

22 February 2023

Subject: Management Discussion and Analysis - For the year ended 31 December 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 year ended 31 December 2022 of Baht 234.9 million, net profit decrease by Baht 22.1 million or 8.6% compared to last year which were net profit of Baht 257 million, due reason to the following reasons:

Overall Operating results

Description	FY2022		FY2021		Change	
	Mil THB	%	Mil THB	%	Mil THB	%
Revenue from Sales and Services	5,846.8	100.0%	5,174.4	100.0%	672.4	13.0%
Cost of Sales and Services	(4,811.9)	-82.3%	(4,264.1)	-82.4%	(547.8)	12.8%
Gross Profit, before Operating Expenses	1,034.9	17.7%	910.3	17.6%	124.6	13.7%
Profit from investment	33.4	0.6%	-	0.0%	33.4	100.0%
Other income	31.8	0.5%	32.2	0.6%	(0.4)	-1.2%
Selling and Administrative Expenses	(791.3)	-13.5%	(611.5)	-11.8%	(179.8)	29.4%
Profit from Operating, before interest and Tax	308.8	5.3%	331.0	6.4%	(22.2)	-6.7%
Share of Profit from Associates	8.2	0.1%	8.7	0.2%	(0.5)	-5.7%
Financial Costs	(18.2)	-0.3%	(11.5)	-0.2%	(6.7)	58.3%
Net Profit, Before Corporate Tax	298.8	5.1%	328.2	6.3%	(29.4)	-9.0%
Corporate Income Tax	(58.8)	-1.0%	(70.2)	-1.4%	11.4	-16.2%
Net Profit	240.0	4.1%	258.0	5.0%	(18.0)	-7.0%
(Profit) loss attributed to non-controlling interests	(5.1)	-0.1%	(1.0)	0.0%	(4.1)	410.0%
Net Profit, Parent portion	234.9	4.0%	257.0	5.0%	(22.1)	-8.6%

The overall operating results presented above is included business performance from discontinued operation, as refer to Note 13 to Financial Statements for the year 2022

In 2022, Thai Economy began to recover after the epidemic situation of the Corona Virus (COVID-19) began to subside from the support of the tourism business sector starting to welcome foreign tourists to the country. In addition, demand for consumer goods and labor markets are increasing in line with the economic recovery. However, private businesses are still under pressure in terms of rising product costs due to Russia and Ukraine situation that caused a shortage of resources, it resulted the business sector has to bear increase in costs of producing goods and services including the pressure of increasing inflation which affects the consumer's purchasing power and the global economic recession risk. From the resolution of the FED hikes interest rate continuously during 2022 in order to rebalance economy conditions, this is resulted the Bank of Thailand had to issue measures to increase the Policy Rate affect unavoidable increase in financial costs for corporate sector.

For the year 2022, the Group reported revenue growth by 13% from previous year which revenue mainly increase from maintenance agreement (MA), allowing the Group recognized on a recurring basis according to the service contracts, as well as continuing growth in revenue from Cloud Service. However, cost of rendered products and services increase significantly, especially human resource costs, which directly affected decrease in the Group's net profit from by 8.6% the previous year. The Company focuses on presenting products and maintaining the quality of service in response to the expansion and demand of the industrial sector, along with concise business through strategic planning to manage any pressure and risks that may occur.

The Group remains project in progress that have not yet been delivered to customers (backlog) that can recognize from continuing projects in 2023 onwards. At the end of 2022, the Group have backlog that can recognize revenue from continuous projects throughout the project life of up to 5 years, totaling Baht 7,116 million, value of backlog has significant increase since the ended of the year 2021.

1. Revenue from sales and services increase from last year by Baht 672.4 million or 13% due following to:

Revenue from Business segment	For the year 2022		For the year 2021		Increase (decrease)	
	Million Baht	% to revenue	Million Baht	% to revenue	Million Baht	% Change
System Integration services	1,164.9	84.7%	1,851.6	88.4%	378.2	8.3%
System maintenance services	2,627.5		1,783.6			
IT Professional services	1,159.5		938.5			
Cloud solution service	817.8	14.0%	559.3	10.8%	258.5	46.2%
Other business	77.1	1.3%	41.4	0.8%	35.7	86.2%
Total sales and services	5,846.8	100.0%	5,174.4	100.0%	672.4	13.0%

The group company conducted in 3 main business segments which are system integration and implementation service, System maintenance service, and IT professional services with revenue proportion for the year 2022 of 84.7% of the total revenue from sales and services, revenue proportion decrease from last year which was 88.4% of the total revenues due to revenue growth from cloud service segment, the Group's revenue growth from cloud service segment was Baht 258.5, the cumulative growth rate in Cloud service was 200% since the year 2020. Cloud solution service is grow steadily reflected good response from leading enterprise customers to enhance data management via Cloud technology.

2. Cost of sales and service increase by Baht 547.8 million or 12.8%

Gross Profit increase by Baht 124.6 million or 13.7%

Description	For the year 2022	For the year 2021	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Revenue from sales and services	5,846.8	5,174.4	672.4	13.0%
Cost of sales and services	4,811.9	4,264.1	547.8	12.8%
Gross Profit	1,034.9	910.3	124.6	13.7%

Gross Profit (%)	17.7%	17.6%	+0.1%
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Cost of sales and services for the year 2022 were Baht 4,811.9 million. The increase in cost of sales and services is representing direct proportion to revenue growth during current period. Although the proportion of revenue recognition from System Integration (SI) projects decreased when compared to 2021 mainly due to the chip shortage problem, the company has profit from IT professional service (PS) and maintenance service (MA) which received higher gross margin in average. The Group reported gross profit margin for the current year at 17.7%, this resulted the Group maintained approximate gross profit level to the previous year even continuously increasing cost of products and services.

Revenue recognition from sales and service increase by 13% from last year, resulted in an increase in gross profit of Baht 124.6 million or 13.7% compared to the previous year.

3. Profit from change in investment classification for the year 2022 was Baht 33.4 million

In 2022, the Group recorded profit from change in investment classification, as resulted from joint investment by an external investor in Data Cafe Co., Ltd., the Company recorded the investment in Data Cafe and reclassified as investment in joint venture. Profit from change in investment classification in the amount Baht 33.4 million calculated from the difference between the carrying book value and fair value according to the Group's proportion of investment in Data Cafe as of the date of change in investment classification on 30 June 2022.

4. Selling and Administrative expenses for the year ended 31 December 2022 were Baht 791.3 million, an increase of Baht 179.8 million or 29.4% compared to last year.

Description	For the year 2022	For the year 2021	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Selling and distribution expenses	136.6	116.9	19.7	16.9%
Administrative expenses	654.7	494.6	160.1	32.4%
Total Selling and Administrative Expenses	791.3	611.5	179.8	29.4%

Administrative expenses increased by 29.4% due to personnel expenses since more new hire number of employment staffs to support post-Covid business expansion plan in alignment to economic recovery, in addition, sales activities resume according to business plan during the year 2022. Most operating expenses are recurring which some comprised fixed by cost nature for support business expansion. In 2022, the Group had recorded non-recurring expenses and non-monetary comprised provision for litigation issue of subsidiaries, and loss from withholding tax write-off.

Selling and Administrative expenses as percentage to total revenue was 13.5% slightly increase from last year which was 11.8% as from increase in non-recurring and non-monetary expenses as aforementioned.

5. Financial costs for the year 2022 were Baht 18.2 million, an increase from last year of Baht 6.7 million or 58.3%.

Description	For the year 2022	For the year 2021	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Financial cost from borrowing	8.7	2.3	6.4	278.3%
Financial cost from Right of Use of assets	9.5	9.2	0.3	3.3%
Total Financial costs	18.2	11.5	6.7	58.3%

Financial costs increase due to an increase in cost from short-term borrowing (please find explanation under capital structure section for more details).

Capital Structure

As of 31 December 2022, the Company reported total interest-bearing debts of Baht 510 million (2021: Baht 405 million), mainly due to an increase in short-term borrowing from financial institutions in form of promissory notes not exceeding to 150 days to support new order received during the year which required larger working capital compared to previous year. The Group average financial cost rate increase as a result of the policy interest rate increase several times during the year 2022. Interest-bearing debt to equity ratio was at 0.25 time (2021: 0.20 times) which is still relatively low. The Company emphasize on the importance of effective management of its capital structure to be resilient towards the volatile money market and capital market, as well as maintain its financing cost at an optimum level for its businesses going forward.

Please be informed in accordingly.

Your sincerely,

(Mr. Siriwat Vongjarukorn)

Chief Executive Officer