

Lohakit Metal Public Company Limited and its subsidiaries

Notes to the interim financial statements

For the three-month and nine-month periods ended 31 December 2011

1. General information

1.1 Corporate information

Lohakit Metal Public Company Limited (“the Company”) is a public company incorporated and domiciled in Thailand. The Company is principally engaged in the manufacturing, processing, cutting and distribution of iron and metal products. The registered office of the Company is at 66/1 Moo 6, Suksawad Road, Bangjak, Prapradaeng, Samutprakarn.

1.2 Basis for the preparation of interim financial statements

These interim financial statements are prepared in accordance with Accounting Standard No. 34 (revised 2009) “Interim Financial Reporting”, with the Company choosing to present condensed interim financial statements. However, the Company has presented the statements of financial position, comprehensive income, changes in shareholders’ equity, and cash flows in the same format as that used for the annual financial statements. Their presentation has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 28 September 2011, issued under the Accounting Act B.E. 2543.

The interim financial statements are intended to provide information additional to that included in the latest annual financial statements. Accordingly, they focus on new activities, events and circumstances so as not to duplicate information previously reported. These interim financial statements should therefore be read in conjunction with the latest annual financial statements.

The interim financial statements in Thai language are the official statutory financial statements of the Company. The interim financial statements in English language have been translated from the Thai language financial statements.

1.3 Basis of consolidation

These consolidated financial statements include the financial statements of Lohakit Metal Public Company Limited and its subsidiaries and have been prepared on the same basis as that applied for the consolidated financial statements for the year ended 31 March 2011. There has been no significant change in the composition of the group companies during the current period.

1.4 Application of new accounting standards during the period

During the current period, the Company adopted a number of revised and new accounting standards, issued by the Federation of Accounting Professions, as listed below.

Accounting standards:

TAS 1 (revised 2009)	Presentation of Financial Statements
TAS 2 (revised 2009)	Inventories
TAS 7 (revised 2009)	Statement of Cash Flows
TAS 8 (revised 2009)	Accounting Policies, Changes in Accounting Estimates and Errors
TAS 10 (revised 2009)	Events after the Reporting Period
TAS 11 (revised 2009)	Construction Contracts
TAS 16 (revised 2009)	Property, Plant and Equipment
TAS 17 (revised 2009)	Leases
TAS 18 (revised 2009)	Revenue
TAS 19	Employee Benefits
TAS 23 (revised 2009)	Borrowing Costs
TAS 24 (revised 2009)	Related Party Disclosures
TAS 26	Accounting and Reporting by Retirement Benefit Plans
TAS 27 (revised 2009)	Consolidated and Separate Financial Statements
TAS 28 (revised 2009)	Investments in Associates
TAS 29	Financial Reporting in Hyperinflationary Economies
TAS 31 (revised 2009)	Interests in Joint Ventures
TAS 33 (revised 2009)	Earnings per Share
TAS 34 (revised 2009)	Interim Financial Reporting
TAS 36 (revised 2009)	Impairment of Assets
TAS 37 (revised 2009)	Provisions, Contingent Liabilities and Contingent Assets
TAS 38 (revised 2009)	Intangible Assets
TAS 40 (revised 2009)	Investment Property

Financial reporting standards:

TFRS 2	Share-Based Payment
TFRS 3 (revised 2009)	Business Combinations
TFRS 5 (revised 2009)	Non-current Assets Held for Sale and Discontinued Operations
TFRS 6	Exploration for and Evaluation of Mineral Resources

Employee benefits

Post-employment benefits (Defined contribution plans)

The Company, the subsidiaries and their employees have jointly established a provident fund. The fund is monthly contributed by employees, the subsidiaries and by the Company. The fund's assets are held in a separate trust fund and the Company and the subsidiaries' contributions are recognised as expenses when incurred.

Post-employment benefits (Defined benefit plans)

The Company and the subsidiaries have obligations in respect of the severance payments they must make to employees upon retirement under labor law. The Company and the subsidiaries treat these severance payment obligations as a defined benefit plan.

The obligation under the defined benefit plan is determined based on actuarial techniques, using the projected unit credit method.

Actuarial gains and losses arising from post-employment benefits are recognised immediately in profit or loss.

For the first-time adoption of TAS 19 Employee Benefits, the Company and its subsidiaries elected to recognise the transitional liability, which exceeds the liability that would have been recognised at the same date under the previous accounting policy, through an adjustment to the beginning balance of retained earnings in the current period.

2. Cumulative effect of change in accounting policy due to the adoption of new accounting standards

During the current period, the Company made the change to its significant accounting policy described in Note 1.5 to the interim financial statements, as a result of the adoption of revised and new accounting standards. The cumulative effect of the change in the accounting policy has been separately presented in the statements of changes in shareholders' equity.

(Unaudited but reviewed)

The amounts of adjustments affecting the statement of financial position as at 1 April 2011 are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements	Separate financial statements
Statement of financial position		
Decrease in investment in associate from the adjustment of provision for long-term employee benefits associated company	64	-
Increase in provision for long-term employee benefits	13,945	9,895
Decrease in unappropriated retained earnings	14,009	9,895

3. Related party transactions

During the periods, the Company and its subsidiaries had significant business transactions with related parties. Such transactions, which are summarised below, arose in the ordinary course of business and were concluded on commercial terms and bases agreed upon between the Company and those related parties.

(Unit: Thousand Baht)

	For the three-month periods ended 31 December				Transfer pricing policy
	Consolidated		Separate		
	financial statements	financial statements	financial statements	financial statements	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
<u>Transactions with subsidiaries</u>					
(Eliminate from the consolidated financial statements)					
Sales of goods and service income	-	-	48,379	71,319	Sale of goods: Market price less discount 2%, and cost plus a margin at rate of 5% Service income: Closed to the market price
Delivery income	-	-	300	-	Contract value
Interest income	-	-	1,794	1,724	MLR per annum
<u>Transactions with related parties</u>					
Sales of goods and service Income	9,791	14,462	7,526	11,908	Sales of goods: Closed to the net selling price that is sold to major customers Service income: Closed to the market price
Rental income	75	75	75	75	Fixed fee per month
Commission expenses	1,541	1,510	17	9	Not over 2% of sales

(Unaudited but reviewed)

(Unit: Thousand Baht)

	For the nine-month periods ended 31 December				Transfer pricing policy
	Consolidated		Separate		
	financial statements	financial statements	financial statements	financial statements	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Transactions with subsidiaries					
(Eliminate from the consolidated financial statements)					
Sales of goods and service	-	-	193,707	238,959	Sale of goods:
Income					Market price less discount
					2%, and cost plus a margin
					at rate of 5%
					Service income:
					Closed to the market price
Delivery income	-	-	300	-	Contract value
Interest income	-	-	5,846	4,681	MLR per annum
Sale of fixed asset	-	-	2,243	-	Agreed upon basis
Transactions with related parties					
Sales of goods and service	39,175	37,798	27,426	29,276	Sales of goods:
Income					Closed to the net selling
					price that is sold to major
					customers
					Service income:
					Closed to the market price
Rental income	225	225	225	225	Fixed fee per month
Commission expenses	6,449	6,411	173	39	Not over 2% of sales

As at 31 December 2011 and 31 March 2011, the balances of the accounts between the Company and those related companies are as follows:

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	31 December	31 March	31 December	31 March
	<u>2011</u>	<u>2011</u>	<u>2011</u>	<u>2011</u>
Trade and other receivables - related parties (Note 4)				
Subsidiaries	-	-	41,347	85,306
Related companies (related by common major shareholders.)	2,911	3,389	1,963	3,030
Total trade and other receivables - related parties	<u>2,911</u>	<u>3,389</u>	<u>43,310</u>	<u>88,336</u>
Trade and other payables - related parties (Note 10)				
Associated companies	2,173	4,262	-	-
Related companies (related by common major shareholders)	61	104	61	104
Total trade and other payables - related parties	<u>2,234</u>	<u>4,366</u>	<u>61</u>	<u>104</u>

Loans to related party

As at 31 December 2011 and 31 March 2011, the balance of loans between the Company and its related company and the movement are as follows:

(Unit: Thousand Baht)

	Related by	Separate financial statements			
		Balance as at	Increase	Decrease	Balance as at
		31 March	during	during	31 December
		2011	the period	the period	2011
<u>Loans to related party</u>					
Auto Metal Company Limited	Subsidiary	115,000	-	(50,000)	65,000

Directors and management's benefits

For the nine-month period ended 31 December 2011, the Company and its subsidiaries had employee benefit expenses of their directors and management as below.

(Unit: Million Baht)

	Consolidated financial statements	Separate financial statements
Short-term employee benefits	21.67	13.30
Post-employment benefits	0.30	0.46
Total	21.97	13.76

4. Trade and other receivables

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	31 December	31 March	31 December	31 March
	2011	2011	2011	2011
<u>Trade receivables - related parties</u>				
Aged on the basis of due dates				
Not yet due	2,195	1,193	22,810	62,511
Past due				
Up to 3 months	716	2,196	18,600	24,016
Total trade receivables - related parties, net	2,911	3,389	41,410	86,527

(Unaudited but reviewed)

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	31 December 2011	31 March 2011	31 December 2011	31 March 2011
<u>Trade receivables - unrelated parties</u>				
Aged on the basis of due dates				
Not yet due	274,742	435,806	191,627	265,602
Past due				
Not over 3 months	128,541	131,377	82,856	77,795
Over 6 months to 12 months	-	4,038	-	3,393
Over 12 months	17,426	17,429	17,426	17,429
Total	420,709	588,650	291,909	364,219
Less: Allowance for doubtful accounts	(17,426)	(21,467)	(17,426)	(20,822)
Total trade receivables - unrelated parties, net	403,283	567,183	274,483	343,397
Total trade receivable - net	406,194	570,572	315,893	429,924
<u>Other receivables</u>				
Other receivable - unrelated parties	3,511	2,788	3,279	2,676
Other receivable - related party	-	-	106	-
Interest receivable - related party	-	-	1,794	1,809
Total other receivables	3,511	2,788	5,179	4,485
Trade and other receivables - net	409,705	573,360	321,072	434,409

5. Write-down of inventories to net realisable value

Movements of the decrease of inventory to net realisable value during the nine-month period ended 31 December 2011 are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements	Separate financial statements
Balance as at 1 April 2011	23,307	23,003
Less: Allowance for diminution in value of inventory - net	2,936	2,374
Balance as at 31 December 2011	26,243	25,377

6. Investment in associated company

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Shareholding percentage		Separate financial statements		Consolidated financial statements	
			31 December	31 March	Cost		Carrying amount	
			2011	2011	2011	2011	based on equity method	
			Percent	Percent			2011	2011
Mory Lohakit (Thailand) Company Limited	Agent	Thailand	49	49	4,900	4,900	8,547	7,582

7. Investments in subsidiaries

Details of investments in subsidiaries as presented in separate financial statements are as follows:

(Unit: Thousand Baht)

Company's name	Paid-up capital		Shareholding percentage		Cost	
	31 December	31 March	31 December	31 March	31 December	31 March
	2011	2011	2011	2011	2011	2011
	Million Baht	Million Baht	Percent	Percent		
Auto Metal Company Limited	240	140	60	60	144,000	84,000
Alternative Stainless Company Limited	1	1	100	100	999	999
Total					144,999	84,999

On 1 December 2011, Auto Metal Company Limited increased its capital by Baht 100 million, through the issuance of 1 million additional ordinary shares with a par value of Baht 100 each, for offer to existing shareholders at Baht 100 per share. The Company increased the ordinary shares of Auto Metal Company Limited by Baht 60 million and no change in proportion of shareholding.

8. Property, plant and equipment

Movements of the property, plant and equipment accounts during the nine-month period ended 31 December 2011 are summarised below.

	(Unit: Thousand Baht)	
	Consolidated financial statements	Separate financial statements
	<u> </u>	<u> </u>
Cost		
Balance as at 31 March 2011	899,429	571,593
Acquisitions	60,233	18,611
Disposals	(13,503)	(12,796)
Balance as at 31 December 2011	<u>946,159</u>	<u>577,408</u>
Accumulated depreciation		
Balance as at 31 March 2011	566,730	451,226
Depreciation during the period	41,256	11,427
Depreciation for disposals	(10,059)	(9,352)
Balance as at 31 December 2011	<u>597,927</u>	<u>453,301</u>
Net book value		
Balance as at 31 March 2011	<u>332,699</u>	<u>120,367</u>
Balance as at 31 December 2011	<u>348,232</u>	<u>124,107</u>

Motor vehicles have been pledged as collateral against liabilities under finance lease agreements, amounting to Baht 12.4 million (31 March 2011: Baht 9.3 million) Separate financial statements: Baht 7.0 million (31 March 2011: Baht 6.2 million).

The Company and its subsidiaries have pledged machinery with carrying value as at 31 December 2011 amounting to Baht 43.4 million (31 March 2011: Baht 51.4 million) and mortgaged all of their land with structures thereon with banks to secure loans and other credit facilities granted to the Company and its subsidiary by the bank.

9. Short-term loans from financial institutions

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	31 December 2011	31 March 2011	31 December 2011	31 March 2011
Short-term loans from banks	60,000	90,000	40,000	50,000
Trust receipts	231,963	217,047	184,905	115,443
	<u>291,963</u>	<u>307,047</u>	<u>224,905</u>	<u>165,443</u>

Short-term loans from banks represent promissory notes maturing within 1 month and carrying interest at rates of 5.30% to 5.40% per annum (31 March 2011: 4.20% to 4.40% per annum).

Bank overdrafts, short-term loans and trust receipts facilities are secured by the mortgage of the Company's and its subsidiary's land with structures thereon, and machinery, as described in Note 8 to the interim financial statements.

10. Trade and other payables

(Unit: Thousand Baht)

	Consolidated financial		Separate financial	
	statements		statements	
	31 December 2011	31 March 2011	31 December 2011	31 March 2011
Trade payables - unrelated parties	145,359	223,507	83,466	137,528
Other payables - unrelated parties	12,576	17,491	9,337	12,427
Other payables - related party	2,173	4,262	-	-
Accrued commission expenses - related party	61	104	61	104
Accrued expenses	2,598	4,227	1,596	2,119
Total trade and other payables	<u>162,767</u>	<u>249,591</u>	<u>94,460</u>	<u>152,178</u>

11. Corporate income tax

Interim corporate income tax was calculated on profit before income tax for the periods, after adding back certain expenses and deducting income which are disallowable, and deducting tax loss brought forward from previous year (if any), for the computation purposes using the estimated effective tax rate for the year.

Corporate income tax of one subsidiary which operates the promoted operations (as described in Note 12) were calculated at the rate of 30 percent on net profit of the subsidiary from non-promoted activities, after adding back certain provisions and expenses which are disallowed for tax computation purposes and deducting tax loss brought forward from previous years (if any).

12. Promotional Privileges

The Company has received promotional privileges from the Board of Investment for the manufacture of coil center, pursuant to the promotion certificate No. 3007/Wo./2550 issued on 25 May 2007. Subject to certain imposed conditions, the privileges include an exemption from import duty on articles and essential raw materials imported for use in manufacturing for export sales and an exemption from import duty on items imported for re-export, for a period of 1 year commencing as from the first importation date.

A subsidiary has received promotional privileges from the Board of Investment for the manufacture of stainless steel tubes, pursuant to the promotion certificate No. 1407(2)/2548 issued on 23 March 2005. Subject to certain imposed conditions, the privileges include an exemption from corporate income tax for a period of 7 years from the date the promoted activity commenced generating revenues, and any losses incurred during the corporate income tax exemption period may be carried forward to be utilised by the subsidiary as a deduction against net profit of future years, for up to 5 years after the expiry of the tax exemption period. In addition, the privileges include an exemption from income tax on dividends received from promoted operations which have been granted corporate income tax exemption, throughout the period for which the tax exemption privilege is granted.

13. Earnings per share

Basic earnings per share is calculated by dividing profit for the period attributable to equity holders of the Company (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the period.

14. Segment information

The Company and its subsidiaries operate in the single industry segment of manufacturing, processing, distribution and provision of service related to, iron and metal products and their principal operations are carried on in the single geographic area of Thailand. As a result, all of the revenues, operating profit and assets as reflected in these financial statements pertain to the aforementioned industry segment and geographic area. Export sales of the nine-month periods ended 31 December 2011 and 2010 amounted to Baht 45.2 million and Baht 46.1 million, respectively

(Unaudited but reviewed)

(Separate financial statements: Baht 24.4 million 31 December 2010: Baht 24.0 million).

15. Dividends

	Approved by	Total dividends (Million Baht)	Dividend Per share (Baht)	Payment date
Final dividends for 2010	Annual General Meeting of the shareholders on 22 July 2010	<u>48</u>	<u>0.15</u>	20 August 2010
Final dividends for 2011	Annual General Meeting of the shareholders on 26 July 2011	<u>70</u>	<u>0.22</u>	15 August 2011

16. Commitments and contingent liabilities

16.1 Operating lease commitments

The Company has entered into a lease agreement in respect of the office building space. The terms of the agreements are generally 3 years.

As at 31 December 2011, future minimum lease payments required under this non-cancellable operating leases contract were as follows:

	<u>Million Baht</u>
Payable within	
Less than 1 year	2.56
2 to 3 years	1.71

16.2 Other service commitment

As at 31 December 2011, the Company had commitments of approximately Baht 5.6 million relating to technical assistance agreement and other service agreement.

16.3 Credit facilities

As at 31 December 2011, the Company has been granted credit facilities by various financial institutions for which it has placed collaterals, as follows:-

- Letter of credit, trust receipts, guarantee and short-term loan totaling to Baht 1,460.5 million, of which Baht 284.5 million of the utilised amounts are outstanding. These credit facilities are secured by the mortgage of the Company's land with structures thereon and machinery.
- Overdraft facilities of Baht 30 million. The facilities have not yet been utilised. The credit facilities are secured by the mortgage of the Company's land with

(Unaudited but reviewed)

structures thereon and machinery and the pledge of fixed deposits of the Company.

- Forward exchange contract facility of Baht 1,000 million, of which Baht 46.0 million of the utilised amounts is outstanding. This credit facility is secured by the mortgage of the Company's land with structures thereon and machinery.

As at 31 December 2011, the subsidiary has been granted credit facilities by a financial institution for which it has placed collaterals, as follows:-

- Letter of credit, trust receipts, guarantee and short-term loan totaling Baht 315 million, of which Baht 107.3 million of the utilised amounts is outstanding. These credit facilities are secured by the mortgage of the subsidiary's land with structures thereon and machinery.
- Overdraft facility of Baht 10 million, the facility has not yet been utilised. This credit facility is secured by the mortgage of the subsidiary's land with structures thereon.
- Forward exchange contract facility of Baht 200 million, of which Baht 36.9 million of the utilised amounts is outstanding. This credit facility is secured by the mortgage of the subsidiary's land with structures thereon and machinery.

17. Financial instruments

The balances of financial assets and liabilities denominated in foreign currencies as at 31 December 2011 are summarised below.

Foreign currency	Consolidated financial statements	Separate financial statements	Average exchange rate as at 31 December 2011
	(Million)	(Million)	(Baht per 1 foreign currency unit)
<u>Financial Assets</u>			
USD	0.55	0.11	30.64 - 31.45
JPY	2.96	2.96	0.40
<u>Financial Liabilities</u>			
USD	3.56	3.56	30.62 - 31.83
SGD	0.09	0.09	24.13

Forward exchange contracts outstanding at 31 December 2011 which mature within one year are summarised below.

Foreign currency	Consolidated financial statements		Separate financial statements	
	Bought amount	Contractual exchange rate sold	Bought amount	Contractual exchange rate sold
	(Million)	(Baht per 1 foreign currency unit)	(Million)	(Baht per 1 foreign currency unit)
USD	2.56	30.75 - 31.62	1.40	30.75 - 31.62
SGD	0.09	24.13	0.09	24.13
JPY	7.29	0.41	-	-

18. Reclassification

Certain amounts in the financial statements for the three-month and nine-month periods ended 31 December 2010 have been reclassified to conform to the current period's classification, following the adoption of presentation of the financial statements in accordance with the stipulations of the Notification of the Department of Business Development described in Note 1.2, and the adoption of new and revised accounting standards described in Note 1.4.

19. Approval of financial statements

These financial statements were authorised for issue by the Company's Board of Directors on 9 February 2012.