1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 17 May 2006 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's immediate holding company is HannStar Board (BVI) Holdings Corp. ("HannStar BVI"), which is incorporated in the British Virgin Islands ("BVI") and its ultimate holding company is HannStar Board Corporation ("HannStar Taiwan"), which is incorporated in the Republic of China. The address of the registered office and principal place of business of the Company are disclosed in the Corporate Information of the annual report.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the 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 Group on 21 September 2006. The shares of the Company have been listed on the Stock Exchange since 6 October 2006. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 26 September 2006.

The principal step of the reorganisation, which involved the exchange of shares, was took place on 21 September 2006, when the Company acquired the entire issued share capital of HannStar Board (Samoa) Holdings Corp. ("HannStar Samoa") from HannStar BVI, the previous holding company of the Group, in consideration of which the Company allotted and issued 9,999,999 shares of HK$0.01 each, credited as fully paid, to HannStar BVI.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared using the principles of merger accounting as if the group structure under the group reorganisation had been in existence throughout the two years ended 31 December 2006.

The financial statements are presented in United States dollars while the functional currency of the Company is Renminbi. The directors selected United States dollars as the presentation currency because most of the shareholders of the Company are located overseas and United States dollars was considered to be more useful to the shareholders.

The Company acts as an investment holding. Particulars of the principal activities of its subsidiaries are set out in note 32.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of embedded derivatives[4]
HK(IFRIC)-Int 10	Interim financial reporting and impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sale of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and released to the consolidated income statement over the period of the lease on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. United States dollars) at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that period, in which cases the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet dates.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to consolidated income statement on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loan and receivables are set out below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from ultimate holding company and bank balances and deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities and equity instruments. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amount due to ultimate holding company and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue cost.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include, bank deposits, bank balances and cash, trade and other receivables, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

Certain cash and bank balances of several subsidiaries of the Company located in The People's Republic of China (the "PRC") are denominated in foreign currencies, which expose the Group to foreign currency risk. In addition, the Company's subsidiaries have foreign currency sales, which expose the Group to foreign currency risk as well. The management enters into forward currency contracts to manage certain foreign exchange exposures.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to pledged bank deposits and floating-rate bank borrowings. The Group currently does not enter into interest rate swaps to hedge against its exposure to changes in cash flow interest rate risk of the bank borrowings. However, the management monitors the cash flow interest rate risk and will consider hedging significant floating-rate bank borrowings should the need arise.

Credit risk

As at 31 December 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligations by the counter parties or debtors in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. As at 31 December 2006, the five largest trade receivables accounted for approximately 58% of total trade receivables (net of allowance). In order to minimise the credit risk, the management of the Group has delegated a team of staff members responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

5. REVENUE AND SEGMENTAL INFORMATION

No business segment information is presented as over 90% of the Group's revenue was derived from the sales of printed circuit boards ("PCB"). In addition, no geographical segment information is presented as over 90% of the Group's revenue was derived from the sales of PCB in the PRC and over 90% of the Group's assets were located in the PRC.

6. FINANCE COSTS

	2006 US$'000	2005 US$'000
Interests on borrowings wholly repayable within five years:		
– bank loans	**9,281**	4,545
– other loans	**–**	55
	9,281	4,600

7. INCOME TAX EXPENSE

	2006 US$'000	2005 US$'000
Tax charge represents:		
PRC Foreign Enterprise Income Tax ("FEIT")	**3,151**	712

No provision for Hong Kong Profits Tax has been made as the Group's profit neither arose in, nor derived from Hong Kong during both years.

Pursuant to the relevant laws and regulation in the PRC, HannStar Board Technology (Jiangyin) Corporation ("HannStar Jiangyin") is entitled to the exemptions from the FEIT for two years starting from the first profit-making year and to a 50% relief from the FEIT for the following three years.

In accordance with the Investment Catalogue as approved by the State Council, each newly invested project in a Foreign Investment Enterprise can be assessed independently and are also entitled to the tax exemptions. Accordingly, upon approval from the relevant Tax Bureau, each of the Plants of HannStar Jiangyin ("Plant 1", "Plant 2" and "Plant 3") could be subjected to independent assessment. Plant 1, Plant 2 and Plant 3 have been approved by the relevant Tax Bureau as accounted for as a separate invested project for tax purposes.

The first profit-making year of Plant 1 is the year ended 31 December 2003. Accordingly, Plant 1 is exempted from FEIT for the two years ended 31 December 2004, and is subject to a 50% relief from FEIT for the year ended 31 December 2005 and 2006. Applying this 50% relief, the income tax rate applicable to Plant 1 is 7.5%. The first profit making year of Plant 2 is the year ended 31 December 2004. Accordingly, Plant 2 is exempted from the FEIT for the two years ended 31 December 2005 and is subject to a 50% relief from FEIT for the year ended 31 December 2006. The first profit-making year of Plant 3 is the year ended 31 December 2006. Accordingly, Plant 3 is exempted from the FEIT for the year ended 31 December 2006.

The tax charge for the year can be reconciled to the profit before tax as follows:

	2006 US$'000	2005 US$'000
Profit before tax	**33,952**	24,143
Tax at the PRC FEIT rate of 15% (2005:15%)	**5,093**	3,621
Tax effect of expenses not deductible for tax purposes	**223**	98
Tax effect of income not taxable for tax purposes	**(45)**	(230)
Effect of tax exemptions granted to a PRC subsidiary	**(2,120)**	(2,777)
Tax charge for the year	**3,151**	712

8. PROFIT FOR THE YEAR

	2006 US$'000	2005 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (Note 9)	**204**	28
Other staff costs	**13,656**	9,116
Retirement benefit scheme contributions, excluding directors	**1,715**	932
Total staff costs	**15,575**	10,076
Allowance for inventories	**1,473**	1,106
Auditor's remuneration	**142**	7
Cost of inventories recognised as an expense	**258,994**	134,504
Depreciation of property, plant and equipment	**26,227**	16,203
Listing expenses	**1,775**	–
Impairment on trade receivables	**292**	–
Loss on disposal of property, plant and equipment	**63**	302
Operating lease rentals in respect of land and buildings	**11**	86
Release of prepaid lease payments	**91**	46
and after crediting:		
Bank interest income	**(2,154)**	(121)
Net exchange gain	**(2,979)**	(1,743)

9. DIRECTORS' AND EMPLOYEES' REMUNERATIONS

The emoluments paid or payable to each of the directors of the Company were as follows:

	HSU Yao-tsung US$'000	LAO Li-hua US$'000	CHIAO Yu-heng US$'000	HO Ai-tang Simon US$'000	CHAO Yuan-san US$'000	CHEN Shun Zu Deborah US$'000	YEH Yu-an US$'000	CHANG Pi-lan US$'000	YEN Chin-chang US$'000	2006 Total US$'000	2005 Total US$'000
Fees	–	–	–	–	4	4	4	4	4	**20**	–
Other emoluments											
– salaries and other benefits	172	12	–	–	–	–	–	–	–	**184**	28
Total emoluments	172	12	–	–	4	4	4	4	4	**204**	28

Of the five individuals with the highest emoluments in the Group, one (2005: one) is the director of the Company who is included above. The emoluments of the remaining four (2005: four) individuals are as follows:

	2006 US$'000	2005 US$'000
Employee		
– salaries and other allowances	**327**	66

The emolument of each individual for both years was within the emoluments band of less than HK$1,000,000.

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employee) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the year.

10. DIVIDENDS

The directors recommend the payment of a final dividend of HK$0.045 (2005: nil) per share for the year ended 31 December 2006 amounting to HK$59,231,000 (equivalent to US$7,594,000).

During the year, HannStar Samoa, a subsidiary of the Company, paid dividends of US$27,000,000 (2005: nil) to its then shareholders prior to the Group Reorganisation. The rate of dividend and the number of shares ranking for dividends declared by HannStar Samoa are not presented as such information is not meaningful having regard to the purpose of this report.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the following data:

	2006 **US$'000**	2005 US$'000
Profit for the year and earnings for the purposes of basic earnings per share	**30,801**	23,431
Weighted average number of shares for the purposes of basic earnings per share	**1,016,353,000**	818,938,000

The calculation of the basic earnings per share for the year ended 31 December 2005 was based on the profit for the year and the weighted average number of shares for the year, assuming 975,000,000 shares of the Company were in issue and issuable as at 31 December 2005.

No diluted earnings per share has been presented because the Company has no dilutive potential shares for both years.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixture and equipment	Leasehold improvement	Motor vehicles	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
COST							
At 1 January 2005	21,128	67,583	2,957	2,710	390	8,910	103,678
Exchange adjustments	540	1,728	76	69	10	228	2,651
Additions	8,346	63,682	7,452	1,317	178	14,742	95,717
Transfer	14,824	3,113	1,579	1,026	–	(20,542)	–
Disposals	–	(326)	(10)	–	–	–	(336)
At 31 December 2005	44,838	135,780	12,054	5,122	578	3,338	201,710
Exchange adjustments	1,553	4,758	416	179	20	117	7,043
Additions	10,605	44,789	8,722	1,256	340	3,397	69,109
Transfer	1,162	766	1,458	88	–	(3,474)	–
Disposals	–	(23)	(56)	–	(57)	–	(136)
At 31 December 2006	**58,158**	**186,070**	**22,594**	**6,645**	**881**	**3,378**	**277,726**
DEPRECIATION							
At 1 January 2005	583	8,001	486	466	91	–	9,627
Exchange adjustments	15	205	12	12	2	–	246
Provided for the year	821	13,544	1,211	549	78	–	16,203
Eliminated on disposals	–	(31)	(3)	–	–	–	(34)
At 31 December 2005	1,419	21,719	1,706	1,027	171	–	26,042
Exchange adjustments	97	1,267	105	59	8	–	1,536
Provided for the year	2,032	21,231	1,908	946	110	–	26,227
Eliminated on disposals	–	(4)	(22)	–	(32)	–	(58)
At 31 December 2006	**3,548**	**44,213**	**3,697**	**2,032**	**257**	**–**	**53,747**
CARRYING VALUES							
At 31 December 2006	**54,610**	**141,857**	**18,897**	**4,613**	**624**	**3,378**	**223,979**
At 31 December 2005	43,419	114,061	10,348	4,095	407	3,338	175,668

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Buildings	20 years or shorter of the lease term of the relevant land
Plant and machinery	5 – 8 years
Furniture, fixture and equipment	5 years
Leasehold improvement	5 years
Motor vehicles	5 years

The carrying value of properties of the Group comprises buildings on land under medium-term lease in the PRC.

For the year ended 31 December 2006

13. PREPAID LEASE PAYMENTS

	2006 US$'000	2005 US$'000
Balance at beginning of the year	**3,772**	1,334
Exchange adjustment	**128**	34
Additions	**1,463**	2,450
Charge to the consolidated income statement	**(91)**	(46)
Balance at end of the year	**5,272**	3,772
Current portion of non-current assets	**(107)**	(77)
Non-current portion	**5,165**	3,695

The carrying amount represents an upfront payment for medium-term land use rights situated in the PRC.

The Group had paid substantially all the consideration for the land use rights in the PRC. However, the relevant government authorities have not granted formal title to certain of these land use rights to the Group. As at 31 December 2006, the carrying amount of the land use rights for which the Group had not been granted formal title amounted to approximately US$1,424,000 (2005: US$1,266,000). In the opinion of the directors, the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title to these land use rights will be granted to the Group in due course.

14. INVENTORIES

	2006 US$'000	2005 US$'000
Raw materials	**16,483**	6,524
Work-in-progress	**10,939**	6,695
Finished goods	**7,725**	8,229
	35,147	21,448

15. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of 90 days to 120 days to its trade customers.

The aged analysis of the Group's trade receivables net of allowance as at the balance sheet date are as follows:

	2006 **US$'000**	2005 US$'000
Trade receivables:		
0 – 30 days	**35,265**	14,651
31 – 60 days	**39,260**	21,272
61 – 90 days	**34,702**	18,309
91 – 120 days	**27,022**	15,101
121 – 180 days	**9,700**	4,678
181 – 365 days	**28**	751
	145,977	74,762
Other receivables:		
Prepayments for utility	**1,180**	1,881
Prepayment for maintenance	**447**	210
Deposits paid	**648**	294
Value added tax recoverable	**1,418**	1,056
Others	**762**	553
	4,455	3,994
	150,432	78,756

All of the Group's trade receivables are denominated in United States dollars.

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

16. AMOUNT DUE FROM/TO ULTIMATE HOLDING COMPANY

The amount was unsecured, non-interest bearing and repayable on demand.

The directors consider that the carrying amount of amount due from/to ultimate holding company approximates their fair values.

17. FORWARD CONTRACTS

	2006 Assets US$'000	2005 Liabilities US$'000
Forward foreign exchange contracts	**498**	(1,044)

The Group is party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures.

At 31 December 2006, details of the outstanding forward foreign exchange contracts to which the Group is committed is as follows:

Notional amount	**Maturity**	**Exchange rates**
Sell USD4,500,000	9 January 2007	RMB/USD7.805
Sell USD2,500,000	16 January 2007	RMB/USD7.801
Sell USD2,000,000	23 January 2007	RMB/USD7.797
Sell USD6,500,000	9 February 2007	RMB/USD7.761
Sell USD4,500,000	9 March 2007	RMB/USD7.778
Sell USD2,000,000	23 March 2007	RMB/USD7.752
Sell USD4,500,000	9 April 2007	RMB/USD7.740
Sell USD2,000,000	23 April 2007	RMB/USD7.729
Sell USD2,000,000	9 May 2007	RMB/USD7.718
Sell USD2,000,000	21 May 2007	RMB/USD7.710
Sell USD2,000,000	8 June 2007	RMB/USD7.703
Sell USD2,000,000	21 June 2007	RMB/USD7.699
Sell USD2,000,000	9 July 2007	RMB/USD7.686
Sell USD2,000,000	20 July 2007	RMB/USD7.684
Sell USD2,000,000	9 August 2007	RMB/USD7.690
Sell USD2,000,000	21 August 2007	RMB/USD7.665
Sell USD2,000,000	10 September 2007	RMB/USD7.651
Sell USD2,000,000	21 September 2007	RMB/USD7.648
Sell USD2,000,000	9 October 2007	RMB/USD7.635
Sell USD2,000,000	22 October 2007	RMB/USD7.632
Sell USD2,000,000	9 November 2007	RMB/USD7.623
Sell USD2,000,000	21 November 2007	RMB/USD7.620
Sell USD2,000,000	10 December 2007	RMB/USD7.608

At 31 December 2005, details of the outstanding forward foreign exchange contracts to which the Group is committed is as follows:

Notional amount	**Maturity**	**Exchange rates**
Sell USD7,000,000	9 January 2006	RMB/USD8.047
Sell USD5,000,000	25 January 2006	RMB/USD8.047
Sell USD4,000,000	9 January 2006	RMB/USD8.047
Sell USD13,000,000	9 February 2006	RMB/USD8.029
Sell USD6,000,000	9 March 2006	RMB/USD8.010
Sell USD10,000,000	8 March 2006	RMB/USD8.010

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on indicative rate provided by banks for equivalent instruments at the balance sheet date.

18. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The amounts of bank balances denominated in Unites States dollars were approximately US$20,661,000 (2005: US$21,657,000).

Bank balances and pledged bank deposits carry interest at market rates which range from 0.72% to 1.8%.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. All deposits have been pledged to secure short-term bank loans and are therefore classified as current assets. The amount of pledged bank deposits denominated in United States dollars were approximately US$44,484,000 (2005: nil).

The directors consider that the carrying amount of pledged bank deposits and bank balances and cash approximate their fair values.

19. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables as at the balance sheet date are as follows:

	2006 **US$'000**	2005 US$'000
Trade payables:		
0 – 30 days	**40,242**	32,499
31 – 60 days	**30,049**	16,152
61 – 90 days	**19,677**	4,487
91 – 180 days	**16,952**	6,939
181 – 365 days	**996**	10
	107,916	60,087
Other payables:		
Accruals	**10,610**	9,499
Amounts payable for purchase of property, plant and equipment	**16,597**	14,931
	27,207	24,430
	135,123	84,517

The directors consider that the carrying amounts of trade and other payables approximate their fair values.

20. BANK BORROWINGS

	2006 US$'000	2005 US$'000
Bank loans	**177,950**	138,000
Secured (Note 28)	**124,000**	57,500
Unsecured	**53,950**	80,500
	177,950	138,000
The maturity profile of the above bank borrowings is as follows:		
Within one year	**60,950**	23,268
More than one year, but not exceeding two years	**110,000**	92,732
More than two years but not exceeding five years	**7,000**	22,000
	177,950	138,000
Less: Amount due within one 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 rates (which are also equal to contracted interest rates) on the variable-rate borrowing of the Group are as follows:

	2006	2005
Effective interest rate	**5.88%**	3.94%

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.

21. SHARE CAPITAL

	Notes	Number of shares	Nominal value US$'000
Authorized:			
On incorporation	(i)	38,000,000	49
Share consolidation	(iv)	3,800,000	49
Additions	(iv)	4,996,200,000	64,242
At 31 December 2006		**5,000,000,000**	**64,291**
Issued and fully paid:			
Allotted and issued on incorporation	(ii)	1	–
Allotted and issued	(iii)	9,999,999	13
		10,000,000	13
Share consolidation	(iv)	1,000,000	13
Capitalisation issue	(v)	974,000,000	12,524
Issue of shares by way of placing and public offer	(vi)	341,250,000	4,388
At 31 December 2006		**1,316,250,000**	**16,925**

The share capital at 31 December 2005 shown in the consolidated balance sheet represented 52,000,000 shares of US$1 each in the share capital of HannStar Samoa prior to the Group Reorganisation.

The following changes in the share capital of the Company took place during the period from 17 May 2006 (date of incorporation) to 31 December 2006:

(i) The Company was incorporated with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each.

(ii) On 17 May 2006, 1 share of HK$0.01 each was allotted and issued.

(iii) On 21 September 2006, 9,999,999 shares of HK$0.01 each were allotted and issued.

(iv) By an ordinary resolution passed by the shareholders of the Company on 22 September 2006, the share capital of the Company reorganised was as follows with effect from 22 September 2006:

(a) every 10 ordinary shares of the Company (both issued and unissued) of HK$0.01 each were consolidated into one new share of HK$0.1 each ("Share Consolidation").

(b) the authorised share capital of the Company was increased from HK$380,000 divided into 3,800,000 shares of HK$0.1 (the "Share") to HK$500,000,000 divided into 5,000,000,000 Shares by the creation of additional 4,996,200,000 new Shares.

21. SHARE CAPITAL (continued)

(v) On 5 October 2006 and 25 October 2006, the Company issued 957,750,000 shares and 16,250,000 shares of HK$0.1 each respectively pursuant to the Capitalisation issue to HannStar BVI. These new shares ranked pari passu in all respects with the then existing shares.

(vi) On 5 October 2006 and 25 October 2006, the Company issued 325,000,000 shares and 16,250,000 shares of HK$0.1 each respectively at a price of HK$1.77 per share to the public. These new shares ranked pari passu in all respects with the then existing shares.

22. MERGER RESERVE

The merger reserve represents the differences between the nominal value of the shares of HannStar Samoa, the immediate holding company of HannStar Jiangyin, and the nominal value of the Company's shares issued thereof pursuant to a Group Reorganisation on 21 September 2006.

23. SHARE OPTION SCHEME

On 21 September 2006, a share option scheme (the "Share Option Scheme") was approved by a resolution of the sole shareholder and adopted by a resolution of the board of directors of the Company (the "Board"). The purpose of the Share Option Scheme is to motivate the eligible participants to optimise their performance efficiency for the benefit of the Group and to attract and retain or otherwise maintain on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group, by providing them with the opportunity to have a personal stake in the Group. The Board may, at its discretion, offer to grant an option to any employees, directors and business partners of the Group to subscribe for new shares on the terms set out in the Share Option Scheme.

As at 31 December 2006, no option has been granted or agreed to be granted to any person under the Share Option Scheme.

24. DISPOSAL OF A SUBSIDIARY

On 3 April, 2006, the Group disposed of its entire interests in HannStar Precision Technology (Jiangyin) Corporation ("HannStar Precision") to HannStar Board Precision (SAMOA) Holdings Corp., an indirect wholly-owned subsidiary of HannStar Taiwan. The net assets of the subsidiary at the date of disposal were as follows:

	US$'000
Net assets disposed of	
Bank balances and cash	2,995
Consideration	2,995
Satisfied by:	
Cash	2,995
Net cash inflow (outflow) arising on disposal:	
Cash received	2,995
Bank balances and cash disposed of	(2,995)
	–

25. MAJOR NON-CASH TRANSACTIONS

At the balance sheet date, there were amounts payable of approximately US$16,597,000 (2005: US$14,931,000), respectively, in relation to the acquisition of property, plant and equipment during the year then ended.

26. OPERATION LEASE ARRANGEMENT

The Group as lessor

Property rental income earned during the year was US$29,000 (2005: nil). All of the properties held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006 **US$'000**	2005 US$'000
Within one year	**11**	–
In the second to fifth year inclusive	**11**	–
	22	–

27. CAPITAL COMMITMENTS

	2006 **US$'000**	2005 US$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**8,698**	5,172

28. PLEDGE OF ASSETS

At the respective balance sheet date, the following assets were pledged to banks to secure general banking facilities granted to the Group:

	2006 **US$'000**	2005 US$'000
Property, plant and equipment	**43,769**	76,457
Prepaid lease payments	**1,690**	–
Bank deposits	**46,615**	1,942
	92,074	78,399

29. RETIREMENT BENEFITS PLANS

The employees employed in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

30. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31 December 2006 is as follows:

	Notes	2006 US$'000
NON-CURRENT ASSET		
Investment in subsidiaries		**82,153**
CURRENT ASSETS		
Amounts due from subsidiaries		**28,638**
Pledged bank deposits		**44,000**
Cash and bank balances		**10,773**
		83,411
CURRENT LIABILITIES		
Amount due to ultimate holding company		**74**
Other payables		**555**
		629
NET CURRENT ASSETS		**82,782**
		164,935
CAPITAL AND RESERVES		
Share capital		**16,925**
Reserves	(i)	**148,010**
		164,935

Note:

(i) Reserves of the Company

	Share premium US$'000	**Contributed surplus** US$'000	**Accumulated profit** US$'000	**Total** US$'000
Share issued at premium through initial public offer	69,788	–	–	69,788
Share issued at premium through exercise of the over-allotment option	3,489	–	–	3,489
Transaction costs attributable to issue of new shares and exercise of the over-allotment option	(2,634)	–	–	(2,634)
Capitalisation issue	(12,524)	–	–	(12,524)
Contributed surplus arising on the Group Reorganisation	–	82,140	–	82,140
Profit for the year	–	–	7,751	7,751
At 31 December 2006	**58,119**	**82,140**	**7,751**	**148,010**

Note: Contributed surplus represents the difference between the net assets of the subsidiaries and the nominal amount of the Company's shares issued in exchange thereof pursuant to the Group Reorganisation.

31. RELATED PARTY DISCLOSURES

(a) Related party transactions

Name of related party	Notes	Transaction	2006 US$'000	2005 US$'000
HannStar Taiwan	(i), (ii)	Sales of goods	**16,036**	9,264
	(i), (ii)	Purchase of plant and machinery	**496**	1,390
	(i)	Subcontracting fee payable	**9,127**	–
	(i)	Underwriters Laboratories Certificate and computer service fee paid	**74**	–
HannStar Precision	(i)	Rental income received	**8**	–

In addition, the Group purchased plant and equipment from independent third party suppliers through HannStar Taiwan amounting to US$986,000 for the year ended 31 December 2005.

Notes:

(i) In the opinion of the directors, the transactions were conducted in the ordinary and usual course of businesses and on normal commercial terms.

(ii) The transactions have been terminated following the listing of the Company's shares on the Stock Exchange.

(b) Related party balances

Details of the Group's outstanding balances with related parties are set out on the consolidated balance sheet and in note 16.

(c) Guarantees provided by the ultimate holding company

Guarantees were provided by HannStar Taiwan to certain banks and financial institutions for loan facilities granted to subsidiaries of the Company amounted to US$89.5 million during the year ended 31 December 2005. The guarantees given by HannStar Taiwan have been released before listing of the Company.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006 US$'000	2005 US$'000
Short-term benefits	**531**	94

32. SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries at the date of this report are set out below:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Interest holdings Direct %	Interest holdings Indirect %	Principal activities
HannStar Samoa	Independent State of Samoa ("Samoa") 31 December 2001	US$52,000,000	100	–	Investment holding
HannStar Jiangyin	PRC 19 April 2002	US$70,000,000	–	100	Manufacturing and sales of PCB

Note: HannStar Jiangyin is a wholly foreign-owned enterprise established in the PRC.