

## Management's Discussion and Analysis

First Quarter ending 31st March 2007

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 9% year on year, to Bht 3.57 billion in the first quarter of 2007 from Bht 3.27 billion for the first quarter of 2006. Sales Revenue in USD terms increased by 21% to USD 100.2m in Q1 2007 from USD 83.0m in Q1 2006. Operating Profits decreased 33% to 290.5m Baht in Q1 2007 from 435.0m Baht in Q1 2006.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>31-Mar-06</u>		<u>31-Mar-07</u>		<u>Q107-Q106</u>	<u>Q107-Q106</u>
PCBA Divisions	1,579,271	48%	1,797,084	50%	217,813	14%
CPG - (Bangkok)	383,646	12%	472,379	13%	88,733	23%
IC Divisions	1,276,730	39%	1,267,961	36%	-8,769	-1%
HMT (USA)	27,276	1%	29,848	1%	2,572	9%
Total Revenue	3,266,923		3,567,272		300,349	9%

### Sales Revenue Analysis

Sales Revenues increased 19% in USD terms from USD 83m to USD 99m but only 8% to Baht terms 3,525m in Q107 from Baht 3,267m in Q106

Quarter 1 2007 saw revenue growth for the group with year-on-year with sales increasing 21% in actual USD sales currency. However, due to a 10% stronger Thai Baht Q107/Q106 the sales revenues in THB equivalent increased by 9%. The Thailand based divisions performed strongly with double digit sales increases year on year in USD terms. Whilst, the IC division in China was 4% higher, the PCBA division in China had 7% lower sales revenues.

Sales Revenues decrease 12% in THB terms from THB 4,007m in Q406 to THB 3,525m in Q107  
Q107 compared with Q406 had lower sales revenues for all divisions. In USD terms, the group sales decreased by 8% in Q107 compared to Q406 and a reduction of 11% in THB equivalent. The Thailand based divisions were each down between 5% and 10%. The IC division in China was 32% lower due to a high customer concentration on the mobile phone segment which was experiencing an inventory correction in Q406/Q107. The microelectronics division was 2% lower similar to the Thailand based operations.

### Sales Revenue Split

	<u>Q1 2007</u>	<u>Q4 2006</u>	<u>Q3 2006</u>	<u>Q2 2006</u>	<u>Q1 2006</u>
PCBA (Thailand)	35%	35%	30%	30%	28%
PCBA (China)	16%	14%	18%	17%	20%
CPG - (Bangkok)	13%	13%	14%	12%	12%
IC (AYT)	33%	31%	33%	36%	36%
IC (JXG)	3%	4%	4%	4%	3%
HMT (USA)	1%	2%	1%	1%	1%
	100%	100%	100%	100%	100%

### Gross Profit / Cost of Sale Analysis

Gross margins were 3% lower on a quarter on quarter basis, at 14% in Q107. However, 1% of the reduction was due to the non recurring revaluation of stock by THB 48m as the end of Q107 due to the 3.2% strengthening of the standard rate used for the THB and CNY currencies during the quarter. Gross margins declined by 4% from 18% in Q106 to 14% in Q107 due to a change in sales mix and strengthening of the THB and CNY currencies over the year.

### Sales and General Administration Expense Analysis

Sales and General Administration expenses were higher at 7% of sales revenues in Q107 and 6% of sales revenues in Q06. In actual terms SGA expenses were 25% higher than Q106 due to the overhead growth during 2006 and the transfer of the microelectronics operation in Shanghai to the new larger plant in JiaXing.

### **Operating Profit Analysis**

Operating Profit margins fell 5% from 13% Q106 to 8% in Q107 due to the above mentioned reasons. The microelectronics division in Lamphun and the custom products division in Bangkok achieved higher operating profits due to strong year on year sales growth. Whilst the IC division in Ayutthaya had 10% sales growth in USD terms operating profits fell due to higher THB exchange rate, a move in product mix to newer packages with a higher material content, and increased overhead costs.. The operating profit from the microelectronics division in China had reduced operating profits due to lower sales and increased costs associated with the move to the larger plant in JiaXing.

### **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 the quarter was Baht/USD 35.59 from 39.34 in Q106 (and from Baht/USD 36.94 in Q406) .

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 35.02 at 31/3/07, and 36.09 at 31/12/06 or the respective rate applicable to each offshore subsidiary's base currency.

### **The operating profit sensitivity to USD/Baht exchange rate movements**

As all the groups sales revenue are in foreign currency (primarily USD) and foreign currency costs are 63% percent of sales revenues, the Group operating profit sensitivity to change in Baht/USD exchange rate is currently about Baht 120m per quarter for every 10% change in the average USD/Baht rate.

i.e.  $(1 - 0.63) \times \text{Sales Revenue} \times 10\%$

The Group's Thai companies balance sheet exposure is a net asset of approximately USD 20m, being the foreign currency working capital balance. Out of the groups foreign exchange exposure, USD 21m is hedged, Foreign exchange contracts are used to buy THB and Sell USD on a rolling 3 or 6 months basis. Therefore the foreign exchange gain/loss booked for every 10% movement in the closing Baht/USD exchange rate is now negligible but it still affects the operating income due to fluctuation in the exchange rate during the quarter.

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.

### **Payout Analysis**

No dividends were paid during the quarter. However, the Annual General Meeting on the 30th April 2007 approved a final dividend of 1.00 Baht per share. Together with the interim dividend paid during December 2006 of 0.50 baht per share the total dividend for 2006 to THB 1.50 per share.

### **Financial Status**

The group currently has no interest bearing debt. Cash (and equivalents) reserves at the 31st March, 2007 were THB 2.3 billion down from the level at 31st, March 2006 of THB 3.3 billion. The reduction in cash levels was due to the increased dividend payout and high capital expenditure, and increased working capital in 2006.

### **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 increased slightly from 53 days in Q106 to 55 days in Q107.

Accounts receivable - other companies	<b>31/03/2006</b>	<b>31/03/2007</b>	'000
Less than 3 months	2,124,994	2,053,800	97%
3 - 6 months	58,825	37,825	2%
6 - 12 months	9,714	31,862	2%
More than 12 months	1,006	5,875	0%
Total accounts receivable - other companies	2,194,539	2,129,362	
Less : Allowance for doubtful accounts	-4,702	-21,588	-1%
	2,189,837	2,107,774	-4%

### **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 increased to 61 days as at 31st March 2007 from 57 days as at 31st March 2006. Increase in inventory levels is an industry trend and also due to the additional inventories required for the move of the microelectronics plant from Shanghai to JiaXing.

### **Liquidity**

The group has THB 2.3 billion in cash and no interest bearing debt liquidity ratios are high at approximately 3 times current liabilities. Operating Cashflow in Q1 2007 with EBITDA at THB 491m billion which was 17% lower than THB 588m in Q1 2006. Cash reserves in 2007 fell by THB 1.0 billion due to an increased dividend payout of THB 1.2 billion in 2006 which was THB 0.3 billion higher than 2005 and high level of capital expenditure of THB 1.7 billion in 2006 and increased working capital of THB 0.8 billion due to increased sales.

### **Capital Expenditure**

Net Capital Expenditure was THB 409m in Q1 2007 to construction of the new building in Lamphun and strong demand requiring a greater expansion of machine capacity in 2006 but tapering off during Q406 and THB 465m in Q1 2006. 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 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.

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**Associate company - AIT**

The company currently holds indirectly a 23.4% ownership in AIT. The ownership stake was a result of a share sale in 1999 of 100% of the company's holding in Hana Technologies LTD an IC assembly subsidiary in HK and smaller related companies in the group to a company now named Advanced Interconnect Technologies LTD "AIT" in exchange for 43% of that company's share capital. The company wrote down it's investment in AIT to zero in 2002 but it still retained the 43% shareholding in AIT. The Hana holding in AIT was 38% at 31/12/04 as in 2004 AIT raised new share capital increase in which Hana did not participate. As of 31st December 2005 after a debt restructure involving a debt equity conversion and further capital increase in which Hana did not participate, the Hana holding is now 23.4%

On 20th April 2007 Unisem (M) Berhad offered to purchase AIT from its shareholders for the sum of USD 70.25 million. On completion of the sale a subsidiary of the company is expected to receive approximately USD 16m for it's 23.4% holding in AIT.

**Exceptional Items**

None

**Future Plan**

The company is currently expanding the microelectronics facility in Lamphun by constructing an additional building of 10,000 sq. meters, which will increase the floor space available in the Lamphun plant by 60%. The construction has commenced and is due to be completed within the first half of 2007 at a cost of THB 300m.

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>31-Mar-06</u>		<u>31-Mar-07</u>		<u>Q107-Q106</u>	<u>Q107-Q106</u>
<b>REVENUES</b>						
Sales	3,266,923		3,567,272		300,349	9%
consisting of:						
PCBA (Thailand)	912,454	28%	1,238,801	35%	326,347	36%
PCBA (China)	666,817	20%	558,283	16%	-108,534	-16%
CPG - (Bangkok)	383,646	12%	472,379	13%	88,733	23%
IC (AYT)	1,182,358	36%	1,175,646	33%	-6,712	-1%
IC (JXG)	94,372	3%	92,315	3%	-2,057	-2%
HMT (USA)	27,276	1%	29,848	1%	2,572	9%
	<u>3,266,923</u>	100%	<u>3,567,272</u>	100%	<u>300,349</u>	9%
Share of Assoc. company Profit	0		0		0	
Interest	7,947		5,110		-2,837	-36%
Other Income - Operating	36,464		39,960		3,496	10%
Other Income - Non Operating	1,208		1,177		-31	-3%
<b>TOTAL REVENUES</b>	<u>3,312,542</u>		<u>3,613,519</u>		<u>300,977</u>	9%
<b>EXPENSES</b>						
Cost of Sales	2,672,051	82%	3,071,122	86%	399,071	15%
Selling & Admin. Expenses	196,326	6%	245,612	7%	49,286	25%
Interest Expenses	0		0		0	
<b>TOTAL EXPENSES</b>	<u>2,868,377</u>	88%	<u>3,316,734</u>	93%	<u>448,357</u>	16%
<b>EARNINGS from Operation</b>	<u>444,165</u>	13%	<u>296,785</u>	8%	<u>-147,380</u>	-33%
Exchange Gain (Loss)	31,729		100,985		69,256	
Share of Assoc. company Loss					0	
<b>EARNINGS before Income Tax</b>	<u>475,894</u>	14%	<u>397,770</u>	11%	<u>-78,124</u>	-16%
Corporate Income Tax	-18,000	4%	-27,993	7%	-9,993	56%
<b>Earnings before Exceptional Items</b>	<u>457,894</u>		<u>369,777</u>		<u>-88,117</u>	-19%
Exceptional Items	0		0		0	
<b>NET EARNINGS for the Period</b>	<u>457,894</u>	14%	<u>369,777</u>	10%	<u>-88,117</u>	-19%
<b>EARNINGS % of SALES</b>						
Average number of shares (1 Baht par)	809,767		817,022		7,255	
<b>EARNINGS per SHARE (baht) before exch. &amp; exce</b>	0.53		0.33		0.20	
<b>EARNINGS per SHARE (baht) after exceptionals</b>	0.57		0.45		0.11	
Operating Profit (EBIT)	435,010		290,498		144,512	-33%
	13%		8%			
Depreciation	156,664		200,251		43,587	28%
EBITDA (excl exchange gain/loss)	591,674		490,749		100,925	-17%
EBITDA % of Sales Revenue	18%		14%			
Cashflow Earnings per Share	0.73		0.60		0.13	
Net Capital Expenditure	- 446,349		- 280,611		165,738	-37%

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>31-Mar-06</u>	Quarter <u>31-Mar-07</u>	<u>Q107-Q106</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in Hand & at Banks	3,276,978	2,323,096	-953,882
Deposits at Finance Companies & Notes Receivable			
Accounts Receivable - trade	2,189,837	2,107,774	-82,063
Amounts due from Related Companies	0	0	
Inventories	1,802,459	2,353,361	550,902
Other Current Assets	381,204	305,727	-75,477
<b>TOTAL CURRENT ASSETS</b>	<b>7,650,478</b>	<b>7,089,958</b>	<b>-560,520</b>
LOAN TO OTHER COMPANY	97	97	
<b>FIXED ASSETS (net)</b>	<b>4,417,933</b>	<b>5,220,071</b>	<b>802,138</b>
OTHER ASSETS	2,520	7,900	5,380
<b>TOTAL ASSETS</b>	<b><u>12,071,028</u></b>	<b><u>12,318,026</u></b>	<b>246,998</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank Overdrafts & Loans			
Accounts & Notes Payable	1,790,445	1,470,930	-319,515
Corporate Income Tax Payable	75,158	112,657	37,499
Accrued Expenses	228,226	168,724	-59,502
Other Current Liabilities	599,534	446,723	-152,811
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>2,693,363</u></b>	<b><u>2,199,034</u></b>	<b>-494,329</b>
<b>TOTAL LIABILITIES</b>	<b>2,693,363</b>	<b>2,199,034</b>	<b>-494,329</b>
<b>SHAREHOLDERS EQUITY</b>			
Share Capital	813,975	826,947	12,972
Share subscription received in advance	1,798	584	-1,214
Share Premium	1,557,463	1,702,606	145,143
Retained Earnings			
Appropriated Statutory Reserve	268,570	320,100	51,530
Unappropriated	6,419,811	7,351,454	931,643
Translation adjustment	474,773	76,026	-398,747
Excess Cost over Net Book Value of Subsidiary Investmer	-158,725	-158,725	
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b><u>9,377,665</u></b>	<b><u>10,118,992</u></b>	<b>741,327</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<b><u>12,071,028</u></b>	<b><u>12,318,026</u></b>	<b>246,998</b>
	edit chk	1	0
Cash and short term investments (K USD equivalent)			-0
Year ending THB/USD exchange rate			
Cash & Equivalents	3,276,978	2,323,096	-953,882
Liabilities	2,693,363	2,199,034	-494,329
Debt/Equity	0.29	0.22	-0
Net Debt (Net cash)	-583,615	-124,062	459,553
Net Debt/Equity	-0.06	-0.01	0

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Quarter 31-Mar-06</u>	<u>Quarter 31-Mar-07</u>
<b><u>Cashflow from Operating Activities</u></b>		
Net Earnings	457,894	369,777
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>		
<b>Non Cash items</b>		
Depreciation	152,946	200,251
Unrealised (gain) Loss on exchange	- 1,402	-5,476
Change in other provisions	- 33,748	54,647
Share of loss from AIT associate under equity method	-	0
Provision for diminution in value of investment in AIT	-	0
	<u>117,796</u>	<u>249,422</u>
<b>Working Capital (increase) decrease</b>		
Trade accounts receivable	- 68,627	325,118
Inventories	- 201,875	49,210
Trade accounts payable	258,588	-267,929
Other	5,813	-126,017
	<u>- 6,101</u>	<u>- 19,618</u>
<b>Net Cashflow from Operating Activities</b>	<u>569,589</u>	<u>599,581</u>
<b>Cashflow from Investing Activities</b>		
(Increase) decrease in short term investment	-	0
Increase in property, plant and equipment	- 465,204	-408,662
Proceeds from sale of fixed assets	18,855	128,051
Increase (decrease) in translation adjustment	- 271,552	-126,803
Decrease in short term loans to related parties	-	0
Other	-	-
	<u>- 717,901</u>	<u>- 407,414</u>
<b>Cashflow from Financing Activities</b>		
Cash received from increase in share capital	135,869	13,169
Dividend paid	-	0
	<u>135,869</u>	<u>13,169</u>
Net cash (used in ) from financing activities	135,869	13,169
Net Cash, equivalents and short term liquid investments increase (decrease)	- 12,443	205,336
Cash and Equivalents at the beginning of the period	<u>3,289,421</u>	<u>2,117,760</u>
Cash and Equivalents at the end of the period	3,276,978	2,323,096

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	Quarter <u>31-Mar-06</u>	Quarter <u>31-Mar-07</u>	<u>Q107-Q106</u>	
<b>Profitability Ratios</b>				
Gross Profit Margin (%)	18%	14%	-	-4%
Operating Profit Margin (%)	13%	8%	-	-5%
Net Profit before Exceptional Margin (%)	14%	10%	-	-4%
Net Profit after Exceptional Margin (%)	14%	10%	-	-4%
EBITDA margin (%)	18%	14%	-	-4%
Return On Equity (%) pa	20%	15%	-	-5%
<b>Efficiency Ratios</b>				
Working Capital turnover	6.1	5.5	-	0.6
Account Receivable days	53	54	-	0.9
Inventory days	57	61	-	4.3
Accounts Payable days	49	48	-	1.4
<b>Liquidity Ratios</b>				
Current Ratio	2.8	3.2	-	0.4
Quick Ratio	2.0	2.0	-	0.0
<b>Financial Capital Ratios</b>				
Debt / Equity	0.3	0.2	-	0.1
Net Debt to Equity	-0.1	0.0	-	0.0
Interest Coverage	n/a	n/a	-	