

Management's Discussion and Analysis

Fourth Quarter ending 31st December 2011

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue was down 9% year on year at THB 3.6 billion for the fourth quarter of 2011 compared to THB 4.0 billion for the fourth quarter of 2010. Sales Revenue in USD terms decreased by 12% to USD 117m from USD 133m in Q4 2010. Operating Profits decreased 79% to THB 103m in Q4 2011 from THB 492m in Q4 2010.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>31-Dec-11</u>		<u>31-Dec-10</u>		<u>Q411-Q410</u>	<u>Q411-Q410</u>
<i>PCBA (Lamphun, Thailand)</i>	1,777,187	49%	1,369,295	34%	407,892	30%
<i>PCBA (Jiaxing, China)</i>	992,903	27%	723,235	18%	269,668	37%
<i>CPG (Bangkok, Thailand)</i>	52,841	1%	174,345	4%	(121,504)	-70%
<i>IC (Ayutthaya, Thailand)</i>	505,844	14%	1,446,632	36%	(940,788)	-65%
<i>IC (Jiaxing, China)</i>	240,979	7%	189,573	5%	51,406	27%
<i>HMT (Ohio, USA)</i>	63,859	2%	84,548	2%	(20,689)	-24%
Total Revenue	3,633,613		3,987,628		(354,015)	-9%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 4 2011 sales revenue for the group decreased 12% year-on-year in USD terms, from USD 133m in Q410 to USD 117m in Q411. The average exchange rate for Q411 was 3% weaker at THB/USD 31.02 from THB/USD 29.99 in Q410. As a result the sales revenue in THB terms was 9% lower year on year.

Year-on-year, the microelectronics divisions sales increased by 28% in USD terms. Sales in Lamphun increased 26% whilst JiaXing increased by 33%. The IC divisions USD sales revenues were 56% lower, with revenues the IC divisions in Ayutthaya decreasing by 66% and JiaXing increasing by 23%. "HMT" the microdisplay/RFID operation in Ohio sales revenue decreased 22%.

Quarter on Quarter Sales Revenue Analysis

Group sales decreased quarter on quarter by 22% from USD 149m in Q311 to USD 117m in Q411. Sales in the microelectronics division increased 4% but the IC division decreased by 60%. In THB equivalent the group sales decreased by 20% in Q411 compared to Q311. The average THB/USD exchange rate weakened by 2.5% from 30.27 in Q311 to 31.02 in Q411.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 4% higher with Lamphun increasing 10% and JiaXing decreasing 5%. Sales revenues from the IC divisions were 60% lower with Ayutthaya sales decreasing by 68% and JiaXing IC sales decreasing by 7%. The microdisplay division sales increased 7% in Q411 compared to Q311.

Sales Revenue Split

	<u>Q4 2011</u>	<u>Q3 2011</u>	<u>Q2 2011</u>	<u>Q1 2011</u>	<u>Q4 2010</u>
<i>PCBA (Lamphun, Thailand)</i>	49%	35%	35%	34%	35%
<i>PCBA (Jiaxing, China)</i>	27%	22%	20%	18%	18%
<i>CPG (Bangkok, Thailand)</i>	1%	2%	2%	4%	5%
<i>IC (Ayutthaya, Thailand)</i>	14%	34%	36%	36%	36%
<i>IC (Jiaxing, China)</i>	7%	6%	5%	5%	5%
<i>HMT (Ohio, USA)</i>	2%	1%	2%	2%	1%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 10% in Q411 down 4% from 14% in Q410 due to the stronger exchange rate, higher labour costs and the flood impacting the IC division in Ayutthaya.

Operating Profit Analysis

Year-on-year operating profits were 79% lower in Q411 and operating margins were 9% lower at 3% in Q411 from 12% in Q410 due to the lower Gross Profit margin and increased SG&A expense. SG&A expenses were 72% higher in Q411 than Q410 and were 59% higher in Q411 than Q311, due to higher expenses as a result of the business expansion in microelectronics division and the flooding of Ayutthaya plant.

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 Q411 was Baht/USD 31.02 from 29.99 in Q410 (and Baht/USD 30.25 in Q311).

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 31.69 at 31/12/11, and 30.15 at 31/12/10 or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid out in Q411.

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 days were 64 days in Q411 and 55 days in Q410.

Accounts receivable - other companies	31-Dec-11	31-Dec-10	'000
Less than 3 months	2,445,169	2,423,065	
3 - 6 months	20,670	8,957	
6 - 12 months	7,236	2,782	
More than 12 months	5,380		
Total accounts receivable - other companies	2,478,455	2,434,803	
Less : Allowance for doubtful accounts	(11,189)	(3,240)	
	<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 72 days as at 31st December, 2011 and 67 days as at 31st December, 2010.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q4 2011 was THB 363m which was 55% lower than Q4 2010 was THB 804m.

Capital Expenditure

Capital Expenditure was THB 155m in Q4 2011 and THB 324m in Q4 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 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's 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% percent of sales revenues. The Group's 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 group's 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 effect concerning its movement.

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.

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	Quarter		Quarter		%	
	<u>31-Dec-11</u>		<u>31-Dec-10</u>		<u>Q411-Q410</u>	<u>Q411-Q410</u>
REVENUES						
Sales	3,633,613		3,987,628		(354,015)	-9%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,777,187	49%	1,369,295	34%	407,892	30%
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<i>HMT (Ohio, USA)</i>	63,859	2%	84,548	2%	(20,689)	-24%
	<u>3,633,613</u>	100%	<u>3,987,628</u>	100%	<u>(354,015)</u>	-9%
Share of Assoc. company Profit	-		-		-	
Interest Income	47,543		34,540		13,003	38%
Other Income - Operating	82,631		138,813		(56,182)	-40%
Other Income - Non Operating	2,374		0		2,374	
TOTAL REVENUES	<u>3,766,161</u>		<u>4,160,982</u>		<u>(394,820)</u>	-9%
EXPENSES						
Cost of Sales	3,263,935	90%	3,431,505	86%	(167,570)	-5%
Selling & Admin. Expenses	374,254	10%	202,717	5%	171,537	85%
Interest Expenses	1,984		2,005		(21)	
TOTAL EXPENSES	<u>3,640,173</u>	100%	<u>3,636,227</u>	91%	<u>3,946</u>	0%
EARNINGS from Operation	<u>125,989</u>	0.033	<u>524,755</u>	0.126	<u>(398,766)</u>	-76%
Exchange Gain (Loss)	15,444		49,616		(34,172)	
Share of Assoc. company Loss	-		-		-	
EARNINGS before Income Tax	<u>141,433</u>	4%	<u>574,371</u>	14%	<u>(432,938)</u>	-75%
Corporate Income Tax	(9,241)	7%	(9,437)	2%	196	-2%
Earnings before Exceptional Items	<u>132,191</u>		<u>564,933</u>		<u>(432,742)</u>	-77%
Exceptional Items	(99,294)		-		(99,294)	
NET EARNINGS for the Period	<u>32,897</u>	1%	<u>564,933</u>	14%	<u>(532,036)</u>	-94%
EARNINGS % of SALES	1%		14%		-13%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch.	0.15		0.64		-0.50	
EARNINGS per SHARE (baht) after exceptio	0.04		0.70		-0.66	
Operating Profit (EBIT)	78,056		492,219		(414,164)	
	2%		12%			
Depreciation	284,770		311,532		(26,762)	
EBITDA (excl exchange gain/loss)	362,825		803,752		(440,927)	
EBITDA % of Sales Revenue	10%		20%			
Cashflow Earnings per Share	0.45		1.00		-0.55	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Quarter 31-Dec-11	Quarter 31-Dec-10	Q411-Q410
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	3,824,147	2,974,544	849,604
Financial Investments	2,014,320	2,035,009	(20,689)
Accounts Receivable - trade	2,568,516	2,431,564	136,952
Amounts due from Related Companies	-	-	
Inventories	2,646,579	2,555,008	91,571
Other Current Assets	454,071	243,141	210,930
TOTAL CURRENT ASSETS	11,507,633	10,239,265	1,268,368
LOAN TO OTHER COMPANY	97	97	
FIXED ASSETS (net)	6,372,590	6,526,493	(153,903)
OTHER ASSETS	31,392	38,080	(6,688)
TOTAL ASSETS	17,911,712	16,803,935	1,107,777
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	38,821	-	38,821
Accounts & Notes Payable	2,506,443	1,698,690	807,754
Corporate Income Tax Payable	15,155	25,266	(10,111)
Accrued Expenses	393,827	327,058	66,769
Other Current Liabilities	65,341	674,386	(609,045)
TOTAL CURRENT LIABILITIES	3,019,586	2,725,399	294,187
LONG TERM LIABILITIES	352,900	-	352,900
TOTAL LIABILITIES	3,372,486	2,725,399	647,087
SHAREHOLDERS EQUITY			
Share Capital	830,475	830,475	0
Treasury Shares	(262,987)	(262,987)	0
Share Premium	1,723,219	1,723,219	0
Retained Earnings			
Appropriated Statutory Reserve	320,218	320,218	(0)
Unappropriated	12,020,708	11,963,352	57,355
Translation adj. & Investment revaluation	(92,407)	(599,614)	507,207
Unrealised gain(loss) on change in investments	-	103,873	(103,873)
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	14,539,226	14,078,536	460,690
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	17,911,712	16,803,935	1,107,777
	0	-	
Cash & Equivalents	5,838,467	5,009,553	828,915
Liabilities	3,372,486	2,725,399	647,087
Debt/Equity	0.23	0.19	0.04
Net Debt (Net cash)	-2,465,981	-2,284,153	-181,828
Net Debt/Equity	-0.17	-0.16	-0.01

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>31-Dec-11</u>	Quarter <u>31-Dec-10</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	42,139	574,371
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	286,917	314,675
Unrealised (gain) Loss on exchange	(18,743)	(28,124)
Increase (Decrease) in allowance for doubtful debts	2,774	(3,161)
Increase (Decrease) in allowance for obsolete inventories	171,432	(4,181)
Change in other provisions	246,610	(69,064)
	<u>688,990</u>	<u>210,145</u>
Working Capital (increase) decrease		
Trade accounts receivable	168,202	355,009
Inventories	(108,203)	(184,986)
Trade accounts payable	78,209	(134,488)
Other	(537,900)	(198,016)
	<u>(399,692)</u>	<u>(162,482)</u>
Net Cashflow from Operating Activities	<u>331,436</u>	<u>622,034</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	(15,313)	(18,438)
Increase in property, plant and equipment	(193,618)	(715,023)
Proceeds from sale of fixed assets	16,793	7,450
Increase (decrease) in translation adjustment	146,680	(49,111)
Revaluation deficit on investments	(484)	65,618
Other		
	<u>(45,943)</u>	<u>(709,503)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	-
Dividend paid	-	(0)
Other	(13,702)	(768)
Net cash (used in) from financing activities	<u>(13,702)</u>	<u>(768)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	271,791	(88,238)
Cash and Equivalents at the beginning of the period	<u>3,552,356</u>	<u>3,062,782</u>
Cash and Equivalents at the end of the period	3,824,147	2,974,544

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Quarter <u>31-Dec-11</u>	Quarter <u>31-Dec-10</u>	<u>Q411-Q410</u>
Profitability Ratios			
Gross Profit Margin (%)	10%	14%	-4%
Operating Profit Margin (%)	2%	12%	-10%
Net Profit before Exceptional Margin (%)	4%	14%	-11%
Net Profit after Exceptional Margin (%)	1%	14%	-13%
EBITDA margin (%)	10%	20%	-10%
Return On Equity (%) pa	1%	16%	-15%
Efficiency Ratios			
Working Capital turnover	4.8	5.5	-0.6
Account Receivable days	64	55	8.7
Inventory days	73	67	6.0
Accounts Payable days	69	45	24.6
Liquidity Ratios			
Current Ratio	3.8	3.8	0.1
Quick Ratio	2.8	2.7	0.1
Financial Capital Ratios			
Debt / Equity	0.2	0.2	0.0
Net Debt to Equity	-0.2	-0.2	-0.01
Interest Coverage	n/a	n/a	