

Ref: AC.029/2020

17 August 2020

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' 2020	Q2' 2019	Increase (decrease)	Variance (%)
Total revenues	1,585	1,735	(150)	(9%)
Net profit	47	70	(23)	(33%)

The Group's total revenues for Q2' 2020 amounted Baht 1,585 million, which was decreased by Baht 150 million or a decrease of 9% compared to the total revenues for Q2' 2019 amounting to Baht 1,735 million. The decline was mainly due to the decrease of revenue from Smart service business.

The Group's profit for Q2' 2020 amounted to Baht 47 million, which was decreased by Baht 23 million or a decrease of 33% compared to the profit for Q2' 2019 amounting to Baht 70 million. The decline was mainly due to the decreased gross profit.

Analysis of revenues

	Q2' 2020		Q2' 2019		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Revenues from main business						
EMS business	283	18%	387	23%	(104)	(27%)
Enterprise solution business	522	33%	418	24%	104	25%
Smart service business	714	45%	855	49%	(141)	(16%)
Total revenues from main business	1,519	96%	1,660	96%	(141)	(8%)
Other income	66	4%	75	4%	(9)	(12%)
Total revenues	1,585	100%	1,735	100%	(150)	(9%)

EMS business

The Company had revenue from EMS business for Q2' 2020 amounting to Baht 283 million, a decrease of Baht 104 million or a decrease of 27% compared to that of the previous year amounting to Baht 387 million. This was mainly due to the COVID-19 epidemic causing the global economic slowdown and lower demand for electronic products in the world market.

Enterprise solution business

Revenue from Enterprise solution business for the Q2' 2020 was Baht 522 million, an increase of Baht 104 million or a 25% increase compared to that of the prior year amounting to Baht 418 million. The increase was due to the Company still has outstanding backlog from the previous year and the first quarter of 2020, which is in the process of operating according to the terms stipulated in the contract. At the end of Q2' 2020, the Company has outstanding backlog amounting to approximately Baht 2,600 million.

Smart service business

The Company had revenue from Smart service business for Q2' 2020 amounting to Baht 714 million, a decrease of Bath 141 million or a decrease of 16% compared to that previous year amounting to Baht 855 million. Total top-up value for Q2' 2020 was Baht 9,074 million, a 13% decrease. This was caused by factors such as the purchasing power of the middle and lower consumers, which decreased from the drought situation, COVID-19 impact and government measures to aid cost of living, changes in customer behavior that focus more on using mobile internet packages, marketing of mobile companies that focus on selling Sim Card Data, Post-paid mobile marketing and e-Wallet, as well as an increase in the number of rivals' top-up machines.

Gross Profit and Gross Profit Margin

	Q2' 2020		Q2' 2019		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
EMS business	56	20%	58	15%	(2)	(3%)
Enterprise solution business	97	19%	110	26%	(13)	(12%)
Smart service business	157	22%	204	24%	(47)	(23%)
Gross Profit	310	20%	372	22%	(62)	(17%)

EMS business

Gross profit for Q2' 2020 amounted to Baht 56 million, a decrease of Baht 2 million or a 3% drop from the same period of the previous year, with no significant change. Gross profit margin for Q2' 2020 increased from 15% to 20% due to the proportion of sales of electronic parts (which has a high gross margin) to the proportion of revenue from electronic circuit board manufacturing and assembly (which has a low gross margin) for Q2' 2020 is 67: 33 while the ratio for Q2' 2019 is 61: 39.

Enterprise solution business

Gross profit for Q2' 2020 amounted to Baht 97 million, a decrease of Baht 13 million or a 12% drop from the same period of the previous year, and gross profit margin for Q2' 2020 decreased from 26% to 19%. This was due to projects that recognised revenue in Q2' 2020 had lower gross profit margin than those of Q2' 2019.

Smart service business

Gross profit for Q2' 2020 amounted to Baht 157 million, a decrease of Baht 47 million or 23% decrease from the same period of last year. The reduction is in line with the decrease in income. Gross profit margin for Q2' 2020 dropped from 24% to 22% because of a drop in revenue, while the Company had fixed costs such as depreciation of top-up and vending machines.

Expenses and expenses to revenues from main business

	Q2' 2020		Q2' 2019		Increase (decrease)	
	Million Baht	%	Million Baht	%	Million Baht	%
Selling expenses	31	2%	24	1%	7	29%
Administrative expenses	202	13%	234	14%	(32)	(14%)
Finance cost	23	2%	26	2%	(3)	(12%)
Income tax expenses	20	1%	28	2%	(8)	(29%)

Selling expenses

Selling expenses for Q2' 2020 amounted to Baht 31 million, an increase of Baht 7 million or a 29% increase from the same period of prior year due to the increase in promotional expenses of FSMART.

Administrative expenses

Administrative expenses for Q2' 2020 amounted to Baht 202 million, a decrease of Baht 32 million or a 14% decrease from the same period of last year. This is because in Q2' 2019, the Company recorded the effect of the change in additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more, with such employees entitled to receive not less than 400 days' compensation at the latest wage rate amounting to Baht 26 million, in accordance with the Labor Protection Act (No. 7) B.E. 2562, effective from 5 May 2019.

Finance cost

The financial cost for Q2' 2020 amounted to Baht 23 million, a decrease of Baht 3 million or a 12% decrease from the same period of last year. This was in line with the reduction of long-term loans.

Income tax expenses

Income tax expenses for Q2' 2020 amounted to Baht 20 million, a decrease of Baht 8 million or a 29% decrease from the same period of the previous year, in line with the lower profit.

Financial position

Assets

Unit: Million Baht

	30 June 2020	31 December 2019	Increase (decrease)	% Variance
Current assets	4,339	4,115	224	5%
Non-current assets	3,559	3,502	57	2%
Total assets	7,898	7,617	281	4%

Total assets as at 30 June 2020 amounted to Baht 7,898 million, an increase of Baht 281 million or a 4% increase compared to the total assets as at 31 December 2019, amounting to Baht 7,617 million. The increase was mainly from advances payment for goods and rights-of-use assets

The quality of assets

Trade account receivables

Unit: Million Baht

	Consolidated financial statements	
	30 June 2020	31 December 2019
Trade account receivables - unrelated parties	728	641
Less: Allowance for credit losses	(88)	(81)
Trade account receivables - net	640	560

As at 30 June 2020 and 31 December 2019, the Group recorded the allowance for credit loss on trade receivables, amounting to Baht 88 million and Baht 81 million, respectively. The Group recognises an allowance for expected credit losses on its trade receivables, and it is no longer necessary for a credit-impaired event to have occurred. The Group applies the simplified approach to consider impairment of trade receivables.

Inventories

Unit: Million Baht

	Consolidated financial statements	
	30 June 2020	31 December 2019
Inventories	1,483	1,372
Reduce cost to net realisable value	(411)	(393)
Inventories - net	1,072	979

As at 30 June 2020 and 31 December 2019, the Group reduced cost of inventories by Baht 411 million and Baht 393 million, respectively, to reflect the net realisable value. 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, 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 2020	31 December 2019	Increase (decrease)	% Variance
Current liabilities	5,530	4,920	610	12%
Non-current liabilities	346	251	95	38%
Total liabilities	5,876	5,171	705	14%
Total shareholders' equity	2,022	2,446	(424)	(17%)

Liabilities

Total liabilities as at 30 June 2020 were Baht 5,876 million, an increase of Baht 705 million or a 14% increase compared to the total liabilities as at 31 December 2019, which was Baht 5,171 million. The increase was mainly due to the increase of short-term loans, trade and other payables and long-term lease liabilities.

Shareholders' equity

Total shareholders' equity as at 30 June 2020 were Baht 2,022 million, a decrease of Baht 424 million, or a 17% decrease compared to the total shareholders' equity as at 31 December 2019, which was Baht 2,446 million. The change was due to the net profit for the period, the dividend payment to the shareholders and non-controlling shareholders of the subsidiary (FSMART) and the share repurchase of the Company and the subsidiary (FSMART).

The appropriate of capital structure

The debt to equity ratio as at 30 June 2020 was 2.91:1, decreased from the debt-to-equity ratio as at 31 December 2019, which was 2.11: 1. This was due to the increased liabilities and the decreased shareholders' equity.

Liquidity

Cash flows

Unit: Million Baht

	Q2' 2020	Q2' 2019
Cash flows from (used in) operating activities	560	1,211
Cash flows from (used in) investing activities	(94)	(153)
Cash flows from (used in) financing activities	(583)	(1,110)

Cash flows from operating activities for Q2' 2020 amounted to Baht 560 million, a decreased of Baht 651 million compared to the same period of the previous year which was Baht 1,211 million. It resulted from the increase of working capital i.e. trade and other receivables, inventories, advance payment for goods, trade and other payables etc.

Cash flows used in investing activities for Q2' 2020 amounted to Baht 94 million, a decrease of Baht 59 million compared to the same period of the previous year which was Baht 153 million. It was due to in Q2' 2019, the Company purchased ordinary shares of the subsidiary (FSMART) in the Stock Exchange of Thailand amounting to Baht 88 million, together with a decrease in the fixed deposit of Baht 50 million, which matured in February 2020.

Cash flows used in financing activities for Q2' 2020 amounted to Baht 583 million, a decreased of Baht 527 million compared to the same period of last year which was Baht 1,110 million. The decrease was due to in Q2' 2019, the Company repaid short-term loans in the amount of Baht 424 million.

Liquidity ratio

Current ratio as at 30 June 2020 was 0.78:1 which was closed to the current ratio as at 31 December 2019, which was 0.84:1.

Please be informed accordingly.

Yours sincerely,

(Mr. Arin Jamnaree)

Financial Controller