

No. ITNSmai6602-01

February 22nd, 2023

RE: Management Discussion and Analysis for the year ended on December 31st, 2022

To: Director and Manager of the Stock Exchange of Thailand

International Network System Public Company Limited (the "Company") would like to submit a report on the Management's Discussion and Analysis for the year ended on December 31st, 2022.

Summary of operating resultys for the year ended on December 31st, 2022

Business type	2022		2021	
	Million Baht	%	Million Baht	%
Revenue from sales and services				
1. Revenue from selling equipment and installation services	451.14	81.74	281.38	75.85
2. Revenue from repair services and maintenance of equipment	93.53	16.95	78.66	21.21
3. Revenue from equipment rental	3.72	0.67	9.38	2.53
Total revenue from sales and services	548.39	99.36	369.42	99.59
Other revenue	3.56	0.64	1.53	0.41
Total revenue	551.95	100.00	370.95	100.00
Cost of sales and services	(448.43)	(81.24)	(300.25)	(80.94)
Gross profit	99.96	18.11	69.17	18.65
Cost of distribution	(15.89)	(2.88)	(12.85)	(3.46)
Administrative expenses	(19.12)	(3.46)	(17.49)	(4.71)
Net profit (loss) before finance cost and corporate income	68.51	12.41	40.36	10.88
Finance cost	(0.03)	(0.01)	(0.08)	(0.02)
Profit share in joint venture	0.75	0.14	0.00	0.00
Profit (loss) before corporate income tax	69.23	12.54	40.28	10.86
Corporate income tax revenue (expense)	(13.96)	(2.53)	(7.70)	(2.08)
Net profit (loss) for the period	55.27	10.01	32.58	8.78

Total revenue

Business type	2022		2021	
	Million Baht	%	Million Baht	%
Revenue from sales and services				
1. Revenue from selling equipment and installation services	451.14	81.74	281.38	75.85
2. Revenue from repair and maintenance services	93.53	16.95	78.66	21.21
3. Revenue from equipment rental	3.72	0.67	9.38	2.53
Total revenue from sales and services	548.39	99.36	369.42	99.59
Other revenue ¹	3.56	0.64	1.53	0.41
Total revenue	551.95	100.00	370.95	100.00

Note:

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

In 2022, the Company's total revenue was Baht 551.95 million, with the Company's main revenue from equipment sales and installation services, accounted for 81.74% of the total revenue; revenue from maintenance services after the sale, accounted for 16.95% of the total revenue; and the remaining revenue was revenue from equipment rental, accounted for 0.67% of the total revenue. If revenue from sales and service is taken into account, it is found that the company had customers in both the government and private sectors, as follows:

Revenue structure	2022		2021	
	Million Baht	%	Million Baht	%
Revenue from sales and services				
1. Revenue from government sector	136.38	24.87	155.57	42.11
2. Revenue from private sector	412.01	75.13	213.85	57.89
Total revenue from sales and services	548.39	100.00	369.42	100.00

From the table above, in 2022, most of the revenue from sales and services of the Company were from private sector projects. As the Company would like to reduce the risk of relying on major customers, 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 equipment and installation services

Revenue from selling equipment and installation services	2022		2021	
	Million Baht	%	Million Baht	%
Revenue from selling equipment and installation services				
- Government sector	57.24	12.69	80.36	28.56
- Private sector	393.90	87.31	201.02	71.44
Total revenue from selling equipment and installation services	451.14	100.00	281.38	100.00

In 2022, the Company's revenue from equipment sales and installation services was Baht 451.14 million, which is an increase of Baht 169.76 million or 60.33% increase compared to the previous year. Most of the revenue was from equipment purchase and installation agreement of the private sector, accounted for 87.31% of the total revenue from equipment sales and installation services

Revenue from repair and maintenance services

In 2022, the Company had revenue from repair and maintenance services of Baht 93.53 million, which is an increase of Baht 14.87 million or a growth rate of 18.90% compared to the previous year and the end of 2022. The Company had contractual value of equipment repair and maintenance services where the P.O. was issued by the customers but had not been delivered, of approximately Baht 177.04 million. This amount will be recognized as revenue by using the straight-line method over the period when the service is provided to the customers.

Revenue from equipment rental

In 2022, the Company's revenue from equipment rental was Baht 3.72 million, which is a decrease of Baht 5.66 million due to the expiration of 2 rental agreements since the 1st quarter of 2022. However, at the end of 2022, the Company had contractual value of equipment rental where the P.O. had been issued by the customers but has not been delivered about approximately Baht 11.68 million. This amount will be recognized as revenue by using the straight-line method over the period when the service is provided to the customers.

Cost of sales and services and gross profit

Gross profit	2022		2021	
	Million Baht	%	Million Baht	%
Revenue from sales and services	548.39	100.00	369.42	100.00
Cost of sales and services	448.43	81.77	300.25	81.28
Gross profit	99.96	18.23	69.17	18.72

In 2022, the Company's cost of sales and services was Baht 448.43 million or accounted for 81.77% of the revenue from sales and services, which increased by Baht 148.18 million, accounted for 49.35% increase compared to the previous year, that is consistent with the revenue from sales and services in 2022, which increased by Baht 178.97 million or an increase of 48.45%, compared to the previous year. This results in a higher gross profit margin than the previous year, which increased by Baht 30.79 million, representing an increasing rate of gross margin of 44.51% when compared to the previous year.

Cost of distribution

In 2022, the Company had cost of distribution of approximately Baht 15.89 million, accounted for approximately 2.88% of the total revenue as per below details of the change in distribution costs in each period:

Cost of distribution	2022		2021	
	Million Baht	%	Million Baht	%
Employee expenses	8.98	56.51	6.49	50.51
Commission	3.83	24.10	4.66	36.26
Sales promotion expenses	0.70	4.41	0.08	0.62
Accommodation and travel expenses	0.74	4.66	0.48	3.74
Other cost of distribution ¹	1.64	10.32	1.14	8.87
Cost of distribution	15.89	100.00	12.85	100.00

Note:

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

The Company's cost of distribution in 2022 was in the amount of Baht 15.89 million, which is an increase of Baht 3.04 million or a growth rate of 23.66% compared to the previous year. The increase was a result of the expansion of the experienced sales team to expand the market and customer base as well as an adjustment of salary base to motivate employees, resulting in an increase of employee-related expense of Baht 2.49 million.

Administrative expenses

In 2022, the Company had administrative expenses of Baht 19.12 million, accounted for 3.46% of the total revenue, with details of administrative expenses in each period as follows:

Administrative expenses	2022		2021	
	Million Baht	%	Million Baht	%
Management and employee expenses	11.20	58.58	9.77	55.86
Office expenses and service fees	0.89	4.65	0.53	3.03
Bank fees	1.12	5.86	0.83	4.75
Consulting and professional service fees	2.46	12.87	3.43	19.61
Depreciation and amortization	1.78	9.31	1.78	10.18
Cost of repair, utilities, and insurance	0.94	4.92	0.67	3.83
Other administrative expenses ¹	0.73	3.83	0.48	2.74
Administrative expenses	19.12	100.00	17.49	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.

The Company's administrative expenses in 2022 were Baht 19.12 million, which increased by Baht 1.63 million, compared to the previous year, due to an increase in the expenses of directors and employees, meeting allowance throughout the year 2022. However, the board of directors was appointed around the end of the year. As a result, the said expense occurred at the second half of the year. In addition, salary, bonus, training cost and welfare were increased to motivate employees.

Finance cost

The Company's finance cost in 2022 was Baht 0.03 million, accounted for 0.01% of the total revenue with the following details.

Finance cost	2022		2021	
	Million Baht	%	Million Baht	%
Interest expense-Overdraft loans and short-term loan	0.0004	1.32	0.0350	46.67
Interest expense-Finance lease liabilities	0.0300	98.68	0.0400	53.33
Finance cost	0.0304	100.00	0.0750	100.00

Profit share in joint venture

In 2022, the Company's profit share in joint venture was Baht 0.75 million, accounted for 0.14% of the total revenue. The profit share was from SPIT Joint Venture (Joint Venture), calculated by using equity method. The joint Venture recognized revenue and cost in July 2022.

Net profit

In 2022, the Company had a net profit of Baht 55.27 million, or a net profit margin of 10.01% of the total revenue, which increased by Baht 22.69 million, or a growth rate of 69.64% compared to the previous year. The increase was mainly derived from an increase of gross profit, compared to the previous year since the Company acquired a project from an existing customer where the Company had experience at their site, enabling the Company to effectively plan the system installation and the Company was able to control the project cost effectively. Thus, the gross profit was higher than that of the previous year.

Financial position analysis

Total assets

At the end of 2022, the Company had total assets of Baht 666.49 million, which is an increase from the end of 2021, in which the Company's total assets was Baht 264.36 million. 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, long-term loan, and property, plant, and equipment, which represented 97.97% of the 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	2022		2021	
	Million Baht	%	Million Baht	%
Receivables with the debt which is not due yet	78.85	84.71	70.17	92.79
Overdue				
Less than 3 months	13.89	14.92	3.34	4.42
More than 3 - 6 months	0.34	0.37	2.11	2.79
Total account receivables	93.08	100.00	75.62	100.00

At the end of 2022, the Company had account receivables that were not due in the amount of Baht 78.85 million, accounted for 84.71% of the total account receivables, with an average collection period of 56 days, and this is consistent with the credit term offered to the Company's customers, which is approximately 30-90 days. Moreover, when considering the debt age of the account receivables, it was found that the account receivables overdue less than 3 months accounted for 14.92% of the total account receivables. The increase in such account receivables in 2022 occurred because of the Company's billing at the end of the year and the bill were not due.

In addition, the Company had other current receivables, which consisted of the Revenue Department receivable, interest receivables and other receivables, etc. At the end of 2022, other current receivables were Baht 1.38 million.

Inventories

At the end of 2022, the Company had net inventories of Baht 75.05 million, accounted for 11.26% of the total assets. Inventories consisted of equipment and work in process with the following details.

Inventories	2022		2021	
	Million Baht	%	Million Baht	%
Equipment and work in process	75.05	100.00	16.41	100.00
Total inventories	100.00	100.00	16.41	100.00

At the end of 2022, the Company had inventories and work in process of Baht 75.05 million due to the equipment waiting to be installed, which is accounted for an increase of 357.34%, compared to the end of 2021. This was because of receiving product for providing installation service to customers at the end of the year. However, the Company will complete the delivery in the following period.

Prepaid expenses

At the end of 2022, the Company had Baht 43.42 million in current advance expenses, which represented 6.51% of total assets. These expenses consisted primarily 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 in order to obtain trade discounts, and 2) prepaid insurance costs from purchasing a product warranty agreement in the Service - Type Warranty, etc. Noncurrent prepaid expenses were Baht 44.03 million, represented 6.61% of total expenses. Most of these expenses were incurred from prepaid service costs with more than 1 year period.

Property, plant, and equipment

Property, plant, and equipment at the end of 2022 was Baht 32.75 million, accounted for 4.91% of the total assets, consisting of condominiums, equipment, tools, decorations and office equipment, and vehicles, etc. The Company had property, plant, and equipment-net increased by Baht 1.04 million, representing 3.29% increase, compared to the end of 2021, mainly due to investment in equipment for rental service to support the project to provide equipment rental services of a Broadcasting Company.

Total liabilities

At the end of 2022, the Company had total liabilities of Baht 217.04 million, which increased from the end of 2021, in which the Company had total liabilities of Baht 76.03 million. The Company's significant liabilities consisted of account payables and other payables, agreement liabilities, lease liabilities and provision of employee benefits, accounted for 97.55% of the 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 account payables, accrued expenses and other current payables, etc. At the end of 2022, the Company had account payables and other payables of Baht 179.95 million, accounted for 82.91% of the total liabilities with below details.

Account payables and other payables	2022		2021	
	Million Baht	%	Million Baht	%
Account payables	155.21	86.25	39.47	84.66
Unbilled accounts payables	18.59	10.33	0.19	0.41
Unearned rental revenue	1.36	0.76	2.29	4.91
Accrued expenses	2.73	1.52	2.68	5.75
Other current payables ¹	2.06	1.14	1.99	4.27
Total account payables and other current payables	179.95	100.00	46.62	100.00

Note:

1. Other current payables consisted of the Revenue Department, undue output tax etc.

Account payables were account payable 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 2022, the Company had account payables of Baht 155.21 million, accounted for 71.51% of the total liabilities. At the end of 2022, the Company's account payables increased by Baht 115.74 million. Most of them were undue account payables from the project work incurred during that period and account payables from the project in which the Company received product for installation at the end of the year.

Shareholders' equity

The shareholders' equity of the Company at the end of 2022 was Baht 449.45 million, accounted for 67.44% of the total liabilities and shareholders' equity.

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 investment activities. The Company's cash flow statement for 2022 can be summarized as follows:

Cash flow	2022	2021
	Million Baht	Million Baht
Net cash flows from (used in) operating activities	82.82	15.24
Net cash flows from (used in) investment activities	(63.51)	(0.13)
Net cash flows from (used in) financing activities	203.53	(46.06)
Cash and cash equivalents net increase (decrease)	222.84	(30.95)

Cash flow	2022	2021
	Million Baht	Million Baht
Cash and cash equivalents at the beginning of the year	29.37	60.32
Cash and cash equivalents at the end of the year	252.21	29.37

In 2022, the Company had cash flow from operating activities of Baht 82.82 million, cash flow from net profit for 2022 of Baht 55.27 million and adjusted by non-cash items and finance cost of Baht 14.95 million, which were mainly due to income tax expenses of Baht 13.96 million and depreciation and amortization expenses of Baht 3.97 million. In addition, in 2022, operating activities were adjusted to cash with changes in working capital in the amount of Baht 42.28 million. Significant items causing changes in working capital were an increase in account receivables and other receivables of Baht 18.25 million, an increase in contract assets of Baht 11.42 million, an increase in inventories of Baht 58.64 million, an increase in contract liabilities of Baht 4.85 million, and an increase in account payables and other current payables in the amount of Baht 133.33 million.

While cash flow used in investing activities was Baht 63.51 million, resulting from an increase in deposits at the bank pledged as collateral in the amount of Baht 32.72 million, payment of loans to related parties in the amount of Baht 30.01 million and cash paid for purchases of fixed assets and intangible assets amounted to Baht 4.87 million. Most of which were investments in equipment to support the growth of the equipment rental business.

Net cash flows from financing activities amounted to Baht 203.53 million, mainly due to the capital increase of Baht 272.30 million, capital increase expenses of Baht 15.89 million, dividend payment of Baht 52.50 million, consisting of dividend payment for the year 2021 to existing shareholders in accordance with the resolution of the Annual General Meeting of Shareholders for the year 2022 in the amount of Baht 30.00 million and the interim dividend payment from the retained earnings ended June 30th, 2022 according to the resolution of the Board of Directors' Meeting held on August 11th, 2022, of Baht 22.50 million.

However, the Company had no cash inflow from borrowing. As a result, the Company had a net cash flow in 2022 increased by Baht 222.84 million and its cash and cash equivalents at the end of 2022 totaled Baht 252.21 million.

It is informed for your kind acknowledgement.

Yours Truly

(Miss Nattaya Nanthawanid)

Chief Financial Officer

International Network System Public Company Limited)