

Management's Discussion and Analysis

Second Quarter ending 30th June 2021

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 32% year on year to THB 6.1 billion for the second quarter of 2021 from THB 4.6 billion for the second quarter 2020. Sales Revenue in USD terms increased 35% to USD 194m in Q2 2021 from USD 144m in Q2 2020. Earnings from Operations increased 59% to THB 759m in Q2 2021 from THB 476m in Q2 2020.

Net Profit increased 8% to THB 736m in Q221 from THB 682m in Q220, due to 59% higher operating earnings in Q221 but exchange loss in Q221 of THB 32m compared to exchange gain of THB 207m in Q220.

THB '000	Quarter		Quarter		Q221-Q220	%
	Q221		Q220			
PCBA (Lamphun, Thailand)	2,681,488	45%	1,852,489	40%	828,999	45%
PCBA (Jiaxing, China)	724,861	12%	740,150	16%	(15,289)	-2%
PCBA (Cambodia)	25,138	0%	25,670	1%	(532)	-2%
IC (Ayutthaya, Thailand)	2,070,376	34%	1,577,629	34%	492,747	31%
IC (Jiaxing, China)	303,431	5%	212,872	5%	90,559	43%
HTI (Ohio, USA)	252,457	4%	183,559	4%	68,898	38%
Total Revenue	6,057,751	100%	4,592,369	100%	1,465,382	32%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 2 2021 sales revenue for the group increased 35% year-on-year in USD terms to USD 194m from USD 144m in Q220. The average exchange rate for Q221 was 2% stronger at THB/USD 31.4 from THB/USD 32.0 in Q220. As a result the sales revenue in THB terms increased 32% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 35%. Sales in Lamphun increased 50% whilst Jiaxing was similar year on year. The IC divisions sales revenues increased 35% in Q221, with revenues of the IC division in Ayutthaya increasing 34% and Jiaxing increasing by 46%. Hana Technologies Inc, "HTI" the Microdisplay/RFID operation in Ohio sales revenue increased 40% in Q221 from Q220.

Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group increased 12% to USD 194m in Q221 from USD 172m in Q121. Sales in the microelectronics divisions increased 12% with Lamphun increasing 10% and Jiaxing increasing 24%. Sales revenues from the IC divisions increased 11% in Q221 from Q121 with Ayutthaya sales increasing 8% and Jiaxing IC sales increasing by 32%. HTI sales increased 35% in Q221 compared to Q121.

Sales Revenue Split

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
PCBA (Lamphun, Thailand)	45%	47%	46%	45%	40%
PCBA (Jiaxing, China)	12%	11%	13%	14%	16%
PCBA (Cambodia)	0%	0%	1%	0%	1%
IC (Ayutthaya, Thailand)	34%	35%	33%	33%	34%
IC (Jiaxing, China)	5%	4%	4%	4%	5%
HTI (Ohio, USA)	4%	3%	3%	4%	4%
	100%	100%	100%	100%	100%

Gross Profit / Cost of Sales Analysis

The Gross Profit margin increased 2% points to 17% in Q221 from 15% Q220. Gross Margin in Q221 was higher due to higher sales revenue providing better economies of scale in Q221 compared to Q220.

Operating Profit Analysis, Sales and Administration Analysis

Year-on-year Earnings from Operations, were 59% higher at THB 759m in Q221 compared to THB 476m in Q220. The Operating margin was up 3 percentage points to 13% in Q221 from 10% in Q220 due to the higher Gross Margin and better economies of scale also. SG&A expenses were 14% higher in Q221 than Q220 due to increased R&D expenses at the IC division in Korea.

Foreign Exchange Rates

Each week's sales and purchases are booked based on the exchange rate at the close of the previous week. The average exchange rate for Q221 was Baht/USD 31.36, Q220 was Baht/USD 31.95 (and Q121 was Baht/USD 30.26).

The offshore subsidiaries income statements are translated at the average rate for the quarter, (for their respective currencies). The Balance sheets of the offshore companies were translated at the closing rate of Baht/USD 32.05 at 30/06/20, and Baht/USD 30.89 at 30/06/20 (Baht/USD 31.34 at 31/03/21) or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

In Q221 THB 604m final dividend of THB 0.75 per share was paid during the quarter from the profits of 2020.

In Q220 THB 523m final dividend of THB 0.65 per share was paid during the quarter from the profits of 2019.

Financial Status

Net Cash reserves and financial investments were THB 9.1 billion at the 30th June 2021 up from THB 9.0 billion at the 30th June 2020.

Asset Quality

Accounts Receivable

Most of customers are well known and have good reputation in the IC, and electronics industry. Provision is made of amounts outstanding over 90 days and amounts which the management believe may be doubtful. Accounts receivable days were 63 days in Q221 and 60 days in Q220.

	<u>30-Jun-21</u>	<u>30-Jun-20</u>	THB '000
Trade Receivables			
Less than 3 months	3,977,257	2,900,455	
3 - 6 months	2,047	15,978	
6 - 12 months	19	1,265	
More than 12 months	4,806	3,305	
Total accounts receivable - other companies	<u>3,984,129</u>	<u>2,921,003</u>	
Less : Allowance for doubtful accounts	(4,455)	(9,011)	
	<u>3,979,674</u>	<u>2,911,992</u>	

Inventory

In general, Hana's production is based on clients' orders, consequently, the majority of inventory are raw materials, expendable tools and work in process with little finished goods pending for customer delivery. The group companies normally write-off out-of-date inventory, and make provision for aged inventory and depletion in the value of fixed assets, if material, each quarter. Inventory days were 97 days as at 30th June, 2021 and 121 days as at 30th June, 2020.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q2 2021 was THB 1,070m which was 40% higher than Q2 2020 at THB 763m.

Capital Expenditure

Net Capital Expenditure was THB 1,121m in Q2 2021 and THB 216m in Q2 2020. Generally, capital expenditure for production equipment will follow the increase in sales, particularly in the IC division. However, there is a 3 to 6 month time lag due to the ordering lead time. Plant expansion will depend on the current building utilisation and lead time to construct new plant or expand in an existing plant.

Source of Financial Capital

As the group has no net interest bearing debt and operating working capital is positive the group's funding is from the shareholders' equity.

Major Factors which could have an Impact on the Company's Performance

The company's business is that of an electronics manufacturing service company. The company manufactures products on behalf of its customers for shipment to them or their customers. Therefore, the company's performance is mostly affected by its ability to win and retain business from the existing and new customers. In turn, customer demand is affected by world economic growth and the customer's sales growth.

The group's sales revenue are in foreign currency (primarily USD) and USD currency costs are approximately 60% of sales revenues. The Group's operating profit sensitivity to change in the Thai Baht/USD and Chinese CNY/USD exchange rates is currently about Baht 200m per quarter for every 10% change in the average Baht/USD and CNY/USD rates (i.e. $(1 - 0.60) \times \text{Sales Revenue} \times 10\%$). Out of the group's foreign exchange exposure, USD 120m is hedged, Foreign exchange contracts are used to buy THB and sell USD on a rolling 3 or 6 months basis.

Whilst the book value of the offshore companies are represented in foreign currency, the effect of the change in the exchange rate is shown by the movement of the foreign currency 'Translation Adjustment' in the shareholders' funds section of the balance sheet. There is no cash effect concerning its movement.

Exceptional Items

None

Subsequent Event

None

Forward Looking Statement

Currently Hana Ayutthaya plant is experiencing levels of Covid-19 infection. Due to quarantining of both infected staff and high risk (those close to infected staff) this will have a temporary impact on the plant's manufacturing capacity. Currently there is no impact (from infections) at any other Hana locations (Lamphun Thailand, Ohio USA, Koh Kong Cambodia, Korea & Hong Kong). Additionally, Covid-19 infections are also impacting our supply chain as certain suppliers in the Asean region are also impacted.

At this time, we estimate the impact to the Hana Microelectronics Group for Q3/21 based on Q2/21 revenues to be a reduction of between 4.0% – 5.0% in THB terms. We have based this on the assumption the average USD/THB exchange rate in Q3/21 will remain the same as the average in Q2/21 which was THB/USD 31.36.