

February 28th, 2020

Subject Management Discussion and Analysis on operating result for the 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 year 2019 compared with year 2018 as follows:

Jan - Dec 2019 12-months	Thailand					MaLaysia	Total																											
	IT Solution	Label Printing	Silkscreen Printing	Government Project	Internet Broadband	Wholesale of computer																												
Revenues	75,572	248,997	332,124	492,189	153,617	706,041	2,008,540																											
Cost of sales and services	(60,502)	(166,814)	(196,664)	(400,629)	(90,412)	(637,613)	(1,552,634)																											
Gross profit (loss)	15,070	82,183	135,460	91,560	63,205	68,428	455,906																											
Gain (loss) on exchange rate	166	563	175	-	-	-	904																											
Loss on sale of investment	-	-	-	-	-	(67,976)	(67,976)																											
Other income	316	239	596	188	511	19,739	21,589																											
Selling expenses	(11,269)	(8,491)	(7,105)	(834)	(17,894)	(6,162)	(51,755)																											
Administrative expense	(27,579)	(37,585)	(54,560)	(8,228)	(48,985)	(48,012)	(224,949)																											
Finance cost	(2,280)	(2,513)	(5,692)	(6)	(3,943)	(11,681)	(26,115)																											
Profit sharing from associate	820	-	-	-	-	-	820																											
Profit (loss) before income tax	(24,756)	34,396	68,874	82,680	(7,106)	(45,664)	108,424																											
Income tax	8,657	(3,619)	(14,628)	8,793	64	(6,628)	(7,361)																											
Net profit (loss)	(16,099)	30,777	54,246	91,473	(7,042)	(52,292)	101,063																											
Effects of extraordinary items:																																		
1) Loss from sale of investment in subsidiary in Malaysia						67,976	67,976																											
2) Financial advisory fee		1,500					1,500																											
3) Interest fines in civil case					4,500		4,500																											
Total amount of extraordinary items	-	1,500	-	-	4,500	67,976	73,976																											
Net Profit/(Loss) (exclude extraordinary items)	(16,099)	32,277	54,246	91,473	(2,542)	15,684	175,039																											
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right;">Profit (loss) attributable to</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Equity holders of the Company</td> <td style="text-align: right;">69,027</td> </tr> <tr> <td></td> <td style="text-align: right;">Non-controlling interests</td> <td style="text-align: right;">32,036</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">101,063</td> </tr> <tr> <td colspan="3"> </td> </tr> <tr> <td></td> <td style="text-align: right;">Profit (loss) attributable to (exclude extraordinary items)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">Equity holders of the Company</td> <td style="text-align: right;">143,003</td> </tr> <tr> <td></td> <td style="text-align: right;">Non-controlling interests</td> <td style="text-align: right;">32,036</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">175,039</td> </tr> </table>									Profit (loss) attributable to			Equity holders of the Company	69,027		Non-controlling interests	32,036			101,063					Profit (loss) attributable to (exclude extraordinary items)			Equity holders of the Company	143,003		Non-controlling interests	32,036			175,039
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Jan - Dec 2018 12-months	Thailand					MaLaysia	Total
	IT Solution	Label Printing	Silkscreen Printing	Government Project	Internet Broadband	Wholesale of computer	
Revenues	112,484	256,093	188,547	-	174,116	962,744	1,693,984
Cost of sales and services	(80,749)	(180,656)	(117,502)	-	(148,310)	(887,429)	(1,414,646)
Gross profit (loss)	31,735	75,437	71,045	-	25,806	75,315	279,338
Gain (loss) on exchange rate	(105)	234	46	-	-	-	175
Gain on sale of investment	18,188	-	-	-	-	-	18,188
Other income	(1,825)	1,566	1,889	-	675	12,809	15,114
Selling expenses	(10,874)	(9,144)	(1,642)	(309)	(23,271)	(7,160)	(52,400)
Administrative expense	(42,145)	(31,100)	(29,552)	(5,890)	(44,632)	(59,531)	(212,850)
Loss on impairment of assets	-	-	-	-	(480,000)	-	(480,000.00)
Finance cost	(433)	(3,141)	(5,316)	-	(7,684)	(16,375)	(32,949)
Profit sharing from associate	697	-	-	-	-	-	697
Profit (loss) before income tax	(4,762)	33,852	36,470	(6,199)	(529,106)	5,058	(464,687)
Income tax	(807)	(5,560)	(4,111)	-	833	(1,965)	(11,610)
Net profit (loss)	(5,569)	28,292	32,359	(6,199)	(528,273)	3,093	(476,297)
Effects of extraordinary items:							
1) Gain from sale of investment	(18,188)	-	-	-	-	-	(18,188)
2) Loss from impairment of asset	-	-	-	-	480,000	-	480,000
Total amount of extraordinary items	(18,188)	-	-	-	480,000	-	461,812
Net Profit/(Loss) (exclude extraordinary items)	(23,757)	28,292	32,359	(6,199)	(48,273)	3,093	(14,485)
Profit (loss) attributable to							
Equity holders of the Company							(492,523)
Non-controlling interests							16,226
							(476,297)
Profit (loss) attributable to (exclude extraordinary items)							
Equity holders of the Company							(30,711)
Non-controlling interests							16,226
							(14,485)

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

The consolidated net profit/(loss) of the Company (portion of the parent company) for the year 2019 and 2018 were Baht 69.03 million and Baht (492.52) million, respectively. However, if we took out the effect of the extraordinary items which occurred during the year 2019 and 2018 and considered only the normal operating performance, we found that the net profit for the parent company's portion excluding extraordinary items for the year 2019 was Baht 143.00 million which mainly came from the profit from government project and the label and silkscreen printing business while the net loss for the parent company's portion excluding extraordinary items for the year 2018 was Baht 30.71 million which mainly came from the loss of broadband business.

The operating performance for the year 2019 was improved from year 2018 significantly from the following reasons:

1. IT business had loss from operation for the year 2019 and 2018 for Baht 16.10 million and Baht 23.76 million (excluding the extraordinary item of the sale of software business amounting to Baht 18.19 million), respectively. The loss improved from prior year as the decrease in administrative expenses. The management has restructured this business by set up the new subsidiary company and the Company has transferred the IT business to this subsidiary and the Company invested about 49%. 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 year 2019 and 2018 for Baht 32.28 million and Baht 28.29 million, respectively. The performance improved from the rise of gross margin ratio as the increase in portion of sale of products in smartphone segment with the high margin. 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 year 2019 and 2018 for Baht 54.25 million and Baht 32.36 million (Year 2018, the Company had recognized revenue and profit for 7 months as the Company acquired this business since 31 May 2018), respectively. If we compare the operating performance on equally 12 months basis, we found that revenue and net profit of year 2019 were closed to prior year. This business still can retain the growth although the competition was intense from the effect of the trade war between U.S. and China on the export of electric appliances of Thailand.
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 recognized revenue and profit according to the percentage of completion of 70% of the total Phase 1 cost or equaled to Baht 492 million and Baht 91 million, respectively. There are outstanding work of Phase 1 about 30% to be completed in Quarter 1 of year 2020 which is delay from the delivery date according to the contract due to the tropical storm attacked the overall installation sites during the Quarter 3. However, the Company informed formally about this force majeure to NBTC in order to consider the expansion of delivery and inspection period appropriately.
5. Broadband business had net loss from operation for the year 2019 and 2018 for Baht 2.54 million (excluding the extraordinary item of the interest fine from civil court amounting to Baht 4.50 million) and Baht 48.27 million (excluding the extraordinary item of the impairment loss of the internet network amounting to Baht 480.00 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 staff as transfer of more staffs to do installation of Government Project during the Quarter 2 of year 2019. 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 15.68 million (excluding the extraordinary item of the loss from sale of investment in subsidiary in Malaysia amounting to Baht 67.98 million) and Baht 3.09 million, respectively. The profit increased significantly due to the increase in other income from the interest income charged for the long overdue accounts receivable amounting to Baht 12 million which is not related to the normal operation.

In Quarter 2 year 2019, 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 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. The sale transaction was completed at end of November 2019 and the Company recognized loss on sale of the investment in this subsidiary about It is Baht 67.98 million.

Please be informed accordingly,

Faithfully yours,

(Mr. Thammanoon Korkiatwanich)

Director/Company Secretary