

## Management's Discussion and Analysis

Third Quarter ending 30th September 2012

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue was down 1% year on year at THB 4.5 billion for the third quarter of 2012 compared to THB 4.5 billion for the third quarter of 2011. Sales Revenue in USD terms decreased by 4% to USD 143m from USD 149m in Q3 2011. Operating Profits decreased 43% to THB 257m in Q3 2012 from THB 448m in Q3 2011.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>30-Sep-12</u>		<u>30-Sep-11</u>		<u>Q312-Q311</u>	
<i>PCBA (Lamphun, Thailand)</i>	1,735,377	39%	1,571,355	35%	164,022	10%
<i>PCBA (Jiaxing, China)</i>	1,137,324	25%	1,007,415	22%	129,909	13%
<i>CPG (Bangkok, Thailand)</i>	-	0%	79,541	2%	(79,541)	-100%
<i>IC (Ayutthaya, Thailand)</i>	1,221,766	27%	1,551,133	34%	(329,367)	-21%
<i>IC (Jiaxing, China)</i>	355,057	8%	250,469	6%	104,588	42%
<i>HMT (Ohio, USA)</i>	34,447	1%	61,675	1%	(27,228)	-44%
Total Revenue	4,483,971		4,521,588		(37,617)	-1%

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 3 2012 sales revenue for the group decreased 4% year-on-year in USD terms, from USD 149m in Q311 to USD 143m in Q312. The average exchange rate for Q312 was 4% weaker at THB/USD 31.36 from THB/USD 30.25 in Q311. As a result the sales revenue in THB terms was 1% lower year on year.

Year-on-year, the microelectronics divisions sales increased by 7% in USD terms. Sales in Lamphun increased 6% whilst JiaXing increased by 8%. The IC divisions USD sales revenues were 16% lower, with revenues of the IC divisions in Ayutthaya decreasing by 25% and JiaXing increasing by 36%. "HMT" the microdisplay/RFID operation in Ohio sales revenue decreased 47%.

#### Quarter on Quarter Sales Revenue Analysis

Group sales decreased quarter on quarter by 5% from USD 150m in Q212 to USD 142m in Q312. Sales in the microelectronics division decreased 10% and the IC division increased by 6%. In THB equivalent the group sales decreased by 5% in Q312 compared to Q212. The average THB/USD exchange rate weakened by 1% from 31.09 in Q212 to 31.36 in Q312.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 10% lower with Lamphun decreasing 15% and JiaXing decreasing 5%. Sales revenues from the IC divisions were 6% higher with Ayutthaya sales increasing by 5% and JiaXing IC sales increasing by 7%. The microdisplay division sales decreased 16% in Q312 compared to Q212.

### Sales Revenue Split

	<u>Q3 2012</u>	<u>Q2 2012</u>	<u>Q1 2012</u>	<u>Q4 2011</u>	<u>Q3 2011</u>
<i>PCBA (Lamphun, Thailand)</i>	39%	42%	46%	49%	35%
<i>PCBA (Jiaxing, China)</i>	25%	25%	24%	27%	22%
<i>CPG (Bangkok, Thailand)</i>	0%	0%	2%	1%	2%
<i>IC (Ayutthaya, Thailand)</i>	27%	25%	21%	14%	34%
<i>IC (Jiaxing, China)</i>	8%	7%	6%	7%	6%
<i>HMT (Ohio, USA)</i>	1%	1%	1%	2%	1%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 9% in Q312 down from 13% in Q311. 3% due to higher material costs and 1% due to higher depreciation and staff costs.

### **Operating Profit Analysis**

Year-on-year operating profits were 43% lower in Q312 and operating margins were 4% lower at 6% in Q312 from 10% in Q311 due to the lower gross profit. SG&A expenses in Q312 were similar to Q311. SG&A expenses in Q312 were 20% lower than in Q212 due to higher material provision in Q212.

### **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 Q312 was Baht/USD 31.09 from 30.25 in Q311 (and Baht/USD 31.09 in Q212).

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 30.83 at 30/09/12, and 31.17 at 30/09/11 (31.83 at 30/06/12) or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

No dividends were paid out in Q312.

### **Financial Status**

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 30th September, 2012 were THB 5.8 billion up from 30th September, 2011 at 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 65 days in Q312 and 53 days in Q311.

Accounts receivable - other companies	<u>30-Sep-12</u>	<u>30-Sep-12</u>	'000
Less than 3 months	2,680,433	2,651,138	
3 - 6 months	40,885	18,194	
6 - 12 months	10,188	3,362	
More than 12 months	3,685	1,756	
Total accounts receivable - other companies	<u>2,735,191</u>	<u>2,674,450</u>	
Less : Allowance for doubtful accounts	(6,915)	(8,415)	
	<u>2,728,276</u>	<u>2,666,035</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 65 days as at 30th September, 2012 and 64 days as at 30th September, 2011.

#### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q3 2012 was THB 499m which was 33% lower than Q3 2011 was THB 746m.

### **Capital Expenditure**

Capital Expenditure was THB 282m in Q3 2012 and THB 230m in Q3 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 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 130m provision for damaged equipment from the flood was reversed in Q3 2012.

### **Subsequent Event**

None

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>30-Sep-12</u>		<u>30-Sep-11</u>		<u>Q312-Q311</u>	<u>Q312-Q311</u>
<b>REVENUES</b>						
Sales	4,483,971		4,521,588		(37,617)	-1%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,735,377	39%	1,571,355	35%	164,022	10%
<i>PCBA (Jiaxing, China)</i>	1,137,324	25%	1,007,415	22%	129,909	13%
<i>CPG (Bangkok, Thailand)</i>	-	0%	79,541	2%	(79,541)	-100%
<i>IC (Ayutthaya, Thailand)</i>	1,221,766	27%	1,551,133	34%	(329,367)	-21%
<i>IC (Jiaxing, China)</i>	355,057	8%	250,469	6%	104,588	42%
<i>HMT (Ohio, USA)</i>	34,447	1%	61,675	1%	(27,228)	-44%
	<u>4,483,971</u>	100%	<u>4,521,588</u>	100%	<u>(37,617)</u>	-1%
Share of Assoc. company Profit	-		-		-	
Interest	39,309		33,817		5,492	16%
Other Income - Operating	72,767		84,596		(11,829)	-14%
Other Income - Non Operating	(5,715)		1,374		(7,089)	
<b>TOTAL REVENUES</b>	<u>4,590,332</u>		<u>4,641,375</u>		<u>(51,043)</u>	-1%
<b>EXPENSES</b>						
Cost of Sales	4,085,259	91%	3,939,785	87%	145,474	4%
Selling & Admin. Expenses	214,255	5%	218,809	5%	(4,554)	-2%
Interest Expenses	2,025		1,810		215	
<b>TOTAL EXPENSES</b>	<u>4,301,539</u>	96%	<u>4,160,404</u>	92%	<u>141,135</u>	3%
<b>EARNINGS from Operation</b>	<u>288,793</u>	0.063	<u>480,971</u>	0.104	<u>(192,178)</u>	-40%
Exchange Gain (Loss)	85,757		11,495		74,262	
Share of Assoc. company Loss	-		-		-	
<b>EARNINGS before Income Tax</b>	<u>374,550</u>	8%	<u>492,466</u>	11%	<u>(117,916)</u>	-24%
Corporate Income Tax	(45,595)	12%	(6,925)	1%	(38,670)	558%
<b>Earnings before Exceptional Items</b>	<u>328,955</u>		<u>485,541</u>		<u>(156,586)</u>	-32%
Exceptional Items	311,739		-		311,739	
<b>NET EARNINGS for the Period</b>	<u>640,694</u>	14%	<u>485,541</u>	10%	<u>155,153</u>	32%
EARNINGS % of SALES	14%		11%		4%	
Average number of shares (1 Baht par)	804,879		804,879		-	
<b>EARNINGS per SHARE (baht) before exch. .</b>	0.30		0.59	-	0.29	
<b>EARNINGS per SHARE (baht) after exceptio</b>	0.80		0.60		0.19	
Operating Profit (EBIT)	257,224		447,590		(190,366)	
	6%		10%			
Depreciation	329,813		298,503		31,310	
EBITDA (excl exchange gain/loss)	587,037		746,093		(159,056)	
EBITDA % of Sales Revenue	13%		17%			
Cashflow Earnings per Share	0.73		0.93	-	0.20	

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	<u>YTD</u>		<u>YTD</u>		<u>YTD</u>	<u>YTD %</u>
	<u>30-Sep-12</u>		<u>30-Sep-11</u>		<u>Q312-Q311</u>	<u>Q312-Q311</u>
<b>REVENUES</b>						
Sales	13,171,502		12,681,316		490,186	4%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	5,574,316	42%	4,482,844	35%	1,091,472	24%
<i>PCBA (Jiaxing, China)</i>	3,272,683	25%	2,596,206	20%	676,477	26%
<i>CPG (Bangkok, Thailand)</i>	73,710	1%	198,527	2%	(124,817)	-63%
<i>IC (Ayutthaya, Thailand)</i>	3,207,985	24%	4,541,772	36%	(1,333,787)	-29%
<i>IC (Jiaxing, China)</i>	930,128	7%	674,545	5%	255,583	38%
<i>HMT (Ohio, USA)</i>	112,680	1%	187,422	1%	(74,742)	-40%
	<u>13,171,502</u>	100%	<u>12,681,316</u>	100%	490,186	4%
					-	
Interest	126,867		109,567		17,300	16%
Other Income - Operating	238,440		257,643		(19,203)	-7%
Other Income - Non Operating	49,497		63,321		(13,824)	-22%
<b>TOTAL REVENUES</b>	<u>13,586,306</u>		<u>13,111,847</u>		474,459	4%
<b>EXPENSES</b>						
Cost of Sales	11,824,651	90%	10,997,444	87%	827,207	8%
Selling & Admin. Expenses	698,417	5%	618,432	5%	79,985	13%
Interest Expenses	5,805		7,367		(1,562)	
<b>TOTAL EXPENSES</b>	<u>12,528,873</u>	95%	<u>11,623,243</u>	92%	905,630	8%
<b>EARNINGS from Operation</b>	<u>1,057,433</u>	0.078	<u>1,488,604</u>	0.114	(431,171)	-29%
Exchange Gain (Loss)	119,316		104,895		14,421	
<b>EARNINGS before Income Tax</b>	<u>1,176,749</u>	9%	<u>1,593,499</u>	12%	(416,750)	-26%
Corporate Income Tax	(81,744)	7%	(33,680)	2%	(48,064)	143%
<b>Earnings before Exceptional Items</b>	<u>1,095,005</u>		<u>1,559,819</u>		(464,814)	-30%
Exceptional Items	337,730		-		337,730	
<b>NET EARNINGS for the Period</b>	<u>1,432,735</u>	11%	<u>1,559,819</u>	12%	(127,084)	-8%
EARNINGS % of SALES	11%		12%		-1%	
Average number of shares (1 Baht par)	804,879		808,586		(3,707)	
<b>EARNINGS per SHARE (baht) before exch. .</b>	1.21		1.80	-	0.59	
<b>EARNINGS per SHARE (baht) after exceptio</b>	1.78		1.93	-	0.15	
Operating Profit (EBIT)	886,874		1,323,083		(436,209)	
	7%		10%			
Depreciation	917,232		902,666		14,566	
EBITDA (excl exchange gain/loss)	1,804,106		2,225,749		(421,643)	
EBITDA % of Sales Revenue	14%		18%			
Cashflow Earnings per Share	2.24		2.75	-	0.51	

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht

	Quarter <u>30-Sep-12</u>	Quarter <u>30-Sep-11</u>	<u>Q312-Q311</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in Hand & at Banks	3,414,603	3,552,356	(137,753)
Financial Investments	2,348,433	1,963,406	385,027
Accounts Receivable - trade	2,808,718	2,666,035	142,683
Amounts due from Related Companies	-	-	
Inventories	3,026,382	2,709,808	316,574
Other Current Assets	268,430	230,391	38,039
<b>TOTAL CURRENT ASSETS</b>	<u>11,866,566</u>	<u>11,121,996</u>	<u>744,570</u>
LOAN TO OTHER COMPANY	97	97	
<b>FIXED ASSETS (net)</b>	6,541,910	6,539,076	2,834
OTHER ASSETS	111,247	17,277	93,970
<b>TOTAL ASSETS</b>	<u>18,519,820</u>	<u>17,678,446</u>	<u>841,374</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank Overdrafts & Loans	25,610	51,967	(26,357)
Accounts & Notes Payable	2,479,164	1,910,370	568,794
Corporate Income Tax Payable	28,338	2,021	26,317
Accrued Expenses	447,992	528,641	(80,649)
Other Current Liabilities	35,531	529,634	(494,103)
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,016,635</u>	<u>3,022,633</u>	<u>(5,998)</u>
<b>LONG TERM LIABILITIES</b>	389,277	301,012	88,265
<b>TOTAL LIABILITIES</b>	<u>3,405,912</u>	<u>3,323,645</u>	<u>82,267</u>
<b>SHAREHOLDERS EQUITY</b>			
Share Capital	804,879	830,475	(25,596)
Treasury Shares	-	(262,987)	262,987
Share Premium	1,723,219	1,723,219	0
Retained Earnings			
Appropriated Statutory Reserve	352,497	320,218	32,279
Unappropriated	12,404,247	11,987,812	416,435
Translation adj. & Investment revaluation	(170,934)	(243,936)	73,002
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
<b>TOTAL SHAREHOLDERS EQUITY</b>	<u>15,113,908</u>	<u>14,354,801</u>	<u>759,107</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<u>18,519,820</u>	<u>17,678,446</u>	<u>841,374</u>
	-	(0)	
Cash & Equivalents	5,763,036	5,515,762	247,274
Liabilities	3,405,912	3,323,645	82,267
Debt/Equity	0.23	0.23	-0.01
Net Debt (Net cash)	-2,357,124	-2,192,117	-165,007
Net Debt/Equity	-0.16	-0.15	0.00

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Quarter 30-Sep-12</u>	<u>Quarter 30-Sep-11</u>
<b><u>Cashflow from Operating Activities</u></b>		
Net Earnings before tax	686,289	492,466
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>		
<b>Non Cash items</b>		
Depreciation	330,609	303,160
Unrealised (gain) Loss on exchange	31,975	22,714
Increase (Decrease) in allowance for doubtful debts	1,479	(751)
Increase (Decrease) in allowance for obsolete inventories	(36,355)	(19,674)
Change in other provisions	(129,557)	(2,193)
	<u>198,151</u>	<u>303,256</u>
<b>Working Capital (increase) decrease</b>		
Trade accounts receivable	545,468	86,061
Inventories	(23,532)	(15,950)
Trade accounts payable	(647,669)	233,801
Other	(128,881)	24,372
	<u>(254,614)</u>	<u>328,284</u>
<b>Net Cashflow from Operating Activities</b>	<u>629,826</u>	<u>1,124,006</u>
<b>Cashflow from Investing Activities</b>		
(Increase) decrease in short term investment	4,350	(39,981)
Increase in property, plant and equipment	(303,911)	(470,744)
Proceeds from sale of fixed assets	1,721	2,607
Increase (decrease) in translation adjustment	(207,020)	281,966
Revaluation deficit on investments	(25,498)	(159,697)
Other		
	<u>(530,358)</u>	<u>(385,849)</u>
<b>Cashflow from Financing Activities</b>		
Cash received from increase in share capital	-	-
Dividend paid	-	-
Other	25,610	51,967
Net cash (used in ) from financing activities	<u>25,610</u>	<u>51,967</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	125,078	790,124
Cash and Equivalents at the beginning of the period	<u>3,289,525</u>	<u>2,762,232</u>
Cash and Equivalents at the end of the period	3,414,603	3,552,356

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	Quarter <u>30-Sep-12</u>	Quarter <u>30-Sep-11</u>	<u>Q312-Q311</u>	
<b>Profitability Ratios</b>				
Gross Profit Margin (%)	9%	13%	-	-4%
Operating Profit Margin (%)	6%	10%	-	-4%
Net Profit before Exceptional Margin (%)	7%	11%	-	-3%
Net Profit after Exceptional Margin (%)	14%	11%	-	4%
EBITDA margin (%)	13%	17%	-	-3%
Return On Equity (%) pa	17%	14%	-	3%
<b>Efficiency Ratios</b>				
Working Capital turnover	5.3	5.4	-	0.1
Account Receivable days	56	53	-	3.3
Inventory days	67	62	-	4.8
Accounts Payable days	55	44	-	11.0
<b>Liquidity Ratios</b>				
Current Ratio	3.9	3.7	-	0.3
Quick Ratio	2.8	2.7	-	0.1
<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	-	