

## Management's Discussion and Analysis

First Quarter ending 31st March 2010

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 49% year on year, to THB 3.92 billion for the first quarter of 2010 from THB 2.64 billion for the first quarter of 2009. Sales Revenue in USD terms increased by 60% to USD 119.3m from USD 74.6m in Q1 2009. Operating Profits increased 178% to THB 574m in Q1 2010 from THB 206m in Q1 2009.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>31-Mar-10</u>		<u>31-Mar-09</u>		<u>Q110-Q109</u>	
<i>PCBA (Lamphun, Thailand)</i>	1,612,891	41%	1,113,895	42%	498,996	45%
<i>PCBA (Jiaxing, China)</i>	558,474	14%	448,307	17%	110,167	25%
<i>CPG (Bangkok, Thailand)</i>	228,940	6%	265,941	10%	(37,001)	-14%
<i>IC (Ayutthaya, Thailand)</i>	1,300,898	33%	720,590	27%	580,308	81%
<i>IC (Jiaxing, China)</i>	187,606	5%	63,032	2%	124,574	198%
<i>HMT (Ohio, USA)</i>	36,098	1%	24,426	1%	11,672	48%
Total Revenue	3,924,907		2,636,191		1,288,716	49%

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 1 2010 sales revenue for the group increased 60% year-on-year in USD terms, from USD 75m in Q109 to USD 120m in Q110 as the markets recovered to levels similar to the peak in 2008. The average exchange rate for Q110 was 7% stronger at THB/USD 32.9 from THB/USD 35.3 in Q109 resulting in the sales increase in THB terms was lower accordingly at 49% increase year on year.

Year-on-year, the microelectronics divisions sales increased by 54% in USD terms. Sales in Lamphun increased by 63% whilst JiaXing increased by 35%. The IC divisions USD sales revenues were 105% higher, with revenues in both the IC division in Ayutthaya and JiaXing increasing by 95% and 220% respectively. The CPG division sales declined by 7%.

#### Quarter on Quarter Sales Revenue Analysis

Group sales decreased quarter on quarter by 1% from USD 120m in Q409 to USD 119m in Q110. Sales across all divisions, except the CPG division, continued to rebound to levels similar to that seen at the previous peak in Q308. In THB equivalent the group sales decreased by 2% in Q110 compared to Q409. The average THB/USD exchange rate strengthened by 1% from 33.31 in Q409 to 32.90 in Q110.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 4% lower with Lamphun decreasing 4% and JiaXing 6%. Sales revenues from the IC divisions were 11% higher with Ayutthaya sales increasing by 13% and JiaXing IC sales increasing by 3%. The CPG division sales were 6% lower quarter on quarter as the division continues to wind down due to the land lease expiry in Feb 2014.

#### Sales Revenue Split

	<u>Q1 2010</u>	<u>Q4 2009</u>	<u>Q3 2009</u>	<u>Q2 2009</u>	<u>Q1 2009</u>
<i>PCBA (Lamphun, Thailand)</i>	41%	44%	44%	41%	42%
<i>PCBA (Jiaxing, China)</i>	14%	15%	13%	15%	17%
<i>CPG (Bangkok, Thailand)</i>	6%	6%	9%	9%	10%
<i>IC (Ayutthaya, Thailand)</i>	33%	29%	30%	31%	27%
<i>IC (Jiaxing, China)</i>	5%	5%	4%	4%	2%
<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 Q110 up 4% from 14% in Q109 due to higher operating leverage. SG&A expenses were lower in Q110 by 7% (THB 12m) than Q109 due to redundancy costs provided for in Q109 of THB 40m which was more than the increase in staff costs due to increased business in Q110. SG&A expenses in Q110 were 12% lower than Q409 (THB 24M) due to inventory allowance write back in Q110 of THB 12m, provision for obsolete materials of THB 7m and bonus paid in Q409.

### **Operating Profit Analysis**

Year-on-year operating profits were 178% higher in Q110 and operating margins were 7% higher at 15% compared to 8% in Q109 mainly due to the higher operating leverage from the THB 1.3b sales increase over Q109.

### **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 Q110 was Baht/USD 32.90 from 35.34 in Q109 (and from Baht/USD 33.31 in Q409).

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 32.37 at 31/03/10, and 33.37 at 31/12/09 or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

No dividends were paid out in Q110.

### **Financial Status**

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 31st March, 2010 were THB 6.0 billion up from 31st March, 2009 of THB5.0 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 56 days in Q110 and 55 days in Q109.

Accounts receivable - other companies	<u>31-Mar-10</u>	<u>31-Mar-09</u>	'000
Less than 3 months	2,071,303	1,571,410	
3 - 6 months	354,732	18,384	
6 - 12 months	10,180	29,519	
More than 12 months	8,206	3,531	
Total accounts receivable - other companies	2,444,421	1,622,844	
Less : Allowance for doubtful accounts	-1,722	(25,294)	
	<u>2,442,699</u>	<u>1,597,550</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 53 days as at 31st March, 2010 and 72 days as at 31st March, 2009.

#### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q1 2010 was THB 843m which was 85% higher than Q1 2009 was THB 455m.

#### **Capital Expenditure**

Capital Expenditure was THB 315m in Q1 2010 and THB 40m in Q1 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 150m for purchase of land for expansion in Lamphun.

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>31-Mar-10</u>		<u>31-Mar-09</u>		<u>Q110-Q109</u>	<u>Q110-Q109</u>
<b>REVENUES</b>						
Sales	3,924,907		2,636,191		1,288,716	49%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,612,891	41%	1,113,895	42%	498,996	45%
<i>PCBA (Jiaxing, China)</i>	558,474	14%	448,307	17%	110,167	25%
<i>CPG (Bangkok, Thailand)</i>	228,940	6%	265,941	10%	(37,001)	-14%
<i>IC (Ayutthaya, Thailand)</i>	1,300,898	33%	720,590	27%	580,308	81%
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<i>HMT (Ohio, USA)</i>	36,098	1%	24,426	1%	11,672	48%
	<u>3,924,907</u>	100%	<u>2,636,191</u>	100%	<u>1,288,716</u>	49%
Share of Assoc. company Profit	-		-		-	
Interest	22,079		13,580		8,499	63%
Other Income - Operating	54,778		35,627		19,151	54%
Other Income - Non Operating	4,756		1,164		3,592	309%
<b>TOTAL REVENUES</b>	<u>4,006,520</u>		<u>2,686,562</u>		<u>1,319,958</u>	49%
<b>EXPENSES</b>						
Cost of Sales	3,224,468	82%	2,271,550	86%	952,918	42%
Selling & Admin. Expenses	181,135	5%	193,772	7%	(12,637)	-7%
Interest Expenses	-		1,769		(1,769)	
			-			
<b>TOTAL EXPENSES</b>	<u>3,405,603</u>	87%	<u>2,467,091</u>	94%	<u>938,512</u>	38%
<b>EARNINGS from Operation</b>	<u>600,917</u>	15%	<u>219,471</u>	8%	<u>381,446</u>	174%
Exchange Gain (Loss)	22,044		(7,294)		29,338	
Share of Assoc. company Loss	-		-		-	
<b>EARNINGS before Income Tax</b>	<u>622,961</u>	16%	<u>212,177</u>	8%	<u>410,784</u>	194%
Corporate Income Tax	(25,559)	4%	(10,971)	5%	(14,588)	133%
<b>Earnings before Exceptional Items</b>	<u>597,402</u>		<u>201,206</u>		<u>396,196</u>	197%
Exceptional Items	-		-		-	
<b>NET EARNINGS for the Period</b>	<u>597,402</u>	15%	<u>201,206</u>	7%	<u>396,196</u>	197%
<b>EARNINGS % of SALES</b>	15%		8%		0.08	
Average number of shares (1 Baht par)	804,879		819,230		-	14,351
<b>EARNINGS per SHARE (baht) before exch. &amp; exc</b>	0.71		0.25		0.46	
<b>EARNINGS per SHARE (baht) after exceptionals</b>	0.74		0.25		0.50	
Operating Profit (EBIT)	574,082		206,496		367,586	178%
	15%		8%			
Depreciation	268,794		248,639		20,155	8%
EBITDA (excl exchange gain/loss)	842,876		455,135		387,741	85%
EBITDA % of Sales Revenue	21%		17%			
Cashflow Earnings per Share	1.05		0.56		0.49	

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>31-Mar-10</u>	Quarter <u>31-Mar-09</u>	<u>Q110-Q109</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in Hand & at Banks	4,173,130	4,361,155	(188,025)
Financial Investments	1,864,423	595,643	1,268,780
Accounts Receivable - trade	2,442,699	1,597,550	845,149
Amounts due from Related Companies	-	-	
Inventories	1,911,240	1,827,842	83,398
Other Current Assets	123,493	113,341	10,152
<b>TOTAL CURRENT ASSETS</b>	<u>10,514,985</u>	<u>8,495,531</u>	2,019,454
LOAN TO OTHER COMPANY	97	97	
<b>FIXED ASSETS (net)</b>	5,604,656	5,696,400	(91,744)
OTHER ASSETS	38,952	19,057	19,895
<b>TOTAL ASSETS</b>	<u>16,158,690</u>	<u>14,211,085</u>	1,947,605
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank Overdrafts & Loans	41,923	-	41,923
Accounts & Notes Payable	1,436,641	920,022	516,619
Corporate Income Tax Payable	134,012	78,194	55,818
Accrued Expenses	341,468	285,979	55,489
Other Current Liabilities	764,165	348,115	416,050
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,718,209</u>	<u>1,632,310</u>	1,085,900
<b>TOTAL LIABILITIES</b>	<u>2,718,209</u>	<u>1,632,310</u>	1,085,900
<b>SHAREHOLDERS EQUITY</b>			
Share Capital	830,475	830,475	
Share subscription received in advance	(262,987)	-	(262,987)
Share Premium	1,723,219	1,723,219	
Retained Earnings			
Appropriated Statutory Reserve	320,218	322,420	(2,202)
Unappropriated	10,938,164	9,441,083	1,497,081
Translation adj. & Investment revaluation	(199,660)	416,553	(616,213)
Unrealised gain(loss) on change in investments	91,052	-	91,052
Excess Cost over Net Book Value of Subsidiary Investments	-	(154,975)	154,975
<b>TOTAL SHAREHOLDERS EQUITY</b>	<u>13,440,481</u>	<u>12,578,775</u>	861,706
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<u>16,158,690</u>	<u>14,211,085</u>	1,947,605
	0	0	
Cash & Equivalents	6,037,553	4,956,798	1,080,755
Liabilities	2,718,209	1,632,310	1,085,900
Debt/Equity	0.20	0.13	0
Net Debt (Net cash)	-3,319,344	-3,324,488	5,145
Net Debt/Equity	-0.25	-0.26	0

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Quarter 31-Mar-10</u>	<u>Quarter 31-Mar-09</u>
<b><u>Cashflow from Operating Activities</u></b>		
Net Earnings before tax	622,961	212,177
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>		
<b>Non Cash items</b>		
Depreciation	268,794	249,410
Unrealised (gain) Loss on exchange	7,846	(25,880)
Increase (Decrease) in allowance for doubtful debts	(4,693)	1,077
Increase (Decrease) in allowance for obsolete inventories	(18,720)	(72,429)
Change in other provisions	(7,051)	4,226
	<u>246,176</u>	<u>156,404</u>
<b>Working Capital (increase) decrease</b>		
Trade accounts receivable	(180,905)	(55,932)
Inventories	(135,696)	305,169
Trade accounts payable	(47,885)	(163,069)
Other	33,417	(9,790)
	<u>(331,069)</u>	<u>76,378</u>
<b>Net Cashflow from Operating Activities</b>	<u>538,068</u>	<u>444,959</u>
<b>Cashflow from Investing Activities</b>		
(Increase) decrease in short term investment	(97,110)	(213,396)
Increase in property, plant and equipment	(370,145)	(153,790)
Proceeds from sale of fixed assets	8,812	4,361
Increase (decrease) in translation adjustment	(185,263)	113,399
Revaluation deficit on investments	8,686	-
Other		
	<u>(635,020)</u>	<u>(249,426)</u>
<b>Cashflow from Financing Activities</b>		
Cash received from increase in share capital	-	-
Dividend paid	-	-
Other	(1,983)	(150,676)
Net cash (used in ) from financing activities	<u>(1,983)</u>	<u>(150,676)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(98,935)	44,857
Cash and Equivalents at the beginning of the period	<u>4,272,065</u>	<u>4,316,298</u>
Cash and Equivalents at the end of the period	4,173,130	4,361,155
Increase (decrease) in payables for purchases of plant/equipment	(91,620)	(80,223)

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	Quarter <u>31-Mar-10</u>	Quarter <u>31-Mar-09</u>	<u>Q110-Q109</u>	
<b>Profitability Ratios</b>				
Gross Profit Margin (%)	18%	14%		4%
Operating Profit Margin (%)	15%	8%		7%
Net Profit before Exceptional Margin (%)	15%	8%		8%
Net Profit after Exceptional Margin (%)	15%	8%		8%
EBITDA margin (%)	21%	17%		4%
Return On Equity (%) pa	18%	6%		11%
<b>Efficiency Ratios</b>				
Working Capital turnover	5.8	7.2	-	1.4
Account Receivable days	56	55		1.5
Inventory days	53	72	-	19.1
Accounts Payable days	40	36		3.6
<b>Liquidity Ratios</b>				
Current Ratio	3.9	5.2	-	1.3
Quick Ratio	3.1	4.0	-	0.9
<b>Financial Capital Ratios</b>				
Debt / Equity	0.2	0.1		0.1
Net Debt to Equity	-0.2	-0.3		0.0
Interest Coverage	n/a	n/a		