

23 February 2022

Subject: Management Discussion and Analysis - For the year ended 31 December 2021

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 2021 of Baht 257 million, net profit increase by Baht 12.4 million or 5.1% compared to last year which were net profit of Baht 244.6 million, due reason to the following reasons:

Overall Operating results

Description	FY-2021		FY-2020		Change	
	Mil THB	%	Mil THB	%	Mil THB	%
Revenue from Sales and Services	5,174.4	100.0%	4,670.8	100.0%	503.6	10.8%
Cost of Sales and Services	(4,264.1)	-82.4%	(3,812.9)	-81.6%	(451.2)	11.8%
Gross Profit, before Operating Expenses	910.3	17.6%	857.9	18.4%	52.4	6.1%
Gain (loss) on derivative at Fair value	21.5	0.4%	9.6	0.2%	11.9	124.0%
Other Income	10.7	0.2%	59.9	1.3%	(49.2)	-82.1%
Selling and Administrative Expenses	(611.5)	-11.8%	(607.3)	-13.0%	(4.2)	0.7%
Profit from Operating, before interest and Tax	331.0	6.4%	320.1	6.9%	10.9	3.4%
Share of Profit (loss) from Associates	8.7	0.2%	1.7	0.0%	7.0	411.8%
Financial Costs	(11.5)	-0.2%	(11.1)	-0.2%	(0.4)	3.6%
Net Profit, Before Corporate Tax	328.2	6.3%	310.7	6.7%	17.5	5.6%
Corporate Income Tax	(70.2)	-1.4%	(63.0)	-1.3%	(7.2)	11.4%
Net Profit	258.0	5.0%	247.7	5.3%	10.3	4.2%
Profit Attributed to Non-Controlling Interests	(1.0)	0.0%	(3.1)	-0.1%	2.1	-67.7%
Net Profit, Parent portion	257.0	5.0%	244.6	5.2%	12.4	5.1%

Industry overview and economic conditions of Thailand

Since the beginning of 2020, Thailand economy and worldwide have largely been impacted by the uncertainty that the COVID-19 outbreak has caused which the impacts are uneven. The pace of recovery for each industry may vary, depending on the nature of industry. According to Bank of Thailand, GDP growth rate is expected to expand by 0.7% in 2021 and 3.9% in 2022. The private sector and consumption are trend improved since the last quarter of 2021 as there is some progress on vaccination, proceeding lead to a recovery of economic activity for instance, a household and private consumption and private investment were expandable along with an economic supported via government spending. Nevertheless, subsequent economic recovery will take a minimum of two years following successful trial of vaccine, according to World Health Organization.

The overall software service industry grew from 2018 as IT software operators have benefited from business transformation that applies new technology to improve their business such as Cloud, Big data, Artificial Intelligence (AI), Blockchain and IoT. Software spending will grow as a result of new and specific solutions responding to market demand for more affordable pricing models. Enterprises are turning towards mobility and system & data security, as well as solutions to focus on productivity and efficiency gains. Applications play an important role in Thailand's software market as they are among the top priorities for large organisations who offered greater cost efficiency, usability and increased flexibility for customers, and the data gathered can help deliver targeted intelligence and better guidance to the users. In the present, technology is necessary. As mentioned above, technology can help human in many ways, such as technology can make communication easier and faster, improve the security of documents or information, help records things related to the business more easily. Thailand has been aware of how important the technology is by launching the policy "Thailand 4.0", which tends to improve the knowledge, readiness and awareness of country's reputation on technology and digital market.

Overall Group performance results

Thailand had impacted by a new wave of COVID-19 epidemic, which rising rate of infection. This resulted impact to the economy and direct effect to private sector's business operation. Although, the economic situation began to improve due to progress in vaccination within Thai country during second half of the year. The Group has affected by the COVID-19 epidemic in respect of delaying orders received from customers, and customers limited to spend their IT operation budget. However, the Group was able to adapt its business strategy in a timely manner against high competition within IT service sector. Revenue from continuing projects from last year is recognized based on deliverable of committed project schedule. In addition, revenue recognition from several large projects newly acquired during the year. This resulted in an increase in revenue recognition when compared to last year.

For the year 2021, the Group acquired several large projects with contract value more than Baht 100 million. In addition, the Group commenced to operate several projects in which the public sector is procured. These large value contract projects included public sector projects have an average duration of 3-5 years, as well as backlog received at the end of the previous year has been deliverable within schedule. As a result, the Group reported total revenue for the year 2021 of Baht 5,174.4 million, which was the highest revenue since the company's inception. Moreover, since large projects that the Group has acquired over the past 2 years (2020-2021) have an average project duration for the period of 3-5 years. These can enable the Group to manage with long-term resource planning to utilize internal resources with the most efficiency. Although, the gross profit margin percentage is slightly dropped when compared to last year. However, revenue increase and affected the gross profit realized during 2021, of Baht 910.3 million, or increase by Baht 52.4 million from last year. These factors are directly resulted in term of the Group's net profit growth in 2021.

The Group remains project in progress that have not yet been delivered to customers (backlog) that can recognize from continuing projects in 2022 and year beyond. At the end of 2021, the Group have backlog that can recognize revenue from continuous projects throughout the project life of up to 5 years, totaling Baht 6,384 million, value of backlog has significant increase since the ended of the year 2020.

1. Revenue from sales and services increase from last year by Baht 503.5 million or 10.8% due following to:

Revenue from Business segment	For the year 2021		For the year 2020		Increase (decrease)	
	Million Baht	% to revenue	Million Baht	% to revenue	Million Baht	% Change
System Integration services	1,851.6	88.4%	2,153.3	92.0%	276.8	6.4%
System maintenance services	1,783.6		1,288.1			
IT Professional services	938.5		855.5			
Cloud solution service	559.3	10.8%	345.3	7.4%	214.0	62.0%
Other business	41.4	0.8%	28.7	0.6%	12.7	44.3%
Total sales and services	5,174.4	100.0%	4,670.9	100.0%	503.5	10.8%

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 2021 of 88.4% of the total revenue from sales and services, revenue proportion decrease from 2020 which was 92.7% of the total revenues due to revenue growth from cloud service segment, Revenues from these 3 main business segments increased by Baht 276.8 million with revenue growth of 6.4% from last year.

In addition, Cloud Solution Service revenues, which accounted for the revenue recognition in 2021 of 10.8%, with revenue growth by 62% year-on-year. Cloud solution service is grow steadily reflected very well response from leading enterprise customers to enhance data management using Cloud technology.

2. Cost of sales and service increase by Baht 451.2 million or 11.8% compared to last year.

Description	For the year 2021	For the year 2020	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Revenue from sales and services	5,174.4	4,670.8	503.6	10.8%
Cost of sales and services	4,264.1	3,812.9	451.2	11.8%
Gross Profit	910.3	857.9	52.4	6.1%

Gross Profit (%)	17.6%	18.4	(0.8%)
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Cost of sales and services for the year 2021 were Baht 4,264.1 million. The increase in cost of sales and services is representing direct proportion to revenue recognition and in according to point in time upon the service performed based on percentage of work completion, as well as conforming over the period of the time for revenue and costs arising from Maintenance Service Agreement. Although, severe price competition within IT service sector since last year. The Group had reported gross profit margin for the current year of 17.6% with a slightly decrease by 0.8% from last year. However, an increase in revenue from sales and services of 10.8%, is resulted in the Group's gross profit increased by Baht 52.4 million or 6.1%. The Group is highly aware of the rising cost tendency. Therefore, the Group continues to implement effective and cost management and prudent cost control measures to maintain its profitability and ongoing to recover.

3. Selling and Administrative expenses for the year ended 31 December 2021 were Baht 611.5 million, an increase of Baht 4.2 million or 0.7% compared to last year.

Description	For the year 2021	For the year 2020	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Selling and distribution expenses	116.9	100.9	16.0	15.9%
Administrative expenses	480.2	480.8	(0.6)	(0.1%)
Loss on exchange rate	14.4	25.6	(11.2)	(43.8%)
Total Selling and Administrative Expenses	611.5	607.3	4.2	0.7%

For the current year, the Company conducted operating costs reduction policy by cut unnecessary operating costs. Such cost reduction does not affect the efficiency of the Group's business operation. The Group still has recurring operating expenses that are expenses mainly fixed by cost nature for its business operations, as well as support business expansion. The Group focused on cost management to maximize cost utilization with efficiency. As a result, overall operating expenses were approximate at same level when compared to last year.

4. Share of profit from investment in associates for the year ended 31 December 2021 were Baht 8.7 million, an increase from last year of Baht 7 million or 412%.

Description	For the year 2021	For the year 2020	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Share profit from investment in associates	8.7	1.7	7.0	412%

The Company acquired investment in I Two Enterprise Company Limited ("I Two"), which has an investment proportion of 15% of paid-up capital in such associate company. The Company commenced recognize share profit from I Two since 4th quarter of 2020. For the year 2021, the company recorded share of profit from I Two amounted to Baht 11.5 million (2020: Baht 3.3 million), which is main reason that share profit from investment in associate companies increased from the previous year.

5. Financial costs for the year ended 31 December 2021 were Baht 11.5 million, an increase from last year of Baht 0.4 million or 3.6%.

Description	For the year 2021	For the year 2020	Increase (decrease)	
	Million Baht	Million Baht	Million Baht	%
Financial cost from borrowing	2.3	1.3	1.0	76.9%
Financial cost from Right of Use of assets	9.2	9.8	(0.6)	(6.1%)
Total Financial costs	11.5	11.1	0.4	3.6%

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 2021, the Company reported total interest-bearing debts of Baht 405 million (2020: Baht 20 million), mainly due to an increase in short-term borrowing from financial institutions in form of promissory notes not exceeding to 90 days to support new order received during the year. In addition, the Group also extended award new orders from several public sector projects which required larger working capital compared to previous year. Meanwhile, weighted average cost of debt for the year 2021, was at 1.028% per annum since creditability to access low interest loan. The Group's net interest-bearing debt to equity ratio was at 0.2 time 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