

Management's Discussion and Analysis

Year 2014

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 20% year on year, to THB 21.2 billion in year 2014 from THB 17.7 billion in year 2013. Sales Revenue in USD terms increased by 14% to USD 653m in 2014 from USD 574m in 2013. Operating profits increased 54% to THB 2,064m Baht in 2014 from THB THB 1,340m Baht in 2013. Operating profits increased 46% in USD terms to USD 63m in 2014 from USD 43m in 2013.

Net Profit increased by 48% to THB 3,405m in 2014 from THB 2,301m in 2013. The subsidiary Hana Semiconductor (Ayutthaya), continued to recover from the impact of the flood in 2011 and has been operationally profitable from mid 2013. Net Exceptional items were THB 519m higher in 2014 than 2013. Net Exceptional items in 2013 of THB 831m is THB 941m for the final payments of insurance proceeds for property damage less 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 Q313.

Past Performance Analysis

Revenue Analysis

Group Sales were higher by 20% in 2014 at THB 21,227m from THB 17,667m in 2013 with markets being strong throughout 2014 unlike 2013 and 2012 which had distinctly strong and weak halves for each of those years. USD sales were 14% higher in 2014 at USD 653m from USD 574m in 2013 as the average THB/USD exchange rate in 2013 weakened 5% to THB/USD 32.48 in 2014 from THB/USD 30.80 in 2013.

The Microelectronics divisions' sales revenue increased 16% [+23% THB] in 2014 over 2013. The microelectronics operation in Lamphun sales increased 21% [+27% in THB terms] and JXG increased by 4% [+13% in THB terms] in 2014. In 2014 IC assembly sales overall increased by 9% in USD terms [+15% in THB terms]. Specifically, IC AYT sales increased 10% [+16% in THB terms], and IC JXG increased 2% [+8% in THB terms].

Hana Microdisplay Technologies "HMT", sales increased 29% [+37% THB] for the year.

The annual sales split was:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
PCBA (Thailand)	47%	44%	42%
PCBA (China)	20%	21%	25%
CPG - (Bangkok)	0%	0%	0%
IC (AYT)	26%	27%	25%
IC (China)	6%	6%	7%
HMT (USA)	1%	1%	1%
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	100%	100%	100%

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

Gross Profit increased by THB 885m with the gross margin being 14% in 2014 up 3% from 11% in 2013. This was due to the increase in sales at all operations. The higher operating leverage enabled 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 2014 to 10% from 8% in 2013 due to the higher Gross Profit margin. SGA expenses increased by 11% [THB 89m] due to increased salaries and doubtful debt provision in 2014.

Payout Analysis

THB 805m dividend of THB 1.00 per share was paid during the quarter as an interim dividend from the profits of 2014.

In Q214 THB 805m final dividend of THB 1.00 per share was paid during the quarter from the profits of 2013.

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.

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, 2014 were THB 8.7 billion up from 31st December, 2013 of THB 6.7 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>2014</u>	<u>2013</u>	<u>2012</u>
Less than 3 months		3,196,751	3,132,604	2,653,880
3 - 6 months		24,772	13,813	23,758
6 - 12 months		7,820	1,222	16,349
More than 12 months		2,024	3,150	3,173
Total accounts receivable - other companie		3,231,367	3,150,789	2,697,160
Less : Allowance for doubtful accounts		(24,410)	(4,269)	(6,904)
		<u>3,206,957</u>	<u>3,146,520</u>	<u>2,690,256</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 61 days in 2014, 69 days in 2013 and 64 days in 2012.

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 3.2 billion in 2014 and 2.6 billion in 2013 and THB 2.3 billion in 2012.

Cash and short term investments in 2014 increased by THB 1.9 billion to THB 8.6 billion, due to EBITDA 3.2 billion less final dividend THB 0.8b, interim dividend Q414 THB 0.8b , capital expenditure THB 0.8b, increase in working capital of THB 0.2b and insurance proceeds of THB 1.3b.

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 Q413 THB 0.4b , capital expenditure THB 1.2b, 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.

Capital Expenditure

Net Capital Expenditure was THB 854m in 2014, THB 1,221m in 2013 and THB 1,372m in 2012. Capital Expenditure was lower in 2014 due to the lower sales from Ayutthaya 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 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 200m 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 110m 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 2014 of THB/USD 32.48 was 5% weaker than the THB/USD 30.80 in 2013 which was 1% stronger than the THB/USD 31.03 in 2012.

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.

Further repairs of THB 146m accounted for in 2012 for repairs and materials damage. 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 742m recorded in 2013 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 Q313.

In Q413 THB 199m was received as first and final payment for stock damage property claim settlement.

In 2014 THB 1,350m was received as final payment for business interruption claim to complete the THB 1,750m settlement of the Business Interruption insurance Claim.

Subsequent Event

None

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year 2014		Year 2013		Year 2012		2014-2013	% 2014-2013
REVENUES								
Sales	21,227,209		17,667,000		17,232,769		3,560,209	20%
consisting of:								
<i>PCBA (Lamphun, Thailand)</i>	9,952,829	47%	7,813,693	44%	7,180,725	42%	2,139,136	27%
<i>PCBA (Jiaxing, China)</i>	4,290,307	20%	3,791,426	21%	4,280,548	25%	498,881	13%
<i>CPG (Bangkok, Thailand)</i>	-	0%	-	0%	73,710	0%	-	
<i>IC (Ayuthaya, Thailand)</i>	5,591,601	26%	4,805,783	27%	4,363,733	25%	785,818	16%
<i>IC (Jiaxing, China)</i>	1,199,624	6%	1,115,469	6%	1,173,666	7%	84,155	8%
<i>HMT (Ohio, USA)</i>	192,848	1%	140,629	1%	160,387	1%	52,219	37%
	<u>21,227,209</u>	100%	<u>17,667,000</u>	100%	<u>17,232,769</u>	100%	<u>3,560,209</u>	20%
Other Income - Operating	227,086		282,866		331,046		(55,780)	-20%
TOTAL OPERATING REVENUES	<u>21,454,295</u>		<u>17,949,866</u>		<u>17,563,815</u>		<u>3,504,429</u>	20%
EXPENSES								
Cost of Sales	18,358,461	86%	15,682,896	89%	15,550,124	90%	2,675,565	17%
Selling & Admin. Expenses	1,032,239	5%	926,911	5%	938,123	5%	105,328	11%
	<u>19,390,700</u>	91%	<u>16,609,807</u>	94%	<u>16,488,247</u>	96%	<u>2,780,893</u>	17%
OPERATING EARNINGS	<u>2,063,595</u>	10%	<u>1,340,059</u>	7%	<u>1,075,567</u>	6%	<u>723,536</u>	54%
Other Income - Non Operating	44,556		95,013		84,982		(50,457)	
Interest	214,998		165,169		170,696		49,829	30%
Interest Expenses	(8,270)		(8,643)		(7,478)		373	-4%
EARNINGS before Income Tax	<u>2,314,879</u>	11%	<u>1,591,599</u>	9%	<u>1,323,767</u>	8%	<u>723,280</u>	45%
Corporate Income Tax	(366,767)	16%	(61,956)	4%	(119,216)	9%	(304,811)	492%
Earnings before Exch. & Exceptional Items	<u>1,948,112</u>	9%	<u>1,529,643</u>	9%	<u>1,204,551</u>	7%	<u>418,469</u>	27%
Exchange Gain (Loss)	107,382		(60,329)		168,400		167,711	
Exceptional Items	1,350,000		831,604		237,242		518,396	
NET EARNINGS for the Period	<u>3,405,494</u>	16%	<u>2,300,918</u>	13%	<u>1,610,193</u>	9%	<u>1,104,576</u>	48%

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Year 2014	Year 2013	Year 2012	2014-2013	%
				2014-2013	2014-2013
ASSETS					
CURRENT ASSETS					
Cash in Hand & at Banks	5,467,223	4,185,699	3,111,181	1,281,523	31%
Financial Investments	2,863,280	2,524,310	2,370,090	338,969	13%
Accounts Receivable - trade	3,354,080	3,241,169	2,764,216	112,911	3%
Inventories	3,328,914	3,171,981	2,847,768	156,933	5%
Other Current Assets	118,864	154,586	162,930	(35,722)	-23%
TOTAL CURRENT ASSETS	15,132,361	13,277,747	11,256,186	1,854,614	14%
LOAN TO RELATED COMPANY	-	-	-		
INVESTMENTS IN ASSOCIATED COMPANY	-	-	-		
FIXED ASSETS (net)	6,405,504	6,844,878	6,621,701	(439,374)	-6%
OTHER ASSETS	182,778	34,513	51,745	148,265	
TOTAL ASSETS	21,720,642	20,157,137	17,929,632	1,563,505	8%
LIABILITIES					
CURRENT LIABILITIES					
Bank Overdrafts & Loans	-	15,946	24,435	(15,946)	-100%
Accounts & Notes Payable	2,477,893	2,484,859	2,087,840	(6,966)	0%
Corporate Income Tax Payable	171,712	17,606	60,052	154,106	875%
Accrued Expenses	360,134	419,335	448,350	(59,201)	-14%
Other Current Liabilities	162,120	239,514	38,072	(77,394)	-32%
TOTAL CURRENT LIABILITIES	3,171,859	3,177,261	2,658,749	(5,402)	0%
LONG TERM LIABILITIES					
Long Term Loans					
Other Long Term Liabilities	515,862	385,799	376,361	130,063	
TOTAL LIABILITIES	3,687,720	3,563,060	3,035,109	124,661	3%
SHAREHOLDERS EQUITY					
Share Capital	804,879	804,879	804,879		
Unrealised gain(loss) on change in investments	-	-	-		
Share Premium	1,723,219	1,723,219	1,723,219		
Retained Earnings	-	-	-		
Appropriated Statutory Reserve	386,272	375,919	352,497	10,353	3%
Unappropriated & Treasury Share Reserve	15,028,833	13,301,102	12,194,644	1,727,731	13%
Translation adj. & Investment revaluation	420,409	388,959	(180,717)	31,450	8%
Treasury shares	-	-	-		
Excess Cost over Net Book Value of Subsidiary Investments	-	-	-		
TOTAL SHAREHOLDERS EQUITY	18,363,612	16,594,078	14,894,522	1,769,534	11%
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	22,051,332	20,157,137	17,929,631	1,894,195	9%

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Year 2014	Year 2013	Year 2012	2014-2013
Cashflow from Operating Activities				
Net Earnings	3,788,565	2,362,874	1,729,409	1,425,691
Adjustments to reconcile net earnings to net cash provided by operating activities				
Non Cash items				
Depreciation	1,147,967	1,188,390	1,228,986	(40,423)
Unrealised (gain) Loss on exchange	17,691	117,452	(28,613)	(99,761)
Change in other provisions	(26,985)	(127,771)	(48,519)	100,786
	<u>1,138,672</u>	<u>1,178,070</u>	<u>1,151,855</u>	<u>(39,398)</u>
Working Capital (increase) decrease				
Trade accounts receivable	(174,094)	(381,655)	(205,039)	207,561
Inventories	(38,553)	(226,801)	(251,077)	188,248
Trade accounts payable	77,581	431,383	(429,800)	(353,802)
Other	(423,082)	(163,958)	205,657	(259,124)
	<u>(558,149)</u>	<u>(341,030)</u>	<u>(680,260)</u>	<u>(217,118)</u>
Net Cashflow from Operating Activities	<u>4,369,089</u>	<u>3,199,914</u>	<u>2,201,004</u>	<u>1,169,175</u>
Cashflow from Investing Activities				
(Increase) decrease in short term investment	(478,655)	(502,957)	(417,867)	24,302
Increase in property, plant and equipment	(998,226)	(1,580,557)	(1,485,314)	582,332
Proceeds from sale of fixed assets	25,281	60,087	108,315	(34,806)
Increase (decrease) in translation adjustment	(8,943)	660,662	(230,376)	(669,605)
Decrease in short term loans to related parties				-
Other	(1,003)	417,518	333,063	(418,521)
	<u>(1,461,546)</u>	<u>(945,247)</u>	<u>(1,692,179)</u>	<u>(516,298)</u>
Cashflow from Financing Activities				
Cash paid for treasury stock	-	-	-	-
Cash received from increase in share capital & overdraft	(16,262)	(9,154)	(14,472)	(7,109)
Dividend paid	(1,609,758)	(1,207,318)	(1,207,318)	(402,439)
Net cash (used in) from financing activities	<u>(1,626,020)</u>	<u>(1,216,472)</u>	<u>(1,221,791)</u>	<u>(409,548)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	1,281,523	1,038,194	(712,966)	243,329
Cash and Equivalents at the beginning of the period	<u>4,149,376</u>	<u>3,111,181</u>	<u>3,824,147</u>	<u>1,038,194</u>
Cash and Equivalents at the end of the period	<u>5,430,899</u>	<u>4,149,376</u>	<u>3,111,181</u>	<u>1,281,523</u>

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Year <u>2014</u>	Year <u>2013</u>	Year <u>2012</u>	<u>2014-2013</u>
Profitability Ratios				
Gross Profit Margin (%)	14%	11%	10%	2%
Operating Profit Margin (%)	10%	8%	6%	2%
Net Profit before Exceptional Margin (%)	9%	9%	7%	0%
Net Profit after Exceptional Margin (%)	16%	13%	9%	3%
EBITDA margin (%)	15%	14%	13%	1%
Return On Equity (%) pa	19%	14%	11%	4%
Return On Assets (%) pa	16%	11%	10%	4%
Return On Operating Capital Employed (%) pa	21%	14%	10%	7%
Efficiency Ratios				
Working Capital turnover	5	5	6	0
Account Receivable days	56	61	56	(5)
Inventory days	64	69	64	(5)
Accounts Payable days	49	53	53	(4)
Liquidity Ratios				
Current Ratio	4.8	4.2	4.2	0.6
Quick Ratio	3.7	3.1	3.1	0.6
Financial Capital Ratios				
Debt / Equity	0.2	0.2	0.2	0.0
Net Debt to Equity	-0.3	-0.2	-0.2	-0.1
Interest Coverage	n/a	n/a	n/a	