

Subject: Management Discussion and Analysis for the 6-Month Period Ended June 30, 2019

To: Directors and Managers
The Stock Exchange of Thailand

Halcyon Technology Public Company Limited and its subsidiaries had the operation results for the six-month period ended June 30, 2019 with the following details:

unit: THB million	2019	2018	Change (THB million)	Change (%)
Revenue from Sales and Service	474.93	539.16	-64.23	-11.91%
Total Revenue	476.04	548.48	-72.44	-13.21%
Net Profit for the Period	30.63	105.84	-75.22	-71.06%
Net Profit for Shareholders of the Company	21.94	86.79	-64.86	-74.72%

Operating results for each business segment are shown below:

1. Manufacturing and Selling of Special Cutting Tools

unit: THB million	2019	2018	Change (THB million)	Change (%)
Revenue from External Customers	236.50	291.18	-54.67	-18.78%
Total Revenue	272.31	329.80	-57.49	-17.43%
Net Profit for the Period	6.69	77.83	-71.14	-91.41%

2. Importing and Selling of Cutting Tools

unit: THB million	2019	2018	Change (THB million)	Change (%)
Revenue from External Customers	206.94	215.95	-9.02	-4.18%
Total Revenue	216.19	224.39	-8.19	-3.65%
Net Profit for the Period	18.44	21.51	-3.07	-14.27%

3. Manufacturing and Selling of Tooling and Metal Fabrication

unit: THB million	2019	2018	Change (THB million)	Change (%)
Revenue from External Customers	31.49	32.03	-0.54	-1.69%
Total Revenue	42.75	51.17	-8.43	-16.47%
Net Profit for the Period	5.50	6.51	-1.00	-15.45%

In the six-month period of Q2/2019, the Company and its subsidiaries had a total revenue of 476.04 million baht, decreasing 72.44 million baht, or 13.21% from the same period in 2018. The decrease in revenue resulted mainly from the decline of revenues from the manufacturing and selling of Special Cutting Tools segment, which include sales from the Company, the subsidiary in the Philippines (Halcyon Technology Philippines Inc. or "HP") and the subsidiary in Vietnam (Halcyon Technology Vietnam Co., Ltd. or "HV"). After eliminating related transactions, the segment had a decrease in revenue of 59.90 million baht.

Main target customers for the Manufacturing and Selling of Special Cutting Tools segment are in the Hard Disk Drive (HDD) industry, with production base in Thailand and the Philippines. Customers in Vietnam are mostly in the automotive industry, but revenue from HV is still a small proportion compared to the revenues from the Company and HP. In the last few months since the end of 2018, the HDD industry was impacted by the global economy as well as the pressure from the trade war between China and the US, resulting in main customers decreasing purchase orders and postponing investment plans for additional capacity in the country temporarily. However, it is expected that the industry will recover in the second half of this year, so the Company proceeded with its initial investment plans to install new machines in the second-phase capacity expansion for the new factory, which was already completed in

the end of Q2/2019 in time to support the recovery of the HDD industry as mentioned. Since the month of June, the Company received increasing orders from HDD customers, especially from its main customers; and production had increased accordingly.

The Importing and Selling of Cutting Tools segment in the six-month period of Q2/2019 had a total revenue of 207.09 million baht, decreasing 11.76 million baht, or 5.37% from the same period of 2018. This segment includes revenues from trading subsidiaries in Thailand and overseas, in which the main customers are in the automotive industry. The decrease in revenues came from subsidiaries in Malaysia, which had a drop in sales from one of its main customer in the HDD industry; and Indonesia, which is in the process of management structure change and relocation of its office. Meanwhile, revenues from subsidiaries in Thailand and Singapore grew from the same period last year. However, the subsidiaries overseas were also affected by the strengthening of Thai Baht, which resulted in a decline in total value when converting their operating results from local currencies to Thai Baht for the consolidation of financial statements.

The Manufacturing and Selling of Toolings and Metal Fabrications, which is solely from Halcyon Metal Co., Ltd. or "HM" in the six-month period of Q2/2019 had a total revenue of 31.72 million baht, decreasing 0.78 million baht, or 2.40% from the same period in 2018. Since HM had a high growth in sales during Q2 of last year from the transfer of one major overseas customer from a distributor to HM directly, sales of HM has decreased slightly this year comparing to the same period of last year; even though HM was not affected by the overall economy as much as the related companies in other segments. However, because HM partly manufactures its products to support the Company, when the Company's production capacity dropped, HM has additional free production capacity to support external customers. So, it is expecting a growth in revenue from external customers in the second half of the year.

Overall, the Company and its subsidiaries had a net profit for the period of 30.63 million baht and net profit for the shareholders of the Company of 21.94 million baht in the six-month period of Q2/2019. Net profit margins were 6.43% and 4.61% of the total revenue respectively (compared to 19.30% and 15.82% in the previous year). Net profit margins for each business segment are shown below:

Net Profit Margin (to Total Revenue)	2019	2018
Manufacturing and Selling of Special Cutting Tools Segment	2.82%	26.19%
Importing and Selling of Cutting Tools Segment	8.90%	9.83%
Manufacturing and Selling of Tooling and Metal Fabrications Segment	17.34%	20.01%
Total	6.43%	19.30%

The decrease in net profit margins is a result of the decline in revenue from the Special Cutting Tools segment, while the Company had a large portion of fixed costs. Some of which increased from the previous year, especially the labor cost and bonus with annual adjustments, and depreciation increasing slightly due to new machines installed in the past year. However, the main variable costs including raw materials and consumables used decreased from the previous year as the production slowed down. The only selling and administrative expenses increased were related to employee's salary and bonus, as well as additional employee benefits expense of 0.71 million baht according to the new law. There were no significant changes in other expenses. In the Tooling and Metal Fabrications segment, net profit margin decreased due to the expiration of corporate income tax exemption privilege from BOI since April 2019, resulting in 0.96 million baht increase in tax expenses; and employee benefits expense of 0.68 million baht. Lastly, the continuous strengthening of Thai Baht currency resulted in loss from exchange rate, which slightly affect the overall net profit margins of all segments.

Please be informed accordingly.

Sincerely Yours,



(Mr. Pete Rimchala)
Managing Director