

21 February 2024

Subject: Management Discussion and Analysis - For the year ended 31 December 2023

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 2023 of Baht 681.1 million, net profit increase by Baht 446.2 million or 189.9% compared to last year which net profit were Baht 234.9 million, due reason to the following reasons:

Overall Operating results

Description	Year 2023		Year 2022		Change	
	Million Baht	%	Million Baht	%	Million Baht	%
Revenue from Sales and Services	6,738.9	100.0%	5,846.8	100.0%	892.1	15.3%
Cost of Sales and Services	(5,776.0)	-85.7%	(4,811.9)	-82.3%	(964.1)	20.0%
Gross Profit, before Operating Expenses	962.9	14.3%	1,034.9	17.7%	(72.0)	-7.0%
Profit from entire business transfer of the subsidiary	649.6	9.6%	-	0.0%	649.6	100.0%
Profit from change of investment classifications	-	0.0%	33.4	0.6%	(33.4)	-100.0%
Other income	58.0	0.9%	31.8	0.5%	26.2	82.5%
Selling and Administrative Expenses	(901.4)	-13.4%	(791.2)	-13.5%	(110.2)	13.9%
Profit from Operating, before interest and Tax	769.1	11.4%	308.9	5.3%	460.2	149.0%
Share of Profit from Associates	6.8	0.1%	8.2	0.1%	(1.4)	-17.5%
Financial Costs	(23.3)	-0.3%	(18.2)	-0.3%	(5.1)	28.2%
Net Profit, Before Corporate Tax	752.6	11.2%	298.9	5.1%	453.7	151.8%
Corporate Income Tax	(35.0)	-0.5%	(58.8)	-1.0%	23.8	-40.6%
Net Profit	717.6	10.6%	240.1	4.1%	477.5	198.9%
(Profit) loss attributed to non-controlling interests	(36.5)	-0.5%	(5.2)	-0.1%	(31.3)	609.3%
Net Profit, Parent portion	681.1	10.1%	234.9	4.0%	446.2	189.9%

The overall operating results presented above is included business performance from discontinued operation, as refer to Note 13 to financial statements of the year 2023.

The Group's revenue increased by Baht 892.1 million or 15.3% from last year mainly due to revenue recognition from continuing various projects since the end of last year, especially revenue growth from system integration and system maintenance services from multiple large projects. However, price competition in the IT service business, as well as the disposition investment in Vulcan Digital Delivery (VDD), which the company completed the Entire Business Transfer transaction in early of the year 2023, affected decline in gross profit and net profit of the Group in the current year.

At the end of year 2023, the Group remains backlog project that allow recognition of revenue carrying until the end of projects of up to 6 years, with total backlog value of Baht 7,563 million. The Group carried high recurring income representing 58% of the total backlog value.

1. Revenue from sales and services increase by Baht 892.1 million or 15.3% due following to:

Revenue from Business segment	Year 2023		Year 2022		Increase (decrease)	
	Million Baht	% to total revenue	Million Baht	% to total revenue	Million Baht	% Change
System Integration services	1,226.7	81.8%	1,164.9	84.7%	561.5	11.3%
System maintenance services	3,362.9		2,627.5			
IT Professional services	923.8		1,159.5			
Cloud solution service	1,161.6	17.2%	817.8	14.0%	343.8	42.0%
Other business	63.9	1.0%	77.1	1.3%	(13.2)	(17.1%)
Total sales and services	6,738.9	100.0%	5,846.8	100.0%	892.1	15.3%

Comprised of:

Revenue from continuing operation	6,718.6	99.7%	5,421.3	92.7%	1,297.3	23.9%
Revenue from dispose operation	20.3	0.3%	425.5	7.3%	(405.2)	(95.2%)
Total revenue	6,738.9	100.0%	5,846.8	100.0%	892.1	15.3%

Revenue from 3 core business segments for the current year is representing 81.8% of total revenue from sales and services. The Group's revenue generated from these core business segments increased Baht 561.5 million with revenue growth by 11.3%, especially high revenue growth from system maintenance services at the rate of 28% mainly arise after completion of system integration and development from multiple SI projects since the last quarter of the year.

IT professional service revenue decreased by Baht 235.7 million or 20.3% compared to last year due to the disposition of investment in Vulcan Digital Delivery (VDD) during the first quarter of the current year. There was no IT professional service revenue from VDD that the Group previously recognized in the previous year amounting to Baht 287 million.

Cloud Solution Service revenue growth by 42% from last year with revenue proportion of 17.2% of total revenue. Cloud solution service is grow steadily reflected good response from leading enterprise customers to enhance data management using Cloud technology.

2. Cost of sales and service increase by Baht 964.1 million or 20%.

Description	Year 2023	Year 2022	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Revenue from sales and services	6,738.9	5,846.8	892.1	15.3%
Cost of sales and services	5,776.0	4,811.9	964.1	20.0%
Gross Profit	962.9	1,034.9	(72.0)	(7.0%)

Gross Profit (%)	14.3%	17.7%	(3.4%)
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Cost of sales and services for current year were Baht 5,776 million. The increase in cost of sales and services is representing direct proportion to revenue growth during current period. Since severe price competition within IT service sector, the Group gross profit margin for the current year was dropped to 14.3%, compared to last year gross profit which was 17.7%, partially from the disposition of investment in Vulcan Digital Delivery (VDD) through Entire Business Transfer transaction during the first quarter of current year. This business segment carried out with high gross profit margin compared to the average gross profit margin obtained from the Company and other subsidiaries. Such Entire Business Transfer of VDD business resulted in a decrease in the Group's gross profit of Baht 77 million for the current year.

3. Selling and Administrative expenses increase by Baht 110.2 million or 13.9%.

Description	Year 2023	Year 2022	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Selling and distribution expenses	131.4	136.6	(5.2)	(3.8%)
Administrative expenses	770.0	654.6	115.4	17.6%
Total Selling and Administrative Expenses	901.4	791.2	110.2	13.9%

Administrative expenses increased by Baht 115.4 million due to non-recurring expenses and non-monetary comprised impairment loss from investment in joint venture & associates and provision for litigation issue of the subsidiary.

Selling and Administrative expenses as percentage to total revenue was 13.4% which is approximate to last year (2022: 13.5% to total revenue).

Management's Discussion and Analysis on significant changes in the Group's Financial Position:

Description	No.	31-Dec-23	31-Dec-22	Increase (decrease)	
		Million Baht	Million Baht	Million Baht	%
Cash and cash equivalents		256.3	282.0	(25.7)	(9.1)
Trade and other receivables		2,043.5	1,724.3	319.2	18.5
Unbilled receivables		1,051.8	1,145.8	(94.0)	(8.2)
Cost of work in progress		172.9	392.9	(220.0)	(56.0)
Prepayment for cost of services	A1	2,124.6	1,511.1	613.6	40.6
Other current assets		242.6	232.0	10.6	4.6
Investment in joint venture and associates	A2	387.0	227.0	160.0	70.5
Building improvement and equipment	A3	106.4	61.3	45.1	73.5
Right-of-use assets	A4	199.4	91.9	107.5	116.9
Goodwill		258.0	258.0	-	-
Prepayment for cost of services, long-term	A1	393.4	270.3	123.1	45.5
Other non-current assets		146.3	79.5	66.8	84.1
Total Assets		7,382.1	6,276.0	1,106.1	17.6

Assets

Total assets increase Baht 1,106 million, or 17.6% due to mainly reason below:

- A1. Prepayment cost of services increased Baht 736.7 million was in line with revenue growth from system maintenance service (MA). Most MA costs in this revenue segment are collected from the service provider in advance at the commencement date of maintenance period each project.
- A2. Investments in joint ventures and associated increased by Baht 160 million, resulted from investments made through the newly established subsidiary, Synergy Group Ventures Company Limited ("SGV"). During the third quarter of current year, SGV invested in 3 associated companies, comprised I2 Enterprise Public Company Limited, A-Host Company Limited, and Secure D Center Company Limited, which used of funds to acquire these investment transactions was in the amount of Baht 73.1 million, Baht 75 million, and Baht 36 million, respectively.
- A3. Building improvements and equipment increased by Baht 45.1 million, mainly due to the relocation of the Company's branch office to the S-Oasis Building, effective from 1 September 2023 for the purpose to serve as executive office. sales department office, Project management and training and development center.
- A4. Right-of-use assets increased Baht 107.5 million, due to long-term lease contract related to branch offices relocation as described above.

Description	No.	31-Dec-23	31-Dec-22	Increase (decrease)	
		Million Baht	Million Baht	Million Baht	%
Short-term loans from banks		484.1	510.0	(25.9)	(5.1)
Trade and other payables		1,304.8	969.6	335.2	34.6
Accrued expenses		291.2	256.6	34.6	13.5
Short-term loans from related party		-	118.1	(118.1)	(100.0)
Lease liabilities	L1	1,979.3	1,699.3	280.0	16.5
Deferred income		222.7	190.9	31.8	16.7
Unbilled payables	L2	192.3	86.5	105.8	122.4
Provision for long-term employee benefits		205.6	179.3	26.3	14.7
Other liabilities		144.8	208.0	(63.2)	(30.4)
Total Liabilities		4,824.7	4,218.2	606.5	14.4
Registered and paid-up share capital		441.5	441.5	-	-
Premium on ordinary shares		986.7	986.7	-	-
Difference from change in shareholding interests in subsidiaries		5.7	5.7	-	-
Legal reserve		44.1	44.1	-	-
Unappropriated Retained earnings	S1	1,056.9	566.9	490.0	86.4
Other component of shareholders' equity		0.2	(15.3)	15.5	101.3
Non-controlling interest of subsidiaries		22.2	28.2	(6.0)	(21.2)
Total Shareholders' Equity		2,557.3	2,057.8	499.5	24.3

Liabilities and Shareholders' Equity

Liabilities increased Baht 606.5 million or 14.4% due to mainly reason below:

- L1. Increase in deferred income Baht 280 million as resulted to the gradual recognition of income according to the period of the Maintenance Agreement Service ("MA") which mainly received maintenance fees at the beginning of the MA contract period.
- L2. Lease liabilities increased Baht 105.8 million was due to new long-term lease contract related to branch offices relocation as described in A4.

Shareholders' Equity increased Baht 499.5 million or 24.3% due to mainly reason below:

- S1. Unappropriated retained earnings increased Baht 490 million arises from net profits attributable to the equity holders of the Company for the current year, which amounted to Baht 681.1 million, and dividends paid during the year of Baht 176.6 million.

Capital Structure

As of 31 December 2023, the Company reported total interest-bearing debts of Baht 484.1 million (2022: Baht 628.1 million), representing promissory notes not exceeding to 150 days to support new order received during the year. Interest-bearing debt to equity ratio was at 0.19 time (2022: 0.31 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 accordingly.

Your sincerely,

(Mr. Siriwat Vongjarukorn)

Chief Executive Officer