

May 15, 2025

Subject : Management Discussion and Analysis for the 1st quarter period ended March 31, 2025.

To : President
The Stock Exchange of Thailand

Harn Engineering Solutions Public Company and its subsidiaries ("The Company") would like to provide information on the Company's operating results for the three-month period ended March 31, 2025, which have been reviewed by our certified public accountant as follows:

1. Overview of Business Operations, Economic Conditions, and Industry Environment Affecting Operations

The Thai economy in the first quarter of 2025 expanded from the previous quarter, driven by an increase in exports. Government spending continued to grow steadily. However, private sector investment remained on a declining trend, especially in residential construction projects. Moreover, the level of outstanding debt in the private sector continued to rise. The Thai Baht experienced volatility, while logistics costs remained high due to ongoing geopolitical conflicts. Competition in the industrial sector, which significantly impacts business operations, remained intense both domestically and internationally. The presence of low-priced imported products has increased, competing with the standard-quality products represented by the company. As a result, the company adopted strategies that emphasize its strengths in product quality and marketing efforts to retain its existing customer base. In addition, the company continued to seek new opportunities to expand its customer base. The fire protection system business, in particular, expanded its reach from the condominium market to include factories and data centers. The company also invested in new ventures to diversify its investment portfolio and enhance returns for shareholders.

The company's performance has also been affected by the recognition of expected credit losses in accordance with financial reporting standards, which impose strict requirements on setting allowances based on aging schedules of accounts receivable, historical payment records, and forward looking of future repayment ability. This is particularly significant for the company's main customer group—construction contractors—which accounts for 63.23 % of revenue. The impact stems from related economic events in the industry, such as a decline in project bidding from both public and private sectors, intense competition, and rising labor and material costs, all of which inevitably affect financial liquidity. The company will revise its credit assessment criteria and debt monitoring processes to better align with the current economic conditions, in order to maintain credit risk at an acceptable level.

Based on the overall performance in Q1/2025, the company recorded an increase in revenue from sales and services by 35.15 million baht, or 13.08%, compared to the same quarter of the previous year. The gross profit margin stood at 26.96%, a decrease of 1.24%. Other income decreased by 1.47 million baht,

or 20.59%. Distribution costs and administrative expenses changed only slightly. As a result, the net profit attributable to the parent company was 15.87 million baht, a decrease of 1.45 million baht, or 8.38%, compared to the same quarter of the previous year.

2. Summary of Key Events and Developments

During this quarter, the Company's operations continued as usual. On February 13, 2025, the Company successfully registered its third subsidiary with the Department of Business Development, Ministry of Commerce, in accordance with the resolution of the Board of Directors' Meeting No. 6/2024 held on November 13, 2024. The new subsidiary is named Mollisa Co., Ltd., in which the Company holds 100% of the total registered capital. The subsidiary has a registered capital of THB 3 million, which has been fully paid up. Its principal business activities include the trading, manufacturing, assembling, packaging, modification, and sterilization of medical devices. It also covers the production and distribution of synthetic rubber, prosthetics, and related raw materials or products. This new subsidiary represents the Company's sixth business segment, focused on medical 3D printing systems. As of the first quarter of 2025, the subsidiary has not yet commenced operations that generate revenue.

3. Summary of Business Performance

Consolidated Income Statements (MB.)	Q1/2025	Q1/2024	Increase / (Decrease)	
			MB.	%
Revenues from sales and services	303.98	268.83	35.15	13.08%
Other revenues	5.67	7.14	(1.47)	(20.59%)
Total revenues	309.65	275.97	33.68	12.20%
Costs of sales and services	222.03	193.03	29.00	15.02%
Distribution costs	28.78	28.03	0.75	2.68%
Administrative expenses	34.86	34.94	(0.08)	(0.23%)
Finance costs	0.87	0.51	0.36	70.59%
Expected credit loss (Reversal)	3.54	(1.99)	5.53	277.89%
Total cost and operating expenses	290.08	254.52	35.56	13.97%
Profit before income tax	19.57	21.45	(1.88)	(8.76%)
Tax expense	3.88	4.41	(0.53)	(12.02%)
Profit for the period	15.69	17.04	(1.35)	(7.92%)
<u>Sub</u> Non-Controlling Interests	(0.18)	(0.28)	0.10	(35.71%)
	15.87	17.32	(1.45)	(8.38%)
Gross profit margin (%)	26.96%	28.20%		(1.24%)
Net profit margin (%)	5.07%	6.18%		(1.11%)

Revenues from sales and services

The company operates six business units: 1. Fire Protection Products and Projects, 2. Air-conditioning & Sanitary Products, 3. Refrigeration Systems, 4. Digital Printing Products 5. Building IoT Solutions and 6. Medical 3D Printing Systems.

In the first quarter of 2025, the Company recorded revenue from sales and services totaling THB 303.98 million, representing an increase of THB 35.15 million or 13.08% compared to the same quarter of the previous year, as shown in the table below.

Revenue from sales and services (MB.)	Q1/2025	Q1/2024	Increase / (Decrease)	
			MB.	%
1. Fire protection products & projects	147.82	131.12	16.70	12.74%
2. Air-conditioning & sanitary products	16.01	11.56	4.45	38.49%
3. Refrigeration systems	57.58	41.20	16.38	39.76%
4. Digital printing systems	82.24	84.92	(2.68)	(3.16%)
5. Building IoT products and solutions	0.64	0.14	0.50	357.14%
6. Medical 3D printing systems	-	-	-	#DIV/0!
Elimination of intersegment sales	(0.31)	(0.11)	(0.20)	181.82%
Total	303.98	268.83	35.15	13.08%

Revenue from the Fire protection products & projects and Air-conditioning & sanitary products business units increased by a total of 21.15 million baht, or 14.82%, due to the expansion of the customer base from condominium projects to industrial factories and data centers. Revenue from the Refrigeration systems business unit rose by 16.38 million baht, or 39.76%, as a result of the gradual delivery of installation projects that began in late 2024. Meanwhile, revenue from the Digital printing system business unit decreased by 2.68 million baht, or 3.16%, due to delays in product delivery.

Other income

The company's other income decreased by 1.47 million baht, or 20.59%, mainly due to a decline in foreign exchange gains amounting to 1.23 million baht.

Cost of sales and services and GPM

Cost of sales and services increased by 29.00 million baht, or 15.02%, which was a higher proportion than the increase in revenue. This resulted in an overall decline in gross profit margin by 1.24%. The decrease was mainly due to suppliers and manufacturers raising product prices in response to inflation in the countries where goods are produced, as well as rising transportation and import costs. At the same time, the company was unable to immediately pass on these increased costs to customers. In some cases, the company had to maintain quoted prices for a certain period, due to the competitive market conditions. Details of gross profit margins by business unit are shown below.

Gross Profit Margin (%)	Q1/2025	Q1/2024	Increase / (Decrease)
1. Fire protection products and projects	25.81	24.92	0.89
2. Air-conditioning and sanitary products	22.02	26.54	(4.52)
3. Refrigeration systems	21.53	21.72	(0.19)
4. Digital printing systems	34.04	36.61	(2.57)
5. Building IoT products and solutions	41.41	28.99	12.42
6. Medical 3D printing systems	-	-	-
Total	26.96	28.20	(1.24)

Distribution costs

Distribution costs increased by 0.75 million baht, or 2.68%, mainly due to higher sales commissions, sales staff incentives, and transportation costs. However, the rate of increase in selling expenses was lower than the growth in sales and service revenue, as some components of selling expenses are fixed in nature—such as salaries and employee benefits for the sales team.

Administrative expenses

Administrative expenses decreased by 0.08 million baht, or 0.23%, mainly due to a reduction in financial advisory fees by 1.09 million baht and a decrease in asset write-off losses by 0.87 million baht. However, certain expenses increased, such as an annual salary adjustment for employees amounting to 0.80 million baht and an unrealized loss from investments in investment units, which rose by 3.24 million baht.

Expected Credit Losses (Reversal)

For the three-month periods ended March 31, 2025 and 2024, the company recorded expected credit losses (reversal) as follows:

	Q1/2025	Q1/2024	Increase (decrease)
Parent Company	3.50	(2.14)	5.64
Subsidiaries			
Harn Vietnam Co., Ltd.	-	-	-
Aiyaraharn Co., Ltd.	0.04	0.15	(0.11)
Mollisa Co., Ltd.	-	-	-
Total Expected Credit Losses (Reversal)	3.54	(1.99)	5.53

Unit : MB.

The company recognized an increase in expected credit loss of 5.53 million baht, with 3.50 million baht attributable to the parent company in the current quarter. This was due to construction contractor customers, who account for 63.23% of revenue, experiencing increased liquidity issues and the classification of aging debts according to financial reporting standards.

Net profit attributable to the shareholders of the parent company

Profit attributable to owners of the parent was 15.87 million baht, a decrease of 1.45 million baht or 8.38% compared to the same quarter of the previous year. This decline was due to the increase in cost of goods sold outpacing the growth in revenue, the recognition of unrealized losses from investment units, and the recognition of expected credit losses.

4. Summary of Financial Position

Balance sheet	As at March 31, 2025	As at December 31, 2024	Increase / (Decrease)	
			MB.	%
Total Assets	1,808.53	1,799.75	8.78	0.49%
Total Liabilities	416.10	421.74	(5.64)	(1.34%)
Equity attributable to the parent company shareholders	1,393.94	1,379.32	14.62	1.06%

Assets

As of March 31, 2025, the company had total assets of 1,808.53 million baht, an increase of 8.78 million baht, or 0.49%, compared to the end of 2024. Liabilities decreased by 5.64 million baht, or 1.34%, and the equity attributable to the parent company increased due to the performance in Q1/2025. Additionally, the company has managed working capital and financial liquidity well, utilizing excess liquidity to invest for short-term returns. As a result, Other current financial assets increased by a net amount of 7.95 million baht, reflected under other current financial assets. Trade receivables and other receivables decreased by 16.73 million baht, and inventory decreased by 12.93 million baht.

Liabilities

As of March 31, 2025, the company had total liabilities of 416.10 million baht, a decrease of 5.64 million baht or 1.34% compared to December 31, 2024. This was primarily due to a decrease in trade payables and other current payables of 7.28 million baht, while corporate income tax payable increased by 3.06 million baht.

Equity attributable to the parent company shareholders

As of March 31, 2025, equity attributable to owners of the parent amounted to 1,393.94 million baht, an increase of 14.62 million baht or 1.06% compared to the balance as of December 31, 2024. This increase was driven by the company's operating performance in the first quarter.

Cash Flow Analysis

Description (MB.)	Q1		
	2025	2024	Increase / (Decrease)
Net Cash Flow from Operating Activities	48.43	33.33	15.10
Net Cash Flow from (Used in) Investing Activities	(10.11)	(0.70)	(9.41)
Net Cash Flow from (Used in) Financing Activities	(3.09)	(2.99)	(0.10)
Effect of translation adjustment on foreign currency financial statements	(0.06)	0.29	(0.35)
Net Increase (Decrease) in Cash and Cash Equivalents	35.17	29.93	5.24
Cash and Cash Equivalents - B/F	293.47	340.19	(46.72)
Cash and Cash Equivalents - C/F	328.64	370.12	(41.48)

The net cash flow from operating activities for the first quarter of 2025 was 48.43 million baht, an increase of 15.10 million baht compared to the same quarter of the previous year. The main reasons for this decrease were a 1.89 million baht rise in profit before income tax, a decrease in trade receivables and other current receivables by 13.44 million baht, a reduction in inventories by 12.42 million baht, and a decrease in trade payables and other payables by 8.38 million baht.

Cash used in investing activities amounted to 10.11 million baht, resulting from investments in government bonds for short-term returns totaling 23.84 million baht. Cash received from maturing government bonds was 13.05 million baht.

Net cash used in financing activities amounted to 3.09 million baht, mainly from cash payments for office and warehouse lease agreements under finance leases.

Key Financial Ratios

Key Financial Ratio	Unit	As at March 31, 2025	As at December 31, 2024
Current ratio	Times	4.29	4.17
Debt to equity (D/E ratio)	Times	0.30	0.31
Return of asset (ROA)	%	6.28	6.42
Return of equity (ROE)	%	6.17	6.34

In the first quarter of 2025, the company maintained a strong financial position with high liquidity, as reflected by a current ratio of over 4 times. The debt-to-equity ratio remained very low at just 0.30 times, indicating effective debt management. Regarding profitability, although the return on assets (ROA) and return on equity (ROE) slightly declined compared to the end of 2024, they remained at healthy levels. This reflects the company's continued ability to generate returns for shareholders. The slight changes in profitability did not have a material negative impact on overall business operations.

5. Factors That Could Impact Future Operations or Growth

The global trend and risks associated with climate change are key issues that may impact the company's operations and future growth. Therefore, the company has incorporated these factors into its strategic direction and risk management framework. These climate-related issues have been integrated into the organization's strategic planning and risk assessment processes since 2024, in alignment with the company's new vision and mission. This commitment is reflected in the company's continuous efforts to drive sustainability strategies in the environmental dimension, under the "Go Green" initiative, aligned with the BCG (Bio-Circular-Green) economic model. The focus is on developing the business towards a low-carbon society while maintaining environmentally friendly operations. The company has set a target to achieve carbon neutrality by 2040 and to reach net zero greenhouse gas emissions by 2050.

6. Sustainability Developments

The company is committed to operating and fostering sustainable business growth across four dimensions: economic, environmental, social, and governance. This supports its vision: "We strive to be a leading provider of integrated sustainable engineering services that meet customer needs while enhancing quality of life, society, and the environment." This commitment is embedded in every aspect of the company's operations, guided by principles of good governance and business ethics, with consideration for stakeholder impacts and the entire value chain. To this end, the company has established a sustainable development policy aligned with its core business strategy, focusing on two key areas: Business (B) and Sustainability (S), or B+S. This approach drives sustainability efforts in each dimension, aligns with long-term operational goals, and prepares the organization to respond effectively to potential future crises. The company also emphasizes developing employee skills and capabilities, and leveraging technology to improve work processes—enhancing competitiveness and enabling long-term sustainable growth. Further details are available on the company's website: www.harn.co.th.

Furthermore, the company has been rated at the highest level, "Excellent" (5 stars), for corporate governance for six consecutive years. In 2024, it also received an "A" rating in the SET ESG Ratings for sustainability performance.

By integrating environmental consciousness into its products, the company promotes operational sustainability and contributes to addressing global environmental issues. This reflects its commitment to good corporate governance and sustainable growth, benefiting shareholders, society, and the environment as a whole.

Please be informed accordingly.

Sincerely Yours,

(Mr. Thammanoon Tripetchr)
Chief Executive Officer