

Management's Discussion and Analysis

Year 2007

Overall Group Performance

Hana Microelectronics Group 'Hana' Sales Revenue increased 4% year on year, to Bht 15.6 billion in year 2007 from Bht 15.0 billion in 2006. Sales Revenue in USD terms increased 15% to USD 452.3m 2007 from USD 394.6m 2006. OPERATING PROFITS decreased 13% to 1,927.4m Baht in 2007 from 2204.2m Baht in 2006. Operating profits decreased 4% to USD 55.8m in 2007 from USD 58.0m in 2006.

In 2007 the global electronics industry continued to be strong with demand continuing to grow globally and from developing nations in particular. However, during 2007, the second half of the year can be characterised as being more strong than the first half of the year. The Microelectronics divisions experienced continued double digit USD sales growth with sales growing at 25% for the last three years. The IC divisions grew at 4% in 2007, albeit after a 36% growth in 2006. The LED business of the CPG division was strong during the first half of the 2007 but weaker in the second half.

Past Performance Analysis

Revenue Analysis

2007 saw double growth in USD terms after the strong growth in 2006. The group sales grew 15% in USD terms which is the currency the group mostly bills in and which is typically used throughout the electronics industry. However, the 9% increase in the average Thai Baht (THB) exchange rate (2007/2006) and the 7% strengthening in the Chinese Yuan (CNY), sales grew at 4% in THB terms.

IC assembly sales achieved 4% growth in USD terms [-5% in THB terms]. Sales were weaker in first half of 2007 with some strengthening in the second half of the year.

Microelectronics divisions' performance showed continuing strength in 2007 with growth of 25% [15% THB] for the 2007 over 2006, (which had already grown 25% from 2005 and 26% over 2004). The individual microelectronics operations both grew during the year with the Lamphun plant growing by 34% and the China plant growing by 10% for the year in USD terms.

CPG sales grew 3% [-6% THB] in 2007 with the strength being in the first half of the year.

Hana Microdisplay Technologies "HMT", sales dropped during the year with the market ramp up of the UHF RFID (Ultra-High Frequency Radio Frequency Identification Device) products failing to take off and the traditional LCOS (Liquid Crystal on Silicon) business being flat.

The annual sales split was:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
PCBA (Thailand)	37%	31%	34%
PCBA (China)	17%	18%	17%
CPG - (Bangkok)	12%	13%	12%
IC (AYT)	30%	34%	36%
IC (JXG)	4%	3%	0%
HMT (USA)	1%	1%	1%
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	100%	100%	100%

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

The average exchange rate for the THB (Thai Baht) increased in strength compared to the USD (US Dollar) by 9.1% to 34.57 in 2007 and by 5.6% to 38.02 in 2006 from 40.27 in 2005. As the groups sales are almost wholly in USD, the stronger Thai Baht "THB" converts the USD sales revenues into less THB equivalent by approximately THB 1,560m. As USD costs are 63% of sales revenues the negative impact on the group is reduced to THB 577m and the gross margin is reduced by 3.3%.

Due to the 6.5% exchange strengthening during the year to THB/USD 33.77 at the 31st December, 2007 from THB/USD 36.09 at the 31st December, 2006 of the THB the stock value reduced in baht terms and therefore reducing the gross margin by a non recurring THB 105m (0.7%). The reductions total 4.0% and were offset by 1.5% due to the economies of scale from the sales growth.

In absolute terms Sales and Administration expenses increased by 8% due to THB 160m payment of a (THB 40m per quarter) performance bonus paid to staff in lieu of the share option scheme benefit staff previously received. However, due to cost savings the increase was reduced to THB 64m and 0.2% increase as a percentage of sales revenue.

Operating Profit Analysis

The operating margin fell by 2.4% for the same reasons mentioned above. The operating margin in 2006 fell to 15% from 18% in 2005 also due to the strengthening Baht and higher material costs. In absolute terms Sales and Administration costs increased by 8% in 2007 and 9% in 2006. However due to business growth the SGA margin remained at approximately 6% of sales revenues during the 3 years.

Similarly, Net Profit margin before exceptional items fell to 13% in 2007 from 15% in 2006 and 17% for 2005. Income taxation was lower in 2007 at 5%, 2006 at 6% and 2005 at 6% of Net Profit before tax.

EBITDA margin fell 1% to 18% in 2007 and 3% to 19% in 2006 from 24% in 2005 due to exchange rate strengthening and material cost increases. Depreciation increased in 2007 due to higher capital expenditure than depreciation expense in 2007. Depreciation was also higher in 2006 than 2005 for similar business expansion reasons.

Payout Analysis

The company paid dividends per share from 2004 profits of THB 1.10 (in May) 2005, 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 being 48%, 56% and 56% 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 2005 and 2006 of THB 0.50. An interim dividend was not paid in 2007 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 2007 were THB 3.4 billion, THB 2.1 billion in 2006 and THB 3.3 billion in 2005. The increase in cash levels was due to the sale of the investment in AIT and omission of an interim dividend in Dec 07.

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 - other companies	<u>2005</u>	<u>2006</u>	<u>2007</u>	
Less than 3 months	2,006,441,798	2,326,045,511	2,429,799,945	99%
3 - 6 months	110,697,152	122,578,174	20,921,189	1%
6 - 12 months	1,747,828	7,720,124	5,295,242	0%
More than 12 months	345,454	3,272,227	1,131,943	0%
Total accounts receivable - other companies	2,119,232,232	2,459,616,036	2,457,148,319	
Less : Allowance for doubtful accounts	-4,973,376	-2,266,567	-7,608,389	0%
	<u>2,114,258,856</u>	<u>2,457,349,469</u>	<u>2,449,539,930</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 61 days in 2007 from 72 days in 2006 and 53 days at the end of 2005. The increase was due to the sales growth during the 2006 and 2007.

Liquidity

The group has THB 3.7 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 2007 with EBITDA at THB 2.8 billion which was THB 146m lower than 2006.

Cash reserves in 2007 increased by THB 1.3 billion due to the operating cashflow of THB 2.0 billion, 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. Cash reserves in 2006 fell by THB 1.2 billion due to an increased dividend payout of THB 1.2 billion in 2006 which was THB 0.3 billion higher than 2005 and increased working capital of THB 0.9 billion due to increased sales.

Capital Expenditure

Net Capital Expenditure was THB 1,162m in 2005, THB 1,730m in 2006 and THB 1,278m in 2007. 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 63% 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 150m per quarter for every 10% change in the average Baht/USD and CNY/USD rates (i.e. $(1 - 0.63) \times \text{Sales Revenue} \times 10\%$).

The Group's Thai companies balance sheet exposure is a net asset of approximately USD 45m, being the foreign currency working capital balance. Out of the group's foreign exchange exposure, USD 21m 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 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

The company is in the process of constructing a 3,000 sq. meter additional building for approximately THB 80m at the Ayutthaya plant to provide additional capacity. The building is expected to be completed by Q208.

HANA MICROELECTRONICS GROUP

CONSOLIDATED STATEMENT OF EARNINGS

'000 Baht	Year 2005		Year 2006		Year 2007		2007-2006	% 2007/2006
REVENUES								
Sales	12,136,005		15,005,012		15,635,568		630,555	4%
consisting of:								
<i>PCBA (Thailand)</i>	4,108,389	34%	4,655,981	31%	5,713,007	37%	1,057,026	23%
<i>PCBA (China)</i>	2,104,211	17%	2,661,921	18%	2,695,064	17%	33,143	1%
<i>CPG - LED/Opto</i>	1,481,719	12%	1,939,422	13%	1,831,069	12%	-108,353	-6%
<i>IC (AYT)</i>	4,351,627	36%	5,100,880	34%	4,702,036	30%	-398,844	-8%
<i>IC (JXG)</i>		0%	472,671	3%	578,537	4%	105,866	22%
<i>HMT (USA)</i>	90,058	1%	174,137	1%	115,855	1%	-58,282	-33%
	<u>12,136,005</u>	<u>100%</u>	<u>15,005,012</u>	<u>100%</u>	<u>15,635,568</u>	<u>100%</u>	<u>630,556</u>	<u>4%</u>
Share of Assoc. company Profit							0	
Interest	43,285		56,748		49,596		-7,151	-13%
Other Income - Operating	167,202		168,102		231,570		63,468	38%
Other Income - Non Operating			7,704		4,901			
TOTAL REVENUES	<u>12,346,492</u>		<u>15,237,566</u>		<u>15,921,636</u>		<u>686,873</u>	<u>5%</u>
EXPENSES								
Cost of Sales	9,410,106	78%	12,169,352	81%	13,076,196	84%	906,844	7%
Selling & Admin. Expenses	736,624	6%	799,539	5%	863,574	6%	64,035	8%
Interest Expenses	2				2,214		2,214	
TOTAL EXPENSES	<u>10,146,733</u>	<u>84%</u>	<u>12,968,890</u>	<u>86%</u>	<u>13,941,983</u>	<u>89%</u>	<u>973,093</u>	<u>8%</u>
EARNINGS from Operation	<u>2,199,759</u>	<u>18%</u>	<u>2,268,676</u>	<u>15%</u>	<u>1,979,652</u>	<u>12%</u>	<u>-286,220</u>	<u>-13%</u>
Exchange Gain (Loss)	-5,607		100,134		179,659		79,525	
EARNINGS before Income Tax	<u>2,194,152</u>	<u>18%</u>	<u>2,368,809</u>	<u>16%</u>	<u>2,159,312</u>	<u>14%</u>	<u>-206,695</u>	<u>-9%</u>
Corporate Income Tax	-132,645	6%	-147,219	6%	-102,741	5%	44,479	-30%
Earnings before Exceptional Items	<u>2,061,507</u>	<u>17%</u>	<u>2,221,590</u>	<u>15%</u>	<u>2,056,571</u>	<u>13%</u>	<u>-162,216</u>	<u>-7%</u>
Exceptional Items	0		-5,393		392,590		397,983	
NET EARNINGS for the Period	<u>2,061,507</u>	<u>17%</u>	<u>2,216,197</u>	<u>15%</u>	<u>2,449,161</u>	<u>15%</u>	<u>235,767</u>	<u>11%</u>
EARNINGS % of SALES	17%		15%		16%		0.01	
Average number of shares (1 Baht par))	798,010		817,022		830,009		12,986	
EARNINGS per SHARE (baht) before exch. & excepti	2.59		2.60		2.26	-	0.34	
EARNINGS per SHARE (baht) after exceptionals	2.58		2.71		2.95		0.24	
Operating Profit (EBIT)	2,156,477		2,204,224		1,927,368	-	276,856	-13%
Depreciation	505,189		718,764		849,480		130,717	18%
EBITDA (excl exchange gain/loss)	2,661,666		2,922,987		2,776,849	-	146,139	-5%
EBITDA % of Sales Revenue	22%		19%		18%			
Cashflow Earnings per Share-diluted	3.34		3.58		3.35	-	0.23	
Net Capital Expenditure	1,162,174		1,730,163		1,278,082	-	452,081	
Dividend from prior years profits	875,958		1,144,908		1,239,454		94,546	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Balance Sheet

'000 Baht	Year 2005	Year 2006	Year 2007	2007-2006	% 2007/2006
ASSETS					
CURRENT ASSETS					
Cash in Hand & at Banks	3,289,421	2,117,760	3,386,431	1,268,671	60%
Deposits at Finance Companies & Notes Receivable	0	0	0		
Accounts Receivable - trade	2,114,259	2,457,349	2,449,540	-7,810	0%
Inventories	1,570,870	2,428,338	2,205,351	-222,987	-9%
Other Current Assets	258,839	177,025	162,562	-14,463	-8%
TOTAL CURRENT ASSETS	7,233,389	7,180,473	8,203,885	1,023,412	14%
LOAN TO RELATED COMPANY	0	0	0		
INVESTMENTS IN ASSOCIATED COMPANY	0	0	0		
FIXED ASSETS (net)	4,120,767	5,143,007	5,566,939	423,932	8%
OTHER ASSETS	2,685	23,278	2,628	-20,650	
TOTAL ASSETS	11,356,841	12,346,757	13,773,452	1,426,694	12%
LIABILITIES					
CURRENT LIABILITIES					
Bank Overdrafts & Loans					
Accounts & Notes Payable	1,808,522	1,910,165	1,810,705	-99,460	-5%
Corporate Income Tax Payable	186,895	125,179	223,912	98,733	79%
Accrued Expenses	72,614	122,424	126,459	4,035	3%
Other Current Liabilities	233,356	317,351	321,527	4,176	1%
TOTAL CURRENT LIABILITIES	2,301,387	2,475,119	2,482,603	7,484	0%
TOTAL LIABILITIES	2,301,387	2,475,119	2,482,603	7,484	0%
SHAREHOLDERS EQUITY					
Share Capital	806,167	825,218	830,406	5,188	1%
Share subscription received in advance	7,828	5,729	0	-5,729	-100%
Share Premium	1,423,372	1,686,021	1,722,078	36,056	2%
Retained Earnings	0	0	0		
Appropriated Statutory Reserve	268,570	320,100	322,301	2,201	1%
Unappropriated	5,961,917	6,981,677	8,601,512	1,619,835	23%
Translation adjustment	746,325	211,618	-26,723	-238,341	-113%
Excess Cost over Net Book Value of Subsidiary Investment	-158,726	-158,726	-158,726		
TOTAL SHAREHOLDERS EQUITY	9,055,454	9,871,638	11,290,848	1,419,210	14%
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	11,356,840	12,346,757	13,773,452	1,426,694	12%
	0	0	0		
Cash and short term investments (K USD equivalent)	84,107	51,552	93,833	42,281	
Year ending THB/USD exchange rate	39.11	41.08	36.09		
	0	0	0	-0	
Cash & Equivalents	3,289,421	2,117,760	3,386,431	1,268,671	
Liabilities	2,301,387	2,475,119	2,482,603	7,484	
Debt/Equity	0.25	0.25	0.22	-0	
Net Debt (Net cash) [Cash - Total Liabilities]	-988,034	357,359	-903,828	-1,261,187	
Net Debt/Equity	-0.11	0.04	-0.08	-0	

HANA MICROELECTRONICS GROUP

CONSOLIDATED Summary Statement of Cashflows

'000 Baht	<u>Year 2005</u>	<u>Year 2006</u>	<u>Year 2007</u>	<u>2007-2006</u>
Cashflow from Operating Activities				
Net Earnings	2,061,507	2,216,197	2,449,161	232,964
Adjustments to reconcile net earnings to net cash provided by operating activities				
Non Cash items				
Depreciation	505,095	718,764	849,480	130,717
Unrealised (gain) Loss on exchange	420	- 44,768	- 8,312	36,456
Change in other provisions	- 60,408	105,287	155,798	50,511
Share of loss from AIT associate under equity method				0
Provision for diminution in value of investment in AIT				0
	<u>445,107</u>	<u>779,283</u>	<u>996,966</u>	<u>217,684</u>
Working Capital (increase) decrease				
Trade accounts receivable	- 603,608	- 369,674	9,326	379,000
Inventories	- 50,794	- 954,193	269,915	1,224,108
Trade accounts payable	528,898	243,138	- 213,009	-456,147
Other	199,828	38,261	51,639	13,378
	<u>74,323</u>	<u>- 1,042,467</u>	<u>117,872</u>	<u>1,160,339</u>
Net Cashflow from Operating Activities	<u>2,580,938</u>	<u>1,953,013</u>	<u>3,564,000</u>	<u>1,610,987</u>
Cashflow from Investing Activities				
(Increase) decrease in short term investment	30,000	-	-	0
Increase in property, plant and equipment	- 1,249,455	- 1,844,268	- 1,509,817	334,451
Proceeds from sale of fixed assets	87,281	114,105	231,735	117,630
Increase (decrease) in translation adjustment	233,506	- 529,205	- 225,636	303,569
Decrease in short term loans to related parties				0
Other				
	<u>- 898,668</u>	<u>- 2,259,368</u>	<u>- 1,503,718</u>	<u>755,649</u>
Cashflow from Financing Activities				
Cash received from increase in share capital	125,028	279,602	35,515	-244,087
Dividend paid	- 1,278,576	- 1,144,908	- 827,125	317,783
Net cash (used in) from financing activities	<u>- 1,153,548</u>	<u>- 865,306</u>	<u>- 791,610</u>	<u>73,696</u>
Net Cash, equivalents and short term liquid investments increase (decrease)	528,722	- 1,171,661	1,268,671	2,440,332
Cash and Equivalents at the beginning of the period	<u>2,760,699</u>	<u>3,289,421</u>	<u>2,117,760</u>	<u>- 1,171,661</u>
Cash and Equivalents at the end of the period	3,289,421	2,117,760	3,386,431	1,268,671

HANA MICROELECTRONICS GROUP

Financial Ratios

'000 Baht	Year 2005	Year 2006	Year 2007	2007-2006	
Profitability Ratios					
Gross Profit Margin (%)	22%	19%	16%		-3%
Operating Profit Margin (%)	18%	15%	12%		-2%
Net Profit before Exceptional Margin (%)	17%	15%	13%		-2%
Net Profit after Exceptional Margin (%)	17%	15%	16%		1%
EBITDA margin (%)	22%	19%	18%		-2%
Return On Equity (%) pa	23%	22%	22%		-1%
Efficiency Ratios					
Working Capital turnover	7	6	5	-	0.81
Account Receivable days	49	59	56	-	2.56
Inventory days	53	72	61	-	11.12
Accounts Payable days	-	48	57	-	6.66
Liquidity Ratios					
Current Ratio	3.8	2.9	3.3		0.40
Quick Ratio	2.7	1.8	2.4		0.50
Financial Capital Ratios					
Debt / Equity	0.3	0.3	0.2	-	0.03
Net Debt to Equity	-0.1	0.0	-0.1	-	0.12
Interest Coverage	n/a	n/a	n/a		
Dividend / Profit before exceptional items	48%	56%	56%		0%