

10 August 2022

Subject: Management Discussion and Analysis - For the three-month period ended 30 June 2022

To: The President of Stock Exchange of Thailand

MFEC Public Company Limited (“the Company”) would like to notify the operating results that the Company reported net profit’s equity owner of the parent for the three-month period ended 30 June 2022 of Baht 41.3 million, net profit decrease by Baht 4.5 million or 9.8% compared to the same period of last year which net profit were Baht 45.8 million, due reason to the following reasons:

Overall Operating results

Description	Q2-2022		Q2-2021		Change	
	Mil THB	%	Mil THB	%	Mil THB	%
Revenue from Sales and Services	1,327.4	100.0%	1,099.9	100.0%	227.5	20.7%
Cost of Sales and Services	(1,073.7)	-80.9%	(908.2)	-82.6%	(165.5)	18.2%
Gross Profit, before Operating Expenses	253.7	19.1%	191.7	17.4%	62.0	32.3%
Profit from change in investment reclassification	16.8	1.3%	-	0.0%	16.8	100.0%
Other Income	2.6	0.2%	5.1	0.5%	(2.5)	-49.0%
Selling and Administrative Expenses	(214.0)	-16.1%	(135.7)	-12.3%	(78.3)	57.7%
Profit from Operating, before interest and Tax	59.1	4.5%	61.1	5.6%	(2.0)	-3.3%
Share of Profit (loss) from Associates	(0.6)	0.0%	1.6	0.1%	(2.2)	-137.5%
Financial Costs	(3.8)	-0.3%	(2.5)	-0.2%	(1.3)	52.0%
Net Profit, Before Corporate Tax	54.7	4.1%	60.2	5.5%	(5.5)	-9.1%
Corporate Income Tax	(12.4)	-0.9%	(14.0)	-1.3%	1.6	-11.4%
Net Profit	42.3	3.2%	46.2	4.2%	(3.9)	-8.4%
Profit Attributed to Non-Controlling Interests	(1.0)	-0.1%	(0.4)	0.0%	(0.6)	150.0%
Net Profit, Parent portion	41.3	3.1%	45.8	4.2%	(4.5)	-9.8%

In the second quarter of 2022, the Thai economy continued to improve from the previous quarter. Private consumption indicators increased mainly from spending on services category. Trade and service sectors recovered arising from improving foreign tourist figures after the relaxation of the COVID-19 containment measures and international travel restrictions. Although, private investment indicators improved in accordance with development of the economy. However, headline inflation accelerated mainly from energy inflation as a result of higher electricity and domestic retail oil prices. Core inflation increased, especially due to higher food prices. On exchange rates, the Baht against the US dollar continued to depreciate along with other regional currencies due to US dollar appreciation as the US Federal Reserve tightened their monetary policy (*source: Bank of Thailand*).

Revenue recognition from several large projects newly acquired during the late of last year were resulted in revenue and gross profit increase compared to the same period of last year, by 20.7% and 32.3%, respectively. The Group's net profit growth by 5.9% year-on-year basis. However, operating expenses increased, especially personnel and staff related expenses due to higher number of employments to support business expansion. Consequently, net profit fell 9.8% from the same period of last year.

At the end of second quarter of current year, the Group remains backlog project that allow recognition of revenue carrying until the end of projects of up to 5 years, with total backlog value of Baht 7,666 million. The Group maintained higher value on backlog projects which increase by Baht 1,282 million, from the end of last year.

1. Revenue from sales and services increase from the same period of last year by Baht 227.4 million or 20.7% due following to:

Revenue from Business segment	Q2-2022		Q2-2021		Increase (decrease)	
	Million Baht	% to total revenue	Million Baht	% to total revenue	Million Baht	% Change
System Integration services	205.9	84.1%	367.5	85.5%	176.3	18.8%
System maintenance services	636.7		390.6			
IT Professional services	273.9		182.1			
Cloud solution service	188.5	14.2%	150.8	13.7%	37.7	25.0%
Other business	22.3	1.7%	8.9	0.8%	13.4	150.6%
Total sales and services	1,327.3	100.0%	1,099.9	100.0%	227.4	20.7%

Revenue from 3 core business segments for the current year is representing 84.1% of total revenue from sales and services. The Group's revenue generated from these core business segments increased Baht 176.3 million with revenue growth by 18.8% year-on-year, especially revenue from maintenance services which are recurring income in nature. Revenue composition from these core businesses decrease when compare with last year since the expansion from Cloud service segment which continuing expand growth since the year 2021.

Cloud Solution Service revenue growth by 25% year-on-year basis with revenue proportion of 14.2% of total revenue. Cloud solution service is grow steadily reflected good response from leading enterprise customers to enhance data management using Cloud technology. The Company focuses on expanding customer base in this business segment for further growth in future.

2. Profit from change in investment classification

Profit from change in investment classification Baht 16.8 million had recorded in consolidated statement of comprehensive income for 2nd quarter of 2022, resulted from Data Cafe Company Limited issued newly shares and offered to the external investor, a joint business partner of Data Cafe, being cause change in investment classification in Data Cafe from investment in subsidiary to investment in joint venture. Profit from change in investment classification had recorded to reflect the additional fair value of joint venture investment as of completion date of the transaction on 30 June 2022.

3. Cost of sales and service increase by Baht 165.5 million or 18.2% compared to last year.

Description	Q2-2022	Q2-2021	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Revenue from sales and services	1,327.4	1,099.9	227.5	20.7%
Cost of sales and services	1,073.7	908.2	165.5	18.2%
Gross Profit	253.7	191.7	62.0	32.3%

Gross Profit (%)	19.1%	17.4%	+1.7%
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Cost of sales and services for the second quarter of current year were Baht 1,073.7 million. The increase in cost of sales and services is representing direct proportion to revenue growth during current period. Although, severe price competition within IT service sector along since last year. The Group can improve gross profit margin for the current year of 19.1% with Gross Profit rate increase by 1.7% year-on-year basis. An increase in revenue from sales and services of 20.7%, is resulted in the Group's gross profit increased by Baht 62.0 million or 32.3%, from the same period of last year. Gross profit margin is significant increase due to the Group's internal resource management, especially personnel resources can be utilized more efficiently.

4. Selling and Administrative expenses increase by Baht 78.3 million or 57.7% compared to the same period of last year.

Description	Q2-2022	Q2-2021	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Selling and distribution expenses	31.2	25.3	5.9	23.3%
Administrative expenses	176.6	107.9	68.7	63.7%
Loss on exchange rate	6.2	2.5	3.7	148.0%
Total Selling and Administrative Expenses	214.0	135.7	78.3	57.7%

Administrative expenses for the second quarter of 2022 were non-recurring totaling Baht 26 million comprised loss from tax cannot be refunded, expected credit loss from accounts receivable and loss from lawsuits case of the subsidiaries.

The Company is continuing to conduct operating costs efficiency policy. Most operating expenses are recurring which some comprised fixed by cost nature for support business expansion. Overall operating expenses is at similarly level when compared to the same period of the last year. Selling and Administrative expenses as percentage to total revenue was 14.1% (not included non-recurring expenses), slightly increase from last year which was 12.3%.

Please be informed in accordingly.

Your sincerely,

(Mr. Siriwat Vongjarukorn)

Chief Executive Officer