

## INTERIM DIVIDEND

The Board of Directors (the “Board”) has resolved to declare an interim dividend of HK0.7 cents per share for the six months ended 30 June 2006 (Six months ended 30 June 2005: HK1.3 cents). Dividend cheques will be dispatched by mail on or about 13 October 2006 to shareholders whose names are registered in the register of members on 6 October 2006.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of Kwang Sung Electronics H.K. Co. Limited (the “Company”) will be closed from 3 October 2006 to 6 October 2006, both dates inclusive, during which period, no transfer of shares will be effected. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Standard Registrars Limited, at Level 25, Three Pacific Place, 1 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 29 September 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

During the review period, turnover from the Company and its subsidiary (the “Group”) major products such as tuner modules for home audios and portable devices dropped. The declining demand for analog products at the unfolding of the digital era was the cause of the drop, despite satisfactory growth in turnover of tuner modules for car audios. As a result, the Group’s turnover for the period under review was HK\$270,374,000, a slight decrease of HK\$12,199,000 or 4.3% against the HK\$282,573,000 in the corresponding period last year.

## 中期股息

董事會(「董事會」)議決宣派截至二零零六年六月三十日止六個月中期股息每股0.7港仙(截至二零零五年六月三十日止六個月：1.3港仙)。股息支票將約於二零零六年十月十三日郵寄予於二零零六年十月六日名列股東名冊之股東。

## 暫停辦理股份過戶登記

光星電子香港有限公司(「本公司」)將於二零零六年十月三日至二零零六年十月六日(包括首尾兩天)暫停辦理股東登記，期間不會辦理任何股份過戶登記手續。為符合資格收取中期股息，所有辦妥之過戶文件連同有關股票，最遲須於二零零六年九月廿九日下午四時正前送達本公司之股份過戶登記處標準證券登記有限公司，地址為香港皇后大道東1號太古廣場3座25樓。

## 管理層討論及分析

### 財務回顧

於回顧期內，本公司及其附屬公司(「本集團」)的主要產品(如家用音響調諧器模組及可攜式裝置調諧器模組)的營業額下跌。此主要由於目前正處於邁向數碼時代的過渡時期，市場對類比產品的需求日漸下降所致。然而，汽車音響調諧器模組的營業額仍錄得滿意的增長。因此，本集團於回顧期內的營業額較去年同期的282,573,000港元輕微下降12,199,000港元或4.3%至270,374,000港元。

Despite the decrease in turnover, gross profit improved by 34.7% to HK\$43,987,000 (Six months ended 30 June 2005: HK\$32,661,000). Gross profit margin was 16.3% for the six months ended 30 June 2006 compared with 11.6% for the corresponding period last year. Improvement in gross profit and gross profit margin was the combined results of effective cost reduction measures, increased manufacturing efficiencies, and changes in product mix.

Other revenue was HK\$5,598,000 for the six months ended 30 June 2006, compared with HK\$3,231,000 for the corresponding period last year. The increase was primarily from the compensation income of HK\$1,273,000 received from a customer and a HK\$1,264,000 gain on disposal of fixed assets.

Operating expenses for the six months ended 30 June 2006 totalled HK\$41,806,000, an increase of 48.2% over the corresponding period last year (Six months ended 30 June 2005: HK\$28,216,000). Operating expenses as a percentage of turnover was 15.5% (Six months ended 30 June 2005: 10.0%).

Research and development expenses increased substantially by HK\$8,610,000 or 70.1% to HK\$20,896,000 from the HK\$12,286,000 spent in the corresponding period last year. The increase represented costs associated with upgrading existing products and developing new digital products.

The Group recorded a provision for income tax of HK\$868,000 for the six months ended 30 June 2006 (Six months ended 30 June 2005: HK\$1,006,000), representing an effective tax rate of 11.2% (Six months ended 30 June 2005: 13.1%).

儘管營業額有所下跌，惟毛利仍增加34.7%至43,987,000港元(截至二零零五年六月三十日止六個月：32,661,000港元)。截至二零零六年六月三十日止六個月的毛利率為16.3%，去年同期則為11.6%。毛利及毛利率均有所改善，主要因為本集團推行之成本削減計劃、提升生產效率及改變產品組合等策略奏效所致。

截至二零零六年六月三十日止六個月之其他收益為5,598,000港元，去年同期則為3,231,000港元。升幅主要來自客戶的1,273,000港元補償收入及出售固定資產的1,264,000港元收入。

截至二零零六年六月三十日止六個月的經營開支合共為41,806,000港元，較去年同期上升48.2%(截至二零零五年六月三十日止六個月：28,216,000港元)。經營開支佔營業額15.5%(截至二零零五年六月三十日止六個月：10.0%)。

研發開支較去年同期的12,286,000港元大幅上升8,610,000港元或70.1%至20,896,000港元，主要用於提升現有產品質素及開發新數碼產品。

本集團截至二零零六年六月三十日止六個月的所得稅撥備為868,000港元(截至二零零五年六月三十日止六個月：1,006,000港元)，實際稅率為11.2%(截至二零零五年六月三十日止六個月：13.1%)。

All circumstances taken into account, the Group reported a profit after taxation attributable to equity shareholders of HK\$6,911,000 for the six months ended 30 June 2006, a slight increase of HK\$241,000 or 3.6% as compared to HK\$6,670,000 achieved in the corresponding period last year.

### Liquidity and Financial Resources

The Group maintained a healthy liquidity position with a cash and cash equivalents of HK\$141,277,000 as at 30 June 2006 (31 December 2005: HK\$173,234,000). The Group had net current assets of HK\$256,871,000 as at 30 June 2006 (31 December 2005: HK\$264,613,000). Shareholders' funds were HK\$352,267,000 as at 30 June 2006 (31 December 2005: HK\$350,738,000).

Its current ratio, being the ratio of current assets to current liabilities, was maintained at strong level of 3.91 (31 December 2005: 3.96), and its gearing ratio, in terms of total liabilities to total assets, stood at 0.20 (31 December 2005: 0.21).

### Foreign Exchange Exposure, Hedging and Off Balance Sheet Financial Instruments

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in United States Dollars ("USD") and Japanese Yen ("JPY") and its operating expenses in Korea are paid in Korean Won ("KRW").

綜合以上各種因素，截至二零零六年六月三十日止六個月，本集團股本持有人之應佔除稅後溢利為6,911,000港元，較去年同期的6,670,000港元輕微增加241,000港元或3.6%。

### 流動資金及財務資源

於二零零六年六月三十日，本集團維持穩健的流動資金狀況，現金及現金等價物維持於141,277,000港元（二零零五年十二月三十一日：173,234,000港元）。本集團於二零零六年六月三十日的流動資產淨值為256,871,000港元（二零零五年十二月三十一日：264,613,000港元），而於二零零六年六月三十日的股東資金為352,267,000港元（二零零五年十二月三十一日：350,738,000港元）。

流動比率（流動資產與流動負債的比率）維持在3.91（二零零五年十二月三十一日：3.96）的強勁水平，而資產負債比率（即總負債與總資產的比率）為0.20（二零零五年十二月三十一日：0.21）。

### 外匯風險、對沖及賬外金融工具

本集團的外匯風險主要來自銷售與採購，其貨幣為美元（「美元」）及日圓（「日圓」），而韓國營運支出為韓圓（「韓圓」）。

As USD is pegged to Hong Kong Dollars (“HKD”), the Group does not expect any significant fluctuation in the USD/HKD exchange rate. For other currencies, like JPY and KRW, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

As the Group’s production plants are based in the Mainland China, most wages and salaries and factory overhead are denominated in Renminbi (“RMB”). However, as the fluctuation of the RMB has been mild so far, the directors are of the view that it is not necessary for the Group to purchase any forward foreign exchange contract to hedge against exchange risks, but the Group will closely monitor exchange rate fluctuations.

#### Investing Activities

The Group did not make any material acquisition or disposal of subsidiary and associated company during the six months ended 30 June 2006.

#### Charges on Assets

As at 30 June 2006, there were no assets pledged to bank to secure banking facilities of HK\$104,000,000 (31 December 2005: HK\$104,000,000).

#### Contingent Liabilities

The Group did not have any significant contingent liability as at 30 June 2006 and 31 December 2005.

由於美元與港元(「港元」)掛鈎，本集團預期美元兌港元之匯率不會出現重大波動。就日圓及韓圓等其他外幣而言，本集團在有需要的情況下按即期匯率購入或出售外幣以處理短期之不均衡情況，藉以確保風險淨額維持於可接受之水平。

由於本集團的生產廠房位於中國，大部分工資及薪酬以及廠房日常支出均以人民幣(「人民幣」)為單位。然而，到目前為止人民幣的波動僅屬輕微，故董事認為本集團毋須認購任何遠期外匯合約以對沖外匯風險，但本集團仍將密切監察匯率波動。

#### 投資活動

截至二零零六年六月三十日止六個月，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。

#### 資產抵押

於二零零六年六月三十日，本集團並無抵押任何資產予銀行，以取得104,000,000港元之銀行備用信貸(二零零五年十二月三十一日：104,000,000港元)。

#### 或然負債

本集團於二零零六年六月三十日及二零零五年十二月三十一日並無任何重大或然負債。

## Employees and Remuneration Policy

As at 30 June 2006, the Group had about 2,190 employees of whom 39 were based in Hong Kong (31 December 2005: 41), 2,042 in Mainland China (31 December 2005: 1,968) and 109 in Korea (31 December 2005: 83).

For the six months ended 30 June 2006, staff costs increased to HK\$40,571,000 (Six months ended 30 June 2005: HK\$31,296,000) as more staff were hired in Korea. Our employees are remunerated according to their performance, working experiences and market conditions. In addition to basic salaries and retirement schemes, staff benefits include medical schemes, discretionary share options and performance bonuses.

## Business Review

### Composite Components Business

Composite components business continues to be the major revenue source of the Group. For the six months ended 30 June 2006, turnover of this business segment amounted to HK\$204,554,000, a decrease of 11.6% when compared with HK\$231,332,000 for the same period in 2005. It accounted for 75.7% of the Group's total turnover during the review period (Six months ended 30 June 2005: 81.9%). The drop in overall turnover of the segment was the result of decrease in turnover of tuner modules for home audios and portable devices although turnover of tuner modules for car audio grew.

## 僱員及酬金政策

於二零零六年六月三十日，本集團約有2,190名僱員，其中39名駐守香港（二零零五年十二月三十一日：41名），2,042名駐守中國（二零零五年十二月三十一日：1,968名），而109名則駐守韓國（二零零五年十二月三十一日：83名）。

截至二零零六年六月三十日止六個月，由於本集團於韓國增聘更多員工，故員工成本上升至40,571,000港元（截至二零零五年六月三十日止六個月：31,296,000港元）。本集團僱員之酬金是根據彼等的表現、工作經驗及市況釐定。除基本薪金及退休計劃外，員工福利亦包括醫療計劃、酌情購股權及表現花紅。

## 業務回顧

### 複合元件業務

複合元件業務繼續為本集團的主要收益來源。截至二零零六年六月三十日止六個月，複合元件業務的營業額較二零零五年同期的231,332,000港元下降11.6%至204,554,000港元，佔本集團期內的總營業額75.7%（截至二零零五年六月三十日止六個月：81.9%）。此業務的整體營業額下降主要由於家用音響調諧器模組及可攜式裝置調諧器模組的營業額下跌所致。然而，汽車音響調諧器模組的營業額仍錄得增長。

The tuner modules for car audios achieved strong organic growth of 36.9% during the period under review against the same period last year, delivering a turnover of HK\$48,435,000. With consumer pick up of portable devices such as MP3 players saturating, turnover of tuner modules for portable devices was HK\$12,081,000 during the period, a drop of 55.4% against the same period last year. The turnover of tuner modules for home audios was HK\$103,204,000, down 19.3%, reflecting the change in consumer taste for home use audio equipment and dwindling customer demand for analog products.

The Group launched digital tuner modules for digital audio broadcasting ("DAB") and digital multimedia broadcasting ("DMB") in the review period. Still in the early adoption stage, they did not bring in significant revenues, however, the customers' responses were encouraging and positive. The Group believes its tuner modules for DAB and DMB have much room to grow in the market and is prepared to seize every opportunity in the budding market.

Apart from the products mentioned above, the wireless solutions including the wireless speaker system for home theatre in-a-box which was launched in mid 2005 offered stable contribution to the Group during the review period with the turnover amounted to HK\$19,550,000.

相比去年同期，汽車音響調諧器模組於回顧期內繼續錄得強勁的本體增長，達36.9%，營業額為48,435,000港元。鑑於MP3播放機等可攜式裝置的消費市場逐漸飽和，故本集團期內之可攜式裝置調諧器模組業務的營業額為12,081,000港元，較去年同期下跌55.4%。家用音響調諧器模組的營業額亦減少19.3%至103,204,000港元，這主要是由於客戶喜愛的家用音響種類有所改變，以及客戶對類比產品的需求日漸下降所致。

回顧期內，本集團推出數碼音響廣播（「DAB」）及數碼多媒體廣播（「DMB」）的數碼調諧器模組，雖然產品仍在應用初期，並未帶來顯著收益貢獻，然而客戶有令人鼓舞及正面的反應。本集團相信，DAB及DMB的調諧器模組在市場擁有龐大的增長空間，因此已準備就緒，把握這個新興市場湧現的每一個機會。

除了上述產品以外，本集團已於二零零五年中推出應用於家庭影院的無線解決方案（包括無線擴音器系統）。於回顧期內，該產品為本集團帶來穩定的貢獻，營業額達19,550,000港元。

## Unit Electronic Components Business

Turnover generated from unit electronic components business for the six months ended 30 June 2006 increased by 28.5% to HK\$65,820,000 (Six months ended 30 June 2005: HK\$51,241,000), accounting for 24.3% of the Group's total turnover (Six months ended 30 June 2006: 18.1%). The increase is mainly attributable to the new coils' design-in on circuit boards customized for use in our customers' new products such as car audios and amplifier modules.

## Prospects

Looking forward, with the car audio market thriving and the digitalization trend prevailing, the Group expects tuner modules for car audios to continue to deliver satisfactory growth. The future performance of tuner modules for home audios and portable devices, however, will depend largely on the progress of the Group's digital tuner modules operation.

To effectively ride the digitalization tide, the Group has invested ample resources in research and development. It expects digital tuner modules for DAB and DMB to generate encouraging turnover contributions in the second half year. In addition, to develop tuner modules for digital high-definition radio ("HD radio"), the Group signed an intellectual property license and marketing support contract with iBiquity Digital Corporation in the United States in June. The contract will facilitate development of tuner modules for HD radio with hybrid In-band on-channel ("IBOC") technology. Originated in the United States, IBOC is another backbone digitalization technology used by the audio broadcasting industry in the country.

## 單位電子元件業務

截至二零零六年六月三十日止六個月，單位電子元件業務之營業額上升28.5%至65,820,000港元（截至二零零五年六月三十日止六個月：51,241,000港元），佔總營業額的24.3%（截至二零零五年六月三十日止六個月：18.1%）。增幅主要來自本公司客戶的新產品（例如汽車音響及擴音器模組）使用的電路板新設計線圈。

## 前景

展望未來，隨著汽車音響市場迅速發展，加上市場走向數碼化的趨勢，本集團預期汽車音響調諧器模組將繼續取得令人滿意的增長。然而，家用音響和可攜式裝置調諧器模組的未來表現則須視乎本集團數碼調諧器模組業務的進展。

為更有效把握這數碼化熱潮，本集團在研究及發展方面投入大量資源，並預期下半年DAB及DMB數碼調諧器模組將帶來可觀的營業額貢獻。此外，本集團於六月與美國公司iBiquity Digital Corporation簽訂知識產權許可及市場推廣支援合約，發展用於高清收音機（「HD radio」）的調諧器模組。該合約協助發展用於採納混合In-band on-channel（帶內同頻）（「IBOC」）技術的HD radio的調諧器模組。IBOC技術為另一項由美國率先開發專為音響廣播行業而設的數碼骨幹科技。

Heading the declining demand for analog tuner modules for home audios and portable devices and the impending requirement for tuner modules for car audios to incorporate HD radio function, the Group is cautiously planning to shift emphasis on tuner modules for DAB, DMB and HD radio in the near future. The Group expects to launch its IBOC tuner modules in the US market in early 2007.

To keep pace with changing end-user market trends and seize opportunities in the digital era, the Group is transforming its operations. As an upstream supplier in the supply chain of electronic products, the Group's success hinges on its ability to innovate and develop value-added products, and this makes investment in research and development critical. In the days forward, to brace itself for challenges in the market and sustainable growth, the Group will continue to inject considerable resources into research and development to facilitate design and refinement of its core products and also to strengthen its core competence.

### Investor Relations

The Group values its relationship with investors and is committed to maintaining transparency of the Group's management philosophy, operational performance and strategic development plans. During the review period, the Group arranged meetings with fund managers and analysts to share and exchange opinions. The Company also practises timely dissemination of information and makes sure its website [www.kse.com.hk](http://www.kse.com.hk) containing the most current information, including interim reports, annual reports, announcements, press releases and other corporate updates.

有見家用音響和可攜式裝置的類比調諧器模組的需求正不斷下跌，以及有關汽車音響調諧器模組須附帶HD radio功能的規定即將生效，本集團正謹慎籌劃於短期內把業務重心轉移至發展DAB、DMB及HD radio調諧器模組。本集團預期將於二零零七年初在美國推出IBOC調諧器模組。

為緊貼最終客戶市場變化多端的潮流以及掌握數碼時代的機遇，本集團正就其營運作出調整。作為電子產品供應鏈的上游供應商，本集團的成功繫於開創和發展增值產品的能力，因此投資於研究及發展上實在是非常重要的。在未來的日子，為迎接市場上接踵而來的挑戰，以及達致長遠增長，本集團將繼續投放大量資源在研發活動上，務求設計和提升其核心產品，並加強其主要優勢。

### 投資者關係

本集團非常重視與投資者的關係，並致力維持本集團管理理念、營運表現和策略發展計劃的透明度。回顧期內，本集團安排與基金經理和分析員多次會面，分享和交流意見。本公司亦準時發佈消息，確保公司網站 [www.kse.com.hk](http://www.kse.com.hk) 載有最新消息，包括中期報告、年報、公佈、新聞稿和公司之其他最新資料。



## Corporate Social Responsibility

While the Company considers itself a part of the community, the community is a stakeholder of the Company and the Company recognizes its responsibility to improve the well-being of society. During the review period, the Group made charitable and other donation of HK\$780,000 (Six months ended 30 June 2005: HK\$680,000).

The Group is attentive to the health and work safety of its staff and also makes sure they are treated fairly. The Group conforms to the European Union's green requirements regarding manufacturing activities for all products to be subjected to Restriction of Hazardous Substances, and all managers and employees to be trained in health and work safety. The Group maintains appropriate safety systems and effective control to minimize staff exposure to potentially hazardous materials or adverse conditions at work. The Group also ensures that each employee enjoys equal opportunities, and no form of harassment or discrimination in respect of employment and occupation will be tolerated.

## DISCLOSURE OF INTERESTS AND OTHER INFORMATION

### Disclosure of Interests

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as

## 企業社會責任

作為社會其中一份子，本公司與社會有著密切的關係，亦明白有責任致力改善社會各階層的福利。回顧期內，本集團作出慈善及其他捐款780,000港元（截至二零零五年六月三十日止六個月：680,000港元）。

本集團一向關注僱員的健康及工作安全，同時確保他們獲得平等待遇。本集團的生產程序嚴格遵守歐盟環保指引，所有產品均符合有害物質限制條例的規定。本集團亦向經理及僱員提供有關健康及工作安全的培訓。此外，本集團亦設有適當的安全系統及有效控制措施，以減低僱員接觸有害物質或處於惡劣工作環境。本集團確保各僱員均享有平等機會，且不容許有關就業及職業的任何騷擾或歧視行為。

## 權益披露及其他資料

### 權益披露

董事及行政總裁於股份、相關股份之權益及淡倉

於二零零六年六月三十日，根據證券及期貨條例（「證券及期貨條例」）第352條須予備存的登記冊所載，或根據香港聯合交易所有限公司（「聯交所」）證券上市規則（「上市規則」）附錄10所載之上市發行人董事進行證券交易的標準守則