

Management's Discussion and Analysis

First Quarter ending 31st March 2021

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 13% year on year to THB 5.2 billion for the first quarter of 2021 from THB 4.6 billion for the first quarter 2020. Sales Revenue in USD terms increased 17% to USD 172m in Q1 2021 from USD 147m in Q1 2020. Earnings from Operations decreased 23% to THB 373m in Q1 2021 from THB 483m in Q1 2020.

Net Profit increased 48% to THB 301m in Q121 from THB 204m in Q120, due to lower exchange loss offsetting lower operating profits in Q121.

THB '000	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>Q121</u>		<u>Q120</u>		<u>Q121-Q120</u>	<u>Q121-Q120</u>
PCBA (Lamphun, Thailand)	2,361,340	47%	2,221,296	48%	140,044	6%
PCBA (Jiaxing, China)	566,828	11%	465,814	10%	101,014	22%
PCBA (Cambodia)	25,165	0%	30,053	1%	(4,888)	-16%
IC (Ayutthaya, Thailand)	1,849,198	35%	1,603,996	35%	245,202	15%
IC (Jiaxing, China)	223,097	4%	146,454	3%	76,643	52%
HTI (Ohio, USA)	181,091	3%	142,046	3%	39,045	27%
Total Revenue	5,206,719	100%	4,609,659	100%	597,060	13%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 1 2021 sales revenue for the group increased 17% year-on-year in USD terms to USD 172m from USD 147m in Q120. The average exchange rate for Q121 was 3% stronger at THB/USD 30.3 from THB/USD 31.3 in Q120. As a result the sales revenue in THB terms increased 13% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 13%. Sales in Lamphun increased 10% whilst Jiaxing increased by 26%. The IC divisions sales revenues increased 22% in Q121, with revenues of the IC division in Ayutthaya increasing 19% and Jiaxing increasing by 57%. "HTI" the Microdisplay/RFID operation in Ohio sales revenue increased 31% in Q121 from Q120.

Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group were similar at USD 172m in Q121 and in Q420. In THB equivalent the group sales decreased 1% in Q121 compared to Q420. Sales in the microelectronics divisions decreased 6% with Lamphun decreasing 4% and Jiaxing decreasing 16%. Sales revenues from the IC divisions increased 6% in Q121 from Q420 with Ayutthaya sales increasing 7% and Jiaxing IC sales increasing by 3%. The Microdisplay division sales increased 15% in Q121 compared to Q420.

Sales Revenue Split

	<u>Q1 2021</u>	<u>Q4 2020</u>	<u>Q3 2020</u>	<u>Q2 2020</u>	<u>Q1 2020</u>
PCBA (Lamphun, Thailand)	47%	46%	45%	40%	48%
PCBA (Jiaxing, China)	11%	13%	14%	16%	10%
PCBA (Cambodia)	0%	1%	0%	1%	1%
IC (Ayutthaya, Thailand)	35%	33%	33%	34%	35%
IC (Jiaxing, China)	4%	4%	4%	5%	3%
HTI (Ohio, USA)	3%	3%	4%	4%	3%
	100%	100%	100%	100%	100%

Gross Profit / Cost of Sales Analysis

The Gross Profit margin decreased 3% points to 12% in Q121 from 15% Q120. Gross Margin in Q120 was higher than normal due to the weaker THB/USD exchange rate in Q120 compared to Q419 and Q319.

Materials bought at the stronger exchange rate in Q3&Q419 and sales in Q120 at the weaker exchange rate increased the margin in Q120.

Operating Profit Analysis, Sales and Administration Analysis

Year-on-year Earnings from Operations, were 23% lower at THB 373m in Q121 compared to THB 483m in Q120. The Operating margin was down 3% point to 7% in Q121 and Q120 due to the lower Gross Margin. SG&A expenses were similar in Q121 and Q120.

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 Q121 was Baht/USD 30.26, Q120 was Baht/USD 31.29 (and Q420 was Baht/USD 30.61).

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 31.34 at 31/03/21, and Baht/USD 32.67 at 31/03/20 (Baht/USD 30.04 at 31/12/20) or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid in Q121 or Q120.

Financial Status

Net Cash reserves and financial investments were THB 9.8 billion at the 31st March 2021 up from THB 9.4 billion at the 31st March 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 70 days in Q121 and 63 days in Q120.

	<u>31-Mar-21</u>	<u>31-Mar-20</u>	THB '000
Trade Receivables			
Less than 3 months	3,837,219	3,088,832	
3 - 6 months	4,688	23,876	
6 - 12 months	1,413	3,598	
More than 12 months	3,186	5,191	
Total accounts receivable - other companies	<u>3,846,506</u>	<u>3,121,497</u>	
Less : Allowance for doubtful accounts	(5,069)	(9,080)	
	<u>3,841,437</u>	<u>3,112,417</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 93 days as at 31st March, 2021 and 112 days as at 31st March, 2020.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q1 2021 was THB 695m which was 9% lower than Q1 2020 was THB 766m.

Capital Expenditure

Net Capital Expenditure was THB 616m in Q1 2021, and THB 230m in Q1 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 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

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

	YTD		YTD		YTD	
'000 Baht	31-Mar-21		31-Mar-20		Q121-Q120	YTD % Q121-Q120
REVENUES						
Sales	5,214,475		4,609,660		604,815	13%
consisting of:						
PCBA (Lamphun, Thailand)	2,361,340	47%	2,221,297	48%	140,043	6%
PCBA (Jiaxing, China)	566,828	11%	465,814	10%	101,014	22%
PCBA (Cambodia)	25,165	0%	30,053	1%	(4,888)	-16%
IC (Ayutthaya, Thailand)	1,849,198	35%	1,603,996	35%	245,202	15%
IC (Jiaxing, China)	223,097	4%	146,454	3%	76,644	52%
HTI (Ohio, USA)	181,091	3%	142,046	3%	39,045	27%
IC (Korea)	7,756			0%	7,756	0%
	<u>5,214,475</u>	100%	<u>4,609,660</u>	100%	<u>604,815</u>	13%
Other Income	77,070		73,527		3,543	5%
TOTAL OPERATING REVENUES	<u>5,291,545</u>		<u>4,683,187</u>		<u>608,358</u>	13%
EXPENSES						
Cost of Sales	4,593,263	88%	3,901,412	85%	691,851	18%
Selling & Admin. Expenses	324,829	6%	321,370	7%	3,459	1%
R&D Expenses	-	0%	-	0%	-	0%
Other Expenses	-	0%	-	0%	-	0%
	<u>4,918,092</u>	94%	<u>4,222,782</u>	92%	<u>695,310</u>	16%
OPERATING EARNINGS	<u>373,453</u>	7%	<u>460,405</u>	10%	<u>(86,952)</u>	-19%
Other Income - non operating	410		400		10	
Interest	29,064		43,538		(14,474)	-33%
Finance Expenses	(1,434)		(5,581)		4,147	
EARNINGS before Income Tax	<u>401,493</u>	8%	<u>498,762</u>	11%	<u>(97,269)</u>	-20%
Corporate Income Tax	(1,825)	0%	(13,505)	3%	11,680	-86%
Earnings before Exch. & Exceptional Items	<u>399,668</u>		<u>485,257</u>		<u>(85,589)</u>	-18%
Exchange Gain (Loss)	(98,473)		(281,541)		183,068	
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>301,195</u>	6%	<u>203,716</u>	4%	<u>97,479</u>	48%
EARNINGS % of SALES	6%		4%		1%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch. & exceptionals	0.50		0.60		-	0.10
EARNINGS per SHARE (baht) after exceptionals	0.37		0.25			0.12
Earnings from Operations	373,453		460,405		(86,952)	
Earnings from Operations Margin	7%		10%			
Depreciation	321,776		282,845		38,931	
EBITDA (excl exchange gain/loss)	695,229		743,250		(48,021)	
EBITDA % of Sales Revenue	13%		16%			

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CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>31-Mar-21</u>	Quarter <u>31-Mar-20</u>	<u>Q121-Q120</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	5,044,999	5,148,378	(103,379)
Financial Investments	4,756,149	4,292,226	463,923
Accounts Receivable - trade	4,047,903	3,229,931	817,972
Amounts due from Related Companies	-	-	
Inventories	4,763,671	4,863,422	(99,751)
Other Current Assets	104,040	82,801	21,239
TOTAL CURRENT ASSETS	<u>18,716,762</u>	<u>17,616,758</u>	<u>1,100,004</u>
Long Term Financial Investments	97	147,117	(147,020)
FIXED ASSETS (net)	7,296,638	7,122,696	173,942
OTHER ASSETS	625,652	267,331	358,321
TOTAL ASSETS	<u>26,639,149</u>	<u>25,153,902</u>	<u>1,485,247</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	-	-	
Accounts & Notes Payable	2,979,114	2,478,157	500,957
Short Term Provisions	7,024	-	7,024
Corporate Income Tax Payable	16,272	13,913	2,359
Accrued Expenses	313,394	326,712	(13,318)
Other Current Liabilities	235,450	162,621	72,829
TOTAL CURRENT LIABILITIES	<u>3,551,254</u>	<u>2,981,403</u>	<u>569,851</u>
LONG TERM LIABILITIES	782,140	714,831	67,309
TOTAL LIABILITIES	<u>4,333,394</u>	<u>3,696,234</u>	<u>637,160</u>
SHAREHOLDERS EQUITY			
Share Capital	804,879	804,879	
Treasury Shares	-	-	
Share Premium	1,723,219	1,723,219	
Retained Earnings			
Appropriated Statutory Reserve	456,463	456,463	
Unappropriated	19,540,755	18,645,519	895,236
Translation adj. & Investment revaluation	(219,561)	(172,412)	(47,149)
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>22,305,755</u>	<u>21,457,668</u>	<u>848,087</u>
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>26,639,149</u>	<u>25,153,902</u>	<u>1,485,247</u>

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Quarter</u> <u>31-Mar-21</u>	<u>Quarter</u> <u>31-Mar-20</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	303,020	217,220
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	321,776	282,845
Unrealised (gain) Loss on exchange	169,715	203,545
Increase (Decrease) in allowance for doubtful debts	(1,048)	4,595
Increase (Decrease) in allowance for obsolete inventories	2,055	(2,117)
Change in other provisions	(4,589)	16,617
	<u>487,909</u>	<u>505,485</u>
Working Capital (increase) decrease		
Trade accounts receivable	(548,830)	122,932
Inventories	(269,584)	(342,918)
Trade accounts payable	524,570	74,854
Other	(37,991)	(70,367)
	<u>(331,835)</u>	<u>(215,499)</u>
Net Cashflow from Operating Activities	<u>459,094</u>	<u>507,206</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	(581,415)	(781,660)
Increase in property, plant and equipment	(658,913)	(267,950)
Proceeds from sale of fixed assets	4,990	266
Increase (decrease) in translation adjustment	448,851	851,065
Revaluation deficit on investments	(22,422)	(93,491)
Other		
	<u>(808,909)</u>	<u>(291,770)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	(2,038)
Dividend paid	-	-
Other	(5,447)	(500,000)
Net cash (used in) from financing activities	<u>(5,447)</u>	<u>(502,038)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(355,262)	(286,602)
Cash and Equivalents at the beginning of the period	<u>5,400,261</u>	<u>5,434,980</u>
Cash and Equivalents at the end of the period	<u>5,044,999</u>	<u>5,148,378</u>

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Financial Ratios

'000 Baht	Quarter <u>31-Mar-21</u>	Quarter <u>31-Mar-20</u>	<u>Q121-Q120</u>
Profitability Ratios			
Gross Profit Margin (%)	12%	15%	-3%
Operating Profit Margin (%)	7%	11%	-4%
Net Profit before Exceptional Margin (%)	8%	11%	-3%
Net Profit after Exceptional Margin (%)	6%	4%	2%
EBITDA margin (%)	13%	17%	-4%
Return On Equity (%) pa	5%	4%	1%
Return On Assets (%) pa	5%	3%	2%
Return On Operating Capital Employed (%) pa	11%	15%	-4%
Efficiency Ratios			
Working Capital turnover	4	3	1
Account Receivable days	70	63	7
Inventory days	93	112	- 19
Accounts Payable days	58	57	1
Liquidity Ratios			
Current Ratio	5	6	- 1
Quick Ratio	4	4	
Financial Capital Ratios			
Debt / Equity	0	0	
Net Debt to Equity	0	0	
Interest Coverage	n/a	n/a	