

Management's Discussion and Analysis

First Quarter ending 31st March 2014

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue was up 29% year on year at THB 4.7 billion for the first quarter of 2014 compared to THB 3.6 billion for the first quarter of 2013. Sales Revenue in USD terms increased by 19% to USD 143m from USD 120m in Q1 2013. Operating Profits increased to THB 391m in Q1 2014 from a loss of THB 6m in Q1 2013.

Net Profit increased by 1000% to THB 1,590m in Q114 from THB 144m in Q113 due to an upturn in the electronics demand cycle in Q114 as opposed to a weak phase of the cycle in Q113. Additionally, the subsidiary Hana Semiconductor (Ayutthaya), continued to recover from the impact of the flood in 2011. It also recorded THB 1,350m for insurance claim proceeds related to business interruption from the flood in Q114.

	<u>Quarter</u> <u>31-Mar-14</u>	<u>Quarter</u> <u>31-Mar-13</u>	<u>Q114-Q113</u>	<u>%</u> <u>Q114-Q113</u>
PCBA (Lamphun, Thailand)	2,200,198 47%	1,536,431 42%	663,767	43%
PCBA (Jiaxing, China)	929,845 20%	806,199 22%	123,646	15%
IC (Ayutthaya, Thailand)	1,235,720 26%	1,014,941 28%	220,779	22%
IC (Jiaxing, China)	263,076 6%	229,469 6%	33,607	15%
HMT (Ohio, USA)	41,194 1%	34,826 1%	6,368	18%
Total Revenue	<u>4,670,033</u>	<u>3,621,866</u>	<u>1,048,167</u>	<u>29%</u>

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 1 2014 sales revenue for the group increased 19% year-on-year in USD terms, from USD 120m in Q113 to USD 143m in Q114. The average exchange rate for Q114 was 9% weaker at THB/USD 32.66 from THB/USD 30.10 in Q113. As a result the sales revenue in THB terms was 29% higher year on year. Year-on-year, the microelectronics divisions sales increased by 22% in USD terms. Sales in Lamphun increased 31% whilst JiaXing increased by 3%. The IC divisions USD sales revenues increased 10% in Q114, with revenues of the IC divisions in Ayutthaya increasing by 11% and JiaXing increasing by 5%. "HMT" the microdisplay/RFID operation in Ohio sales revenue increased 7%.

Quarter on Quarter Sales Revenue Analysis

Group sales decreased quarter on quarter by 6% from USD 152m in Q413 to USD 143m in Q114. Sales in the microelectronics division decreased 6% with Lamphun decreasing 2% and JiaXing decreasing 13%. Sales revenues from the IC divisions were 7% lower with Ayutthaya sales decreasing by 6% and JiaXing IC sales decreasing by 13%. The microdisplay division sales increased 2% in Q114 compared to Q413. In THB equivalent the group sales decreased by 3% in Q114 compared to Q413. The average THB/USD exchange rate weakened by 3% to 32.66 in Q114 from 31.73 in Q413.

Sales Revenue Split

	<u>Q1 2014</u>	<u>Q4 2013</u>	<u>Q3 2013</u>	<u>Q2 2013</u>	<u>Q1 2013</u>
PCBA (Lamphun, Thailand)	47%	45%	44%	44%	42%
PCBA (Jiaxing, China)	20%	22%	21%	22%	22%
IC (Ayutthaya, Thailand)	26%	26%	28%	26%	28%
IC (Jiaxing, China)	6%	6%	6%	7%	6%
HMT (Ohio, USA)	1%	1%	1%	1%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

The Gross Profit margin was 7% higher in Q114 at 12% up from 5% in Q113 due to higher sales revenue and weaker Thai Baht Exchange rate in Q114.

Operating Profit Analysis

Year-on-year operating profits were THB 397m higher in Q114 due to the higher sales revenue and gross profit in Q114. The Operating margin was 8% higher at 8% in Q114 from 0% in Q113 due to the higher gross margin in Q114. SG&A expenses were 3% higher in Q114 than in Q113 and SG&A expenses in Q114 were 11% higher than in Q413, due to lower retirement benefits revaluation in Q413.

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 Q114 was Baht/USD 32.66 from 30.10 in Q113 (and Baht/USD 31.73 in Q413).

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 32.44 at 31/03/14, and 29.31 at 31/03/13 (32.81 at 31/12/13) or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid out in Q114 or Q113.

Financial Status

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 31st March, 2014 were THB 8.6 billion and 31st March, 2013 were THB 5.9 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 57 days in Q114 and 59 days in Q113.

	<u>31-Mar-14</u>	<u>31-Mar-13</u>	'000
Trade Receivables			
Less than 3 months	2,819,711	2,255,612	
3 - 6 months	67,979	29,584	
6 - 12 months	2,403	16,321	
More than 12 months	2,952	2,575	
Total accounts receivable - other companies	2,893,045	2,304,092	
Less : Allowance for doubtful accounts	(22,343)	(4,606)	
	<u>2,870,702</u>	<u>2,299,486</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 71 days as at 31st March, 2014 and 67 days as at 31st March, 2013.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q1 2014 was THB 679m which was 128% higher than Q1 2013 was THB 297m.

Capital Expenditure

Capital Expenditure was THB 278m in Q1 2014 and THB 278m in Q1 2013. 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 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 100m 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

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 property damage and significant business interruption losses.

In 2012, THB 300m was received as an interim payment for the Property Insurance claim and THB 400m was received as an interim payment for the business interruption insurance claim.

THB 30m was received as a further part payment for the property claim settlement in Q113.

THB 712m recorded in Q213 as exceptional income to complete the THB 1,042m settlement of the building and machinery property insurance claim.

In Q413 THB 187m was received as from an agreed total amount payable of THB 199m as first and final payments for stock damage property claim settlement. A further THB 12m was still outstanding from one insurer and payment is expected in full within 2014.

In Q114 THB 1,269m was received as from an agreed total amount payable of THB 1,350m as final payment for business interruption claim settlement. A further THB 81m was still outstanding from one insurer and payments for the balance is agreed and expected in full within 2014.

Subsequent Event

THB 47m was received as partial payment of the outstanding amount of THB 93m for the flood

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>31-Mar-14</u>		<u>31-Mar-13</u>		<u>Q114-Q113</u>	<u>Q114-Q113</u>
REVENUES						
Sales	4,670,033		3,621,866		1,048,167	29%
consisting of:						
PCBA (Lamphun, Thailand)	2,200,198	47%	1,536,431	42%	663,767	43%
PCBA (Jiaxing, China)	929,845	20%	806,199	22%	123,646	15%
CPG (Bangkok, Thailand)	-	0%	-	0%	-	
IC (Ayutthaya, Thailand)	1,235,720	26%	1,014,941	28%	220,779	22%
IC (Jiaxing, China)	263,076	6%	229,469	6%	33,607	15%
HMT (Ohio, USA)	41,194	1%	34,826	1%	6,368	18%
	<u>4,670,033</u>	100%	<u>3,621,866</u>	100%	<u>1,048,167</u>	29%
Share of Assoc. company Profit	-		-		-	
Other Income - Operating	50,314		52,963		(2,649)	-5%
TOTAL OPERATING REVENUES	<u>4,720,347</u>		<u>3,674,829</u>		<u>1,045,518</u>	28%
EXPENSES						
Cost of Sales	4,089,004	88%	3,447,416	95%	641,588	19%
Selling & Admin. Expenses	239,991	5%	233,197	6%	6,794	3%
TOTAL EXPENSES	<u>4,328,995</u>	93%	<u>3,680,613</u>	102%	<u>648,382</u>	18%
OPERATING EARNINGS	<u>391,352</u>	8%	<u>(5,784)</u>	0%	<u>397,136</u>	
Other Income - Non Operating	12,395		14,176		(1,781)	
Interest	42,469		35,244		7,225	20%
Interest Expenses	(1,909)		(1,839)		(70)	
EARNINGS before Income Tax	<u>444,307</u>	9%	<u>41,797</u>	1%	<u>402,510</u>	0
Corporate Income Tax	(277,628)	-6%	699	0%	(278,327)	
Earnings before Exch. & Exceptional Items	<u>166,679</u>		<u>42,496</u>		<u>124,183</u>	292%
Exchange Gain (Loss)	73,641		72,132		1,509	
Exceptional Items	1,350,000		29,689		1,320,311	
NET EARNINGS for the Period	<u>1,590,320</u>	34%	<u>144,317</u>	4%	<u>1,446,003</u>	1002%
EARNINGS % of SALES	34%		4%		30%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch. & ex	0.21		0.05		0.15	
EARNINGS per SHARE (baht) after exceptionals	1.98		0.18		1.80	
Operating Profit (EBIT)	391,352		(5,784)		397,136	
	8%		0%			
Depreciation	287,761		303,004		(15,243)	
EBITDA (excl exchange gain/loss)	679,113		297,220		381,893	
EBITDA % of Sales Revenue	15%		8%			
Cashflow Earnings per Share	0.84		0.37		0.47	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht

	Quarter <u>31-Mar-14</u>	Quarter <u>31-Mar-13</u>	<u>Q114-Q113</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	5,933,274	3,686,335	2,246,939
Financial Investments	2,675,690	2,207,110	468,580
Accounts Receivable - trade	2,964,738	2,378,027	586,711
Amounts due from Related Companies	-	-	-
Inventories	3,230,253	2,552,420	677,833
Other Current Assets	207,907	151,661	56,246
TOTAL CURRENT ASSETS	<u>15,011,862</u>	<u>10,975,553</u>	<u>4,036,309</u>
LOAN TO OTHER COMPANY	-	97	(97)
FIXED ASSETS (net)	<u>6,627,664</u>	<u>6,520,641</u>	<u>107,023</u>
OTHER ASSETS	190,591	56,207	134,384
TOTAL ASSETS	<u>21,830,117</u>	<u>17,552,498</u>	<u>4,277,619</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	13,698	21,640	(7,942)
Accounts & Notes Payable	2,573,329	1,888,129	685,200
Corporate Income Tax Payable	294,757	56,477	238,280
Accrued Expenses	422,196	444,341	(22,145)
Other Current Liabilities	74,815	44,443	30,372
TOTAL CURRENT LIABILITIES	<u>3,378,795</u>	<u>2,455,030</u>	<u>923,765</u>
LONG TERM LIABILITIES	<u>399,198</u>	<u>397,497</u>	<u>1,701</u>
TOTAL LIABILITIES	<u>3,777,993</u>	<u>2,852,527</u>	<u>925,466</u>
SHAREHOLDERS EQUITY			
Share Capital	804,879	804,879	(0)
Treasury Shares	-	-	-
Share Premium	1,723,219	1,723,219	(0)
Retained Earnings			
Appropriated Statutory Reserve	375,919	375,919	0
Unappropriated	14,891,422	12,315,539	2,575,883
Translation adj. & Investment revaluation	256,685	(519,585)	776,270
Unrealised gain(loss) on change in investments	-	-	-
Excess Cost over Net Book Value of Subsidiary Investments	-	-	-
TOTAL SHAREHOLDERS EQUITY	<u>18,052,124</u>	<u>14,699,971</u>	<u>3,352,153</u>
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>21,830,117</u>	<u>17,552,498</u>	<u>4,277,619</u>
	(0)	-	
Cash & Equivalents	8,608,964	5,893,445	2,715,519
Liabilities	3,777,993	2,852,527	925,466
Debt/Equity	0.21	0.19	0.02
Net Debt (Net cash)	-4,830,971	-3,040,918	-1,790,053
Net Debt/Equity	-0.27	-0.21	-0.06

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Quarter 31-Mar-14</u>	<u>Quarter 31-Mar-13</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	1,867,948	143,618
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	288,588	304,007
Unrealised (gain) Loss on exchange	2,682	(32,207)
Increase (Decrease) in allowance for doubtful debts	18,074	(2,298)
Increase (Decrease) in allowance for obsolete inventories	9,084	2,114
Change in other provisions	(23,196)	(118)
	<u>295,232</u>	<u>271,498</u>
Working Capital (increase) decrease		
Trade accounts receivable	199,309	359,760
Inventories	(67,356)	293,233
Trade accounts payable	96,742	(139,109)
Other	(203,890)	31,309
	<u>24,805</u>	<u>545,193</u>
Net Cashflow from Operating Activities	<u>2,187,985</u>	<u>960,309</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	(85,935)	186,870
Increase in property, plant and equipment	(198,788)	(245,631)
Proceeds from sale of fixed assets	6,352	8,538
Increase (decrease) in translation adjustment	(156,017)	(330,963)
Revaluation deficit on investments	(3,655)	(972)
Other		
	<u>(438,043)</u>	<u>(382,158)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	(119)	(202)
Dividend paid	-	-
Other	(2,248)	(2,795)
Net cash (used in) from financing activities	<u>(2,367)</u>	<u>(2,997)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	1,747,575	575,154
Cash and Equivalents at the beginning of the period	<u>4,185,700</u>	<u>3,111,181</u>
Cash and Equivalents at the end of the period	5,933,275	3,686,335

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Quarter <u>31-Mar-14</u>	Quarter <u>31-Mar-13</u>	<u>Q114-Q113</u>
Profitability Ratios			
Gross Profit Margin (%)	12%	5%	8%
Operating Profit Margin (%)	8%	0%	9%
Net Profit before Exceptional Margin (%)	4%	1%	2%
Net Profit after Exceptional Margin (%)	34%	4%	30%
EBITDA margin (%)	15%	8%	6%
Return On Equity (%) pa	35%	4%	31%
Return On Assets (%) pa	29%	3%	26%
Return On Operating Capital Employed (%) pa	16%	0%	16%
Efficiency Ratios			
Working Capital turnover	5.6	4.8	0.8
Account Receivable days	57	59	-
Inventory days	71	67	4.5
Accounts Payable days	57	49	7.3
Liquidity Ratios			
Current Ratio	4.4	4.5	-
Quick Ratio	3.4	3.4	0.1
Financial Capital Ratios			
Debt / Equity	0.2	0.2	0.0
Net Debt to Equity	-0.3	-0.2	-
Interest Coverage	n/a	n/a	