

Management Discussion and Analysis for Interim Business Operations

Investment in Subsidiaries

In the 3rd quarter of 2018, Hydrotek Public Co., Ltd. has additionally invested in the following subsidiaries.

1. SUT Global Co., Ltd.

In July, 2018, the Company had purchased and accepted a transfer of SUTG Holding Co.,Ltd's entire business, which owns 132,000 shares in SUT Global Co.,Ltd as at the business transfer date, with the par value of Baht 100.00 or equivalent to 66.00 percent of SUTG's shares capital (as mentioned in notes to financial statements No. 29).The company's following transactions were executed on July 20, 2018 for the abovementioned ETB.

Consequently, as a result of the abovementioned ETB, the company's consolidated financial statement as ended September 30, 2018 then recorded the item of the waste management innovation at net value of Baht 532.30 with its goodwill of Baht 193.09 and liabilities of deferred tax of Baht 106.46

2. Saha-Hydrotek Joint Venture

Hydrotek Public Co., Ltd. has mutually co-operated with Sahakarn Wisavakorn Co., Ltd. for establishment of Saha-Hydro Joint Venture. The objective of the joint venture operation is to submit proposal for the construction bid of the provincial waterworks authority with the individual percentage of the capital contributions in proportion of 49 : 51, respectively, of the registered capital of Baht 1 million. The captioned joint venture was later awarded for the aforementioned project with the contract value of Baht 522.24 million.

On July 2018, the first amendment to the agreement has been entered into, which both parties agreed to Hydrotek would be solely responsible for the operation of the said joint venture, where Shahakarn Wisavakorn no longer be held responsible or require to pay indemnity. In case, Hydrotek incurred any debt or damage to Shahahydro joint venture, Shahakarn Wisavakorn shall not responsible for the said debt or damage. As a result of the said amendment, Hydrotek Public Company Limited is the sole venturer in Shahahydro joint venture with the 100.00% shareholding.

During the 3rd quarter, the construction of the project has been already implemented with the work progress equivalent to 8.28%.

3. SUT Hydro Co., Ltd.

Hydrotek Public Co., Ltd. cooperated with SUT Global Co., Ltd. for establishment of SUT Hydro Co., Ltd. is to enhancement the opportunity in construction service business , with the proportion of investment of 40 : 59.99, respectively, of the registered capital of Baht 1 million.

During the 3rd quarter, SUT Hydro has recorded service income of Baht 2.00 million.

The 3-Month Operating Result as ended September 30, 2018

Financial Performance for the period ended September 30 , 2018 (Unit : Million Baht)				
	2018	2017	Inc./ (Dec.)	%
Construction income	59.06	63.82	-4.76	-7.46
Service income	3.33	6.20	-2.87	-46.29
Other income	1.14	0.44	0.7	159.09
Total Revenues	63.53	70.46	-6.93	-9.84
Cost of constuction	87.62	63.58	24.04	37.81
Cost of services	2.89	7.99	-5.10	-63.83
Administrative expenses	52.18	11.02	41.16	373.50
Finance cost	6.95	3.31	3.64	109.97
Total Expenses	149.64	85.90	63.74	74.20
Loss Before Income Tax	-86.11	-15.44	-70.67	-457.71
Income tax expense	4.18	-0.04	4.22	10550.00
Total loss for the period	-81.93	-15.48	-66.45	-429.26
Other Comprehensive Income	-0.48	-0.31	-0.17	-54.84
Total comprehensive loss for the period	-82.41	-15.79	-66.62	-421.91
Non-controlling interests of the subsidiaries	-10.47	0.05	-10.52	-21040.00
Profit(Loss) attributable to equity holders of the company	-71.46	-15.53	-55.93	-360.14
Basic Loss Per Share (Baht)	-0.10	-0.04		
Gross Margin	-45.07%	-2.21%		
Net Profit Margin	-112.48%	-22.04%		

Construction Income

In the 3rd quarter of 2018, the company and its subsidiaries' construction income was Baht 59.06 million whereas Baht 63.82 million in the same quarter of 2017 showing a decrease of Baht 4.76 million or representing 7.46 % decrease since there have been only 6 ongoing projects whereas a subsidiary had 1 additional ongoing project with its contract value of Baht 522.24 million that has been already implemented with work progress equivalent to 8.28%. In addition, in this quarter, there has been the additional adjustment to the estimated construction cost of one project affecting a reduction of income of Baht 20.51 million and also the estimation of penalty charge of two projects expected to be delayed affecting a reduction of income of Baht 5.47 million. Hence, the construction income of this quarter was then lower than the same quarter of 2017.

Service Income

The company's and subsidiaries' service income were totally Baht 3.33 million whereas Baht 6.20 million in the same quarter of 2017 decreasing Baht 2.87 million or 49.29% decrease due to having 3 service projects with signed contract value of Baht 15.20 million expected to be completed from the 4th quarter of 2018 to the 1st quarter of 2019.

Other Income

The other income in this quarter of the company and subsidiaries was Baht 1.14 million whereas Baht 0.44 million in the same quarter of 2017 showing an increase of Baht

0.70 million or 159.09 % increase. The income gained in this current quarter approximately 67.52 % was gained from the interest receivable.

Cost of Construction

The company and its subsidiaries' cost of construction in this 3rd quarter of 2018 was Baht 87.62 million whereas Baht 63.58 million in the same quarter of 2017 increasing Baht 24.04 million or 37.81% increase and equivalent to the gross margin of -48.36 % and 0.38 %, respectively. This was in line with the additional adjustment to the estimated construction cost since the forecasted estimation was lower than the actual cost and the different amount was Baht 25.26 million. In addition, due to the additional adjustment to the estimated construction cost of the projects expected to be delayed from the contract due date of Baht 9.93 million, the operating loss therefore appeared in this quarter.

Cost of Services

The company and its subsidiaries' cost of service in this 3rd quarter of 2018 was Baht 2.89 million whereas Baht 7.79 million in the same quarter of 2017 decreasing Baht 5.10 million or 63.83% decrease and equivalent to 13.21% and -28.87% of the gross margin of 2017 and 2018, respectively. This reduction of cost of service was in line with the reduction of income.

Administrative Expenses

The administrative expenses in this 3rd quarter of 2018 was Baht 52.18 million whereas Baht 11.02 million in the same quarter of 2017 showing an increase of Baht 41.16 million or 373.50 % increase. The significant increasing amount was related to the expenses of the asset write-off of the waste management innovation account of Baht 23.67 million. Moreover, during this quarter, there were an increase of the administrative expenses of 3 subsidiaries of Baht 12.87 million, expenses related to the capital increase registration of Baht 2.34 million and the increasing expenses for employees of Baht 2.25 million.

Finance Cost

In the 3rd quarter, the finance cost of the company and subsidiaries was Baht 6.95 million whereas Baht 3.31 million in the same quarter of 2017 showing an increase of Baht 3.64 million or 109.97 % increase due to recording of interest payable for convertible debenture of Baht 3.08 million.

Loss Attributable to Equity Holders of the Company

In this 3rd quarter of 2018, there was a loss attributable to equity holders of the company of Baht 71.46 million whereas Baht 15.53 million in the same quarter of 2017 or equivalent to -112.48 % and - 22.04 % net profit margin of 2017 and 2016, respectively. The loss was higher than last year due to the reduction of the company' s construction income, the increase of the construction cost and administrative expenses as mentioned above.

Summary of the 3rd quarter/9-month Financial Position as ended 30 September 2018

The total 9-month income as ended 30 September, 2018 was Baht 125.16 million whereas Baht 235.69 million in the same period of 2017 representing a decrease of Baht 110.53 million or 46.90% decrease. The reduction of income was the construction one of Baht 94.14 million equivalent to 44.74 % decrease and the decreasing service one of Baht 18.42 million or 83.12 % decrease since during this current year, there have been another additional construction project just awarded and implemented and 3 additional service projects with a total of contract value of Baht 15.20 million. The total 9-month cost and expenses of the current year was Baht 242.55 million whereas Baht 271.43 million in the same period of 2017 showing a decrease of Baht 28.88 million or 10.64% decrease. The reduction cost consisted of the construction one decreasing Baht 70.35 million or 34.00% decrease and the service one decreasing Baht 12.64 million or 80.30 % decrease. This was in line with the reduction of the construction and service incomes. Furthermore, there has been no sale of goods and cost of sold in this current year. The 9-month operating result of 2018 reflected the net operating loss of Baht 102.92 million whereas Baht 35.98 million in the same period of 2017 or -82.23 % and -15.27 % of the net profit margin of 2018 and 2017, respectively. The higher operating loss was affected by the reduction of income and increase of the operating cost especially the administrative expenses as mentioned above.

Financial Performance of 3rd quarter for 9 months ended September 30, 2018 (Unit : Million Baht)				
	2018	2017	Inc./ (Dec.)	%
Construction income	116.26	210.40	-94.14	-44.74
Service income	3.74	22.16	-18.42	-83.12
Sale of goods	0.00	1.05	-1.05	
Other income	5.16	2.08	3.08	148.08
Total Revenues	125.16	235.69	-110.53	-46.90
Cost of construction	136.57	206.92	-70.35	-34.00
Cost of services	3.10	15.74	-12.64	-80.30
Cost of sold	0.00	0.36	-0.36	
Administrative expenses	90.74	38.04	52.70	138.54
Finance cost	12.14	10.37	1.77	17.07
Total Expenses	242.55	271.43	-28.88	-10.64
Loss Before Income Tax	-117.39	-35.74	-81.65	-228.46
Income tax expense	4.10	-0.09	4.19	4655.56
Total loss for the period	-113.29	-35.83	-77.46	-216.19
Other Comprehensive Income	-3.62	1.42	-5.04	354.93
Total comprehensive loss for the period	-116.91	-34.41	-82.50	-239.76
Non-controlling interests of the subsidiaries	-10.37	0.15	-10.52	
Profit(Loss) attributable to equity holders of the company	-102.92	-35.98	-66.94	-186.05
Financial Position as at September 30 , 2018 and December 31, 2017 (Unit : Million Baht)				
	2018	2017	Inc./ (Dec.)	%
Current Assets	451.49	305.00	146.49	48.03
Non-Current Assets	1,013.18	259.75	753.43	290.06
Total Assets	1,464.67	564.75	899.92	159.35
Current Liabilities	342.49	202.31	140.18	69.29
Non-Current Liabilities	498.12	156.49	341.63	218.31
Total Liabilities	840.61	358.80	481.81	134.28
Equity attributable to the owner of the company	393.47	202.01	191.46	94.78
Basic Loss Per Share (Baht)	-0.16	-0.09		
Gross Margin	-16.39%	4.53%		
Net Profit Margin	-82.23%	-15.27%		
Debt to Equity Ratio (Time)	2.14	1.78		

Summary of the financial status as ended 30 September 2018

Total Assets

As ended September 30, 2018, the total asset of the company and subsidiaries was Baht 1,464.67 million whereas Baht 564.75 million at the end of 2017 showing an increase of Baht 899.92 million or 159.35 % increase. The significant increase came from the waste management innovation account and goodwill arising from the entire business transfer of Baht 532.30 million and 193.09 million, respectively as mentioned above and the trade

receivables and other receivables of Baht 138.29 million. Most of them were the trade receivables gained from the government authority client of a subsidiary that has been overdue for 3-12 months of Baht 77.78 million.

Total Liabilities

As ended September 30, 2018, the company and its subsidiaries' total liabilities was Baht 840.61 million whereas 2017 was Baht 358.80 million showing an increase of Baht 481.81 million or 134.28 % increase. The significant increase consisted of the convertible debentures and deferred tax of Baht 240.26 million and 111.41 million, respectively as a result of the business transfer, the advance payment, as per the construction contract of a subsidiary, of Baht 80.74 million gaining as the advance amount from the new awarded project of the mentioned subsidiary. The debt to equity ratio of the 3rd quarter was equivalent to 2.14 times increasing from 1.78 times in 2017 due to the increase of the aforementioned liabilities whereas the increase of debt to equity ratio was lower.

Shareholders' Equity

As ended September 30, 2018, the shareholders' equity of the company and subsidiaries was totally Baht 393.47 million whereas Baht 202.01 million in 2017 showing an increase of Baht 191.46 million or 94.78 % increase as a result from the capital increase and share premium of Baht 195.00 million and 81.90 million, respectively arising from the business transfer whereas there was the operating loss of Baht 106.37 million.

Project on hand as ended 30 September 2018

Project on hands as of September 30, 2018			
	No. of project	Contract Value (Million Baht)	Backlog (Million Baht)
Construction proect	6	958.24	641.34
Service Project	3	15.12	
Total	9	958.24	641.34

As of September 30, 2018, the company and its subsidiaries had 6 projects on hand with a total of contract values of Baht 958.24 million in which there was one new awarded project in this current year with its contract value of Baht 522.24 million and the backlog of Baht 641.34 million. For this captioned quarter, there were 3 awarded service projects with their contract value of Baht 15.12 million of which some works were partly implemented and expected to be completed within the 1st quarter of 2019.

Investment project on hand as ended 30 September 2018

The progress of 2 ongoing investment projects are as follows:

1. Water Supply Investment Project for Chiang Mai Municipality: It is the Build Own and Operate (BOO) one with asset value during construction period as ended September 30, 2018 of Baht 87.07 million of which the construction has been partly executed and currently waiting for an approval of concession for water production & supply.

2. Waste Water Treatment Investment Project in Myanmar: It is the Build Own and Transfer (BOT) one of which the construction has been commenced and waiting for an approval of some construction drawing amendment. The total values of trade receivables under the concession agreement and intangible assets as ended September 30, 2018 were Baht 11.97 million and Baht 4.42 million, respectively.

Slib Soongsawang

Mr.Slib Soongsawang
(Chief Executive Officer)

