

Stars Microelectronics (Thailand) Public Company Limited

**Management Discussion and Analysis (MD&A)**

Quarter 2 Ending June 30, 2023

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Stars Microelectronics (Thailand) Public Company Limited

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## Executive Summary

The electronics industry continued to encounter difficulties due to the soft demand in the market, which was a result of the uncertainty in the global economy. This uncertainty led to a significant impact on businesses, leading them to change their activities by reducing their inventory levels, delaying orders, and extending the production lead times.

Stars Microelectronics (Thailand) Public Company Limited (“The Company”) still operated as its plan by focusing on high-quality customer groups, diversifying revenue streams across various business segments, expanding its customer base to multiple countries worldwide, and consistently developing modern and high-quality products. As a result of these efforts, the company reported of 706.38 million Baht in total revenue and 84.75 million Baht in net profit in the second quarter of the year 2023.

In conclusion, the management team remains confident that our expertise in business segment and the strategies chosen by the management team will support and maintain company’s sustainable growth.

Sincerely

Stars Microelectronic (Thailand) Public Company Limited)

(Mr. Chaiyot Thaveeratitham)

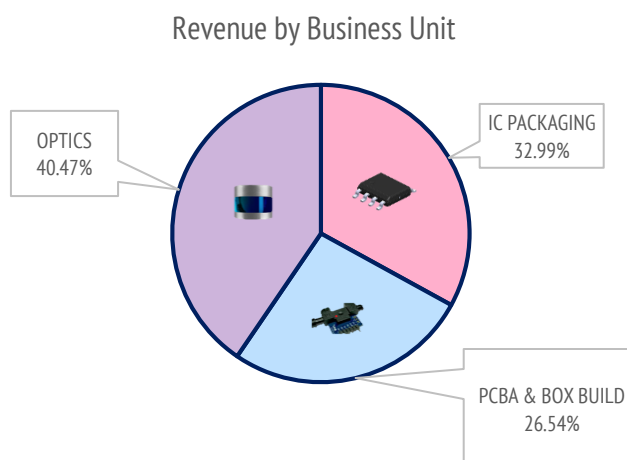
Chief Financial Officer

### Consolidated Income Statement for Quarter 2 Ending June 30, 2023

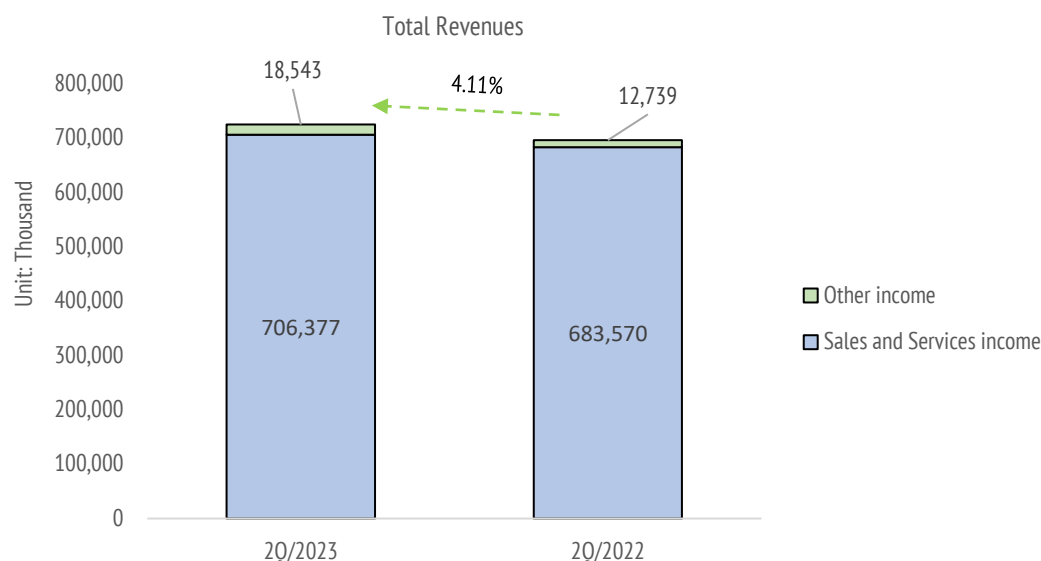
Income Statement	30 Jun 2023		30 Jun 2022		Change	
	Thousand	%	Thousand	%	Thousand	%
Sales and service income	706,377	100.00	683,570	100.00	22,807	3.34
Revenue from scrap sales	4,488	0.64	7,599	1.11	-3,111	-40.94
Gain on exchange	559	0.08	3,166	0.46	-2,607	-82.34
Gain on derivatives	-		-	0.00		
Other income	13,496	1.91	1,974	0.29	11,522	>100
<b>Total revenues</b>	<b>724,920</b>	<b>102.63</b>	<b>696,309</b>	<b>101.86</b>	<b>28,611</b>	<b>4.11</b>
Cost of sales and services	548,702	77.68	530,378	77.59	18,324	3.45
Selling and distribution expenses	25,316	3.58	16,999	2.49	8,317	48.93
Administrative expenses	50,896	7.21	56,477	8.26	-5,581	-9.88
Loss on derivatives	(3,818)	-0.54	(3,668)	0.54	-150	4.09
<b>Operating profit</b>	<b>96,188</b>	<b>13.62</b>	<b>88,787</b>	<b>12.99</b>	<b>7,401</b>	<b>8.34</b>
Finance income	84	0.01	25	0.00	59	>100
Finance cost	(3,321)	-0.47	(7,857)	1.15	4,536	-57.73
<b>Profit before income tax expenses</b>	<b>92,951</b>	<b>13.16</b>	<b>80,955</b>	<b>11.84</b>	<b>11,996</b>	<b>14.82</b>
Income tax expenses	(8,199)	-1.16	(9,580)	1.40	1,381	-14.42
<b>Profit for the period</b>	<b>84,752</b>	<b>12.00</b>	<b>71,375</b>	<b>10.44</b>	<b>13,377</b>	<b>18.74</b>

### Revenue by Business Unit

Revenue by business unit ending June 30, 2023



## Profit and Loss Analysis



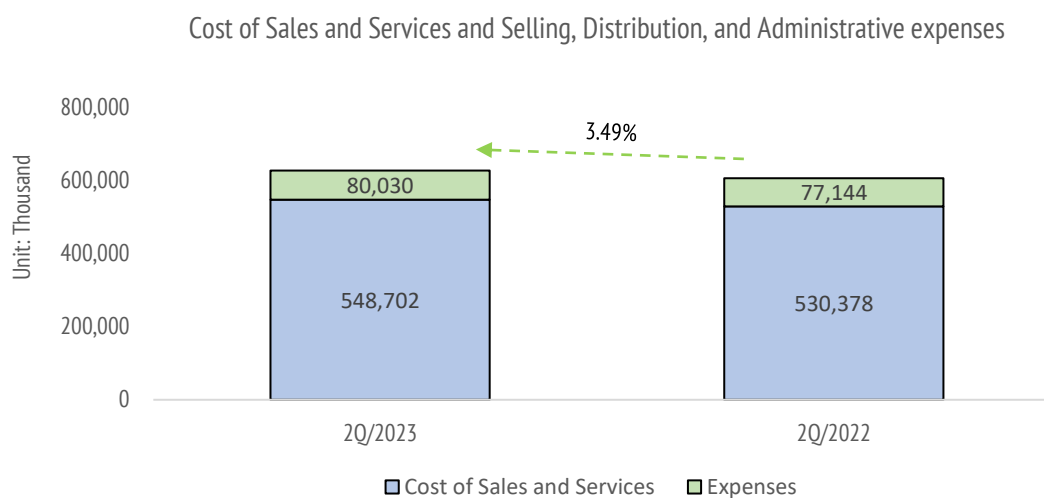
### Sales and Services income

In the second quarter of 2023, the company reported of 706.38 million baht from sales and services, an increase of 28.61 million baht or 4.11% from the same period last year. This was the result of executing portfolio management by reducing reliance on one product. Hence, the revenue by business units were as follows:

- Revenue from the Original Design manufacturer and Outsourced assembly and test (OSAT) was 230.57 million baht or 32.99% of the revenue from sales, a decrease of 71.35 million baht or 23.63% from the same period last year, as a result from soft demand in global market, leading customer use its remaining inventories to serve the lower demand and extend new order.
- Revenue from Print Circuit Board Assembly and Box build (PCBA & Box build) was 185.47 million baht or 26.54% of the revenue from sales, a decrease of 21.41 million baht or 10.35% from the same period in the previous year.
- Revenue from Optical Products was 282.78 million baht or 40.47% of the revenue from sales, an increase of 166.42 million baht or 69.98% from the same period last year. Optical products require high-advance technology to manufacturing, and it is in high demand currently. However, there is a few manufacturers are able to produce because Optical products require unique skill and knowledge together with huge initial investment.

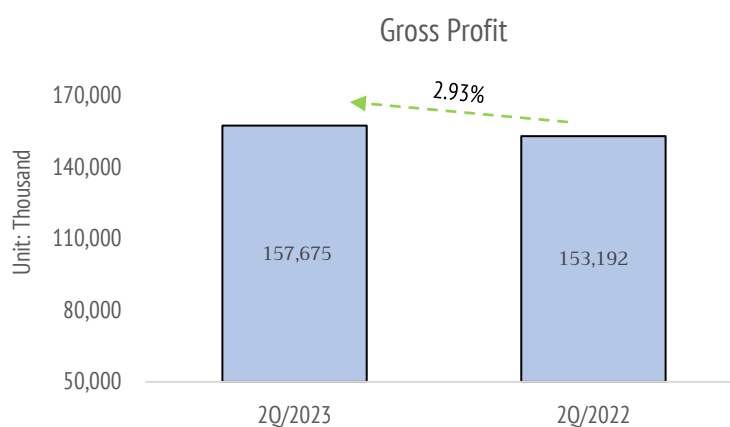
### Other income

2Q/2023, The Company reported other income of 18.54 million baht. It increased from the same period last year which was 5.80 million baht or a percentage increase of 45.56%.



### Cost of Sales and Services

The company reported the cost of sales and services in 2Q/2023 of 548.70 million baht, an increase from the same period last year, which was 530.38 million baht, or an increase of 3.45%. The increased costs mentioned above rose in accordance with an increase in sales.



### Gross Profit

The company had gross profit of 157.68 million baht or 22.32% of the revenue from sales and services in 2Q/2023, an increase of 4.48 million baht or 2.93% from the corresponding period in the previous year, as a result of sales increase.

## Selling, Distribution, and Administrative expenses

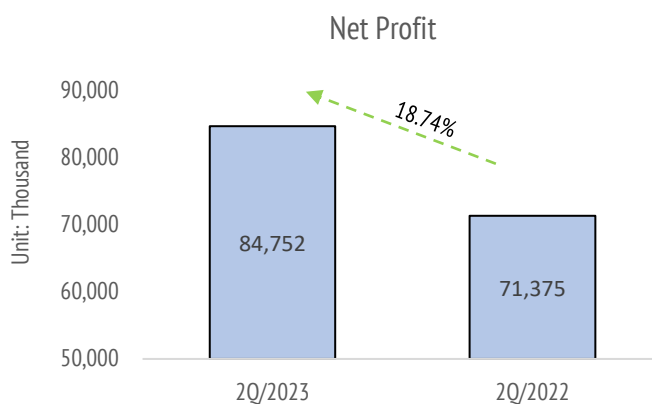
2Q/2023, The Company reported Selling, Distribution, and Administrative expenses of 80.03 million baht, an increase of 2.89 million baht or 3.74% from the same period last year as a result from higher in sales which lead to increase in sales expenses in same direction, and the company participated in exhibition in this quarter for creating customer recognition.

## Finance Cost

In the second quarter of 2023, The Company reported a financial expense of 3.24 million baht, a decrease from the same period last year of 4.60 million baht, or 58.67%. It was a result of managing the interest rate risk by paying off its long-term debt ahead of its scheduled.

## Income tax revenues (expenses)

The company reported an income tax expenses of 8.20 million baht, a decrease of 1.38 million or 14.42% from the same period in the previous year, stemmed from deferred tax asset decrease in the second quarter last year, but it did not occur in 2Q/2023 that was a reason for decrease in income tax expense in 2Q/2023.



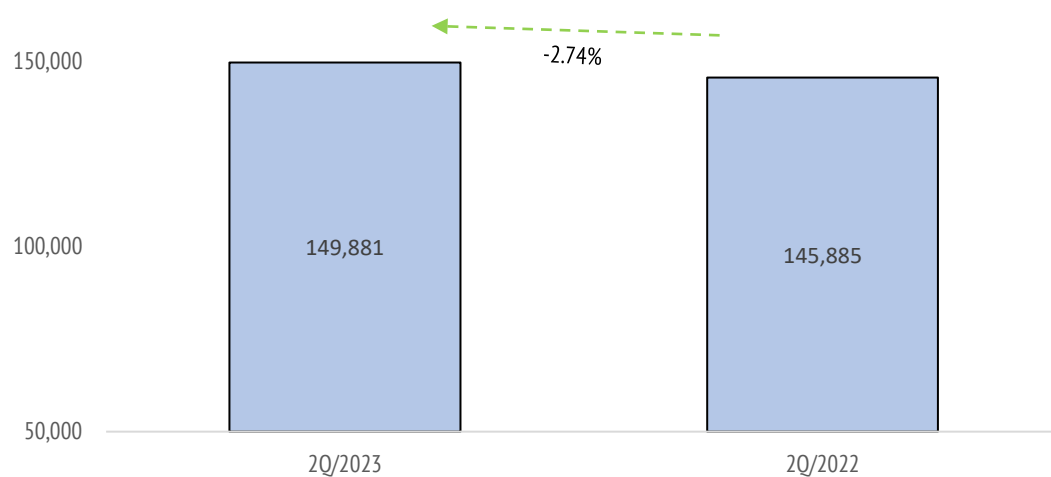
## Net Profit

The Company reported net profit of 84.75 million baht in 2Q/2023, an increase of 13.38 million baht or 18.74% compared to the corresponding period in the last year. The increase was a result of the higher in revenues.

### **Earnings before Interest, Tax, and Depreciation and Amortization (EBITDA) Analysis**

Income Statement	Consolidated Financial Statement					
	30 Jun 2023		30 Jun 2022		Change	
	Thousand	%	Thousand	%	Thousand	%
Operating profit	96,188	13.62%	88,787	12.99	7,401	8.34%
Depreciation and Amortization	53,693	7.60%	57,098	8.35	-3,405	-5.96%
Earnings before Interest, Tax, and Depreciation and Amortization (EBITDA)	149,881	21.22%	145,885	21.34	3,996	2.74%

Earing before Interest, tax, and Depreciation and Amortization (Unit: Thousand)

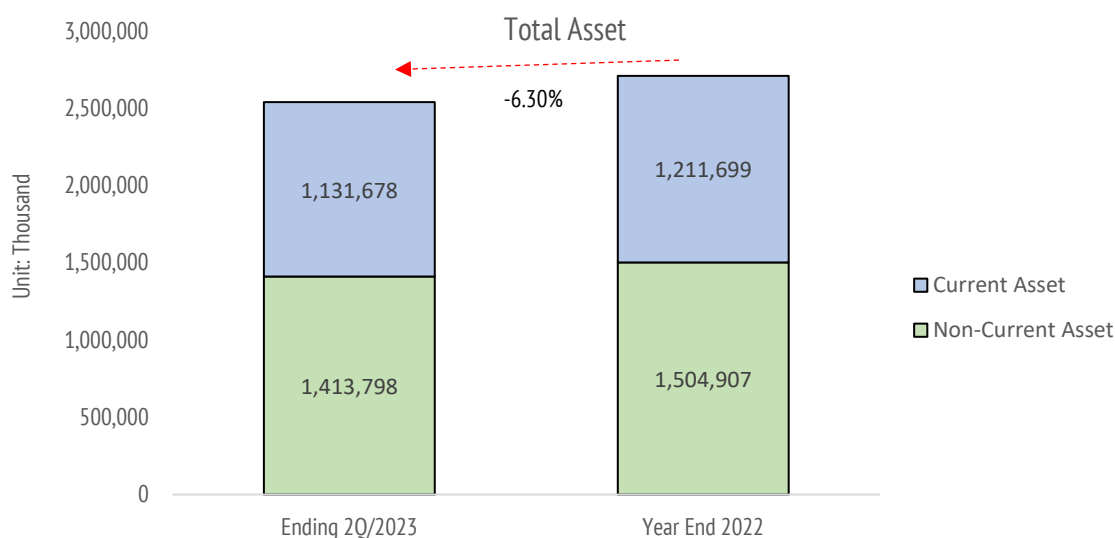


**Consolidated Statement of Financial Position ending June 30, 2023**

Financial Position	Consolidated Statement of Financial Position					
	30 Jun 2023		31 Dec 2022		Change	
	Thousand	%	Thousand	%	Thousand	%
Cash and cash equivalents	39,520	1.55	119,258	4.39	-79,738	-66.86
Trade and other receivables	376,269	14.78	370,059	13.62	6,210	1.68
Inventories	702,620	27.60	712,040	26.21	-9,420	-1.32
Total current assets	1,131,678	44.46	1,211,699	44.60	-80,021	-6.60
Property, plant and equipment	1,366,358	53.68	1,446,330	53.24	-79,972	-5.53
Total non-current assets	1,413,798	55.54	1,504,907	55.40	-91,109	-6.05
Bank overdrafts and short-term loans from financial institutions	37,752	1.48	25,893	3.13	11,859	45.80
Trade and other payables	354,916	13.94	388,546	46.96	-33,630	-8.66
Current portion of long-term loans	82,256	3.23	154,383	18.66	-72,127	-46.72
Total current liabilities	491,974	19.33	585,677	70.78	-93,703	-16.00
Long-term loans, net of current portion	-	-	174,363	21.07	-174,363	100
Lease liabilities, net of current portion	991	0.04	438	0.05	553	>100
Total non-current liabilities	72,796	2.86	241,727	29.22	-168,931	-69.89
Total liabilities	564,770	22.19	827,404	30.46	-262,634	-31.74
Total shareholders' equity	1,980,706	77.81	1,889,202	69.54	91,504	4.84
Total liabilities and shareholders' equity	2,545,476	100.00	2,716,606	100	-171,130	-6.30



## Balance Sheet Analysis



### Total Asset

The company reported a total asset of 2,545.48 million baht as of June 30, 2023, a decrease of 65.22 million baht or 6.30% from the year-end 2022. Besides, it reported current assets of 1,131.68 million baht and non-current assets of 1,413.80 million baht. The value and changes of each asset item are as follows:

### Cash and cash equivalents

As of June 30, 2023, The Company reported cash and cash equivalents of 39.52 million baht, a decrease from the year end 2022 of 79.74 million baht or 66.86%. It was mainly from paying off interest bearing debt ahead of its schedule so as to reduce interest expenses.

### Trade and other receivables

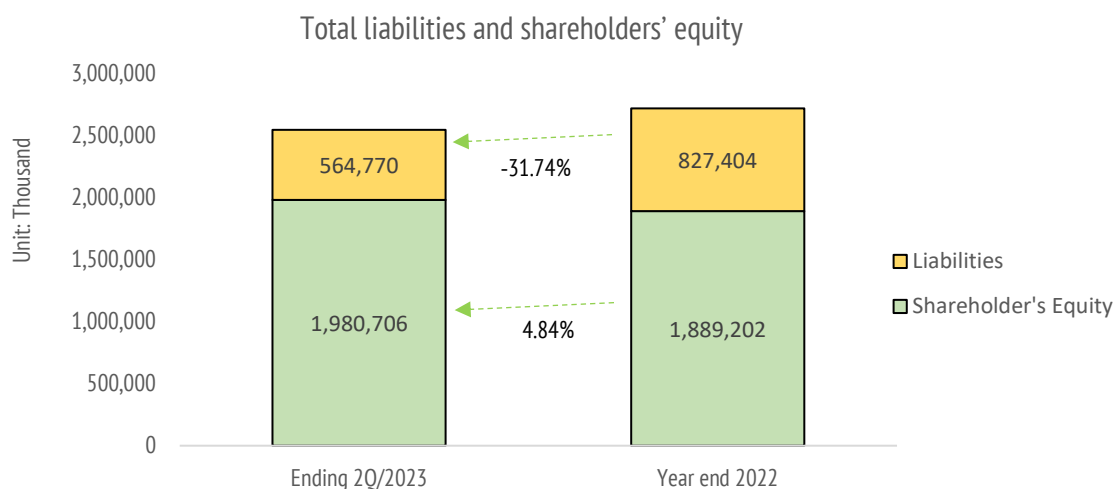
The company reported trade and other receivables as of June 30, 2023 of 376.27 million baht, an increase of 6.21 million baht or 1.68% from year end 2022 in accordance with increase in sales.

### Inventories

The company reported its inventory as of June 30, 2023 of 702.62 million baht, a decrease of 9.42 million baht or 1.32% from the year end 2022.

## Property, plant and equipment

The company reported the value of Property, plant, and equipment as of June 30, 2023 at 1,366.36 million baht, a decrease of 79.97 million baht or 5.53% from the year end 2022. It was the result from depreciation expense.



## Total Liabilities

The company reported total liabilities as of June 30, 2023 of 564.77 million baht, decreased by 262.63 million baht or 31.74% from the year end 2022. It divided into current liabilities of 491.47 million baht and non-current liabilities of 72.80 million baht. The value of liabilities and its change are as follows:

## Bank overdrafts and short-term loans from financial institutions

The company reported bank overdrafts and short-term loans from financial institutions as of June 30, 2023 of 37.75 million baht, which increased of 11.86 million baht or 48.80% from the year end 2022. The purpose of short-term loans was for using as working capital for daily operation.

## Trade and other payables

As of June 30, 2023, The Company reported trade and other payables of 354.92 million baht, which decreased from the year end 2022 with an amount of 33.63 million baht, or 8.66%.

### Long-term loans

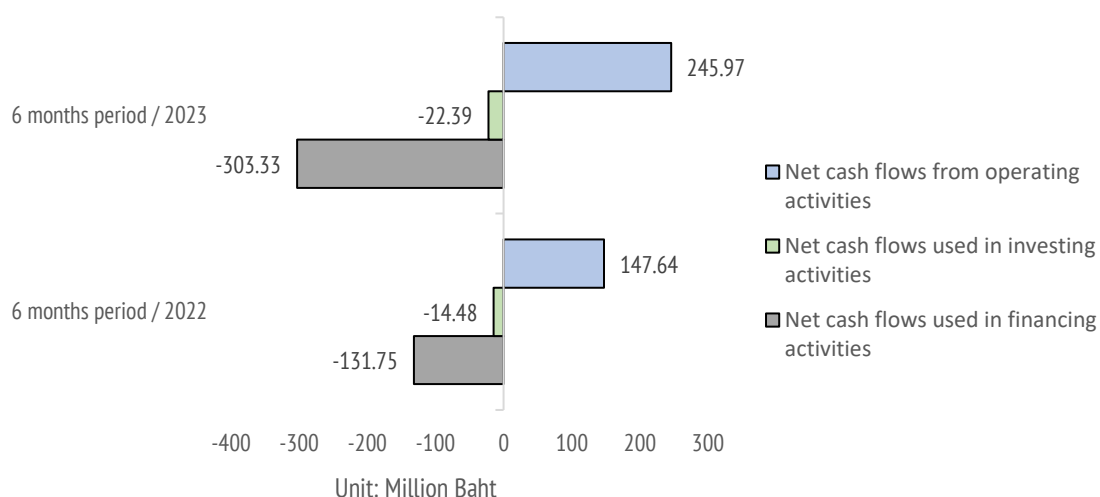
The company reported a long-term loan as of June 30, 2023 of 82.26 million baht, which decreased from the year end 2022 the amount of 246.49 million baht or 66.63%, mainly from interest rate risk management by paying off debts ahead of its schedule by using excess cash on hand, earning from operating activities.

### Total shareholders' equity

The company reported total shareholders' equity of 1,980.71 million baht at June 30, 2023, which increased from the year end 2022 amount of 91.50 million baht, or 4.84% as a result of the company having higher profits from its operations during the six-month period in 2023.

### Cash Flows Statement for the ending June 30, 2023

Cash flows statement	Consolidated Cash flows statement		
	30 Jun 2023	30 Jun 2022	Change
	Thousand	%	Thousand
Net cash flows from operating activities	245,973	147,643	98,330
Net cash flows used in investing activities	-22,385	-14,481	-7,904
Net cash flows used in financing activities	-303,326	-131,749	-171,577
Net decrease in cash and cash equivalents	-79,738	1,413	-81,151
Cash and cash equivalents at beginning of year	119,258	35,663	83,595
Cash and cash equivalents at end of year	39,520	37,076	2,444



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## **Overview of The Company's Cash Flow for the 6 months period ending on June 30, 2023**

The Company reported the overview of cash flow for the second quarter ending on June 30, 2023 as following information:

The company reported a net cash flow from operating activities of 245.97 million baht in the half year of 2023, an increase of 98.33 million baht or 66.60% from the same period of the previous year. This increase was in line with the growth in revenue from sales and services.

In 6 months period 2023, The Company reported a net cash outflow of 22.39 million baht on cash flow investing activities. It was an increase of 7.90 million baht or 54.58% compared to the same period of the previous year as a result of purchasing tools and machine.

The company reported a net cash outflow of 303.33 million baht for the 6-month period of 2023 on cash flow financing activities. The net cash outflow for financing activities increased 171.58 million baht. The majority of the activities were used to repay long-term loans, which resulted in a decrease in interest expenses together with share repurchase for liquidity management, the scheme expired in April 2023 including dividend payment for the year 2023.

In the ending period 2Q/2023, the company had a net cash and cash equivalents at the beginning period of 119.26 million baht, as a result from all the financial activities mentioned above, net cash and cash equivalents on hand as of June 30, 2023 was a balance of 39.52 million baht.