

No. ITNSmai6605-03

May 10th, 2023

RE: Management Discussion and Analysis for the period of 3 months ended March 31st, 2023

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 period of 3 months ended on March 31st, 2023 as follows:

Summary of operating results for the period of 3 months ended on March 31st, 2023

Business type	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Revenue from sales and services				
1. Revenue from selling equipment and installation services	74.09	75.14	124.64	80.64
2. Revenue from repair services and maintenance of equipment	21.89	22.20	28.75	18.60
3. Revenue from equipment rental	2.29	2.33	1.09	0.71
Total revenue from sales and services	98.28	99.66	154.48	99.95
Other revenue	0.34	0.34	0.07	0.05
Total revenue	98.61	100.00	154.56	100.00
Cost of sales and services	(75.06)	(76.11)	(131.42)	(85.03)
Gross profit	23.22	23.54	23.06	14.92
Cost of distribution	(4.27)	(4.33)	(5.45)	(3.52)
Administrative expenses	(4.64)	(4.71)	(5.25)	(3.40)
Net profit (loss) before finance cost and corporate income tax	14.65	14.85	12.43	8.04
Profit share in joint venture	0.00	0.00	0.36	0.23
Finance revenue	0.01	0.01	0.47	0.31
Finance cost	(0.01)	(0.01)	(0.01)	(0.01)
Profit (loss) before corporate income tax	14.64	14.85	13.26	8.58
Corporate income tax revenue (expense)	(2.87)	(2.91)	(2.58)	(1.67)
Net profit (loss) for the period	11.77	11.93	10.68	6.91

Total revenue

Business type	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Revenue from sales and services				
1. Business of distribution and installation of equipment	74.09	75.14	124.64	80.64
2. Business of providing repair and maintenance services	21.89	22.20	28.75	18.60
3. Business of equipment rental	2.29	2.33	1.09	0.71
Total revenue from sales and services	98.28	99.66	154.48	99.95
Other revenue ¹	0.34	0.34	0.07	0.05
Total revenue	98.61	100.00	154.56	100.00

Note:

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

For Q1/2023, the Company's total revenue was Baht 154.56 million, with the Company's main revenue from equipment sales and installation services, accounted for 80.64% of the total revenue; revenue from maintenance services after the sale, accounted for 18.60% of the total revenue; and the remaining revenue was revenue from equipment rental, accounted for 0.71% of the total revenue. However, 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	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Revenue from sales and services				
1. Revenue from government sector	54.18	55.14	31.48	20.38
2. Revenue from private sector	44.10	44.88	123.00	79.62
Total revenue from sales and services	98.28	100.00	154.48	100.00

From the table above, for the first 3 months of 2022, most of the revenue from sales and services of the Company were from government sector projects while for Q1/2023, 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	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Revenue from selling equipment and installation services				
- Government sector	34.17	46.12	9.67	7.76
- Private sector	39.92	53.88	114.97	92.24
Total revenue from selling equipment and installation services	74.09	100.00	124.64	100.00

For Q1/2023, the Company's revenue from equipment sales and installation services was Baht 124.64 million, which is an increase of Baht 50.55 million or 68.22% increase compared to the same period of the previous year. Most of the revenue was from equipment purchase and installation agreement of the private sector, accounted for 92.24% of the total revenue from equipment sales and installation services due to

diversifying customer base to new group of customers. However, the Company still has approximately Baht 224.45 million worth of project work that has not yet been delivered, which it will gradually recognize as revenue in the following period.

Revenue from repair and maintenance services

For Q1/2023, the Company had revenue from repair and maintenance services of Baht 28.75 million, which is an increase of Baht 6.86 million or a growth rate of 31.35% compared to the same period of the previous year and Q1/2023. 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 182.70 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

For Q1/2023, the Company's revenue from equipment rental was Baht 1.09 million, which is a decrease of Baht 1.20 million compared to the same period of the previous year due to expiration of rental agreement in 2022. However, at the end of Q1/2023, the 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 10.58 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	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Revenue from sales and services	98.28	100.00	154.48	100.00
Cost of sales and services	75.06	76.38	131.42	85.07
Gross profit	23.22	23.62	23.06	14.93

For Q1/2023, the Company's cost of sales and services was Baht 131.42 million or accounted for 85.07% of the revenue from sales and services, which increased by Baht 56.37 million, accounted for 75.10% increase compared to the same period of the previous year. The revenue from sales and services for Q1/2023 increased by Baht 56.21 million, accounted for 57.19% increase compared to the same period of the previous year due to expansion of customer base and non-complex projects with short delivery time. As a result, gross profit of some projects was not very high and resulted in a decrease in gross profit from the same period of the previous year. The gross profit decreased by approximately Baht 0.16 million, representing a decrease of 0.68% and gross profit margin decreased by 8.70% from the same period of the previous year.

However, the project where the P.O. had been issued at the end of March 2023 had different nature of projects, causing different gross profit in each project. This amount will be recognized as revenue in the following period.

Cost of distribution

For Q1/2023, the Company had cost of distribution of approximately Baht 5.45 million, accounted for approximately 3.52% of the total revenue as per below details of the change in distribution costs in each period:

Cost of distribution	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Employee expenses	1.77	41.51	3.15	57.87
Commission	1.50	35.08	1.33	24.44
Sales promotion expenses	0.31	7.24	0.06	1.09
Accommodation and travel expenses	0.15	3.59	0.25	4.57
Other cost of distribution ¹	0.54	12.58	0.66	12.20
Cost of distribution	4.27	100.00	5.45	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 for Q1/2023 was in the amount of Baht 5.45 million, which is an increase of Baht 1.18 million or a growth rate of 27.67% compared to the same period of the previous year. The increase was a result of the expansion of the experienced sales team to expand the customer base as well as generating more revenue, resulting in an increase of employee-related expense of Baht 1.38 million or an increase rate of 78.00% compared to the same period of the previous year.

Administrative expenses

For Q1/2023, the Company had administrative expenses of Baht 5.25 million, accounted for 3.40% of the total revenue, with details of administrative expenses in each period as follows:

Administrative expenses	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Management and employee expenses	2.80	60.35	2.98	56.76
Office expenses and service fees	0.22	4.72	0.21	3.98
Bank fees	0.29	6.29	0.25	4.79
Consulting and professional service fees	0.54	11.64	0.59	11.27
Depreciation and amortization	0.44	9.41	0.44	8.43
Cost of repair, utilities, and insurance	0.23	4.92	0.21	4.07
Other administrative expenses ¹	0.12	2.67	0.55	10.51
Administrative expenses	4.64	100.00	5.25	100.00

Note :

1. Other administrative expenses consisted of parking fees for employees and visitors, donation, loss from currency exchange, other fees and service fees related to listed company etc.

The Company's administrative expenses for the first 6 month of 2023 were Baht 5.25 million, which slightly increased by Baht 0.61 million, compared to the same period of the previous year, due to an increase in the expenses of directors, management, and employees as well as other fees and service fees related to listed company.

Finance cost

The Company's finance cost for Q1/2023 was Baht 0.01 million, accounted for 0.01% of the total revenue. The Company's finance cost included interest expense – liabilities from financial lease with the following details.

Finance cost	First 3 months of 2022		First 3 months of 2023	
	Million Baht	%	Million Baht	%
Interest expense- liabilities from financial lease	0.01	100.00	0.01	100.00
Finance Cost	0.01	100.00	0.01	100.00

Net profit

For Q1/2023, the Company had a net profit of Baht 10.68 million, or a net profit margin of 6.91% of the total revenue, which decreased by Baht 1.09 million, or a decrease rate of 9.22% compared to the same period of the previous year. The decrease was mainly derived from a decrease of gross profit, compared to the same period of the previous year since the Company expanded its customer base with non-complex project and short delivery time. As a result, gross profit of some projects was not very high. However, the project where the P.O. was issued at the end of March 2023 is the project acquired from an existing customer where the Company had experience at their site, and the nature of project of the new customer were different; thus, the gross profit in each project was different and this amount will be recognized as revenue in the following period.

Financial position analysis

Total assets

At the end of Q1/2023, the Company had total assets of Baht 699.05 million, which is an increase from the end of 2022, in which the Company's total assets was Baht 666.49 million. The Company's significant assets were cash and cash equivalents, account receivables and other receivables, Contract asset, inventories, prepaid expenses, bank deposits with collateral, long-term loan, and property, plant, and equipment, which represented 98.04% of the total assets. Details of the Company's significant assets during the past periods are as follows.

Account receivables	As of December 31, 2022		As of December 31, 2023	
	Million Baht	%	Million Baht	%
Receivables with the debt which is not due yet	78.85	84.71	45.73	63.36
Overdue				
Less than 3 months	13.89	14.92	26.45	36.64

Account receivables	As of December 31, 2022		As of December 31, 2023	
	Million Baht	%	Million Baht	%
More than 3 - 6 months	0.34	0.37	-	-
Total account receivables	93.08	100.00	72.18	100.00

At the end of Q1/2023, the Company had account receivables that were not due in the amount of Baht 45.73 million, accounted for 63.36% of the total account receivables, with an average collection period of 48.81 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, which is mainly from different payout cycles of customers, accounted for 36.64% of the total account receivables. The decrease in such account receivables in Q1/2023 was due to the receipt of payments on schedule and the management of debtors on a regular basis.

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 Q1/2023, other current receivables were Baht 3.25 million.

Assets arising from revolving agreements

At the end of Q1/2023, the Company had assets arising from revolving agreements in which the payment is due within 1 year with a total value of Baht 18.28 million, representing 2.61% of the total assets arising from revolving agreements. These assets consist of revenues that have not yet been collected from repair and maintenance services provided to customers during the accounting period but are not yet due for payment. These assets will be recognized as account receivables when the payment due date is reached, and the Company has issued invoices to customers. However, the remaining value of these assets as of the end of Q1/2023 can be collected within 3 months, amounting to Baht 16.47 million, or within 3-6 months, amounting to Baht 1.36 million, or within 6-12 months, amounting to Baht 0.45 million.

Inventories

At the end of Q1/2023, the Company had net inventories of Baht 108.40 million, accounted for 15.51% of the total assets. Inventories consisted of equipment and work in process with the following details.

Inventories	As of December 31, 2022		As of December 31, 2023	
	Million Baht	%	Million Baht	%
Equipment and work in process	75.05	100	108.40	100.00
Total inventories	75.05	100	108.40	100.00

At the end of Q1/2023, the Company had inventories and work in process of Baht 108.40 million due to the equipment waiting to be installed, which is accounted for an increase of 33.35%, compared to the end of 2022. This was because of the projects that are currently being installed but have not yet been delivered.

However, the Company does not have a policy of purchasing goods in advance to keep as inventory, resulting in no remaining spare parts inventory at the end of Q1/2023.

Prepaid expenses

At the end of Q1/2023, the Company had Baht 65.67 million in current prepaid expenses, which represented 9.39% of the 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 43.81 million, represented 6.27% of the total expenses. Most of these expenses were incurred from prepaid service costs with more than 1 year period.

Bank deposits with collateral

As of the end of Q1/2023, the Company had bank deposits with collateral totaling Baht 50.55 million, representing 7.23% of the total assets. These collateral assets include bank deposits used as collateral for guarantees with financial institutions, such as fixed deposits and savings deposits.

Property, plant, and equipment

Property, plant, and equipment at the end of Q1/2023 was Baht 41.47 million, accounted for 5.93% of the total assets, consisting of condominiums, equipment, tools, decorations and office equipment, and vehicles, etc.

At the end of Q1/2023, the Company had property, plant, and equipment-net increased by Baht 8.72 million, representing 26.64% increase, compared to the end of 2022, mainly due to investment in equipment for rental service to support the project to provide equipment rental services.

Total liabilities

At the end of Q1/2023, the Company had total liabilities of Baht 238.91 million, which increased from Baht 217.04 million. The Company's significant liabilities consisted of account payables and other payables, agreement liabilities, unpaid tax, and provision of employee benefits, accounted for 99.50% 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, other payables, project cost payables, and other current payables, etc. At the end of Q1/2023, the Company had account payables and other payables of Baht 145.00 million, accounted for 60.69% of the total liabilities with below details.

Account payables and other payables	As of December 31, 2022		As of December 31, 2023	
	Million Baht	%	Million Baht	%
Account payables	155.21	86.91	132.00	91.03
Other payables	0.25	0.14	0.69	0.48
Project cost payables	18.59	10.41	5.43	3.74
Accrued expenses	2.48	1.39	4.98	3.43
Other current payables ¹	2.06	1.15	1.90	1.31
Total account payables and other payables	178.59	100.00	145.00	100.00

Note:

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

Account payables are debts arising from unpaid goods purchased by the Company for use in a project to sell equipment. At the end of Q2/2022, the Company's account payables and other payables decreased by Baht 33.59 million, mostly due to a decrease in account payables and project cost payables.

Liabilities from agreement

As of the end of Q1/2023, the Company had current liabilities from agreement with a payment due within 1 year amounting to Baht 72.12 million, representing 30.19% of the total liabilities, as well as non-current liabilities from agreement with a payment due over than 1 year amounting to approximately Baht 10.19 million, representing 4.27% of the total liabilities.

Shareholders' equity

The Company's shareholder's equity at the end of Q1/2023 was Baht 460.13 million, representing 65.82% of the total liabilities and stockholders' equity. On April 26th, 2023, the shareholder meeting approved to pay dividend for 2022 from net profit at a rate of 0.12 Baht (a total of 220 million shares), totaling Baht 26.40 million. The list of shareholders entitled to receive the dividend was based on the shareholder registry as of March 9th, 2023. The funds used for the dividend payment came from the cash flow generated by business operations, and the dividend will be paid on May 23rd, 2023.

In addition, the Company had already paid interim dividends for 2022 in September 2022 at a rate of 0.15 Baht per share (a total of 150 million shares), totaling Baht 22.50 million.

Therefore, the approval to pay dividends to the shareholders from the Company's business operations in 2022 was at a rate of 0.27 baht per share, totaling Baht 48.90 million.

The Company's policy on dividend payment is to pay dividend no less than 40% of net profits after deducting corporate income tax of the specific financial statements after legal reserves, and other accumulated reserves as determined by the Company.

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 Q1/2023 can be summarized as follows:

Cash flow	First 3 months of 2022	First 3 months of 2023
	Million Baht	Million Baht
Net cash flows from (used in) operating activities	60.29	1.27
Net cash flows from (used in) investment activities	0.15	(6.68)
Net cash flows from (used in) financing activities	(0.10)	(0.09)
Cash and cash equivalents net increase (decrease)	60.34	(5.51)
Cash and cash equivalents at the beginning of the period	29.37	252.21
Cash and cash equivalents at the end of the period	89.71	246.70

During Q1/2023, the Company had a cash flow of Baht 1.27 million from operating activities. This was derived from the net profit of Baht 10.68 million for Q1/2023, adjusted by non-cash items and finance costs amounting to Baht 2.48 million, mainly from income tax expenses of Baht 2.58 million, and depreciation and amortization expenses of Baht 1.13 million. In addition, in Q1/2023, operating activities generated cash flow through changes in working capital of Baht 10.07 million. The key items that led to changes in working capital were a decrease in account payables and other receivables of Baht 19.05 million, including a decrease in assets resulting from agreements of Baht 10.60 million, an increase in inventory of Baht 33.35 million, an increase in liabilities from agreements of Baht 55.12 million, and a decrease in account payables and other payables of Baht 33.59 million. Meanwhile, the cash flow used for investment activities had a value of Baht 6.68 million, which was derived from the cash payment to purchase fixed assets worth Baht 9.78 million, mainly for equipment to support the growth of the equipment rental business. In addition, net cash flow from financing activities was Baht 0.01 million, which was used to repay debt from lease agreements. The Company did not receive any cash inflow from capital increases or loans, resulting in a decrease in net cash flow of Baht 5.51 million for Q1/2023. At the end of Q1/2023, the company had cash and cash equivalents of Baht 246.70 million.

It is informed for your kind acknowledgement.

Yours Truly

(Miss Nattaya Nanthawanid)

Chief Financial Officer

International Network System Public Company Limited