

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 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 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 affect concerning its movement.

Exceptional Items

None

Subsequent Event

None

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	Q218	Q217	Q218-Q217	Q218-Q217	Q218-Q217	Q218-Q217
REVENUES						
Sales	5,450,241	5,232,292	217,949		4%	
consisting of:						
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%	
	<u>5,450,241</u>	100% <u>5,232,292</u>	100% <u>217,949</u>		4%	
Other Income	81,029	66,240	14,789		22%	
Other Income - non operating	399	-	399		0%	
TOTAL OPERATING REVENUES	<u>5,531,669</u>	<u>5,298,532</u>	<u>233,137</u>		4%	
EXPENSES						
Cost of Sales	4,710,859	86% 4,466,944	85% 243,915		5%	
Selling & Admin. Expenses	302,987	6% 292,815	6% 10,172		3%	
R&D Expenses	15,305	0% -	0% 15,305		0%	
TOTAL EXPENSES	<u>5,029,151</u>	92% <u>4,759,759</u>	91% <u>269,392</u>		6%	
OPERATING EARNINGS	<u>502,518</u>	9% <u>538,773</u>	10% <u>(36,255)</u>		-7%	
Interest	47,639	56,152	(8,513)		-15%	
Interest Expenses	(1,785)	(1,679)	(106)			
EARNINGS before Income Tax	<u>548,372</u>	10% <u>593,246</u>	11% <u>(44,874)</u>		-8%	
Corporate Income Tax	(42,143)	-1% (22,220)	0% (19,923)		90%	
Earnings before Exch. & Exceptional Items	<u>506,229</u>	<u>571,026</u>	<u>(64,797)</u>		-11%	
Exchange Gain (Loss)	(236,145)	104,533	(340,678)			
Exceptional Items	-	-	-			
NET EARNINGS for the Period	<u>270,084</u>	5% <u>675,559</u>	13% <u>(405,475)</u>		-60%	
EARNINGS % of SALES	5%	13%	-8%			
Average number of shares (1 Baht par)	804,879	804,879	-			
EARNINGS per SHARE (baht) before exch. & exceptionals	0.63	0.71	- 0.08			
EARNINGS per SHARE (baht) after exceptionals	0.34	0.84	- 0.50			
Operating Profit (EBIT) (excl. R&D Expenses)	517,424	538,773	(21,349)		-4%	
Operating Profit Margin	9%	10%				
Depreciation	264,361	262,156	2,205			
EBITDA (excl exchange gain/loss)	766,480	800,929	(34,050)		-4%	
EBITDA % of Sales Revenue	14%	15%				

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

	YTD		YTD		YTD		YTD %	
	'000 Baht	30-Jun-18		30-Jun-17		Q218-Q217		Q218-Q217
REVENUES								
Sales		10,645,097		10,470,065		175,032		2%
consisting of:								
PCBA (Lamphun, Thailand)		4,327,933	41%	3,963,261	38%	364,672		9%
PCBA (Jiaxing, China)		1,784,275	17%	1,750,192	17%	34,083		2%
PCBA (Cambodia)		10,693	0%	43,724	0%	(33,031)		
IC (Ayutthaya, Thailand)		3,445,569	32%	3,464,409	33%	(18,840)		-1%
IC (Jiaxing, China)		604,995	6%	606,932	6%	(1,937)		0%
HMT (Ohio, USA)		471,632	4%	641,547	6%	(169,915)		-26%
		<u>10,645,097</u>	100%	<u>10,470,065</u>	100%	<u>175,032</u>		2%
Other Income		170,785		112,712		58,073		52%
Other Income - non operating		1,307		35		1,272		3634%
TOTAL OPERATING REVENUES		<u>10,817,189</u>		<u>10,582,812</u>		<u>234,377</u>		2%
EXPENSES								
Cost of Sales		9,345,966	88%	8,861,177	85%	484,789		5%
Selling & Admin. Expenses		598,078	6%	594,593	6%	3,485		1%
R&D Expenses		24,861	0%	-	0%	24,861		0%
TOTAL EXPENSES		<u>9,968,905</u>	94%	<u>9,455,770</u>	90%	<u>513,135</u>		5%
OPERATING EARNINGS		<u>848,284</u>	8%	<u>1,127,042</u>	11%	<u>(278,758)</u>		-25%
Interest		97,527		107,204		(9,677)		-9%
Interest Expenses		(3,459)		(3,622)		163		
EARNINGS before Income Tax		<u>942,352</u>	9%	<u>1,230,624</u>	12%	<u>(288,272)</u>		-23%
Corporate Income Tax		(70,864)	8%	(32,882)	3%	(37,982)		116%
Earnings before Exch. & Exceptional Items		<u>871,488</u>		<u>1,197,742</u>		<u>(326,254)</u>		-27%
Exchange Gain (Loss)		(47,966)		295,405		(343,371)		
Exceptional Items		-		-		-		
NET EARNINGS for the Period		<u>823,522</u>	8%	<u>1,493,147</u>	14%	<u>(669,625)</u>		-45%
EARNINGS % of SALES		8%		14%		-7%		
Average number of shares (1 Baht par)		804,879		804,879		-		
EARNINGS per SHARE (baht) before exch. & exceptionals		1.08		1.49	-	0.41		
EARNINGS per SHARE (baht) after exceptionals		1.02		1.86	-	0.84		
Operating Profit (EBIT) (excl. R&D Expenses)		871,838		1,127,007		(255,169)		
Operating Profit Margin		8%		11%				
Depreciation		527,839		547,276		(19,437)		
EBITDA (excl exchange gain/loss)		1,374,816		1,674,283		(299,467)		
EBITDA % of Sales Revenue		13%		16%				

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>30-Jun-18</u>	Quarter <u>30-Jun-17</u>	<u>Q218-Q217</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	5,804,852	6,950,319	(1,145,467)
Financial Investments	3,589,103	3,061,915	527,188
Accounts Receivable - trade	4,146,725	3,613,625	533,100
Amounts due from Related Companies	-	-	
Inventories	4,365,701	3,905,236	460,465
Other Current Assets	101,036	246,415	(145,379)
TOTAL CURRENT ASSETS	<u>18,007,417</u>	<u>17,777,510</u>	<u>229,907</u>
Fixed Deposit	149,349	-	149,349
FIXED ASSETS (net)	6,386,513	6,220,510	166,003
OTHER ASSETS	228,784	215,438	13,346
TOTAL ASSETS	<u>24,772,063</u>	<u>24,213,458</u>	<u>558,605</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	-	-	
Accounts & Notes Payable	3,109,837	3,053,543	56,294
Corporate Income Tax Payable	-	23,595	(23,595)
Accrued Expenses	331,672	339,814	(8,142)
Other Current Liabilities	279,885	70,904	208,981
TOTAL CURRENT LIABILITIES	<u>3,721,394</u>	<u>3,487,856</u>	<u>233,538</u>
LONG TERM LIABILITIES	345,517	475,387	(129,870)
TOTAL LIABILITIES	<u>4,066,911</u>	<u>3,963,243</u>	<u>103,668</u>
SHAREHOLDERS EQUITY			
Share Capital	804,879	804,879	
Treasury Shares	-	-	
Share Premium	1,723,219	1,723,219	
Retained Earnings			
Appropriated Statutory Reserve	443,691	428,706	14,985
Unappropriated	17,522,872	16,776,381	746,491
Translation adj. & Investment revaluation	210,491	517,030	(306,539)
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>20,705,152</u>	<u>20,250,215</u>	<u>454,937</u>
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>24,772,063</u>	<u>24,213,458</u>	<u>558,605</u>

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>30-Jun-18</u>	Quarter <u>30-Jun-17</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	312,227	697,779
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	264,361	262,156
Unrealised (gain) Loss on exchange	149,954	253,426
Increase (Decrease) in allowance for doubtful debts	(1,033)	(5,784)
Increase (Decrease) in allowance for obsolete inventories	(15,605)	15,051
Change in other provisions	(44,326)	(99,542)
	<u>353,351</u>	<u>425,307</u>
Working Capital (increase) decrease		
Trade accounts receivable	(141,935)	(164,449)
Inventories	(166,940)	(87,598)
Trade accounts payable	(93,144)	49,841
Other	(1,194,368)	(31,942)
	<u>(1,596,387)</u>	<u>(234,148)</u>
Net Cashflow from Operating Activities	<u>(930,809)</u>	<u>888,938</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	737,317	109,471
Increase in property, plant and equipment	(381,775)	(277,442)
Proceeds from sale of fixed assets	6,088	6,322
Increase (decrease) in translation adjustment	(888,821)	(107,659)
Revaluation deficit on investments	(826,675)	(10,046)
Other		
	<u>(1,353,866)</u>	<u>(279,354)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	-
Dividend paid	(804,879)	(804,879)
Other	-	-
Net cash (used in) from financing activities	<u>(804,879)</u>	<u>(804,879)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(3,089,554)	(195,295)
Cash and Equivalents at the beginning of the period	<u>8,386,111</u>	<u>6,840,314</u>
Cash and Equivalents at the end of the period	<u>5,296,558</u>	<u>6,645,019</u>

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	<u>Quarter</u> <u>30-Jun-18</u>	<u>Quarter</u> <u>30-Jun-17</u>	<u>Q218-Q217</u>
Profitability Ratios			
Gross Profit Margin (%)	14%	15%	-1%
Operating Profit Margin (%)	9%	10%	-1%
Net Profit before Exceptional Margin (%)	9%	11%	-2%
Net Profit after Exceptional Margin (%)	5%	13%	-8%
EBITDA margin (%)	14%	15%	-1%
Return On Equity (%) pa	5%	13%	-8%
Return On Assets (%) pa	4%	11%	-7%
Return On Operating Capital Employed (%) pa	17%	20%	-3%
Efficiency Ratios			
Working Capital turnover	4	5	- 1
Account Receivable days	68	62	6
Inventory days	83	79	4
Accounts Payable days	59	62	- 3
Liquidity Ratios			
Current Ratio	5	5	
Quick Ratio	4	4	
Financial Capital Ratios			
Debt / Equity	0	0	
Net Debt to Equity	0	0	
Interest Coverage	n/a	n/a	