

## Management's Discussion and Analysis

Fourth Quarter ending 31st December 2013

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue was up 19% year on year at THB 4.8 billion for the fourth quarter of 2013 compared to THB 4.1 billion for the fourth quarter of 2012. Sales Revenue in USD terms increased by 15% to USD 152m from USD 132m in Q4 2012. Operating Profits increased 141% to THB 454m in Q4 2013 from THB 189m in Q4 2012.

Net Profit increased by 246% to THB 614m in Q413 from THB 177m in Q412 due to an upturn in the electronics demand cycle in Q413 as opposed to a weak phase of the cycle in Q412. Additionally, the subsidiary Hana Semiconductor (Ayutthaya), continued to recover from the impact of the flood in 2011. It also received THB 199m for increase claim proceeds related to inventory damaged from the flood.

	<u>Quarter</u> <u>31-Dec-13</u>	<u>Quarter</u> <u>31-Dec-12</u>	<u>Q413-Q412</u>	<u>%</u> <u>Q413-Q412</u>
PCBA (Lamphun, Thailand)	2,183,773 45%	1,606,409 40%	577,364	36%
PCBA (Jiaxing, China)	1,037,846 22%	1,007,865 25%	29,981	3%
IC (Ayutthaya, Thailand)	1,275,069 26%	1,155,748 28%	119,321	10%
IC (Jiaxing, China)	281,708 6%	243,538 6%	38,170	16%
HMT (Ohio, USA)	39,147 1%	47,707 1%	(8,560)	-18%
Total Revenue	<u>4,817,543</u>	<u>4,061,267</u>	<u>756,276</u>	<u>19%</u>

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 4 2013 sales revenue for the group increased 15% year-on-year in USD terms, from USD 132m in Q412 to USD 152m in Q413. The average exchange rate for Q413 was 3.4% weaker at THB/USD 31.73 from THB/USD 30.68 in Q412. As a result the sales revenue in THB terms was 19% higher year on year. Year-on-year, the microelectronics divisions sales increased by 19% in USD terms. Sales in Lamphun increased 32% whilst JiaXing decreased by 5%. The IC divisions USD sales revenues increased 8% in Q413, with revenues of the IC divisions in Ayutthaya increasing by 7% and JiaXing increasing by 12%. "HMT" the microdisplay/RFID operation in Ohio sales revenue decreased 20%.

#### Quarter on Quarter Sales Revenue Analysis

Group sales decreased quarter on quarter by 4% from USD 158m in Q313 to USD 152m in Q413. Sales in the microelectronics division decreased 1% with Lamphun decreasing 2% and JiaXing increasing 5%. Sales revenues from the IC divisions were 9% lower with Ayutthaya sales decreasing by 9% and JiaXing IC sales decreasing by 9%. The microdisplay division sales increased 15% in Q413 compared to Q313. In THB equivalent the group sales decreased by 3% in Q413 compared to Q313. The average THB/USD exchange rate weakened by 1% to 31.73 in Q413 from 31.48 in Q313.

#### Sales Revenue Split

	<u>Q4 2013</u>	<u>Q3 2013</u>	<u>Q2 2013</u>	<u>Q1 2013</u>	<u>Q4 2012</u>
PCBA (Lamphun, Thailand)	45%	44%	44%	42%	40%
PCBA (Jiaxing, China)	22%	21%	22%	22%	25%
IC (Ayutthaya, Thailand)	26%	28%	26%	28%	28%
IC (Jiaxing, China)	6%	6%	7%	6%	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 4% higher in Q413 at 12% up from 8% in Q412 due to higher sales revenue and weaker Thai Baht Exchange rate in Q413.

### **Operating Profit Analysis**

Year-on-year operating profits were 141% higher in Q413 due to the higher sales revenue and gross profit in Q413. The Operating margin was 4% higher at 9% in Q413 from 5% in Q412 due to the higher gross margin in Q413. SG&A expenses were 10% lower in Q413 than in Q412 and SG&A expenses in Q413 were 3% lower than in Q313, due to material provision reversal and retirement benefits revaluation.

### **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 Q413 was Baht/USD 31.73 from 30.68 in Q412 (and Baht/USD 31.48 in Q313).

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 32.81 at 31/12/13, and 30.63 at 31/12/12 (31.39 at 30/09/13) or the respective rate applicable to each offshore subsidiary's base currency.

### **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.

### **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 and 31st December, 2012 were 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. Accounts receivable days were 61 days in Q413 and 61 days in Q412.

	<u>31-Dec-13</u>	<u>31-Dec-12</u>	'000
Trade Receivables			
Less than 3 months	3,132,604	2,653,880	
3 - 6 months	13,813	23,758	
6 - 12 months	1,222	16,349	
More than 12 months	3,150	3,173	
Total accounts receivable - other companies	3,150,789	2,697,160	
Less : Allowance for doubtful accounts	(4,269)	(6,904)	
	<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 68 days as at 31st December, 2013 and 69 days as at 31st December, 2012.

### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q4 2013 was THB 734m which was 47% higher than Q4 2012 was THB 500mm.

### **Capital Expenditure**

Capital Expenditure was THB 345m in Q4 2013 and THB 286m in Q4 2012. 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 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.

### **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 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 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 193m was received as first and final payment for stock damage property claim settlement.

Insurance claim for business interruption are still in progress.

**Subsequent Event**

None

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>31-Dec-13</u>		<u>31-Dec-12</u>		<u>Q413-Q412</u>	<u>Q413-Q412</u>
<b>REVENUES</b>						
Sales	4,817,543		4,061,267		756,277	19%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	2,183,773	45%	1,606,409	40%	577,364	36%
<i>PCBA (Jiaxing, China)</i>	1,037,846	22%	1,007,865	25%	29,981	3%
<i>CPG (Bangkok, Thailand)</i>	-	0%	-	0%	-	
<i>IC (Ayutthaya, Thailand)</i>	1,275,069	26%	1,155,748	28%	119,321	10%
<i>IC (Jiaxing, China)</i>	281,708	6%	243,538	6%	38,170	16%
<i>HMT (Ohio, USA)</i>	39,147	1%	47,707	1%	(8,560)	-18%
	<u>4,817,543</u>	100%	<u>4,061,267</u>	100%	<u>756,276</u>	19%
Share of Assoc. company Profit	-		-		-	
Other Income - Operating	74,679		92,606		(17,927)	-19%
<b>TOTAL OPERATING REVENUES</b>	<u>4,892,222</u>		<u>4,153,873</u>		<u>738,349</u>	18%
<b>EXPENSES</b>						
Cost of Sales	4,222,106	88%	3,725,473	92%	496,632	13%
Selling & Admin. Expenses	215,835	4%	239,706	6%	(23,871)	-10%
	<u>4,437,941</u>	92%	<u>3,965,179</u>	98%	<u>472,761</u>	12%
<b>OPERATING EARNINGS</b>	<u>454,281</u>	9%	<u>188,693</u>	5%	<u>265,588</u>	141%
Other Income - Non Operating	7,431		35,485		(28,054)	
Interest	45,454		43,829		1,626	4%
Interest Expenses	(1,687)		(1,673)		(13)	
<b>EARNINGS before Income Tax</b>	<u>505,480</u>	10%	<u>266,334</u>	6%	<u>239,146</u>	144%
Corporate Income Tax	(21,440)	0%	(37,472)	-1%	16,032	-43%
<b>Earnings before Exch. &amp; Exceptional Items</b>	<u>484,040</u>		<u>228,862</u>		<u>255,178</u>	111%
Exchange Gain (Loss)	(69,562)		49,084		(118,646)	
Exceptional Items	199,389		(100,488)		299,877	
<b>NET EARNINGS for the Period</b>	<u>613,867</u>	13%	<u>177,458</u>	4%	<u>436,409</u>	246%
<b>EARNINGS % of SALES</b>	13%		4%		8%	
Average number of shares (1 Baht par)	804,879		804,879		-	
<b>EARNINGS per SHARE (baht) before exch. &amp; ex</b>	0.69		0.22		0.46	
<b>EARNINGS per SHARE (baht) after exceptionals</b>	0.76		0.22		0.54	
Operating Profit (EBIT)	454,282		188,693		265,589	
	9%		5%			
Depreciation	279,407		311,754		(32,347)	
EBITDA (excl exchange gain/loss)	733,688		500,447		233,241	
EBITDA % of Sales Revenue	15%		12%			
Cashflow Earnings per Share	0.91		0.62		0.29	

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht

	Quarter <u>31-Dec-13</u>	Quarter <u>31-Dec-12</u>	<u>Q413-Q412</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in Hand & at Banks	4,185,699	3,111,181	1,074,518
Financial Investments	2,524,310	2,370,090	154,220
Accounts Receivable - trade	3,241,169	2,764,216	476,953
Amounts due from Related Companies	-	-	
Inventories	3,171,981	2,847,768	324,213
Other Current Assets	154,586	162,930	(8,344)
<b>TOTAL CURRENT ASSETS</b>	<u>13,277,747</u>	<u>11,256,186</u>	<u>2,021,561</u>
LOAN TO OTHER COMPANY	97	97	
<b>FIXED ASSETS (net)</b>	6,844,878	6,621,701	223,177
OTHER ASSETS	34,416	51,648	(17,232)
<b>TOTAL ASSETS</b>	<u>20,157,137</u>	<u>17,929,632</u>	<u>2,227,506</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank Overdrafts & Loans	15,946	24,435	(8,489)
Accounts & Notes Payable	2,484,859	2,087,840	397,019
Corporate Income Tax Payable	17,606	60,052	(42,446)
Accrued Expenses	419,335	448,350	(29,015)
Other Current Liabilities	239,514	38,072	201,442
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,177,261</u>	<u>2,658,749</u>	<u>518,512</u>
<b>LONG TERM LIABILITIES</b>	385,799	376,361	9,438
<b>TOTAL LIABILITIES</b>	<u>3,563,060</u>	<u>3,035,109</u>	<u>527,951</u>
<b>SHAREHOLDERS EQUITY</b>			
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	352,497	23,422
Unappropriated	13,301,102	12,194,644	1,106,458
Translation adj. & Investment revaluation	388,959	(180,717)	569,676
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
<b>TOTAL SHAREHOLDERS EQUITY</b>	<u>16,594,078</u>	<u>14,894,522</u>	<u>1,699,555</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<u>20,157,137</u>	<u>17,929,631</u>	<u>2,227,506</u>
	-	0	
Cash & Equivalents	6,710,010	5,481,271	1,228,739
Liabilities	3,563,060	3,035,109	527,951
Debt/Equity	0.21	0.20	0.01
Net Debt (Net cash)	-3,146,950	-2,446,162	-700,788
Net Debt/Equity	-0.19	-0.16	-0.03

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>31-Dec-13</u>	Quarter <u>31-Dec-12</u>
<b><u>Cashflow from Operating Activities</u></b>		
Net Earnings before tax	635,307	214,930
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>		
<b>Non Cash items</b>		
Depreciation	281,579	309,358
Unrealised (gain) Loss on exchange	86,583	(45,912)
Increase (Decrease) in allowance for doubtful debts	(3,967)	(11)
Increase (Decrease) in allowance for obsolete inventories	(48,262)	33,728
Change in other provisions	(89,070)	40,101
	<u>226,862</u>	<u>337,265</u>
<b>Working Capital (increase) decrease</b>		
Trade accounts receivable	(220,729)	56,573
Inventories	92,735	144,886
Trade accounts payable	(637,490)	(436,896)
Other	(124,983)	80,444
	<u>(890,466)</u>	<u>(154,994)</u>
<b>Net Cashflow from Operating Activities</b>	<u>(28,297)</u>	<u>397,201</u>
<b>Cashflow from Investing Activities</b>		
(Increase) decrease in short term investment	(258,390)	32,513
Increase in property, plant and equipment	(485,440)	(357,890)
Proceeds from sale of fixed assets	28,403	11,390
Increase (decrease) in translation adjustment	408,617	(30,099)
Revaluation deficit on investments	32,945	47,077
Other		
	<u>(273,865)</u>	<u>(297,009)</u>
<b>Cashflow from Financing Activities</b>		
Cash received from increase in share capital	(132)	(0)
Dividend paid	(402,439)	(402,439)
Other	(583)	(1,174)
Net cash (used in ) from financing activities	<u>(403,155)</u>	<u>(403,614)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(705,317)	(303,422)
Cash and Equivalents at the beginning of the period	<u>4,891,017</u>	<u>3,414,603</u>
Cash and Equivalents at the end of the period	4,185,700	3,111,180

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	<u>Quarter</u> <u>31-Dec-13</u>	<u>Quarter</u> <u>31-Dec-12</u>	<u>Q413-Q412</u>	
<b>Profitability Ratios</b>				
Gross Profit Margin (%)	12%	8%		4%
Operating Profit Margin (%)	9%	5%		5%
Net Profit before Exceptional Margin (%)	10%	6%		4%
Net Profit after Exceptional Margin (%)	13%	4%		8%
EBITDA margin (%)	15%	12%		3%
Return On Equity (%) pa	15%	5%		10%
<b>Efficiency Ratios</b>				
Working Capital turnover	5.2	4.6		0.6
Account Receivable days	61	61	-	0.7
Inventory days	68	69	-	1.2
Accounts Payable days	53	50		2.5
<b>Liquidity Ratios</b>				
Current Ratio	4.2	4.2	-	0.1
Quick Ratio	3.1	3.1		0.0
<b>Financial Capital Ratios</b>				
Debt / Equity	0.2	0.2		0.0
Net Debt to Equity	-0.2	-0.2	-	0.0
Interest Coverage	n/a	n/a		