

Management's Discussion and Analysis

First Quarter ending 31st March 2011

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue were similar year on year at THB 3.8 billion for the first quarter of 2011 and THB 3.9 billion for the first quarter of 2010. Sales Revenue in USD terms increased by 8% to USD 125m from USD 119m in Q1 2010. Operating Profits decreased 35% to THB 374m in Q1 2011 from THB 576m in Q1 2010.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>31-Mar-11</u>		<u>31-Mar-10</u>		<u>Q111-Q110</u>	<u>Q111-Q110</u>
PCBA (Lamphun, Thailand)	1,331,898	35%	1,612,891	41%	(280,993)	-17%
PCBA (Jiaxing, China)	750,578	20%	558,474	14%	192,104	34%
CPG (Bangkok, Thailand)	79,545	2%	228,940	6%	(149,395)	-65%
IC (Ayutthaya, Thailand)	1,392,330	36%	1,300,898	33%	91,432	7%
IC (Jiaxing, China)	202,085	5%	187,606	5%	14,479	8%
HMT (Ohio, USA)	63,031	2%	36,098	1%	26,933	75%
Total Revenue	3,819,467		3,924,907		(105,440)	-3%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 1 2011 sales revenue for the group increased 5% year-on-year in USD terms, from USD 119.3m in Q110 to USD 125.0m in Q111. The average exchange rate for Q111 was 7% stronger at THB/USD 30.56 from THB/USD 32.90 in Q110. As a result the sales in THB terms was 3% lower year on year.

Year-on-year, the microelectronics divisions sales increased by 3% in USD terms. Sales in Lamphun decreased by 11% whilst JiaXing increased by 43%. The IC divisions USD sales revenues were 15% higher, with revenues the IC divisions in Ayutthaya and JiaXing increasing by 15% and 16% respectively. The CPG division sales declined by 73% as the division winds down due to the land lease expiry in Feb 2014.

Quarter on Quarter Sales Revenue Analysis

Group sales decreased quarter on quarter by 6% from USD 133m in Q410 to USD 125m in Q111. Sales across both the microelectronics and IC divisions, dropped from the record levels in Q310 as the electronics cycle matured. In THB equivalent the group sales decreased by 4% in Q111 compared to Q410. The average THB/USD exchange rate weakened by 2% from 29.99 in Q410 to 30.56 in Q111.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 2% lower with Lamphun decreasing 4% and JiaXing increasing 1%. Sales revenues from the IC divisions were 4% lower with Ayutthaya sales decreasing by 5% and JiaXing IC sales increasing by 5% also. The CPG division sales were 55% lower quarter on quarter. HMT sales increased by 194% from Q110 due to strong growth in the LCOS displays for optical switches.

Sales Revenue Split

	<u>Q1 2011</u>	<u>Q4 2010</u>	<u>Q3 2010</u>	<u>Q2 2010</u>	<u>Q1 2010</u>
PCBA (Lamphun, Thailand)	35%	34%	35%	38%	41%
PCBA (Jiaxing, China)	20%	18%	18%	16%	14%
CPG (Bangkok, Thailand)	2%	4%	5%	5%	6%
IC (Ayutthaya, Thailand)	36%	36%	36%	34%	33%
IC (Jiaxing, China)	5%	5%	5%	6%	5%
HMT (Ohio, USA)	2%	2%	1%	1%	1%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 14% in Q111 down 4% from 18% in Q110 due to the 7% stronger THB exchange rate (2%), higher material costs (1%) and higher wage costs (1%) in each location.

Operating Profit Analysis

Year-on-year operating profits were 35% lower in Q111 and operating margins were 5% lower at 10% in Q111 from 15% in Q110 due to the lower Gross Profit margin and increased SG&A expense. SG&A expenses were 17% higher in Q111 due to the increase in salaries expense in Q111 and the write back of provisions in Q110. SG&A expenses were 4% higher in Q111 than Q410 due to increased salary expenses.

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 Q111 was Baht/USD 30.56 from 32.90 in Q110 (and from Baht/USD 29.99 in Q410).

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 30.30 at 31/3/11, and 32.37 at 31/03/10 or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid out in Q111.

Financial Status

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 31st March, 2011 were THB 5.6 billion down from 31st March, 2010 of THB 6.0 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 55 days in Q111 and 52 days in Q110.

Accounts receivable - other companies	31-Mar-11	31-Mar-10	'000
Less than 3 months	2,312,012	2,071,303	
3 - 6 months	19,371	354,732	
6 - 12 months	1,578	10,180	
More than 12 months	1,364	8,206	
Total accounts receivable - other companies	2,334,325	2,444,421	
Less : Allowance for doubtful accounts	(4,269)	-1,722	
	<u>2,330,056</u>	<u>2,442,699</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 70 days as at 31st March, 2011 and 50 days as at 31st March, 2010.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q1 2011 was THB 670m which was 21% lower than Q1 2010 was THB 843m.

Capital Expenditure

Capital Expenditure was THB 227m in Q1 2011 and THB 315m in Q1 2010. 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. 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 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 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.

Exceptional Items

None

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>31-Mar-11</u>		<u>31-Mar-10</u>		<u>Q111-Q110</u>	<u>Q111-Q110</u>
REVENUES						
Sales	3,819,467		3,924,907		(105,440)	-3%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,331,898	35%	1,612,891	41%	(280,993)	-17%
<i>PCBA (Jiaxing, China)</i>	750,578	20%	558,474	14%	192,104	34%
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<i>IC (Ayutthaya, Thailand)</i>	1,392,330	36%	1,300,898	33%	91,432	7%
<i>IC (Jiaxing, China)</i>	202,085	5%	187,606	5%	14,479	8%
<i>HMT (Ohio, USA)</i>	63,031	2%	36,098	1%	26,933	75%
	<u>3,819,467</u>	100%	<u>3,924,907</u>	100%	<u>(105,440)</u>	-3%
Share of Assoc. company Profit	-		-		-	
Interest	36,721		22,079		14,642	66%
Other Income - Operating	67,684		54,778		12,906	24%
Other Income - Non Operating	4,704		4,756		(52)	-1%
TOTAL REVENUES	<u>3,928,576</u>		<u>4,006,520</u>		<u>(77,944)</u>	-2%
EXPENSES						
Cost of Sales	3,303,235	86%	3,224,468	82%	78,767	2%
Selling & Admin. Expenses	209,918	5%	181,135	5%	28,783	16%
Interest Expenses	1,838		-		1,838	
TOTAL EXPENSES	<u>3,514,991</u>	92%	<u>3,405,603</u>	87%	<u>109,388</u>	3%
EARNINGS from Operation	<u>413,585</u>	0.105	<u>600,917</u>	0.15	<u>(187,332)</u>	-31%
Exchange Gain (Loss)	50,486		22,044		28,442	
Share of Assoc. company Loss	-		-		-	
EARNINGS before Income Tax	<u>464,071</u>	12%	<u>622,961</u>	16%	<u>(158,890)</u>	-26%
Corporate Income Tax	(6,825)	1%	(25,559)	4%	18,734	-73%
Earnings before Exceptional Items	<u>457,246</u>		<u>597,402</u>		<u>(140,156)</u>	-23%
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>457,246</u>	12%	<u>597,402</u>	15%	<u>(140,156)</u>	-23%
EARNINGS % of SALES	12%		15%		-3%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch. .	0.51		0.71		-	0.21
EARNINGS per SHARE (baht) after exceptio	0.57		0.74		-	0.17
Operating Profit (EBIT)	373,998		574,082		(200,084)	
	10%		15%			
Depreciation	295,811		268,794		27,017	
EBITDA (excl exchange gain/loss)	669,809		842,876		(173,067)	
EBITDA % of Sales Revenue	18%		21%			
Cashflow Earnings per Share	0.83		1.05		-	0.22

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>31-Mar-11</u>	Quarter <u>31-Mar-10</u>	<u>Q111-Q110</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	3,498,489	4,173,130	(674,641)
Financial Investments	2,051,137	1,864,423	186,714
Accounts Receivable - trade	2,330,056	2,442,699	(112,643)
Amounts due from Related Companies	-	-	
Inventories	2,582,513	1,911,240	671,273
Other Current Assets	226,183	123,493	102,690
TOTAL CURRENT ASSETS	<u>10,688,378</u>	<u>10,514,985</u>	173,393
LOAN TO OTHER COMPANY	97	97	
FIXED ASSETS (net)	6,483,406	5,604,656	878,750
OTHER ASSETS	18,868	38,952	(20,084)
TOTAL ASSETS	<u>17,190,749</u>	<u>16,158,690</u>	1,032,059
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	-	41,923	(41,923)
Accounts & Notes Payable	1,610,062	1,436,641	173,421
Corporate Income Tax Payable	30,899	134,012	(103,113)
Accrued Expenses	350,542	341,468	9,074
Other Current Liabilities	611,384	764,165	(152,781)
TOTAL CURRENT LIABILITIES	<u>2,602,887</u>	<u>2,718,209</u>	(115,322)
LONG TERM LIABILITIES	280,231	-	280,231
TOTAL LIABILITIES	<u>2,883,118</u>	<u>2,718,209</u>	164,909
SHAREHOLDERS EQUITY			
Share Capital	830,475	830,475	
Treasury Shares	(262,987)	(262,987)	
Share Premium	1,723,219	1,723,219	
Retained Earnings			
Appropriated Statutory Reserve	320,218	320,218	0
Unappropriated	12,132,801	10,938,164	1,194,637
Translation adj. & Investment revaluation	(436,095)	(199,660)	(236,435)
Unrealised gain(loss) on change in investments	-	91,052	(91,052)
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>14,307,631</u>	<u>13,440,481</u>	867,150
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>17,190,749</u>	<u>16,158,690</u>	1,032,059
	(0)	0	
Cash & Equivalents	5,549,626	6,037,553	-487,927
Liabilities	2,883,118	2,718,209	164,909
Debt/Equity	0.20	0.20	-0
Net Debt (Net cash)	-2,666,508	-3,319,344	652,836
Net Debt/Equity	-0.19	-0.25	0

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>31-Mar-11</u>	Quarter <u>31-Mar-10</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	464,071	622,961
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	297,209	268,794
Unrealised (gain) Loss on exchange	(657)	7,846
Increase (Decrease) in allowance for doubtful debts	1,029	(4,693)
Increase (Decrease) in allowance for obsolete inventories	59,756	(18,720)
Change in other provisions	(4,787)	(7,051)
	<u>352,550</u>	<u>246,176</u>
Working Capital (increase) decrease		
Trade accounts receivable	94,370	(180,905)
Inventories	(87,261)	(135,696)
Trade accounts payable	(85,446)	(47,885)
Other	45,386	33,417
	<u>(32,951)</u>	<u>(331,069)</u>
Net Cashflow from Operating Activities	<u>783,670</u>	<u>538,068</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	(6,267)	(97,110)
Increase in property, plant and equipment	(352,984)	(370,145)
Proceeds from sale of fixed assets	8,476	8,812
Increase (decrease) in translation adjustment	46,172	(185,263)
Revaluation deficit on investments	44,878	8,686
Other		
	<u>(259,725)</u>	<u>(635,020)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	-
Dividend paid	-	-
Other	-	(1,983)
Net cash (used in) from financing activities	<u>-</u>	<u>(1,983)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	523,945	(98,935)
Cash and Equivalents at the beginning of the period	<u>2,974,544</u>	<u>4,272,065</u>
Cash and Equivalents at the end of the period	3,498,489	4,173,130

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Quarter <u>31-Mar-11</u>	Quarter <u>31-Mar-10</u>	<u>Q111-Q110</u>	
Profitability Ratios				
Gross Profit Margin (%)	14%	21%	-	-8%
Operating Profit Margin (%)	10%	17%	-	-8%
Net Profit before Exceptional Margin (%)	12%	16%	-	-4%
Net Profit after Exceptional Margin (%)	12%	16%	-	-4%
EBITDA margin (%)	18%	24%	-	-6%
Return On Equity (%) pa	13%	20%	-	-7%
Efficiency Ratios				
Working Capital turnover	4.9	6.3	-	1.4
Account Receivable days	55	52	-	3.2
Inventory days	70	50	-	20.0
Accounts Payable days	44	43	-	0.7
Liquidity Ratios				
Current Ratio	4.1	3.6	-	0.5
Quick Ratio	3.0	3.0	-	0.1
Financial Capital Ratios				
Debt / Equity	0.2	0.2	-	0.0
Net Debt to Equity	-0.2	-0.2	-	0.1
Interest Coverage	n/a	n/a	-	