

November 14<sup>th</sup>, 2019

Subject Management Discussion and Analysis on operating result for the third quarter of year 2019

To: Managing Director of Stock Exchange of Thailand

Simat Technologies Public Company Limited would like to report the variance in operating result for the third quarter of year 2019 compared with the same period of year 2018 as follows:

Jul - Sep 2019 3-months	Thailand					Malaysia	Total
	IT Solution	Label Printing	Silkscreen Printing	Government Project	Internet Broadband	Wholesale of computer	
Revenues	21,597	61,964	80,176	252,066	35,004	217,719	668,526
Cost of sales and services	(15,449)	(41,081)	(51,663)	(204,589)	(19,663)	(185,572)	(518,017)
Gross profit (loss)	6,148	20,883	28,513	47,477	15,341	32,147	150,509
Gain (loss) on exchange rate	16	(61)	40	-	-	-	(5)
Other income	(784)	14	56	65	35	12,535	11,921
Selling expenses	(2,762)	(2,112)	(1,974)	(271)	(3,823)	(1,199)	(12,141)
Administrative expense	(7,163)	(7,118)	(10,852)	(2,905)	(9,776)	(15,342)	(53,156)
Finance cost	(498)	(619)	(2,182)	-	(116)	(3,165)	(6,580)
Profit sharing from associate	681	-	-	-	-	-	681
Profit (loss) before income tax	(4,362)	10,987	13,601	44,366	1,661	24,976	91,229
Income tax	225	(2,048)	(2,598)	-	-	(5,455)	(9,876)
Net profit (loss)	(4,137)	8,939	11,003	44,366	1,661	19,521	81,353
Profit (loss) attributable to Equity holders of the Company							67,526
Non-controlling interests							13,827
							<u>81,353</u>

Jul - Sep 2018 3-months	Thailand					Malaysia	Total
	IT Solution	Label Printing	Silkscreen Printing	Government Project	Internet Broadband	Wholesale of computer	
Revenues	23,026	68,288	82,371	-	44,475	344,636	562,796
Cost of sales and services	(17,272)	(46,224)	(51,684)	-	(38,430)	(322,481)	(476,091)
Gross profit (loss)	5,754	22,064	30,687	-	6,045	22,155	86,705
Gain (loss) on exchange rate	42	525	45	-	-	-	612
Other income	(268)	467	308	-	159	1,372	2,038
Selling expenses	(2,221)	(2,019)	(401)	-	(4,949)	(1,815)	(11,405)
Administrative expense	(13,540)	(7,397)	(11,134)	-	(10,173)	(12,318)	(54,562)
Finance cost	(69)	(802)	(2,315)	-	(1,570)	(4,063)	(8,819)
Profit sharing from associate	(44)	-	-	-	-	-	(44)
Profit (loss) before income tax	(10,346)	12,838	17,190	-	(10,488)	5,331	14,525
Income tax	(297)	(1,873)	(1,269)	-	296	(1,271)	(4,414)
Net profit (loss)	(10,643)	10,965	15,921	-	(10,192)	4,060	10,111
Profit (loss) attributable to Equity holders of the Company							1,601
Non-controlling interests							8,510
							<u>10,111</u>

Jan - Sep 2019 9-months	Thailand					MaLaysia	Total
	IT Solution	Label Printing	Silkscreen Printing	Government Project	Internet Broadband	Wholesale of computer	
Revenues	50,652	182,059	246,133	431,346	120,022	617,437	1,647,649
Cost of sales and services	(39,783)	(124,427)	(143,050)	(348,124)	(71,646)	(557,294)	(1,284,324)
Gross profit (loss)	10,869	57,632	103,083	83,222	48,376	60,143	363,325
Gain (loss) on exchange rate	160	535	49	-	-	-	744
Impairment loss on goodwill	(44,693)	-	-	-	-	-	(44,693)
Other income	119	71	593	141	316	18,771	20,011
Selling expenses	(8,466)	(6,217)	(4,609)	(513)	(14,333)	(4,520)	(38,658)
Administrative expense	(19,935)	(26,726)	(40,099)	(6,186)	(40,273)	(39,039)	(172,258)
Loss on impairment of assets	-	-	-	-	-	-	-
Finance cost	(2,545)	(1,996)	(3,670)	(6)	(3,125)	(9,528)	(20,870)
Profit sharing from associate	738	-	-	-	-	-	738
Profit (loss) before income tax	(63,753)	23,299	55,347	76,658	(9,039)	25,827	108,339
Income tax	668	(3,698)	(11,736)	22	64	(6,114)	(20,794)
Net profit (loss)	(63,085)	19,601	43,611	76,680	(8,975)	19,713	87,545
<b>Effects of extraordinary items:</b>							
1) Loss from impairment of goodwill	44,693						44,693
2) Financial advisory fee		1,500					1,500
3) Interest fines in civil case					4,500		4,500
Total amount of extraordinary items	44,693	1,500	-	-	4,500	-	50,693
Net Profit/(Loss) (exclude extraordinary items)	(18,392)	21,101	43,611	76,680	(4,475)	19,713	138,238
Profit (loss) attributable to							
Equity holders of the Company							60,101
Non-controlling interests							27,444
							87,545
Profit (loss) attributable to (exclude extraordinary items)							
Equity holders of the Company							110,794
Non-controlling interests							27,444
							138,238

Jan - Sep 2018 9-months	Thailand					MaLaysia	Total
	IT Solution	Label Printing	Silkscreen Printing	Government Project	Internet Broadband	Wholesale of computer	
Revenues	81,418	198,611	106,573	-	133,352	811,626	1,331,580
Cost of sales and services	(59,001)	(141,230)	(61,487)	-	(112,602)	(754,615)	(1,128,935)
Gross profit (loss)	22,417	57,381	45,086	-	20,750	57,011	202,645
Gain (loss) on exchange rate	12	243	57	-	-	-	312
Gain on sale of investment	18,188	-	-	-	-	-	18,188
Other income	(741)	1,035	423	-	564	10,229	11,510
Selling expenses	(6,965)	(6,837)	(437)	-	(18,644)	(5,774)	(38,657)
Administrative expense	(31,182)	(23,150)	(13,634)	-	(32,935)	(35,482)	(136,383)
Finance cost	(1,317)	(2,344)	(3,122)	-	(5,288)	(12,003)	(24,074)
Profit sharing from associate	440	-	-	-	-	-	440
Profit (loss) before income tax	852	26,328	28,373	-	(35,553)	13,981	33,981
Income tax	(1,599)	(4,152)	(1,269)	-	833	(2,048)	(8,235)
Net profit (loss)	(747)	22,176	27,104	-	(34,720)	11,933	25,746
<b>Effects of extraordinary items:</b>							
1) Gain from sale of investment	(18,188)						(18,188)
Total amount of extraordinary items	(18,188)	-	-	-	-	-	(18,188)
Net Profit/(Loss) (exclude extraordinary items)	(18,935)	22,176	27,104	-	(34,720)	11,933	7,558
Profit (loss) attributable to							
Equity holders of the Company							8,952
Non-controlling interests							16,794
							25,746
Profit (loss) attributable to (exclude extraordinary items)							
Equity holders of the Company							(9,236)
Non-controlling interests							16,794
							7,558

Remark 1: Silkscreen printing business is Hinsitsu (Thailand) which is just acquired by the Company on 31 May 2018 and the Company recognized revenue and profit since 1 June 2018.

2: Government project, the Company just won the bidding of the project of internet service to remote area - Zone Northeast 2 on 13 December 2018 and has signed the contract with NBTC on 30 January 2019. The project value is THB 2,248 million with the term of 6 years and the Company will recognize revenue since Quarter 1 year 2019 onward

## Summary

### For the 3-month period

The consolidated net profit (portion of the parent company) for the third quarter of year 2019 and 2018 were Baht 67.53 million and Baht 1.60 million, respectively which improve from the prior year significantly from the following reasons:

1. IT business had loss from operation for the third quarter for the year 2019 and 2018 for Baht 4.14 million and Baht 10.64 million, respectively. The loss improved from prior year as the decrease in administrative expenses. The management planned to restructure this business and it is in the process of negotiation with the business partner. The plan is to set up the new subsidiary company and the Company shall transfer the IT business to this subsidiary and the Company will invest about 50%. The business partner who will joint-invest in this subsidiary is an expert in IT business. The IT business after restructuring will improve their operating performance within the next year.
2. Label business had profit from operation for the third quarter for the year 2019 and 2018 for Baht 8.94 million and Baht 10.97 million, respectively. The performance decreased about 19% from the decrease of sales about 9% from the same period of last year. In 2019, the Company restructured the label business by sale of total shares holding in Simat Label to another subsidiary who is Hinsitsu (Thailand) Co., Ltd., Silkscreen printing business which take effect since Quarter 2 of year 2019. The restructuring caused the Company to take profit sharing of 70% of the total profit.
3. Silkscreen Printing business had profit from operation for the third quarter for the year 2019 and 2018 for Baht 11.00 million and Baht 15.92 million, respectively. The profit declined as there were increase in administrative expenses in year 2019 from the restructuring organization in order to comply with IPO listing process for the next year.
4. Government Project is the new business which the Company just won the bidding of the project of internet service to remote area - Zone Northeast 2 on 13 December 2018 and has signed the contract with NBTC on 30 January 2019. The project value is THB 2,100 million (exclude VAT) with the term of 6 years. The revenue is separated into:

- 1) Phase 1 Installation of equipment: the total revenue is Baht 723 million to be delivered within the end of year 2019
- 2) Phase 2 Internet service and maintenance: the total revenue is Baht 1,377 million to be recognized for 5 years since the delivery of phase 1 completed.

For Phase 1, the Company started to recognize revenue since Quarter 1. In Quarter 3, the Company recognized revenue and profit according to the percentage of completion from 25% in Quarter 2 to 60% in Quarter 3. Therefore, the Company recognized revenue, gross profit and net profit for Baht 252 million, Baht 47 million and Baht 44 million in Quarter 3.

5. Broadband business had net profit/(loss) from operation for the third quarter for the year 2019 and 2018 for Baht 1.66 million and Baht (10.19) million, respectively. The performance improved from prior year significantly due to the decrease of depreciation expense, the main cost, about 70% from the provision for impairment of the internet network for consumer market at end of year 2018. The operating performance of this business is improving from the reduction of shop and the transfer of more staffs to do installation of Government Project during the Quarter 2 of this year. The transferred staffs will perform installation job in Phase 1 of the project and perform the service and maintenance for the next 5 year until the project complete. As the Phase 1 complete, the Company can provide internet service to the people in 7 provinces in the project. In the near future, the Company will have internet service coverage area from the existing 4 provinces to 11 provinces which will help increasing revenue and profit.

6. Wholesale of computer hardware in Malaysia had net profit from operation for the third quarter for the year 2019 and 2018 for Baht 19.52 million and Baht 4.06 million, respectively. The profit increased significantly due to the improvement of gross profit ratio from 6% to 15% of sales as there was a large amount of sale of equipment under government project with the relatively low margin. Moreover, the other income increased significantly from the interest income charged for the long overdue accounts receivable amounting to Baht 12 million.

In Quarter 2, the Company has entered into the share sale agreement to sell all shares holding in this subsidiary to Mr. Ling Chee Kiat for 3.8 million Ringgit or Baht 28 million. The Company recognized loss from impairment of goodwill about Baht 44.69 million. The sale price is closed to the fair value evaluated by the independent financial advisor. The disposal of the investment in this subsidiary is according to the business restructure plan to sell off the business with low profit and high business risk. It is expected that the sale transaction will complete according to the conditions in the agreement within Quarter 4 of year 2019.

For the 9-month period

The consolidated net profit (portion of the parent company) for the 9-month period of year 2019 and 2018 were Baht 60.10 million and Baht 8.95 million, respectively. In year 2019, there is extraordinary expense item (non-cash item) which is loss from impairment on goodwill of investment in subsidiary in Malaysia amounting to Baht 44.69 million from sale of all shares holding in this subsidiary (this sale transaction to complete in Quarter 3). Moreover, there are one-time expense items for business restructure of Label business which is Financial advisory fee of Baht 1.50 million and the interest fines from civil case according to the supreme court judgement that the Company lost the case amounting to Baht 4.50 million. Therefore, the total extraordinary expense items or one-time expenses was Baht 50.69 million. While in 2018, there was one extraordinary item which is gain from sale of investment in subsidiary (Simat Soft Co., Ltd.) amounting to Baht 18.19 million. In exclusion of the extraordinary items incurred in 2019 and 2018, the profit/(loss) from operation for the third quarter in 2019 and 2018 were Baht 110.79 million and Baht (9.24) million, respectively.

The profit from operation (exclude extraordinary items) improved from last year significantly from

- 1) The profit recognition from the new business which is the Silkscreen printing with profit of Baht 44 million in year 2019 compared with Baht 27 million in year 2018 which the Company acquired since mid-year of 2018 and the profit recognized from the project of internet service to remote area - Zone Northeast 2 amounting to Baht 77 million while there was no this business in prior year.
- 2) The loss from Broadband business decreased significantly from the decrease of depreciation expense, the main cost, about 70% from the provision for impairment of the internet network for consumer market at end of year 2018 and the decrease of the fixed payroll cost and other relevant expenses from transfer of staffs to perform the Government project. The net loss for year 2019 was Baht 4 million compared with Baht 34 million of year 2018.

Please be informed accordingly,

Faithfully yours,

(Mr. Thammanoon Korkiatwanich)

Director/Company Secretary