

**Overall Group Performance**

Hana Microelectronics Group 'Hana' Sales Revenue decreased 5% year on year to THB 5.2 billion for the second quarter of 2019 from THB 5.5 billion for the second quarter 2018. Sales Revenue in USD terms decreased 4% to USD 163m for Q2 2019 from USD 171m in Q2 2018. Operating Profits decreased 18% to THB 409m in Q2 2019 from THB 500m in Q2 2018.

Net Profit increased 98% to THB 536m in Q219 from THB 270m in Q218, due exchange gain of 103m in Q219 vs exchange loss of 236m in Q218.

THB '000	Quarter		Quarter		Q219-Q218	%
	Q219		Q218			
PCBA (Lamphun, Thailand)	2,265,493	44%	2,085,368	39%	180,125	9%
PCBA (Jiaxing, China)	746,332	14%	971,055	18%	(224,723)	-23%
PCBA (Cambodia)	14,467	0%	5,315	0%	9,152	172%
IC (Ayutthaya, Thailand)	1,658,843	32%	1,847,864	34%	(189,021)	-10%
IC (Jiaxing, China)	233,689	5%	297,866	5%	(64,177)	-22%
HTI (Ohio, USA)	240,712	5%	242,773	4%	(2,061)	-1%
<b>Total Revenue</b>	<b>5,159,536</b>	<b>100%</b>	<b>5,450,241</b>	<b>100%</b>	<b>(290,705)</b>	<b>-5%</b>

**Sales Revenue Analysis**

**Year on Year Sales Revenue Analysis**

Quarter 2 2019 sales revenue for the group decreased 4% year-on-year in USD terms to USD 163m from USD 171m in Q218. The average exchange rate for Q219 was 1% stronger at THB/USD 31.6 from THB/USD 31.9 in Q218. As a result the sales revenue in THB terms decreased 5% year on year for the quarter.

Year-on-year, in USD terms, the microelectronics divisions sales increased by 7%. Sales in Lamphun increased 10% whilst Jiaxing decreased by 22%. The IC divisions sales revenues decreased 11% in Q219, with revenues of the IC division in Ayutthaya decreasing 9% and Jiaxing decreasing by 21%. "HTI" the Microdisplay/RFID operation in Ohio sales revenue was similar in Q219 and Q218.

**Quarter on Quarter Sales Revenue Analysis**

Quarter-on-Quarter, in USD terms, sales for the group increased 1% to USD 163m in Q219 from USD 162m in Q119. In THB equivalent the group sales were up 1% in Q219 compared to Q119.

Sales in the microelectronics divisions increased 1% with Lamphun increasing 1% and Jiaxing with no change. Sales revenues from the IC divisions were 1% lower in Q219 with Ayutthaya sales decreasing 2% and Jiaxing IC sales increasing by 8%. The Microdisplay division sales increased 14% in Q219 compared to Q119.

**Sales Revenue Split**

	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
PCBA (Lamphun, Thailand)	44%	44%	40%	38%	39%
PCBA (Jiaxing, China)	14%	15%	17%	16%	18%
PCBA (Cambodia)	0%	0%	0%	0%	0%
IC (Ayutthaya, Thailand)	32%	33%	34%	35%	34%
IC (Jiaxing, China)	5%	4%	4%	6%	5%
HTI (Ohio, USA)	5%	4%	5%	5%	4%
	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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

The Gross Profit margin was 1 percentage point lower at 13% in Q219 down from Q218 at 14% due to higher higher labour and salaries expenses 1% .

### **Operating Profit Analysis**

Year-on-year operating profits, were 18% lower at THB 409m in Q219 compared to THB 500m in Q218. The Operating margin was 1 percentage points lower at 8% in Q219 down from 9% in Q218 due to lower gross margin 1%. SG&A expenses were 10% higher in Q219 from Q218 due to higher employee expenses from increased employee benefits provision. Due to a change in the law, employee retirement benefits provision has increased (one time adjustment) by Bht 31.6m in 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 Q219 was Baht/USD 31.59, Q218 was Baht/USD 31.92 (and Q119 was Baht/USD 31.61).

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 30.74 at 30/06/19, and Baht/USD 33.17 at 30/06/18 (31.81 at 31/03/19) or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

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

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

### **Financial Status**

Cash reserves and financial investments at the 30th June 2019 were THB 8.2 billion down THB 1.2 billion from 30th June 2018 at THB 9.4 billion. Interest bearing debt is THB 570m in Q219.

### **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 63 days in Q219 and 68 days in Q218.

	<u>30-Jun-19</u>	<u>30-Jun-18</u>	THB '000
Trade Receivables			
Less than 3 months	3,456,274	3,969,897	
3 - 6 months	27,656	11,593	
6 - 12 months	1,506	2,793	
More than 12 months	1,094	11,014	
Total accounts receivable - other companies	<u>3,486,530</u>	<u>3,995,297</u>	
Less : Allowance for doubtful accounts	(4,064)	(9,274)	
	<u>3,482,466</u>	<u>3,986,023</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 98 days as at 30th June, 2019 and 83 days as at 30th June, 2018 .

#### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (Recurring EBITDA) in Q2 2019 was THB 696m which was 9% lower than Q2 2018 was THB 765m.

#### **Capital Expenditure**

Net Capital Expenditure was THB 229m in Q2 2019, and THB 503m in Q2 2018. 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 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 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 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