

## Management's Discussion and Analysis

Second Quarter ending 30th June 2020

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue decreased 11% year on year to THB 4.6 billion for the second quarter of 2020 from THB 5.2 billion for the second quarter 2019. Sales Revenue in USD terms decreased 12% to USD 144m for Q2 2020 from USD 163m in Q2 2019. Operating Profits increased 16% to THB 476m in Q2 2020 from THB 409m in Q2 2019.

Net Profit increased 27% to THB 682m in Q220 from THB 536m in Q219, due to higher operating profits and a THB207m gain incurred on our hedging positions.

THB '000	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>Q220</u>		<u>Q219</u>		<u>Q220-Q219</u>	<u>Q220-Q219</u>
PCBA (Lamphun, Thailand)	1,852,490	40%	2,265,493	44%	(413,003)	-18%
PCBA (Jiaxing, China)	740,151	16%	746,332	14%	(6,181)	-1%
PCBA (Cambodia)	25,670	1%	14,468	0%	11,202	77%
IC (Ayutthaya, Thailand)	1,577,629	34%	1,658,843	32%	(81,214)	-5%
IC (Jiaxing, China)	212,872	5%	233,689	5%	(20,817)	-9%
HTI (Ohio, USA)	183,559	4%	240,714	5%	(57,155)	-24%
Total Revenue	4,592,370	100%	5,159,539	100%	(567,169)	-11%

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 2 2020 sales revenue for the group decreased 12% year-on-year in USD terms to USD 144m from USD 163m in Q219. The average exchange rate for Q220 was 1% weaker at THB/USD 32.0 from THB/USD 31.6 in Q219. As a result the sales revenue in THB terms decreased 11% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales decreased by 16%. Sales in Lamphun decreased 20% whilst Jiaxing decreased by 2%. The IC divisions sales revenues decreased 7% in Q220, with revenues of the IC division in Ayutthaya decreasing 6% and Jiaxing decreasing by 10%. "HTI" the Microdisplay/RFID operation in Ohio sales revenue decreased 24% in Q220 from Q219.

#### Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group decreased 3% to USD 143m in Q220 from USD 147m in Q120. In THB equivalent the group sales were down similar in Q220 compared to Q120. Sales in the microelectronics divisions decreased 6% with Lamphun decreasing 19% and Jiaxing increasing 56%. Sales revenues from the IC divisions were similar in Q220 to Q120 with Ayutthaya sales decreasing 4% and Jiaxing IC sales increasing by 42%. The Microdisplay division sales increased 26% in Q220 compared to Q120.

#### Sales Revenue Split

	<u>Q2 2020</u>	<u>Q1 2020</u>	<u>Q4 2019</u>	<u>Q3 2019</u>	<u>Q2 2019</u>
PCBA (Lamphun, Thailand)	40%	48%	44%	45%	44%
PCBA (Jiaxing, China)	16%	10%	13%	13%	14%
PCBA (Cambodia)	1%	1%	1%	1%	0%
IC (Ayutthaya, Thailand)	34%	35%	33%	32%	32%
IC (Jiaxing, China)	5%	3%	5%	5%	5%
HTI (Ohio, USA)	4%	3%	4%	4%	5%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 2 percentage points higher at 15% in Q220 up from Q219 at 13% due to the THB/USD exchange rate 1% weaker than Q219 and lower wages and salary costs.

### **Operating Profit Analysis**

Year-on-year operating profits, were 16% higher at THB 476m in Q220 compared to THB 409m in Q219. The Operating margin was 2 percentage points higher at 10% in Q220 up from 8% in Q219 due to higher gross margin +2%. SG&A expenses were 9% lower in Q220 from Q219.

### **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 Q220 was Baht/USD 31.95, Q219 was Baht/USD 31.59 (and Q120 was Baht/USD 31.29).

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 30.89 at 30/06/20, and Baht/USD 30.74 at 30/06/19 (Baht/USD 32.67 at 31/03/20 ) or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

In Q220 THB 523m final dividend of THB 0.65 per share was paid during the quarter from the profits of 2019.

In Q219 THB 805m final dividend of THB 1.00 per share was paid during the quarter from the profits of 2018.

### **Financial Status**

Net Cash reserves and financial investments were THB 9.0 billion at the 30th June 2020 up from 30th June 2019 were THB 8.2 billion.

### **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 60 days in Q120 and 63 days in Q219.

	<u>30-Jun-20</u>	<u>30-Jun-19</u>	THB '000
Trade Receivables			
Less than 3 months	2,900,455	3,456,274	
3 - 6 months	15,978	27,656	
6 - 12 months	1,265	1,506	
More than 12 months	3,305	1,094	
Total accounts receivable - other companies	<u>2,921,003</u>	<u>3,486,530</u>	
Less : Allowance for doubtful accounts	(9,011)	(4,064)	
	<u>2,911,992</u>	<u>3,482,466</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 121 days as at 30th June, 2020 and 98 days as at 30th June, 2019.

#### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q2 2020 was THB 763m which was 10% higher than Q2 2019 was THB 696m.

#### **Capital Expenditure**

Net Capital Expenditure was THB 216m in Q2 2020, and THB 229m in Q2 2019. 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 as 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

'000 Baht	Quarter		Quarter		%	
	<u>Q220</u>		<u>Q219</u>		<u>Q220-Q219</u>	<u>Q220-Q219</u>
<b>REVENUES</b>						
Sales	4,592,370		5,159,535		(567,165)	-11%
consisting of:						
PCBA (Lamphun, Thailand)	1,852,490	40%	2,265,493	44%	(413,003)	-18%
PCBA (Jiaxing, China)	740,151	16%	746,332	14%	(6,181)	-1%
PCBA (Cambodia)	25,670	1%	14,468	0%	11,202	77%
IC (Ayutthaya, Thailand)	1,577,629	34%	1,658,843	32%	(81,214)	-5%
IC (Jiaxing, China)	212,872	5%	233,689	5%	(20,817)	-9%
HTI (Ohio, USA)	183,559	4%	240,714	5%	(57,155)	-24%
	<u>4,592,370</u>	100%	<u>5,159,539</u>	100%	<u>(567,169)</u>	-11%
Other Income	98,751		77,726		21,025	27%
<b>TOTAL OPERATING REVENUES</b>	<u>4,691,121</u>		<u>5,237,265</u>		<u>(546,144)</u>	-10%
<b>EXPENSES</b>						
Cost of Sales	3,888,950	85%	4,486,444	87%	(597,494)	-13%
Selling & Admin. Expenses	305,540	7%	334,415	6%	(28,875)	-9%
R&D Expenses	20,513	0%	7,145	0%	13,368	187%
<b>TOTAL EXPENSES</b>	<u>4,215,003</u>	92%	<u>4,828,004</u>	94%	<u>(613,001)</u>	-13%
<b>OPERATING EARNINGS</b>	<u>476,118</u>	10%	<u>409,261</u>	8%	<u>66,857</u>	16%
Other Income - non operating	430		764		(334)	-44%
Interest	36,471		45,992		(9,521)	-21%
Finance Expenses	(4,586)		(5,286)		700	
<b>EARNINGS before Income Tax</b>	<u>508,433</u>	11%	<u>450,731</u>	9%	<u>57,702</u>	13%
Corporate Income Tax	(32,982)	-1%	(18,197)	0%	(14,785)	81%
<b>Earnings before Exch. &amp; Exceptional Items</b>	<u>475,451</u>		<u>432,534</u>		<u>42,917</u>	10%
Exchange Gain (Loss)	206,851		103,120		103,731	
Exceptional Items	-		-		-	
<b>NET EARNINGS for the Period</b>	<u>682,302</u>	15%	<u>535,654</u>	10%	<u>146,648</u>	27%
<b>EARNINGS % of SALES</b>	15%		10%		4%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch. & exceptionals	0.59		0.54		0.05	
EARNINGS per SHARE (baht) after exceptionals	0.85		0.67		0.18	
Operating Profit (EBIT)	476,118		409,257		66,861	16%
Operating Profit Margin	10%		8%			
Depreciation	287,260		286,967		293	
EBITDA (excl exchange gain/loss)	763,378		696,224		67,150	10%
EBITDA % of Sales Revenue	17%		13%			

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

	YTD		YTD		YTD		YTD %	
'000 Baht	30-Jun-20		30-Jun-19		Q220-Q219		Q220-Q219	
<b>REVENUES</b>								
Sales	9,202,030		10,292,287		(1,090,257)			-11%
consisting of:								
PCBA (Lamphun, Thailand)	4,073,787	43%	4,516,437	45%	(442,650)			-10%
PCBA (Jiaxing, China)	1,205,965	13%	1,490,965	14%	(285,000)			-19%
PCBA (Cambodia)	55,723	1%	23,567	0%	32,156			
IC (Ayutthaya, Thailand)	3,181,625	35%	3,360,919	33%	(179,294)			-5%
IC (Jiaxing, China)	359,326	4%	449,951	4%	(90,625)			-20%
HTI (Ohio, USA)	325,605	4%	450,451	4%	(124,846)			-28%
	<u>9,202,030</u>	100%	<u>10,292,290</u>	100%	<u>(1,090,260)</u>			-11%
Other Income	172,278		158,894		13,384			8%
<b>TOTAL OPERATING REVENUES</b>	<u>9,374,308</u>		<u>10,451,184</u>		<u>(1,076,876)</u>			-10%
<b>EXPENSES</b>								
Cost of Sales	7,790,362	85%	9,220,063	90%	(1,429,701)			-16%
Selling & Admin. Expenses	595,648	6%	643,195	6%	(47,547)			-7%
R&D Expenses	28,653	0%	14,233	0%	14,420			101%
<b>TOTAL EXPENSES</b>	<u>8,414,663</u>	91%	<u>9,877,491</u>	96%	<u>(1,462,828)</u>			-15%
<b>OPERATING EARNINGS</b>	<u>959,645</u>	10%	<u>573,693</u>	5%	<u>385,952</u>			67%
Other Income - non operating	830		764		66			
Interest	80,009		89,433		(9,424)			-11%
Finance Expenses	(33,289)		(5,286)		(28,003)			
<b>EARNINGS before Income Tax</b>	<u>1,007,195</u>	11%	<u>658,604</u>	6%	<u>348,591</u>			53%
Corporate Income Tax	(46,487)	5%	(34,940)	5%	(11,547)			33%
<b>Earnings before Exch. &amp; Exceptional Items</b>	<u>960,708</u>		<u>623,664</u>		<u>337,044</u>			54%
Exchange Gain (Loss)	(74,690)		215,243		(289,933)			
Exceptional Items	-		-		-			
<b>NET EARNINGS for the Period</b>	<u>886,018</u>	9%	<u>838,907</u>	8%	<u>47,111</u>			6%
<b>EARNINGS % of SALES</b>	10%		8%		1%			
Average number of shares (1 Baht par)	804,879		804,879		-			
<b>EARNINGS per SHARE (baht) before exch. &amp; exceptionals</b>	1.19		0.77		0.42			
<b>EARNINGS per SHARE (baht) after exceptionals</b>	1.10		1.04		0.06			
Operating Profit (EBIT)	959,645		573,690		385,955			
Operating Profit Margin	10%		6%					
Depreciation	570,105		575,818		(5,713)			
EBITDA (excl exchange gain/loss)	1,529,750		1,149,508		380,242			
EBITDA % of Sales Revenue	17%		11%					

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>30-Jun-20</u>	Quarter <u>30-Jun-19</u>	<u>Q220-Q219</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in Hand & at Banks	4,742,155	3,323,444	1,418,711
Financial Investments	4,298,900	5,344,092	(1,045,192)
Accounts Receivable - trade	3,051,070	3,614,448	(563,378)
Amounts due from Related Companies	-	-	
Inventories	5,226,857	4,897,995	328,862
Other Current Assets	63,091	152,027	(88,936)
<b>TOTAL CURRENT ASSETS</b>	<u>17,382,073</u>	<u>17,332,006</u>	<u>50,067</u>
Fixed Deposit	139,104	138,446	658
<b>FIXED ASSETS (net)</b>	6,945,902	6,978,283	(32,381)
OTHER ASSETS	300,784	276,097	24,687
<b>TOTAL ASSETS</b>	<u>24,767,863</u>	<u>24,724,832</u>	<u>43,031</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank Overdrafts & Loans	-	570,000	(570,000)
Accounts & Notes Payable	2,454,551	2,693,703	(239,152)
Short Term Provisions	-	-	
Corporate Income Tax Payable	26,468	19,516	6,952
Accrued Expenses	308,905	307,443	1,462
Other Current Liabilities	110,845	117,167	(6,322)
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,900,769</u>	<u>3,707,829</u>	<u>(807,060)</u>
<b>LONG TERM LIABILITIES</b>	737,278	413,065	324,213
<b>TOTAL LIABILITIES</b>	<u>3,638,047</u>	<u>4,120,894</u>	<u>(482,847)</u>
<b>SHAREHOLDERS EQUITY</b>			
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	18,804,650	18,271,955	532,695
Translation adj. & Investment revaluation	(659,395)	(652,578)	(6,817)
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
<b>TOTAL SHAREHOLDERS EQUITY</b>	<u>21,129,816</u>	<u>20,603,938</u>	<u>525,878</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<u>24,767,863</u>	<u>24,724,832</u>	<u>43,031</u>

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>30-Jun-20</u>	Quarter <u>30-Jun-19</u>
<b><u>Cashflow from Operating Activities</u></b>		
Net Earnings before tax	715,284	553,851
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>		
<b>Non Cash items</b>		
Depreciation	287,260	286,967
Unrealised (gain) Loss on exchange	(176,853)	(42,728)
Increase (Decrease) in allowance for doubtful debts	(69)	(10,820)
Increase (Decrease) in allowance for obsolete inventories	(1,237)	1,649
Change in other provisions	(14,866)	8,390
	<u>94,235</u>	<u>243,458</u>
<b>Working Capital (increase) decrease</b>		
Trade accounts receivable	123,278	92,232
Inventories	(362,198)	135,574
Trade accounts payable	139,149	1,144
Other	71,588	(54,813)
	<u>(28,183)</u>	<u>174,137</u>
<b>Net Cashflow from Operating Activities</b>	<u>781,336</u>	<u>971,446</u>
<b>Cashflow from Investing Activities</b>		
(Increase) decrease in short term investment	174,894	(232,046)
Increase in property, plant and equipment	(214,352)	(233,547)
Proceeds from sale of fixed assets	4,342	1,612
Increase (decrease) in translation adjustment	(636,815)	(438,531)
Revaluation deficit on investments	7,543	61
Other		
	<u>(664,388)</u>	<u>(902,451)</u>
<b>Cashflow from Financing Activities</b>		
Cash received from increase in share capital	-	(961)
Dividend paid	(523,171)	(804,879)
Other	-	570,000
Net cash (used in ) from financing activities	<u>(523,171)</u>	<u>(235,840)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(406,223)	(166,845)
Cash and Equivalents at the beginning of the period	<u>5,148,378</u>	<u>3,490,294</u>
Cash and Equivalents at the end of the period	<u>4,742,155</u>	<u>3,323,449</u>

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	<u>Quarter</u> <u>30-Jun-20</u>	<u>Quarter</u> <u>30-Jun-19</u>	<u>Q220-Q219</u>	
<b>Profitability Ratios</b>				
Gross Profit Margin (%)	15%	13%		2%
Operating Profit Margin (%)	11%	8%		3%
Net Profit before Exceptional Margin (%)	10%	8%		2%
Net Profit after Exceptional Margin (%)	15%	10%		5%
EBITDA margin (%)	17%	13%		4%
Return On Equity (%) pa	13%	10%		3%
Return On Assets (%) pa	11%	9%		2%
Return On Operating Capital Employed (%) pa	15%	13%		2%
<b>Efficiency Ratios</b>				
Working Capital turnover	3	4	-	1
Account Receivable days	60	63	-	3
Inventory days	121	98		23
Accounts Payable days	57	54		3
<b>Liquidity Ratios</b>				
Current Ratio	6	5		1
Quick Ratio	4	3		1
<b>Financial Capital Ratios</b>				
Debt / Equity	0	0		
Net Debt to Equity	0	0		
Interest Coverage	n/a	n/a		