.77	810.47	43.30	5.3%
Other income	6.29	6.47	-0.18	-2.8%
<b>Total revenue</b>	<b>860.06</b>	<b>816.94</b>	<b>43.12</b>	<b>5.3%</b>
Cost of goods sold & service	743.25	700.82	42.43	6.1%
Selling expenses	16.10	14.83	1.27	8.6%
Administrative expenses	28.79	25.75	3.04	11.8%
<b>Total expenses</b>	<b>788.14</b>	<b>741.40</b>	<b>46.74</b>	<b>6.3%</b>
<b>Earning before interest and tax</b>	<b>71.92</b>	<b>75.54</b>	<b>-3.62</b>	<b>-4.8%</b>
Financial expenses	-1.33	-1.64	0.31	-18.9%
Share of income from investment in associate	0.42	0.25	0.17	68.0%
Corporate Income tax expenses	-14.11	-14.83	0.72	-4.9%
<b>Net profit for the period</b>	<b>56.90</b>	<b>59.32</b>	<b>-2.42</b>	<b>-4.1%</b>
Profit Sharing for non-controlling interest of a subsidiary company	-13.59	-12.60	-0.99	7.9%
<b>Net profit for the company and its subsidiaries</b>	<b>43.31</b>	<b>46.72</b>	<b>-3.41</b>	<b>-7.3%</b>

## 1. Operating Performance

For the period of three months ended 30th June 2018, the net profit was Baht 43.31 million, decreased by 3.41 million or decreasing by 7.3 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. The main reasons was the regular increase in sales and administrative expenses while gross margins amount stay flat in the current quarter, despite higher in sales but softening in their gross margins rates. The overall average selling prices decreased from the previous year, following the decline of global raw material prices with baht also weakened in the current period. Higher sales came from stainless steel sheets, coils and automotive exhaust pipes. In general, the demand for stainless steel has increased as a result of the well recovery of the domestic economy by the boost of the export activities, private consumption and tourism sector. However, the net profit margin was lowered from the increase in selling and administrative expenses while gross margin stay flat.

Beside, company and its subsidiaries recorded the profit sharing to non-controlling interest in a subsidiary by Baht 13.59 million, increased by Baht 0.99 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 2018, the Company and its subsidiaries had revenue from sales and service of Baht 853.77 million compared with Baht 810.47 million in the same period of the previous year or increased by 5.3 percents. This is due to the higher average sales volume of metal products, but the average selling price has decreased in line with the global price of raw materials compared to the same period of the previous year. The sale weight of stainless steel sheet, coils and exhausted pipes increased in line with the economic conditions in the country, which has continued to grow due to the continuous economic stimulus of the government and the recovery of various industries.

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 2018, the Company and its subsidiaries had other income of Baht 6.29 million which decreased by 2.8 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 2018, the Company and its subsidiaries had cost of goods sold of Baht 743.25 million, or accounting for 86.42 percent of the total revenue in comparing with Baht 700.82 million or accounting for 85.79 percent of total revenue of previous year. The cost of goods sold of the company and its subsidiaries increased by 6.1 percent compared with the same period last year. While revenues from sales and services increased by 5.3 percent.

## **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 2018, the Company and its subsidiaries had selling expenses of Baht 16.10 million, compared with selling expenses of Baht 14.83 million in the same period of the previous year which increased by Baht 1.27 million or 8.6 percent. The selling expenses ratio for the period of three months ended 30th June 2018 was 1.89 percent of sale and service, slightly higher in compared with selling expenses ratio of 1.82 percent of sale and service in the same period of the 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 ended 30th June 2018, the Company and its subsidiaries had administrative expenses of Baht 28.79 million, compared with administrative expenses of Baht 25.75 million in the same period of the previous year which increased by 11.8 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 3.35 percent of total revenue, slightly increase in compared with administrative expenses of 3.15 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 30<sup>th</sup> June 2018, the company and its subsidiaries recognized share of income, by using equity method, of Baht 0.42 million in consolidated income statements in which increased by Baht 0.17 million or 68.0 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 30<sup>th</sup> June 2018, the Company and its subsidiaries had profit before interest and tax of Baht 71.92 million. After deducting the financial expense of Baht 1.33 million and income tax of Baht 14.11 million and adding the share of income from investment of Baht 0.42 million, the net profit of the Company and its subsidiaries was at Baht 56.90 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 75.54 million and Baht 59.32 million respectively, the profit before interest and tax and net profit of the present period decreased by 4.8 percent and 4.1 percent respectively.

In addition, the company and its subsidiaries had profit sharing to minority interest in a subsidiary for the amount of Baht 13.59 million for the present period or increase by Baht 0.99 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 30<sup>th</sup> June 2018 was Baht 43.31 million, comparing to Baht 46.2 million in the same period of previous year.

## **1.8 Corporate income tax**

For the three months ended 30<sup>th</sup> June 2018, the Company and its subsidiaries recognized corporate tax expenses by 14.11 million or decreased by 4.9 percent, when comparing to corporate tax expenses by 14.83 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 13.59 million for the three month period ended 30<sup>th</sup> June 2018, comparing to Baht 12.60 million in the same period of previous year.

## **1.10 Profitability**

For the period of three months ended 30<sup>th</sup> June 2018, the Company and its subsidiaries had gross profit margin of 12.95 percent, compared with gross profit margin of 13.53 percent in the same period of the previous year. The lower gross margin was mainly due to the lower average selling price following the global price of raw materials in the world market. At the same time, the average cost of raw material was adjusted lower slower than the lower selling price in market.

(Unit: Baht million)

Consolidated balance sheets	As at 30 <sup>th</sup> Jun 2018		As at 31 <sup>st</sup> Mar 2018	
	Amount	%	Amount	%
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	522.37	20.68%	488.97	20.70%
Short-term investment	4.36	0.18%	4.85	0.21%
Account receivable, trade and others	772.95	30.60%	706.03	29.89%
Inventories	739.29	29.27%	663.32	28.08%
Other current assets	8.41	0.33%	3.24	0.14%
<b>Total current assets</b>	<b>2,047.38</b>	<b>81.06%</b>	<b>1,866.41</b>	<b>79.02%</b>
<b>Non-current assets</b>				
Restricted bank deposits	46.18	1.83%	46.18	1.96%
Investment in associate	7.94	0.31%	12.43	0.53%
Long-term investment	2.84	0.11%	2.76	0.12%
Property, plant and equipment	399.81	15.83%	412.07	17.45%
Intangible assets	0.52	0.02%	0.57	0.02%
Deferred tax assets	17.34	0.69%	17.90	0.76%
Other non-current assets	3.71	0.15%	3.71	0.16%
<b>Total non-current assets</b>	<b>478.34</b>	<b>18.94%</b>	<b>495.62</b>	<b>20.98%</b>
<b>TOTAL ASSETS</b>	<b>2,525.72</b>	<b>100.00%</b>	<b>2,362.03</b>	<b>100.00%</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Short term loans from banks	119.36	4.73%	35.84	1.52%
Account payables, trade and others	602.66	23.86%	563.80	23.87%
Income tax payable	44.27	1.75%	30.95	1.31%
Other current liabilities	6.69	0.26%	10.33	0.43%
<b>Total current liabilities</b>	<b>772.98</b>	<b>30.60%</b>	<b>640.92</b>	<b>27.13%</b>
<b>Non-current liabilities</b>				
Provision for long-term employee benefits	37.56	1.49%	36.51	1.55%
<b>Total non-current liabilities</b>	<b>37.56</b>	<b>1.49%</b>	<b>36.51</b>	<b>1.55%</b>
<b>TOTAL LIABILITIES</b>	<b>810.54</b>	<b>32.09%</b>	<b>677.43</b>	<b>28.68%</b>
<b>SHAREHOLDERS' EQUITY</b>				
Shareholder equity				
Registered capital	383.00		383.00	
Issued and Paid up capital	383.00	15.16%	383.00	16.22%
Premium on stock	519.67	20.58%	519.67	22.00%
Retained earnings				
Legal reserve	74.10	2.93%	74.10	3.14%
Un-appropriated	536.92	21.26%	493.53	20.89%
Non-controlling interest of the subsidiary	201.49	7.98%	214.30	9.07%
<b>Total shareholders' equity</b>	<b>1,715.18</b>	<b>67.91%</b>	<b>1,684.60</b>	<b>71.32%</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,525.72</b>	<b>100.00%</b>	<b>2,362.03</b>	<b>100.00%</b>

## **2. Financial Status**

### **2.1 Assets**

As for the assets value as at 30th June 2018 and 31st March 2018, the Company and its subsidiaries had total assets of Baht 2,525.72 million and Baht 2,362.03 million respectively. The increase was Baht 163.69 million, mainly increased 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 30th June 2018 and 31st March 2018 the Company and its subsidiaries had net inventories of Baht 739.29 million (or 29.27 percent of total assets) and Baht 663.32 million (or 28.08 percent of total assets) respectively. The increase in inventories was mainly material, preparing for upcoming sales.
- 2.1.2 Trade account receivables – other parties: As at 30th June 2018 and 31st March 2018, the Company and its subsidiaries had Trade account receivables, net – other parties of Baht 772.95 million (or 30.60 percent of total assets) and Baht 706.03 million (or 29.89 percent of total assets) respectively. Trade receivables increased due to the higher sales in last quarter.
- 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 2018 and 31st March 2018, the Company and its subsidiaries had Land, plant and equipments – net of Baht 399.81 million (or 15.83 percent of total assets) and Baht 412.07 million (or 17.45 percent of total assets) respectively.
- 2.1.4 Restricted bank deposit: As at 30th June 2018 and 31st March 2018, the Company and its subsidiaries had net value of Baht 46.18 million (or 1.83 percent of total assets and 1.96 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 2018 and 31st March 2018, the Company and its subsidiaries had net value of Baht 17.34 million and Baht 17.90 million respectively (0.69 percent and 0.76 percent of total assets respectively).

### **2.2 Liabilities**

The total liabilities of the Company and its subsidiaries as at 30th June 2018 and 31st March 2018 stood at Baht 810.54 million and Baht 677.43 million respectively. The increase in liabilities was from short-term loans from financial institutions and trade accounts creditors from more purchase of raw materials.

### **2.3 Shareholders' equity**

As at 30th June 2018 and 31st March 2018, shareholders' equity was Baht 1,715.18 million and Baht 1,684.60 million respectively. The major changes were during the period were from the net profit amounting to Baht 56.90 million and dividend payment of Baht -26.40 million. Therefore, portions of company shareholding interest and non-controlling interest of subsidiary stood at Baht 1,513.69 million and Baht 201.49 million respectively.

Debt to Equity ratio as at 30th June 2018 and 31st March 2018 were 0.47 and 0.40 times respectively. Higher ratio was mainly from higher in trade creditor and short-term loan.

(Unit: Baht million)

<b>Consolidated cash flows statement</b>	<b>As at 30th Jun 2018</b>	<b>As at 30th Jun 2017</b>
Net cash from (used in) operating activities	-26.92	0.45
Net cash used in investing activities	3.11	10.19
Net cash from (used in) financing activities	57.12	-10.47
Effect of exchange rate to cash and cash equivalent	0.09	-0.09
Net increase (decrease) in cash	33.40	0.08

### **3. Cash flows**

For the year ended 30th Jun 2018, the Company and its subsidiaries generated net increase in cash from operating activities of Baht -26.92 million, consisting of baht 83.51 million positively from operating performance and net negative working capital of Baht -110.43. Most negative in working capital was from the payment of trade creditors and financing the growth of account receivable.

Net cash flow from investing activities was 3.11 million baht, with an investment in equipment of -2.79 million baht, while cash received from dividend from related company by 4.94 million.

The financing part was net Baht 57.12 million by draw up short term loan 83.52 million and payment of dividend by Baht -26.40 million.

In total, net cash for the year was increased by Baht 33.40 million.

Sincerely yours,

(Mr. Anan Manatchinapisit)  
Deputy Managing Director