

Management's Discussion and Analysis

First Quarter ending 31st March 2012

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue was up 4% year on year at THB 4.0 billion for the first quarter of 2012 compared to THB 3.8 billion for the first quarter of 2011. Sales Revenue in USD terms increased by 4% to USD 130m from USD 125m in Q1 2011. Operating Profits decreased 35% to THB 245m in Q1 2012 from THB 374m in Q1 2011.

	<u>Quarter</u>			<u>Quarter</u>			<u>%</u>	
	<u>31-Mar-12</u>			<u>31-Mar-11</u>			<u>Q112-Q111</u>	<u>Q112-Q111</u>
<i>PCBA (Lamphun, Thailand)</i>	1,853,429	46%		1,331,898	35%		521,531	39%
<i>PCBA (Jiaxing, China)</i>	950,043	24%		750,578	20%		199,465	27%
<i>CPG (Bangkok, Thailand)</i>	67,903	2%		79,545	2%		(11,642)	-15%
<i>IC (Ayutthaya, Thailand)</i>	834,500	21%		1,392,330	36%		(557,830)	-40%
<i>IC (Jiaxing, China)</i>	244,422	6%		202,085	5%		42,337	21%
<i>HMT (Ohio, USA)</i>	37,320	1%		63,031	2%		(25,711)	-41%
Total Revenue	3,987,617			3,819,467			168,150	4%

Sales Revenue Analysis

Year on Year Sales Revenue Analysis

Quarter 1 2012 sales revenue for the group increased 4% year-on-year in USD terms, from USD 125m in Q111 to USD 130m in Q112. The average exchange rate for Q112 was 0.4% weaker at THB/USD 30.69 from THB/USD 30.56 in Q111. As a result the sales revenue in THB terms was also 4% higher year on year.

Year-on-year, the microelectronics divisions sales increased by 32% in USD terms. Sales in Lamphun increased 37% whilst JiaXing increased by 24%. The IC divisions USD sales revenues were 33% lower, with revenues the IC divisions in Ayutthaya decreasing by 41% and JiaXing increasing by 19%. "HMT" the microdisplay/RFID operation in Ohio sales revenue decreased 42%.

Quarter on Quarter Sales Revenue Analysis

Group sales increased quarter on quarter by 11% from USD 117m in Q411 to USD 130m in Q112.

Sales in the microelectronics division increased 1% and the IC division increased by 45%. In THB equivalent the group sales increased by 10% in Q112 compared to Q411. The average THB/USD exchange rate strengthened by 1% from 31.02 in Q411 to 30.69 in Q112.

Quarter-on-quarter, sales revenues from the microelectronics divisions were 1% higher with Lamphun increasing 4% and JiaXing decreasing 4%. Sales revenues from the IC divisions were 45% higher with Ayutthaya sales increasing by 65% and JiaXing IC sales increasing by 3%. The microdisplay division sales decreased 40% in Q112 compared to Q411.

Sales Revenue Split

	<u>Q1 2012</u>	<u>Q4 2011</u>	<u>Q3 2011</u>	<u>Q2 2011</u>	<u>Q1 2011</u>
<i>PCBA (Lamphun, Thailand)</i>	46%	49%	35%	35%	34%
<i>PCBA (Jiaxing, China)</i>	24%	27%	22%	20%	18%
<i>CPG (Bangkok, Thailand)</i>	2%	1%	2%	2%	4%
<i>IC (Ayutthaya, Thailand)</i>	21%	14%	34%	36%	36%
<i>IC (Jiaxing, China)</i>	6%	7%	6%	5%	5%
<i>HMT (Ohio, USA)</i>	1%	2%	1%	2%	2%
	100%	100%	100%	100%	100%

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

The Gross Profit margin was 9% in Q112 down 5% from 14% in Q111 due to higher material costs 3% and labour costs 1% and the flood impacting the IC division in Ayutthaya on factory overheads 1%.

Operating Profit Analysis

Year-on-year operating profits were 35% lower in Q112 and operating margins were 4% lower at 6% in Q112 from 10% in Q111 due to the lower Gross Profit margin and increased SG&A expense. SG&A expenses were 3% higher in Q112 than Q111 and were 38% lower in Q112 than Q411, due to higher expenses from the retirement benefit actuarial adjustment in Q411.

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 Q112 was Baht/USD 30.69 from 30.56 in Q111 (and Baht/USD 31.02 in Q411).

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 30.84 at 31/03/12, and 30.30 at 31/03/11 (31.69 at 31/12/11) or the respective rate applicable to each offshore subsidiary's base currency.

Payout Analysis

No dividends were paid out in Q112.

Financial Status

The group currently has no interest bearing debt. Cash (and financial investments) reserves at the 31st March, 2012 were THB 5.9 billion up from 31st March, 2011 of THB 5.6 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 66 days in Q112 and 55 days in Q111.

Accounts receivable - other companies	<u>31-Mar-12</u>	<u>31-Mar-11</u>	'000
Less than 3 months	2,778,426	2,312,012	
3 - 6 months	23,726	19,371	
6 - 12 months	11,935	1,578	
More than 12 months	2,098	1,364	
Total accounts receivable - other companies	2,816,185	2,334,325	
Less : Allowance for doubtful accounts	(5,104)	(4,269)	
	<u>2,811,081</u>	<u>2,330,056</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 31st March, 2012 and 70 days as at 31st March, 2011.

Liquidity

Liquidity ratios are high at approximately 4 times current liabilities. Operating Cashflow (EBITDA) in Q1 2012 was THB 535m which was 20% lower than Q1 2011 was THB 670m.

Capital Expenditure

Capital Expenditure was THB 510m in Q1 2012 and THB 227m in Q1 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's 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's 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 effect 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.

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.

Subsequent Event

The first and final dividend from the profits of 2011 was declared at 1 baht per share and to be paid to the shareholders on 14th May 2012.

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Quarter		Quarter		%	
	<u>31-Mar-12</u>		<u>31-Mar-11</u>		<u>Q112-Q111</u>	<u>Q112-Q111</u>
REVENUES						
Sales	3,987,617		3,819,467		168,150	4%
consisting of:						
<i>PCBA (Lamphun, Thailand)</i>	1,853,429	46%	1,331,898	35%	521,531	39%
<i>PCBA (Jiaxing, China)</i>	950,043	24%	750,578	20%	199,465	27%
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<i>IC (Jiaxing, China)</i>	244,422	6%	202,085	5%	42,337	21%
<i>HMT (Ohio, USA)</i>	37,320	1%	63,031	2%	(25,711)	-41%
	<u>3,987,617</u>	100%	<u>3,819,467</u>	100%	<u>168,150</u>	4%
Share of Assoc. company Profit	-		-		-	
Interest	43,235		36,721		6,514	18%
Other Income - Operating	114,030		67,684		46,346	68%
Other Income - Non Operating	1,378		4,704		(3,326)	
TOTAL REVENUES	<u>4,146,260</u>		<u>3,928,576</u>		<u>217,684</u>	6%
EXPENSES						
Cost of Sales	3,640,796	91%	3,303,235	86%	337,561	10%
Selling & Admin. Expenses	216,155	5%	209,918	5%	6,237	3%
Interest Expenses	1,789		1,838		(49)	
TOTAL EXPENSES	<u>3,858,740</u>	97%	<u>3,514,991</u>	92%	<u>343,749</u>	10%
EARNINGS from Operation	<u>287,520</u>	0.069	<u>413,585</u>	0.105	<u>(126,065)</u>	-30%
Exchange Gain (Loss)	89,620		50,486		39,134	
Share of Assoc. company Loss	-		-		-	
EARNINGS before Income Tax	<u>377,140</u>	9%	<u>464,071</u>	12%	<u>(86,931)</u>	-19%
Corporate Income Tax	(17,843)	5%	(6,825)	1%	(11,018)	161%
Earnings before Exceptional Items	<u>359,297</u>		<u>457,246</u>		<u>(97,949)</u>	-21%
Exceptional Items	(84,216)		-		(84,216)	
NET EARNINGS for the Period	<u>275,081</u>	7%	<u>457,246</u>	12%	<u>(182,165)</u>	-40%
EARNINGS % of SALES	7%		12%		-5%	
Average number of shares (1 Baht par)	804,879		804,879		-	
EARNINGS per SHARE (baht) before exch. .	0.34		0.51	-	0.17	
EARNINGS per SHARE (baht) after exceptio	0.34		0.57	-	0.23	
Operating Profit (EBIT)	244,696		373,998		(129,302)	
	6%		10%			
Depreciation	290,828		295,811		(4,983)	
EBITDA (excl exchange gain/loss)	535,524		669,809		(134,285)	
EBITDA % of Sales Revenue	13%		18%			
Cashflow Earnings per Share	0.67		0.83	-	0.17	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht

	Quarter <u>31-Mar-12</u>	Quarter <u>31-Mar-11</u>	<u>Q112-Q111</u>
ASSETS			
CURRENT ASSETS			
Cash in Hand & at Banks	3,905,562	3,498,489	407,073
Financial Investments	1,954,024	2,051,137	(97,113)
Accounts Receivable - trade	2,926,850	2,330,056	596,794
Amounts due from Related Companies	-	-	
Inventories	2,499,373	2,582,513	(83,140)
Other Current Assets	142,412	226,183	(83,771)
TOTAL CURRENT ASSETS	<u>11,428,221</u>	<u>10,688,378</u>	<u>739,843</u>
LOAN TO OTHER COMPANY	97	97	
FIXED ASSETS (net)	6,541,648	6,483,406	58,242
OTHER ASSETS	35,018	18,868	16,150
TOTAL ASSETS	<u>18,004,984</u>	<u>17,190,749</u>	<u>814,235</u>
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdrafts & Loans	54,949	-	54,949
Accounts & Notes Payable	2,418,453	1,610,062	808,391
Corporate Income Tax Payable	30,226	30,899	(673)
Accrued Expenses	369,508	350,542	18,966
Other Current Liabilities	72,752	611,384	(538,632)
TOTAL CURRENT LIABILITIES	<u>2,945,888</u>	<u>2,602,887</u>	<u>343,001</u>
LONG TERM LIABILITIES	365,384	280,231	85,153
TOTAL LIABILITIES	<u>3,311,272</u>	<u>2,883,118</u>	<u>428,154</u>
SHAREHOLDERS EQUITY			
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	12,051,472	12,132,801	(81,329)
Translation adj. & Investment revaluation	(238,355)	(436,095)	197,740
Unrealised gain(loss) on change in investments	-	-	
Excess Cost over Net Book Value of Subsidiary Investments	-	-	
TOTAL SHAREHOLDERS EQUITY	<u>14,693,712</u>	<u>14,307,631</u>	<u>386,081</u>
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	<u>18,004,984</u>	<u>17,190,749</u>	<u>814,235</u>
	-	(0)	
Cash & Equivalents	5,859,586	5,549,626	309,960
Liabilities	3,311,272	2,883,118	428,154
Debt/Equity	0.23	0.20	0.02
Net Debt (Net cash)	-2,548,314	-2,666,508	118,194
Net Debt/Equity	-0.17	-0.19	0.01

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	Quarter <u>31-Mar-12</u>	Quarter <u>31-Mar-11</u>
<u>Cashflow from Operating Activities</u>		
Net Earnings before tax	292,924	464,071
Adjustments to reconcile net earnings to net cash provided by operating activities		
Non Cash items		
Depreciation	291,629	297,209
Unrealised (gain) Loss on exchange	(16,025)	(657)
Increase (Decrease) in allowance for doubtful debts	(6,085)	1,029
Increase (Decrease) in allowance for obsolete inventories	30,249	59,756
Change in other provisions	(29,049)	(4,787)
	<u>270,719</u>	<u>352,550</u>
Working Capital (increase) decrease		
Trade accounts receivable	(331,982)	94,370
Inventories	116,957	(87,261)
Trade accounts payable	(153,930)	(85,446)
Other	348,527	45,386
	<u>(20,428)</u>	<u>(32,951)</u>
Net Cashflow from Operating Activities	<u>543,215</u>	<u>783,670</u>
Cashflow from Investing Activities		
(Increase) decrease in short term investment	115,362	(6,267)
Increase in property, plant and equipment	(433,590)	(352,984)
Proceeds from sale of fixed assets	46,774	8,476
Increase (decrease) in translation adjustment	(193,267)	46,172
Revaluation deficit on investments	(13,120)	44,878
Other		
	<u>(477,841)</u>	<u>(259,725)</u>
Cashflow from Financing Activities		
Cash received from increase in share capital	(87)	-
Dividend paid	-	-
Other	16,128	-
Net cash (used in) from financing activities	<u>16,041</u>	<u>-</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	81,415	523,945
Cash and Equivalents at the beginning of the period	<u>3,824,147</u>	<u>2,974,544</u>
Cash and Equivalents at the end of the period	3,905,562	3,498,489

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Quarter <u>31-Mar-12</u>	Quarter <u>31-Mar-11</u>	<u>Q112-Q111</u>
Profitability Ratios			
Gross Profit Margin (%)	9%	14%	-5%
Operating Profit Margin (%)	6%	10%	-4%
Net Profit before Exceptional Margin (%)	9%	12%	-3%
Net Profit after Exceptional Margin (%)	7%	12%	-5%
EBITDA margin (%)	13%	18%	-4%
Return On Equity (%) pa	7%	13%	-5%
Efficiency Ratios			
Working Capital turnover	5.1	4.9	0.1
Account Receivable days	66	55	11.2
Inventory days	62	70	- 8.6
Accounts Payable days	60	44	15.9
Liquidity Ratios			
Current Ratio	3.9	4.1	- 0.2
Quick Ratio	3.0	3.0	- 0.0
Financial Capital Ratios			
Debt / Equity	0.2	0.2	0.0
Net Debt to Equity	-0.2	-0.2	0.0
Interest Coverage	n/a	n/a	