

Management Discussion and Analysis

Overview

The Board of Directors (the "Board") is pleased to announce the unaudited consolidated interim results of Kwang Sung Electronics H.K. Co. Limited (the "Company") and its subsidiary (collectively known as the "Group") for the six months ended 30 June 2004.

During the first half year, the Group recorded 26.6% growth in turnover to HK\$274.7 million (Six months ended 30 June 2003: HK\$216.9 million). However, affected by the increase in materials cost and customers' pricing pressure, gross margin decreased from 24.3% to 18.6%. Investment in strengthening research and development functions in Korea and hiring new staff to support business growth incurred increased operating expenses. Operating expenses against turnover rose 1.2% during the period. All in account, the Group's net profit decreased by 21.2% to HK\$24.8 million (Six months ended 30 June 2003: HK\$31.5 million).

Business and Financial Review

Composite components business

Driven by both the organic growth of home audio components and rapid development of tuner modules business for car audios, the Group's composite components business achieved a total revenue of HK\$215.3 million (Six months ended 30 June 2003: HK\$151.8 million), representing an increase of 41.9% over the corresponding period last year.

管理層討論及分析

總覽

光星電子香港有限公司（「本公司」）董事會（「董事會」）欣然提呈本公司及其附屬公司（統稱「本集團」）截至二零零四年六月三十日止六個月之未經審核綜合中期業績。

於上半年度，本集團的營業額錄得 26.6% 增長至 274,700,000 港元（截至二零零三年六月三十日止六個月：216,900,000 港元）。然而，受原材料成本上升及來自客戶的價格壓力，毛利率由去年的 24.3% 下降至 18.6%。為支持業務增長，集團於期內致力加強韓國研發中心的實力及聘請新員工，經營開支因而上升。期內經營開支與營業額之比例增加了 1.2%。基於以上種種因素，本集團整體純利因而下降 21.2% 至 24,800,000 港元（截至二零零三年六月三十日止六個月：31,500,000 港元）。

業務及財務回顧

複合元件業務

受惠於家用音響元件的本體增長及汽車音響調諧器模組的急速發展，本集團的複合元件業務錄得營業額 215,300,000 港元（截至二零零三年六月三十日止六個月：151,800,000 港元），較去年同期上升 41.9%。

Home audio FM front-end tuners and AM/FM tuner modules continued to experience steady organic growth, while the newly developed car audio FM front-end tuners and AM/FM tuner modules reported encouraging growth in turnover. Trial order was successfully delivered to one of the largest car audio manufacturers in Korea.

FM front-end tuners for portable devices and newly launched switching mode power supplies ("SMPS") also perform well. Sales of these two products surged nearly three folds when compared with the corresponding period last year. Although the products only generated a small portion of the Group's total turnover at the moment, the Group believes their contribution will gradually increase and will become its one of the major growth drivers in the future.

During the review period, the Group also developed digital multimedia tuner modules for DAB (Digital Audio Broadcasting) of licensed models from RadioScape Limited as well as custom models for the Group itself. The Group plans to start to test DAB market with the licensed models in the second half of 2004 and will gradually launch its self-developed custom models in the near future.

Unit electronic components business

For the six months ended 30 June 2004, turnover generated from unit electronic components business decreased by 8.9% to HK\$59.4 million (Six months ended 30 June 2003: HK\$65.2 million). It accounted for 21.6% of the Group's total turnover (Six months ended 30 June 2003: 30.0%). This reflected that more customers are changing to purchase composite components instead of purchasing unit electronic components for their production.

家用音響之FM前端調諧器及AM/FM調諧器模組繼續錄得平穩之本體增長，至於新開發的汽車音響之FM前端調諧器及AM/FM調諧器模組的營業額則錄得令人鼓舞之增長，本集團已成功付運試用訂單予韓國其中一家最大的汽車音響製造商。

可攜式裝置之FM前端調諧器及新推出的開關電源器(「SMPS」)亦錄得令人滿意的表現。其中兩項產品之銷售額更較去年同期增加接近三倍。儘管現時該兩項產品只佔本集團總營業額的一小部份，本集團相信其貢獻將逐漸提升，並成為本集團未來的主要增長動力之一。

於回顧期內，本集團已開發DAB(數碼音響廣播)之多媒體調諧器模組，乃為RadioScape Limited所開發的特許型號產品及集團自行開發的訂製型號產品。本集團計劃於二零零四年下半年開始於DAB市場測試特許型號產品，並於不久將來逐步推出自行研發的訂製型號產品。

單位電子元件業務

截至二零零四年六月三十日止六個月，來自單位電子元件業務之營業額減少8.9%至59,400,000港元(截至二零零三年六月三十日止六個月：65,200,000港元)，其佔本集團總營業額之21.6%(截至二零零三年六月三十日止六個月：30.0%)。這主要反映有更多客戶從採購單位電子元件用於本身生產，改為採購複合元件。

In operation for a year, the work of the Group's Korea research and development centre is on track. During the review period, it successfully developed multi-layer LC filters, which are applicable not only to 2.4 GHz ISM (Industrial, Scientific and Medical) Band wireless LAN and 5.8 GHz ISM Band wireless LAN but also for digital multimedia tuner modules. There is plan to commercialize these products during the second half of 2004.

Operating expenses

Total operating expenses for the six months ended 30 June 2004 was HK\$24.4 million (Six months ended 30 June 2003: HK\$16.6 million). These expenses represented 8.9% of the Group's turnover for the six months ended 30 June 2004 (Six months ended 30 June 2003: 7.7%). The increase primarily reflected enhancement in research and development functions and increase in staff costs from hiring new staff to support business growth.

Taxation

Taxation expenses amounted to HK\$2.4 million for the six months ended 30 June 2004 (Six months ended 30 June 2003: HK\$3.2 million). The effective tax rate for the six months ended 30 June 2004 was 8.8% (Six months ended 30 June 2003: 9.3%).

本集團位於韓國的研發中心投入服務經已一年，運作已上軌道。於回顧期內，該中心成功研發出多層LC過濾器，此產品不但能應用於2.4 GHz ISM（工業性、科學性及醫學性）頻帶無線區域網路以及5.8 GHz ISM 頻帶無線區域網路，亦能應用於數碼多媒體調諧器模組。本集團計劃於二零零四年下半年將這些產品商品化。

經營開支

截至二零零四年六月三十日止六個月之總經營開支為24,400,000港元（截至二零零三年六月三十日止六個月：16,600,000港元）。此等開支佔本集團截至二零零四年六月三十日止六個月營業額之8.9%（截至二零零三年六月三十日止六個月：7.7%）。此升幅主要由於本集團於期內為支持未來業務增長而加強研發能力及聘請新員工令員工成本上升所致。

稅項

截至二零零四年六月三十日止六個月，稅項開支為2,400,000港元（截至二零零三年六月三十日止六個月：3,200,000港元），而期內的實際稅率為8.8%（截至二零零三年六月三十日止六個月：9.3%）。

Prospects

Facing difficult global economic environment for manufacturing business, there are continued concerns in uncertainty in materials cost, customers' pricing pressure and increased operating expenses. These factors would continue to influence our profitability for the rest of 2004. For minimizing these impacts, the Group is currently in the process of rationalizing its product mix by introducing new economical models and development of advanced products featuring sophisticated functions with higher profitability.

Second half of the year is traditionally peak season for the electronics industry and for the Group. The successful outsourcing experience of several reputable customers as well as car audio manufacturers is expected to boost the outsourcing trend in the industry and serve as good reference to small-to-medium sized companies. The Group expects the home audio sector to see continuous organic growth. To fully capture these business opportunities, the Group will strive to expand its customer base as well as product application.

In addition to home audio application, car audio and portable devices application will emerge to become the Group's two other major revenue contributors. Car audio sector is expected to record strong growth in the second half of the year. The Group has obtained full approval from one of the largest automobile manufacturers in Korea and several approvals from two other automobile manufacturers in Korea to supply quality car audio components. Gradual sales order increase from these customers are expected to be fulfilled during the second half of the year, generating another source of stable revenue to the Group and helping to diversify its customer base. In addition, the fast proliferation of MP3 player and successful launch of mobile handset application are expected to contribute more revenue.

前景

面對全球經濟困景，製造業繼續受到原材料成本上升、客戶的價格壓力，以及經營開支上升等因素困擾。這些因素亦將繼續影響本集團於二零零四年下半年的盈利能力。為減輕這些影響，本集團現正推出斬新兼更有效益的產品，並透過開發具備多元化功能及高利潤的先進產品，令本集團的產品組合更趨完善。

下半年度向來是電子業及本集團的旺季，加上數個著名客戶及汽車音響製造商成功的外判經驗，預計將令業內的外判趨勢更為普及，並為中小企提供良好參考作用。本集團預期家用音響業務之本體增長將持續。為全面把握這些湧現的商機，本集團亦將致力擴大客戶群以及產品應用。

除了家用音響應用，汽車音響以及可攜式裝置應用將成為本集團另外兩個主要收入來源。預期汽車音響業務將於下半年錄得強勁增長。本集團已獲得韓國其中一家最大的汽車生產商及韓國另外兩家汽車生產商的確認，為其供應優質汽車音響元件。預期這些客戶的銷售訂單於下半年將逐步增加，為本集團帶來另一穩定的收入來源，令本集團的客戶群更多元化。此外，MP3播放機的普及和流動電話應用的成功推出，預期將為本集團的營業額帶來更大貢獻。

The Group has completed the development of a new category of unit electronic components – multi-layer LC filters and is going to set up test production line in Korea research and development centre during the second half of 2004. As the Group plans to start marketing for target customers with trial product manufactured, this product shall generate revenue from the end of 2004 and the revenue is expected to grow gradually in the near future.

With digital application gaining popularity, the Group anticipates growing demand for digital components from 2005. As one of the pioneer in the industry, the Group plans to start shipping digital multimedia tuner modules for customers' trial order and testing during the second half of 2004. The demand for SMPS will also increase as it is vital for facilitating miniaturization and ensuring the lightweight of products. Leveraging its long term and close relationships with reputable customers, the Group is optimistic about its smooth transition from the analogue era into the digital era in the coming years.

Turning to the US market, as the development and commercialization of DAB standard in the US was slower than expected, the Group will delay introducing licensed models to the market till first half of 2005, and signing of license agreement with US licensor will accordingly be postponed to the end of 2004.

To meet the increasing demand for its different component products, the Group invested HK\$41.3 million in capital expenditure in the first half of the year to expand its production facilities and sharpen its research and development capabilities. Additionally, to facilitate better planning and utilization of resources, a new ERP project will be fully implemented during the third quarter. Supported by such strong facilities, the Group is well prepared to capture the increasing demands ahead.

本集團已完成研發一個新類別的單位電子元件—多層LC過濾器，此產品的試驗生產線將於二零零四年下半年於韓國的研發中心成立。由於本集團計劃向目標客戶推廣已完成的試用產品，預期這產品將於二零零四年底為本集團帶來收入貢獻，並於不久將來逐步提升。

隨著數碼應用漸趨普遍，本集團預期數碼元件的需求將自二零零五年開始上升。作為行業的先驅之一，本集團計劃於二零零四年下半年開始付運數碼多媒體調諧器模組至客戶試用。由於開關電源器是生產微型及輕便產品中不可或缺的元件，其需求亦將逐步上升。憑藉與著名客戶長期而緊密的關係，本集團對於未來數年能夠由類比年代順利過渡至數碼年代感到相當樂觀。

至於美國市場方面，由於美國的DAB標準發展及商業化比預期緩慢，本集團將延遲引入特許型號產品至二零零五年上半年，而與美國特許商簽訂的協議則因應地延期至二零零四年底。

為應付市場對不同元件的需求上升，本集團於上半年投資41,300,000港元作為資本開支，以擴充生產設施，並提升研發能力。此外，為達致最佳的資源策劃及利用，全新的企業資源計劃系統預期將於第三季完成。在強大的設施支持下，本集團已準備就緒，把握未來湧現之商機。

Liquidity and financial resources

The Group maintained a healthy liquidity position with an average cash level of HK\$123.7 million during the six months ended 30 June 2004. The Group had net current assets of HK\$242.6 million as at 30 June 2004 (31 December 2003: HK\$269.2 million). Shareholders' funds were HK\$321.3 million as at 30 June 2004 (31 December 2003: HK\$313.7 million).

Current ratio, being the ratio of current assets to current liabilities, was maintained at strong level of 3.48 (31 December 2003: 3.99). Gearing ratio, in terms of total liabilities to total assets, stood at 0.23 (31 December 2003: 0.22).

Foreign exchange exposure, hedging and off balance sheet financial instruments

The Group's purchases of raw materials were principally made in HKD, USD, RMB and Yen and the Group's sales were made in USD and HKD.

As the both HKD and RMB are pegged to the USD under the current exchange rate system in Hong Kong and the PRC, the Group is not exposed to significant foreign exchange risk in HKD, RMB and USD.

During the period under review, the Group adopted prudent treasury policies via forward contract to reduce foreign exchange exposure arising from fluctuation in Yen.

At 30 June 2004, there were no outstanding foreign currency forward contracts to hedge against the exposures to foreign currency fluctuations of trade payable denominated in Yen.

流動資金及財務資源

截至二零零四年六月三十日止六個月，本集團維持穩健的流動資金狀況，平均現金水平維持於123,700,000港元。本集團於二零零四年六月三十日之流動資產淨值為242,600,000港元（二零零三年十二月三十一日：269,200,000港元）。於二零零四年六月三十日之股東資金為321,300,000港元（二零零三年十二月三十一日：313,700,000港元）。

流動比率（流動資產與流動負債之比率）維持在3.48（二零零三年十二月三十一日：3.99）之強勁水平，而資產負債比率（即總負債與總資產之比率）為0.23（二零零三年十二月三十一日：0.22）。

外匯風險、對沖及賬外金融工具

本集團主要以港元、美元、人民幣及日圓採購原材料，而本集團之銷售則主要以美元及港元進行。

由於在香港及中國現行之匯率制度下，港元及人民幣均與美元掛鈎，故本集團並無因港元、人民幣及美元而承受重大之外匯風險。

於回顧期內，本集團採納保守之財務政策，藉遠期合約降低因日圓波動帶來之外匯風險。

於二零零四年六月三十日，本集團並沒有未到期之外幣遠期合約，以對沖日圓應付貿易款項所承受之外匯風險。

Acquisition and disposal

The Group did not have any material acquisition or disposal of subsidiary and associated company during the six months ended 30 June 2004.

Charges on assets

As at 30 June 2004 and 31 December 2003, there are no assets pledged to bank secure banking facilities of HK\$104 million.

Contingent liabilities

The Group did not have any significant contingent liability as at 30 June 2004 and 31 December 2003.

Employees and remuneration policies

As at 30 June 2004, the Group had about 2,011 employees of whom 34 were based in Hong Kong (31 December 2003: 28), 1,961 in the Group's factories in Shenzhen, the PRC (31 December 2003: 1,798) and 16 in the Group's research and development centre in Korea (31 December 2003: 9).

For the six months ended 30 June 2004, staff costs increased to HK\$25.7 million (Six months ended 30 June 2003: HK\$19.7 million) as more staff were hired during the review period. Our employees are remunerated according to their performance, working experiences and market conditions. In addition to basic salaries and retirement schemes, staff benefits include a medical scheme, discretionary share options and performance bonuses.

收購及出售事項

截至二零零四年六月三十日止六個月內，本集團並無任何收購或出售附屬公司及聯營公司之重大事項。

資產之抵押

於二零零四年六月三十日及二零零三年十二月三十一日，本集團並無抵押任何資產予銀行，以取得銀行備用信貸額 104,000,000 港元。

或然負債

本集團於二零零四年六月三十日及二零零三年十二月三十一日並無任何重大或然負債。

僱員及酬金政策

於二零零四年六月三十日，本集團約有 2,011 名僱員，其中 34 名駐守香港（二零零三年十二月三十一日：28 名），1,961 名駐守本集團位於深圳之廠房工作（二零零三年十二月三十一日：1,798 名），而 16 名則駐守本集團位於韓國之研發中心（二零零三年十二月三十一日：9 名）。

截至二零零四年六月三十日止六個月，由於本集團於回顧期內增聘更多員工，員工成本上升至 25,700,000 港元（截至二零零三年六月三十日止六個月：19,700,000 港元）。本集團僱員之酬金是根據彼等之表現、工作經驗及市況釐定。除基本薪金及退休計劃，員工福利亦包括醫療計劃、酌情購股權及表現花紅。