

Management's Discussion and Analysis

Third Quarter ending 30th September 2011

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue were down 3% year on year at THB 4.5 billion for the third quarter of 2011 and THB 4.7 billion for the third quarter of 2010. Sales Revenue in USD terms increased by 2% to USD 149m from USD 147m in Q3 2010. Operating Profits decreased 38% to THB 448m in Q3 2011 from THB 726m in Q3 2010.

	<u>Quarter</u>		<u>Quarter</u>		<u>%</u>	
	<u>30-Sep-11</u>		<u>30-Sep-10</u>		<u>Q311-Q310</u>	
<i>PCBA (Lamphun, Thailand)</i>	1,571,355	35%	1,611,702	35%	(40,347)	-3%
<i>PCBA (Jiaxing, China)</i>	1,007,415	22%	839,663	18%	167,752	20%
<i>CPG (Bangkok, Thailand)</i>	79,541	2%	230,972	5%	(151,431)	-66%
<i>IC (Ayutthaya, Thailand)</i>	1,551,133	34%	1,694,756	36%	(143,623)	-8%
<i>IC (Jiaxing, China)</i>	250,469	6%	221,492	5%	28,977	13%
<i>HMT (Ohio, USA)</i>	61,675	1%	57,338	1%	4,337	8%
Total Revenue	4,521,588		4,655,923		(134,334)	-3%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 3 2011 sales revenue for the group increased 2% year-on-year in USD terms, from USD 147.2m in Q310 to USD 149.5m in Q311. The average exchange rate for Q311 was 4% stronger at THB/USD 30.25 from THB/USD 31.64 in Q310. As a result the sales revenue in THB terms was 3% lower year on year.

Year-on-year, the microelectronics divisions sales increased by 10% in USD terms. Sales in Lamphun increased 2% whilst JiaXing increased by 26%. The IC divisions USD sales revenues were 1% lower, with revenues the IC divisions in Ayutthaya decreasing by 4% and JiaXing increasing by 19%. "HMT" the microdisplay/RFID operation in Ohio sales revenue increased 4% as growth driven by demand for telecom optical switch components flattened.

Quarter on Quarter Sales Revenue Analysis

Group sales increased quarter on quarter by 4% from USD 143m in Q211 to USD 149m in Q311. Sales in the microelectronics division increased 7% but the IC division decreased by 1%. In THB equivalent the group sales increased by 4% in Q311 compared to Q211. The average THB/USD exchange rate strengthened by 1% from 30.56 in Q211 to 30.27 in Q311.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 7% higher with Lamphun being stable and JiaXing increasing 20%. Sales revenues from the IC divisions were 1% lower with Ayutthaya sales decreasing by 3% and JiaXing IC sales increasing by 13%. The microdisplay division sales decreased 2% in Q311 compared to Q211.

Sales Revenue Split

	<u>Q3 2011</u>	<u>Q2 2011</u>	<u>Q1 2011</u>	<u>Q4 2010</u>	<u>Q3 2010</u>
<i>PCBA (Lamphun, Thailand)</i>	35%	35%	34%	35%	38%
<i>PCBA (Jiaxing, China)</i>	22%	20%	18%	18%	16%
<i>CPG (Bangkok, Thailand)</i>	2%	2%	4%	5%	5%
<i>IC (Ayutthaya, Thailand)</i>	34%	36%	36%	36%	34%
<i>IC (Jiaxing, China)</i>	6%	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 Q311 down 5% from 18% in Q310 due to the 4% stronger THB exchange rate (2%), higher material costs (2%) and higher wage costs (1%) in each location.

Operating Profit Analysis

Year-on-year operating profits were 38% lower in Q311 and operating margins were 6% lower at 10% in Q311 from 16% in Q310 due to the lower Gross Profit margin and increased SG&A expense. SG&A expenses were 33% higher in Q311 due to a material provision in Q311 and reversal of provision for doubtful debts in Q310. SG&A expenses were 15% higher in Q311 than Q211 due to a material provision in Q311.

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 Q311 was Baht/USD 30.25 from 31.64 in Q310 (and Baht/USD 30.27 in Q211).

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 31.17 at 30/9/11, and 30.42 at 30/09/10 or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid out in Q311.

Financial Status

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 30th September, 2011 were THB 5.5 billion up from 30th September, 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 53 days in Q311 and 53 days in Q310.

Accounts receivable - other companies	<u>30-Sep-11</u>	<u>30-Sep-10</u>	'000
Less than 3 months	2,651,138	2,718,383	
3 - 6 months	18,194	5,641	
6 - 12 months	3,362	7,147	
More than 12 months	1,756	325	
Total accounts receivable - other companies	2,674,450	2,731,496	
Less : Allowance for doubtful accounts	(8,415)	(6,401)	
	<u>2,666,035</u>	<u>2,725,095</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 62 days as at 30th September, 2011 and 56 days as at 30th September, 2010.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q3 2011 was THB 739m which was 27% lower than Q3 2010 was THB 1,007m.

Capital Expenditure

Capital Expenditure was THB 230m in Q3 2011 and THB 823m in Q3 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-Sep-11</u>		<u>30-Sep-10</u>		<u>Q311-Q310</u>	<u>Q311-Q310</u>
REVENUES						
Sales	4,521,588		4,655,923		(134,335)	-3%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,571,355	35%	1,611,702	35%	(40,347)	-3%
<i>PCBA (Jiaxing, China)</i>	1,007,415	22%	839,663	18%	167,752	20%
<i>CPG (Bangkok, Thailand)</i>	79,541	2%	230,972	5%	(151,431)	-66%
<i>IC (Ayutthaya, Thailand)</i>	1,551,133	34%	1,694,756	36%	(143,623)	-8%
<i>IC (Jiaxing, China)</i>	250,469	6%	221,492	5%	28,977	13%
<i>HMT (Ohio, USA)</i>	61,675	1%	57,338	1%	4,337	8%
	<u>4,521,588</u>	100%	<u>4,655,923</u>	100%	<u>(134,334)</u>	-3%
Share of Assoc. company Profit	-		-		-	
Interest	33,817		35,419		(1,602)	-5%
Other Income - Operating	84,596		67,597		16,999	25%
Other Income - Non Operating	1,374		7,908		(6,534)	-83%
TOTAL REVENUES	<u>4,641,375</u>		<u>4,766,847</u>		<u>(125,471)</u>	-3%
EXPENSES						
Cost of Sales	3,939,785	87%	3,832,857	82%	106,928	3%
Selling & Admin. Expenses	218,809	5%	164,374	4%	54,435	33%
Interest Expenses	1,810		1,956		(146)	
TOTAL EXPENSES	<u>4,160,404</u>	92%	<u>3,999,187</u>	86%	<u>161,217</u>	4%
EARNINGS from Operation	<u>480,971</u>	0.104	<u>767,660</u>	0.161	<u>(286,688)</u>	-37%
Exchange Gain (Loss)	11,495		103,421		(91,926)	
Share of Assoc. company Loss	-		-		-	
EARNINGS before Income Tax	<u>492,466</u>	11%	<u>871,081</u>	18%	<u>(378,614)</u>	-43%
Corporate Income Tax	(6,925)	1%	(27,441)	3%	20,516	-75%
Earnings before Exceptional Items	<u>485,541</u>		<u>843,640</u>		<u>(358,098)</u>	-42%
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>485,541</u>	10%	<u>843,640</u>	18%	<u>(358,098)</u>	-42%
EARNINGS % of SALES	11%		18%		-7%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch.	0.59		0.92		-	0.33
EARNINGS per SHARE (baht) after exceptio	0.60		1.05		-	0.44
Operating Profit (EBIT)	447,590		726,289		(278,699)	
	10%		16%			
Depreciation	298,503		280,603		17,900	
EBITDA (excl exchange gain/loss)	746,093		1,006,892		(260,798)	
EBITDA % of Sales Revenue	17%		22%			
Cashflow Earnings per Share	0.93		1.25		-	0.32

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	YTD <u>30-Sep-11</u>		YTD <u>30-Sep-10</u>		YTD <u>Q311-Q310</u>	YTD % <u>Q311-Q310</u>
REVENUES						
Sales	12,681,316		12,970,308		(288,992)	-2%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	4,482,844	35%	4,909,396	38%	(426,552)	-9%
<i>PCBA (Jiaxing, China)</i>	2,596,206	20%	2,082,061	16%	514,145	25%
<i>CPG (Bangkok, Thailand)</i>	198,527	2%	694,507	5%	(495,980)	-71%
<i>IC (Ayutthaya, Thailand)</i>	4,541,772	36%	4,495,149	35%	46,623	1%
<i>IC (Jiaxing, China)</i>	674,545	5%	651,236	5%	23,309	4%
<i>HMT (Ohio, USA)</i>	187,422	1%	137,959	1%	49,463	36%
	<u>12,681,316</u>	<u>100%</u>	<u>12,970,308</u>	<u>100%</u>	<u>(288,991)</u>	<u>-2%</u>
	-					
Interest	109,567		106,201		3,366	3%
Other Income - Operating	257,643		177,547		80,096	45%
Other Income - Non Operating	63,321		37,724		25,597	68%
TOTAL REVENUES	<u>13,111,847</u>		<u>13,291,780</u>		<u>(179,932)</u>	<u>-1%</u>
EXPENSES						
Cost of Sales	10,997,444	87%	10,656,324	82%	341,120	3%
Selling & Admin. Expenses	618,432	5%	510,376	4%	108,056	21%
Interest Expenses	7,367		5,917		1,450	
TOTAL EXPENSES	<u>11,623,243</u>	<u>92%</u>	<u>11,172,617</u>	<u>86%</u>	<u>450,626</u>	<u>4%</u>
EARNINGS from Operation	<u>1,488,604</u>	<u>0.114</u>	<u>2,119,163</u>	<u>0.159</u>	<u>(630,558)</u>	<u>-30%</u>
Exchange Gain (Loss)	104,895		142,801		(37,906)	
	-					
EARNINGS before Income Tax	<u>1,593,499</u>	<u>12%</u>	<u>2,261,964</u>	<u>17%</u>	<u>(668,464)</u>	<u>-30%</u>
Corporate Income Tax	(33,680)	2%	(77,476)	3%	43,796	-57%
Earnings before Exceptional Items	<u>1,559,819</u>		<u>2,184,488</u>		<u>(624,668)</u>	<u>-29%</u>
Exceptional Items	-		-		-	
NET EARNINGS for the Period	<u>1,559,819</u>	<u>12%</u>	<u>2,184,488</u>	<u>16%</u>	<u>(624,668)</u>	<u>-29%</u>
EARNINGS % of SALES	12%		17%		-5%	
Average number of shares (1 Baht par)	804,879		808,586		(3,707)	
EARNINGS per SHARE (baht) before exch.	1.81		2.53		-	
EARNINGS per SHARE (baht) after exceptio	1.94		2.70		-	
Operating Profit (EBIT)	1,323,083		1,981,155		(658,072)	
	10%		15%			
Depreciation	902,666		826,972		75,694	
EBITDA (excl exchange gain/loss)	2,225,749		2,808,127		(582,377)	
EBITDA % of Sales Revenue	18%		22%			
Cashflow Earnings per Share	2.77		3.47		-	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>30-Sep-11</u>	Quarter <u>30-Sep-10</u>	<u>Q311-Q310</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	3,552,356	3,062,782	489,574
Financial Investments	1,963,406	2,006,649	(43,243)
Accounts Receivable - trade	2,666,035	2,725,095	(59,060)
Amounts due from Related Companies	-	-	
Inventories	2,709,808	2,365,841	343,967
Other Current Assets	230,391	248,315	(17,924)
TOTAL CURRENT ASSETS	<u>11,121,996</u>	<u>10,408,682</u>	713,314
LOAN TO OTHER COMPANY	97	97	
FIXED ASSETS (net)	6,539,076	6,314,515	224,561
OTHER ASSETS	17,277	55,692	(38,415)
TOTAL ASSETS	<u>17,678,446</u>	<u>16,778,986</u>	899,460
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	51,967	-	51,967
Accounts & Notes Payable	1,910,370	1,804,606	105,764
Corporate Income Tax Payable	2,021	28,663	(26,642)
Accrued Expenses	528,641	474,144	54,497
Other Current Liabilities	529,634	878,051	(348,417)
TOTAL CURRENT LIABILITIES	<u>3,022,633</u>	<u>3,185,464</u>	(162,831)
LONG TERM LIABILITIES	301,012	-	301,012
TOTAL LIABILITIES	<u>3,323,645</u>	<u>3,185,464</u>	138,181
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	11,987,812	11,398,420	589,392
Translation adj. & Investment revaluation	(243,936)	(550,503)	306,567
Unrealised gain(loss) on change in investments	-	134,680	(134,680)
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>14,354,801</u>	<u>13,593,522</u>	761,279
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>17,678,446</u>	<u>16,778,986</u>	899,460
	(0)	0	
Cash & Equivalents	5,515,762	5,069,431	446,331
Liabilities	3,323,645	3,185,464	138,181
Debt/Equity	0.23	0.23	-0
Net Debt (Net cash)	-2,192,117	-1,883,967	-308,150
Net Debt/Equity	-0.15	-0.14	-0

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>30-Sep-11</u>	Quarter <u>30-Sep-10</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	492,466	871,081
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	303,160	286,604
Unrealised (gain) Loss on exchange	22,714	1,654
Increase (Decrease) in allowance for doubtful debts	(751)	2,323
Increase (Decrease) in allowance for obsolete inventories	(19,674)	(22,490)
Change in other provisions	(2,193)	(24,118)
	<u>303,256</u>	<u>243,973</u>
Working Capital (increase) decrease		
Trade accounts receivable	86,061	(216,933)
Inventories	(15,950)	(186,713)
Trade accounts payable	233,801	98,102
Other	24,372	37,714
	<u>328,284</u>	<u>(267,830)</u>
Net Cashflow from Operating Activities	<u>1,124,006</u>	<u>847,224</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	(39,971)	(114,463)
Increase in property, plant and equipment	(470,744)	(685,789)
Proceeds from sale of fixed assets	2,607	16,467
Increase (decrease) in translation adjustment	281,966	(359,174)
Revaluation deficit on investments	(159,707)	103,808
Other		
	<u>(385,849)</u>	<u>(1,039,151)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	-	-
Dividend paid	-	-
Other	51,967	(18)
Net cash (used in) from financing activities	<u>51,967</u>	<u>(18)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	790,124	(191,945)
Cash and Equivalents at the beginning of the period	<u>2,762,232</u>	<u>3,254,727</u>
Cash and Equivalents at the end of the period	<u>3,552,356</u>	<u>3,062,782</u>

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	<u>Quarter</u> <u>30-Sep-11</u>	<u>Quarter</u> <u>30-Sep-10</u>	<u>Q311-Q310</u>	
Profitability Ratios				
Gross Profit Margin (%)	13%	18%	-	-5%
Operating Profit Margin (%)	10%	16%	-	-6%
Net Profit before Exceptional Margin (%)	11%	18%	-	-7%
Net Profit after Exceptional Margin (%)	11%	18%	-	-7%
EBITDA margin (%)	17%	22%	-	-5%
Return On Equity (%) pa	14%	25%	-	-11%
Efficiency Ratios				
Working Capital turnover	5.4	6.6	-	1.2
Account Receivable days	53	53	-	0.4
Inventory days	62	56	-	6.3
Accounts Payable days	44	42	-	1.3
Liquidity Ratios				
Current Ratio	3.7	3.3	-	0.4
Quick Ratio	2.7	2.4	-	0.3
Financial Capital Ratios				
Debt / Equity	0.2	0.2	-	0.0
Net Debt to Equity	-0.2	-0.1	-	0.0
Interest Coverage	n/a	n/a	-	0.0