

Management's Discussion and Analysis

Fourth Quarter ending 31st December 2023

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue decreased -13% year on year to THB 6,221 million for the fourth quarter of 2023 from THB 7,125 million for the fourth quarter 2022. Sales Revenue in USD terms decreased -11% to USD 175m in Q4 2023 from USD 196m in Q4 2022. Earnings from Operations decreased -95% to THB 29m in Q4 2023 from THB 582m in Q4 2022.

Net Profit decreased to THB 125m in Q423 from THB 1,075m in Q422, due to downturn in semiconductor cycle in 2023, inventory adjustment at IC Korea and foreign exchange gain in Q422.

THB '000	Quarter		Quarter		%	
	Q423		Q422		Q423-Q422	Q423-Q422
PCBA (Lamphun, Thailand)	3,043,609	49%	2,796,764	39%	246,845	9%
PCBA (Jiaxing, China)	774,476	12%	1,069,037	15%	(294,561)	-28%
PCBA (Cambodia)	54,031	1%	63,008	1%	(8,977)	-14%
IC (Ayutthaya, Thailand)	1,692,162	27%	2,289,866	32%	(597,704)	-26%
IC (Jiaxing, China)	136,848	2%	347,845	5%	(210,997)	-61%
HTI (Ohio, USA)	407,147	7%	394,953	6%	12,194	3%
IC Korea	112,895	2%	163,628	2%	(50,733)	-31%
Total Revenue	6,221,168	100%	7,125,101	100%	(903,933)	-13%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 4 2023 sales revenue for the group decreased -11% year-on-year in USD terms to USD 175m from USD 196m in Q422. The average exchange rate for Q423 was 2.0% stronger at THB/USD 35.7 from THB/USD 36.4 in Q422. As a result the sales revenue in THB terms decreased -13% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 1%. Sales in Lamphun increased 11% and Jiaxing decreased by -26% year on year. The IC divisions sales revenues decreased -29% in Q423, with revenues of the IC division in Ayutthaya decreasing -25% and Jiaxing decreasing by -60%. Hana Technologies Inc. 'HTI' the Microdisplay/RFID operation in Ohio sales revenue increased 5% in Q423 from Q422.

Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group decreased -6% to 175m in Q423 from USD 196m in Q323. Sales in the microelectronics divisions decreased -3% with Lamphun decreasing -3% and Jiaxing decreasing -2%. Sales revenues from the IC divisions decreased -13% in Q423 from Q323 with Ayutthaya sales decreasing -9% and Jiaxing IC sales decreasing by -43%. HTI sales increased 4% in Q423 compared to Q323.

Sales Revenue Split

	Q4 2023	Q3 2023	Q2 2023	Q1 2023	Q4 2022
PCBA (Lamphun, Thailand)	49%	47%	45%	48%	39%
PCBA (Jiaxing, China)	12%	12%	13%	12%	15%
PCBA (Cambodia)	1%	2%	2%	1%	1%
IC (Ayutthaya, Thailand)	27%	28%	29%	28%	32%
IC (Jiaxing, China)	2%	4%	4%	4%	5%
HTI (Ohio, USA)	7%	6%	5%	5%	6%
IC Korea	2%	1%	2%	2%	2%
	100%	100%	100%	100%	100%

Gross Profit / Cost of Sales Analysis

The Gross Profit margin decreased -7% points to 6% in Q423 from 13% Q422. Gross Margin in Q423 decreased due to lower sales revenue in IC divisions both in Ayutthaya and Jiaxing due to the continuing downturn in the semiconductor cycle [-3%], lower sales revenue in the microelectronics division in Jiaxing due to major customer destocking, and IC Korea inventory and development expenses adjustment [-4%] USD 7.7m [THB 262m].

Operating Profit Analysis, Sales and Administration Analysis

Year-on-year Earnings from Operations, were -95% lower at THB 29m in Q423 compared to THB 582m in Q422. The Operating margin decreased to 0.5% in Q423 from 8.2% in Q422. SG&A expenses decreased -7% in Q423 compared to Q422 due to overhead reductions in the semiconductor divisions.

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 Q423 was THB/USD 35.65, Q422 was THB/USD 36.38 (and Q323 was THB/USD 35.17).

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 34.22 at 31/12/23, and 34.56 at 31/12/22 (36.56 at 30/09/23) or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

In Q423 THB 442m dividend of THB 0.50 per share was paid as an interim dividend from the profits of 2023.

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

In Q422 THB 402m dividend of THB 0.50 per share was paid as an interim dividend 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.

In Q421 THB 805m dividend of THB 1.00 per share was paid as an interim dividend from the profits of 2021.

Financial Status

Net Cash reserves and financial investments were THB 7.8 billion at the 31st December 2023 up from THB 3.6 billion at the 31st December 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 75 days at 31st December 2023, and 63 days at 31st December 2022.

	<u>31-Dec-23</u>	<u>31-Dec-22</u>	THB '000
Trade Receivables			
Less than 3 months	4,846,118	4,754,011	
3 - 6 months	45,888	31,736	
6 - 12 months	20,445	97	
More than 12 months	8,950	3,418	
Total accounts receivable - other companies	4,921,401	4,789,262	
Less : Allowance for doubtful accounts	(15,964)	(13,289)	
	<u>4,905,437</u>	<u>4,775,973</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 138 days as at 31st December 2023 and 138 days as at 31st December 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 52 days in Q423, 61 days in Q422.

Liquidity

Liquidity Current ratio is approximately 3 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q4 2023 was THB 454m which was -61% lower than Q4 2022 at THB 1,163m.

Capital Expenditure

Capital Expenditure was THB 624m in Q4 2023 and THB 682m in Q4 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, as of the 30th September 2023 all foreign exchange contracts to hedge the Baht against the USD have been unwound so there is zero net outstanding THB/USD contracts. This action was taken due to weakening THB/USD and high interest rate differential between USD and THB. At the end of Q223 USD 120m was hedged (sell USD buy THB).

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

On 19th October, 2023 the company issued 80,487,800 ordinary shares at THB 57.00 per share, through a private placement raising THB 4,587,804,600.

The purpose of the funds utilisation is to finance the investment in machinery for silicon carbide production of Power Master Semiconductor Co., LTD and to finance the investment in machinery to expand the company's core business.

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.

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	Q423		Q422		Q423-Q422	Q423-Q422
REVENUES						
Sales	6,221,168		7,125,101		(903,933)	-13%
consisting of:						
PCBA (Lamphun, Thailand)	3,043,609	49%	2,796,764	39%	246,845	9%
PCBA (Jiaxing, China)	774,476	12%	1,069,037	15%	(294,561)	-28%
PCBA (Cambodia)	54,031	1%	63,008	1%	(8,977)	-14%
IC (Ayutthaya, Thailand)	1,692,162	27%	2,289,866	32%	(597,704)	-26%
IC (Jiaxing, China)	136,848	2%	347,845	5%	(210,997)	-61%
HTI (Ohio, USA)	407,147	7%	394,953	6%	12,194	3%
IC (Korea)	112,895	2%	163,628	2%	(50,733)	-31%
	<u>6,221,168</u>	100%	<u>7,125,101</u>	100%	<u>(903,933)</u>	-13%
Other Income	107,249		118,638		(11,389)	-10%
TOTAL OPERATING REVENUES	<u>6,328,417</u>		<u>7,243,739</u>		<u>(915,322)</u>	-13%
EXPENSES						
Cost of Sales	5,864,285	94%	6,171,393	87%	(307,108)	-5%
Selling & Admin. Expenses	405,095	7%	450,394	6%	(45,299)	-10%
R&D Expenses	30,475	0%	40,222	1%	(9,747)	-24%
Other Expenses	-	0%	-	0%	-	0%
TOTAL EXPENSES	<u>6,299,855</u>	101%	<u>6,662,009</u>	94%	<u>(362,153)</u>	-5%
OPERATING EARNINGS	<u>28,562</u>	0%	<u>581,731</u>	8%	<u>(553,169)</u>	-95%
Other Income - non operating	21,456		584		20,872	3571%
Interest Income	44,488		22,599		21,890	97%
Finance Expenses	(24,668)		(5,880)		(18,788)	
EARNINGS before Income Tax	<u>69,839</u>	1%	<u>599,034</u>	8%	<u>(529,195)</u>	-88%
Corporate Income Tax	(19,748)	0%	(31,440)	0%	11,692	-37%
Earnings before Exch. & Exceptional Items	<u>50,091</u>		<u>567,594</u>		<u>(517,503)</u>	-91%
Revaluation of Financial Instruments	-		(6,657)		6,657	
Exchange Gain (Loss)	74,709		514,545		(439,836)	
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>124,800</u>	2%	<u>1,075,482</u>	15%	<u>(950,682)</u>	-88%
EARNINGS % of SALES	2%		15%		-13%	
Average number of shares (1 Baht par)	869,619		804,879		64,740	
EARNINGS per SHARE (baht) before exch. & exceptionals	0.06		0.71		- 0.65	
EARNINGS per SHARE (baht) after exceptionals	0.14		1.34		- 1.20	
Earnings from Operations	28,562		581,730		(553,168)	-95%
Earnings from Operations Margin	0%		8%			
Depreciation	425,517		581,731		(156,214)	
EBITDA (excl exchange gain/loss)	454,079		1,163,461		(709,383)	-61%
EBITDA % of Sales Revenue	7%		16%			

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>31-Dec-23</u>	Quarter <u>31-Dec-22</u>	<u>Q423-Q422</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	6,954,416	2,374,708	4,579,709
Financial Investments	1,938,097	1,259,383	678,714
Accounts Receivable - trade	5,178,141	4,981,041	197,100
Amounts due from Related Companies	-	-	
Inventories	8,969,347	9,456,928	(487,581)
Other Current Assets	119,368	171,171	(51,803)
TOTAL CURRENT ASSETS	<u>23,159,370</u>	<u>18,243,231</u>	<u>4,916,139</u>
Long Term Financial Investments	-	152	(152)
FIXED ASSETS (net)	11,701,475	10,853,453	848,021
OTHER ASSETS	445,112	606,572	(161,460)
TOTAL ASSETS	<u>35,305,957</u>	<u>29,703,408</u>	<u>5,602,549</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	1,076,408	-	1,076,408
Accounts & Notes Payable	3,390,546	4,160,841	(770,295)
Short Term Provisions	-	345,624	(345,624)
Corporate Income Tax Payable	50,816	68,761	(17,944)
Current portion of Long Term Loan	24,036		24,036
Current portion of Lease Liabilities	347,223	273,843	73,381
Other Current Liabilities	145,025	178,269	(33,244)
TOTAL CURRENT LIABILITIES	<u>5,034,054</u>	<u>5,027,337</u>	<u>6,717</u>
LONG TERM LIABILITIES	1,125,182	813,929	311,253
TOTAL LIABILITIES	<u>6,159,236</u>	<u>5,841,266</u>	<u>317,971</u>
SHAREHOLDERS EQUITY			
Share Capital	885,367	804,879	80,488
Treasury Shares	-	-	
Share Premium	6,230,536	1,723,219	4,507,317
Retained Earnings			
Appropriated Statutory Reserve	541,627	536,313	5,314
Unappropriated	21,130,039	20,234,096	895,943
Translation adj. & Investment revaluation	359,152	563,635	(204,483)
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>29,146,720</u>	<u>23,862,142</u>	<u>5,284,578</u>
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>35,305,957</u>	<u>29,703,408</u>	<u>5,602,549</u>

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>31-Dec-23</u>	Quarter <u>31-Dec-22</u>
Cashflow from Operating Activities		
Net Earnings before tax	144,548	1,106,922
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	425,517	469,374
Unrealised (gain) Loss on exchange	131,000	(111,207)
Increase (Decrease) in allowance for doubtful debts	1,206	(7,380)
Increase (Decrease) in allowance for obsolete inventories	318,002	37,989
Change in other provisions	68,179	29,913
	<u>943,904</u>	<u>418,688</u>
Working Capital (increase) decrease		
Trade accounts receivable	(86,463)	606,950
Inventories	615,647	(366,626)
Trade accounts payable	(622,290)	(529,553)
Other	79,577	(48,837)
	<u>(13,529)</u>	<u>(338,066)</u>
Net Cashflow from Operating Activities	<u>1,074,923</u>	<u>1,187,544</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	(614,107)	308,154
Increase in property, plant and equipment	(178,558)	(363,542)
Proceeds from sale of fixed assets	(1,531)	2,997
Increase (decrease) in translation adjustment	(914,330)	(759,394)
Revaluation deficit on investments	11,406	(18,584)
Other		
	<u>(1,697,120)</u>	<u>(830,368)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	(29,551)	0
Dividend paid	(442,684)	(402,439)
Other	4,334,717	(3,716)
Net cash (used in) from financing activities	<u>3,862,482</u>	<u>(406,155)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	3,240,284	(48,979)
Cash and Equivalents at the beginning of the period	3,714,132	2,423,687
Cash and Equivalents at the end of the period	<u>6,954,416</u>	<u>2,374,708</u>

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	<u>Quarter</u> 31-Dec-23	<u>Quarter</u> 31-Dec-22	<u>Q423-Q422</u>	
Profitability Ratios				
Gross Profit Margin (%)	6%	13%		-7%
Operating Profit Margin (%)	1%	9%		-8%
Net Profit before Exceptional Margin (%)	1%	8%		-7%
Net Profit after Exceptional Margin (%)	2%	15%		-13%
EBITDA margin (%)	7%	16%		-9%
Return On Equity (%) pa	2%	18%		-16%
Return On Assets (%) pa	1%	14%		-13%
Return On Operating Capital Employed (%) pa	1%	11%		-10%
Efficiency Ratios				
Working Capital turnover	2	3	-	1
Account Receivable days	75	63		12
Inventory days	138	138		
Accounts Payable days	52	61	-	9
Liquidity Ratios				
Current Ratio	5	4		1
Quick Ratio	3	2		1
Financial Capital Ratios				
Debt / Equity	0	0		
Net Debt to Equity	0	0		
Interest Coverage	n/a	n/a		