

## Management's Discussion and Analysis

Second Quarter ending 30th June 2012

### Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue was up 8% year on year at THB 4.7 billion for the second quarter of 2012 compared to THB 4.3 billion for the second quarter of 2011. Sales Revenue in USD terms increased by 5% to USD 151m from USD 143m in Q2 2011. Operating Profits decreased 23% to THB 385m in Q2 2012 from THB 502m in Q2 2011.

	<u>Quarter</u>		<u>Quarter</u>			<u>%</u>
	<u>30-Jun-12</u>		<u>30-Jun-11</u>		<u>Q212-Q211</u>	<u>Q212-Q211</u>
<i>PCBA (Lamphun, Thailand)</i>	1,985,510	42%	1,579,591	36%	405,919	26%
<i>PCBA (Jiaxing, China)</i>	1,185,316	25%	838,213	19%	347,103	41%
<i>CPG (Bangkok, Thailand)</i>	5,807	0%	39,441	1%	(33,634)	-85%
<i>IC (Ayutthaya, Thailand)</i>	1,151,719	25%	1,598,309	37%	(446,590)	-28%
<i>IC (Jiaxing, China)</i>	330,649	7%	221,991	5%	108,658	49%
<i>HMT (Ohio, USA)</i>	40,913	1%	62,716	1%	(21,803)	-35%
Total Revenue	4,699,914		4,340,261		359,653	8%

### Sales Revenue Analysis

#### Year on Year Sales Revenue Analysis

Quarter 2 2012 sales revenue for the group increased 5% year-on-year in USD terms, from USD 143m in Q211 to USD 151m in Q212. The average exchange rate for Q212 was 3% weaker at THB/USD 31.09 from THB/USD 30.27 in Q211. As a result the sales revenue in THB terms was 8% higher year on year.

Year-on-year, the microelectronics divisions sales increased by 27% in USD terms. Sales in Lamphun increased 22% whilst JiaXing increased by 36%. The IC divisions USD sales revenues were 21% lower, with revenues the IC divisions in Ayutthaya decreasing by 30% and JiaXing increasing by 44%. "HMT" the microdisplay/RFID operation in Ohio sales revenue decreased 35%.

#### Quarter on Quarter Sales Revenue Analysis

Group sales increased quarter on quarter by 18% from USD 129m in Q112 to USD 151m in Q212.

Sales in the microelectronics division increased 12% and the IC division increased by 36%. In THB equivalent the group sales increased by 18% in Q212 compared to Q112. The average THB/USD exchange rate weakened by 1% from 30.69 in Q112 to 31.09 in Q212.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 12% higher with Lamphun increasing 6% and JiaXing increasing 23%. Sales revenues from the IC divisions were 36% higher with Ayutthaya sales increasing by 37% and JiaXing IC sales increasing by 34%. The microdisplay division sales increased 10% in Q212 compared to Q112.

### Sales Revenue Split

	<u>Q2 2012</u>	<u>Q1 2012</u>	<u>Q4 2011</u>	<u>Q3 2011</u>	<u>Q2 2011</u>
<i>PCBA (Lamphun, Thailand)</i>	42%	46%	49%	35%	35%
<i>PCBA (Jiaxing, China)</i>	25%	24%	27%	22%	20%
<i>CPG (Bangkok, Thailand)</i>	0%	2%	1%	2%	2%
<i>IC (Ayutthaya, Thailand)</i>	25%	21%	14%	34%	36%
<i>IC (Jiaxing, China)</i>	7%	6%	7%	6%	5%
<i>HMT (Ohio, USA)</i>	1%	1%	2%	1%	2%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 13% in Q212 the same as in Q211. 1% higher wage costs due to basic wage increase were offset by a 3% weaker THB exchange rate.

### **Operating Profit Analysis**

Year-on-year operating profits were 23% lower in Q212 and operating margins were 4% lower at 8% in Q212 from 12% in Q211 due to the lower other operating income such as tooling charges and increased SG&A expense. SG&A expenses in Q212 41% higher than Q211 due to reversal of provision in Q211 but increased due to a material provision in Q212. SG&A expenses in Q212 were 21% higher than in Q112.

### **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 Q212 was Baht/USD 31.09 from 30.27 in Q211 (and Baht/USD 30.56 in Q112).

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 31.83 at 30/06/12, and 30.75 at 30/06/11 (30.84 at 31/03/12) or the respective rate applicable to each offshore subsidiary's base currency.

### **Payout Analysis**

THB 805m dividend of THB 1.00 per share was paid during the quarter as the first and final dividend from the profits of 2011. THB 1.00 per share was not subject to withholding tax deduction.

In Q211 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.

### **Financial Status**

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 30th June, 2012 were THB 5.5 billion up from 30th June, 2011 at THB 4.8 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 65 days in Q212 and 57 days in Q211.

Accounts receivable - other companies	<u>30-Jun-12</u>	<u>30-Jun-11</u>	'000
Less than 3 months	3,230,617	2,724,459	
3 - 6 months	43,338	14,818	
6 - 12 months	9,073	4,233	
More than 12 months	1,924	1,602	
Total accounts receivable - other companies	<u>3,284,952</u>	<u>2,745,112</u>	
Less : Allowance for doubtful accounts	(5,436)	(9,166)	
	<u>3,279,516</u>	<u>2,735,946</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 65 days as at 30th June, 2012 and 64 days as at 30th June, 2011.

#### **Liquidity**

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q2 2012 was THB 686m which was 15% lower than Q2 2011 was THB 810m.

### **Capital Expenditure**

Capital Expenditure was THB 295m in Q2 2012 and THB 335m in Q2 2011. 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. The company 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.

The group's sales revenue are in foreign currency (primarily USD) and USD currency costs are approximately 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 80m 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**

The plant of Hana Semiconductor (Ayutthaya) Co., LTD, a 100% owned subsidiary of the company, which is located in Hitech Industrial Estate in Ayutthaya province, was inundated in early October 2011 as a result of the extensive flooding in Thailand during the fourth quarter of 2011.

The plant, equipment and business of the subsidiary suffered major damage with approximately USD 40m of property damage and significant business interruption losses. In the 2011 Financial Statements the subsidiary made full provision for the book value of the damaged property which is to be replaced.

The subsidiary has also expensed repairs incurred during the fourth quarter in the 2011 accounts with further repairs of THB 84m accounted for in Q1 2012 and THB 72m in Q2 2012 for repairs and materials damage. The subsidiary is in the process of making claims on its property and business interruption insurance policies for the damage resulting from the flood at its Ayutthaya facility. In Q2 2012 THB 204m was received as the part payment for the first interim payment for the business interruption insurance claim.

### **Subsequent Event**

None

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>30-Jun-12</u>		<u>30-Jun-11</u>		<u>Q212-Q211</u>	<u>Q212-Q211</u>
<b>REVENUES</b>						
Sales	4,699,914		4,340,261		359,653	8%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,985,510	42%	1,579,591	36%	405,919	26%
<i>PCBA (Jiaxing, China)</i>	1,185,316	25%	838,213	19%	347,103	41%
<i>CPG (Bangkok, Thailand)</i>	5,807	0%	39,441	1%	(33,634)	-85%
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<i>IC (Jiaxing, China)</i>	330,649	7%	221,991	5%	108,658	49%
<i>HMT (Ohio, USA)</i>	40,913	1%	62,716	1%	(21,803)	-35%
	<u>4,699,914</u>	100%	<u>4,340,261</u>	100%	<u>359,653</u>	8%
Share of Assoc. company Profit	-		-		-	
Interest	44,323		39,029		5,294	14%
Other Income - Operating	51,643		105,363		(53,720)	-51%
Other Income - Non Operating	53,834		57,243		(3,409)	
<b>TOTAL REVENUES</b>	<u>4,849,714</u>		<u>4,541,896</u>		<u>307,818</u>	7%
<b>EXPENSES</b>						
Cost of Sales	4,098,596	87%	3,754,424	87%	344,172	9%
Selling & Admin. Expenses	268,007	6%	189,705	4%	78,302	41%
Interest Expenses	1,991		3,719		(1,728)	
<b>TOTAL EXPENSES</b>	<u>4,368,594</u>	93%	<u>3,947,848</u>	91%	<u>420,746</u>	11%
<b>EARNINGS from Operation</b>	<u>481,120</u>	0.099	<u>594,048</u>	0.131	<u>(112,928)</u>	-19%
Exchange Gain (Loss)	(56,061)		42,914		(98,975)	
Share of Assoc. company Loss	-		-		-	
<b>EARNINGS before Income Tax</b>	<u>425,059</u>	9%	<u>636,962</u>	14%	<u>(211,903)</u>	-33%
Corporate Income Tax	(18,306)	4%	(19,930)	3%	1,624	-8%
<b>Earnings before Exceptional Items</b>	<u>406,753</u>		<u>617,032</u>		<u>(210,279)</u>	-34%
Exceptional Items	110,207		-		110,207	
<b>NET EARNINGS for the Period</b>	<u>516,960</u>	11%	<u>617,032</u>	14%	<u>(100,072)</u>	-16%
EARNINGS % of SALES	11%		14%		-3%	
Average number of shares (1 Baht par)	804,879		804,879		-	
<b>EARNINGS per SHARE (baht) before exch. .</b>	0.58		0.71		-	0.14
<b>EARNINGS per SHARE (baht) after exceptio</b>	0.64		0.77		-	0.12
Operating Profit (EBIT)	384,954		501,495		(116,541)	
	8%		12%			
Depreciation	296,591		308,352		(11,761)	
EBITDA (excl exchange gain/loss)	681,545		809,847		(128,302)	
EBITDA % of Sales Revenue	15%		19%			
Cashflow Earnings per Share	0.85		1.01		-	0.16

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	YTD		YTD		YTD	YTD %
	<u>30-Jun-12</u>		<u>30-Jun-11</u>		<u>Q212-Q211</u>	<u>Q212-Q211</u>
<b>REVENUES</b>						
Sales	8,687,531		8,159,728		527,803	6%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	3,838,939	44%	2,911,489	36%	927,450	32%
<i>PCBA (Jiaxing, China)</i>	2,135,359	25%	1,588,791	19%	546,568	34%
<i>CPG (Bangkok, Thailand)</i>	73,710	1%	118,986	1%	(45,276)	-38%
<i>IC (Ayutthaya, Thailand)</i>	1,986,219	23%	2,990,639	37%	(1,004,420)	-34%
<i>IC (Jiaxing, China)</i>	575,071	7%	424,076	5%	150,995	36%
<i>HMT (Ohio, USA)</i>	78,233	1%	125,747	2%	(47,514)	-38%
	<u>8,687,531</u>	100%	<u>8,159,728</u>	100%	<u>527,803</u>	6%
					-	
Interest	87,558		75,750		11,808	16%
Other Income - Operating	165,673		173,047		(7,374)	-4%
Other Income - Non Operating	55,212		61,947		(6,735)	-11%
<b>TOTAL REVENUES</b>	<u>8,995,974</u>		<u>8,470,472</u>		<u>525,502</u>	6%
<b>EXPENSES</b>						
Cost of Sales	7,739,392	89%	7,057,659	86%	681,733	10%
Selling & Admin. Expenses	484,162	6%	399,623	5%	84,539	21%
Interest Expenses	3,780		5,557		(1,777)	
<b>TOTAL EXPENSES</b>	<u>8,227,334</u>	95%	<u>7,462,839</u>	91%	<u>764,495</u>	10%
<b>EARNINGS from Operation</b>	<u>768,640</u>	0.085	<u>1,007,633</u>	0.119	<u>(238,993)</u>	-24%
Exchange Gain (Loss)	33,559		93,400		(59,841)	
<b>EARNINGS before Income Tax</b>	<u>802,199</u>	9%	<u>1,101,033</u>	13%	<u>(298,834)</u>	-27%
Corporate Income Tax	(36,149)	5%	(26,755)	2%	(9,394)	35%
<b>Earnings before Exceptional Items</b>	<u>766,050</u>		<u>1,074,278</u>		<u>(308,228)</u>	-29%
Exceptional Items	25,991		-		25,991	
<b>NET EARNINGS for the Period</b>	<u>792,041</u>	9%	<u>1,074,278</u>	13%	<u>(282,237)</u>	-26%
EARNINGS % of SALES		9%		13%		-4%
Average number of shares (1 Baht par)	804,879		808,586		(3,707)	
<b>EARNINGS per SHARE (baht) before exch. .</b>	0.91		1.21	-	0.30	
<b>EARNINGS per SHARE (baht) after exceptio</b>	0.98		1.33	-	0.34	
Operating Profit (EBIT)	629,650		875,493		(245,843)	
	7%		11%			
Depreciation	587,419		604,163		(16,744)	
EBITDA (excl exchange gain/loss)	1,217,069		1,479,656		(262,587)	
EBITDA % of Sales Revenue	14%		18%			
Cashflow Earnings per Share	1.51		1.83	-	0.32	

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Balance Sheet

'000 Baht	Quarter <u>30-Jun-12</u>	Quarter <u>30-Jun-11</u>	<u>Q212-Q211</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash in Hand & at Banks	3,289,525	2,762,232	527,293
Financial Investments	2,246,411	1,982,511	263,900
Accounts Receivable - trade	3,379,544	2,735,946	643,598
Amounts due from Related Companies	-	-	
Inventories	2,966,495	2,674,183	292,312
Other Current Assets	161,499	227,428	(65,929)
<b>TOTAL CURRENT ASSETS</b>	<u>12,043,474</u>	<u>10,382,300</u>	<u>1,661,174</u>
LOAN TO OTHER COMPANY	97	97	
<b>FIXED ASSETS (net)</b>	6,570,964	6,563,752	7,212
OTHER ASSETS	66,857	18,242	48,615
<b>TOTAL ASSETS</b>	<u>18,681,392</u>	<u>16,964,391</u>	<u>1,717,001</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank Overdrafts & Loans	-	-	
Accounts & Notes Payable	3,211,766	1,672,478	1,539,288
Corporate Income Tax Payable	26,465	12,643	13,822
Accrued Expenses	412,365	472,200	(59,835)
Other Current Liabilities	44,511	692,784	(648,273)
<b>TOTAL CURRENT LIABILITIES</b>	<u>3,695,107</u>	<u>2,850,105</u>	<u>845,002</u>
<b>LONG TERM LIABILITIES</b>	377,331	290,622	86,709
<b>TOTAL LIABILITIES</b>	<u>4,072,438</u>	<u>3,140,727</u>	<u>931,711</u>
<b>SHAREHOLDERS EQUITY</b>			
Share Capital	804,879	830,475	(25,596)
Treasury Shares	-	(262,987)	262,987
Share Premium	1,723,219	1,723,219	0
Retained Earnings			
Appropriated Statutory Reserve	352,497	320,218	32,279
Unappropriated	11,763,553	11,502,271	261,282
Translation adj. & Investment revaluation	(35,194)	(289,532)	254,338
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
<b>TOTAL SHAREHOLDERS EQUITY</b>	<u>14,608,954</u>	<u>13,823,664</u>	<u>785,290</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS EQUITY</b>	<u>18,681,392</u>	<u>16,964,391</u>	<u>1,717,001</u>
	-	(0)	
Cash & Equivalents	5,535,936	4,744,743	791,193
Liabilities	4,072,438	3,140,727	931,711
Debt/Equity	0.28	0.23	0.05
Net Debt (Net cash)	-1,463,498	-1,604,016	140,518
Net Debt/Equity	-0.10	-0.12	0.02

# HANA MICROELECTRONICS GROUP

## CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>30-Jun-12</u>	Quarter <u>30-Jun-11</u>
<b><u>Cashflow from Operating Activities</u></b>		
Net Earnings before tax	535,266	636,962
<b>Adjustments to reconcile net earnings to net cash provided by operating activities</b>		
<b>Non Cash items</b>		
Depreciation	297,390	305,546
Unrealised (gain) Loss on exchange	1,349	23,167
Increase (Decrease) in allowance for doubtful debts	332	4,897
Increase (Decrease) in allowance for obsolete inventories	22,266	(68,188)
Change in other provisions	24,383	(69,738)
	<u>345,720</u>	<u>195,684</u>
<b>Working Capital (increase) decrease</b>		
Trade accounts receivable	(475,098)	(405,093)
Inventories	(489,388)	(23,483)
Trade accounts payable	808,695	67,400
Other	(94,433)	151,609
	<u>(250,224)</u>	<u>(209,567)</u>
<b>Net Cashflow from Operating Activities</b>	<u>630,762</u>	<u>623,079</u>
<b>Cashflow from Investing Activities</b>		
(Increase) decrease in short term investment	(233,158)	168,561
Increase in property, plant and equipment	(389,923)	(379,203)
Proceeds from sale of fixed assets	48,430	8,725
Increase (decrease) in translation adjustment	200,010	(35,352)
Revaluation deficit on investments	(12,330)	125,501
Other		
	<u>(386,971)</u>	<u>(111,768)</u>
<b>Cashflow from Financing Activities</b>		
Cash received from increase in share capital	-	-
Dividend paid	(804,879)	(1,247,562)
Other	(54,949)	(6)
Net cash (used in ) from financing activities	<u>(859,828)</u>	<u>(1,247,568)</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	(616,037)	(736,257)
Cash and Equivalents at the beginning of the period	<u>3,905,562</u>	<u>3,498,489</u>
Cash and Equivalents at the end of the period	3,289,525	2,762,232

# HANA MICROELECTRONICS GROUP

## Financial Ratios

'000 Baht	Quarter <u>30-Jun-12</u>	Quarter <u>30-Jun-11</u>	<u>Q212-Q211</u>
<b>Profitability Ratios</b>			
Gross Profit Margin (%)	13%	13%	-1%
Operating Profit Margin (%)	8%	12%	-3%
Net Profit before Exceptional Margin (%)	9%	14%	-6%
Net Profit after Exceptional Margin (%)	11%	14%	-3%
EBITDA margin (%)	15%	19%	-4%
Return On Equity (%) pa	14%	18%	-4%
<b>Efficiency Ratios</b>			
Working Capital turnover	5.5	5.2	0.3
Account Receivable days	65	57	8.0
Inventory days	65	64	1.0
Accounts Payable days	71	40	30.4
<b>Liquidity Ratios</b>			
Current Ratio	3.3	3.6	- 0.4
Quick Ratio	2.4	2.6	- 0.2
<b>Financial Capital Ratios</b>			
Debt / Equity	0.3	0.2	0.1
Net Debt to Equity	-0.1	-0.1	0.0
Interest Coverage	n/a	n/a	