

Directors' Report

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2006.

GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 17 May 2006.

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 21 September 2006.

Details of the reorganisation are set out in note 1 to the consolidated financial statements.

The shares of the Company have been listed on the Main Board of the Stock Exchange since 6 October 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 32 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 27.

The directors recommend the payment of a final dividend of HK\$0.045 per share for the year ended 31 December 2006 to the shareholders whose names appear on the register of members on 25 April 2007, amounting to approximately HK\$59,231,000 (equivalent to US\$7,594,000), and the retention of the remaining profit for the year.

The proposed dividend is subject to the approval of the shareholders at the forthcoming annual general meeting and will be payable on 9 May 2007.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past four financial years is set out on page 54 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2006, the Company's reserves available for distribution to shareholders were as follows:

	US\$'000
Share premium	58,119
Contributed surplus	82,140
Accumulated profits	7,751
	148,010

Under the Companies Law of the Cayman Islands, the share premium account and the contributed surplus are distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. HSU Yao-tsung (<i>Chief Executive Officer</i>)	(appointed on 26 May 2006)
Mr. LAO Li-hua	(appointed on 26 May 2006)

Non-executive Directors

Mr. CHIAO Yu-heng (<i>Chairman</i>)	(appointed on 17 May 2006)
Mr. HO Ai-tang Simon	(appointed on 20 September 2006)

Independent Non-executive Directors

Mr. CHAO Yuan-san	(appointed on 20 September 2006)
Ms. CHEN Shun Zu Deborah	(appointed on 20 September 2006)
Ms. CHANG Pi-lan	(appointed on 20 September 2006)
Mr. YEH Yu-an	(appointed on 20 September 2006)
Mr. YEN Chin-chang	(appointed on 20 September 2006)

In accordance with the provisions of the Company's Articles of Association, Messrs. HSU Yao-tsung, LAO Li-hua, CHIAO Yu-heng, HO Ai-tang Simon, CHAO Yuan-san, CHEN Shun Zu Deborah, CHANG Pi-lan, YEH Yu-an, and YEN Chin-chang retire at the forthcoming annual general meeting. All the retiring directors, being eligible, offer themselves for re-election at the meeting.

DIRECTORS' SERVICE CONTRACTS

Messrs. HSU Yao-tsung and LAO Li-hua entered into service agreements with the Company for a term of three years whilst Messrs. CHIAO Yu-heng and HO Ai-tang Simon have service agreements for a term of one year. All the above service agreements commenced from 6 October 2006, determinable by either party by giving three months' prior written notice.

Each of the independent non-executive directors entered into service agreements with the Company for a term of one year and either the Company or the independent non-executive director may terminate the appointment by giving the other a prior notice of two months in writing before its expiration.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

No option has been granted under the Company's share option scheme since its adoption.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the Company's share option scheme disclosed above, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire by means of acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO") shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions:

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
HannStar Board (BVI) Holdings Corp. ("HannStar BVI")	Beneficial owner	975,000,000	74.07%
HannStar Board Corporation ("HannStar Taiwan")	Held by controlled corporation (Note)	975,000,000	74.07%
Walsin Lihwa Corporation ("Walsin Lihwa")	Held by controlled corporation (Note)	975,000,000	74.07%

Note: HannStar BVI is wholly-owned by HannStar Taiwan. Walsin Lihwa beneficially owns approximately 40.3% of the issued share capital of HannStar Taiwan. HannStar Taiwan and Walsin Lihwa were deemed to be interested in 975,000,000 shares in the Company which are held by HannStar BVI.

Other than as disclosed above, the Company has not been notified of any other notifiable interests or short positions in the issued share capital of the Company as at 31 December 2006.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2006, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions:

Ordinary shares of the associated corporation of the Company:

Name of director	Capacity	Name of associated corporation	Number of issued ordinary shares held	Shareholding percentage
Mr. HSU Yao-tsung	Beneficial owner	HannStar Taiwan	198,440	0.07%
Mr. LAO Li-hua	Beneficial owner	HannStar Taiwan	23,000	0.01%
Mr. CHIAO Yu-heng	Beneficial owner	HannStar Taiwan	1,736,013	0.62%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as at 31 December 2006.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

CONNECTED TRANSACTIONS

The directors of the Company, including the independent non-executive directors of the Company, has reviewed and confirmed that the continuing connected transactions set out below have been entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONNECTED TRANSACTIONS (continued)

Details of the continuing connected transactions of the Company are as follows:

(1) Non-exempt continuing connected transactions

The following transactions constituted non-exempt continuing connected transactions for the Company and thus would be subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.45 to 14A.48 of the Listing Rules. The Stock Exchange has granted a waiver from strict compliance by the Company with the announcement and independent shareholders' approval requirements in respect of these transactions.

Sub-contracting Agreement between HannStar Taiwan and the Company

The Company and HannStar Taiwan entered into the master sub-contracting agreement dated 22 September 2006 between the Company and HannStar Taiwan ("Master Sub-contracting Agreement") pursuant to which the Company agreed to engage HannStar Taiwan to act as a sub-contractor for the production and processing of PCBs for purchase orders placed by HannStar Taiwan's customers involving delivery of products outside Taiwan to be migrated to the Group ("Migrated Orders") when the Group had insufficient production capacity prior to 31 March 2007. It was expected the amount of the transactions under the Master Sub-contracting Agreement would not exceed US\$12.6 million for the period ended 31 December 2006. During the year, the Group paid a sub-contracting fee of approximately US\$9.1 million to HannStar Taiwan for engaging it as a sub-contractor under the Master Sub-contracting Agreement.

During the year, the Group had adopted an independent system (as described below) to govern and monitor its sub-contracting arrangement with HannStar Taiwan. The Group's procurement department obtained quotations from HannStar Taiwan and a number of independent approved vendors of the relevant customers placing the Migrated Orders and selected the successful bids based on objective standards such as quality of service and unit price. The independent non-executive Directors, three of whom have solid industrial experience, had reviewed the Group's selection of successful bids and confirmed that the Group's procurement department had followed the selection criteria based on objective standards. Prior to entering into these sub-contracting transactions, two independent non-executive Directors had reviewed the terms of the sub-contracting arrangements and had decided whether the Group should proceed with the particular sub-contracting transaction with HannStar Taiwan.

(2) Continuing connected transactions exempt from reporting, announcement and the independent shareholders' approval requirements

The following transactions constituted continuing connected transactions for the Company under Rule 14A.33(3) of the Listing Rules and thus would be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14 of the Listing Rules.

(a) *Lease of properties by HannStar Precision Technology (Jiangyin) Corporation ("HannStar Precision") from HannStar Board Technology (Jiangyin) Corp. (the "Leasing Arrangement")*

During the year, the Group received monthly rental of RMB7,000 (exclusive of utilities charges) from HannStar Precision for a term of three years from 15 December 2005 to 14 December 2008 for the production of flexible printed circuits. The rent was determined with reference to the prevailing market rent at the time when the Leasing Arrangement was entered into on 12 December 2005.

HannStar Precision is an indirect wholly owned subsidiary of HannStar Taiwan, the controlling shareholder of the Company from 3 April 2006 after the Group disposed of its entire interest in HannStar Precision to HannStar Board Precision (SAMOA) Holdings Corp., an indirectly wholly owned subsidiary of HannStar Taiwan. The Leasing Arrangement therefore constitutes continuing connected transactions under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS (continued)

(2) Continuing connected transactions exempt from reporting, announcement and the independent shareholders' approval requirements (continued)

- (b) *Sharing of Underwriters Laboratories Certification services and computer software licences between the Company and HannStar Taiwan*

During the year, the Group has reimbursed HannStar Taiwan for the service fee paid by HannStar Taiwan in respect of the Underwriters Laboratories Certification Services and the licence paid by HannStar Taiwan in respect of the Software Licence of approximately US\$74,000 pursuant to the Services Agreement dated 22 September 2006.

The details of the above transactions are set out in note 31 to the financial statements.

Pursuant to Chapter 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, on terms no less favourable than terms available to and from independent third parties, in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole and have not exceeded the cap disclosed in the Company's prospectus dated 26 September 2006.

Other than as disclosed above, no contracts of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company's shares were listed on the Main Board of the Stock Exchange on 6 October 2006. Save for the above, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's largest and five largest suppliers and customers, respectively, were as follows:

– the largest suppliers	27%
– five largest suppliers	57%
– the largest customer	32%
– five largest customers	77%

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest suppliers or customers of the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set out by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

CHIAO Yu-heng

Chairman

19 March 2007