

Management's Discussion and Analysis

Year 2010

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 26% year on year, to THB 17.0 billion in year 2010 from THB 13.5 billion in year 2009. Sales Revenue in USD terms increased 36% to USD 535m in 2010 from USD 392m in 2009. Operating Profits increased 34% to THB 2,473m Baht in 2010 from THB 1,848m in 2009. Operating profits increased 45% in USD terms to USD 78m in 2010 and USD 54m in 2009.

Past Performance Analysis

Revenue Analysis

Sales were sharply higher in 2010 as the global economy recovered from the recession in 2008/2009. Whilst USD sales increased by 36%, in Baht terms sales increased by 26% due to the 8% stronger Thai baht in 2010 at THB/USD 31.73 compared to THB/USD 34.34 in 2009. Group Sales grew continually each quarter from the first half of 2009 until the end of Q3 2010. Sales in Q4 2010 declined as the semiconductor cycle matured towards the end of 2010.

In 2010 IC assembly sales rebounded with 64% in USD terms [+51% in THB terms]. IC divisions Sales grew strongly to record levels in 2010, with growth continuing quarterly from the first half of 2009 until Q3 2010. For 2010, the IC division in AYT sales increased 62% [+50% in THB terms], and increased 75% [+63% in THB terms] for the IC division in JXG. The IC divisions USD revenues were up 16% [+10% in THB terms] in the second half of 2010 compared to the first half of 2010.

The Microelectronics divisions' sales revenues increased 30% [+17% THB] in 2010 over 2009. The microelectronics operation in Lamphun increased 21% [+9% in THB terms] and JXG by 53% [+41% in THB terms] for 2010. Microelectronics divisions USD sales in the second half of 2010 increased by 6% [0% in THB terms] from the first half of 2010.

CPG sales fell 15% [-21% THB] in 2010 due to the move towards closure in 2014. Hana Microdisplay Technologies "HMT", sales increased 139% [+119% THB] for the year with the growth mainly from higher microdisplay sales for optical telecom switch components.

The annual sales split was:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
PCBA (Thailand)	37%	43%	37%
PCBA (China)	17%	15%	18%
CPG - (Bangkok)	5%	8%	11%
IC (AYT)	35%	29%	29%
IC (China)	5%	4%	4%
HMT (USA)	1%	1%	1%
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	100%	100%	100%

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

The Gross Profit margin was 17% in 2010 down 2% from 19% in 2009 due the 8% stronger Baht and CNY.

Operating Profit Analysis

Operating profit margin increased 1% in 2010 to 15% from 14% in 2009 due to lower SGA expenses in 2010 offsetting the lower gross margin. SGA expenses decreased by THB 87m to 4% of sales revenue in 2010 from 6% of sales revenue in 2009 as a result of reversals in 2010 of doubtful debt provisions made in 2009.

Net Profit margin before exceptional items increased in 2010 from 2009 by 1% to 16% (due to foreign exchange gains from hedging of the THB). 2009 margin had increased from 13% in 2008. Income taxation remained reduced to 3% in 2010 due to lower profit at CPG division and higher BOI sales revenues from at 5-7% of Net Profit before tax for previous two years.

EBITDA margin was similar in 2010 to 2009 at 21% rising slightly by 1% from 19% in 2008.

Payout Analysis

The company paid dividends per share of THB 1.30 in 2008 from the profits of 2007, THB 1.20 in 2009

from the profits of 2008 and THB 1.40 in 2010 from the profits of 2009 being 51%, 57% and 55% dividend payout of net profits before exceptional items respectively.

The final dividends are normally announced in the board meeting in February of the following year for approval in the annual general meeting in April paid out in May.

Financial Status

The group currently has no interest bearing debt. Cash and short term investments at the 31st December 2010 were THB 5.0 billion, 2009 THB 6.0 billion and THB 4.7 billion in 2008.

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	'000	<u>2010</u>	<u>2009</u>	<u>2008</u>
Less than 3 months		2,423,065	2,281,059	1,514,771
3 - 6 months		8,957	9,382	30,274
6 - 12 months		2,782	3,266	7,013
More than 12 months		0	5,768	1,266
Total accounts receivable - other companies		2,434,803	2,299,475	1,553,325
Less : Allowance for doubtful accounts		-3,240	-6,415	-13,052
		<u>2,431,564</u>	<u>2,293,060</u>	<u>1,540,272</u>

Inventory

In general, Hana's production is based on clients' order, 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 81 days in 2010, 58 days in 2009 and 59 days in 2008.

Liquidity

The group has THB 5.0 billion in cash and short term investments with no interest bearing debt. Liquidity ratios are high at approximately 3 times current liabilities. Operating Cashflow continued to be strong in 2010 with EBITDA at THB 3.6 billion and THB 2.9 billion in 2009 and THB 2.8 billion in 2008.

Cash and short term investments in 2010 decreased by THB 1.0 billion to THB 5.0 billion, due to dividend THB 1.1 billion, capital expenditure THB 2.1 billion and a THB 1.4 billion increase in working capital. The cash increase in 2009 from 2008 was THB 1.1 billion after dividend THB 1.0 billion and capital expenditure THB 0.8 billion and a THB 0.2 billion reduction in working capital.

The cash increase in 2008 was THB 1.3 billion due to the THB 0.5 billion reduction in working capital from the reduced business in the last quarter of 2008.

Capital Expenditure

Net Capital Expenditure was THB 1,976m in 2010, THB 754m in 2009 and THB 1,049m in 2008.

Capital Expenditure was higher in 2010 due to the increased demand in from Q409 through Q410.

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 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. As such, it 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.

As all the groups sales revenue are in foreign currency (primarily USD) and USD currency costs are 60% percent 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 170m 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 50m 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.

The THB/USD currency movements reflected the economic trends in emerging markets and commodities during period. Whilst the average rate for 2010 of THB/USD 31.73 was 8% stronger than the THB/USD 34.3 in 2009 which was 3% weaker than THB/USD 33.4 average rate for 2008.

For Hana being an export group of companies the currency movements cause volatility in earnings due to effects on the operating margins and also inventory valuations (which the management report each quarter when there is a material effect on the profits) and margins.

Exceptional Items

None in 2010, 2009 or 2008.

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CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year 2010		Year 2009		Year 2008		2010-2009	% 2010/2009
REVENUES								
Sales	16,957,936		13,457,941		15,105,712		3,499,994	126%
consisting of:								
<i>PCBA (Lamphun, Thailand)</i>	6,278,691	37%	5,771,541	43%	5,659,157	37%	507,150	109%
<i>PCBA (Jiaxing, China)</i>	2,805,296	17%	1,994,009	15%	2,648,854	18%	811,287	141%
<i>CPG (Bangkok, Thailand)</i>	868,852	5%	1,106,085	8%	1,626,385	11%	-237,233	79%
<i>IC (Ayuthaya, Thailand)</i>	5,941,781	35%	3,967,967	29%	4,408,441	29%	1,973,814	150%
<i>IC (Jiaxing, China)</i>	840,809	5%	516,523	4%	637,802	4%	324,286	163%
<i>HMT (Ohio, USA)</i>	222,507	1%	101,816	1%	125,073	1%	120,691	219%
	<u>16,957,936</u>	100%	<u>13,457,941</u>	100%	<u>15,105,712</u>	100%	<u>3,499,995</u>	126%
Other Income - Operating	316,360		146,584		224,120		169,776	216%
TOTAL REVENUES	<u>17,274,296</u>		<u>13,604,525</u>		<u>15,329,832</u>		<u>3,669,771</u>	127%
EXPENSES								
Cost of Sales	14,087,829	83%	10,956,720	81%	12,544,343	83%	3,131,109	129%
Selling & Admin. Expenses	713,093	4%	800,048	6%	929,622	6%	-86,956	89%
Interest Expenses	7,922		6,784		6,077		1,138	117%
	<u>14,808,844</u>	87%	<u>11,763,553</u>	87%	<u>13,480,042</u>	89%	<u>3,045,291</u>	126%
EARNINGS from Operation	<u>2,465,452</u>	14%	<u>1,840,972</u>	14%	<u>1,849,790</u>	12%	<u>624,480</u>	134%
Other Income - Non Operating	37,724		137,972		30,527		-100,248	
Exchange Gain (Loss)	192,417		139,174		75,924		53,244	
Interest	140,741		82,548		76,705		58,192	170%
EARNINGS before Income Tax	<u>2,836,334</u>	16%	<u>2,200,666</u>	16%	<u>2,032,946</u>	13%	<u>635,668</u>	129%
Corporate Income Tax	-86,913	3%	-157,710	7%	-123,396	6%	70,797	55%
Earnings before Exceptional Items	<u>2,749,421</u>	16%	<u>2,042,956</u>	15%	<u>1,909,550</u>	13%	<u>706,465</u>	135%
Exceptional Items	0		0		0		0	
NET EARNINGS for the Period	<u>2,749,421</u>	16%	<u>2,042,956</u>	15%	<u>1,909,550</u>	12%	<u>706,465</u>	135%
EARNINGS % of SALES	16%		15%		13%		3%	
Average number of shares (1 Baht par)	804,879		808,586		830,133		-21,548	
EARNINGS per SHARE (baht) before exch. & exceptio	3.18		2.35		2.21		0.15	
EARNINGS per SHARE (baht) after exceptionals	3.42		2.53		2.30		0.23	
Operating Profit (EBIT)	2,473,374		1,847,757		1,855,866		-8,109	134%
Depreciation	1,138,504		1,138,504		961,806		176,698	100%
EBITDA (excl exchange gain/loss)	3,611,879		2,986,261		2,817,673		168,588	121%
EBITDA % of Sales Revenue	21%		22%		19%			
Cashflow Earnings per Share-diluted	4.49		3.69		3.39		0.30	
Dividend from prior years profits	1,127,000		981,010		1,079,353		-	98,343

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CONSOLIDATED Balance Sheet

'000 Baht	Year 2010	Year 2009	Year 2008	2010-2009	%
				2010/2009	
ASSETS					
CURRENT ASSETS					
Cash in Hand & at Banks	2,974,544	3,062,782	4,316,298	-88,238	-3%
Financial Investments	2,035,009	2,006,649	362,624	28,360	1%
Accounts Receivable - trade	2,431,564	2,725,095	1,540,272	-293,531	-11%
Inventories	2,555,008	2,365,841	2,060,582	189,167	8%
Other Current Assets	243,141	248,315	136,715	-5,174	-2%
TOTAL CURRENT ASSETS	10,239,265	10,408,682	8,416,492	-169,417	-2%
LOAN TO RELATED COMPANY	0	0	0	0	
INVESTMENTS IN ASSOCIATED COMPANY	0	0	0	0	
FIXED ASSETS (net)	6,526,493	6,314,515	5,875,209	211,978	3%
OTHER ASSETS	38,177	55,789	19,911	-17,612	
TOTAL ASSETS	16,803,935	16,778,986	14,311,611	24,949	0%
LIABILITIES					
CURRENT LIABILITIES					
Bank Overdrafts & Loans	0	0	0	0	
Accounts & Notes Payable	2,189,647	2,307,574	1,228,579	-117,927	-5%
Corporate Income Tax Payable	175,732	179,129	220,569	-3,397	-2%
Accrued Expenses	176,592	323,678	156,441	-147,086	-45%
Other Current Liabilities	183,428	375,083	308,544	-191,655	-51%
TOTAL CURRENT LIABILITIES	2,725,399	3,185,464	1,914,133	-460,065	-14%
TOTAL LIABILITIES	2,725,399	3,185,464	1,914,133	-460,065	-14%
SHAREHOLDERS EQUITY					
Share Capital	830,475	830,475	830,475	0	0%
Unrealised gain(loss) on change in investments	103,873	134,680	0	-30,807	-23%
Share Premium	1,723,219	1,723,219	1,723,219	0	0%
Retained Earnings	0	0	0	0	
Appropriated Statutory Reserve	320,218	320,218	322,420	0	0%
Unappropriated & Treasury Share Reserve	11,963,352	11,398,420	9,390,554	564,932	5%
Translation adj. & Investment revaluation	-599,614	-550,503	285,786	-49,111	9%
Treasury shares	-262,987	-262,987	0	0	0%
Excess Cost over Net Book Value of Subsidiary Investment	0	0	-154,976	0	
TOTAL SHAREHOLDERS EQUITY	14,078,536	13,593,522	12,397,478	485,015	4%
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	16,803,935	16,778,986	14,311,611	24,950	0%
Cash and short term investments (K USD equivalent)	82,420	84,865	105,071	-2,445	
Year ending THB/USD exchange rate	36.09	36.09	41.08	-	
Cash & Equivalents	5,009,553	5,069,431	4,678,922	-59,878	
Liabilities	2,725,399	3,185,464	1,914,133	-460,065	
Debt/Equity	0.19	0.23	0.15	-0.04	
Net Debt (Net cash) [Cash - Total Liabilities]	-2,284,153	-1,883,967	-2,764,789	-400,186	
Net Debt/Equity	-0.16	-0.14	-0.22	-0.02	
				0	

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CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Year 2010</u>	<u>Year 2009</u>	<u>Year 2008</u>	<u>2010-2009</u>
Cashflow from Operating Activities				
Net Earnings	2,836,334	2,200,666	2,032,946	635,668
Adjustments to reconcile net earnings to net cash provided by operating activities				
Non Cash items				
Depreciation	1,143,991	1,005,338	961,806	138,653
Unrealised (gain) Loss on exchange	- 12,767	-	- 17,556	- 12,767
Change in other provisions	- 221,041	- 141,796	110,413	- 79,245
	<u>910,183</u>	<u>863,542</u>	<u>1,054,664</u>	<u>46,641</u>
Working Capital (increase) decrease				
Trade accounts receivable	- 149,896	- 741,703	897,624	591,807
Inventories	- 763,186	321,560	57,603	- 1,084,746
Trade accounts payable	202,624	423,086	- 439,333	- 220,462
Other	- 227,157	- 159,492	- 57,738	- 67,665
	<u>- 937,616</u>	<u>- 156,549</u>	<u>458,156</u>	<u>- 781,066</u>
Net Cashflow from Operating Activities	<u>2,808,902</u>	<u>2,907,659</u>	<u>3,545,765</u>	<u>- 98,757</u>
Cashflow from Investing Activities				
(Increase) decrease in short term investment	- 232,692	- 1,172,027	- 392,580	939,335
Increase in property, plant and equipment	- 2,291,160	- 402,781	- 1,448,373	- 1,888,379
Proceeds from sale of fixed assets	35,281	35,988	7,171	- 707
Increase (decrease) in translation adjustment	- 585,217	- 368,843	337,069	- 216,374
Decrease in short term loans to related parties				-
Other	138,887	114,825	6	24,062
	<u>- 2,934,900</u>	<u>- 1,792,837</u>	<u>- 1,496,719</u>	<u>- 1,142,063</u>
Cashflow from Financing Activities				
Cash paid for treasury stock	-	- 221,951	- 41,037	221,951
Cash received from increase in share capital & overdraft	- 44,692	43,906	1,210	- 88,598
Dividend paid	- 1,126,830	- 981,010	- 1,079,353	- 145,820
Net cash (used in) from financing activities	<u>- 1,171,523</u>	<u>- 1,159,055</u>	<u>- 1,119,179</u>	<u>- 12,468</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	- 1,297,521	- 44,233	929,867	- 1,253,288
Cash and Equivalents at the beginning of the period	4,272,065	4,316,298	3,386,431	- 44,233
Cash and Equivalents at the end of the period	<u>2,974,544</u>	<u>4,272,065</u>	<u>4,316,298</u>	<u>- 1,297,521</u>

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Year 2010	Year 2009	Year 2008	2010-2009
Profitability Ratios				
Gross Profit Margin (%)	17%	19%	17%	-2%
Operating Profit Margin (%)	15%	14%	12%	1%
Net Profit before Exceptional Margin (%)	16%	15%	13%	1%
Net Profit after Exceptional Margin (%)	16%	15%	13%	1%
EBITDA margin (%)	21%	22%	19%	-1%
Return On Equity (%) pa	20%	15%	17%	5%
Efficiency Ratios				
Working Capital turnover	5	5	6	-
Account Receivable days	65	57	37	8
Inventory days	81	58	59	23
Accounts Payable days	-	72	-	76
Liquidity Ratios				
Current Ratio	3.8	3.3	4.4	0.5
Quick Ratio	2.7	2.4	3.2	0.3
Financial Capital Ratios				
Debt / Equity	0.2	0.2	0.2	0.0
Net Debt to Equity	-0.2	-0.1	-0.2	0.0
Interest Coverage	n/a	n/a	n/a	