

PROEN Corp Public Company Limited

Management Discuss and Analysis Fiscal Year 2021 Ending 31 December 2021

Business Overview

PROEN Corp Public Co., Ltd. and its subsidiaries ("The Company Group") perform business as follows:

(1) Information Communication and Technology (ICT), Internet Data Center (IDC) service, Internet Service Provider (ISP), and Cloud Service, collectively called ICT business, which was the main revenue in 2021, accounting for 78.08%, (2) Telecommunication and Infrastructure Service, accounting for 21.63%, (3) Other Revenues was 0.29%.

Operating Result

In 2020-2021, the Compound Annual Growth Rate (CAGR) of the Company Group was 9.51%, mainly from the growth of revenue in Telecommunication and Infrastructure Service provided to Government Authority and Private sector. While the IDC service, ISP service, sales of Telecom equipment, and other service, such as Cloud Service, DDoS, Web Hosting, and Branch Connect, trended to expand as a result of the COVID-19 pandemic situation. The Company Group's customers, including online media, online gaming and E-Commerce business, had expanded their business at a high rate as a result of the change in customer behavior and daily lifestyle. The customer behavior and their daily lifestyle trended to be made through online channels, such as purchasing of computer and electronic product, office stationary, food and drink, healthy food, as well as online media consumption.

Other revenue decreased, due to an interest receivable and financial cost, which was highly decreased due to a large number of short-term loans from financial institutions were made during the years. The gross profit ratio during 2020-2021 decreased from 15.99% to 13.80% respectively. While the net profit ratio increased slightly from 2.52% in 2020 to 2.76% in 2021.



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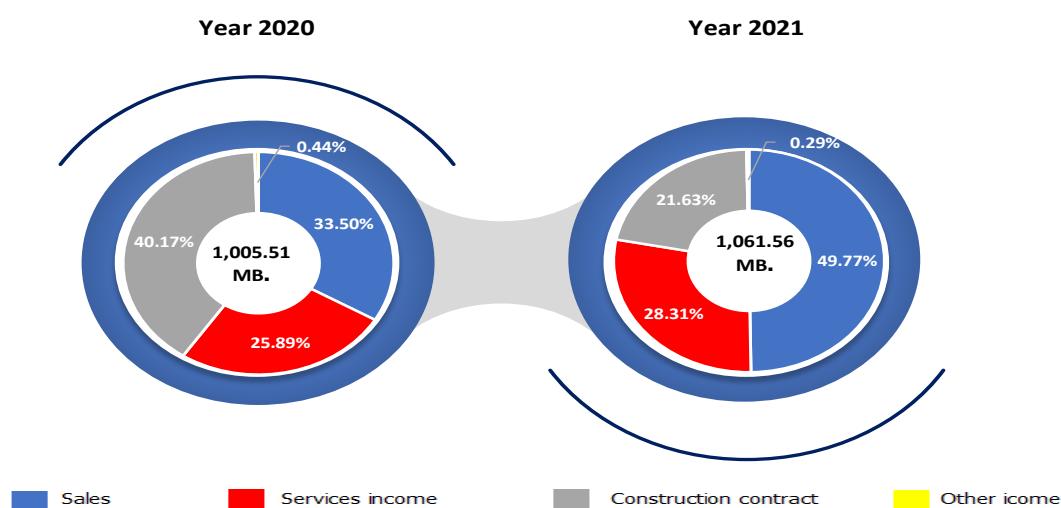


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Operating Result	Year 2020		Year 2021		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Total revenue from sales and services	1,001.11	100.00%	1,058.48	100.00%	57.37	5.73%
Total cost of sales and services	841.05	84.01%	912.46	86.20%	71.41	8.49%
Gross profit	160.06	15.99%	146.02	13.80%	(14.04)	(8.77%)
Other revenue	4.40	0.44%	3.08	0.29%	(1.32)	(29.99%)
Selling expenses	18.22	1.82%	20.43	1.93%	2.21	12.14%
Administrative expenses	94.19	9.41%	81.72	7.72%	(12.47)	(13.23%)
Profit (Loss) before interest and income tax	52.05	5.20%	46.95	4.44%	(5.10)	(9.81%)
Financial costs	16.85	1.68%	9.77	0.92%	(7.08)	(42.01%)
Profit (Loss) before income tax expense	35.20	3.52%	37.18	3.52%	1.98	5.59%
Corporate income tax	9.93	1.00%	8.02	0.76%	(1.91)	(19.32%)
Net profit	25.27	2.52%	29.16	2.76%	3.89	15.38%

Revenue, Cost, and Gross Profit

In 2020-2021, the main revenue of the Company Group was from ICT business. The revenue proportion of ICT business per sales and services trended to rise as the construction business impacted from the COVID-19 pandemic in 2021, as a result of the lower revenue recognition from construction contracts. The revenue proportion of ICT business highly increased from 59.39% in 2020 to 78.09% in 2021, details can be described as follows.



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Type of Revenue	Year 2020		Year 2021		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from sale	336.81	33.50%	528.37	49.77%	191.56	56.88%
Revenue from service	260.37	25.89%	300.56	28.31%	40.19	15.44%
Revenue from construction contracts	403.93	40.17%	229.55	21.63%	(174.38)	(43.17%)
Total revenue from sales and services	1,001.11	99.56%	1,058.48	99.71%	57.37	5.73%
Other income	4.40	0.44%	3.08	0.29%	(1.32)	(29.99%)
Total revenue	1,005.51	100.00%	1,061.56	100.00%	56.05	5.57%

*Other revenue consisted of Interest receivable from financial institutions and profit from the disposal of assets

1. ICT Business consisted of: Telecom equipment sales and Telecom network service

1.1) Sales of Telecom equipment

Telecommunication network equipment sales business	Year 2020		Year 2021		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from sale of telecommunication network equipment	336.81	100.00%	528.37	100.00%	191.56	56.88%
Cost of telecommunication network equipment	315.66	93.72%	484.63	91.72%	168.97	53.53%
Gross profit from sale of telecommunication network equipment	21.15	6.28%	43.74	8.28%	22.59	106.81%

Revenue from the sale of Telecom equipment during 2020-2021, mainly was from the sale of Server Computer and Computer Equipment to Garena Group, who is an online gaming provider and an online merchant. In 2021, the Company Group gained revenue of 191.56 million Baht, or increased by 56.88%, due to the high demand in Server Computer equipment, and other computer equipment. Also, there was a delivery of Telecom equipment with installation to a Government Authority in the Quarter 2/2021.

Cost of products is a cost of purchasing network equipment, such as server computer, and computer equipment from technology equipment's sales representatives in Thailand, according to customer orders. In 2021, the gross profit was 8.28%, rose from 6.28% in 2021. As the products regarding Government Agency project mostly were special products, so the gross profit of the project was quite high.



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1.2) Telecom and infrastructure service

Telecommunication Service Business	Year 2020		Year 2021		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from telecommunication service business						
1. Revenue from Internet Data Center (IDC) service	129.53	49.75%	147.80	49.17%	18.27	14.10%
2. Revenue from Internet Service Provider (ISP) service	69.36	26.64%	61.22	20.37%	(8.14)	(11.74%)
3. Revenue from project service	44.10	16.94%	48.86	16.26%	4.76	10.81%
4. Revenue from providing other services	17.38	6.67%	42.68	14.20%	25.30	145.54%
Total revenue of telecommunication business	260.37	100.00%	300.56	100.00%	40.19	15.44%
Cost of telecommunication network service						
Variable cost: Internet and network service charges, and electric expense of IDC	111.49	42.82%	127.49	42.42%	16.00	14.35%
Fixed cost: rental cost, depreciation and amortization cost, cost related to employee, contractor labor cost, and other costs	65.17	25.03%	92.35	30.72%	27.18	41.71%
Total cost of telecommunication network service	176.66	67.85%	219.84	73.14%	43.18	24.44%
Gross profit of telecommunication network service	83.71	32.15%	80.72	26.86%	(2.99)	(3.57%)

In 2021, the Company Group generated more revenue from Telecom business when comparing with 2020, amounting to 40.19 million Baht, or increased by 15.44%. The increase was from IDC service, increased by 18.27 million Baht, or 14.10%, and an increase of network system installation installed and delivered to a Government Authority in the Quarter 2/2021. A decrease in revenue from ISP service of 8.14 million Baht, or 11.74% was due to the termination of service contract with a Government Agency.

Cost of Telecom network service and other service consisted of:

1) Variable Cost: Internet and network fees, and electrical fees in providing IDC service. In 2020-2021, the Company Group had a variable cost per revenue from service by 42.82% and 42.42% respectively. A variable cost per gross revenue from service in 2020 was close to the cost in 2021, varies with the revenue from services incurred.



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2) **Fixed Cost:** labor cost of contractor, rental cost, depreciation and amortization cost, employee expenses, and other related cost. In 2020-2021, the Company Group had a fixed cost per revenue from service by 25.03% and 30.72% respectively. The increased fixed cost was mainly due to an increase of area rental cost for IDC service, which the Company paid for the area owner with higher rental cost, and there was an expansion of the area according to the IDC service area expansion plan. There was an increase of employee expenses in order to support the expanded customers in ICT business.

In 2020-2021, the gross profit was 32.15% and 26.86% respectively. The reason of the decreased gross profit in 2021 was mainly from an increase of cost during an expansion of the IDC service area. Moreover, the Company Group had reduced IDC service charge in order to maintain customer base as a result of high business competition.

2. Telecom and Infrastructure Service

Construction Business	Year 2020		Year 2021		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Revenue from construction business	403.93	100.00%	229.55	100.00%	(174.38)	(43.17%)
Cost of projects under construction business	348.73	86.33%	207.99	90.61%	(140.74)	(40.36%)
Gross profit from construction contract	55.20	13.67%	21.56	9.39%	(33.64)	(60.94%)

In 2021, the Company Group has completed the construction of 10 projects, mostly were electric power transmission line construction, and sewage system improvement in Bangkok, and Data Center construction for a financial institution. The revenue recognition was from construction contracts, according to the stage of completion of the construction work completed based on the actual cost incurred.

In 2021, the gross profit decreased comparing with 2020, due to the construction business affected by the COVID-19 pandemic, resulted in a considerable decrease of revenue recognition of construction contracts. While there was a cost of project management during the construction interruption or postponement in various projects, resulted in a decrease of gross profit of 13.67% in 2020 to 9.39% in 2021.

Other Revenues

In 2020-2021, other revenues were interest receivable earned from financial institutions and interest receivable from a lease agreement (Google Station project), and a profit from disposal of assets. In 2021, other revenues decreased by 1.32 million Baht from 2021 due to a decrease in interest receivable and profit from disposal of assets.



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Selling Expenses

Selling Expenses	Year 2020		Year 2021		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Payroll, labor cost, and expenses related to employee	14.80	81.22%	16.55	80.97%	1.75	11.79%
Brokerage fee	0.69	3.77%	0.70	3.44%	0.01	2.14%
Cost of advertising and PR	2.00	10.96%	1.98	9.67%	(0.02)	(1.04%)
Other expenses	0.73	4.05%	1.20	5.92%	0.47	64.12%
Total selling expenses	18.22	100.00%	20.43	100.00%	2.21	12.14%

In 2020-2021, selling expenses were salary, labor cost, and expenses related to sale representative. An increase of selling expenses in 2021 was due to an increase of employees in order to support the business expansion for both Telecom business and Construction business. Selling Expenses in 2021 were close to 2020, slightly increased due to an increase of salary, labor cost, employee expenses and other expenses.

Administrative Expenses

Administrative Expenses	Year 2020		Year 2021		Increase (Decrease)	% Increase (Decrease)
	MB.	%	MB.	%		
Expenses related to employees	34.98	37.14%	39.90	48.82%	4.92	14.08%
Allowance for doubtful accounts	22.32	23.70%	4.13	5.06%	(18.19)	(81.48%)
Advisor and auditor fees	11.37	12.08%	12.87	15.75%	1.50	13.15%
Depreciation and amortization	8.61	9.15%	7.05	8.62%	(1.57)	(18.21%)
Bank fee	8.03	8.53%	6.14	7.51%	(1.89)	(23.54%)
Rental, public utility, and maintenance cost	2.71	2.87%	2.55	3.11%	(0.16)	(5.99%)
Insurance premium	2.59	2.75%	2.23	2.72%	(0.36)	(14.04%)
Other expenses	3.57	3.79%	6.86	8.40%	3.29	92.26%
Total administrative expenses	94.19	100.00%	81.72	100.00%	(12.46)	(13.23%)

In 2021, administrative expenses decreased by 12.46 million Baht, or decreased from the previous year by 13.23%. The decrease was mainly due to 1) a decrease of doubtful account, amounting to 18.19 million Baht earned from billing and collection of payment from construction work customers, and 2) an increase of employee expenses, amounting to 4.92 million Baht, and 3) an increase of other expenses, amounting to 3.29 million Baht such as expenses for listed company operation.



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Financial Cost

In 2021, financial cost decreased by 7.08 million Baht, or decreased 42.01% from the previous year. The decrease was mainly due to the repayment of loans from financial institutions used for project management, and spending funds from IPO for the repayment of overdraft and short term loans applied from financial institutions.

Net Profit and Net Profit Margin

In 2021, the net profit increased by 3.89 million Baht from 2020, or increased by 15.38% from the previous year. The reason were from the business operation gained profit from Telecom equipment business, when Garena group customer had a high demand for Telecom equipment, Telecom service business, especially in IDC service having high growth rate, the reversal of allowance for doubtful account receivables collected from account receivable in the fiscal year 2020, as well as a decrease in the construction business with lower revenue recognition and profitable performance as many projects have been delivered for 100%, and the impacts from COVID-19 pandemic.

Statement of Financial Position

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	31-Dec-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Assets					
Current asset	417.54	825.49	407.95	97.70%	76.53%
Non-current asset	249.40	253.12	3.72	1.49%	23.47%
Total assets	666.94	1,078.61	411.67	61.73%	100.00%
Liabilities and shareholders' equity					
Current liabilities	411.58	581.31	169.73	41.24%	53.89%
Non-current liabilities	104.88	77.52	(27.36)	(26.09%)	7.19%
Shareholders' equity	150.48	419.78	269.30	178.96%	38.92%
Total liabilities and shareholders' equity	666.94	1,078.61	411.67	61.73%	100.00%



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Total Assets

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	31-Dec-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Cash and cash equivalents	85.40	127.12	41.72	48.85%	11.79%
Financial assets measured at fair value through profit or loss	0.00	149.57	149.57	100.00%	13.87%
Pledged bank deposit	70.85	80.85	10.00	14.11%	7.50%
Account receivable and other receivable	297.83	424.76	126.93	42.62%	39.38%
Inventory	20.41	103.72	83.31	408.09%	9.61%
Land, building with equipment, and right-of-use assets	148.00	146.71	(1.29)	(0.87%)	13.60%
Other assets	44.45	45.88	1.43	3.22%	4.25%
Total assets	666.94	1,078.61	411.67	61.73%	100.00%

As of December 31, 2021, total assets increased mainly from 1.) An increase in cash received from the sale of ordinary shares and investments in debt securities, amounting to 149.57 million Baht 2.) An increase of account payable for project service works that have been delivered for 100% and waiting for payments from customers 3.) An increase of inventory which was products waiting for delivery to customers at the beginning of 2022. As of December 31, 2021, the Company Group had total assets of 1,078.61 million Baht, increased by 411.67 million Baht, or increased by 61.73%.

As of December 31, 2021, key elements of total assets can be summarized as follows.

1. Cash and cash equivalents were 127.12 million Baht or 11.79% of total assets
2. Financial assets measured at fair value through profit or loss , amounting to 149.57 million Baht, or 13.87% of total assets
3. Pledged and restricted bank deposit was 80.85 million Baht, or 7.50% of total assets
4. Account receivable and other receivable were 424.76 million Baht, or 39.38% of total assets
5. Inventory was 103.72 million Baht, or 9.61% of total assets
6. Property, plant, and right-of-use assets were 146.71 million Baht, or 13.60% of total assets
7. Other assets were 45.88 million, or 4.25% of total asset



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Total liabilities

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	31-Dec-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Trade and other current payables	268.99	448.67	179.68	66.80%	41.60%
Loan from financial institutions	168.14	150.32	(17.82)	(10.60%)	13.94%
Liabilities under leasing agreements	47.71	29.57	(18.14)	(38.03%)	2.74%
Other liabilities	31.61	30.27	(1.35)	(4.26%)	2.80%
Total liabilities	516.46	658.83	142.37	27.57%	61.08%

As of December 31, 2021, total liabilities increased mainly was from 1.) an increase of account payable and other account payable other than project management and construction work 2.) a decrease in loans from financial institutions due to the use of IPO fund to repay loan borrowed from financial institutions. As of December 31, 2021, the Company Group had total liabilities of 658.83 million Baht, increased by 142.37 million Baht, or 27.57%.

As of December 31, 2021, key elements of total liabilities can be summarized as follows.

1. Account payable and other payable were 448.67 million Baht, or 41.60% of total assets
2. Loan from financial institutions was 150.32 million Baht, or 13.94% of total assets
3. Liabilities under lease agreements was 29.57 million Baht, or 2.74% of total assets
4. Other liabilities were 30.27 million Baht, or 2.80% of total assets

Total Equity

Consolidated Financial Statements (Unit: million Baht)	31-Dec-20	31-Dec-21	Increase (Decrease)	% Increase (Decrease)	% Proportion per total assets
Paid-up capital	115.00	158.00	43.00	37.39%	14.65%
Ordinary share premium	0.00	228.73	228.73	100.00%	21.21%
Surplus (deficits) from business combinations	1.18	1.18	0.00	0.00%	0.11%
Legal reserve	7.00	8.85	1.85	26.43%	0.82%
Cumulative profit	27.30	23.02	(4.28)	(15.68%)	2.13%
Total shareholders' equity	150.48	419.78	269.30	178.96%	38.92%



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As of December 31, 2021, equity highly increased mainly from 1.) an increase of ordinary shares and reserve fund causing from ordinary share premium arising from the IPO, amounting to 271.73 million Baht 2.) an increase of legal reserve, amounting to 1.85 million Baht and 3.) a decrease of cumulative profit from the dividend paid to shareholders, amounting to 31.60 million Baht, resulted in a decrease of 4.28 million Baht in net profit. As of December 31, 2021, the Company Group had equity of 419.78 million Baht, increased by 269.30 million Baht, or 178.96%.

As of December 31, 2021, key elements of total equity can be summarized as follows.

1. Paid up capital was 158.00 million Baht, or 14.65% of total assets
2. Ordinary share premium was 228.73 million Baht, or 21.21% of total assets
3. Revaluation surplus through business combinations was 1.18 million Baht, or 0.11% of total assets
4. Legal reserve was 8.85 million Baht, or 0.82% of total assets
5. Cumulative profit was 23.02 million Baht, or 2.13% of total assets

Key Financial Ratio

Financial Ratio	Unit	As of 31 Dec. 2020	As of 31 Dec. 2021	Increase (Decrease)
Liquidity ratio	time	1.01	1.42	0.41
Quick ratio	time	0.93	1.24	0.31
Return on Equity (ROE)	%	19.40	10.23	(9.17)
Return on Assets (ROA)	%	3.94	3.34	(0.60)
Interest Bearing D/E ratio	time	1.43	0.43	(1.00)
D/E ratio	time	3.43	1.57	(1.86)

● Liquidity Ratio and Quick Ratio

As of December 31, 2021, the Company Group reported liquidity ratio and quick ratio at a higher rate increased from 2020, resulted in high liquidity as an increase of cash received from ordinary shares offering and a decrease in overdraft and short-term loans from financial institutions.

● Gross Profit Margin and Net Profit Margin

As of December 31, 2021, the Company Group had a decrease gross profit ratio from 15.99% to 13.80%. This was due to a decrease of gross profit from service as there was higher rental cost, service fee and electrical charge. There was a project in providing service to a Government Authority, resulted in a decrease of gross profit. The gross profit ratio of construction project decreased due to the impact from COVID-19 situation made the company to delay construction and some projects had been delivered for 100% of in 2021.



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- **Operating Efficiency Ratio**

As of December 31, 2021, ROA and ROE decreased comparing with 2021, due to an increase of liquid current assets at a high rate, and an increase in equity from IPO offering in the quarter 2/2021.

- **Financial Policy Ratio**

As of December 31, 2021, the Company group reported Interest-Bearing D/E Ratio of 0.43 times, decreased by 1.00 times. D/E Ratio was 1.57 times, decreased by 1.86 times comparing with 2020 due to a decrease of overdraft and short-term loan from financial institutions, and an increase of profit from operating result for the year 2021.



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