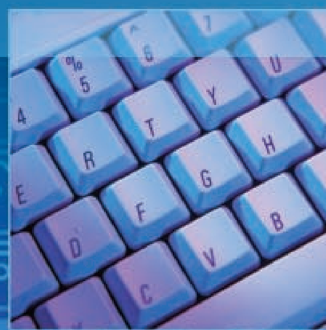
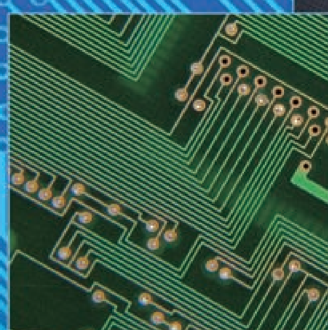
HannStar Board International Holdings Limited

瀚宇博德國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 667





07

ANNUAL REPORT

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Corporate Information

DIRECTORS

Executive Directors

Mr. Yeh Shin-jiin (葉新錦)
(Chief Executive Officer)
Mr. Lao Li-hua (勞立華)

Non-executive Directors

Mr. Chiao Yu-heng (焦佑衡) *(Chairman)*
Mr. Ho Ai-tang Simon (何藹棠)

Independent Non-executive Directors

Mr. Chao Yuan-san (趙元山)
Ms. Chen Shun Zu Deborah (陳淳如)
Mr. Yeh Yu-an (葉育恩)
Ms. Chang Pi-lan (張碧蘭)
Mr. Yen Chin-chang (嚴金章)

AUDIT COMMITTEE

Mr. Chao Yuan-san (趙元山) *(Chairman)*
Ms. Chen Shun Zu Deborah (陳淳如)
Mr. Yeh Yu-an (葉育恩)
Ms. Chang Pi-lan (張碧蘭)
Mr. Yen Chin-chang (嚴金章)

REMUNERATION COMMITTEE

Mr. Chiao Yu-heng (焦佑衡) *(Chairman)*
Mr. Chao Yuan-san (趙元山)
Ms. Chen Shun Zu Deborah (陳淳如)
Mr. Yeh Yu-an (葉育恩)
Ms. Chang Pi-lan (張碧蘭)
Mr. Yen Chin-chang (嚴金章)

QUALIFIED ACCOUNTANT

Ms. To Suen Fan (杜璇芬) *CPA (Practising), FCCA*

COMPANY SECRETARY

Ms. Cheng Pik Yuk (鄭碧玉) *(FCIS, FCS)*

AUTHORISED REPRESENTATIVES

Mr. Yeh Shin-jiin (葉新錦)
Mr. Lao Li-hua (勞立華)

SHARE LISTING

The Company's shares are listed
on the Main Board of
The Stock Exchange of Hong Kong Limited
under Stock Code No. 667

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN PEOPLE'S REPUBLIC OF CHINA

No. 97, Chengjiang Dong Road
Jiangyin City
Jiangsu Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited, Shanghai Branch
Hang Seng Bank Limited, Nanjing Branch
Agricultural Bank of China, Jiangyin Sub-branch
Bank of China, Jiangyin Sub-branch
Australia and New Zealand Banking Group Limited, Shanghai Branch
ING Bank N.V., Shanghai Branch

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISER

Polaris Capital (Asia) Limited

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Dear Shareholders:

On behalf of the board of directors of the Group, I am pleased to make a statement to you on the comprehensive operational performance in 2007.

In 2007, the revenue of the Group reached USD504.4 million, which was at an increase of 65.7% compared with that in 2006. The profit before tax was USD60.6 million, which increased by 78.5% compared with that in 2006. The net profit after tax was USD58.1 million, which was at an increase of 88.6% compared with that in 2006. The earnings per share was USD0.044. We created an excellent operating performance as the revenue and net profit after tax were going up together in 2007.

Because of the strong customer demand, the monthly production capacity had reached 4.1 million square feet by the end of 2007 more than that of 3.7 million square feet at the time of listing in October 2006. On the other hand, the Group has set up high density interconnect ("HDI") production facility for electronic products that requires to be lighter, thinner, shorter, smaller and portable. We believe that the Group will take an important place in the HDI industry in the near future, and the Group's integrative profitability will also be effectively upgraded by the foundation of HDI.

Precise strategic positioning and great execution capability in operations and management enabled our group to play an important role in the worldwide supply chain of notebook computers. We delivered 41 million pieces of notebook PCB in 2007, which was greatly increased by 16 million compared with that in 2006. The global market share grew from 30% to 39%, which established our leading position in the related fields again.

Studies showed the notebook industry will enjoy a high annual growth rate of 25% in 2008. Estimated sales volume of notebook computers will be 130 million for the year 2008. It boosted the confidence of the group for the future. In respect of the high-growth of the notebook computer, new products of HDI and the most popular ultra-low-cost computers (Eee PC, OLPC, Classmate PC), we believe that year 2008 will continue to be a successful year!

Finally, on behalf of the board of directors, the management and staff, I would like to thank shareholders for your support and trust. We will unite together and devote ourselves to create more values and rewards for you.

Sincerely yours,

Chiao Yu-heng
Chairman
HannStar Board International Holdings Limited

The Board of Directors ("Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2007.

The Company recognizes good governance as an essential component of the development of the Company and had, basing on the Principles and Code Provisions as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"), established the Company's corporate governance practices appropriate to the conduct and growth of its business.

The company has amended it's Articles of Association to fully comply with CG code Provision A.4.2 at the 2007 annual general meeting held on 25 April 2007. Since then, the Company has fully complied with all the Code Provisions set out in the CG Code.

The key corporate governance principles and practices of the Company are summarized as follows:

THE BOARD

Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The senior management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

The Board reserves for its decisions all major matters of the Company, including: overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises nine members, consisting of two executive directors, two non-executive directors and five independent non-executive directors. Biographical details of the directors and the relationships among them are set out in the "Biographies of Directors and Senior Management" on pages 14 to 17 of the Annual Report.

None of the members of the Board is related to one another.

The Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has met the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive directors.

THE BOARD (continued)

Composition (continued)

The Company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

Appointment and Succession Planning of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Articles of Association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Each of the executive directors of the Company is engaged on a service contract for a term of three years until determined by not less than three months' notice in writing served by either party.

Each of the non-executive directors and the independent non-executive directors has been appointed for a term of one year, determinable by either party by giving three months (for non-executive directors) and two months (for independent non-executive directors) written notice.

The Company has amended its Articles of Association at the 2007 annual general meeting in order to comply with Code Provision A.4.2 so that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Company's Articles, Mr. Lao Li-hua, Mr. Chiao Yu-heng, Mr. Yen Chin-chang and Mr. Yeh Shin-jiin shall retire at the forthcoming 2008 annual general meeting (the "2008 AGM"). All retiring directors (except Mr. Lao Li-hua), being eligible, offer themselves for re-election at the 2008 AGM. Subsequent to the retirement of Mr. Lao Li-hua, the Board recommended Mr. Chen Cheng-chieh to be elected as Executive Director of the Company which is subject to the approval by the shareholders at the 2008 AGM.

The Board also recommended the re-appointment of the directors standing for re-election at the 2008 AGM.

The Company's circular dated 19 March 2008 contains detailed information of the directors standing for re-election and election.

Induction and Continuing Development for Directors

The Group has conducted corporate governance training to all of the directors. Each newly appointed director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has proper understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities.

THE BOARD (continued)

Board Meetings

The Company has held six board meetings during the year ended 31 December 2007 and the attendance records are set out below:

Name of Directors	Attendance/Number of meetings held during the tenure of directorship
Executive Directors	
YEH Shin-jiin *(Chief Executive Officer) (appointed on 1 August 2007)*	4/4
LAO Li-hua	4/6
HSU Yao-tsung *(resigned on 1 August 2007)*	2/2
Non-Executive Directors	
CHIAO Yu-heng *(Chairman and Chairman of Remuneration Committee)*	6/6
Simon HO Ai-tang	2/6
Independent Non-Executive Directors	
CHAO Yuan-san *(Chairman of Audit Committee)*	4/6
Deborah CHEN Shun Zu	5/6
YEH Yu-an	4/6
CHANG Pi-lan	4/6
YEN Chin-chang	4/6

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before the Board meetings to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection. The minutes also record in sufficient detail the matters considered and decisions reached.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Articles also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The positions of the Chairman and the Chief Executive Officer are held by Mr. Chiao Yu-heng and Mr. Yeh Shin-jiin respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations.

BOARD COMMITTEES

The Board has established two committees, namely the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. Both Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The Remuneration Committee consists of six members, five of whom are independent non-executive directors and one non-executive director, Mr. Chiao Yu-heng , who is the chairman of the Committee.

The primary objectives of the Remuneration Committee include reviewing and making recommendation on the policy and structure of the remuneration for the directors and senior management. The Remuneration Committee is also responsible for establishing formal and transparent procedures for developing such remuneration policy and structure and to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

The Remuneration Committee has held one meeting during the year ended 31 December 2007 and the attendance records are set out below:

Name of committee members	Attendance/Number of meetings
CHIAO Yu-heng *(Chairman of Remuneration Committee)*	1/1
CHAO Yuan-san	1/1
Deborah CHEN Shun Zu	1/1
YEH Yu-an	N/A
CHANG Pi-lan	1/1
YEN Chin-chang	1/1

Audit Committee

The Audit Committee comprises five independent non-executive directors with Mr. Chao Yuan-san as the chairman. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings during the year ended 31 December 2007 to discuss the financial reporting and compliance procedures system with the external auditors and review the internal control, the attendance records are set out below:

Name of committee members	Attendance/Number of meetings
CHAO Yuan-san *(Chairman of Audit Committee)*	2/3
Deborah CHEN Shun Zu	3/3
YEH Yu-an	1/3
CHANG Pi-lan	3/3
YEN Chin-chang	3/3

The Company's annual results for the year ended 31 December 2007 has been reviewed by the Audit Committee.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2007.

The Company has also established written guidelines on no less exacting terms than the Model Code for securities transactions by employees (the "Employees Written Guidelines") who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2007.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in "Independent Auditor's Report" on pages 26 to 27 of the Annual Report.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2007 amounted to HK$1,000,000.

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The Company has developed its systems of internal control including financial, operational and compliance controls and risk management.

The Audit Committee reports to the Board on any material issues and makes recommendations to the Board.

During the year ended 31 December 2007, principal internal control enhancement actions taken by the Group include:

– with regard to the revenue recognition process, the Group has designed and implemented more effective control mechanism in ensuring appropriate revenue recognition;

– the Group has also tightened its credit control policy and the customer evaluation procedures in order to manage its receivables;

INTERNAL CONTROLS (continued)

– in the areas of sales, procurement and inventory processes, the Group has set up and implemented stricter authorization policies and procedures.

The Directors believe that the enhancements of internal control mechanisms enable them and senior management with reasonable grounds to make a proper assessment of the financial position and prospects of the Group in a considered manner.

The Board has conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries and will continue to review procedures implemented for assessing their effectiveness.

SHAREHOLDERS' RIGHTS

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Articles of Association. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of meetings.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, shall be available to answer questions at the shareholders' meetings.

Separate resolutions will be proposed at the forthcoming 2008 annual general meeting on each substantial issue, including the re-election of the retiring directors and the election of new director.

BUSINESS REVIEW

The Company is the world's largest PCB supplier for the notebook industry; its principal activities are manufacture, research and development of multiple-layer PCBs with high end technology.

Besides its core notebook PCB business, the Group is continuously diversifying its product range. The Group has begun to produce high density interconnect ("HDI") and acquired a flexible printed circuit ("FPC") manufacturer in 2007. The HDI products will be another profit driver for the Company in the future. Moreover, the Directors are confident that the Group's research and development effort in rigid-flex circuit ("RFC") will enable the Group to enter the RFC market in the future.

The market share of the Group in the notebook PCB industry was 39% in 2007, an increase of 9% when compared with the market share of 2006. The increasing market share, consistently high quality of products and customer satisfaction continuously strengthen the leading position of the Group in the industry. The Group will continuously benefit from its leading position in the future.

The Group achieved another fruitful operation results in 2007. The total revenue grew by approximately US$199.9 million, at a growth rate of 65.7%, from approximately US$304.5 million in 2006 to approximately US$504.4 million in 2007. On the contrary, the revenue generated from top 5 customer dropped from 77% in 2006 to 61% in 2007, primarily due to the active operation policy and marketing activity of the Company. The utilization rate for 2007 of the Group rose by 9% to reach 97% as compared with 2006. The trend of the utilization rate shows the continuous upgrading management performance of the company.

The Group will continue its expansion plan of new plants to satisfy the demand of the Company. It is expected that new production capacity of notebook PCB and HDI will be built in 2008.

FINANCIAL REVIEW

The profit for 2007 amounted to US$58.1 million, representing an increase of 88.6% compared with US$30.8 million of 2006. The earnings per share was US$0.044, which was increased by US$0.014 compared with US$0.030 of 2006.

The overall gross profit margin for 2007 was approximately 15.2%. It is somewhat higher than 14.5% of 2006. It is a result of effort in rigorous cost control and improved utilization rate. The amount of gross profit grew by US$32.8 million, from US$44 million for 2006 to US$76.8 million for 2007.

DEBT RATIO AND GEARING RATIO

As at 31 December 2007 the Group's total assets were US$672.4 million, which was increased by US$187.5 million compared with approximately US$484.9 million as at 31 December 2006. The debt ratio of the Group was 65.6% as at 31 December 2007. The Group's gearing ratio (calculated as bank borrowings divided by total assets) as at 31 December 2007 was approximately 30.1%, a drop of 6.6% as compared with 36.7% as at 31 December 2006.

CURRENT CAPITAL AND FINANCIAL RESOURCES

The amounts of bank balances and cash denominated in US dollars were approximately US$49.4 million as at 31 December 2007. Bank balances carry interest at market rates which range from 0.72% to 1.15% (2006: 0.72% to 1.8%) while the pledged bank deposits carry annual interest at market rates which range from 1.8% to 5.3% (2006: 0.72% to 1.8%) per annum.

CURRENT CAPITAL AND FINANCIAL RESOURCES (continued)

Pledged bank deposits represent deposits pledged to banks to secure general banking facilities granted to the Group. Deposits amounting to US$11.1 million (31 December 2006: US$46.6 million) have been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The inventory amounted to US$60 million on 31 December 2007 (31 December 2006: US$35.1 million). The inventory turnover period was 40 days, increased 1 day compared with 39 days of 2006. It was mainly due to the commenced operation of new factory and the increasing economic scale of the Group.

The accounts receivable amounted to US$208.1 million on 31 December 2007 (31 December 2006: US$146.0 million). The accounts receivable turnover period was 126 days, a decrease of 4 days compared with 130 days of 2006.

The accounts payable amounted to US$168.3 million on 31 December 2007 (31 December 2006: US$107.9 million). The accounts payable turnover period was 116 days.

As at 31 December 2007, the bank borrowings denominated in US dollars of the Group was approximately US$202.5 million. Of which, US$93.6 million is due within 1 year while US$108.8 million is due within 1 to 2 years. The Group generally finances its operations with internally generated cash flow and short-term bank loan facilities provided by its principal bankers in the PRC. The interest rate of the Group's borrowing ranged from 5.91% to 6.28% per annum at market rate. The financial position of the Group remained strong during the year under review.

TREASURY POLICIES

The Group adopted relatively prudent financial policy and closely monitored its cash flows during the year under review. Most of the trading transactions of the Group were denominated in US dollars. As the appreciation of RMB was fast in recent years, the group adopted financial instrument to set-off the risk of exchange change. As a result of this, the gain arising from changes in fair value of forward contract assets was increased US$5.8 million in 2007, from US$1.5 million for 2006 to US$7.3 million for 2007.

From the views of the management, we believe that the working capital of the company is not exposed to any significant risk arising from fluctuation in exchange and the revenue of the Group was fairly consistent with the currency requirements of operating expenses.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the Group had over 7,500 full-time employees based in the PRC and Taiwan. During the year, the relevant employee costs (including directors' remuneration) were approximately US$34 million. The remuneration of each staff member was determined on the basis of his qualification, performance and experience. In order to maintain skilled employees, the Group also provides other benefits such as medical coverage and training.

During the year, no option has been granted or agreed to be granted to any person under the share option scheme adopted by the Company on 21 September 2006.

OUTLOOK

The management believes that the demand for PCB products will continue to grow in the future, and the Group will capture the business opportunities resulted from such demand well. In order to achieve shareholders' expectation and keep its long-term development, it is the strategy of the Group to maintain its leading position in global notebook PCB industry. The Group will continue to expand its customers base and maintain close relationships with its customers by assisting in their product design, providing resources and supplying high quality products and services, improving the quality of the Group's products and attaining its cost effectiveness.

In respect of the operation of its HDI plants, the Group is in the progress of upgrading its HDI products and production process to meet customer needs, boosting its utilization rate and enhancing its profitability. From the management's viewpoint, the HDI division of the Group will be another profit driver of the Group. The Group will pour more resources including technical staff into the HDI division in 2008. At the same time, the Group will also increase its research resources and product development capability in order to provide more value-added products to the existing and potential customers. The Group intends to recruit more design and product development staff with the expertise and technological know-how to improve its technology infrastructure, develop new designs and provide more value-added products for our customers.

In view of the growth of the global notebook PCB market, the management is confident with the development of the Group. As a leading notebook manufacturer, we will continue to produce quality products to meet increasing demand from customers. We are anticipating to create a higher return to shareholders in 2008.

EXECUTIVE DIRECTORS

Mr. Yeh Shin-Jiin (葉新錦先生), aged 52, is the Chief Executive Officer and Authorised Representative of the Company. He joined the Group in August 2007. Mr. Yeh is in charge of the day-to-day management and operation of the Group and is responsible for the implementation of the Group's objectives, policies and strategies approved by the Board. Mr. Yeh has over 30 years of experience in the PCB industry. Prior to joining the Group, he was the executive vice-president of Compeq Manufacturing (Huizhou) Co., Ltd. (華通電腦(惠州)有限公司), a subsidiary of Compeq Manufacturing Company Limited (華通電腦股份有限公司) from November 2003 to June 2007. He graduated with a degree of master of business administration (on-job program) from Chung Yuan Christian University (中原大學) in Taiwan in 1990.

Mr. Lao Li-hua (勞立華先生), aged 48, is an executive Director of the Company. He joined HannStar Jiangyin in April 2002 and served as an assistant vice president since then. He became a director of HannStar Board Technology (Jiangyin) Corp. (瀚宇博德科技(江陰)有限公司) ("HannStar Jiangyin") in April 2003. Mr. Lao is responsible for the production management of HannStar Jiangyin. He was an assistant vice president of HannStar Board Corporation (瀚宇博德股份有限公司) ("HannStar Taiwan"), a company listed on the Taiwan Stock Exchange, from September 1998 to August 2006, and also served in Compeq Manufacturing Company Limited (華通電腦股份有限公司) from July 1987 to March 1989 and Ya Hsin Industrial Co. Ltd (雅新實業股份有限公司) from September 1992 to March 1997. Mr. Lao graduated from Tunghai University (東海大學) in Taiwan with a degree in chemical engineering in 1983. He has more than 17 years of experience in the PCB industry.

NON-EXECUTIVE DIRECTORS

Mr. Chiao Yu-heng (焦佑衡先生), aged 46, is a non-executive Director and the Chairman of the Company. He joined HannStar Jiangyin in April 2003 as a director. He is also currently the chairman of Walsin Technology Corporation (華新科技股份有限公司) and a director of Walton Chaintech Corporation (華東承啟科技股份有限公司) and Walsin Lihwa, all of which are companies listed on the Taiwan Stock Exchange and a director of Walton Advanced Engineering Inc. (華通科技股份有限公司) and Prosperity Dielectrics Co., Ltd. (信昌電子陶瓷股份有限公司), both of which are companies listed on the Gre Tai Securities Market in Taiwan. During the past three years, Mr. Chiao was also a supervisor of HannStar Display and a director of AboCom Systems, Inc. (友旺科技股份有限公司), both of which are companies listed on the Taiwan Stock Exchange. He was also a director of Eden Technology Corporation (一等高科技股份有限公司) and Pan Overseas Electronic Co. Ltd (匯僑工業股份有限公司). He holds a degree in master of business administration in finance from Golden Gate University in the US.

Mr. Ho Ai-tang Simon (何藹棠先生), aged 53, is a non-executive Director. Mr. Ho is currently the president of Walton Chaintech Corporation (華東承啟科技股份有限公司), a company currently listed on the Taiwan Stock Exchange and engaged in the manufacture and sale of memory cards and information appliances. Mr. Ho is also the chairman of Dongguan Changan Fortech Electronics Co., Ltd. (東莞長安科得電子有限公司), a private company engaged in the processing of VGA cards. Mr. Ho graduated from National Chengchi University (國立政治大學) in Taiwan with a bachelor degree in foreign languages.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chao Yuan-san (趙元山先生), aged 57, is an independent non-executive Director. He has three years of experience in the electronic component industry. Mr. Chao has been appointed as the Chairman of Ray Comm Micro Technologies Corporation (瑞邦微科股份有限公司), a supplier of raw materials of PCB, since January 2006 and the president of Pan-Pacific Venture Capital Co., Ltd. (聯太創業投資股份有限公司), a hi-tech investment company primarily focusing on the semiconductors, life sciences and telecommunication industries. He was the chief financial officer of Worldwide Semiconductor Manufacturing Corporation (世大積體電路股份公司) from January 1997 to June 1998 and the vice-president of China Development Industrial Bank (中華開發工業銀行股份有限公司). Mr. Chao graduated from City University in the US with a bachelor's degree in science in 1981 and is a certified public accountant in the US.

Ms. Chen Shun Zu Deborah (陳淳如女士), aged 44, is an independent non-executive Director. Ms. Chen is currently a director of Alpha Star Limited (昇振有限公司). She was an assistant vice-president in operation of The Hong Kong and Shanghai Banking Corporation Limited from January 2002 to October 2004 and a vice-president of Pacific Resources Technology Corporation (太聯科技股份有限公司) and a senior member of Allied Pacific Century Corporation from February 1997 to August 2001. Ms. Chen graduated from University of Southern California in the US with a bachelor of science degree in business administration in 1989.

Mr. Yeh Yu-an (葉育恩先生), aged 46, is an independent non-executive Director. Mr. Yeh is currently the chairman of the board of directors of Da-Yeh University (大葉大學). He also serves as a supervisor to the Da Yeh Takashimaya Department Store (大葉高島屋百貨股份有限公司). Mr. Yeh received a degree of master of business administration from Loyola Marymount University in the US in 1992.

Ms. Chang Pi-lan (張碧蘭女士), aged 50, is an independent non-executive Director. Mr. Chang has served Walton Chaintech Corporation (華東承啟科技股份有限公司), a company currently listed on the Taiwan Stock Exchange and engaged in the manufacture and sale of motherboards, graphic cards and information appliances, since November 1986 and is currently a director of Walton Chaintech Corporation. During the period she worked for Walton Chaintech Corporation, Ms. Chang gained approximately 19 years of experience in the procurement of PCB products for PCs. Ms. Chang graduated from Fu Jen Catholic University (私立輔仁大學) in Taiwan with a degree in business management.

Mr. Yen Chin-chang (嚴金章先生), aged 46, is an independent non-executive Director. Mr. Yen has almost 10 years of experience in the PCB industry. He was a sales manager of Shye Feng Name Plate Industrial, Co., Ltd (協峰銘版印刷股份有限公司), a private company engaged in the sale and manufacture of PCBs from May 2004 to May 2005 and a marketing manager for Vertex Precision Electronics Inc. (佳鼎科技股份有限公司), a company currently listed on the Taiwan Stock Exchange and engaged in the sale and manufacture of PCBs from January 2003 to January 2004. Mr. Yen also worked for Lan An Electronics Inc. (連安電子股份有限公司), a private company engaged in the sale and manufacture of PCBs from June 2001 to January 2003 and was a sales manager for Yeti Electronics Co., Ltd (九德電子股份有限公司) a company listed on the Taiwan Stock Exchange and engaged in the sale and manufacture of PCBs from June 1990 to September 1995. Mr. Yen was a project manager of Taiwan Express Co., Ltd. (台灣航空貨運承攬股份有限公司), a private company providing logistics services from August 2005 to August 2006.

SENIOR MANAGEMENT

Mr. Chen Cheng-chieh (**陳正傑先生**), aged 43, is the vice president of HannStar Jiangyin and responsible for the sales, marketing and production of HannStar Jiangyin, joined HannStar Jiangyin in April 2002 as an assistant vice president of the sales and marketing centre. He was an assistant vice president of HannStar Taiwan from October 1992 to August 2006. Mr. Chen graduated with a bachelor's degree in aeronautics and astronautics from National Cheng Kung University (國立成功大學) in Taiwan in 1986. He has 14 years of experience in the PCB industry.

Mr. Lai Wei-chen (**賴偉珍先生**), aged 43, joined HannStar Jiangyin in April 2002 as an assistant vice president of the quality assurance centre. Mr. Lai is responsible for the development of the quality control system of HannStar Jiangyin. Prior to joining the Group, he was working in the quality assurance department of Compeq Manufacturing Co., Ltd. from June 1988 to October 1999 and an assistant vice president of the quality assurance centre of HannStar Taiwan from October 1999 to August 2006. Mr. Lai graduated with a bachelor's degree in management science from National Chiao Tung University (國立成功大學) in Taiwan in 1986. He has 18 years of experience in the field of quality control.

Ms. Chen Hui-lan (**陳會蘭女士**), aged 60, joined HannStar Jiangyin in August 2005 as an assistant vice president of the administrative centre. Ms. Chen is responsible for the procurement and financial matters of HannStar Jiangyin. She had been working in Philips Electronic Building Elements (Taiwan) Ltd. for over 23 years since 1977. Ms. Chen was a special assistant to the general manager of Prosperity Dielectrics Co., Ltd. (信昌電子陶瓷股份有限公司) from 2003 to 2004. Prior to joining the Group, she was the chief financial officer of HannStar Electronics Corporation (瀚宇電子股份有限公司) from January 2004 to August 2005. Ms. Chen graduated with a bachelor's degree in business administration from National Cheng Kung University (國立成功大學) in Taiwan in 1971. She has extensive experience in the areas of financial advisory.

Mr. Wang Chi-wei (**江志偉先生**), aged 35, joined HannStar Jiangyin in April 2004 as a deputy manager of division A of Plant II and was promoted to his current position of a Director of Production Division I in April 2007. He is responsible for the supervision of division I of HannStar Jiangyin's production plant. Prior to joining the Group, he was the section manager of Compeq Manufacturing Co., Ltd. from August 1997 to April 2002 and a manager of Unicap Electronics Industrial Corp. (耀文電子工業股份有限公司) from 2002 to 2003. Mr. Wang graduated with a bachelor's degree in chemical engineering from Chinese Culture University (私立中國文化大學) in Taiwan in 1995.

Mr. Hsueh Yung-lung (**薛永龍先生**), aged 38, joined HannStar Jiangyin in April 2004 as a deputy manager of division B of Plant II and since his promotion in April 2007, he has been a Director of Production Division II responsible for the supervision of the division II of HannStar Jiangyin's production plant. Prior to joining the Group, he was a deputy manager of Compeq Manufacturing Co., Ltd. from June 1997 to February 2004. Mr. Hsueh graduated with a master's degree in chemical engineering from National Chung Cheng University (國立中正大學) in Taiwan in 1995.

Mr. Wu Tung-hsing (**吳東興先生**), aged 34, joined HannStar Jiangyin in August 2002 as a manager of Plant I and since his promotion in April 2007, he has held his current position as the Director of Engineering Division and is responsible for the supervision of Engineering Division of HannStar Jiangyin. Prior to joining the Group, he was a project officer for the research and development department of Compeq Manufacturing Co., Ltd. from June 1997 to March 2002 and was responsible for the research and development of HDI and flip chip products. Mr. Wu graduated with a master's degree in chemical engineering from Chung Yuan Christian University (中原大學) in Taiwan in 2002.

SENIOR MANAGEMENT (continued)

Mr. Mao I-chang (**茅益彰先生**), aged 36, joined HannStar Jiangyin in September 2002 as a section manager of the information centre. He was promoted to acting deputy manager in March 2005 and since April 2006, Mr. Mao has been a deputy manager responsible for the management of the Group's information and technology systems. Prior to joining the Group, he had been working in the technical department of Siam Pacific Electric Wire & Cable Co., Ltd. for three years during which he specialised in the communication cable production technology. Mr. Mao graduated with a diploma in mechanical engineering from Kuang Wu Institute of Technology (光武技術學院) in 1991 and a bachelor's degree in information systems from La Trobe University in Australia in 2002.

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and engages in the sales of printed circuit boards ("PCB"). The activities of its subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 28.

The directors recommend the payment of a final dividend of HK$5 cents per share for the year ended 31 December 2007 to the shareholders whose names appear on the register of members on 16 April 2008, amounting to approximately HK$65,813,000 (equivalent to US$8,438,000), 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 8 May 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders were as follows:

	2007 **US$'000**	2006 US$'000
Share premium	**58,119**	58,119
Contributed surplus	**82,140**	82,140
Accumulated profits	**9,026**	7,751
	149,285	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.

DIRECTORS

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

Executive Directors

Mr. YEH Shin-jiin	(appointed on 1 August 2007)
Mr. LAO Li-hua	
Mr. HSU Yao-tsung	(resigned on 1 August 2007)

Non-executive Directors

Mr. CHIAO Yu-heng *(Chairman)*
Mr. HO Ai-tang Simon

Independent Non-executive Directors

Mr. CHAO Yuan-san
Ms. CHEN Shun Zu Deborah
Ms. CHANG Pi-lan
Mr. YEH Yu-an
Mr. YEN Chin-chang

In accordance with the provisions of the Company's Articles of Association, Messrs. YEH Shin-jiin, LAO Li-hua, CHIAO Yu-heng 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 except Mr. LAO Li-hua.

DIRECTORS' SERVICE CONTRACTS

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 24 to the consolidated financial statements.

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

ARRANGEMENTS 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 benefits by means of the acquisition of shares in, or debt securities, including debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") shows that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long positions:

Ordinary shares of HK$0.1 each of the Company

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 57.94% 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. Mr. Chiao Yu-heng is also a director of Walsin Lihwa and 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 2007.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2007, 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. LAO Li-hua	Beneficial owner	HannStar Taiwan	32,229	0.01%
Mr. CHIAO Yu-heng	Beneficial owner	HannStar Taiwan	2,054,875	0.62%

Other than as disclosed above, none of the directors, chief executives, 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 2007.

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 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 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.

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 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.

CONNECTED TRANSACTIONS (continued)

(1) Non-exempt continuing connected transactions (continued)

Master 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 ("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. During the year, the Group paid a sub-contracting fee of approximately US$14.8 million to HannStar Taiwan for engaging it as a sub-contractor under the Master Sub-contracting Agreement.

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 the Group should proceed with the particular sub-contracting transaction with HannStar Taiwan.

New Master Sub-contracting agreement between HannStar Taiwan and the Company

It was announced that on 23 November 2007, the Company and HannStar Taiwan entered into the New 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 the Migrated Orders when the Company has insufficient production capacity prior to 31 December 2010. The Proposed Annual Cap of the sub-contracting fee payable by the Company to HannStar Taiwan for each of the three years ending 31 December 2010 is estimated to be US$63.4 million.

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

(a) 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 14A of the Listing Rules.

(i) 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 rental amounted to approximately US$11,000 (exclusive of utilities charges) from HannStar Precision before it became an indirect wholly owned subsidiary of the Company on 24 December 2007. The term of the Leasing Agreement was from 15 December 2005 to 14 December 2008 and the lease of properties was 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 was an indirect wholly owned subsidiary of HannStar Taiwan before 24 December 2007. The Leasing Arrangement therefore constituted 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)

(a) 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 14A of the Listing Rules.

(ii) 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 licences of approximately US$37,000 pursuant to the services agreement dated 22 September 2006.

(b) The following transaction constituted continuing connected transaction for the Company under Rule 14A.65(4) of the Listing Rules and thus would be exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(i) Loan from the controlling shareholder of the Company

Pursuant to various loan agreements entered into between the Group and HannStar BVI, the Company's controlling shareholder, loans in an aggregate amount of US$27 million were granted during the year. The loans are interest bearing with annual interest rates ranging from 5.35% to 5.37% and with terms of one year. The Group incurred interest payment of US$1,012,000 for the year.

(3) Connected transactions exempt from the independent shareholders' approval requirement but subject to reporting and announcement requirement

The following transaction constituted connected transaction for the Company under Rule 14A.32 of the Listing Rules and thus would be exempt from independent shareholders' approval but subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

During the year, the Group acquired the entire issued share capital of HannStar Precision for a consideration of US$1,900,000. HannStar Precision became an indirect wholly owned subsidiary of the Company on 24 December 2007.

(4) Continuing connected transactions exempt from the independent shareholders' approval requirement

The following transaction constituted continuing connected transactions for the Company under Rule 14A.34 of the Listing Rules and thus would be exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Walsin Board Corporation ("Walsin Board"), a wholly-owned subsidiary of the Company had entered into a licence agreement ("Licence Agreement") with HannStar Taiwan ("Walsin Board Transaction"). Pursuant to the Licence Agreement, HannStar Taiwan has agreed to grant a licence to Walsin Board for using certain machinery and equipment ("Machinery and Equipment") for a term of one year commencing from 1 April 2007 to 31 March 2008 with monthly fee of US$468,563. Pursuant to the Licence Agreement, HannnStar Taiwan has also agreed to provide the technical, and consulting services and ancillary expenses at monthly fee of US$163,249 to support Walsin Board in the operation, maintenance and repair of the Machinery and Equipment and the necessary water and electricity during the term of the Licence Agreement. Walsin Board paid licence fees, services fees and ancillary expenses in aggregate of approximately US$6.23 million during the year, which exceeded the cap set by the Company as shown on the announcement dated 27 March 2007 amounting to approximately US$5.69 million for the year ended 31 December 2007. The Licence Agreement was fully terminated on 29 February 2008 as the Group entered into the New Master Sub-contracting Agreement.

CONNECTED TRANSACTIONS (continued)

Particulars of the connected transactions, which are also related party transactions, are disclosed in note 33 to the consolidated financial statements in accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures" issued by the Hong Kong Institute of Certified Public Accountants.

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.

Certification process

In respect of obtaining certification from customers placing the Migrated Orders, the Group has formed a team comprising staff from its sales and marketing department, quality control department, production department and procurement department to be responsible for all matters relating to customer certification, including determining the customer certification schedule, preparing relevant documentation and answering customers' requests. Regular reports regarding the customer certification process have been provided to the independent non-executive Directors.

The independent non-executive Directors have reviewed and confirmed that the Group had obtained certifications from 2 customers placing the Migrated Orders by 31 December 2006 and 9 customers placing the Migrated Orders by 31 December 2007, which represented approximately 14.3% and 78.6% of the total number of customers placing the Migrated Orders as at 20 September 2006, being the latest practicable date as defined in the Prospectus respectively.

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

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 supplier	38%
– five largest suppliers	60%
– the largest customer	25%
– five largest customers	61%

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 up 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, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 64 of the annual report.

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

6 March 2008

Deloitte.
德勤

TO THE SHAREHOLDERS OF
HANNSTAR BOARD INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of HannStar Board International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 63, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
6 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 US$'000	2006 US$'000
Revenue	6	**504,399**	304,487
Cost of sales		**(427,539)**	(260,467)
Gross profit		**76,860**	44,020
Other income		**24,863**	17,401
Gain arising from changes in fair value of derivative financial instruments		**7,361**	1,542
Distribution and selling expenses		**(14,213)**	(8,238)
Administrative expenses		**(21,640)**	(11,492)
Finance costs	7	**(12,611)**	(9,281)
Profit before tax		**60,620**	33,952
Income tax expense	8	**(2,552)**	(3,151)
Profit for the year	9	**58,068**	30,801
Earnings per share US$ – basic	12	**0.044**	0.030

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 US$'000	2006 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**316,994**	223,979
Prepaid lease payments	14	**5,400**	5,165
		322,394	229,144
CURRENT ASSETS			
Inventories	15	**59,978**	35,147
Trade and other receivables	16	**218,478**	150,432
Prepaid lease payments	14	**112**	107
Amount due from ultimate holding company	17	**3,077**	–
Derivative financial instruments	18	**7,859**	498
Pledged bank deposits	19	**11,148**	46,615
Bank balances and cash	19	**49,358**	22,926
		350,010	255,725
CURRENT LIABILITIES			
Trade and other payables	20	**210,473**	135,123
Amount due to ultimate holding company	17	**–**	783
Amount due to immediate holding company	17	**27,056**	–
Tax liabilities		**1,093**	1,086
Bank borrowings – due within one year	21	**93,642**	60,950
		332,264	197,942
NET CURRENT ASSETS		**17,746**	57,783
TOTAL ASSETS LESS CURRENT LIABILITIES		**340,140**	286,927
NON-CURRENT LIABILITY			
Bank borrowings – due after one year	21	**108,827**	117,000
		231,313	169,927
CAPITAL AND RESERVES			
Share capital	22	**16,925**	16,925
Reserves		**214,388**	153,002
		231,313	169,927

The consolidated financial statements on pages 28 to 63 were approved and authorised for issue by the Board of Directors on 6 March 2008 and are signed on its behalf by:

Mr. Chiao Yu-heng
Director

Mr. Yeh Shin-jiin
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital US$'000	Share premium US$'000	Special reserve US$'000 (Note 23)	Exchange reserve US$'000	Accumulated profits US$'000	Total US$'000
At 1 January 2006	52,000	–	–	1,311	33,607	86,918
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	4,177	–	4,177
Profit for the year	–	–	–	–	30,801	30,801
Total recognised income and expense for the year	–	–	–	4,177	30,801	34,978
Issue of shares pursuant to the group reorganisation	13	–	–	–	–	13
Effect of group reorganisation	(52,000)	–	51,987	–	–	(13)
Shares issued at premium through initial public offering	4,179	69,788	–	–	–	73,967
Shares issued at premium through exercise of the over-allotment option	209	3,489	–	–	–	3,698
Issue of shares by capitalisation of share premium account ("Capitalisation issue")	12,524	(12,524)	–	–	–	–
Transaction costs attributable to issue of new shares and exercise of the over-allotment option	–	(2,634)	–	–	–	(2,634)
Dividend paid	–	–	–	–	(27,000)	(27,000)
At 31 December 2006	16,925	58,119	51,987	5,488	37,408	169,927
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	10,900	–	10,900
Profit for the year	–	–	–	–	58,068	58,068
Total recognised income and expense for the year	–	–	–	10,900	58,068	68,968
Dividend paid	–	–	–	–	(7,582)	(7,582)
At 31 December 2007	**16,925**	**58,119**	**51,987**	**16,388**	**87,894**	**231,313**

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
OPERATING ACTIVITIES			
Profit before tax		**60,620**	33,952
Adjustments for:			
Depreciation of property, plant and equipment		**35,692**	26,227
Finance costs		**12,611**	9,281
Transaction costs attributable to initial public offering charged to income statement		**–**	1,775
Impairment loss on inventories		**700**	1,473
Impairment loss on trade receivables		**291**	292
Release of prepaid lease payments		**113**	91
Loss on disposal of property, plant and equipment		**25**	63
Interest income		**(3,508)**	(2,154)
Gain arising from changes in fair value of derivative financial instruments		**(7,361)**	(1,542)
Operating cash flows before movements in working capital		**99,183**	69,458
Increase in inventories		**(25,384)**	(15,172)
Increase in trade and other receivables		**(68,220)**	(71,968)
(Increase) decrease in amount due from ultimate holding company		**(3,860)**	4,977
Increase in trade and other payables		**70,414**	48,940
Increase in amount due to ultimate holding company		**–**	783
Cash generated from operations		**72,133**	37,018
PRC Foreign Enterprise Income Tax paid		**(2,771)**	(1,883)
Interest received		**3,508**	2,154
NET CASH FROM OPERATING ACTIVITIES		**72,870**	37,289
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(110,557)**	(67,443)
Acquisition of a subsidiary	25	**(1,450)**	–
Decrease (increase) in pledged bank deposits		**35,467**	(44,673)
Proceeds from disposal of property, plant and equipment		**21**	15
Payment of prepaid lease payments		**–**	(1,463)
NET CASH USED IN INVESTING ACTIVITIES		**(76,519)**	(113,564)
FINANCING ACTIVITIES			
New bank borrowings raised		**68,516**	317,809
Advance from immediate holding company		**27,056**	–
Repayment of bank borrowings		**(48,016)**	(279,891)
Interest paid		**(10,668)**	(9,281)
Dividend paid		**(7,582)**	(27,000)
Proceeds from issue of shares		**–**	77,665
Expenses on issue of shares		**–**	(4,409)
NET CASH FROM FINANCING ACTIVITIES		**29,306**	74,893
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**25,657**	(1,382)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**22,926**	23,666
Effect of exchange rate changes		**775**	642
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**49,358**	22,926

1. GENERAL

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, 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 for the year ended 31 December 2006 have been prepared using the principles of merger accounting as if the group structure under the Group Reorganisation had been in existence throughout the year ended 31 December 2006.

The consolidated 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 outside the People's Republic of China ("PRC") and United States dollars was considered to be more useful to the shareholders.

The Company acts as an investment holding company. Particulars of the principal activities of its subsidiaries are set out in note 34.

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

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment

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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arranagements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

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 Hong Kong Companies Ordinance.

Merger accounting for business combination under the Group Reorganisation

The consolidated financial statements incorporate the financial statement items of the combining entities in which the Group Reorganisation 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. 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.

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 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.

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset excluding financial assets at fair value through profit or loss 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes 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 of their estimated residual value, using the straight-line method.

Construction in progress included 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 year 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.

Impairment losses on 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each 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 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.

For the purposes of presenting the consolidated financial statements, 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 transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange 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.

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 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 goodwill or 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 is realised. Deferred tax is charged or credited to 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss 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.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

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 classified as financial assets at fair value through profit or loss ("FVTPL") and 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL are derivative financial instruments.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

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, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets other than those at FVTPL are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For the Group's financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 as other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to ultimate holding company/immediate 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.

Derivative financial instruments

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.

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 and payable is recognised in profit or loss.

Retirement benefit costs

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

4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents disclosed in note 19, and equity attributable to equity holders of the Company, comprising issued share capital and accumulated profits.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, and the issue of new debt or the redemption of existing debt.

5. FINANCIAL INSTRUMENTS

5a. Categories of financial instruments

	2007 **US$'000**	2006 US$'000
Financial assets		
Derivative financial instruments	**7,859**	498
Loans and receivables (including cash and cash equivalents)	**274,293**	216,969
Financial liabilities		
Amortised cost	**417,201**	303,246

5b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from/to ultimate/immediate holding company, derivative financial instruments, pledged bank deposits, bank balances and cash, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Currency risk

The Group mainly operates in the PRC. Its foreign currency sales and purchases expose the Group to foreign currency risk, particularly US dollars. Most of the sales of the Group are denominated in US dollars, whilst almost 25% of production costs are denominated in US dollars.

5. FINANCIAL INSTRUMENTS (continued)

5b. Financial risk management objectives and policies (continued)

Market risk (continued)

Currency risk (continued)

The carrying amounts of the Group's monetary assets and monetary liabilities at the reporting date, which are denominated on US dollars are as follows:

	Assets		Liabilities	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
US Dollars	**253,664**	210,436	**258,670**	164,358

The Group requires its group entity to use foreign exchange forward contracts to manage the currency exposures. The foreign exchange forward contracts must be in the same currency as the foreign currencies transactions. On this basis, the Group entered into such forward contracts in relation to the foreign currency denominated monetary assets and monetary liabilities.

Sensitivity analysis

The Group is mainly exposed to the fluctuation in US Dollars against Renminbi.

The following table details the Group's sensitivity to a 5% increase and decrease in Renminbi against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes mainly trade and other receivables, bank balances and cash, trade and other payables and bank borrowings where the denomination of these balances are in currencies other than the functional currency of the relevant entities. A negative number for assets and a positive number for liabilities below indicates a decrease and an increase in profit where Renminbi strengthen 5% against the relevant currency. For a 5% weakening of Renminbi against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	US Dollars	
	2007	2006
	US$'000	US$'000
Assets	**(12,683)**	(10,521)
Liabilities	**12,933**	8,217
Profit or loss (i)	**250**	(2,304)

(i) This is mainly attributable to the exposure outstanding on US Dollars receivables and payables at year end in the Group.

5. FINANCIAL INSTRUMENTS (continued)

5b. Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank deposits and bank borrowings. It is the Group's policy to keep its borrowings at fixed rate of interests so as to minimise the cash flow interest rate risk. The Group entered into interest rate swaps to hedge against its cash flow interest rate risk exposures of the borrowings.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank deposits and bank borrowings.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR arising from the Group's US$ borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For variable-rate bank balances and bank borrowings, the analysis is prepared assuming the amounts outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2007 would decrease/increase by approximately US$542,000 (2006: decrease/increase by US$668,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank borrowings.

Other price risk

The Group's derivative financial instruments exposed the Group to market bid forward foreign exchange rates.

The following table details the Group's sensitivity to a 0.5% increase/decrease in market bid forward foreign exchange rate of Renminbi against US dollars. The sensitivity analysis includes only outstanding foreign exchange forward contracts at the year end for a 0.5% change in market bid forward foreign exchange rates.

	2007 **US$'000**	2006 US$'000
If Renminbi strengthens against US dollars		
– Profit for the year will decrease by	**378**	25
If Renminbi weakens against US dollars		
– Profit for the year will increase by	**378**	25

5. FINANCIAL INSTRUMENTS (continued)

5b. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team 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.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 92% (2006: 100%) of the total trade receivables as at 31 December 2007. The Group also has concentration of credit risk by customer as 42% (2006: 58%) and 11% (2006: 14%) of the total trade receivable were due from the Group's five largest customers and largest customer respectively.

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.

The Group relies on bank borrowings and advance from immediate holding company as significant sources of liquidity. Details of which are set out in notes 17 and 21. As at 31 December 2007, the Group has available unutilised short-term bank loan facilities of approximately US$800,000 (2006: US$29,300,000).

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

5. FINANCIAL INSTRUMENTS (continued)

5b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 3 month US$'000	3-6 months US$'000	6 months to 1 year US$'000	1-5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2007 US$'000
2007							
Non-derivative financial liabilities							
Trade and other payables	–	163,730	22,752	1,194	–	187,676	187,676
Amount due to immediate holding company	5.36	27,419	–	–	–	27,419	27,056
Bank loans							
– fixed rate	5.91	9,319	–	–	–	9,319	9,200
– variable rate	6.28	59,477	16,256	15,811	114,781	206,325	193,269
		259,945	39,008	17,005	114,781	430,739	417,201

	Weighted average effective interest rate %	Less than 3 month US$'000	3-6 months US$'000	6 months to 1 year US$'000	1-5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount at 31.12.2006 US$'000
2006							
Non-derivative financial liabilities							
Trade and other payables	–	106,565	16,952	996	–	124,513	124,513
Amount due to ultimate holding company	–	783	–	–	–	783	783
Bank loans							
– variable rate	5.88	49,413	–	12,489	126,918	188,820	177,950
		156,761	16,952	13,485	126,918	314,116	303,246

5c. Fair value

The fair value of financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from sales of goods for the year.

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 are located in the PRC.

7. FINANCE COSTS

	2007 **US$'000**	2006 US$'000
Interests on borrowings wholly repayable within five years:		
– bank loans	**11,599**	9,281
– other loans	**1,012**	–
	12,611	9,281

8. INCOME TAX EXPENSE

	2007 **US$'000**	2006 US$'000
Tax charge represents:		
PRC Foreign Enterprise Income Tax ("FEIT")	**2,552**	3,151

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

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 ("Tax Exemptions").

According to Article 73 of the FEIT Detailed Rules, as the Group engaged in projects with foreign investments of over US$30 million which required long period to recover investment costs, it is eligible to enjoy the preferential tax rate of 15% upon approval by the competent tax authorities.

On 16 March 2007, the President of the PRC promulgated Order No. 63 – Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and the Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008 onwards. The Tax Exemptions mentioned above will continue on the implementation of the New Law.

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", "Plant 3" and "Plant 4") could be subjected to independent assessment. Plant 1, Plant 2, Plant 3 and Plant 4 have been approved by the relevant Tax Bureau as accounted for as a separate invested project for tax purposes.

8. INCOME TAX EXPENSE (continued)

The first profit making year of Plant 1 was 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 three years ended 31 December 2007. The first profit making year of Plant 2 was 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 three years ended 31 December 2008. Applying this 50% relief, the income tax rate applicable to Plant 1 and Plant 2 are 7.5%. The first profit making year of Plant 3 was the year ended 31 December 2006. Accordingly, Plant 3 is exempted from the FEIT for the two years ended 31 December 2007. Plant 4 has just commenced operation in current year and has not yet generated profit for the year.

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

	2007 **US$'000**	2006 US$'000
Profit before tax	**60,620**	33,952
Tax at the PRC FEIT rate of 15% (2006: 15%)	**9,093**	5,093
Tax effect of expenses not deductible for tax purposes	**435**	223
Tax effect of income not taxable for tax purposes	**(378)**	(45)
Effect of Tax Exemptions granted to PRC subsidiaries	**(6,598)**	(2,120)
Tax charge for the year	**2,552**	3,151

9. PROFIT FOR THE YEAR

	2007 **US$'000**	2006 US$'000
Profit for the year has been arrived at after charging:		
Directors' emoluments (note 10)	**188**	204
Other staff costs	**31,435**	13,656
Retirement benefit scheme contributions, excluding directors	**2,402**	1,715
Total staff costs	**34,025**	15,575
Impairment loss on inventories	**700**	1,473
Auditor's remuneration	**152**	142
Cost of inventories recognised as an expense	**427,539**	260,467
Depreciation of property, plant and equipment	**35,692**	26,227
Impairment loss on trade receivables	**291**	292
Loss on disposal of property, plant and equipment	**25**	63
Release of prepaid lease payments	**113**	91
Listing expenses	**–**	1,775
Minimum lease payment under operating lease rentals in respect of land and buildings	**–**	11
and after crediting:		
Bank interest income	**3,508**	2,154
Net exchange gain	**7,296**	2,979
Sale of scrap materials (included in other income)	**12,897**	11,677

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	HSU Yao-tsung US$'000 (Note)	YEH Shin-jiin US$'000 (Note)	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	2007 Total US$'000
Fees	–	–	–	–	–	17	17	17	17	19	87
Other emoluments											
– salaries and other benefits	31	19	51	–	–	–	–	–	–	–	101
Total emoluments	31	19	51	–	–	17	17	17	17	19	188

	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
Fees	–	–	–	–	4	4	4	4	4	20
Other emoluments										
– salaries and other benefits	172	12	–	–	–	–	–	–	–	184
Total emoluments	172	12	–	–	4	4	4	4	4	204

Note: Mr. YEH Shin-jiin appointed as director of the Company on 1 August 2007 and Mr. HSU Yao-tsung resigned as director of the Company on 1 August 2007.

Of the five individuals with the highest emoluments in the Group, two (2006: one) are the directors of the Company whose emoluments are included above. The emoluments of the remaining three (2006: four) individuals are as follows:

	2007 US$'000	2006 US$'000
Employee		
– salaries and other allowances	**182**	327

The emolument of each individual for both years was within the emoluments band of less than HK$1,000,000 (equivalent to approximately US$129,000).

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.

11. DIVIDENDS

	2007 US$'000	2006 US$'000
Dividends recognised as distribution during the year		
Final – HK$4.5 cents per share in respect of the financial year ended 31 December 2006	**7,582**	–

During the year ended 31 December 2006, HannStar Samoa, a subsidiary of the Company, paid dividends of US$27,000,000 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.

The final dividend of HK$5.0 cents (2006: HK$4.5 cents) per share in respect of the financial year ended 31 December 2007 has been proposed by the directors and is subject to approval by the shareholders in general meeting.

12. EARNINGS PER SHARE

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

	2007 US$'000	2006 US$'000
Earnings for the purposes of basic earnings per share	**58,068**	30,801
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,316,250,000**	1,016,353,000

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

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Plant and machinery US$'000	Furniture, fixture and equipment US$'000	Leasehold improvement US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
COST							
At 1 January 2006	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
Exchange adjustments	3,943	12,764	1,534	451	62	225	18,979
Acquired on acquisition of a subsidiary	–	1,239	115	4	–	4	1,362
Additions	14,503	25,067	1,655	24	296	71,840	113,385
Transfer	14,661	55,767	1,553	84	310	(72,375)	–
Disposals	–	–	(44)	–	(104)	–	(148)
At 31 December 2007	**91,265**	**280,907**	**27,407**	**7,208**	**1,445**	**3,072**	**411,304**
DEPRECIATION							
At 1 January 2006	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
Exchange adjustments	398	4,018	346	184	27	–	4,973
Provided for the year	3,823	28,244	2,299	1,145	181	–	35,692
Eliminated on disposals	–	–	(20)	–	(82)	–	(102)
At 31 December 2007	**7,769**	**76,475**	**6,322**	**3,361**	**383**	**–**	**94,310**
CARRYING VALUES							
At 31 December 2007	**83,496**	**204,432**	**21,085**	**3,847**	**1,062**	**3,072**	**316,994**
At 31 December 2006	54,610	141,857	18,897	4,613	624	3,378	223,979

The above items of property, plant and equipment are depreciated on a straight-line basis over the following years:

Buildings	20 years or the lease term of the relevant land, whichever is shorter
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.

14. PREPAID LEASE PAYMENTS

	2007 US$'000	2006 US$'000
Balance at beginning of the year	**5,272**	3,772
Exchange adjustment	**353**	128
Additions	**–**	1,463
Released to the consolidated income statement	**(113)**	(91)
Balance at end of the year	**5,512**	5,272
Current portion of non-current assets	**(112)**	(107)
Non-current portion	**5,400**	5,165

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 yet granted formal title to certain of these land use rights to the Group. As at 31 December 2007, the carrying amount of the land use rights for which the Group had not yet been granted formal title amounted to approximately US$1,172,000 (2006: US$1,424,000). 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.

15. INVENTORIES

	2007 US$'000	2006 US$'000
Raw materials	**24,270**	16,483
Work-in-progress	**18,348**	10,939
Finished goods	**17,360**	7,725
	59,978	35,147

16. TRADE AND OTHER RECEIVABLES

	2007 US$'000	2006 US$'000
Trade receivables	**208,771**	146,352
Less: Allowance for doubtful debts	**(666)**	(375)
	208,105	145,977

The Group allows an average credit period of 90 days to 150 days to its trade customers.

16. TRADE AND OTHER RECEIVABLES (continued)

The following is an aged analysis of trade receivables at the reporting date:

	2007 US$'000	2006 US$'000
Trade receivables:		
0 – 30 days	**45,124**	35,265
31 – 60 days	**54,979**	39,260
61 – 90 days	**52,170**	34,702
91 – 120 days	**39,671**	27,022
121 – 180 days	**16,159**	9,700
181 – 365 days	**2**	28
	208,105	145,977
Other receivables:		
Prepayments for utility	**3,352**	1,180
Prepayment for maintenance	**998**	447
Deposits paid	**1,262**	648
Value added tax recoverable	**3,282**	1,418
Others	**1,479**	762
	10,373	4,455
	218,478	150,432

Most of the Group's trade receivables are denominated in foreign currency of United States dollars.

Before accepting any new customer, the Group has to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of US$2,000 (2006: US$28,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2007 US$'000	2006 US$'000
181-365 days	**2**	28

The Group has provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

16. TRADE AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debts

	2007 US$'000	2006 US$'000
Balance at beginning of the year	**375**	83
Impairment losses recognised on receivables	**291**	292
Balance at end of the year	**666**	375

In determining the recoverability of a trade receivable, the Group consider any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of US$666,000 (2006: US$375,000). The impairment recognised represents the difference between the carrying amount of the specific trade receivable and the present value of the expected recoverable amount. The Group does not hold any collateral over these balances.

17. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY/IMMEDIATE HOLDING COMPANY

The amount due from ultimate holding company is unsecured, non-interest bearing and recoverable within one year.

The amount due to ultimate holding company was unsecured, non-interest bearing and repayable on demand.

The amount due to immediate holding company is unsecured, bears fixed interest at 5.35% to 5.37% per annum and repayable within one year.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 US$'000	2006 US$'000
Interest rate swaps	**297**	–
Forward foreign exchange contracts	**7,562**	498
	7,859	498

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group uses interest rate swaps to minimise its exposure of cash flow interest rate risk for its floating rate US$ bank borrowings by swapping a proportion of the floating rate borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the same terms. Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
USD20,000,000	23 February 2008	LIBOR+0.65% to (LIBOR+5.44%)/2 or 5.44%, whichever is lower
USD20,000,000	23 February 2008	LIBOR+0.65% to (LIBOR+5.44%)/2 or 5.44%, whichever is lower
USD40,000,000	23 February 2009	LIBOR+0.65% to (LIBOR+5.44%)/2 or 4.98%, whichever is lower
USD20,000,000	30 March 2008	LIBOR+0.65% to (LIBOR+5.44%)/2 or 5.54%, whichever is lower

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

At 31 December 2007, details of the outstanding forward foreign exchange contracts to which the Group is committed are as follows:

Notional amount	Maturity	Exchange rates
Sell USD10,000,000	10 January 2008	RMB/USD7.3040
Sell USD5,000,000	25 January 2008	RMB/USD7.2695
Sell USD10,000,000	6 February 2008	RMB/USD7.2518
Sell USD5,000,000	25 February 2008	RMB/USD7.2179
Sell USD10,000,000	10 March 2008	RMB/USD7.1941
Sell USD5,000,000	25 March 2008	RMB/USD7.1703
Sell USD10,000,000	10 April 2008	RMB/USD7.1393
Sell USD5,000,000	25 April 2008	RMB/USD7.1168
Sell USD10,000,000	12 May 2008	RMB/USD7.0874
Sell USD5,000,000	23 May 2008	RMB/USD7.0690
Sell USD10,000,000	10 June 2008	RMB/USD6.9919
Sell USD5,000,000	25 June 2008	RMB/USD7.0169
Sell USD3,000,000	10 July 2008	RMB/USD6.9538
Sell USD3,000,000	10 July 2008	RMB/USD6.9951
Sell USD5,000,000	10 July 2008	RMB/USD6.9951
Sell USD5,000,000	25 July 2008	RMB/USD6.9747
Sell USD5,000,000	8 August 2008	RMB/USD6.9557
Sell USD5,000,000	8 August 2008	RMB/USD6.9557
Sell USD3,000,000	25 August 2008	RMB/USD6.9326
Sell USD3,000,000	10 September 2008	RMB/USD6.9109
Sell USD8,000,000	10 September 2008	RMB/USD6.9109
Sell USD5,000,000	25 September 2008	RMB/USD6.8905
Sell USD8,000,000	10 October 2008	RMB/USD6.8696
Sell USD6,000,000	24 October 2008	RMB/USD6.8496

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the difference between the market forward rates at the balance sheet date for remaining duration of the outstanding contracts and their contracted forward rates.

19. PLEDGED BANK DEPOSITS/BANK BALANCES

Bank balances carry interest at market rates which range from 0.72% to 1.15% (2006: 0.72% to 1.8%) per annum. The pledged bank deposits carry interest at market rates which range from 1.8% to 5.3% (2006: 0.72% to 1.8%) per annum.

Pledged bank deposits represent deposits pledged to banks to secure general banking facilities granted to the Group. Deposits amounting to US$11,148,000 (2006: US$46,615,000) have been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

20. TRADE AND OTHER PAYABLES

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

	2007 US$'000	2006 US$'000
Trade payables:		
0 – 30 days	**93,979**	40,242
31 – 60 days	**30,224**	30,049
61 – 90 days	**20,102**	19,677
91 – 180 days	**22,752**	16,952
181 – 365 days	**1,194**	996
	168,251	107,916
Other payables:		
Accruals	**22,797**	10,610
Amounts payable for purchase of property, plant and equipment	**19,425**	16,597
	42,222	27,207
	210,473	135,123

The average credit period on purchases of goods is 150 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

21. BANK BORROWINGS

	2007 US$'000	2006 US$'000
Bank loans	**202,469**	177,950
Secured (note 30)	**99,641**	124,000
Unsecured	**102,828**	53,950
	202,469	177,950
The maturity profile of the above bank borrowings is as follows:		
Within one year	**93,642**	60,950
More than one year, but not exceeding two years	**108,827**	110,000
More than two years but not exceeding five years	**–**	7,000
	202,469	177,950
Less: Amount due within one year shown under current liabilities	**(93,642)**	(60,950)
	108,827	117,000

21. BANK BORROWINGS (continued)

The Group has variable-rate borrowings of US$193.3 million which carry interest at prevailing market rate ranging from SIBOR+0.85% to LIBOR+0.85% per annum.

The Group has fixed-rate borrowing which carries interest at 5.91% per annum.

The average effective interest rates (which are also equal to contracted interest rates) on the variable-rate borrowings of the Group are as follows:

	2007	2006
Effective interest rate	**6.28%**	5.88%

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

22. SHARE CAPITAL

	Notes	**Number of shares**	**Nominal value** US$'000
Authorised:			
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 and 2007		**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 offering	(vi)	341,250,000	4,388
At 31 December 2006 and 2007		**1,316,250,000**	**16,925**

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.

22. SHARE CAPITAL (continued)

(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.

(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.

23. SPECIAL RESERVE

The special 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.

24. 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.

No option has been granted or agreed to be granted to any person under the Share Option Scheme since its adoption.

25. ACQUISITION OF A SUBSIDIARY

On 24 December 2007, HannStar Board (Hong Kong) Holdings Limited (HannStar HK), a wholly owned subsidiary of the Company entered into an agreement with HannStar Board Precision (SAMOA) Holding Corp., a wholly owned subsidiary of HannStar Taiwan for the acquisition by HannStar HK the entire issued share capital of HannStar Precision Technology (Jiangyin) Corporation ("HannStar Precision") for a consideration of US$1,900,000. This acquisition has been accounted for using the purchase method.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination US$'000	Fair value adjustments US$'000	Fair value US$'000
Net assets acquired:			
Property, plant and equipment	1,362	–	1,362
Inventories	136	–	136
Trade and other receivables	117	–	117
Bank balances and cash	450	–	450
Trade and other payable	(165)	–	(165)
	1,900	–	1,900
Total consideration satisfied by:			
Cash			1,900
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,900)
Bank balances and cash acquired			450
			(1,450)

HannStar Precision did not contribute significant profit or loss to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total group revenue for the year would have been approximately US$504,409,000, and profit for the year would have been approximately US$57,995,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be a projection of future results.

26. DISPOSAL OF A SUBSIDIARY

On 3 April 2006, the Group disposed of its entire interests in 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)
	–

27. MAJOR NON-CASH TRANSACTIONS

At the balance sheet date, there were amounts payable of approximately US$19,425,000 (2006: US$16,597,000) in relation to the acquisition of property, plant and equipment during the year ended 31 December 2007.

28. OPERATING LEASE ARRANGEMENT

The Group as lessor

Property rental income earned during the year was approximately US$11,000 (2006: US$29,000).

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

	2007 US$'000	2006 US$'000
Within one year	**–**	11
In the second to fifth year inclusive	**–**	11
	–	22

29. CAPITAL COMMITMENTS

	2007 US$'000	2006 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**4,520**	8,698

30. 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:

	2007 US$'000	2006 US$'000
Property, plant and equipment	111,842	43,769
Prepaid lease payments	1,195	1,690
Bank deposits	11,148	46,615
	124,185	92,074

31. 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 costs 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 specified contributions.

32. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company is as follows:

	Note	2007 US$'000	2006 US$'000
TOTAL ASSETS		193,767	165,564
TOTAL LIABILITIES		(26,958)	(629)
NET ASSETS		166,809	164,935
CAPITAL AND RESERVES			
Share capital		16,925	16,925
Reserves	(i)	149,884	148,010
TOTAL EQUITY		166,809	164,935

32. BALANCE SHEET OF THE COMPANY (continued)

Note:

(i) Reserves of the Company

	Share premium US$'000	Contributed surplus US$'000	Translation reserve US$'000	Accumulated profits US$'000	Total US$'000
Shares issued at premium through initial public offering	69,788	–	–	–	69,788
Shares 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
Exchange differences arising on translation of assets and liabilities to presentation currency recognised directly in equity	–	–	599	–	599
Profit for the year	–	–	–	8,857	8,857
Total recognised income and expense for the year	–	–	599	8,857	9,456
Dividend paid	–	–	–	(7,582)	(7,582)
At 31 December 2007	**58,119**	**82,140**	**599**	**9,026**	**149,884**

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.

33. RELATED PARTY DISCLOSURES

(a) Related party transactions

Name of related party	Transaction	2007 US$'000	2006 US$'000
HannStar Taiwan	Sales of goods	**–**	16,036
	Purchase of plant and machinery	**–**	496
	Subcontracting fee payable	**14,771**	9,127
	License fee paid for use of machinery and equipment	**3,321**	–
	Service fees and ancillary expenses in respect of the use of machinery and equipment	**2,912**	–
	Acquisition of HannStar Precision	**1,900**	–
	Disposal of HannStar Precision	**–**	2,995
	Underwriters laboratories certification and computer service fee paid	**37**	74
HannStar (BVI)	Interest expense	**1,012**	–
HannStar Precision	Rental income received	**11**	8

(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 17.

(c) Compensation of key management personnel

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

	2007 US$'000	2006 US$'000
Short-term benefits	**296**	531

34. SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries at 31 December 2007 are set out below:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital/ registered capital	Interest holdings Direct %	Interest holdings Indirect %	Principal activities
HannStar Samoa	Independent State of Samoa	US$52,000,000	100	–	Investment holding
Hannstar Board Holdings (Hong Kong) Limited	Hong Kong	HK$1	100	–	Investment holding
Walsin Board Corporation	Republic of China	US$110,000	100	–	Manufacturing and sales of PCB
HannStar Jiangyin*	PRC	US$70,000,000	–	100	Manufacturing and sales of PCB
HannStar Precision*	PRC	RMB24,241,200	–	100	Manufacturing and sales of PCB

* HannStar Jiangyin and HannStar Precision are wholly foreign owned enterprises.

None of the subsidiaries had issued any debt securities at the end of the year.

Financial Summary

RESULTS

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Revenue	22,228	76,362	170,279	304,487	**504,399**
Profit for the year	1,628	9,110	23,431	30,801	**58,068**

ASSETS AND LIABILITIES

	As at 31 December				
	2003	2004	2005	2006	**2007**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Total assets	63,395	166,348	310,479	484,869	**672,404**
Total liabilities	43,328	118,170	223,561	314,942	**441,091**
Shareholders' funds	20,067	48,178	86,918	169,927	**231,313**

Note:

The Company was incorporated in the Cayman Islands on 17 May 2006 and became the holding company of the Group with effect on 21 September 2006 as a result of group reorganisation as set out in the prospectus dated 26 September 2006 issued by the Company.

The results of the Group for each of the three years ended 31 December 2005 and the assets and liabilities of the Group as at 31 December 2003, 2004 and 2005 have been prepared on a combined basis as if the group structure had been in existence throughout the years concerned and have been extracted from the Company's prospectus dated 26 September 2006.