

Management's Discussion and Analysis

Year 2008

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue decreased 3% year on year, to THB 15.1 billion in year 2008 from THB 15.6 billion in 2007. Sales Revenue in USD terms were similar at USD 452m in 2008 and 2007. Operating Profits decreased 4% to THB 1,847.5m Baht in 2008 from THB 1,927.4m in 2007. Operating profits decreased 1% in USD terms to USD 55.3m in 2008 from USD 55.8m in 2007.

Whilst 2008 sales revenues overall were flat in USD terms compared to 2007, the year 2008 had distinct and contrasting changes in business trends during the year. USD sales increased year on year in the first half of 2008 by 9%, were flat year on year in Q308 and declined sharply in Q408 by 16%. The sales trend reflected strong continuing growth in emerging markets supporting the global demand for electronics in 2008 until the credit crunch delivered a sudden shock to global demand across the board but particularly impacting the IC and CPG divisions.

The drop in demand experienced in Q4/08 has continued and worsened in Q1/09 and we anticipate it to continue into Q2/09. As a result we anticipate the possibility of an operating loss for the first half of the 2009. We have undertaken appropriate measures in headcount reduction (approximately 12%), short working week, payroll cuts for management and cancellation of certain bonus schemes. These will be reviewed in light of the on going economic situation.

Past Performance Analysis

Revenue Analysis

In 2008 IC assembly sales contracted 1% in USD terms [-4% in THB terms]. Sales grew each quarter through the year until Q408 which saw a sharp 20% contraction. Over 2008 sales of the IC division in AYT sales declined 3% and increased 14% for the IC division in JXG (despite a 25% drop in Q408).

The Microelectronics divisions' sales revenues grew 1% [-1% THB] for the 2008 over 2007. The first 3 quarters saw a 7% increase and a drop of 13% for Q408. The microelectronics operation in Lamphun grew 1% and JXG by 3% for 2008. CPG sales fell 7% [-11% THB] in 2008 more than other divisions due to the higher exposure to the motor vehicle industry.

Hana Microdisplay Technologies "HMT", sales increased 8% for the year with the LCOS (Liquid Crystal on Silicon) segment seeing increased demand from the telecommunications market.

The annual sales split was:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
PCBA (Thailand)	37%	37%	31%
PCBA (China)	18%	17%	18%
CPG - (Bangkok)	11%	12%	13%
IC (AYT)	29%	30%	34%
IC (JXG)	4%	4%	3%
HMT (USA)	1%	1%	1%
	<hr/> 100%	<hr/> 100%	<hr/> 100%

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

The Gross Profit margin increased slightly by 1% in 2008, as gross profit in 2007 suffered from inventory valuation adjustments of THB 100m due to the strengthening the THB/USD exchange rate from the end of 2006.

SGA expenses were 6% of sales for 2008 and 2007 increasing from 5% in 2006. In absolute terms Sales and Administration expenses increased by 8% mainly due to THB 60m payment of a paid in retirement/redundancy costs in Q4 2008.

Operating Profit Analysis

The operating margin remained at 12% for 2008 as both the gross margin and SGA expenses did not change materially for the year. The operating margin in 2007 fell to 12% from 15% in 2006 due to the strengthening Baht and higher material costs. In absolute terms Sales and Administration costs increased by 8% in 2008 and 2007. However due to business growth the SGA margin remained at approximately 6% of sales revenues during the 2008 and 2007 up from 5% in 2006.

Similarly, Net Profit margin before exceptional items remained at 13% in 2008 and 2007 and 15% for

2006. Income taxation remained similar at 5-6% of Net Profit before tax for the three years.

EBITDA margin was quite stable over the three years, rising slightly by 1% to 19% in 2008 and fell 1% to 18% in 2007 from 19% in 2006.

Payout Analysis

The company paid dividends per share of THB 1.40 (THB 0.50 - Dec 05 and THB 0.90 in May 06) in 2006 from the profits of 2005 and THB 1.50 (THB 0.50 - Dec 06 and THB 1.00 in May 07) in 2007 from the profits of 2006 and THB 1.30 in 2008 from the profits of 2007 being 56%, 56% and 51% dividend payout of net profits before exceptional items respectively.

The final dividends are normally announced in the board meeting in March of the following year for approval in the annual general meeting in April paid out in May. An interim dividend of THB was paid in each of December 2006 of THB 0.50. An interim dividend was not paid in 2007 and 2008 due to insufficient free cashflow from the Thailand based operations due to the capital expenditure, working capital increase and the THB 160m additional performance bonus paid to staff in lieu of share option benefit received in prior years.

Financial Status

The group currently has no interest bearing debt. Cash (and equivalents) reserves at the 31st December 2008 were THB 4.7 billion, 2007 THB 3.4 billion and THB 2.1 billion in 2006.

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.

	<u>2006</u>	<u>2007</u>	<u>2008</u>	
Accounts receivable - other companies				
Less than 3 months	2,326,045,511	2,429,799,945	1,514,770,710	98%
3 - 6 months	122,578,174	20,921,189	30,274,195	2%
6 - 12 months	7,720,124	5,295,242	7,013,470	0%
More than 12 months	3,272,227	1,131,943	1,266,278	0%
Total accounts receivable - other companies	2,459,616,036	2,457,148,319	1,553,324,653	
Less : Allowance for doubtful accounts	-2,266,567	-7,608,389	-13,052,440	-1%
	<u>2,457,349,469</u>	<u>2,449,539,930</u>	<u>1,540,272,213</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 59 days in 2008, 61 days in 2007 and 53 days in 2006.

Liquidity

The group has THB 4.7 billion in cash and no interest bearing debt liquidity ratios are high at approximately 3 times current liabilities. Operating Cashflow continued to be strong in in 2008 with EBITDA at THB 2.8 billion which was similar to 2007 but THB 0.1 billion lower than 2006.

Cash reserves in 2008 increased by THB 1.3 billion due to THB 0.5 billion reduction in working capital utilised in 2008 and the net operating cashflow of THB 0.8 billion. The cash increase in 2007 was due to the sale of AIT for THB 0.5 billion (USD 15.5m) less capital expenditure higher than depreciation THB 0.4 billion, lower working capital 0.1 billion and a dividend payout of THB 0.9 billion in 2007.

Capital Expenditure

Net Capital Expenditure was THB 1,730m in 2006, THB 1,278m in 2007 and THB 1,049m in 2008.

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 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 66% 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. $(1 - 0.66) \times \text{Sales Revenue} \times 10\%$).

The Group's Thai companies balance sheet exposure is a net asset of approximately USD 65m, being the foreign currency working capital balance. 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.

The THB/USD currency movements reflected the economic trends in emerging markets and commodities during period. Whilst the average rate for 2008 THB/USD 33.4 was 3% stronger than THB/USD 34.6 average rate for 2007 there was considerable movement in the THB/USD rate over the two years. 2007 began with the THB/USD rate near 35.5 and strengthened consistently to end 2007 at close to THB/USD 30 a 15% strengthening in 2007. Conversely, in 2008 the trend completely reversed to end the year at close to THB 35. For Hana being an export group of companies the currency movements cause volatility in earnings due to effects on the operating margins and also inventory valuations (which the management report each quarter when there is a material effect on the profits) and margins.

Exceptional Items

None in 2008. The company sold 100% of its 23.4% ownership in AIT in July 2007 to Unisem. The sales and purchase transaction is completed and the Company's subsidiary received approximately USD 14.9 million in Q3 2007. A further distribution of approximately USD 0.7 million was received after all expenses of the transaction are finalized.

THB 150m was provided in Q307 as a contingency due to an income tax claim by the revenue department. This amount was previously mentioned as a note to the accounts. The company is in the appeal process.

Future Plan

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year 2006		Year 2007		Year 2008		2008-2007	% 2008/2007
REVENUES								
Sales	15,005,012		15,635,568		15,105,712		-529,856	-3%
consisting of:								
<i>PCBA (Thailand)</i>	4,655,981	31%	5,713,007	37%	5,659,157	37%	-53,850	-1%
<i>PCBA (China)</i>	2,661,921	18%	2,695,064	17%	2,648,854	18%	-46,210	-2%
<i>CPG - LED/Opto</i>	1,939,422	13%	1,831,069	12%	1,626,385	11%	-204,684	-11%
<i>IC (AYT)</i>	5,100,880	34%	4,702,036	30%	4,408,441	29%	-293,595	-6%
<i>IC (JXG)</i>	472,671	3%	578,537	4%	637,802	4%	59,265	10%
<i>HMT (USA)</i>	174,137	1%	115,855	1%	125,073	1%	9,218	8%
	15,005,012	100%	15,635,568	100%	15,105,712	100%	-529,856	-3%
Other Income - Operating	168,102		231,570		224,120		44,460	25%
TOTAL REVENUES	15,173,114		15,867,138		15,329,832		-485,396	-3%
EXPENSES								
Cost of Sales	12,169,352	81%	13,076,196	84%	12,544,343	83%	-531,853	-4%
Selling & Admin. Expenses	799,539	5%	863,574	6%	929,622	6%	66,048	8%
Interest Expenses			2,214		6,077		3,863	
TOTAL EXPENSES	12,968,890	86%	13,941,983	89%	13,480,042	89%	-461,942	-3%
EARNINGS from Operation	2,204,224	15%	1,925,155	12%	1,849,790	12%	-23,454	-1%
Other Income - Non Operating	7,704		4,901		30,527		25,625	
Exchange Gain (Loss)	100,134		179,659		75,924		-103,735	
Interest	56,748		49,596		76,705		27,109	55%
EARNINGS before Income Tax	2,368,809	16%	2,159,312	14%	2,032,946	13%	-74,455	-3%
Corporate Income Tax	-147,219	6%	-102,741	5%	-123,396	6%	-20,655	20%
Earnings before Exceptional Items	2,221,590	15%	2,056,571	13%	1,909,550	13%	-95,110	-5%
Exceptional Items	-5,393		392,590		0		-392,590	
NET EARNINGS for the Period	2,216,197	15%	2,449,161	15%	1,909,550	12%	-487,700	-20%
EARNINGS % of SALES	15%		16%		13%		-3%	
Average number of shares (1 Baht par))	817,022		830,009		830,133		125	
EARNINGS per SHARE (baht) before exch. & excepti	2.60		2.26		2.21		-0.05	
EARNINGS per SHARE (baht) after exceptionals	2.71		2.95		2.30		-0.65	
Operating Profit (EBIT)	2,204,224		1,875,457		1,855,866		-19,591	-1%
Depreciation	718,764		849,480		961,806		112,326	13%
EBITDA (excl exchange gain/loss)	2,922,987		2,776,849		2,817,673		40,824	1%
EBITDA % of Sales Revenue	19%		18%		19%			
Cashflow Earnings per Share-diluted	3.58		3.35		3.39		0.05	
Dividend from prior years profits	1,144,908		1,239,454		1,079,353		-	160,101

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Year 2006	Year 2007	Year 2008	2008-2007	% 2008/2007
ASSETS					
CURRENT ASSETS					
Cash in Hand & at Banks	2,117,760	3,386,431	4,316,298	929,867	27%
Deposits at Finance Companies & Notes Receivable	0	0	362,624	362,624	
Accounts Receivable - trade	2,457,349	2,449,540	1,540,272	-909,268	-37%
Inventories	2,428,338	2,205,351	2,060,582	-144,769	-7%
Other Current Assets	177,025	162,562	136,715	-25,847	-16%
TOTAL CURRENT ASSETS	7,180,473	8,203,885	8,416,492	212,606	3%
LOAN TO RELATED COMPANY	0	0	0		
INVESTMENTS IN ASSOCIATED COMPANY	0	0	0		
FIXED ASSETS (net)	5,143,007	5,566,939	5,875,209	308,270	6%
OTHER ASSETS	23,278	2,628	19,911	17,283	
TOTAL ASSETS	12,346,757	13,773,452	14,311,611	538,159	4%
LIABILITIES					
CURRENT LIABILITIES					
Bank Overdrafts & Loans			0		
Accounts & Notes Payable	1,910,165	1,810,705	1,228,579	-582,125	-32%
Corporate Income Tax Payable	125,179	223,912	220,569	-3,343	-1%
Accrued Expenses	122,424	126,459	156,441	29,981	24%
Other Current Liabilities	317,351	321,527	308,544	-12,984	-4%
TOTAL CURRENT LIABILITIES	2,475,119	2,482,603	1,914,133	-568,470	-23%
TOTAL LIABILITIES	2,475,119	2,482,603	1,914,133	-568,470	-23%
SHAREHOLDERS EQUITY					
Share Capital	825,218	830,406	830,475	69	0%
Share subscription received in advance	5,729	0	0		
Share Premium	1,686,021	1,722,078	1,723,219	1,141	0%
Retained Earnings	0	0	0		
Appropriated Statutory Reserve	320,100	322,301	322,420	118	0%
Unappropriated	6,981,677	8,601,512	9,390,554	789,042	9%
Translation adj. & Investment revaluation	211,618	-26,723	285,786	312,509	-1169%
Excess Cost over Net Book Value of Subsidiary Investment	-158,726	-158,726	-154,976	3,750	
TOTAL SHAREHOLDERS EQUITY	9,871,638	11,290,848	12,397,478	1,106,630	10%
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	12,346,757	13,773,452	14,311,611	538,159	4%
	0	0	0		
Cash and short term investments (K USD equivalent)	54,149	82,435	119,598	37,163	
Year ending THB/USD exchange rate	39.11	41.08	36.09		
	0	0	0		
Cash & Equivalents	2,117,760	3,386,431	4,678,922	1,292,491	
Liabilities	2,475,119	2,482,603	1,914,133	-568,470	
Debt/Equity	0.25	0.22	0.15	-0	
Net Debt (Net cash) [Cash - Total Liabilities]	357,359	-903,828	-2,764,789	-1,860,961	
Net Debt/Equity	0.04	-0.08	-0.22	-0	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Year 2006</u>	<u>Year 2007</u>	<u>Year 2008</u>	<u>2008-2007</u>
Cashflow from Operating Activities				
Net Earnings	2,216,197	2,551,902	2,032,946	-518,956
Adjustments to reconcile net earnings to net cash provided by operating activities				
Non Cash items				
Depreciation	718,764	847,582	961,806	114,224
Unrealised (gain) Loss on exchange	-	8,312	17,556	-9,244
Change in other provisions	105,287	159,910	110,413	-49,497
	<u>779,283</u>	<u>999,180</u>	<u>1,054,664</u>	<u>55,483</u>
Working Capital (increase) decrease				
Trade accounts receivable	-	9,326	897,624	888,298
Inventories	-	269,915	57,603	-212,312
Trade accounts payable	243,138	-	439,333	-226,325
Other	38,261	-	57,738	234,299
	<u>- 1,042,467</u>	<u>- 225,805</u>	<u>458,156</u>	<u>683,960</u>
Net Cashflow from Operating Activities	<u>1,953,013</u>	<u>3,325,278</u>	<u>3,545,765</u>	<u>220,488</u>
Cashflow from Investing Activities				
(Increase) decrease in short term investment	-	-	392,580	-392,580
Increase in property, plant and equipment	-	1,271,095	1,448,373	-177,278
Proceeds from sale of fixed assets	114,105	231,735	7,171	-224,564
Increase (decrease) in translation adjustment	-	225,636	337,069	562,705
Decrease in short term loans to related parties				0
Other			6	-6
	<u>- 2,259,368</u>	<u>- 1,264,996</u>	<u>- 1,496,719</u>	<u>- 231,722</u>
Cashflow from Financing Activities				
Cash paid for treasury stock			-	41,037
Cash received from increase in share capital	279,602	35,515	1,210	-34,304
Dividend paid	-	827,125	-	1,079,353
	<u>- 865,306</u>	<u>- 791,610</u>	<u>- 1,119,179</u>	<u>- 327,570</u>
Net cash (used in) from financing activities				
Net Cash, equivalents and short term liquid investments increase (decrease)	-	1,171,661	929,867	-
Cash and Equivalents at the beginning of the period	<u>3,289,421</u>	<u>2,117,760</u>	<u>3,386,431</u>	<u>1,268,671</u>
Cash and Equivalents at the end of the period	2,117,760	3,386,431	4,316,298	929,867

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Year 2006	Year 2007	Year 2008	2008-2007	
Profitability Ratios					
Gross Profit Margin (%)	19%	16%	17%		1%
Operating Profit Margin (%)	15%	12%	12%		0%
Net Profit before Exceptional Margin (%)	15%	13%	13%		-1%
Net Profit after Exceptional Margin (%)	15%	16%	13%		-3%
EBITDA margin (%)	19%	18%	19%		1%
Return On Equity (%) pa	22%	22%	15%		-6%
Efficiency Ratios					
Working Capital turnover	7	5	6		0.42
Account Receivable days	49	56	37	-	19.69
Inventory days	53	61	59	-	1.58
Accounts Payable days	-	48	-	50	14.59
Liquidity Ratios					
Current Ratio	3.8	3.3	4.4		1.09
Quick Ratio	2.7	2.4	3.2		0.90
Financial Capital Ratios					
Debt / Equity	0.3	0.2	0.2	-	0.07
Net Debt to Equity	0.0	-0.1	-0.2	-	0.14
Interest Coverage	n/a	n/a	n/a		