

Ref: AC.024/2019

13 August 2019

Subject: Management discussion and analysis of financial position and operating results

To: President and Manager

The Stock Exchange of Thailand

Overall operating performance of the Group

Unit: Million Baht

	Q2' 2019	Q2' 2018	Increase (decrease)	Variance (%)
Total revenues	1,729	1,821	(92)	(5%)
Net profit	70	170	(100)	(59%)

The Group's total revenues for the second quarter of 2019 amounted Baht 1,729 million, which was decreased by Baht 92 million or a decrease of 5% compared to the total revenues for the second quarter of 2018 amounting to Baht 1,821 million. The decrease was mainly due to the lower revenues from enterprise solution business.

The Group's profit for the second quarter of 2019 amounted to Baht 70 million, which was decreased by Baht 100 million or an decrease of 59% compared to the profit for the second quarter of 2018 amounting to Baht 170 million. The decrease was mainly due to the lower gross profit from enterprise solution business.

Analysis of revenues

	Q2' 2019		Q2' 2018		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Revenues from main business						
EMS business	387	22%	389	21%	(2)	(1%)
Enterprise solution business	419	24%	471	26%	(52)	(11%)
Smart service business	854	50%	881	49%	(27)	(3%)
Total revenues from main business	1,660	96%	1,741	96%	(81)	(5%)
Other income	69	4%	80	4%	(11)	(14%)
Total revenues	1,729	100%	1,821	100%	(92)	(5%)

EMS business

The Company had revenue from EMS business for the second quarter of 2019 amounting to Baht 387 million.

There was no significant change compared to the same period of the previous year.

Enterprise solution business

The Company had revenue from enterprise solution business for the second quarter of 2019 amounting to Baht 419 million, a decrease of Baht 52 million or a decrease of 11% compared to that of the previous year amounting to Baht 471 million. It was due to projects from government sector continued to slow from the previous year.

Smart service business

The Company had revenue from smart service business for the second quarter of 2019 amounting to Baht 854 million. There was no significant change compared to the same period of the previous year.

Gross Profit and Gross Profit Margin

	Q2' 2019		Q2' 2018		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
EMS business	55	14%	76	20%	(21)	(28%)
Enterprise solution business	111	26%	186	40%	(75)	(40%)
Smart service business	207	24%	230	26%	(23)	(10%)
Total Gross Profit	373	22%	492	28%	(119)	(24%)

EMS business

The Company had gross profit for the second quarter of 2019 amounting to Baht 55 million, which was decreased by Baht 21 million or a decrease of 28% compared to the gross profit of Baht 76 and gross profit margin for the second quarter of 2019 was decreased from 20% to 14%. It was due to the increase in cost of sales, which was the result of manufacturing expenses, which were mostly fixed costs and had the amount close to the manufacturing expenses for the same period of the prior year.

Enterprise solution business

The Company had gross profit for the second quarter of 2019 amounting to Baht 111 million, which was decreased by Baht 75 million or a decrease of 40% compared to the gross profit of Baht 186 million and gross profit margin for the second quarter of 2019 was decreased from 40% to 26%. It was due to projects from government sector continued to slow from the previous year.

Smart service business

The Company had gross profit for the second quarter of 2019 amounting to Baht 207 million and gross profit margin for the second quarter of 2019 was 24%. There was no significant change compared to the same period of the previous year.

Expenses and expenses to revenues from main business

	Q2' 2019		Q2' 2018		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Selling expenses	24	1%	24	1%	-	-
Administrative expenses	228	14%	226	13%	2	1%
Finance cost	26	2%	32	2%	(6)	(19%)
Income tax expenses	28	2%	48	3%	(20)	(42%)

Selling expenses

Selling expenses for the second quarter of 2019 and the selling expenses to revenue from main business were not significantly change compared to the same period of the previous year.

Administrative expenses

Administrative expenses for the second quarter of 2019 and the administrative expenses to revenue from main business were not significantly change compared to the same period of the previous year.

Finance cost

The financial cost for the second quarter of 2019 amounted to Baht 26 million, a decrease of Baht 6 million from the same period of last year. It was due to the lower short-term loans and long-term loans.

Income tax expenses

Income tax expenses for the second quarter of 2019 amounted to Baht 28 million, a decrease of Baht 20 million or a decrease of 42% from the same period of last year. This is consistent with the decreased profit.

Financial position

Assets

Unit: Million Baht

	30 June 2019	31 December 2018	Increase (decrease)	% Variance
Current assets	4,222	5,310	(1,088)	(20%)
Non-current assets	3,401	3,560	(159)	(4%)
Total assets	7,623	8,870	(1,247)	(14%)

Total assets as at 30 June 2019 amounted to Baht 7,623 million, a decrease of Baht 1,247 million or a decrease of 14% compared to the total assets as at 31 December 2018, amounting to Baht 8,870 million. It was due to the lower trade accounts receivable.

The quality of assets

Trade account receivables

Unit: Million Baht

	Consolidated financial statements	
	30 June 2019	31 December 2018
Trade account receivables - unrelated parties	1,427	2,455
Less: Allowance for doubtful accounts	(55)	(55)
Trade account receivables - net	1,372	2,400

As at 30 June 2019 and 31 December 2018, the Group had the allowance for doubtful accounts, amounting to Baht 55 million and Baht 55 million, respectively. The Group's policy on allowance for doubtful accounts is based on past collection history, aging profile of outstanding debts and the prevailing economic condition. Management believed that allowance for doubtful accounts is adequate in the current circumstances.

Inventories

Unit: Million Baht

	Consolidated financial statements	
	30 June 2019	31 December 2018
Inventories	1,316	1,335
Reduce cost to net realisable value	(397)	(367)
Inventories - net	919	968

As at 30 June 2019 and 31 December 2018, the Group had the reduction of cost to net realisable value amounting to Baht 397 million and Baht 367 million, respectively. The Group estimates net realisable value of inventories taking into the account fluctuations of price or cost directly related to events occurring after the end of the period and movements of inventories and the prevailing economic condition. Management believed that the reduce cost to net realisable value is adequate in the current circumstances.

Source of fund

Unit: Million Baht

	30 June 2019	31 December 2018	Increase (decrease)	% Variance
Current liabilities	4,975	5,903	(928)	(16%)
Non-current liabilities	335	461	(126)	(27%)
Total liabilities	5,310	6,364	(1,054)	(17%)
Total shareholders' equity	2,313	2,506	(193)	(8%)

Liabilities

Total liabilities as at 30 June 2019 were Baht 5,310 million, a decrease of Baht 1,054 million or a decrease of 17% compared to the total liabilities as at 31 December 2018, which was Baht 6,364 million. It was mainly due to the lower short-term loans from banks and trade account payables.

Shareholders' equity

Total shareholders' equity as at 30 June 2019 were Baht 2,313 million, a decrease of Baht 193 million, or a decrease of 8% compared to the total shareholders' equity as at 31 December 2018, which was Baht 2,506 million. The change was due to the net profit for the period, the dividend payment to the shareholders of the Company and the subsidiary and the share acquisition of the subsidiary from minority shareholders of the subsidiary.

The appropriate of capital structure

The debt to equity ratio as at 30 June 2019 was 2.30:1, decreased from the debt-to-equity ratio as at 31 December 2018, which was 2.54: 1. The decrease was due to the lower current liabilities.

Liquidity

Cash flows

Unit: Million Baht

	Q2' 2019	Q2' 2018
Cash flows from (used in) operating activities	1,271	111
Cash flows from (used in) investing activities	(212)	(223)
Cash flows from (used in) financing activities	(1,110)	(95)

Cash flows from operating activities for the second quarter of 2019 were Baht 1,271 million, increased by Baht 1,160 million compared to that of the previous year amounting to Baht 111 million. It resulted from the increase of working capital i.e. trade receivables, unbilled receivables, trade payables etc.

Cash flows used in investing activities for the second quarter of 2019 were Baht 212 million. There was no significant change compared to the same period of the previous year.

Cash flows used in financing activities for the second quarter of 2019 were Baht 1,110 million, increase by Baht 1,105 million compared to that of the same period of last year amounting to Baht 95 million. The increase was due to repayment of short-term loans and long-term loans.

Liquidity ratio

Current ratio as at 30 June 2019 was 0.85:1 which was closed to the current ratio as at 31 December 2018, which was 0.90:1.

Please be informed accordingly.

Yours sincerely,

(Mr. Arin Jamnaree)

Financial Controller