

Management's Discussion and Analysis

Third Quarter ending 30th September 2010

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 29% year on year, to THB 4.66 billion for the third quarter of 2010 from THB 3.61 billion for the third quarter of 2009. Sales Revenue in USD terms increased by 38% to USD 147.2m from USD 106.4m in Q3 2009. Operating Profits increased 29% to THB 726m in Q3 2010 from THB 565m in Q3 2009.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>30-Sep-10</u>		<u>30-Sep-09</u>		<u>Q310-Q309</u>	
<i>PCBA (Lamphun, Thailand)</i>	1,611,702	35%	1,581,214	44%	30,488	2%
<i>PCBA (Jiaxing, China)</i>	839,663	18%	473,229	13%	366,434	77%
<i>CPG (Bangkok, Thailand)</i>	230,972	5%	311,110	9%	(80,138)	-26%
<i>IC (Ayutthaya, Thailand)</i>	1,694,756	36%	1,073,055	30%	621,701	58%
<i>IC (Jiaxing, China)</i>	221,492	5%	146,631	4%	74,861	51%
<i>HMT (Ohio, USA)</i>	57,338	1%	27,227	1%	30,111	111%
Total Revenue	4,655,923		3,612,466		1,043,457	29%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 3 2010 sales revenue for the group increased 38% year-on-year in USD terms, from USD 106.4m in Q309 to USD 147.2m in Q310 as the markets recovered to levels above the peak in 2008. The average exchange rate for Q310 was 6.8% stronger at THB/USD 31.6 from THB/USD 34.0 in Q309 resulting in the sales increase in THB terms was lower accordingly at 29% increase year on year.

Year-on-year, the microelectronics divisions sales increased by 28% in USD terms. Sales in Lamphun increased by 12% whilst JiaXing increased by 91%. The IC divisions USD sales revenues were 69% higher, with revenues the IC divisions in Ayutthaya and JiaXing increasing by 70% and 62% respectively. The CPG division sales declined by 20% as the division winds down due to the land lease expiry in Feb 2014.

Quarter on Quarter Sales Revenue Analysis

Group sales increased quarter on quarter by 9% from USD 136m in Q210 to USD 147m in Q310. Sales across both the microelectronics and IC divisions, grew to record levels above that seen at the previous peak in Q308. In THB equivalent the group sales increased by 6% in Q310 compared to Q210. The average THB/USD exchange rate strengthened by 2.3% from 32.38 in Q210 to 31.64 in Q310.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 6% higher with Lamphun decreasing 2% and JiaXing increasing 26%. Sales revenues from the IC divisions were 12% higher with Ayutthaya sales increasing by 16% and JiaXing IC sales decreasing by 6%. The CPG division sales were 1% higher quarter on quarter.

Sales Revenue Split

	<u>Q3 2010</u>	<u>Q2 2010</u>	<u>Q1 2010</u>	<u>Q4 2009</u>	<u>Q3 2009</u>
<i>PCBA (Lamphun, Thailand)</i>	35%	38%	41%	44%	44%
<i>PCBA (Jiaxing, China)</i>	18%	16%	14%	15%	13%
<i>CPG (Bangkok, Thailand)</i>	5%	5%	6%	6%	9%
<i>IC (Ayutthaya, Thailand)</i>	36%	34%	33%	29%	30%
<i>IC (Jiaxing, China)</i>	5%	6%	5%	5%	4%
<i>HMT (Ohio, USA)</i>	1%	1%	1%	1%	1%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 18% in Q310 down 2% from 20% in Q309 due to stronger THB exchange rate and increased labour and material costs.

Operating Profit Analysis

Year-on-year operating profits were 29% higher in Q310 and operating margins were similar at 16% in both Q310 and Q309 mainly due to 20% lower SG&A costs compared to Q309 due to provision swings between both years. SG&A expenses were lower in Q310 by 20% (THB 41m) than in Q309 due to writeback of obsolete inventory and doubtful debts in Q310 of THB 20m compared to THB 17m provisions in Q309.

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 Q310 was Baht/USD 31.64 from 33.96 in Q309 (and from Baht/USD 32.38 in Q210).

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 30.42 at 30/09/10, and 32.44 at 30/06/10 or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid out in Q310.

Financial Status

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 30th September, 2010 were THB 5.1 billion down from 30th September, 2009 of THB5.5 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 53 days in Q310 and 55 days in Q309.

Accounts receivable - other companies	30-Sep-10	30-Sep-09	'000
Less than 3 months	2,718,383	2,202,757	
3 - 6 months	5,641	3,347	
6 - 12 months	7,147	9,103	
More than 12 months	325	2,492	
Total accounts receivable - other companies	2,731,496	2,217,699	
Less : Allowance for doubtful accounts	(6,401)	(2,320)	
	<u>2,725,095</u>	<u>2,215,379</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 56 days as at 30th September, 2010 and 48 days as at 30th September, 2009.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q3 2010 was THB 1,007m which was 24% higher than Q3 2009 was THB 815m.

Capital Expenditure

Capital Expenditure was THB 823m in Q3 2010 and THB 191m in Q3 2009. 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 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.

Exceptional Items

None

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 76m for purchase of land for expansion in Lamphun.

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>30-Sep-10</u>		<u>30-Sep-09</u>		<u>Q310-Q309</u>	<u>Q310-Q309</u>
REVENUES						
Sales	4,655,923		3,612,466		1,043,457	29%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,611,702	35%	1,581,214	44%	30,488	2%
<i>PCBA (Jiaxing, China)</i>	839,663	18%	473,229	13%	366,434	77%
<i>CPG (Bangkok, Thailand)</i>	230,972	5%	311,110	9%	(80,138)	-26%
<i>IC (Ayutthaya, Thailand)</i>	1,694,756	36%	1,073,055	30%	621,701	58%
<i>IC (Jiaxing, China)</i>	221,492	5%	146,631	4%	74,861	51%
<i>HMT (Ohio, USA)</i>	57,338	1%	27,227	1%	30,111	111%
	<u>4,655,923</u>	100%	<u>3,612,466</u>	100%	<u>1,043,457</u>	29%
Share of Assoc. company Profit	-		-		-	
Interest	35,419		14,748		20,671	140%
Other Income - Operating	67,597		40,195		27,402	68%
Other Income - Non Operating	7,908		90,090		(82,182)	-91%
TOTAL REVENUES	<u>4,766,847</u>		<u>3,757,499</u>		<u>1,009,348</u>	27%
EXPENSES						
Cost of Sales	3,832,857	82%	2,882,260	80%	950,597	33%
Selling & Admin. Expenses	164,374	4%	205,377	6%	(41,003)	-20%
Interest Expenses	1,956		1,765		191	
	-		-		-	
TOTAL EXPENSES	<u>3,999,187</u>	86%	<u>3,089,402</u>	86%	<u>909,785</u>	29%
EARNINGS from Operation	<u>767,660</u>	0.161	<u>668,097</u>	0.178	<u>99,563</u>	15%
Exchange Gain (Loss)	103,421		64,636		38,785	
Share of Assoc. company Loss	-		-		-	
EARNINGS before Income Tax	<u>871,081</u>	18%	<u>732,733</u>	20%	<u>138,348</u>	19%
Corporate Income Tax	(27,441)	3%	(45,140)	6%	17,699	-39%
Earnings before Exceptional Items	<u>843,640</u>		<u>687,593</u>		<u>156,047</u>	23%
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>843,640</u>	18%	<u>687,593</u>	18%	<u>156,047</u>	23%
EARNINGS % of SALES	18%		19%		-1%	
Average number of shares (1 Baht par)	804,879		817,750		(12,871)	
EARNINGS per SHARE (baht) before exch. i	0.92		0.76		0.16	
EARNINGS per SHARE (baht) after exceptio	1.05		0.84		0.21	
Operating Profit (EBIT)	726,289		565,024		161,265	
	16%		16%			
Depreciation	280,603		249,830		30,773	
EBITDA (excl exchange gain/loss)	1,006,892		814,854		192,038	
EBITDA % of Sales Revenue	22%		23%			
Cashflow Earnings per Share	1.25		1.00		0.25	

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	YTD		YTD		YTD	YTD %
	<u>30-Sep-10</u>		<u>30-Sep-09</u>		<u>Q310-Q309</u>	<u>Q310-Q309</u>
REVENUES						
Sales	12,970,308		9,466,568		3,503,740	37%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	4,909,396	38%	4,017,823	42%	891,573	22%
<i>PCBA (Jiaxing, China)</i>	2,082,061	16%	1,394,103	15%	687,958	49%
<i>CPG (Bangkok, Thailand)</i>	694,507	5%	858,811	9%	(164,304)	-19%
<i>IC (Ayutthaya, Thailand)</i>	4,495,149	35%	2,792,875	30%	1,702,274	61%
<i>IC (Jiaxing, China)</i>	651,236	5%	332,252	4%	318,984	96%
<i>HMT (Ohio, USA)</i>	137,959	1%	70,704	1%	67,255	95%
	<u>12,970,308</u>	100%	<u>9,466,568</u>	100%	<u>3,503,740</u>	37%
					-	
Interest	106,201		55,311		50,890	92%
Other Income - Operating	177,547		99,977		77,570	78%
Other Income - Non Operating	37,724		132,245		(94,521)	-71%
TOTAL REVENUES	<u>13,291,780</u>		<u>9,754,101</u>		<u>3,537,679</u>	36%
EXPENSES						
Cost of Sales	10,656,324	82%	7,817,983	83%	2,838,341	36%
Selling & Admin. Expenses	510,376	4%	594,551	6%	(84,175)	-14%
Interest Expenses	5,917		5,175		742	
TOTAL EXPENSES	<u>11,172,617</u>	86%	<u>8,417,709</u>	89%	<u>2,754,908</u>	33%
EARNINGS from Operation	<u>2,119,163</u>	0.159	<u>1,336,392</u>	0.137	<u>782,771</u>	59%
Exchange Gain (Loss)	142,801		114,179		28,622	
EARNINGS before Income Tax	<u>2,261,964</u>	17%	<u>1,450,571</u>	15%	<u>811,393</u>	56%
Corporate Income Tax	(77,476)	3%	(57,539)	4%	(19,937)	35%
Earnings before Exceptional Items	<u>2,184,488</u>		<u>1,393,032</u>		<u>791,456</u>	57%
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>2,184,488</u>	16%	<u>1,393,032</u>	14%	<u>791,456</u>	57%
EARNINGS % of SALES	17%		15%		2%	
Average number of shares (1 Baht par)	804,879		816,800		(11,921)	
EARNINGS per SHARE (baht) before exch. i	2.54		1.57		0.97	
EARNINGS per SHARE (baht) after exceptio	2.71		1.71		1.01	
Operating Profit (EBIT)	1,981,155		1,154,011		827,144	
	15%		12%			
Depreciation	826,972		747,872		79,100	
EBITDA (excl exchange gain/loss)	2,808,127		1,901,883		906,243	
EBITDA % of Sales Revenue	22%		20%			
Cashflow Earnings per Share	3.49		2.33		1.16	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Quarter 30-Sep-10	Quarter 30-Sep-09	Q310-Q309
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	3,062,782	4,137,258	(1,074,476)
Financial Investments	2,006,649	1,355,996	650,653
Accounts Receivable - trade	2,725,095	2,215,379	509,716
Amounts due from Related Companies	-	-	
Inventories	2,365,841	1,552,792	813,049
Other Current Assets	248,315	122,862	125,453
TOTAL CURRENT ASSETS	10,408,682	9,384,287	1,024,395
LOAN TO OTHER COMPANY	97	97	
FIXED ASSETS (net)	6,314,515	5,367,282	947,233
OTHER ASSETS	55,692	18,670	37,022
TOTAL ASSETS	16,778,986	14,770,336	2,008,650
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	-	75,890	(75,890)
Accounts & Notes Payable	1,804,606	1,369,998	434,608
Corporate Income Tax Payable	28,663	52,036	(23,373)
Accrued Expenses	474,144	401,958	72,186
Other Current Liabilities	878,051	490,000	388,051
TOTAL CURRENT LIABILITIES	3,185,464	2,389,882	795,582
TOTAL LIABILITIES	3,185,464	2,389,882	795,582
SHAREHOLDERS EQUITY			
Share Capital	830,475	830,475	(0)
Treasury Shares	(262,987)	(262,987)	
Share Premium	1,723,219	1,723,219	
Retained Earnings			
Appropriated Statutory Reserve	320,218	320,218	
Unappropriated	11,398,420	9,690,839	1,707,581
Translation adj. & Investment revaluation	(550,503)	21,574	(572,077)
Unrealised gain(loss) on change in investments	134,680	57,116	77,564
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	13,593,522	12,380,454	1,213,068
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	16,778,986	14,770,336	2,008,650
	0	0	
Cash & Equivalents	5,069,431	5,493,254	-423,823
Liabilities	3,185,464	2,389,882	795,582
Debt/Equity	0.23	0.19	0
Net Debt (Net cash)	-1,883,967	-3,103,372	1,219,405
Net Debt/Equity	-0.14	-0.25	0

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Quarter 30-Sep-10</u>	<u>Quarter 30-Sep-09</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	871,081	732,733
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	286,604	249,929
Unrealised (gain) Loss on exchange	1,654	76,265
Increase (Decrease) in allowance for doubtful debts	2,323	(10,108)
Increase (Decrease) in allowance for obsolete inventories	(22,490)	18,319
Change in other provisions	(24,118)	(67,884)
	<u>243,973</u>	<u>266,521</u>
Working Capital (increase) decrease		
Trade accounts receivable	(216,933)	(268,632)
Inventories	(186,713)	(92,162)
Trade accounts payable	98,102	239,888
Other	37,714	49,595
	<u>(267,830)</u>	<u>(71,311)</u>
Net Cashflow from Operating Activities	<u>847,224</u>	<u>927,943</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	(114,463)	(345,523)
Increase in property, plant and equipment	(685,789)	(85,786)
Proceeds from sale of fixed assets	16,467	2,496
Increase (decrease) in translation adjustment	(359,174)	(194,888)
Revaluation deficit on investments	103,808	72,403
Other		
	<u>(1,039,151)</u>	<u>(551,298)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	-
Dividend paid	-	-
Other	(18)	75,890
Net cash (used in) from financing activities	<u>(18)</u>	<u>75,890</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(191,945)	452,535
Cash and Equivalents at the beginning of the period	<u>3,254,727</u>	<u>3,684,724</u>
Cash and Equivalents at the end of the period	3,062,782	4,137,258
Increase (decrease) in payables for purchases of plant/equipment	75,439	88,224

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	<u>Quarter</u> <u>30-Sep-10</u>	<u>Quarter</u> <u>30-Sep-09</u>	<u>Q310-Q309</u>	
Profitability Ratios				
Gross Profit Margin (%)	18%	20%	-	-3%
Operating Profit Margin (%)	16%	16%	-	0%
Net Profit before Exceptional Margin (%)	18%	19%	-	-1%
Net Profit after Exceptional Margin (%)	18%	19%	-	-1%
EBITDA margin (%)	22%	23%	-	-1%
Return On Equity (%) pa	25%	22%	-	3%
Efficiency Ratios				
Working Capital turnover	6.6	8.8	-	2.2
Account Receivable days	53	55	-	2.5
Inventory days	56	48	-	7.1
Accounts Payable days	42	43	-	0.4
Liquidity Ratios				
Current Ratio	3.3	3.9	-	0.7
Quick Ratio	2.4	3.2	-	0.8
Financial Capital Ratios				
Debt / Equity	0.2	0.2	-	0.0
Net Debt to Equity	-0.1	-0.3	-	0.1
Interest Coverage	n/a	n/a	-	-