

Management's Discussion and Analysis

Second Quarter ending 30th June 2011

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue were similar year on year at THB 4.3 billion for the second quarter of 2011 and THB 4.4 billion for the second quarter of 2010. Sales Revenue in USD terms increased by 6% to USD 143m from USD 136m in Q2 2010. Operating Profits decreased 26% to THB 501m in Q2 2011 from THB 679m in Q2 2010.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>30-Jun-11</u>		<u>30-Jun-10</u>		<u>Q211-Q210</u>	
<i>PCBA (Lamphun, Thailand)</i>	1,579,591	36%	1,684,803	38%	(105,212)	-6%
<i>PCBA (Jiaxing, China)</i>	838,213	19%	683,924	16%	154,289	23%
<i>CPG (Bangkok, Thailand)</i>	39,441	1%	234,595	5%	(195,154)	-83%
<i>IC (Ayutthaya, Thailand)</i>	1,598,309	37%	1,499,495	34%	98,814	7%
<i>IC (Jiaxing, China)</i>	221,991	5%	242,138	6%	(20,147)	-8%
<i>HMT (Ohio, USA)</i>	62,716	1%	44,523	1%	18,193	41%
Total Revenue	4,340,261		4,389,478		(49,217)	-1%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 2 2011 sales revenue for the group increased 6% year-on-year in USD terms, from USD 135.6m in Q210 to USD 143.1m in Q211. The average exchange rate for Q211 was 6.5% stronger at THB/USD 30.27 from THB/USD 32.38 in Q210. As a result the sales in THB terms was 1% lower year on year. Year-on-year, the microelectronics divisions sales increased by 9% in USD terms. Sales in Lamphun were similar whilst JiaXing increased by 30%. The IC divisions USD sales revenues were 12% higher, with revenues the IC divisions in Ayutthaya increasing by 16% and JiaXing decreasing by 2%. "HMT" the microdisplay/RFID operation in Ohio sales revenue increased 50% with growth driven by demand for telecom switches.

Quarter on Quarter Sales Revenue Analysis

Group sales increased quarter on quarter by 14% from USD 125m in Q111 to USD 143m in Q211. Sales across both the microelectronics and IC divisions, increased. In THB equivalent the group sales increased by 14% in Q211 compared to Q111. The average THB/USD exchange rate strengthened by 1% from 30.56 in Q111 to 30.27 in Q211. Quarter-on-quarter, sales revenues from the microelectronics divisions were 17% higher with Lamphun increasing 20% and JiaXing increasing 13%. Sales revenues from the IC divisions were 15% higher with Ayutthaya sales increasing by 16% and JiaXing IC sales increasing by 11%. The microdisplay division sales were similar in Q211 and Q111.

Sales Revenue Split

	<u>Q2 2011</u>	<u>Q1 2011</u>	<u>Q4 2010</u>	<u>Q3 2010</u>	<u>Q2 2010</u>
<i>PCBA (Lamphun, Thailand)</i>	36%	35%	34%	35%	38%
<i>PCBA (Jiaxing, China)</i>	19%	20%	18%	18%	16%
<i>CPG (Bangkok, Thailand)</i>	1%	2%	4%	5%	5%
<i>IC (Ayutthaya, Thailand)</i>	37%	36%	36%	36%	34%
<i>IC (Jiaxing, China)</i>	5%	5%	5%	5%	6%
<i>HMT (Ohio, USA)</i>	1%	2%	2%	1%	1%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 13% in Q211 down 5% from 18% in Q210 due to the 7% stronger THB exchange rate (3%), higher material costs (1%) and higher wage costs (1%) in each location.

Operating Profit Analysis

Year-on-year operating profits were 26% lower in Q211 and operating margins were 3% lower at 12% in Q211 from 15% in Q210 due to the lower Gross Profit margin and increased SG&A expense. SG&A expenses were 14% higher in Q211 due to increased salary costs. SG&A expenses were 10% lower in Q211 than Q111 due to a material provision reversal.

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 Q211 was Baht/USD 30.27 from 32.38 in Q210 (and Baht/USD 30.56 in Q111).

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 30.75 at 30/6/11, and 32.44 at 30/06/10 or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

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. THB 0.55 per share was subject to 10% withholding tax deduction. In Q210 THB 1,127m dividend of THB 1.40 per share was paid during the quarter as the first and final dividend from the profits of 2009. The dividend was subject to 10% withholding tax deduction.

Financial Status

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 30th June, 2011 were THB 4.8 billion down from 30th June, 2010 of THB 5.1 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 57 days in Q211 and 53 days in Q210.

	<u>30-Jun-11</u>	<u>30-Jun-10</u>	'000
Accounts receivable - other companies			
Less than 3 months	2,724,459	2,561,495	
3 - 6 months	14,818	8,648	
6 - 12 months	4,233	7,505	
More than 12 months	1,602	483	
Total accounts receivable - other companies	2,745,112	2,578,131	
Less : Allowance for doubtful accounts	(9,166)	(4,078)	
	<u>2,735,946</u>	<u>2,574,053</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 64 days as at 30th June, 2011 and 54 days as at 30th June, 2010.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q2 2011 was THB 810m which was 15% lower than Q2 2010 was THB 956m.

Capital Expenditure

Capital Expenditure was THB 335m in Q2 2011 and THB 514m in Q2 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 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 group's 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 group's 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>30-Jun-11</u>		<u>30-Jun-10</u>		<u>Q211-Q210</u>	<u>Q211-Q210</u>
REVENUES						
Sales	4,340,261		4,389,478		(49,217)	-1%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,579,591	36%	1,684,803	38%	(105,212)	-6%
<i>PCBA (Jiaxing, China)</i>	838,213	19%	683,924	16%	154,289	23%
<i>CPG (Bangkok, Thailand)</i>	39,441	1%	234,595	5%	(195,154)	-83%
<i>IC (Ayutthaya, Thailand)</i>	1,598,309	37%	1,499,495	34%	98,814	7%
<i>IC (Jiaxing, China)</i>	221,991	5%	242,138	6%	(20,147)	-8%
<i>HMT (Ohio, USA)</i>	62,716	1%	44,523	1%	18,193	41%
	<u>4,340,261</u>	100%	<u>4,389,478</u>	100%	<u>(49,217)</u>	-1%
Share of Assoc. company Profit	-		-		-	
Interest	39,029		48,703		(9,674)	-20%
Other Income - Operating	105,363		55,172		50,191	91%
Other Income - Non Operating	57,243		25,060		32,183	128%
TOTAL REVENUES	<u>4,541,896</u>		<u>4,518,413</u>		<u>23,483</u>	1%
EXPENSES						
Cost of Sales	3,754,424	87%	3,598,999	82%	155,425	4%
Selling & Admin. Expenses	189,705	4%	166,780	4%	22,925	14%
Interest Expenses	3,719		2,048		1,671	
TOTAL EXPENSES	<u>3,947,848</u>	91%	<u>3,767,827</u>	86%	<u>180,021</u>	5%
EARNINGS from Operation	<u>594,048</u>	0.131	<u>750,586</u>	0.166	<u>(156,538)</u>	-21%
Exchange Gain (Loss)	42,914		17,336		25,578	
Share of Assoc. company Loss	-		-		-	
EARNINGS before Income Tax	<u>636,962</u>	14%	<u>767,922</u>	17%	<u>(130,960)</u>	-17%
Corporate Income Tax	(19,930)	3%	(24,476)	3%	4,546	-19%
Earnings before Exceptional Items	<u>617,032</u>		<u>743,446</u>		<u>(126,414)</u>	-17%
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>617,032</u>	14%	<u>743,446</u>	16%	<u>(126,414)</u>	-17%
EARNINGS % of SALES	14%		17%		-3%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch. .	0.71		0.90		-	0.19
EARNINGS per SHARE (baht) after exceptio	0.77		0.92		-	0.16
Operating Profit (EBIT)	501,495		678,871		(177,376)	
	12%		15%			
Depreciation	308,352		277,575		30,777	
EBITDA (excl exchange gain/loss)	809,847		956,446		(146,599)	
EBITDA % of Sales Revenue	19%		22%			
Cashflow Earnings per Share	1.01		1.19		-	0.18

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CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	YTD		YTD		YTD	YTD %
	<u>30-Jun-11</u>		<u>30-Jun-10</u>		<u>Q211-Q210</u>	<u>Q211-Q210</u>
REVENUES						
Sales	8,159,728		8,314,385		(154,657)	-2%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	2,911,489	36%	3,297,694	40%	(386,205)	-12%
<i>PCBA (Jiaxing, China)</i>	1,588,791	19%	1,242,398	15%	346,393	28%
<i>CPG (Bangkok, Thailand)</i>	118,986	1%	463,535	6%	(344,549)	-74%
<i>IC (Ayutthaya, Thailand)</i>	2,990,639	37%	2,800,393	34%	190,246	7%
<i>IC (Jiaxing, China)</i>	424,076	5%	429,744	5%	(5,668)	-1%
<i>HMT (Ohio, USA)</i>	125,747	2%	80,621	1%	45,126	56%
	<u>8,159,728</u>	100%	<u>8,314,385</u>	100%	<u>(154,657)</u>	-2%
					-	
Interest	75,750		70,782		4,968	7%
Other Income - Operating	173,047		109,950		63,097	57%
Other Income - Non Operating	61,947		29,816		32,131	108%
TOTAL REVENUES	<u>8,470,472</u>		<u>8,524,933</u>		<u>(54,461)</u>	-1%
EXPENSES						
Cost of Sales	7,057,659	86%	6,823,467	82%	234,192	3%
Selling & Admin. Expenses	399,623	5%	346,002	4%	53,621	15%
Interest Expenses	5,557		3,961		1,596	
TOTAL EXPENSES	<u>7,462,839</u>	91%	<u>7,173,430</u>	86%	<u>289,409</u>	4%
EARNINGS from Operation	<u>1,007,633</u>	0.119	<u>1,351,503</u>	0.159	<u>(343,870)</u>	-25%
Exchange Gain (Loss)	93,400		39,380		54,020	
EARNINGS before Income Tax	<u>1,101,033</u>	13%	<u>1,390,883</u>	16%	<u>(289,850)</u>	-21%
Corporate Income Tax	(26,755)	2%	(50,035)	4%	23,280	-47%
Earnings before Exceptional Items	<u>1,074,278</u>		<u>1,340,848</u>		<u>(266,570)</u>	-20%
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>1,074,278</u>	13%	<u>1,340,848</u>	16%	<u>(266,570)</u>	-20%
EARNINGS % of SALES	13%		16%		-3%	
Average number of shares (1 Baht par)	804,879		808,586		(3,707)	
EARNINGS per SHARE (baht) before exch. .	1.22		1.61		0.39	
EARNINGS per SHARE (baht) after exceptio	1.33		1.66		0.32	
Operating Profit (EBIT)	875,493		1,254,866		(379,373)	
	11%		15%			
Depreciation	604,163		546,369		57,794	
EBITDA (excl exchange gain/loss)	1,479,656		1,801,235		(321,579)	
EBITDA % of Sales Revenue	18%		22%			
Cashflow Earnings per Share	1.84		2.23		0.39	

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CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>30-Jun-11</u>	Quarter <u>30-Jun-10</u>	<u>Q211-Q210</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	2,762,232	3,254,727	(492,495)
Financial Investments	1,982,511	1,869,742	112,769
Accounts Receivable - trade	2,735,946	2,574,053	161,893
Amounts due from Related Companies	-	-	
Inventories	2,674,183	2,156,638	517,545
Other Current Assets	227,428	200,380	27,048
TOTAL CURRENT ASSETS	<u>10,382,300</u>	<u>10,055,540</u>	326,760
LOAN TO OTHER COMPANY	97	97	
FIXED ASSETS (net)	6,563,752	5,855,417	708,335
OTHER ASSETS	18,242	80,800	(62,558)
TOTAL ASSETS	<u>16,964,391</u>	<u>15,991,854</u>	972,537
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	-	-	
Accounts & Notes Payable	1,672,478	1,740,381	(67,903)
Corporate Income Tax Payable	12,643	43,507	(30,864)
Accrued Expenses	472,200	239,582	232,618
Other Current Liabilities	692,784	934,169	(241,385)
TOTAL CURRENT LIABILITIES	<u>2,850,105</u>	<u>2,957,639</u>	(107,534)
LONG TERM LIABILITIES	290,622	-	290,622
TOTAL LIABILITIES	<u>3,140,727</u>	<u>2,957,639</u>	183,088
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	11,502,271	10,554,780	947,491
Translation adj. & Investment revaluation	(289,532)	(191,329)	(98,203)
Unrealised gain(loss) on change in investments	-	59,839	(59,839)
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>13,823,664</u>	<u>13,034,215</u>	789,449
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>16,964,391</u>	<u>15,991,854</u>	972,537
	(0)	0	
Cash & Equivalents	4,744,743	5,124,469	-379,726
Liabilities	3,140,727	2,957,639	183,088
Debt/Equity	0.23	0.23	0
Net Debt (Net cash)	-1,604,016	-2,166,830	562,814
Net Debt/Equity	-0.12	-0.17	0

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>30-Jun-11</u>	Quarter <u>30-Jun-10</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	636,962	767,922
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	305,546	273,918
Unrealised (gain) Loss on exchange	23,167	(19,943)
Increase (Decrease) in allowance for doubtful debts	4,897	2,356
Increase (Decrease) in allowance for obsolete inventories	(68,188)	10,393
Change in other provisions	(69,738)	(56,835)
	<u>195,684</u>	<u>209,889</u>
Working Capital (increase) decrease		
Trade accounts receivable	(405,093)	(107,067)
Inventories	(23,483)	(255,791)
Trade accounts payable	67,400	286,895
Other	151,609	(100,272)
	<u>(209,567)</u>	<u>(176,235)</u>
Net Cashflow from Operating Activities	<u>623,079</u>	<u>801,576</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	170,323	993
Increase in property, plant and equipment	(379,203)	(520,203)
Proceeds from sale of fixed assets	8,725	2,552
Increase (decrease) in translation adjustment	(35,352)	8,331
Revaluation deficit on investments	123,739	(42,899)
Other		
	<u>(111,768)</u>	<u>(551,226)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	-
Dividend paid	(1,247,562)	(1,126,830)
Other	(6)	(41,923)
Net cash (used in) from financing activities	<u>(1,247,568)</u>	<u>(1,168,753)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(736,257)	(918,403)
Cash and Equivalents at the beginning of the period	<u>3,498,489</u>	<u>4,173,130</u>
Cash and Equivalents at the end of the period	2,762,232	3,254,727

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Quarter <u>30-Jun-11</u>	Quarter <u>30-Jun-10</u>	<u>Q211-Q210</u>	
Profitability Ratios				
Gross Profit Margin (%)	13%	18%	-	-5%
Operating Profit Margin (%)	12%	15%	-	-4%
Net Profit before Exceptional Margin (%)	14%	17%	-	-3%
Net Profit after Exceptional Margin (%)	14%	17%	-	-3%
EBITDA margin (%)	19%	22%	-	-3%
Return On Equity (%) pa	18%	23%	-	-5%
Efficiency Ratios				
Working Capital turnover	5.2	6.6	-	1.5
Account Receivable days	57	53	-	4.0
Inventory days	64	54	-	10.2
Accounts Payable days	40	44	-	3.4
Liquidity Ratios				
Current Ratio	3.6	3.4	-	0.2
Quick Ratio	2.6	2.6	-	0.0
Financial Capital Ratios				
Debt / Equity	0.2	0.2	-	0.0
Net Debt to Equity	-0.1	-0.2	-	0.1
Interest Coverage	n/a	n/a	-	