

BUSINESS REVIEW

In 2006, the Group once again achieved a record high in revenue. The total revenue grew by US\$134,208,000, at a growth rate of 78.82%, from US\$170,279,000 in 2005 to US\$304,487,000 in 2006. As to the sales volume, it grew by 10,678,000 square feet, at a growth rate of 73.05%, from 14,618,000 square feet in 2005 to 25,296,000 square feet in 2006. The product orientation of the Group in 2006 mainly aimed at multiple-layer PCBs with higher technology of six-layer or eight-layer boards applied to notebook computers. A number of leading worldwide notebook suppliers have become our customers since our Group can provide qualified PCBs on time at reasonable prices based on our global maximum output we can offer for the notebook industry. With restless efforts, the global market share of our Group accounted for 30%, which suggested that our Group had become the world's largest PCB supplier for the notebook industry.

Due to the increasing prices of major raw materials, including copper foil and glass fiber, and the appreciation of RMB, the Group was under considerable pressure coming from the increasing cost of manufacturing. However, such condition motivated us to concentrate ourselves on cost control and rationalise management and also stimulated us to enlarge our market share, increase capacity utilisation and expand operation scale as well as take advantage of good financial leverage. Though the gross profit rate decreased, the amount of gross profit grew by US\$9,351,000, at a growth rate of 26.97%, meanwhile, earnings per share continued to grow. The profit for the year of the Group reached a historic high of US\$30,801,000, at a growth rate of 31.45%, compared with US\$23,431,000 achieved in 2005. The above-mentioned excellent results also proved that we had gained preliminary effects and correct directions in management strategies and execution of control.

Having made continuous efforts, the Group completed the capacity expansion of Plant 3 of HannStar Jiangyin and it successfully began mass production in the latter half of 2006. The operation of the plant had enhanced the profitability of the Company. The total production capacity of the Group had reached 3 million square feet per month by the end of 2006. The orders received had substantially filled up all of the production capacity of the Group. In order to satisfy the continuous demand from our customers, the Group has continued expanding Plant 3 (3C) and planned for the construction of Plant 4 (4A and 4B). In addition, the Group will carry out debottlenecking on its existing production lines. The construction of Plants 3C and 4B began in the fourth quarter of 2006. It is expected that Plants 3C and 4B will commence production in the latter half of 2007. Plant 4A will commence production in 2008. By that time, the total production capacity of the Group will increase to 4 million square feet per month.

FINANCE REVIEW

The sales revenue of the Group increased by 78.82% from US\$170,279,000 in 2005 to US\$304,487,000 in 2006. The profit for the year reached US\$30,801,000, which increased by US\$7,370,000 or 31.45% compared with US\$23,431,000 in 2005. Earnings per share was US\$0.030, which increased by US\$0.001 compared with US\$0.029 in 2005.

Due to the rise in raw material and oil prices and other manufacturing costs, the Group's cost in raw materials and other manufacturing items on average increased by 11.4% compared with that in 2005. The overall gross profit rate decreased from 20.36% in 2005 to 14.46% in 2006 due to the rise in costs.

CURRENT CAPITAL AND FINANCIAL RESOURCES

On 31 December 2006, the Group's total assets were US\$484,869,000 (US\$310,479,000 on 31 December 2005). The interest-bearing bank borrowings reached US\$177,950,000 on 31 December 2006 (US\$138,000,000 on 31 December 2005). The recorded gearing ratio (bank borrowings divided by total assets) was approximately 36.7% on 31 December 2006 (44.4% on 31 December 2005).

On 31 December 2006, the Group's value of net current assets was US\$57,783,000 (US\$22,287,000 on 31 December 2005), comprised US\$255,725,000 of current assets (US\$131,116,000 on 31 December 2005) and US\$197,942,000 of current liabilities (US\$108,829,000 on 31 December 2005) with a liquidity ratio at 1.29 (1.2 on 31 December 2005).

CURRENT CAPITAL AND FINANCIAL RESOURCES (continued)

On 31 December 2006, the Group's current assets inclusive of total bank deposits, balances and cash reached US\$69,541,000 (US\$25,608,000 on 31 December 2005). On 31 December 2006, bank deposits of US\$46,615,000 (US\$1,942,000 on 31 December 2005) was pledged to banks to secure general banking facilities granted to the Group.

Other current assets including trade receivables of US\$145,977,000 (US\$74,762,000 on 31 December 2005). Based on the Company's credit policy, the term for trade receivables from 90 to 120 days was acceptable.

On 31 December 2006, the Group's inventory amounted to US\$35,147,000 (US\$21,448,000 on 31 December 2005). The inventory turnover period was 40 days. Due to the flowing raw materials and shortage of copper material in 2006, the inventory increased and the turnover period prolonged compared with those in 2005.

Among current liabilities, the Group's trade payables reached US\$107,916,000 (US\$60,087,000 on 31 December 2005). The Group's payment policy suggested to make payments within 90 to 120 days. The growth of trade payables mainly came from the increase of purchases of raw materials.

BANK BORROWINGS

On 31 December 2006, the Group's bank borrowings were as below:

	2006 USD'000	2005 USD'000
Bank loans	177,950	138,000
Secured	124,000	57,500
Unsecured	53,950	80,500
	177,950	138,000
The maturity profile of the above bank borrowings was as follows:		
Within one year	60,950	23,268
More than 1 year, but not exceeding 2 years	110,000	92,732
More than 2 years, but not exceeding 5 years	7,000	22,000
	177,950	138,000
Less: Amount due within 1 year shown under current liabilities	(60,950)	(23,268)
	117,000	114,732

The Group has variable-rate borrowings, which carry interest at prevailing market rate ranging from 5.64% to 6.61%. The average effective interest rate was 5.88% in 2006 and 3.94% in 2005.

All of the Group's bank borrowings are denominated in United States dollars.

The directors consider that the carrying amounts of the bank borrowings approximate their fair values.

HUMAN RESOURCES

The Group employed approximately 5,200 people on 31 December 2006 (about 3,700 people on 31 December 2005). The total personnel cost of the Group was US\$15,575,000 on 31 December 2006.

On 21 September 2006, a share option scheme was approved by a resolution of the sole shareholder and the Board of Directors of the Company. The purpose of the share option scheme is to encourage the existing eligible employees for making further contributions to the future performance of the Group. However, no option have been granted or agreed to grant to any person under the share option scheme by the end of 2006.

FUTURE PROSPECTS

In view of the significant increase in annual growth in the output of notebook computers in recent years and the long-term cooperation between the Group and the leading suppliers of notebook computers, and the anticipated growth in demand in the notebook market in the future, the Company has begun the construction of Plants 3C, 4A and 4B since the latter half of 2006. The newly constructed plants will mainly focus on the production of PCBs for notebook computers and fast growing HDI PCBs used in cell phones. It is estimated that the monthly capacity of PCBs produced by the Group for notebook computers may reach 4 million square feet when the newly constructed plants begin mass production in the latter half of 2007 which will maintain the Group in the top position in the world in terms of production capacity of PCBs for notebook computers. The production capacity of HDI PCBs for cell phones will be low at the initial stage of commercial production, but the Group will definitely gain a good market share given the various demand from our existing customers supplying computers and by providing good quality products with reasonable prices and prompt delivery services.

The increasing raw materials and manufacturing costs as well as concerns regarding environmental protection have caused operational crisis to the PCB manufacturers in Europe, America and Japan. As a result, these manufacturers have started relocating their plants to in areas such as China, India and Vietnam which offer a lower manufacturing cost environment. The only plants currently remained in Europe, America and Japan are mainly those which produce PCBs for special purposes. At present, China is the major country for producing notebook computers in the world. It is expected that the output growth of notebook computers in China will remain high in the future and such growth will further stimulate demand for PCBs. Due to stringent environmental control, it has become increasingly difficult to set up plants in the Eastern and Southern parts of China. Consequently, expansion of production plants in these areas could be seriously restricted. Nevertheless, the production capacity and site expansion plan of the Group in Jiangyin is in good progress and will ensure the Group to meet its demand until 2010.

The output of notebook computers produced by Taiwanese manufacturers accounted for about 90% of total global production. Among these manufacturers, the five largest ones accounted for about 80% of global notebook supply. The prices of notebook computers are gradually decreasing in the coming years, but such price trend may further stimulate the production of notebook computers in China. Taking into consideration the increasing market share attributable to Taiwanese manufacturers of the global notebook computer market, the continuous migration trend of manufacturing bases of Taiwanese manufacturers to China and the declining prices of notebook computers currently experienced in China, it is believed that Taiwanese enterprises will continue to be the dominant players in the production of notebook computers in the future and remain as the major suppliers of PCBs for leading notebook manufacturers. The Board is confident that the Group will remain as the largest supplier of PCBs for the global notebook industry.