

## Management's Discussion and Analysis

Year 2011

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue decreased 4% year on year, to THB 16.3 billion in year 2011 from THB 17.0 billion in year 2010. Sales Revenue in USD terms was similar to USD 535m in 2011 and 2010. Operating profits decreased 42% to THB 1,427m Baht in 2011 from THB 2,473m in 2010. Operating profits decreased 40% in USD terms to USD 47m in 2011 from USD 78m in 2010.

### Past Performance Analysis

#### Revenue Analysis

Group Sales were lower in by 4% 2011 primarily due to the flood at the Ayutthaya factory offsetting higher sales in the PCBA divisions. Year-to-date Q311 sales were similar to the same period in 2010. USD sales were similar for 2011 and 2010 at USD 534.5m. In Baht terms sales decreased by 4% due to the Thai Baht strengthening by 4% in 2011 to THB/USD 30.53 in 2011 from THB/USD 31.73 in 2010.

The Microelectronics divisions' sales revenues increased 13% [+8% THB] in 2011 over 2010. The microelectronics operation in Lamphun increased 4% [0% in THB terms] and JXG by 33% [+28% in THB terms] for 2011. In 2011 IC assembly sales decreased by 9% in USD terms [-12% in THB terms]. For 2011, the IC division in AYT sales decreased 12% [-15% in THB terms], but increased 13% [+9% in THB terms] for the IC division in JXG.

CPG sales fell 70% [-71% THB] in 2011 due to the move towards closure in 2014. Hana Microdisplay Technologies "HMT", sales increased 17% [+13% THB] for the year with the growth mainly from higher microdisplay sales for optical telecom switch components.

The annual sales split was:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
PCBA (Thailand)	38%	37%	43%
PCBA (China)	22%	17%	15%
CPG - (Bangkok)	2%	5%	8%
IC (AYT)	31%	35%	29%
IC (China)	6%	5%	4%
HMT (USA)	2%	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 13% in 2011 down 4% from 17% in 2010 due the 4% stronger Baht and CNY (2%), higher material costs (1%) and higher wage costs (1%) in each location.

### Operating Profit Analysis

The Operating profit margin decreased 6% in 2011 to 9% from 15% in 2010 due to the lower Gross Profit margin and increased SG&A expense.

SGA expenses increased by THB 254m to 6% of sales revenue in 2011 from 4% of sales revenue in 2010 as a result of reversals in 2010 of doubtful debt provisions made in 2009, higher expenses as a result of the business expansion in microelectronics division and the flooding of Ayutthaya plant in 2011.

### Payout Analysis

The company paid dividends per share of THB 1.20 in 2009 from the profits of 2008, THB 1.40 in 2010 from the profits of 2009 and THB 1.55 in 2011 from the profits of 2010 being 57%, 55% and 45% 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 financial investments) reserves at the 31st December, 2011 were THB 5.9 billion up from 31st December, 2010 of THB 5.0 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	'000	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Less than 3 months		2,445,169	2,423,065	2,281,059
3 - 6 months		20,670	8,957	9,382
6 - 12 months		7,236	2,782	3,266
More than 12 months		5,380	-	5,768
Total accounts receivable - other companies		2,478,455	2,434,803	2,299,475
Less : Allowance for doubtful accounts		(11,189)	(3,240)	(6,415)
		<u>2,467,266</u>	<u>2,431,564</u>	<u>2,293,060</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 65 days in 2011, 55 days in 2010 and 58 days in 2009.

## **Liquidity**

The group has THB 5.9 billion in cash and short term investments with no interest bearing debt. Liquidity ratios are high at approximately 3 times current liabilities. Operating Cashflow (EBITDA) was 28% lower in 2011 due to the flood of the Ayutthaya plant, stronger exchange rate and increased wage and material costs with EBITDA at THB 2.6 billion in 2011 and THB 3.6 billion in 2010 and THB 2.9 billion in 2009.

Cash and short term investments in 2011 increased by THB 0.8 billion to THB 5.8 billion, due to dividend THB 1.2 billion, capital expenditure THB 1.4 billion and a THB 0.8 billion decrease in working capital. The cash decrease in 2010 from 2009 was THB 1.0 billion after dividend THB 1.1 billion and 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.

## **Capital Expenditure**

Net Capital Expenditure was THB 947m in 2011, THB 1,976m in 2010 and THB 754m in 2009. Capital Expenditure was lower in 2011 as demand flattened from 2010.

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 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% 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 80m 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. The average rate for 2011 of THB/USD 30.53 was 4% stronger than the THB/USD 31.73 in 2010 which was 8% stronger than the THB/USD 34.3 in 2009.

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**

The plant of Hana Semiconductor (Ayutthaya) Co., LTD, a 100% owned subsidiary of the company, which is located in Hitech Industrial Estate in Ayutthaya province, was inundated in early October 2011 as a result of the extensive flooding in Thailand during the fourth quarter of 2011.

The plant, equipment and business of the subsidiary suffered major damage estimated at approximately USD 40m or approximately THB 1,220m of property damage (based on replacement value) and significant business interruption losses which are still being assessed. In the 2011 Financial Statements the subsidiary made full provision for the book value of the damaged property which is to be replaced.

The subsidiary is in the process of making claims on its property and business interruption insurance policies for the damage resulting from the flood at its Ayutthaya facility.

There were no exceptional items in 2010 or 2009.

### **Subsequent Event**

The subsidiary impacted by the flood has restarted production in Jan 2012 and expects to gradually increase production during the first half of 2012. The subsidiary received an interim payment of Baht 300m for the property insurance claim in February 2012.

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year <b>2011</b>		Year <b>2010</b>		Year <b>2009</b>		<b>2011-2010</b>	<b>%</b> <b>2011-2010</b>
<b>REVENUES</b>								
Sales	16,314,929		16,957,936		13,457,941		(643,007)	-4%
consisting of:								
<i>PCBA (Lamphun, Thailand)</i>	6,260,031	38%	6,278,691	37%	5,771,541	43%	(18,660)	0%
<i>PCBA (Jiaying, China)</i>	3,589,109	22%	2,805,296	17%	1,994,009	15%	783,813	28%
<i>CPG (Bangkok, Thailand)</i>	251,368	2%	868,852	5%	1,106,085	8%	(617,484)	-71%
<i>IC (Ayutthaya, Thailand)</i>	5,047,616	31%	5,941,781	35%	3,967,967	29%	(894,165)	-15%
<i>IC (Jiaying, China)</i>	915,524	6%	840,809	5%	516,523	4%	74,715	9%
<i>HMT (Ohio, USA)</i>	251,281	2%	222,507	1%	101,816	1%	28,774	13%
	<u>16,314,929</u>	100%	<u>16,957,936</u>	100%	<u>13,457,941</u>	100%	<u>(643,007)</u>	-4%
Other Income - Operating	340,274		316,360		146,584		23,914	8%
<b>TOTAL REVENUES</b>	<u>16,655,203</u>		<u>17,274,296</u>		<u>13,604,525</u>		<u>-619,093</u>	-4%
<b>EXPENSES</b>								
Cost of Sales	14,261,379	87%	14,087,829	83%	10,956,720	81%	173,550	1%
Selling & Admin. Expenses	967,333	6%	713,093	4%	800,048	6%	254,240	36%
Interest Expenses	9,351		7,922		6,784		1,429	18%
<b>TOTAL EXPENSES</b>	<u>15,238,063</u>	93%	<u>14,808,844</u>	87%	<u>11,763,553</u>	87%	<u>429,219</u>	3%
<b>EARNINGS from Operation</b>	<u>1,417,141</u>	9%	<u>2,465,452</u>	14%	<u>1,840,972</u>	14%	<u>(1,048,312)</u>	-43%
Other Income - Non Operating	65,695		37,724		137,972		27,971	
Exchange Gain (Loss)	120,339		192,417		139,174		(72,078)	
Interest	157,110		140,741		82,548		16,369	12%
<b>EARNINGS before Income Tax</b>	<u>1,760,285</u>	11%	<u>2,836,334</u>	16%	<u>2,200,666</u>	16%	<u>(1,076,050)</u>	-38%
Corporate Income Tax	(42,921)	2%	(86,913)	3%	(157,710)	7%	43,992	-51%
<b>Earnings before Exceptional Items</b>	<u>1,717,363</u>	11%	<u>2,749,421</u>	16%	<u>2,042,956</u>	15%	<u>(1,032,058)</u>	-38%
Exceptional Items	(99,294)		-		-		-	
<b>NET EARNINGS for the Period</b>	<u>1,618,069</u>	10%	<u>2,749,421</u>	16%	<u>2,042,956</u>	15%	<u>(1,032,058)</u>	-38%

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht	Year <b>2011</b>	Year <b>2010</b>	Year <b>2009</b>	<b>2011-2010</b>	%
				<b>2011-2010</b>	<b>2011-2010</b>
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash in Hand & at Banks	3,824,147	2,974,544	4,272,065	849,604	29%
Financial Investments	2,314,320	2,035,009	1,729,129	279,311	14%
Accounts Receivable - trade	2,568,516	2,431,564	2,293,060	136,952	6%
Inventories	2,646,579	2,555,008	1,756,824	91,571	4%
Other Current Assets	154,071	243,141	106,158	(89,070)	-37%
<b>TOTAL CURRENT ASSETS</b>	<b>11,507,633</b>	<b>10,239,265</b>	<b>10,157,236</b>	<b>1,268,368</b>	<b>12%</b>
LOAN TO RELATED COMPANY	-	-	-		
INVESTMENTS IN ASSOCIATED COMPANY	-	-	-		
<b>FIXED ASSETS (net)</b>	<b>6,372,590</b>	<b>6,526,493</b>	<b>5,605,407</b>	<b>(153,903)</b>	<b>-2%</b>
OTHER ASSETS	31,489	38,177	48,258	(6,688)	
<b>TOTAL ASSETS</b>	<b>17,911,713</b>	<b>16,803,935</b>	<b>15,810,900</b>	<b>1,107,777</b>	<b>7%</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Bank Overdrafts & Loans	38,821	-	43,906	38,821	
Accounts & Notes Payable	2,506,443	2,189,647	2,018,596	316,797	14%
Corporate Income Tax Payable	15,155	175,732	258,770	(160,577)	-91%
Accrued Expenses	368,474	176,592	151,781	191,882	109%
Other Current Liabilities	65,341	183,428	331,561	(118,088)	-64%
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,994,234</b>	<b>2,725,399</b>	<b>2,804,614</b>	<b>268,834</b>	<b>10%</b>
<b>LONG TERM LIABILITIES</b>					
Long Term Loans					
Other Long Term Liabilities	352,900			352,900	
<b>TOTAL LIABILITIES</b>	<b>3,347,133</b>	<b>2,725,399</b>	<b>2,804,614</b>	<b>621,734</b>	<b>23%</b>
<b>SHAREHOLDERS EQUITY</b>					
Share Capital	830,475	830,475	830,475	0	0%
Unrealised gain(loss) on change in investments	-	103,873	68,996	(103,873)	-100%
Share Premium	1,723,219	1,723,219	1,723,219	0	0%
Retained Earnings	-	-	-		
Appropriated Statutory Reserve	320,218	320,218	320,218	(0)	0%
Unappropriated & Treasury Share Reserve	12,046,061	11,963,352	10,340,762	82,709	1%
Translation adj. & Investment revaluation	(92,407)	(599,614)	(14,397)	507,207	-85%
Treasury shares	(262,987)	(262,987)	(262,987)	0	0%
Excess Cost over Net Book Value of Subsidiary Investm	-	-	-		
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>14,564,579</b>	<b>14,078,536</b>	<b>13,006,286</b>	<b>486,043</b>	<b>3%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUIT</b>	<b>17,911,713</b>	<b>16,803,935</b>	<b>15,810,900</b>	<b>1,107,777</b>	<b>7%</b>

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Year <b>2011</b>	Year <b>2010</b>	Year <b>2009</b>	<b>2011-2010</b>
<b>Cashflow from Operating Activities</b>				
Net Earnings	1,660,991	2,836,334	2,200,666	(1,175,344)
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>				
<b>Non Cash items</b>				
Depreciation	1,192,832	1,143,991	1,005,338	48,841
Unrealised (gain) Loss on exchange	(1,821)	(12,767)	-	10,947
Change in other provisions	349,469	(221,041)	(141,796)	570,510
	<u>1,540,480</u>	<u>910,183</u>	<u>863,542</u>	<u>630,297</u>
<b>Working Capital (increase) decrease</b>				
Trade accounts receivable	(56,460)	(149,896)	(741,703)	93,436
Inventories	(234,897)	(763,186)	321,560	528,289
Trade accounts payable	293,964	202,624	423,086	91,340
Other	(316,533)	(227,157)	(159,492)	(89,376)
	<u>(313,926)</u>	<u>(937,616)</u>	<u>(156,549)</u>	<u>623,689</u>
<b>Net Cashflow from Operating Activities</b>	<u>2,887,544</u>	<u>2,808,902</u>	<u>2,907,659</u>	<u>78,642</u>
<b>Cashflow from Investing Activities</b>				
(Increase) decrease in short term investment	107,000	(232,692)	(1,172,027)	339,692
Increase in property, plant and equipment	(1,396,549)	(2,291,160)	(402,781)	894,611
Proceeds from sale of fixed assets	36,601	35,281	35,988	1,319
Increase (decrease) in translation adjustment	439,466	(585,217)	(368,843)	1,024,683
Decrease in short term loans to related parties				-
Other	10,198	138,887	114,825	(128,690)
	<u>-803,285</u>	<u>-2,934,900</u>	<u>-1,792,837</u>	<u>2,131,616</u>
<b>Cashflow from Financing Activities</b>				
Cash paid for treasury stock	-	-	(221,951)	-
Cash received from increase in share capital & overdraft	38,259	(44,692)	43,906	82,951
Dividend paid	(1,247,562)	(1,126,830)	(981,010)	(120,732)
Net cash (used in ) from financing activities	<u>(1,209,303)</u>	<u>(1,171,523)</u>	<u>(1,159,055)</u>	<u>(37,781)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	874,956	(1,297,521)	(44,233)	2,172,477
Cash and Equivalents at the beginning of the period	<u>2,974,544</u>	<u>4,272,065</u>	<u>4,316,298</u>	<u>(1,297,521)</u>
Cash and Equivalents at the end of the period	<u>3,849,500</u>	<u>2,974,544</u>	<u>4,272,065</u>	<u>874,956</u>

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	Year <u>2011</u>	Year <u>2010</u>	Year <u>2009</u>	<u>2011-2010</u>
<b>Profitability Ratios</b>				
Gross Profit Margin (%)	13%	17%	19%	-4%
Operating Profit Margin (%)	9%	15%	14%	-6%
Net Profit before Exceptional Margin (%)	11%	16%	15%	-6%
Net Profit after Exceptional Margin (%)	10%	16%	15%	-6%
EBITDA margin (%)	16%	22%	22%	-6%
Return On Equity (%) pa	11%	20%	16%	-8%
<b>Efficiency Ratios</b>				
Working Capital turnover	6	7	6	(1)
Account Receivable days	55	50	51	5
Inventory days	66	55	58	11
Accounts Payable days	59	54	66	6
<b>Liquidity Ratios</b>				
Current Ratio	3.8	3.8	3.6	0.1
Quick Ratio	2.9	2.7	3.0	0.2
<b>Financial Capital Ratios</b>				
Debt / Equity	0.2	0.2	0.2	0.0
Net Debt to Equity	-0.2	-0.2	-0.2	0.0
Interest Coverage	n/a	n/a	n/a	