

## Management's Discussion and Analysis

Third Quarter ending 30th September 2021

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 30% year on year to THB 6.2 billion for the third quarter of 2021 from THB 4.8 billion for the third quarter 2020. Sales Revenue in USD terms increased 23% to USD 190m in Q3 2021 from USD 154m in Q3 2020. Earnings from Operations increased 90% to THB 696m in Q3 2021 from THB 367m in Q3 2020.

Net Profit increased 76% to THB 564m in Q321 from THB 320m in Q320, due to 79% higher operating earnings in Q321.

THB '000	Quarter		Quarter		Q321-Q320	%
	Q321		Q320			
PCBA (Lamphun, Thailand)	2,706,447	44%	2,123,902	45%	582,545	27%
PCBA (Jiaxing, China)	886,794	14%	693,780	14%	193,014	28%
PCBA (Cambodia)	21,301	0%	19,863	0%	1,438	7%
IC (Ayutthaya, Thailand)	2,035,904	33%	1,592,377	33%	443,527	28%
IC (Jiaxing, China)	334,232	5%	186,134	4%	148,098	80%
HTI (Ohio, USA)	246,917	4%	197,649	4%	49,268	25%
Total Revenue	6,231,595	100%	4,813,705	100%	1,417,890	29%

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 3 2021 sales revenue for the group increased 23% year-on-year in USD terms to USD 190m from USD 154m in Q320. The average exchange rate for Q321 was 5% weaker at THB/USD 32.9 from THB/USD 31.3 in Q320. As a result the sales revenue in THB terms increased 30% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 22%. Sales in Lamphun increased 22% and Jiaxing increased by 22% year on year. The IC divisions sales revenues increased 27% in Q321, with revenues of the IC division in Ayutthaya increasing 22% and Jiaxing increasing by 71%.

Hana Technologies Inc, "HTI" the Microdisplay/RFID operation in Ohio sales revenue increased 19% in Q321 from Q320.

#### Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group decreased 2% to USD 190m in Q321 from USD 193m in Q221. Sales in the microelectronics divisions were similar with Lamphun decreasing 4% and Jiaxing increasing 16%. Sales revenues from the IC divisions decreased 5% in Q321 from Q221 with Ayutthaya sales decreasing 6% and Jiaxing IC sales increasing by 5%. HTI sales decreased 7% in Q321 compared to Q221.

#### Sales Revenue Split

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020
PCBA (Lamphun, Thailand)	44%	45%	47%	46%	45%
PCBA (Jiaxing, China)	14%	12%	11%	13%	14%
PCBA (Cambodia)	0%	0%	0%	1%	0%
IC (Ayutthaya, Thailand)	33%	34%	35%	33%	33%
IC (Jiaxing, China)	5%	5%	4%	4%	4%
HTI (Ohio, USA)	4%	4%	3%	3%	4%
	100%	100%	100%	100%	100%

#### Gross Profit / Cost of Sales Analysis

The Gross Profit margin increased 4% points to 16% in Q321 from 12% Q320. Gross Margin in Q321 was higher due to higher sales revenue providing better economies of scale in Q321 compared to Q320 and weaker THB/USD exchange rate.

### **Operating Profit Analysis, Sales and Administration Analysis**

Year-on-year Earnings from Operations, were 90% higher at THB 696m in Q321 compared to THB 367m in Q320. The Operating margin was up 3 percentage points to 11% in Q321 from 8% in Q320 due to the higher Gross Margin and better economies of scale also. SG&A expenses were 18% higher in Q321 than Q320 due to lower employee bonuses paid in 2020 and higher salaries in 2021.

### **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 Q321 was THB/USD 32.92, Q320 was THB/USD 31.33 (and Q221 was THB/USD 31.36).

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 THB/USD 33.92 at 30/09/21, and Baht/USD 31.66 at 30/09/20 (Baht 32.05 at 30/06/21 ) or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

No dividends were paid out during the quarter.

### **Financial Status**

Net Cash reserves and financial investments were THB 8.5 billion at the 30th September 2021 down from THB 9.8 billion at the 30th September 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 64 days in Q321 and 60 days in Q320.

	<u>30-Sep-21</u>	<u>30-Sep-20</u>	THB '000
Trade Receivables			
Less than 3 months	4,189,573	3,088,232	
3 - 6 months	4,787	13,475	
6 - 12 months	541	4,025	
More than 12 months	5,791	2,370	
Total accounts receivable - other companies	4,200,692	3,108,102	
Less : Allowance for doubtful accounts	(8,853)	(5,891)	
	<u>4,191,839</u>	<u>3,102,211</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 107 days as at 30th September, 2021 and 107 days as at 30th September, 2020.

#### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q3 2021 was THB 1,036m which was 57% higher than Q3 2020 at THB 660m.

#### **Capital Expenditure**

Net Capital Expenditure was THB 1,166m in Q3 2021 and THB 202m in Q3 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 as no net interest bearing debt and operating working capital is positive the groups funding is from the shareholders equity.

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

The company 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 groups sales revenue are in foreign currency (primarily USD) and USD currency costs are approximately 60% of sales revenues. The Group 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 groups 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 affect concerning its movement.

**Exceptional Items**

None

**Subsequent Event**

None

**Forward Looking Statement**

None