

Management's Discussion and Analysis

First Quarter ending 31st March 2018

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue decreased 1% year on year at THB 5.2 billion for the first quarter of 2018 from THB 5.2 billion for the first quarter 2017. Sales Revenue in USD terms increased 10% to USD 165m for Q1 2018 from USD 149m in Q1 2017. Operating Profits decreased 40% to THB 355m in Q1 2018 from THB 588m in Q1 2017.

Net Profit decreased 32% to THB 553m in Q118 from THB 818m in Q117, due to lower operating profits due to the 10% strengthening in the THB/USD exchange rate.

THB '000	Quarter		Quarter		%	
	Q118		Q117		Q118-Q117	Q118-Q117
PCBA (Lamphun, Thailand)	2,242,565	43%	1,949,694	38%	292,871	15%
PCBA (Jiaying, China)	813,220	16%	880,055	17%	(66,835)	-8%
PCBA (Cambodia)	5,378	0%	20,569	0%	(15,191)	-74%
IC (Ayutthaya, Thailand)	1,597,705	31%	1,749,196	33%	(151,491)	-9%
IC (Jiaying, China)	307,129	6%	281,752	5%	25,377	9%
HMT (Ohio, USA)	228,859	4%	356,507	7%	(127,648)	-36%
Total Revenue	5,194,856	100%	5,237,773	100%	(42,917)	-1%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 1 2018 sales revenue for the group increase 10% year-on-year in USD terms to USD 165m in Q118 from USD 149m in Q117. The average exchange rate for Q118 was 10% stronger at THB/USD 31.5 from THB/USD 35.1 in Q117. As a result the sales revenue in THB terms decreased 1% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 20%. Sales in Lamphun increased 28% whilst Jiaying increased by 3%. The IC divisions sales revenues increased 4% in Q118, with revenues of the IC division in Ayutthaya increasing by 2% and Jiaying increasing by 21%. "HMT" the Microdisplay/RFID operation in Ohio sales revenue decreased 12%.

Quarter on Quarter Sales Revenue Analysis

Quarter-on-Quarter, in USD terms, sales for the group increased 2% from USD 162m in Q417 to USD 165m in Q118. In THB equivalent the group sales were down 3% in Q118 compared to Q417 due to the average THB/USD exchange rate being 4% stronger at 31.5 in Q118 from 32.9 in Q417. Sales in the microelectronics division increased 7% with Lamphun increasing 16% and Jiaying increasing 13%. Sales revenues from the IC divisions were 3% lower in Q118 with Ayutthaya sales decreasing 4% and Jiaying IC sales increasing by 1%. The Microdisplay division sales decreased 28% in Q118 compared to Q417.

Sales Revenue Split

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
PCBA (Lamphun, Thailand)	43%	39%	36%	39%	38%
PCBA (Jiaying, China)	16%	18%	16%	17%	18%
PCBA (Cambodia)	0%	0%	0%	0%	0%
IC (Ayutthaya, Thailand)	31%	32%	37%	33%	34%
IC (Jiaying, China)	6%	6%	7%	6%	5%
HMT (Ohio, USA)	4%	5%	4%	5%	5%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 5 percentage points lower at 11% in Q118 down from Q117 at 16% due to stronger THB/USD exchange rate [-4%] and higher salaries expense [-1%].

Operating Profit Analysis

Year-on-year operating profits were 40% lower at THB 355m in Q118 compared to THB 588m in Q117. The Operating margin was 7% in Q118 down 4 percentage points from 11% in Q117 due to the lower gross margin. SG&A expenses were 2% higher in Q118 to Q117. R&D expenses were THB 10m in Q118. SG&A expenses in Q118 were 12% lower than in Q417 due to lower provisions 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 Q118 was Baht/USD 31.54, Q117 was Baht/USD 35.12 (and Q417 was Baht/USD 32.95).

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 31.23 at 31/03/18, and Baht/USD 34.45 at 31/03/17 (32.68 at 31/12/17) or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid in Q118 or Q117.

Financial Status

The group currently has no interest bearing debt. Cash reserves and financial investments at the 31st March 2018 were THB 9.8 billion down from 31st March 2017 of THB 10.5 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 65 days in Q118 and 59 days in Q117.

	<u>31-Mar-18</u>	<u>31-Mar-17</u>	THB '000
Trade Receivables			
Less than 3 months	3,601,360	3,278,484	
3 - 6 months	17,499	11,154	
6 - 12 months	1,855	8,602	
More than 12 months	4,612	8,262	
Total accounts receivable - other companies	3,625,326	3,306,502	
Less : Allowance for doubtful accounts	(10,307)	(28,351)	
	<u>3,615,019</u>	<u>3,278,151</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 80 days as at 31st March, 2018 and 77 days as at 31st March, 2017.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q1 2018 was THB 609m which was 30% lower than Q1 2017 at THB 873m.

Capital Expenditure

Capital Expenditure was THB 266m in Q1 2018, and THB 188m in Q1 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 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		%	
	Q118		Q117		Q118-Q117	Q118-Q117
REVENUES						
Sales	5,194,856		5,237,773		(42,917)	-1%
consisting of:						
PCBA (Lamphun, Thailand)	2,242,565	43%	1,949,694	38%	292,871	15%
PCBA (Jiaxing, China)	813,220	16%	880,055	17%	(66,835)	-8%
PCBA (Cambodia)	5,378	0%	20,569	0%	(15,191)	-74%
IC (Ayutthaya, Thailand)	1,597,705	31%	1,749,196	33%	(151,491)	-9%
IC (Jiaxing, China)	307,129	6%	281,752	5%	25,377	9%
HMT (Ohio, USA)	228,859	4%	356,507	7%	(127,648)	-36%
	<u>5,194,856</u>	100%	<u>5,237,773</u>	100%	<u>(42,917)</u>	-1%
Other Income	90,664		46,507		44,157	95%
TOTAL OPERATING REVENUES	<u>5,285,520</u>		<u>5,284,280</u>		<u>1,240</u>	0%
EXPENSES						
Cost of Sales	4,635,107	89%	4,394,233	84%	240,874	5%
Selling & Admin. Expenses	295,091	6%	301,778	6%	(6,687)	-2%
R&D Expenses	9,556	0%	-	0%	9,556	0%
TOTAL EXPENSES	<u>4,939,754</u>	95%	<u>4,696,011</u>	90%	<u>243,743</u>	5%
OPERATING EARNINGS	<u>345,766</u>	7%	<u>588,269</u>	11%	<u>(242,503)</u>	-41%
Interest	49,888		51,052		(1,164)	-2%
Interest Expenses	(1,674)		(1,943)		269	
EARNINGS before Income Tax	<u>393,980</u>	7%	<u>637,378</u>	12%	<u>(243,398)</u>	-38%
Corporate Income Tax	(28,721)	-1%	(10,662)	0%	(18,059)	169%
Earnings before Exch. & Exceptional Items	<u>365,259</u>		<u>626,716</u>		<u>(261,457)</u>	-42%
Exchange Gain (Loss)	188,179		190,872		(2,693)	
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>553,438</u>	10%	<u>817,588</u>	15%	<u>(264,150)</u>	-32%
EARNINGS % of SALES	11%		16%		-5%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch. & exceptionals	0.45		0.78	-	0.33	
EARNINGS per SHARE (baht) after exceptionals	0.69		1.02	-	0.33	
Operating Profit (EBIT) (excl. R&D Expenses)	355,322		588,269		(232,947)	-40%
Operating Profit Margin	7%		11%			
Depreciation	263,478		285,120		(21,642)	
EBITDA (excl exchange gain/loss)	618,800		873,389		(264,145)	-30%
EBITDA % of Sales Revenue	12%		17%			

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CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>31-Mar-18</u>	Quarter <u>31-Mar-17</u>	<u>Q118-Q117</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	6,267,036	7,094,164	(827,128)
Financial Investments	3,437,692	3,351,778	85,914
Accounts Receivable - trade	3,767,199	3,433,936	333,263
Amounts due from Related Companies	-	-	
Inventories	4,123,395	3,761,542	361,853
Other Current Assets	245,558	271,169	(25,611)
TOTAL CURRENT ASSETS	<u>17,840,880</u>	<u>17,912,589</u>	<u>(71,709)</u>
Fixed Deposit	140,640	50,720	89,920
FIXED ASSETS (net)	6,115,050	6,058,149	56,901
OTHER ASSETS	226,130	211,765	14,365
TOTAL ASSETS	<u>24,322,700</u>	<u>24,233,223</u>	<u>89,477</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	-	-	
Accounts & Notes Payable	2,740,451	2,846,312	(105,861)
Corporate Income Tax Payable	29,058	26,034	3,024
Accrued Expenses	312,318	344,501	(32,183)
Other Current Liabilities	120,802	86,305	34,497
TOTAL CURRENT LIABILITIES	<u>3,202,629</u>	<u>3,303,152</u>	<u>(100,523)</u>
LONG TERM LIABILITIES	336,452	465,133	(128,681)
TOTAL LIABILITIES	<u>3,539,081</u>	<u>3,768,285</u>	<u>(229,204)</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	428,284	15,407
Unappropriated	18,057,667	16,906,123	1,151,544
Translation adj. & Investment revaluation	(245,837)	602,433	(848,270)
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>20,783,619</u>	<u>20,464,938</u>	<u>318,681</u>
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>24,322,700</u>	<u>24,233,223</u>	<u>89,477</u>

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Quarter</u> <u>31-Mar-18</u>	<u>Quarter</u> <u>31-Mar-17</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	582,159	828,250
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	263,478	285,120
Unrealised (gain) Loss on exchange	(18,589)	(426,749)
Increase (Decrease) in allowance for doubtful debts	(852)	8,496
Increase (Decrease) in allowance for obsolete inventories	4,553	20,073
Change in other provisions	(29,862)	(21,682)
	<u>218,728</u>	<u>(134,742)</u>
Working Capital (increase) decrease		
Trade accounts receivable	100,533	51,935
Inventories	(45,075)	(105,408)
Trade accounts payable	(120,963)	61,849
Other	(90,689)	(18,590)
	<u>(156,194)</u>	<u>(10,214)</u>
Net Cashflow from Operating Activities	<u>644,693</u>	<u>683,294</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	1,036,989	298,962
Increase in property, plant and equipment	(366,917)	(106,559)
Proceeds from sale of fixed assets	4,859	-
Increase (decrease) in translation adjustment	(387,257)	(384,095)
Revaluation deficit on investments	81,252	1,117
Other		
	<u>368,926</u>	<u>(190,575)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	-
Dividend paid	-	-
Other	-	-
Net cash (used in) from financing activities	<u>-</u>	<u>-</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	1,013,619	492,719
Cash and Equivalents at the beginning of the period	<u>4,756,538</u>	<u>6,347,595</u>
Cash and Equivalents at the end of the period	<u>5,770,157</u>	<u>6,840,314</u>

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Financial Ratios

'000 Baht	Quarter <u>31-Mar-18</u>	Quarter <u>31-Mar-17</u>	<u>Q118-Q117</u>
Profitability Ratios			
Gross Profit Margin (%)	11%	16%	-5%
Operating Profit Margin (%)	7%	11%	-4%
Net Profit before Exceptional Margin (%)	7%	12%	-5%
Net Profit after Exceptional Margin (%)	11%	16%	-5%
EBITDA margin (%)	12%	17%	-5%
Return On Equity (%) pa	11%	16%	-5%
Return On Assets (%) pa	9%	13%	-4%
Return On Operating Capital Employed (%) pa	12%	23%	-11%
Efficiency Ratios			
Working Capital turnover	4	5	- 1
Account Receivable days	65	59	6
Inventory days	80	77	3
Accounts Payable days	53	58	- 5
Liquidity Ratios			
Current Ratio	6	5	1
Quick Ratio	4	4	
Financial Capital Ratios			
Debt / Equity	0	0	
Net Debt to Equity	0	0	
Interest Coverage	n/a	n/a	