

No. ITNSmai6511-01

10 November 2022

RE: Management Discussion and Analysis for the period of 3 months ended on 30 September 2022

To: The President

Stock Exchange of Thailand

International Network Systems Public Company Limited (the "Company") would like to submit a report on the Management's discussion and analysis based on the financial statements for the period of 3 months ended on 30 September 2022 as follows.

Summary of the period of 3 months ending on 30 September 2022

Business type	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Revenue from sales and services				
1. Revenue from selling of equipment and providing installation services	74.37	73.25	94.46	82.05
2. Revenue from repair services and maintenance of equipment	23.95	23.59	18.31	15.90
3. Revenue from equipment rental	0.71	0.70	2.31	2.01
Total revenue from sales and services	99.03	97.54	115.08	99.96
Other revenue	2.50	2.46	0.05	0.04
Total revenue	101.53	100.00	115.13	100.00
Cost of sales and services	(71.25)	(70.18)	(92.52)	(80.36)
Gross profit	27.78	27.36	22.56	19.60
Cost of distribution	(5.07)	(4.99)	(2.16)	(1.88)
Administrative expenses	(4.96)	4.89)	(5.30)	(4.60)
Net profit (loss) before finance costs and income tax	20.25	19.94	15.15	13.16
Financial cost	(0.01)	(0.01)	(0.01)	(0.01)
Share of profits in joint ventures	0.46	0.45	0.00	0.00
Profit (loss) before income tax	20.70	20.39	15.14	13.15
Revenue (expenses) income tax	(3.67)	(3.61)	(2.99)	(2.60)
Net profit (loss) for the period	17.03	16.77	12.15	10.55

Total revenue

Business type	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Revenue from sales and services				
1. Business of distribution and installation of equipment	74.37	73.25	94.46	82.05
2. Business of providing repair and maintenance services	23.95	23.59	18.31	15.90
3. Business of equipment rental	0.71	0.70	2.31	2.01
Total revenue from sales and services	99.03	97.54	115.08	99.96
Other revenue ¹	2.50	2.46	0.05	0.04
Total revenue	101.53	100.00	115.13	100.00

Note:

1. Other revenue consists of Cisco marketing support, interest, profit from disposal of assets and profit from exchange rates, etc.

In the period of 3 months ended on 30 September 2022, the Company's total revenue was 101.53 million baht, with the Company's main revenue from equipment sales and installation services, accounted for 73.25% of total revenue and revenue from maintenance services after the sale, accounted for 23.59% of the total revenue while the remaining revenue is revenue from equipment rental, accounted for 0.70% of total revenue. However, if considering the customer base from sales and service revenue, it was found that the Company has customers in both government and private sectors as follows:

Revenue structure	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Revenue from selling of equipment and installation services				
1. Government sector	23.71	23.94	60.67	52.72
2. Private sector	75.32	76.06	54.41	47.28
Revenue from selling of equipment and installation services	99.03	100.00	115.08	100.00

From the table above, in the period of 3 months ended on 30 September 2022, most of revenue from sales and services of the Company were from the private sector projects as the Company would like to reduce the risk of relying on major customers, therefore, the Company has set up a strategy to expand the work to new private sector customers to diversify the customer base and increase the Company's market share in the future.

Revenue from sales and services

Revenue from selling of equipment and installation services

Revenue from selling equipment and installation services	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Revenue from selling of equipment and installation services				
- Government sector	3.39	4.56	42.95	45.47
- Private sector	70.98	95.44	51.51	54.53
Revenue from selling of equipment and installation services	74.37	100.00	94.46	100.00

In the period of 3 months ending on 30 September 2022, the Company's revenue from equipment sales and installation services was 74.37 million baht. Most of the revenue was from equipment purchase and installation agreement of the private sector, accounted for 95.44% of total revenue from equipment sales and installation services, which is a decrease of 20.09 million baht or accounted for 21.27% when compared to the same period in the previous year.

Revenue from providing repair and maintenance services

In the period of 3 months ended on 30 September 2022, the Company's revenue from providing repair and maintenance services of 23.95 million baht, which is an increase of 5.64 million baht or a growth rate of 11.75% compared to same period in the previous year and at the end of the 3rd quarter, the Company had contractual value of equipment repair and maintenance services where the purchase order was issued by the customers but has not been delivered approximately 174.40 million baht, which will be gradually be recognized as revenue over the period when the service is provided to the customers by straight line method.

Revenue from equipment rental

In the period of 3 months ended on 30 September 2022, the Company's revenue from equipment rental was 0.71 million baht, which is a decrease of 1.60 million baht because there are 2 lease agreements have expired since the 1st quarter of 2022. However, at the end of the 3rd quarter of 2022, the Company had contractual value of equipment leases where the purchase order was already issued by the customers but has not been delivered about approximately 13.48 million baht, which will gradually be recognized as revenue over the period when the service is provided to the customers by straight line method.

Cost of sales and services and gross profit

Gross profit	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Revenue from sales and services	99.03	100.00	115.08	100.00
Cost of sales and services	71.25	71.95	92.52	80.40
Gross profit	27.78	28.05	22.56	19.60

In the period of 3 months ending on 30 September 2022, the Company's cost of sales and services was 71.25 million baht or accounted for 71.95% of the revenue from sales and services, which decreased by 21.27 million baht, accounted for 22.99% decrease compared to the same period in the previous year. This is consistent with revenue from sales and services for the period of 3 months ended on 30 September 2022, where the value decreased by 16.05 million baht or decreased by 13.95% compared to the same period in the previous year. However, despite the decrease in revenue, the Company had lower costs resulting from the acquisition of a project from a major existing customer where the Company had experience in working at the site making it possible to plan the installation of the system very well and enable the Company to control the cost efficiently. As a result, Gross Profit increased by approximately 5.22 million baht, representing a gross margin equal to 28.05% of sales and service revenue and a higher gross margin than the same period of the previous year.

Cost of distribution

In the period of 3 months ended on 30 September 2022, the Company had cost of distribution of approximately 5.07 million baht, accounted for approximately 4.99% of total revenue as per below details of the change in distribution costs:

Cost of distribution	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Employee expenses	2.47	48.72	1.65	76.39
Commission	1.83	36.09	0.26	12.04
Promotional expenses	-	-	-	-
Accommodation and travel expenses	0.22	4.34	0.10	4.63
Other cost of distribution ¹	0.55	10.85	0.15	6.94
Cost of distribution	5.07	100.00	2.16	100.00

Note:

1. Other cost of distribution consisted of depreciation of equipment and office equipment, shipping costs and entertainment expenses, etc.

In the period of 3 months ended on 30 September 2022, the Company had cost of distribution of 5.07 million baht, which is an increase of 2.91 million baht or an increase of 134.72% compared to the same period of the previous year. The increase was due to the expansion of experienced sales team the increase in base salary to motivate employees and the increase in base salary to motivate employees. As a result, employee expenses increased by 0.82 million baht and employee commissions increased by 1.57 million baht from projects with high profitability in the quarter when compared to the same period of the previous year.

Administrative expenses

In the period of 3 months ending on 30 September 2022, the Company had administrative expenses of 4.96 million baht, accounted for 4.89% of total revenue, with details of administrative expenses in each period as follows:

Administrative expenses	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Management and employee expenses	2.93	59.07	2.74	51.70
Office expenses and service fees	0.38	7.66	0.23	4.34
Bank fees	0.30	6.05	0.22	4.15
Consulting and professional service fees	0.65	13.10	1.45	27.36
Depreciation and amortization	0.45	9.07	0.45	8.49
Cost of repair, utilities, and insurance	0.14	2.82	0.12	2.26
Other administrative expenses ¹	0.11	2.23	0.09	1.70
Administrative expenses	4.96	100.00	5.30	100.00

Note:

1. Other administrative expenses consisted of parking fees for employees and visitors, the Company's annual employee catering expenses and loss from discontinuing use of computer software assets, etc.

In the period of 3 months ended on 30 September 2022, the Company had administrative expenses in the amount of 4.96 million baht, which was slightly lower compared to the same period of the previous year by approximately 0.34 million baht, due to the decrease of consulting and professional service fees.

Finance costs

In the period of 3 months ended on 30 September 2022, the Company had financial cost of 0.0102 million baht, accounted for 0.01% of total revenue. As per below details.

Finance costs	Jul – Sep 2022		Jul – Sep 2021	
	Million baht	%	Million baht	%
Interest expense - overdraft loan	0.0002	1.96	-	-
Interest expenses - liabilities from financial leases	0.01	98.04	0.01	100.00
Finance costs	0.0102	100.00	0.01	100.00

Share of profits in joint ventures

In the period of 3 months ended on 30 September 2022, the Company had share of profits in joint ventures of 0.46 million baht, accounted for 0.45% of total revenue from the share of profit from the SPIT joint venture calculated by the equity method. The joint venture will begin recognizing revenue and costs in July 2022.

Net profit

In the period of 3 months ended on 30 September 2022, the Company had net profit of 17.03 million baht or net profit margin of 16.77% of total revenue, which increased by 4.88 million baht or a growth rate of 40.16% compared to the same period of the previous year. The increase was mainly due to an increase in gross margin, compared to the same period last year in the previous year. The increase was from the fact that the Company acquired a project from existing customer where the Company had expertise in the system installation well and the Company was able to control the project cost effectively, thus, the gross profit was higher than the same period of the previous year.

Financial position analysis

Total assets

At the end of the 3rd quarter of 2022, the Company had total assets of 404.09 million baht, which is an increase from the end of 2021 which had the asset valued 264.36 million baht. The Company's significant assets were cash and cash equivalents, account receivables and other receivables, Contract asset, inventories, prepaid expenses, other non-current financial assets, and Property, plant, and equipment which was 97.94% of total assets. Details of the Company's significant assets during the past periods are as follows.

Account receivables and other receivables

Account receivables and other receivables	As of 30 Sep 2022		As of 31 Dec 2021	
	Million baht	%	Million baht	%
Undue account receivables	76.48	78.68	70.17	92.78
Overdue				
Less than 3 months	19.99	20.56	3.34	4.42
More than 3 - 6 months	0.30	0.31	2.11	2.80
More than 6 - 12 months	0.44	0.45	-	-
Total account receivables	97.21	100.00	75.63	100.00

At the end of the 3rd quarter of 2022, the Company had undue account receivables in the amount of 76.48 million baht, accounted for 78.68% of total account receivables, with an average collection period of 84.99 days, and this is consistent with the Credit Term provided to the Company's customers, which is approximately 30 - 90 days. Moreover, if considering the debt age of the account receivables, it was found that the account receivables was overdue for not more than 3 months, accounted for 20.56% of the total account receivables. The increase in such account receivables in the 3rd quarter of 2022 occurred from the Company's billing cycle. The Company had one account receivable that has liquidity problems due to the impact of the Covid-19 epidemic, making it unable to pay debts. However, at present, the Company has negotiated an agreement for such overdue account receivables to be paid by 10 advance-dated checks dated 25 of each month for a period of 10 months starting from February 2022, resulting in the 3rd quarter of 2022 had account receivables overdue more than 6 months but not more than 12 months, which was equal to 0.45% of total account receivables.

In addition, the Company had also other current receivables, which consisted of the Revenue Department receivable, accrued interest income and other receivables, etc. At the end of the 3rd quarter of 2022, other current receivables were 3.21 million baht.

Inventories

At the end of the 3rd quarter of 2022, the Company had net inventories of 110.57 million baht, accounted for 24.85% of total assets. Inventories consisted of equipment and work in process, as per below details:

Inventories	As of 30 Sep 2022		As of 31 Dec 2021	
	Million baht	%	Million baht	%
Equipment and work in progress	110.57	100.00	16.41	100.00
Inventories - net	110.57	100.00	16.41	100.00

At the end of the 3rd quarter of 2022, the Company had inventories as equipment and work in progress of 110.57 million baht due to the equipment waiting to be installed, which was accounted for an increase of

573.80% compared to the end of 2021. This was due to the receipt of goods in order to install for customers at the end of the period. However, the Company will deliver the work in the next period

Prepaid expenses

At the end of the 3rd quarter of 2022, the Company had current advance expenses of 39.22 million baht, accounted for 9.71% of total assets. Such expenses mainly consisted of 1) prepaid service costs which were costs of equipment repair and maintenance services that generated full cash flow for purchasing insurance from product owners to obtain trade discounts and 2) prepaid insurance costs from purchasing a product warranty agreement in the Service – Type Warranty, etc. Non-current prepaid expenses were in the amount of 38.95 million baht, accounted for 9.64%. Most of these expenses were incurred from prepaid service costs over a period of more than 1 year.

Property, plant, and equipment

Property, plant, and equipment at the end of the 3rd quarter was 33.46 million baht, accounted for 8.28% of total assets, consisting of condominiums, equipment, tools, decorations and office equipment and vehicles, etc. The Company's Property, plant, and equipment - net increased by 1.76 million baht, accounted for a growth rate of 5.54% compared to the end of the year 2021, mainly due to investment in equipment for rental service to support the project to provide equipment rental services of a television station.

Total liabilities

At the end of the 3rd quarter of 2022, the Company had total liabilities of 228.99 million baht, which is an increase of 76.03 million baht from 2021. The Company's significant liabilities consisted of account payables and other current payables, contract liabilities, lease liabilities and estimated of employee benefits, accounted for 97.95% of total liabilities. The details of the company's significant liabilities are as follows.

Account payables and other payables

The Company had account payables and other payables which consisted of account payables, unbilled accounts payables, accrued expenses and other payables, etc. At the end of the 3rd quarter of 2022, the Company had account payables and other payables of 192.34 million baht, accounted for 84.00% of total liabilities with below details.

Account payables and other payables	As of 30 Sep 2022		As of 31 Dec 2021	
	Million baht	%	Million baht	%
Account payables	163.33	84.92	39.47	89.04
Unbilled account payables	13.93	7.24	0.19	0.42
Accrued expenses	9.25	4.81	2.68	6.04
Other payables ¹	5.83	3.03	1.99	4.50
Total account payables and other payables	192.34	100.00	44.33	100.00

Note:

1. Other payables consisted of the Revenue Department, utility expenses, office expenses and interest received in advance, etc.

Account payables were account payables arising from the overdue payments for goods purchased by the Company in order to be used in equipment sale project work. At the end of the 3rd quarter of 2022, the Company had account payables of 163.33 million baht, accounted for 71.33% of total liabilities. At the end of the 3rd quarter of 2022, the Company's account payables increased by 123.86 million baht. Most of them was account payables that were not due from the purchase of equipment for project work incurred during that period and the account payable of the project that received the product during the installation during the end of the period, which had a high value.

The Shareholders' equity

The shareholders' equity of the Company at the end of the 3rd quarter of 2022 was 175.10 million baht, accounted for 43.33% of total liabilities and shareholders' equity. In this regard, the Board of Directors' meeting, held on 11 August 2022, passed a solution to pay the interim dividends from retained earnings of 22.50 million baht, to the existing shareholders listed in the shareholders' register on 12 August 2022. The Source of funds of dividend payment was cash flow from business operations and such dividends were paid on 9 September 2022. The Company had no policy to pay additional interim dividends.

Liquidity and adequacy of funds

Cash flow analysis

The Company was able to manage liquidity and working capital with cash flow received from business operations to be used in operating activities, debt settlement and investing activities. The Company's cash flow statement for the first 9 months of 2022 can be summarized as follows:

Cash flow	The first 9 months of 2022	The first 9 months of 2021
	Million baht	Million baht
Net cash flows from (used in) operating activities	68.09	23.44
Net cash flows from (used in) investing activities	(17.86)	(0.16)
Net cash flows from (used in) financing activities	(55.39)	(45.07)
Cash and cash equivalents net increase (decrease)	(5.16)	(21.79)
Cash and cash equivalents at the beginning of the year	29.37	60.32
Cash and cash equivalents at the end of the year	24.21	38.53

In the first 9 months of 2022, the Company had cash flow from operating activities of 68.09 million baht, cash flow from net profit for the first 9 months of 2022 of 39.27 million baht and adjusted by non-cash

items and financial expenses of 9.53 million baht, which were mainly due to income tax expenses of 8.84 million baht and depreciation and amortization expenses of 3.08 million baht. In addition, in the first 9 months of 2022, operating activities were adjusted to cash with changes in working capital in the amount of 19.29 million baht. Significant items causing changes in working capital were an increase in account receivables and other receivables of 24.12 million baht, a decrease in assets arising from the contract of 3.55 million baht, an increase of inventories of 94.16 million baht, increase in contract liabilities of 2.58 million baht, and an increase in undue account payables of 147.06 million baht. Meanwhile, cash used in investing activities amounted to 17.86 million baht, due to an increase in bank deposits pledged as collateral by 15.78 million baht and cash paid for purchases of fixed assets and intangible assets increased by 4.75 million baht. Most of these investments are in equipment to support the growth of the equipment rental business. In addition, net cash flow used in financing activities was 55.39 million baht, mainly due to the 2021 dividend payment to the existing shareholders according to the resolution of the 2022 Annual General Meeting of Shareholders of 30.00 million baht and interim dividend payment from retained earnings ended 30 June 2022 according to the resolution of the Board of Directors' meeting on 11 August 2022, amounting to Baht 22.50 million. In addition, the Company did not have any cash inflows from capital increase or borrowing. As a result, the Company's net cash flow in the 9-months period 2022 decreased by 5.16 million baht and cash and cash equivalents at the end of the 3rd quarter of 2022 was 24.21 million baht.

Please be informed accordingly.

Yours truly,

(Miss Nattaya Nanthawanid)

Chief Financial Officer

International Network System Public Company Limited