

## Management's Discussion and Analysis

Second Quarter ending 30th June 2023

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 8% year on year to THB 6,910 million for the second quarter of 2023 from THB 6,390 million for the second quarter 2022. Sales Revenue in USD terms increased 8% to USD 200m in Q2 2023 from USD 186m in Q2 2022. Earnings from Operations increased 33% to THB 786m in Q2 2023 from THB 592m in Q2 2022.

Net Profit increased to THB 635m in Q223 from THB 245m in Q222, due to lower foreign exchange loss and increased Earnings from Operations.

THB '000	Quarter		Quarter		Q223-Q222	%
	Q223		Q222			
PCBA (Lamphun, Thailand)	3,142,429	45%	2,602,597	41%	539,832	21%
PCBA (Jiaxing, China)	893,431	13%	838,290	13%	55,141	7%
PCBA (Cambodia)	128,107	2%	30,366	0%	97,741	322%
IC (Ayutthaya, Thailand)	1,983,114	29%	2,274,719	36%	(291,605)	-13%
IC (Jiaxing, China)	293,032	4%	301,193	5%	(8,161)	-3%
HTI (Ohio, USA)	340,912	5%	311,927	5%	28,985	9%
IC Korea	129,258	2%	30,544	0%	98,714	323%
Total Revenue	6,910,283	100%	6,389,637	100%	520,646	8%

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 2 2023 sales revenue for the group increased 8% year-on-year in USD terms to USD 200m from USD 186m in Q222. The average exchange rate for Q223 was 0.2% weaker at THB/USD 34.5 from THB/USD 34.4 in Q222. As a result the sales revenue in THB terms increased 8% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 17%. Sales in Lamphun increased 20% and Jiaxing increased by 7% year on year. The IC divisions sales revenues decreased -12% in Q223, with revenues of the IC division in Ayutthaya decreasing -13% and Jiaxing decreasing by -3%. Hana Technologies Inc. 'HTI' the Microdisplay/RFID operation in Ohio sales revenue increased 9% in Q223 from Q222.

#### Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group increased 5% to 200m in Q223 from USD 196m in Q123. Sales in the microelectronics divisions increased 4% with Lamphun increasing 2% and Jiaxing increasing 11%. Sales revenues from the IC divisions increased 9% in Q223 from Q123 with Ayutthaya sales increasing 7% and Jiaxing IC sales increasing by 16%. HTI sales decreased -3% in Q223 compared to Q123.

### Sales Revenue Split

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022
PCBA (Lamphun, Thailand)	45%	48%	39%	39%	41%
PCBA (Jiaxing, China)	13%	12%	15%	16%	13%
PCBA (Cambodia)	2%	1%	1%	1%	0%
IC (Ayutthaya, Thailand)	29%	28%	32%	33%	36%
IC (Jiaxing, China)	4%	4%	5%	5%	5%
HTI (Ohio, USA)	5%	5%	6%	5%	5%
IC Korea	2%	2%	2%	1%	0%
	100%	100%	100%	100%	100%

### Gross Profit / Cost of Sales Analysis

The Gross Profit margin increased 1% points to 15% in Q223 from 14% Q222. Gross Margin in Q223 increased due to increased sales revenues.

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

Year-on-year Earnings from Operations, were 33% higher at THB 786m in Q223 compared to THB 592m in Q222. The Operating margin was 2% points higher at 11% in Q223 and 9% in Q222. SG&A expenses decreased -11% in Q223 compared to Q222.

### **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 Q223 was THB/USD 34.48, Q222 was THB/USD 34.40 (and Q123 was THB/USD 33.91).

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 35.59 at 30/06/23, and 35.30 at 30/06/22 (34.10 at 31/03/23) or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

In Q223 THB 402m final dividend of THB 0.50 per share was paid during the quarter from the profits of 2022.

In Q222 THB 805m final dividend of THB 1.00 per share was paid during the quarter from the profits of 2021.

### **Financial Status**

Net Cash reserves and financial investments were THB 3.2 billion at the 30th June 2023 down from THB 4.5 billion at the 30th June 2022.

### **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 were 72 days at 30th June 2023, and 68 days in 2022.

	<u>30-Jun-23</u>	<u>30-Jun-22</u>	THB '000
Trade Receivables			
Less than 3 months	5,232,922	4,615,685	
3 - 6 months	53,176	5,106	
6 - 12 months	23,945	5,868	
More than 12 months	10,079	14,920	
Total accounts receivable - other companies	5,320,122	4,641,579	
Less : Allowance for doubtful accounts	(14,479)	(18,102)	
	<u>5,305,643</u>	<u>4,623,477</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 146 days as at 30th June 2023 and 135 days as at 30th June 2022.

#### **Accounts Payable**

Credit terms with suppliers are mostly open account with credit terms varying from cash in advance to 90 days. The credit term has been determined in accordance with the principles of fair dealing between the Company and suppliers. Average accounts payable were 63 days in Q223, 71 days in Q222.

## **Liquidity**

Liquidity Current ratio is approximately 3 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q2 2023 was THB 1,212m which was 24% higher than Q2 2022 at THB 974m.

## **Capital Expenditure**

Capital Expenditure was THB 930m in Q2 2023 and THB 600m in Q2 2022. Generally, capital expenditure for production equipment will follow the increase in sales, particularly in the IC division. However, there is a 6 to 12 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**

The group has debt to fund certain subsidiaries capital expenditure. However, as the operating working capital is positive, the groups major 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**

### **Factors That May Effect the financial condition of the Operating Results**

The principle risks which may affect the company's operations are, but not limited to: Customer retention, winning new customers, product price erosion, customers products success in their respective markets and lifecycle of such products, consistently manufacturing products to agreed specifications and delivery schedules with customers, recall, product liability risks in the event of product failures, suppliers price and consistent supply of raw materials to agreed specifications, supplier financial solvency, fluctuation in foreign exchange rates for each of our operations compared to both product sales currency which is primarily USD, materials purchasing currency which is primarily USD and the operating currency in each country which we operate, wages and salaries increases, availability and turnover of direct labour and skilled staff, credit risks, market, liquidity and funding, insurance, operational, regulatory compliance, strategic, reputation, legal and regulatory environment, competitive and systemic risks.

Our success in executing and completing mergers and acquisitions and subsequent operational risks.

Our success in developing and marketing new products and factory processes.

Success in protecting intellectual property developed.

Macro-economic stability of the countries in which we, our customers and suppliers operate. Global financial stability which may affect interest rates and access of funding of the company, its customers and suppliers. Pandemic risks such as the continuing severity, magnitude and duration of the COVID-19 pandemic, including impacts of the pandemic, of businesses' and governments' responses to the pandemic the extent to which the COVID-19 pandemic and related impacts, including global supply chain disruptions.