

Darfon Electronics Corp.

1Q 2011 Investor Conference

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www.darfon.com.tw

Investor@darfon.com.tw



Agenda

- **1Q 2011 Financial Highlights**
- **Business Outlook**
- **Q&A**



Safe Harbor Notice

We have made forward-looking statements in the presentation. Our forward-looking statements contain information regarding, among other things, our financial conditions, future expansion plans and business strategies. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties, and assumptions about us.

We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events in the conference might not occur and our actual results could differ materially from those anticipated in these forward-looking statements.

1Q 2011 Financial Highlights



Consolidated Income Statement Highlights

Unit: NT\$ million except per share data

| | 1Q'11 | | 4Q'10 | | QoQ % | 1Q'10 | | YoY % |
|--------------------------------------|-------|--------|-------|--------|--------|-------|--------|--------|
| Net sales | 6,124 | 100.0% | 6,710 | 100.0% | -8.7% | 7,160 | 100.0% | -14.5% |
| Gross profit | 606 | 9.9% | 708 | 10.6% | -14.4% | 912 | 12.7% | -33.5% |
| Operating expenses | (581) | -9.5% | (669) | -10.0% | -13.1% | (623) | -8.7% | -6.6% |
| Operating income | 25 | 0.4% | 39 | 0.6% | -36.0% | 290 | 4.0% | -91.3% |
| Net non-operating items | (1) | 0.0% | (26) | -0.4% | -97.5% | (13) | -0.2% | -94.9% |
| Earning before income tax (EBT) | 25 | 0.4% | 14 | 0.2% | 78.8% | 277 | 3.9% | -91.2% |
| Net income | 20 | 0.3% | 10 | 0.2% | 101.5% | 222 | 3.1% | -90.9% |
| Attributable to: | | | | | | | | |
| Equity holders of the parent company | 21 | | 11 | | | 222 | | |
| Basic EPS (NT\$)(a) | 0.07 | | 0.03 | | | 0.67 | | |
| ROE | 0.9% | | 0.4% | | | 9.2% | | |

(a) Basic EPS was calculated based on the weighted average outstanding shares of each year
(318.902m shares in 2011 and 332.758m shares in 2010)

- Revenue declined due to seasonality and CPU launch delayed
- Gross margin decrease resulted from revenue scale down
- Operating expense controlled and FX risk well hedged



Consolidated Balance Sheet Highlights

Selected Items from Balance Sheets

Unit : NT\$ million except per share data

| | 1Q'11 | | 4Q'10 | | 1Q'10 | |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash & marketable securities | 1,734 | 8.6% | 1,611 | 7.9% | 1,318 | 6.1% |
| Accounts receivable | 5,460 | 27.2% | 5,667 | 27.8% | 6,841 | 31.6% |
| Inventory | 3,232 | 16.1% | 3,280 | 16.1% | 3,221 | 14.9% |
| Current assets | 11,219 | 55.8% | 11,340 | 55.5% | 12,189 | 56.3% |
| Net PP&E | 8,242 | 41.0% | 8,361 | 41.0% | 8,834 | 40.8% |
| Total assets | 20,097 | 100.0% | 20,418 | 100.0% | 21,652 | 100.0% |
| Short-term bank loans | 2,277 | 11.3% | 2,056 | 10.1% | 2,000 | 9.2% |
| Accounts payable | 6,387 | 31.8% | 6,495 | 31.8% | 7,027 | 32.5% |
| Current liabilities | 10,397 | 51.7% | 10,682 | 52.3% | 11,058 | 51.1% |
| Long-term interest-bearing debt | 668 | 3.3% | 832 | 4.1% | 800 | 3.7% |
| Total liabilities | 11,139 | 55.4% | 11,550 | 56.6% | 11,882 | 54.9% |
| Total stockholders' equities | 8,957 | 44.6% | 8,869 | 43.4% | 9,770 | 45.1% |
| BVPS(NT\$) | 28.1 | | 27.8 | | 30.8 | |
| Net Debt (Cash) | 1,212 | | 1,276 | | 1,481 | |

● Well management in account receivable and inventory



Consolidated Cash Flow Highlights

Unit : NT\$ million

| | 1Q'11 | 4Q'10 | Change |
|----------------------------------|-------------|------------|--------------|
| From operating activities | 206 | 540 | (334) |
| Net income | 20 | 10 | 10 |
| Depreciation & amortization | 297 | 308 | (11) |
| Net change in working capital | 157 | -18 | 175 |
| From investing activities | (157) | (599) | 442 |
| Capital expenditure | (274) | (321) | 47 |
| From financing activities | 53 | 707 | (654) |
| Net change in debt | 53 | 1,312 | (1,258) |
| Treasury stock | 0 | (605) | 605 |
| Net change in cash | 79 | 590 | (510) |
| Free cash flow | (68) | 219 | (287) |

Note: Free cash flow = Cash flow from operating activities - Capital expenditure

● **Healthy operating cash inflow**



Key Ratio Highlights

| | 1Q'11 | 4Q'10 | QoQ | 1Q'10 | YoY |
|---------------------------|-------|-------|------------|-------|------------|
| Debt ratio | 55% | 57% | (1.1) bps | 55% | 0.6 bps |
| *Debt ratio | 51% | 53% | (1.6) bps | 52% | (0.7) bps |
| Net debt (Cash) to equity | 14% | 14% | (0.9) bps | 15% | (1.6) bps |
| Current ratio | 107.9 | 106.2 | 1.8 bps | 110.2 | (2.3) bps |
| Cash conversion cycle | 29 | 30 | (1.0) days | 30 | (1.0) days |

- Debt ratio is well managed
- CCC is kept in healthy level

Business Outlook



Q&A

Thank You!



DARFON ELECTRONICS CORP.
Unaudited Consolidated Balance Sheets
March 31, 2011 and 2010
(expressed in thousands of New Taiwan dollars)

| Assets | 2011.03.31 | | 2010.03.31 | | Liabilities and Stockholders' Equity | 2011.03.31 | | 2010.03.31 | |
|---|---------------------|------------|---------------------|------------|--|---------------------|------------|---------------------|------------|
| | NTD | % | NTD | % | | NTD | % | NTD | % |
| Current assets: | | | | | Current liabilities: | | | | |
| Cash and cash equivalents | \$1,568,236 | 8 | \$1,121,147 | 7 | Short-term borrowings | \$2,204,852 | 11 | \$1,999,519 | 9 |
| Financial assets at fair value through profit or loss – current | 165,405 | 1 | 196,979 | 1 | Notes and accounts payable | 6,356,554 | 32 | 6,995,982 | 33 |
| Accounts receivable, net | 5,422,119 | 27 | 6,563,702 | 29 | Payables to related parties | 30,930 | - | 31,328 | - |
| Receivables from related parties, net | 38,353 | - | 276,989 | 1 | Accrued expenses and other current liabilities | 1,720,750 | 9 | 2,011,942 | 9 |
| Other receivables from related parties, net | - | - | 173 | - | Financial liabilities at fair value through profit or loss | - | - | - | - |
| Other financial assets – current | 135,522 | 1 | 451,464 | 2 | Other payables to related parties | 11,574 | - | 18,896 | - |
| Inventories, net | 3,231,980 | 16 | 3,220,730 | 15 | Long-term debt due within one year | 72,000 | - | - | - |
| Prepaid expenses and other current assets | 602,710 | 3 | 307,656 | 1 | Total current liabilities | 10,396,660 | 52 | 11,057,667 | 51 |
| Deferred tax assets – current | 54,894 | - | 50,347 | - | | | | | |
| Total current assets | 11,219,219 | 56 | 12,189,187 | 56 | Long-term debt | 668,400 | 3 | 800,000 | 4 |
| Long-term investments at cost | 103,457 | 1 | 76,000 | - | Other liabilities | 74,407 | - | 24,466 | - |
| Property, plant and equipment: | | | | | Total liabilities | 11,139,467 | 55 | 11,882,133 | 55 |
| Land | 445,526 | 2 | 445,005 | 2 | | | | | |
| Buildings | 5,715,567 | 28 | 5,646,177 | 26 | Stockholders' equity | 3,189,020 | 16 | 3,167,558 | 15 |
| Machinery and equipment | 6,859,183 | 34 | 7,206,605 | 33 | Common stock | 4,471,758 | 22 | 4,644,362 | 22 |
| Molding equipment | 12,977 | - | 159,862 | 1 | Capital surplus | 507,692 | 3 | 421,074 | 1 |
| Furniture and fixtures | 538,816 | 3 | 486,746 | 2 | Legal reserve | 1,001,186 | 5 | 1,445,164 | 7 |
| Miscellaneous equipment | 411,775 | 2 | 378,474 | 2 | Retained earnings | -252,755 | -1 | 42,438 | - |
| Prepayments for plant and equipment | 161,084 | 1 | 78,081 | - | Translation adjustment | -6,269 | - | - | - |
| | 14,144,928 | 70 | 14,400,950 | 66 | Treasury stock | 8,910,632 | 45 | 9,720,596 | 45 |
| Less: accumulated impairment | -95,501 | - | -89,685 | - | Minority interest | 46,671 | - | 49,323 | - |
| accumulated depreciation | -5,807,320 | -29 | -5,477,391 | -25 | Total stockholders' equity | 8,957,303 | 45 | 9,769,919 | 45 |
| Net property, plant and equipment | 8,242,107 | 41 | 8,833,874 | 41 | | | | | |
| Intangible assets | 128,720 | - | 112,123 | 1 | Total liabilities and stockholders' equity | \$20,096,770 | 100 | \$21,652,052 | 100 |
| Other assets: | | | | | | | | | |
| Idle assets | 121,201 | 1 | 198,545 | 1 | | | | | |
| Refundable deposits | 5,529 | - | 66,331 | - | | | | | |
| Deferred expenses and tax assets | 276,537 | 1 | 175,992 | 1 | | | | | |
| Total other assets | 403,267 | 2 | 440,868 | 2 | | | | | |
| Total assets | \$20,096,770 | 100 | \$21,652,052 | 100 | | | | | |



DARFON ELECTRONICS CORP.
Unaudited Consolidated Income Statements
For the Three Month Ended March 31, 2011 and 2010
(expressed in thousands of New Taiwan dollars)

| | 2011 | | 2010 | |
|--|--------------|------|------------|------|
| | NTD | % | NTD | % |
| Sales | \$ 6,123,921 | 100 | 7,160,104 | 100 |
| Cost of goods sold | -5,517,590 | - 90 | -6,247,708 | - 87 |
| Gross profit | 606,331 | 10 | 912,396 | 13 |
| Operating expenses | | | | |
| Selling | -239,854 | - 4 | -280,379 | - 4 |
| Administrative | -144,116 | - 2 | -148,527 | - 2 |
| Research and development | -197,200 | - 3 | -193,624 | - 3 |
| | -581,170 | - 9 | -622,530 | - 9 |
| Operating income | 25,161 | 1 | 289,866 | 4 |
| Non-operating income, net | -644 | - | -12,685 | - |
| Net income before income tax | 24,517 | 1 | 277,181 | 4 |
| Income tax expense | -4,207 | - | -55,136 | - 1 |
| Net income | \$ 20,310 | 1 | 222,045 | 3 |
| Attribute to: | | | | |
| Shareholders of the parent | 20,890 | 1 | 222,478 | 3 |
| Minority | -580 | - | -433 | - |
| | \$ 20,310 | 1 | 222,045 | 3 |
| Earnings per share(expressed in New Taiwan dollars) | \$ 0.07 | | 0.67 | |



DARFON ELECTRONICS CORP.
Unaudited Consolidated Statements of Cash Flows
For the Three Month Ended March 31, 2011 and 2010
(expressed in thousands of New Taiwan dollars)

| | <u>2011</u> | <u>2010</u> |
|---|----------------------------|-------------------------|
| Cash flows from operating activities: | | |
| Net income | \$ 20,310 | 222,045 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 264,323 | 288,455 |
| Amortization | 32,601 | 26,658 |
| Loss from disposal of property, plant and equipment | 2,495 | - |
| Unrealized exchange rate loss on long-term debts | 4,320 | - |
| Loss(Gain) on evaluation of financial assets | - 4,723 | 8,359 |
| Deferred income tax expense (Gain) | 12,718 | - 7,023 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 209,981 | 653,005 |
| Receivables from related parties | 169 | 10,204 |
| Other receivables from related parties | 184 | 795 |
| Inventories | 53,943 | - 123,531 |
| Prepaid expenses and other current assets | - 72,760 | 149,293 |
| Other financial assets | - 49,961 | - 15,268 |
| Notes and accounts payable | - 97,668 | - 481,552 |
| Payables to related parties | - 9,470 | 3,321 |
| Accrued expenses and other current liabilities | - 193,599 | - 158,916 |
| Other payables to related parties | - 5,566 | 8,265 |
| Other loss and liability | 38,558 | - 13,587 |
| Net cash provided by operating activities | <u>205,855</u> | <u>570,523</u> |
| Cash flows from investing activities: | | |
| Increase in financial assets at fair value through profit or loss | - 42,915 | 363,098 |
| Acquisition of long-term investments at cost | - | - 70,000 |
| Acquisition of subsidiary | - 30,373 | - |
| Acquisition of property, plant and equipment | - 273,595 | - 258,954 |
| Proceeds from disposal of property, plant and equipment | 69,757 | - |
| Decrease(Increase) in restricted deposit | 149,836 | - 157,911 |
| Decrease(Increase) in refundable deposit | 15,350 | 349 |
| Acquisition of intangible assets and deferred expense | - 79,796 | - 34,984 |
| Machinery and equipment receivable from related parties | 34,613 | - |
| Acquisition shares from minority interest shareholders of subsidiary | - | - |
| Net cash used in investing activities | <u>- 157,123</u> | <u>- 158,402</u> |
| Cash flows from financing activities: | | |
| Increase(Decrease) in short-term borrowings | 203,341 | - 529,278 |
| Increase in Long-term debt | - | - |
| Decrease in Long-term debt | - 150,000 | - |
| Cash dividends paid for common stock | - | - |
| Treasury stock buy back | - | - |
| Net cash used in financing activities | <u>53,341</u> | <u>- 529,278</u> |
| Effect of exchange rate change on cash | <u>- 22,893</u> | <u>6,898</u> |
| Net increase in cash and cash equivalents | <u>79,180</u> | <u>- 110,259</u> |
| Cash and cash equivalents at beginning of period | 1,489,056 | 1,231,406 |
| Cash and cash equivalents at end of period | <u>\$ 1,568,236</u> | <u>1,121,147</u> |