

Management's Discussion and Analysis

Year 2013

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 3% year on year, to THB 17.7 billion in year 2013 from THB 17.2 billion in year 2012. Sales Revenue in USD terms increased by 3% to USD 574m in 2013 from USD 555m in 2012. Operating profits increased 28% to THB 1,377m Baht in 2013 from THB 1,076m Baht in 2012. Operating profits increased 29% in USD terms to USD 45m in 2013 from USD 35m in 2012.

Net Profit increased by 45% to THB 2,337m in 2013 from THB 1,610m in 2012. The subsidiary Hana Semiconductor (Ayutthaya), continued to recover from the impact of the flood in 2011 and has been operationally profitable from mid 2013. Exceptional items were THB 594m higher in 2013 than 2012. The increase was primarily due to higher insurance claim proceeds received in 2013 related to property damaged from the flood.

Past Performance Analysis

Revenue Analysis

Group Sales were higher by 3% in 2013 at THB 17,667m from THB 17,233m in 2012 with markets being weaker in the first half of 2013 and stronger in the second half of the year which was the opposite to the electronics demand cycle in 2012. USD sales were 3% higher in 2013 at USD 574m from USD 555m in 2012 as the average THB/USD exchange rate in 2013 strengthened 1% to THB/USD 30.80 in 2013 from THB/USD 31.03 in 2012.

The Microelectronics divisions' sales revenue increased 2% [+1% THB] in 2013 over 2012. The microelectronics operation in Lamphun sales increased 10% [9% in THB terms] and JXG decreased by 10% [-11% in THB terms] in 2013. In 2013 IC assembly sales increased by 8% in USD terms [+7% in THB terms]. For 2013, the IC division in AYT sales increased 11% [+10% in THB terms], but decreased 4% [-5% in THB terms] for the IC division in JXG.

Hana Microdisplay Technologies "HMT", sales decreased 11% [-12% THB] for the year.

The annual sales split was:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
PCBA (Thailand)	44%	42%	38%
PCBA (China)	21%	25%	22%
CPG - (Bangkok)	0%	0%	2%
IC (AYT)	27%	25%	31%
IC (China)	6%	7%	6%
HMT (USA)	1%	1%	2%
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	100%	100%	100%

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

The Gross Profit was up THB 319m with the gross margin being 11% in 2013 up 1% from 10% in 2012. This was due to the increase in sales in the Thai operations offsetting lower sales in the China operations, higher operating leverage enabled the Ayutthaya to be profitable from June 2013 and a more favourable product mix in Lamphun also contributed to higher margins.

Operating Profit Analysis

The Operating profit margin increased 2% in 2013 to 8% from 6% in 2012 due to the higher Gross Profit margin and lower SG&A expenses. SGA expenses decreased by 3% [THB 30m] due to retirement provision revaluation and were 5% of sales revenue in 2013, and in 2012.

Payout Analysis

THB 402m dividend of THB 0.50 per share was paid during the quarter as an interim dividend from the profits of 2013.

In Q213 THB 805m final dividend of THB 1.00 per share was paid during the quarter from the profits of 2012.

In Q412, THB 402m dividend of THB 0.50 per share was paid during the quarter as an interim dividend from the profits of 2012.

In Q212 THB 805m dividend of THB 1.00 per share was paid during the quarter as final dividend from the profits of 2011.

In Q211 THB 1,248m dividend of THB 1.55 per share was paid during the quarter as the first and final dividend from the profits of 2010.

The final dividend is 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, 2013 were THB 6.7 billion up from 31st December, 2012 of THB 5.5 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.

Trade Receivables	'000	<u>2013</u>	<u>2012</u>	<u>2011</u>
Less than 3 months		3,132,604	2,653,880	2,445,169
3 - 6 months		13,813	23,758	20,670
6 - 12 months		1,222	16,349	7,236
More than 12 months		3,150	3,173	5,380
Total accounts receivable - other companies		3,150,789	2,697,160	2,478,455
Less : Allowance for doubtful accounts		(4,269)	(6,904)	(11,189)
		<u>3,146,520</u>	<u>2,690,256</u>	<u>2,467,266</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 69 days in 2013, 64 days in 2012 and 66 days in 2011.

Liquidity

The group has THB 6.7 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% higher in 2013 due to the higher sales at the Thai operations and operating profit at Ayutthaya plant in 2013 as opposed to its operating loss in 2012.

EBITDA at THB 2.6 billion in 2013 and THB 2.3 billion in 2012 and THB 2.6 billion in 2011.

Cash and short term investments in 2013 increased by THB 1.2 billion to THB 6.7 billion, due to EBITDA 2.6 billion less final dividend THB 0.8b, interim dividend Q412 THB 0.4b , capital expenditure THB 1.0b, increase in working capital of THB 0.2b and insurance proceeds of THB 1.2b.

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 0.8b, interim dividend Q412 THB 0.4b , 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.

Capital Expenditure

Net Capital Expenditure was THB 1,221m in 2013, THB 1,372m in 2012 and THB 1,360m in 2011. Capital Expenditure was lower in 2013 due to the lower sales from Ayutthya plant compared to before the flood in 2011.

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 group's 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 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 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 2013 of THB/USD 30.80 was 1% stronger than the THB/USD 31.03 in 2012 which was 2% weaker than the THB/USD 30.53 in 2011.

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 with further repairs of THB 84m accounted for in Q1 2012 and THB 72m in Q2 2012 for repairs and materials damage. 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 Q2 2012 THB 204m was received as the part payment for the first interim payment for the business interruption insurance claim. In Q3 2012 THB 196m was received as the remaining payment for the first interim payment for the business interruption insurance claim.

THB 30m was received as a further part payment for the property claim settlement in Q1 13.

THB 712m recorded in Q2 13 as exceptional income to complete the THB 1,042m settlement of the building and machinery property insurance claim in regards to the 2011 flood.

THB 110m for income tax and fine related to the 1997 income tax case as detailed in Note 18.5 of the financial statements for Q3 13.

In Q4 13 THB 199m was received as first and final payment for stock damage property claim settlement. Insurance claim for business interruption is still in progress.

Subsequent Event

None

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year		Year		Year		%	
	2013		2012		2011		2013-2012	2013-2012
REVENUES								
Sales	17,667,000		17,232,769		16,314,929		434,232	3%
consisting of:								
PCBA (Lamphun, Thailand)	7,813,693	44%	7,180,725	42%	6,260,031	38%	632,968	9%
PCBA (Jiaxing, China)	3,791,426	21%	4,280,548	25%	3,589,109	22%	(489,122)	-11%
CPG (Bangkok, Thailand)	-	0%	73,710	0%	251,368	2%	(73,710)	-100%
IC (Ayutthaya, Thailand)	4,805,783	27%	4,363,733	25%	5,047,616	31%	442,050	10%
IC (Jiaxing, China)	1,115,469	6%	1,173,666	7%	915,524	6%	(58,197)	-5%
HMT (Ohio, USA)	140,629	1%	160,387	1%	251,281	2%	(19,758)	-12%
	<u>17,667,000</u>	100%	<u>17,232,769</u>	100%	<u>16,314,929</u>	100%	<u>434,231</u>	3%
Other Income - Operating	282,866		331,046		340,274		(48,180)	-15%
TOTAL OPERATING REVENUES	<u>17,949,866</u>		<u>17,563,815</u>		<u>16,655,203</u>		<u>386,051</u>	2%
EXPENSES								
Cost of Sales	15,665,335	89%	15,550,124	90%	14,261,379	87%	115,210	1%
Selling & Admin. Expenses	907,751	5%	938,123	5%	967,334	6%	(30,372)	-3%
	<u>16,573,086</u>	94%	<u>16,488,247</u>	96%	<u>15,228,713</u>	93%	<u>84,838</u>	1%
OPERATING EARNINGS	<u>1,376,780</u>	8%	<u>1,075,567</u>	6%	<u>1,426,491</u>	9%	<u>301,213</u>	28%
Other Income - Non Operating	95,017		84,982		65,695		10,035	
Interest	165,169		170,696		157,110		(5,526)	-3%
Interest Expenses	(8,643)		(7,478)		(9,351)		(1,165)	16%
EARNINGS before Income Tax	<u>1,628,324</u>	9%	<u>1,323,767</u>	8%	<u>1,639,945</u>	10%	<u>304,557</u>	23%
Corporate Income Tax	(61,999)	4%	(119,216)	9%	(42,921)	3%	57,217	-48%
Earnings before Exch. & Exceptional Items	<u>1,566,325</u>	9%	<u>1,204,551</u>	7%	<u>1,597,023</u>	10%	<u>361,774</u>	30%
Exchange Gain (Loss)	(60,329)		168,400		120,339		(228,729)	
Exceptional Items	831,203		237,242		(99,294)		593,961	
NET EARNINGS for the Period	<u>2,337,199</u>	13%	<u>1,610,193</u>	9%	<u>1,618,068</u>	10%	<u>727,006</u>	45%

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Year 2013	Year 2012	Year 2011	2013-2012	%
				2013-2012	2013-2012
ASSETS					
CURRENT ASSETS					
Cash in Hand & at Banks	4,185,699	3,111,181	3,824,147	1,074,518	35%
Financial Investments	2,524,310	2,370,090	2,014,320	154,220	7%
Accounts Receivable - trade	3,241,169	2,764,216	2,568,516	476,953	17%
Inventories	3,171,981	2,847,768	2,646,579	324,213	11%
Other Current Assets	154,586	162,930	154,071	(8,344)	-5%
TOTAL CURRENT ASSETS	13,277,747	11,256,186	11,507,633	2,021,560	18%
LOAN TO RELATED COMPANY	-	-	-		
INVESTMENTS IN ASSOCIATED COMPANY	-	-	-		
FIXED ASSETS (net)	6,844,878	6,621,701	6,372,590	223,177	3%
OTHER ASSETS	34,513	51,745	31,489	(17,232)	
TOTAL ASSETS	20,157,137	17,929,632	17,911,712	2,227,506	12%
LIABILITIES					
CURRENT LIABILITIES					
Bank Overdrafts & Loans	15,946	24,435	38,821	(8,489)	-35%
Accounts & Notes Payable	2,484,859	2,087,840	2,506,443	397,019	19%
Corporate Income Tax Payable	17,606	60,052	15,155	(42,446)	-71%
Accrued Expenses	419,335	448,350	368,474	(29,015)	-6%
Other Current Liabilities	239,514	38,072	65,341	201,442	529%
TOTAL CURRENT LIABILITIES	3,177,261	2,658,749	2,994,234	518,512	20%
LONG TERM LIABILITIES					
Long Term Loans					
Other Long Term Liabilities	385,799	376,361	352,900	9,438	
TOTAL LIABILITIES	3,563,060	3,035,109	3,347,133	527,950	17%
SHAREHOLDERS EQUITY					
Share Capital	804,879	804,879	830,475	(0)	0%
Unrealised gain(loss) on change in investments	-	-	-		
Share Premium	1,723,219	1,723,219	1,723,219	(0)	0%
Retained Earnings	-	-	-		
Appropriated Statutory Reserve	375,919	352,497	320,218	23,422	7%
Unappropriated & Treasury Share Reserve	13,301,102	12,194,644	11,783,074	1,106,458	9%
Translation adj. & Investment revaluation	388,959	(180,717)	(92,407)	569,675	-315%
Treasury shares	-	-	-		
Excess Cost over Net Book Value of Subsidiary Investm	-	-	-		
TOTAL SHAREHOLDERS EQUITY	16,594,078	14,894,522	14,564,579	1,699,555	11%
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	20,157,137	17,929,631	17,911,713	2,227,506	12%

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Year 2013	Year 2012	Year 2011	2013-2012
Cashflow from Operating Activities				
Net Earnings	2,399,198	1,729,409	1,514,479	669,790
Adjustments to reconcile net earnings to net cash provided by operating activities				
Non Cash items				
Depreciation	1,188,390	1,228,986	919,628	(40,596)
Unrealised (gain) Loss on exchange	117,452	(28,613)	17,299	146,065
Change in other provisions	(127,771)	(48,519)	(122,337)	(79,253)
	<u>1,178,070</u>	<u>1,151,855</u>	<u>814,590</u>	<u>26,216</u>
Working Capital (increase) decrease				
Trade accounts receivable	(381,655)	(205,039)	(261,612)	(176,615)
Inventories	(226,801)	(251,077)	(395,963)	24,276
Trade accounts payable	431,383	(429,800)	7,096	861,184
Other	(163,958)	205,657	125,213	(369,615)
	<u>(341,030)</u>	<u>(680,260)</u>	<u>(525,266)</u>	<u>339,229</u>
Net Cashflow from Operating Activities	3,236,238	2,201,004	1,803,803	1,035,235
Cashflow from Investing Activities				
(Increase) decrease in short term investment	(102,806)	(417,867)	(451,330)	315,061
Increase in property, plant and equipment	(1,580,557)	(1,485,314)	(1,127,424)	(95,243)
Proceeds from sale of fixed assets	60,087	108,315	96,925	(48,229)
Increase (decrease) in translation adjustment	660,662	(230,376)	(200,277)	891,038
Decrease in short term loans to related parties				-
Other	17,367	333,063	286,936	(315,696)
	<u>-945,247</u>	<u>-1,692,179</u>	<u>-1,395,170</u>	<u>746,932</u>
Cashflow from Financing Activities				
Cash paid for treasury stock	-	-	-	-
Cash received from increase in share capital & overdraft	(9,154)	(14,472)	(13,298)	5,319
Dividend paid	(1,207,318)	(1,207,318)	(804,879)	0
Net cash (used in) from financing activities	<u>(1,216,472)</u>	<u>(1,221,791)</u>	<u>(818,177)</u>	<u>5,319</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	1,074,519	(712,966)	(409,544)	1,787,485
Cash and Equivalents at the beginning of the period	<u>3,111,181</u>	<u>3,824,147</u>	<u>3,824,147</u>	<u>(712,966)</u>
Cash and Equivalents at the end of the period	<u>4,185,700</u>	<u>3,111,181</u>	<u>3,414,603</u>	<u>1,074,519</u>

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Year <u>2013</u>	Year <u>2012</u>	Year <u>2011</u>	<u>2013-2012</u>
Profitability Ratios				
Gross Profit Margin (%)	11%	10%	13%	2%
Operating Profit Margin (%)	8%	6%	9%	2%
Net Profit before Exceptional Margin (%)	9%	7%	11%	2%
Net Profit after Exceptional Margin (%)	13%	9%	10%	4%
EBITDA margin (%)	14%	13%	16%	1%
Return On Equity (%) pa	14%	11%	11%	3%
Efficiency Ratios				
Working Capital turnover	5	6	6	(1)
Account Receivable days	61	56	55	5
Inventory days	69	64	66	6
Accounts Payable days	53	53	59	(1)
Liquidity Ratios				
Current Ratio	4.2	4.2	3.8	-0.1
Quick Ratio	3.1	3.1	2.8	0.0
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	