

## Management's Discussion and Analysis

Second Quarter ending 30th June 2018

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 4% year on year at THB 5.5 billion for the second quarter of 2018 from THB 5.2 billion for the second quarter 2017. Sales Revenue in USD terms increased 12% to USD 171m for Q2 2018 from USD 153m in Q2 2017. Operating Profits decreased 4% to THB 517m in Q2 2018 from THB 539m in Q2 2017.

Net Profit decreased 60% to THB 270m in Q218 from THB 676m in Q217, due to a foreign exchange loss of THB 236m in Q218 versus a foreign exchange gain of THB 104m in Q217 on our hedging positions.

THB '000	Quarter		Quarter		%	
	Q218		Q217		Q218-Q217	Q218-Q217
PCBA (Lamphun, Thailand)	2,085,368	39%	2,013,567	39%	71,801	4%
PCBA (Jiaxing, China)	971,055	18%	870,137	17%	100,918	12%
PCBA (Cambodia)	5,315	0%	23,155	0%	(17,840)	-77%
IC (Ayutthaya, Thailand)	1,847,864	34%	1,715,213	33%	132,651	8%
IC (Jiaxing, China)	297,866	5%	325,180	6%	(27,314)	-8%
HMT (Ohio, USA)	242,773	4%	285,040	5%	(42,267)	-15%
Total Revenue	5,450,241	100%	5,232,292	100%	217,949	4%

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 2 2018 sales revenue for the group increased 12% year-on-year in USD terms to USD 171m in Q218 from USD 153m in Q217. The average exchange rate for Q218 was 7% stronger at THB/USD 31.9 from THB/USD 34.3 in Q217. As a result the sales revenue in THB terms increased 4% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 14%. Sales in Lamphun increased 11% whilst Jiaxing increased by 20%. The IC divisions sales revenues increased 13% in Q218, with revenues of the IC division in Ayutthaya increasing by 16% and Jiaxing decreasing by 1%. "HMT" the Microdisplay/RFID operation in Ohio sales revenue decreased 8%.

#### Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group increased 4% from USD 165m in Q118 to USD 171m in Q218. In THB equivalent the group sales were up 5% in Q218 compared to Q118 due to the average THB/USD exchange rate being 1% weaker at 31.9 in Q218 from 31.5 in Q118. Sales in the microelectronics division decreased 1% with Lamphun decreasing 8% and Jiaxing increasing 18%. Sales revenues from the IC divisions were 11% higher in Q218 with Ayutthaya sales increasing 14% and Jiaxing IC sales decreasing by 4%. The Microdisplay division sales increased 5% in Q218 compared to Q118.

#### Sales Revenue Split

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
PCBA (Lamphun, Thailand)	39%	43%	39%	36%	39%
PCBA (Jiaxing, China)	18%	16%	18%	16%	17%
PCBA (Cambodia)	0%	0%	0%	0%	0%
IC (Ayutthaya, Thailand)	34%	31%	32%	37%	33%
IC (Jiaxing, China)	5%	6%	6%	7%	6%
HMT (Ohio, USA)	4%	4%	5%	4%	5%
	100%	100%	100%	100%	100%

#### Gross Profit / Cost of Sales Analysis and Sales and Administration Analysis

The Gross Profit margin was 1 percentage points lower at 14% in Q218 down from Q217 at 15% due to stronger THB/USD exchange rate [-7%].

### **Operating Profit Analysis**

Year-on-year operating profits were 4% lower at THB 517m in Q218 compared to THB 539m in Q217. Operating margin was 1 percentage point lower at 9% in Q218 down from 10% in Q217. SG&A expenses were 3% higher in Q218 to Q217 due to higher salaries expenses. R&D expenses were THB 15m in Q218. SG&A expenses in Q218 were 3% higher than in Q118.

### **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 Q218 was Baht/USD 31.92, Q217 was Baht/USD 34.30 (and Q118 was Baht/USD 31.54).

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 33.17 at 30/06/18, and Baht/USD 33.98 at 30/06/17 (31.23 at 31/03/18) or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

In Q218 THB 805m final dividend of THB 1.00 per share was paid during the quarter from the profits of 2017.

In Q217 THB 805m final dividend of THB 1.00 per share was paid during the quarter from the profits of 2016.

### **Financial Status**

The group currently has no interest bearing debt. Cash reserves and financial investments at the 30th June 2018 were THB 9.4 billion down from THB 10.0 billion at 30th June 2017.

### **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 68 days in Q218 and 62 days in Q217.

	<u>30-Jun-18</u>	<u>30-Jun-17</u>	THB '000
Trade Receivables			
Less than 3 months	3,969,897	2,770,494	
3 - 6 months	11,593	14,687	
6 - 12 months	2,793	10,246	
More than 12 months	11,014	7,924	
Total accounts receivable - other companies	<u>3,995,297</u>	<u>2,803,351</u>	
Less : Allowance for doubtful accounts	(9,274)	(22,567)	
	<u>3,986,023</u>	<u>2,780,784</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 83 days as at 30th June, 2018 and 79 days as at 30th June, 2017.

#### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q2 2018 was THB 766m which was 4% lower than Q2 2017 was THB 801m.

#### **Capital Expenditure**

Capital Expenditure was THB 503m in Q2 2018, and THB 430m in Q2 2017. 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 group's funding is from the shareholders' equity.

**Major Factors which could have an Impact on the Company's Performance**

The company's 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 group's sales revenue are in foreign currency (primarily USD) and USD currency costs are approximately 60% of sales revenues. The Group's 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 group's foreign exchange exposure, USD 140m 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 effect concerning its movement.

**Exceptional Items**

None

**Subsequent Event**

None