

Management's Discussion and Analysis

Year 2012

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 6% year on year, to THB 17.3 billion in year 2012 from THB 16.3 billion in year 2011. Sales Revenue in USD terms increased by 4% to USD 556m in 2012 from USD 535m in 2011. Operating profits decreased 25% to THB 1,076m Baht in 2012 from THB 1,427m Baht in 2011. Operating profits decreased 26% in USD terms to USD 35m in 2012 from USD 47m in 2011.

Past Performance Analysis

Revenue Analysis

Group Sales were higher by 6% in 2012 at THB 17,232m from THB 16,315m in 2011 with markets being stronger in the first half of 2012 and weaker in the second half of the year. USD sales were 4% higher in 2012 at USD 555m from USD 535m in 2011 as the average THB/USD exchange rate in 2012 weakened 2% to THB/USD 31.03 in 2012 from THB/USD 30.53 in 2011.

The Microelectronics divisions' sales revenues increased 14% [+16% THB] in 2012 over 2011. The microelectronics operation in Lamphun increased 14% [15% in THB terms] and JXG by 17% [+19% in THB terms] for 2012.

In 2012 IC assembly sales decreased by 9% in USD terms [-7% in THB terms]. For 2012, the IC division in AYT sales decreased 16% [-14% in THB terms], but increased 27% [+30% in THB terms] for the IC division in JXG. CPG sales fell 71% [-71% THB] in 2012 as the operations ceased in Q1 2012. Hana Microdisplay Technologies "HMT", sales decreased 37% [-36% THB] for the year.

The annual sales split was:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
PCBA (Thailand)	42%	38%	37%
PCBA (China)	25%	22%	17%
CPG - (Bangkok)	0%	2%	5%
IC (AYT)	25%	31%	35%
IC (China)	7%	6%	5%
HMT (USA)	1%	2%	1%
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	100%	100%	100%

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

The Gross Profit margin was 10% in 2012 down 3% from 13% in 2011 due to the change in product mix with the increase in PCBA sales and decrease in IC assembly sales. PCBA sales have a higher material content than IC assembly product sales. Higher labour costs due to the minimum wage increase in 2012 also contributed to a lower margin.

Operating Profit Analysis

The Operating profit margin decreased 3% in 2012 to 6% from 9% in 2011 due to the lower Gross Profit margin.

SGA expenses decreased by 3% [THB 29m] and were 5% of sales revenue in 2012, compared to 6% in 2011.

Payout Analysis

The company paid dividends per share of THB 1.40 in 2010 from the profits of 2009, THB 1.55 in 2011 from the profits of 2010 and THB 1.00 in 2012 from the profits of 2011 being 55%, 45% and 48% dividend payout of net profits before exceptional items respectively. The company also paid an interim dividend of THB 0.50 in Q412.

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, 2012 were THB 5.5 billion down from 31st December, 2011 of THB 5.8 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	<u>2012</u>	<u>2011</u>	<u>2010</u>
Less than 3 months		2,653,880	2,445,169	2,423,065
3 - 6 months		23,758	20,670	8,957
6 - 12 months		16,349	7,236	2,782
More than 12 months		3,173	5,380	-
Total accounts receivable - other companies		2,697,160	2,478,455	2,434,803
Less : Allowance for doubtful accounts		(6,904)	(11,189)	(3,240)
		<u>2,690,256</u>	<u>2,467,266</u>	<u>2,431,564</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 64 days in 2012, 66 days in 2011 and 55 days in 2010.

Liquidity

The group has THB 5.5 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 11% lower in 2012 due to the flood of the Ayutthaya plant, stronger exchange rate and increased wage and material costs with EBITDA at THB 2.3 billion in 2012 and THB 2.6 billion in 2011 and THB 3.6 billion in 2010.

Cash and short term investments in 2012 decreased by THB 0.3 billion to THB 5.5 billion, due to EBITDA 2.3 billion less final dividend THB 0.8m, interim dividend Q412 THB 0.4m, capital expenditure THB 1.4 billion.

The cash in 2011 increased from 2010 by THB 0.8 billion to THB 5.8 billion, due to EBITDA 2.6 billion less 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 EBITDA THB 3.7 billion less dividend THB 1.1 billion and capital expenditure THB 2.1 billion and a THB 1.5 billion increase in working capital.

Capital Expenditure

Net Capital Expenditure was THB 1,372m in 2012, THB 1,360m in 2011 and THB 1,976m in 2010. Capital Expenditure was higher in 2012 due to the replacement of equipment damaged in the flood at the Ayutthaya plant.

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 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 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.

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.

Foreign Exchange Rates

The THB/USD currency movements reflected the economic trends in emerging markets and commodities during period. The average rate for 2012 of THB/USD 31.03 was 2% weaker than the THB/USD 30.53 in 2011 which was 4% stronger than the THB/USD 31.73 in 2010.

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 with approximately USD 40m of property damage and significant business interruption losses. 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 has also expensed repairs incurred during the fourth quarter in the 2011 accounts and in the 2012 accounts. The repairs were completed in 2012.

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. In 2011 THB 300m was booked as receivable for an interim property insurance claim receipt. Net Exceptional items is primarily THB 400m business interruption insurance interim proceeds less THB 163m for flood related damaged materials provisions.

There were no exceptional items in 2010.

Subsequent Event

None

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year 2012		Year 2011		Year 2010		2012-2011	% 2012-2011
REVENUES								
Sales	17,232,769		16,314,929		16,957,936		917,840	6%
consisting of:								
<i>PCBA (Lamphun, Thailand)</i>	7,180,725	42%	6,260,031	38%	6,278,691	37%	920,694	15%
<i>PCBA (Jiaxing, China)</i>	4,280,548	25%	3,589,109	22%	2,805,296	17%	691,439	19%
<i>CPG (Bangkok, Thailand)</i>	73,710	0%	251,368	2%	868,852	5%	(177,658)	-71%
<i>IC (Ayuthaya, Thailand)</i>	4,363,733	25%	5,047,616	31%	5,941,781	35%	(683,883)	-14%
<i>IC (Jiaxing, China)</i>	1,173,666	7%	915,524	6%	840,809	5%	258,142	28%
<i>HMT (Ohio, USA)</i>	160,387	1%	251,281	2%	222,507	1%	(90,894)	-36%
	<u>17,232,769</u>	100%	<u>16,314,929</u>	100%	<u>16,957,936</u>	100%	<u>917,840</u>	6%
Other Income - Operating	331,046		340,274		316,360		(9,229)	-3%
TOTAL REVENUES	<u>17,563,815</u>		<u>16,655,203</u>		<u>17,274,296</u>		<u>908,611</u>	5%
EXPENSES								
Cost of Sales	15,550,124	90%	14,261,379	87%	14,087,829	83%	1,288,746	9%
Selling & Admin. Expenses	938,123	5%	967,334	6%	713,093	4%	(29,211)	-3%
Interest Expenses	7,478		9,351		7,922		(1,873)	-20%
	<u>16,495,726</u>	96%	<u>15,238,064</u>	93%	<u>14,808,844</u>	87%	<u>1,257,662</u>	8%
EARNINGS from Operation	<u>1,068,089</u>	6%	<u>1,417,140</u>	9%	<u>2,465,452</u>	14%	<u>(349,051)</u>	-25%
Other Income - Non Operating	84,982		65,695		37,724		19,287	
Exchange Gain (Loss)	168,400		120,339		192,417		48,061	
Interest	170,696		157,110		140,741		13,586	9%
EARNINGS before Income Tax	<u>1,492,167</u>	8%	<u>1,760,284</u>	11%	<u>2,836,334</u>	16%	<u>(268,117)</u>	-15%
Corporate Income Tax	(68,883)	5%	(42,921)	2%	(86,913)	3%	(25,961)	60%
Earnings before Exceptional Items	<u>1,423,284</u>	8%	<u>1,717,362</u>	11%	<u>2,749,421</u>	16%	<u>(294,079)</u>	-17%
Exceptional Items	237,242		(99,294)		-		(99,294)	
NET EARNINGS for the Period	<u>1,660,526</u>	9%	<u>1,618,068</u>	10%	<u>2,749,421</u>	16%	<u>(393,373)</u>	-24%

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Year 2012	Year 2011	Year 2010	2012-2011	%
	2012-2011	2012-2011			
ASSETS					
CURRENT ASSETS					
Cash in Hand & at Banks	3,111,181	3,824,147	2,974,544	(712,966)	-19%
Financial Investments	2,370,090	2,014,320	2,035,009	355,770	18%
Accounts Receivable - trade	2,764,216	2,568,516	2,431,564	195,700	8%
Inventories	2,847,768	2,646,579	2,555,008	201,189	8%
Other Current Assets	169,640	154,071	243,141	15,570	10%
TOTAL CURRENT ASSETS	11,262,896	11,507,633	10,239,265	(244,737)	-2%
LOAN TO RELATED COMPANY	-	-	-		
INVESTMENTS IN ASSOCIATED COMPANY	-	-	-		
FIXED ASSETS (net)	6,621,701	6,372,590	6,526,493	249,110	4%
OTHER ASSETS	36,778	31,489	38,177	5,290	
TOTAL ASSETS	17,921,375	17,911,712	16,803,935	9,663	0%
LIABILITIES					
CURRENT LIABILITIES					
Bank Overdrafts & Loans	24,435	38,821	-	(14,386)	-37%
Accounts & Notes Payable	2,087,840	2,506,443	2,189,647	(418,604)	-17%
Corporate Income Tax Payable	16,565	15,155	175,732	1,410	9%
Accrued Expenses	448,350	368,474	176,592	79,876	22%
Other Current Liabilities	38,072	65,341	183,428	(27,269)	-42%
TOTAL CURRENT LIABILITIES	2,615,261	2,994,234	2,725,399	(378,972)	-13%
LONG TERM LIABILITIES					
Long Term Loans					
Other Long Term Liabilities	376,361	352,900		23,461	
TOTAL LIABILITIES	2,991,622	3,347,133	2,725,399	(355,512)	-11%
SHAREHOLDERS EQUITY					
Share Capital	804,879	830,475	830,475	(25,596)	-3%
Unrealised gain(loss) on change in investments	-	-	103,873		
Share Premium	1,723,219	1,723,219	1,723,219		#####
Retained Earnings	-	-	-		
Appropriated Statutory Reserve	352,497	320,218	320,218	32,279	10%
Unappropriated & Treasury Share Reserve	12,229,599	11,783,074	11,963,352	446,525	4%
Translation adj. & Investment revaluation	(180,441)	(92,407)	(599,614)	(88,034)	95%
Treasury shares	-	-	(262,987)		
Excess Cost over Net Book Value of Subsidiary Investr	-	-	-		
TOTAL SHAREHOLDERS EQUITY	14,929,753	14,564,579	14,078,536	365,173	3%
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	17,921,375	17,911,713	16,803,935	9,662	0%

HANA MICROELECTRONICS GROUP
CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Year 2012	Year 2011	Year 2010	2012-2011
Cashflow from Operating Activities				
Net Earnings	1,729,409	1,660,990	2,836,334	68,419
Adjustments to reconcile net earnings to net cash provided by operating activities				
Non Cash items				
Depreciation	1,228,986	1,192,832	1,143,991	36,154
Unrealised (gain) Loss on exchange	(28,613)	(1,821)	(12,767)	(26,792)
Change in other provisions	(48,519)	328,577	(221,041)	(377,096)
	<u>1,151,855</u>	<u>1,519,588</u>	<u>910,183</u>	<u>(367,733)</u>
Working Capital (increase) decrease				
Trade accounts receivable	(205,039)	(56,460)	(149,896)	(148,579)
Inventories	(251,077)	(234,897)	(763,186)	(16,180)
Trade accounts payable	(429,800)	293,968	202,624	(723,768)
Other	205,657	(320,993)	(227,157)	526,650
	<u>(680,260)</u>	<u>(318,383)</u>	<u>(937,616)</u>	<u>(361,877)</u>
Net Cashflow from Operating Activities	<u>2,201,004</u>	<u>2,862,195</u>	<u>2,808,902</u>	<u>(661,191)</u>
Cashflow from Investing Activities				
(Increase) decrease in short term investment	(417,867)	107,000	(232,692)	(524,867)
Increase in property, plant and equipment	(1,485,314)	(1,396,554)	(2,291,160)	(88,760)
Proceeds from sale of fixed assets	108,315	36,601	35,281	71,715
Increase (decrease) in translation adjustment	(230,376)	439,466	(585,217)	(669,843)
Decrease in short term loans to related parties				-
Other	333,063	10,198	138,887	322,865
	<u>-1,692,179</u>	<u>-803,290</u>	<u>-2,934,900</u>	<u>-888,890</u>
Cashflow from Financing Activities				
Cash paid for treasury stock	-	-	-	-
Cash received from increase in share capital & overdraft	(14,472)	38,260	(44,692)	(52,732)
Dividend paid	(1,207,318)	(1,247,562)	(1,126,830)	40,244
Net cash (used in) from financing activities	<u>(1,221,791)</u>	<u>(1,209,302)</u>	<u>(1,171,523)</u>	<u>(12,489)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(712,966)	849,603	(1,297,521)	(1,562,570)
Cash and Equivalents at the beginning of the period	<u>3,824,147</u>	<u>2,974,544</u>	<u>4,272,065</u>	<u>849,603</u>
Cash and Equivalents at the end of the period	<u>3,111,181</u>	<u>3,824,147</u>	<u>2,974,544</u>	<u>(712,966)</u>

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Year 2012	Year 2011	Year 2010	2012-2011
Profitability Ratios				
Gross Profit Margin (%)	10%	13%	17%	-3%
Operating Profit Margin (%)	6%	9%	15%	-2%
Net Profit before Exceptional Margin (%)	8%	10%	16%	-2%
Net Profit after Exceptional Margin (%)	10%	10%	16%	0%
EBITDA margin (%)	13%	16%	22%	-3%
Return On Equity (%) pa	11%	11%	20%	0%
Efficiency Ratios				
Working Capital turnover	6	6	7	(0)
Account Receivable days	56	55	50	1
Inventory days	64	66	55	(2)
Accounts Payable days	53	59	54	(6)
Liquidity Ratios				
Current Ratio	4.3	3.8	3.8	0.5
Quick Ratio	3.2	2.8	2.7	0.3
Financial Capital Ratios				
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	