

## **Management's Discussion and Analysis**

**Year 2009**

### **Overall Group Performance**

Hana Microelectronics Group 'Hana' Sales Revenue decreased 11% year on year, to THB 13.5 billion in year 2009 from THB 15.1 billion in 2008. Sales Revenue in USD terms decreased 13% to USD 392m in 2009 from USD 452m in 2008. Operating Profits decreased 1.4% to THB 1,847.8m Baht in 2009 from THB 1,855.9m in 2008. Operating profits decreased 1.4% in USD terms to USD 53.8m in 2009 and USD 55.5m in 2008.

Whilst 2009 sales revenues overall were 13% lower in USD terms compared to 2008, the year 2009 had distinct and contrasting changes in business trends, which were the opposite of 2008. USD sales decreased year on year in the first half of 2009 by 23% whilst sales in the second half increased by 8% year on year. The sales trend reflected the recession from the global financial crisis at the end of 2008 and the subsequent recovery initially through replenishment of depleted inventories and later in the second half through the economic growth in emerging markets which supported the global demand for electronics.

### **Past Performance Analysis**

#### **Revenue Analysis**

In 2009 IC assembly sales contracted 13% in USD terms [-11% in THB terms]. Sales contracted 20% in the first half but were flat in the second half of the year (year on year), over 2008. The IC division in AYT sales declined 12%, and decreased 21% for the IC division in JXG. However, both divisions had similar sales in the second half of 2009 compared to the same period in 2008.

The Microelectronics divisions' sales revenues declined 10% [-6% THB] in 2009 over 2008. The microelectronics operation in Lamphun declined 2% and JXG by 26% for 2009. Sales in the first half declined 20% but increased 8% in the second half on 2009 (year on year). Lamphun sales declined 14% in the first half but increased 37% in the second half of 2009. Microelectronics in JXG sales declined 33% in the first half but increased 17% in the second half of 2009 compared to the same period in 2008.

CPG sales fell 34% [-32% THB] in 2009 more than other divisions due to the higher exposure to the motor vehicle industry and move towards closure in 2014. Hana Microdisplay Technologies "HMT", sales decreased 20% for the year with the contraction mainly from lower microdisplay sales with RFID sales increasing in the second half.

The annual sales split was:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
PCBA (Thailand)	43%	37%	37%
PCBA (China)	15%	18%	17%
CPG - (Bangkok)	8%	11%	12%
IC (AYT)	29%	29%	30%
IC (JXG)	4%	4%	4%
HMT (USA)	1%	1%	1%
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	100%	100%	100%

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

The Gross Profit margin was 19% in 2009 up 2% from 17% in 2008 due to higher margin product mix in 2009 across the IC and PCBA divisions. CPG division margin remained stable. The Gross Profit margin increased slightly by 1% in 2008, as gross profit in 2007 suffered from inventory valuation adjustments of THB 100m due to the strengthening the THB/USD exchange rate from the end of 2006.

#### **Operating Profit Analysis**

Operating profits were 1% lower in 2009 due to lower sales however, operating margins were 2% higher at 14% compared to 12% in 2008 due to lower SGA expenses. SGA expenses remained at 6% of sales revenue but were THB 130m lower as a result of cost cutting, headcount reduction expenses in 2008 and increased doubtful debt provision in 2008. The operating margin remained at 12% for 2008 compared to 2007 as both the gross margin and SGA expenses did not change materially for the year.

In absolute terms Sales and Administration costs were reduced by 14% in 2009 but increased by 8% in 2008 compared to 2007. However the SGA margin remained at approximately 6% of sales revenues during the

years 2007 to 2009.

Similarly, Net Profit margin before exceptional items increased by 2% to 15% in 2009 but remained at 13% in 2008 and 2007. Income taxation remained similar at 5-7% of Net Profit before tax for the three years.

EBITDA margin also increased by 2% to 21% in 2009 and rose slightly by 1% to 19% in 2008 from 2007.

#### **Payout Analysis**

The company paid dividends per share of THB 1.50 (THB 0.50 - Dec 06 and THB 1.00 in May 07) in 2007 from the profits of 2006, THB 1.30 in 2008 from the profits of 2007 and THB 1.20 in 2009 from the profits of 2008 being 56%, 51% and 57% dividend payout of net profits before exceptional items respectively.

The final dividends are 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 short term investments at the 31st December 2009 were THB 6.0 billion, 2008 THB 4.7 billion and THB 3.4 billion in 2007.

#### **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	'000	<u>2009</u>	<u>2008</u>	<u>2007</u>
Less than 3 months		2,281,059	1,514,771	2,429,800
3 - 6 months		9,382	30,274	20,921
6 - 12 months		3,266	7,013	5,295
More than 12 months		5,768	1,266	1,132
Total accounts receivable - other companies		2,299,475	1,553,325	2,457,148
Less : Allowance for doubtful accounts		-6,415	-13,052	-7,608
		<u>2,293,060</u>	<u>1,540,272</u>	<u>2,449,540</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 58 days in 2009, 59 days in 2008 and 61 days in 2007.

##### **Liquidity**

The group has THB 6.0 billion in cash and short term investments with no interest bearing debt. Liquidity ratios are high at approximately 3 times current liabilities. Operating Cashflow continued to be strong in 2009 with EBITDA at THB 2.8 billion which was similar to 2008 and 2007.

Cash reserves in 2009 increased by THB 1.3 billion due to THB 1.1 billion cashflow after dividend and capital expenditure and a THB 0.2 billion reduction in working capital. The cash increase in 2008 was also THB 1.3 billion due to the THB 0.5 billion reduction in working capital and the net operating cashflow of THB 0.8 billion.

##### **Capital Expenditure**

Net Capital Expenditure was THB 754m in 2009, THB 1,049m in 2008 and THB 1,278m in 2007.

Capital Expenditure was lower in 2009 due to the reduced demand in the first three quarters of the year. 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. As such, it 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.

As all the groups sales revenue are in foreign currency (primarily USD) and USD currency costs are 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 135m per quarter for every 10% change in the average Baht/USD and CNY/USD rates (i.e.  $(1 - 0.60) \times \text{Sales Revenue} \times 10\%$  ).

The Group's Thai companies balance sheet exposure is a net asset of approximately USD 55m, being the foreign currency working capital balance. Out of the groups foreign exchange exposure, USD 50m 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.

The THB/USD currency movements reflected the economic trends in emerging markets and commodities during period. Whilst the average rate for 2009 THB/USD 34.3 was 3% weaker than THB/USD 33.4 average rate for 2008 but similar to THB/USD 34.6 in 2007.

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.

### **Exceptional Items**

None in 2009 and 2008. The company sold 100% of its 23.4% ownership in AIT in July 2007 to Unisem. The sales and purchase transaction is completed and the Company's subsidiary received approximately USD 15.6 million in 2007. THB 150m was provided in Q307 as a contingency due to an income tax claim by the revenue department. This amount was previously mentioned as a note to the accounts. The company is in the appeal process.

### **Future Plan**

In 2010, THB 200m for construction of a 5,000m facility at the Ayutthaya site. THB 100m for construction of a 3,000m facility at the Lamphun site. THB 150m for purchase of land for expansion in Lamphun.

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year <b>2009</b>		Year <b>2008</b>		Year <b>2007</b>		<b>2009-2008</b>	<b>% 2009/2008</b>
<b>REVENUES</b>								
Sales	13,457,941		15,105,712		15,635,568		-1,647,770	-11%
consisting of:								
<i>PCBA (Thailand)</i>	5,771,541	43%	5,659,157	37%	5,713,007	37%	112,384	2%
<i>PCBA (China)</i>	1,994,009	15%	2,648,854	18%	2,695,064	17%	-654,845	-25%
<i>CPG - LED/Opto</i>	1,106,085	8%	1,626,385	11%	1,831,069	12%	-520,300	-32%
<i>IC (AYT)</i>	3,967,967	29%	4,408,441	29%	4,702,036	30%	-440,474	-10%
<i>IC (JXG)</i>	516,523	4%	637,802	4%	578,537	4%	-121,279	-19%
<i>HMT (USA)</i>	101,816	1%	125,073	1%	115,855	1%	-23,257	-19%
	<u>13,457,941</u>	100%	<u>15,105,712</u>	100%	<u>15,635,568</u>	100%	<u>-1,647,771</u>	-11%
Other Income - Operating	146,584		224,120		231,570		70,660	93%
<b>TOTAL REVENUES</b>	<u>13,604,525</u>		<u>15,329,832</u>		<u>15,867,138</u>		<u>-1,577,111</u>	-10%
<b>EXPENSES</b>								
Cost of Sales	10,956,720	81%	12,544,343	83%	13,076,196	84%	-1,587,623	-13%
Selling & Admin. Expenses	800,048	6%	929,622	6%	863,574	6%	-129,574	-14%
Interest Expenses	6,784		6,077		2,214		707	
	<u>11,763,553</u>	87%	<u>13,480,042</u>	89%	<u>13,941,983</u>	89%	<u>-1,716,489</u>	-13%
<b>EARNINGS from Operation</b>	<u>1,840,972</u>	14%	<u>1,849,790</u>	12%	<u>1,925,155</u>	12%	<u>139,378</u>	8%
Other Income - Non Operating	137,972		30,527		4,901		107,445	
Exchange Gain (Loss)	139,174		75,924		179,659		63,249	
Interest	82,548		76,705		49,596		5,843	8%
<b>EARNINGS before Income Tax</b>	<u>2,200,666</u>	16%	<u>2,032,946</u>	13%	<u>2,159,312</u>	14%	<u>315,915</u>	16%
Corporate Income Tax	-157,710	7%	-123,396	6%	-102,741	5%	-34,314	28%
<b>Earnings before Exceptional Items</b>	<u>2,042,956</u>	15%	<u>1,909,550</u>	13%	<u>2,056,571</u>	13%	<u>281,601</u>	15%
Exceptional Items	0		0		392,590		0	
<b>NET EARNINGS for the Period</b>	<u>2,042,956</u>	15%	<u>1,909,550</u>	12%	<u>2,449,161</u>	15%	<u>281,601</u>	15%
<b>EARNINGS % of SALES</b>								
	15%		13%		16%		3%	
Average number of shares (1 Baht par)	808,586		830,133		830,133		-21,548	
<b>EARNINGS per SHARE (baht) before exch. &amp; exceptio</b>	2.35		2.21		2.26		0.15	
<b>EARNINGS per SHARE (baht) after exceptionals</b>	2.53		2.30		2.95		0.23	
Operating Profit (EBIT)	1,847,757		1,855,866		1,875,457		-8,109	0%
Depreciation	1,005,338		961,806		849,480		43,532	5%
EBITDA (excl exchange gain/loss)	2,853,095		2,817,673		2,776,849		35,422	1%
EBITDA % of Sales Revenue	21%		19%		18%			
Cashflow Earnings per Share-diluted	3.53		3.39		3.35		0.13	
Dividend from prior years profits	981,010		1,079,353		1,239,454		-	98,343

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht	Year <b>2009</b>	Year <b>2008</b>	Year <b>2007</b>	<b>2009-2008</b>	%
				<b>2009/2008</b>	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash in Hand & at Banks	4,272,065	4,316,298	3,386,431	-44,233	-1%
Financial Investments	1,729,129	362,624	0	1,366,505	377%
Accounts Receivable - trade	2,293,060	1,540,272	2,449,540	752,788	49%
Inventories	1,756,824	2,060,582	2,205,351	-303,758	-15%
Other Current Assets	106,158	136,715	162,562	-30,557	-22%
<b>TOTAL CURRENT ASSETS</b>	<b>10,157,236</b>	<b>8,416,492</b>	<b>8,203,885</b>	<b>1,740,744</b>	<b>21%</b>
LOAN TO RELATED COMPANY	0	0	0	0	
INVESTMENTS IN ASSOCIATED COMPANY	0	0	0	0	
<b>FIXED ASSETS (net)</b>	<b>5,605,407</b>	<b>5,875,209</b>	<b>5,566,939</b>	<b>-269,802</b>	<b>-5%</b>
OTHER ASSETS	48,258	19,911	2,628	28,347	
<b>TOTAL ASSETS</b>	<b>15,810,901</b>	<b>14,311,611</b>	<b>13,773,452</b>	<b>1,499,290</b>	<b>10%</b>
<b>LIABILITIES</b>					
<b>CURRENT LIABILITIES</b>					
Bank Overdrafts & Loans	43,906			43,906	
Accounts & Notes Payable	2,018,596	1,228,579	1,810,705	790,016	64%
Corporate Income Tax Payable	258,770	220,569	223,912	38,201	17%
Accrued Expenses	151,781	156,441	126,459	-4,660	-3%
Other Current Liabilities	331,561	308,544	321,527	23,017	7%
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,804,614</b>	<b>1,914,133</b>	<b>2,482,603</b>	<b>890,481</b>	<b>47%</b>
<b>TOTAL LIABILITIES</b>	<b>2,804,614</b>	<b>1,914,133</b>	<b>2,482,603</b>	<b>890,481</b>	<b>47%</b>
<b>SHAREHOLDERS EQUITY</b>					
Share Capital	830,475	830,475	830,406	0	0%
Unrealised gain(loss) on change in investments	68,996	0	0	68,996	
Share Premium	1,723,219	1,723,219	1,722,078	0	0%
Retained Earnings	0	0	0	0	
Appropriated Statutory Reserve	320,218	322,420	322,301	-2,201	-1%
Unappropriated & Treasury Share Reserve	10,340,762	9,390,554	8,601,512	950,208	10%
Translation adj. & Investment revaluation	-14,397	285,786	-26,723	-300,183	-105%
Treasury shares	-262,987			-262,987	
Excess Cost over Net Book Value of Subsidiary Investment	0	-154,976	-158,726	154,976	
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>13,006,286</b>	<b>12,397,478</b>	<b>11,290,848</b>	<b>608,808</b>	<b>5%</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<b>15,810,900</b>	<b>14,311,611</b>	<b>13,773,452</b>	<b>1,499,289</b>	<b>10%</b>
Cash and short term investments (K USD equivalent)	118,373	105,071	82,435	13,302	
Year ending THB/USD exchange rate	36.09	41.08	41.08	- 4.99	
Cash & Equivalents	6,001,194	4,678,922	3,386,431	1,322,272	
Liabilities	2,804,614	1,914,133	2,482,603	890,481	
Debt/Equity	0.22	0.15	0.22	0.06	
Net Debt (Net cash) [Cash - Total Liabilities]	-3,196,580	-2,764,789	-903,828	-431,791	
Net Debt/Equity	-0.25	-0.22	-0.08	-0.02	
				0	

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Year <u>2009</u>	Year <u>2008</u>	Year <u>2007</u>	<u>2009-2008</u>
<b>Cashflow from Operating Activities</b>				
Net Earnings	2,200,666	2,032,946	2,551,902	167,720
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>				
<b>Non Cash items</b>				
Depreciation	1,005,338	961,806	847,582	43,532
Unrealised (gain) Loss on exchange	-	17,556	8,312	17,556
Change in other provisions	141,796	110,413	159,910	252,209
	<u>863,542</u>	<u>1,054,664</u>	<u>999,180</u>	<u>- 191,121</u>
<b>Working Capital (increase) decrease</b>				
Trade accounts receivable	741,703	897,624	9,326	1,639,328
Inventories	321,560	57,603	269,915	263,957
Trade accounts payable	423,086	439,333	213,009	862,420
Other	159,492	57,738	292,037	101,754
	<u>- 156,549</u>	<u>458,156</u>	<u>- 225,805</u>	<u>- 614,705</u>
<b>Net Cashflow from Operating Activities</b>	<u>2,907,659</u>	<u>3,545,765</u>	<u>3,325,278</u>	<u>- 638,106</u>
<b>Cashflow from Investing Activities</b>				
(Increase) decrease in short term investment	1,172,027	392,580	-	779,447
Increase in property, plant and equipment	402,781	1,448,373	1,271,095	1,045,592
Proceeds from sale of fixed assets	35,988	7,171	231,735	28,818
Increase (decrease) in translation adjustment	368,843	337,069	225,636	705,911
Decrease in short term loans to related parties	-	-	-	-
Other	114,825	6	-	114,831
	<u>- 1,792,837</u>	<u>- 1,496,719</u>	<u>- 1,264,996</u>	<u>- 296,119</u>
<b>Cashflow from Financing Activities</b>				
Cash paid for treasury stock	221,951	41,037	-	180,914
Cash received from increase in share capital & overdraft	43,906	1,210	35,515	42,696
Dividend paid	981,010	1,079,353	827,125	98,343
Net cash (used in ) from financing activities	<u>- 1,159,055</u>	<u>- 1,119,179</u>	<u>- 791,610</u>	<u>- 39,875</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	44,233	929,867	1,268,671	974,100
Cash and Equivalents at the beginning of the period	4,316,298	3,386,431	2,117,760	929,867
Cash and Equivalents at the end of the period	<u>4,272,066</u>	<u>4,316,298</u>	<u>3,386,431</u>	<u>- 44,233</u>

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	Year <b>2009</b>	Year <b>2008</b>	Year <b>2007</b>	<b>2009-2008</b>
<b>Profitability Ratios</b>				
Gross Profit Margin (%)	19%	17%	16%	2%
Operating Profit Margin (%)	14%	12%	12%	1%
Net Profit before Exceptional Margin (%)	15%	13%	13%	3%
Net Profit after Exceptional Margin (%)	15%	13%	16%	3%
EBITDA margin (%)	21%	19%	18%	3%
Return On Equity (%) pa	16%	17%	22%	-1%
<b>Efficiency Ratios</b>				
Working Capital turnover	6	6	5	0
Account Receivable days	61	37	56	25
Inventory days	58	59	61	1
Accounts Payable days	- 66	- 35	- 50	- 31
<b>Liquidity Ratios</b>				
Current Ratio	3.6	4.4	3.3	-0.8
Quick Ratio	3.0	3.2	2.4	-0.3
<b>Financial Capital Ratios</b>				
Debt / Equity	0.2	0.2	0.2	0.1
Net Debt to Equity	-0.2	-0.2	-0.1	0.0
Interest Coverage	n/a	n/a	n/a	