

REPORT OF THE DIRECTORS

董事會報告書

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the manufacture and sale of electronic components. The principal activities and other particulars of the subsidiary are set out in note 13 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 11 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	24%	
Five largest customers in aggregate	52%	
The largest supplier		18%
Five largest suppliers in aggregate		32%

Kwang Sung Electronics Co., Ltd. ("Kwang Sung Korea"), which is a major shareholder of the Company and beneficially owned by certain directors and their associates, is one of the five largest customers and suppliers of the Group. Further details are set out in the sections "Directors' Interests in Contracts" and "Connected Transactions" in the Report of the Directors.

Save as disclosed above, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

RESULTS AND APPROPRIATIONS

The profit of the Group for the year ended 31 December 2006 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 56 to 124 of this annual report.

An interim dividend of HK0.7 cents per share (2005: HK1.3 cents per share), was paid on 13 October 2006. The directors now recommend the payment of a final dividend to HK1.1 cents per share (2005: HK1.9 cents per share) in respect of the year ended 31 December 2006 to the shareholders on the register of members on 18 May 2007.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,560,000 (2005: HK\$1,345,000).

FIXED ASSETS

Details of movements in fixed assets during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of share capital of the Company are set out in note 23 to the financial statements. There were no movements during the year.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary has purchased, sold or redeemed any of the Company's listed securities during the year.

董事會全人謹將截至二零零六年十二月三十一日止年度的年報及經審核財務報表呈覽。

主要業務

本公司之主要業務為製造及銷售電子元件。附屬公司之主要業務及其他詳情載於財務報表附註13。

本集團本年度內按主要業務及地區分析之業務表現載列於財務報表附註11。

主要客戶及供應商

於本財政年度內，有關各主要客戶及供應商分別應佔本集團銷售額及購貨額之資料如下：

	佔本集團總額百分比	
	銷售	購買
最大客戶	24%	
五大客戶總和	52%	
最大供應商		18%
五大供應商總和		32%

株式會社光星電子（「韓國光星」）是本公司的主要股東，由若干董事及彼等之聯繫人士實益擁有，並為本集團之五大客戶及五大供應商之一。有關詳情載於董事會報告書內「董事在合約的利益」及「關連交易」各節。

除上文披露者外，於年內任何時間，各董事、彼等之聯繫人士或本公司之任何股東（據董事所知，擁有本公司已發行股本5%以上者），並無擁有該等主要客戶及供應商之權益。

業績及分派

本集團於截至二零零六年十二月三十一日止年度之溢利及本公司及本集團於該日事務之狀況載於本年報第56至124頁。

中期股息每股0.7港仙（二零零五年：每股1.3港仙）已於二零零六年十月十三日支付。董事現建議向二零零七年五月十八日名列股東名冊之股東支付截至二零零六年十二月三十一日止年度末期股息每股1.1港仙（二零零五年：每股1.9港仙）。

儲備

年內本公司及本集團儲備之變動詳情載於財務報表附註23。

捐款

本集團於年內之慈善及其他捐款為1,560,000港元（二零零五年：1,345,000港元）。

固定資產

固定資產之變動詳情載於財務報表附註12。

股本

年內本公司股本之變動詳情以及有關原因載於財務報表附註23。年內，股本並無變動。

購買、出售或贖回股份

年內，本公司及其附屬公司均無購買、出售或贖回本公司任何上市證券。

REPORT OF THE DIRECTORS

董事會報告書

DIRECTORS

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

Non-executive director:

Mr. Yang Ho Sung (*Chairman*)

Executive directors:

Mr. Yang Jai Sung

Mr. Kim Sun Cheol

Mr. Woo Nam Jin

Mr. Lee Kyu Young (appointed on 17 April 2007)

Independent non-executive directors:

Dr. Kim Chung Kweon

Dr. Han Byung Joon

Mr. Kim Chan Su

In accordance with Article 101 of the Company's Articles of Association, Mr. Yang Jai Sung, Mr. Yang Ho Sung and Mr. Woo Nam Jin shall retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 92 of the Company's Articles of Association, Mr. Lee Kyu Young, a newly appointed director, shall hold office until the forthcoming annual general meeting and shall then be subject to re-election at that meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or its subsidiary within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The interests and short positions of the directors and chief executive of the Company, who held office at 31 December 2006, 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")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they are deemed or taken to have under such provisions of the SFO, or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (collectively "discloseable interests") are as follows:

(i) Interests in Issued Shares of the Company

Name of directors	Ordinary shares of HK\$0.1 each				
	Beneficial owner	Interest of controlled corporations	Equity derivatives (note 2)	Total number of shares held	% of total issued shares
Mr. Yang Jai Sung	147,700,000	59,500,000 (note 1)	–	207,200,000	66.13%
Mr. Kim Sun Cheol	498,000	–	1,000,000	1,498,000	0.48%
Mr. Woo Nam Jin	–	–	1,000,000	1,000,000	0.32%

董事

本財政年度內及至本報告日期當日之董事如下：

非執行董事：

梁皓星先生 (主席)

執行董事：

梁在星先生

金善哲先生

禹南珍先生

李奎英先生 (於二零零七年四月十七日獲委任)

獨立非執行董事：

金正權博士

韓丙濬博士

金瓊洙先生

根據本公司之組織章程細則第101條，梁在星先生、梁皓星先生及禹南珍先生將於即將召開之股東週年大會輪值告退，惟合乎資格並願意膺選連任。

根據本公司之組織章程細則第92條，新委任董事李奎英先生之任期直至應屆股東週年大會完結時為止，惟合乎資格並願意於大會上膺選連任。

(i) 本公司已發行股份權益

董事姓名	實益擁有人	每股面值0.1港元之普通股			
		受控制法團 之權益	股本 衍生工具 (附註2)	持有之 股份總數	佔已發行 股份總數%
梁在星先生	147,700,000	59,500,000 (附註1)	-	207,200,000	66.13%
金善哲先生	498,000	-	1,000,000	1,498,000	0.48%
禹南珍先生	-	-	1,000,000	1,000,000	0.32%

董事服務合約

建議於即將召開之股東週年大會中連任之董事概無訂立本公司或其附屬公司於一年內不可在無需賠償(一般法定賠償除外)之情況下終止之尚未屆滿服務合約。

董事及行政總裁於股份、相關股份及債券之權益及空倉

於二零零六年十二月三十一日之本公司在職董事及行政總裁在本公司或其任何相聯法團(定義見證券及期貨條例(「證券及期貨條例」)第十五部)之股份、相關股份及債券中，擁有下列根據證券及期貨條例第十五部第7及8分部規定須知會本公司及香港聯合交易所有限公司(「聯交所」)之權益及空倉(包括根據證券及期貨條例有關規定，彼等被視為或認為擁有之權益或空倉)，或根據證券及期貨條例第352條規定須記錄於該條例所述之登記冊內之權益或空倉，或根據上市公司董事進行證券交易之標準守則須知會本公司及聯交所之權益或空倉(統稱「須予披露權益」)：

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Notes:

- (1) Mr. Yang Jai Sung and his relatives are interested in 79.5% of the issued share capital of Kwang Sung Korea and therefore Mr. Yang Jai Sung is deemed or taken to be interested in these ordinary shares which are beneficially owned by Kwang Sung Korea for the purpose of the SFO.
- (2) These represented interests of options granted to directors under the share option scheme to subscribe for shares of the Company. Further details are set out in the section "Share option scheme" below.

(ii) Interests in Underlying Shares

The directors and chief executive of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" below.

Save as disclosed above, at 31 December 2006, none of the directors and the chief executive of the Company or any of their spouses or, children under eighteen years of age had any discloseable interests.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 16 June 2003 whereby the directors of the Company are authorised, at their discretion, to invite employees, directors, consultants or advisors of the Group, to take up options to subscribe for shares of the Company. The purpose of this scheme is to provide incentives and rewards to employees and eligible persons for their contributions to the Group. The share option scheme shall be valid and effective for a period of ten years ending on 15 June 2013, after which no further options can be granted. The exercise price of options is the highest of (i) the nominal value of the shares; (ii) the closing price of the shares on the Stock Exchange on

the date of grant; and (iii) the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of grant. The options are exercisable progressively between one to three years from the date of grant and will expire at the end of a period to be notified by the Board to each option-holder upon the grant of option, and in any event, such period shall not exceed ten years from the date of grant.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the share option scheme shall not exceed 30% of the issued share capital of the Company from time to time. Subject always to the above overall limit, the directors may grant options under the share option scheme, generally and without further authority, in respect of such number of shares which may be issued upon exercise of all options to be granted under the share option scheme not exceeding 10% of the issued share capital of the Company as at 18 May 2005, being the date passing the resolution regarding the refreshment of general limit of options. For the purpose of calculating the above, options lapsed in accordance with the share option scheme shall not be counted.

The total number of ordinary shares available for issue under the share option scheme as at 31 December 2006 was 31,330,000 shares which represented 10% of the issued share capital of the Company at 31 December 2006. In respect of the maximum entitlement of each participant under the scheme, the total number of ordinary shares issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the Company's ordinary shares in issue, unless approved by the shareholders in general meeting.

附註：

- (1) 由於梁在星先生及其親屬擁有韓國光星已發行股本之79.5%權益，故此就證券及期貨條例而言，梁在星先生被視為或被認為擁有韓國光星實益擁有之該等股份之權益。
- (2) 該等權益指根據購股權計劃授予董事認購本公司股份之購股權權益，進一步詳情載於下文「購股權計劃」一節。

(ii) 相關股份權益

根據本公司之購股權計劃，本公司之董事及行政總裁已獲授予購股權，有關詳情載於下文「購股權計劃」一節。

除上文披露者外，於二零零六年十二月三十一日，概無本公司之董事及行政總裁或彼等之配偶或十八歲以下子女擁有任何須予披露之權益。

購股權計劃

本公司於二零零三年六月十六日採納一項購股權計劃。據此，本公司之董事獲授權酌情向本集團之僱員、董事、顧問及諮詢人提出接納可認購本公司股份之購股權之要約。計劃旨在向為本集團作出貢獻之僱員及合資格人士提供獎勵及報酬。購股權計劃將於截至二零一三年六月十五日止十年內一直有效及生效，其後將不得再授

出任何購股權。購股權之行使價為下列三項之較高者：(i)股份之面值；(ii)於授出日期股份於聯交所之收市價；及(iii)於緊接授出日期前五個營業日股份於聯交所之平均收市價。購股權可由授出日期起計一年至三年內逐步行使，並將於董事會授出購股權時通知各購股權持有人之期間終結時屆滿，惟該等期間不可超出授出日期起計十年。

於行使所有根據購股權計劃已授出惟未行使購股權時可能發行之股份總數量最多不得超過本公司不時已發行股本之30%。在一直遵守以上總限額之情況下，董事會可在一般及不再有進一步授權情況下授出購股權，所涉股份數目為於行使根據購股權計劃之所有購股權時可能發行之股數，其不超過本公司於二零零五年五月十八日（即更新購股權一般限額之決議案通過之日期）已發行股本之10%。就計算上述股份數目而言，根據購股權計劃而失效之購股權將不在計算之列。

於二零零六年十二月三十一日，購股權計劃下可供發行之普通股總數為31,330,000股股份，相當於二零零六年十二月三十一日本公司已發行股本之10%。就每一名參與者於計劃下可獲之最高配額，每名參與者於任何十二個月期間因行使授予彼等之購股權（包括已行使、註銷及尚未行使之購股權）已獲發行及將獲發行之普通股總數，不得超過本公司已發行普通股之1%，除非獲股東在股東大會上批准則作別論。

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As at 31 December 2006, the directors and employees of the Group and certain eligible persons had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2006 was HK\$1.65) granted at nominal consideration

under the share option scheme of the Company. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK\$0.1 each of the Company.

	No. of options outstanding on 1 January 2006	No. of options outstanding on 31 December 2006	Date of grant	Period during which options are exercisable	Exercise price per share HK\$	Market value per share at date of grant HK\$
Executive directors						
Mr. Kim Sun Cheol	1,000,000	1,000,000	7 July 2003	1 July 2004 to 30 June 2008	1.294	1.25
Mr. Woo Nam Jin	1,000,000	1,000,000	6 May 2004	1 May 2005 to 30 April 2009	1.666	1.63
Employees	13,800,000	13,800,000	7 July 2003	1 July 2004 to 30 June 2008	1.294	1.25
Other eligible persons	4,600,000	4,600,000	7 July 2003	1 July 2004 to 30 June 2008	1.294	1.25

Notes:

(1) The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(m)(ii) and note 21 to the financial statements respectively.

(2) The maximum percentage of the share options being exercisable is determined in stages as follows:

On or after 1st year anniversary	30%
On or after 2nd year anniversary	another 30%
On or after 3rd year anniversary	another 40%

Apart from the foregoing, at no time during the year was the Company and its subsidiary a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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於二零零六年十二月三十一日，本集團董事與僱員及部份合資格人士於根據本公司購股權計劃以象徵式代價授出可認購本公司股份(於二零零六年十二月三十一日每

股市值為1.65港元)之購股權中，持有以下權益。購股權並無上市。每份購股權賦與持有人權利認購本公司每股面值0.1港元之普通股一股。

	於二零零六年 一月一日 未行使之 購股權數目	於二零零六年 十二月三十一日 未行使之 購股權數目	授出日期	購股權 可予行使期間	每股 行使價 港元	於授出 日期之 每股市值 港元
執行董事						
金善哲先生	1,000,000	1,000,000	二零零三年 七月七日	二零零四年七月一日至 二零零八年六月三十日	1.294	1.25
禹南珍先生	1,000,000	1,000,000	二零零四年 五月六日	二零零五年五月一日至 二零零九年四月三十日	1.666	1.63
僱員	13,800,000	13,800,000	二零零三年 七月七日	二零零四年七月一日至 二零零八年六月三十日	1.294	1.25
其他合資格人士	4,600,000	4,600,000	二零零三年 七月七日	二零零四年七月一日至 二零零八年六月三十日	1.294	1.25

附註：

(1) 授予董事之購股權乃以董事之姓名登記，而彼等亦為實益擁有人。

(2) 按階段劃分購股權可予行使之最高百分比如下：

於一周年當日或之後	30%
於兩周年當日或之後	另外30%
於三周年當日或之後	另外40%

已授出購股權及每份購股權之平均價值之會計政策資料分別載於財務報表附註 1(m)(ii)及附註21。

除上述者外，本公司及其附屬公司概無於本年度內任何時間訂立任何安排，致使本公司董事或彼等之配偶或未滿十八歲之子女可藉購入本公司或任何其他法人團體之股份或債券而取得利益。

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SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the following persons (other than the directors or chief executive of the Company)

had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company were as follows:

	Ordinary shares of HK\$0.1 each		
	No. of ordinary shares held	Nature of interest/Capacity	% of the issued share capital
Substantial shareholders			
Madam Kang Mi Young (note 1)	207,200,000	Interest of spouse	66.13%
Kwang Sung Electronics Co., Ltd.	59,500,000	Beneficial owner	18.99%
Jayhawk China Fund (Cayman), Ltd. ("Jayhawk")	64,182,000	Beneficial owner/ Investment manager	20.49%
Mr. Kent C. McCarthy ("Mr. McCarthy") (note 2)	66,390,000	Interest of controlled corporations	21.19%
Other persons			
Pacific Sun Investment Management (HK) Ltd. ("Pacific Sun") Sub a/c The China Mantou Master Fund	27,063,500 (note 3)	Beneficial owner/ Investment manager	8.64%
UBS AG	27,063,500 (note 4)	Prime broker	8.64%

Notes:

- (1) Madam Kang Mi Young is the wife of Mr. Yang Jai Sung and is deemed to be interested in these ordinary shares in which Mr. Yang Jai Sung is deemed or taken to be interested for the purpose of the SFO.
- (2) Mr. McCarthy is deemed or taken to be interested in these ordinary shares through his indirect 100% control in Jayhawk and Buffalo Jayhawk China Fund. These interests were duplicated by those beneficially owned by Jayhawk and Buffalo Jayhawk China Fund.
- (3) These shares were held by The China Mantou Master Fund (the "Fund"). Pacific Sun is the investment manager of the Fund.

- (4) UBS AG is the prime broker of the Fund. These shares were duplicated by those beneficially owned by the Fund.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

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 as at the date of this annual report, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

主要股東及其他人士於股份、相關股份之權益及空倉

截至於二零零六年十二月三十一日，除本公司董事或行政總裁外，下列人士於本公司之股份及相關股份中，擁

有本公司根據證券及期貨條例第336條須予備存之登記冊所記錄或已知會本公司之權益或空倉如下：

	持有之 普通股數目	每股面值0.1港元之普通股 權益性質／ 身份	佔已發行 股份總百分比
主要股東			
姜美英女士(附註1)	207,200,000	配偶之權益	66.13%
株式會社光星電子	59,500,000	實益擁有人	18.99%
Jayhawk China Fund (Cayman), Ltd. (「Jayhawk」)	64,182,000	實益擁有人／ 投資經理	20.49%
Mr. Kent C. McCarthy (「McCarthy先生」)(附註2)	66,390,000	受控制 法團之權益	21.19%
其他人士			
Pacific Sun Investment Management (HK) Ltd. (「Pacific Sun」) Sub a/c The China Mantou Master Fund	27,063,500 (附註3)	實益擁有人／ 投資經理	8.64%
UBS AG	27,063,500 (附註4)	主要經紀	8.64%

附註：

- (1) 姜美英女士為梁在星先生之妻子，就證券及期貨條例而言，彼被視為擁有梁在星先生被視為或被認為擁有權益之該等普通股之權益。
- (2) McCarthy先生透過彼於Jayhawk及Buffalo Jayhawk China Fund持有之100%間接控制權而被視為或被認為擁有該等普通股之權益。該等權益與Jayhawk及Buffalo Jayhawk China Fund實益擁有人屬同一批。
- (3) 該等股份由The China Mantou Master Fund(「基金」)持有；而Pacific Sun為基金之投資經理。

- (4) UBS AG為基金之主要經紀。該等股份與基金實益擁有人屬同一批。

除上文所披露者外，本公司並無得悉有其他需要記錄於依照證券及期貨條例第336條存置之登記冊內之權益。

充足公眾持股量

根據本公司可公開取得之資料，及就本公司董事所深知，於本年報日期，本公司維持香港聯合交易所有限公司證券上市規則(「上市規則」)所規定之公眾持股量。

REPORT OF THE DIRECTORS

董事會報告書

DIRECTORS' INTERESTS IN CONTRACTS

Kwang Sung Korea is a major shareholder of the Company and one of the Company's five largest customers and suppliers. Mr. Yang Jai Sung and his relatives, and Mr. Kim Sun Cheol were interested in these arrangements as a shareholder holding 79.5% and 5.7% interest respectively in the share capital of Kwang Sung Korea.

Save as disclosed in note 26 to the financial statements under the heading "Material Related Party Transactions", there were no other contracts of significance to which the Company and its subsidiary was a party, 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2006, the directors of the Company namely Mr. Yang Jai Sung and Mr. Kim Sun Cheol are both shareholders and directors of Kwang Sung Korea, whose businesses compete or are likely to compete, directly or indirectly, with the Group's businesses. The principal businesses of Kwang Sung Korea are as follows:

- (1) Research, design and product development of electronic components and related products and manufacturing of electronic components for electronic appliances and communication equipment through the factory operated by Kwang Sung Korea (the "KSK Factory") exclusively for orders placed directly with Kwang Sung Korea and to be sold in the Korean market but subject to the terms and limited to the scope as set out in the Deed of Undertaking and the Research and Development Service Agreement.
- (2) Sales, marketing, purchasing and distribution of electronic components for electronic appliances and communication equipment, but subject to the terms and limited to the scope as set out in the Deed of Undertaking and the Commission Agreement.

In relation to the listing of the Company's shares on the Main Board of the Stock Exchange, each of Kwang Sung Korea, KS-Tech Group Corporation, and Mr. Yang Jai Sung ("Mr. Yang") has entered into the Deed of Undertaking in favour of the Group to the effect that for so long as Kwang Sung Korea and/or any of its subsidiaries, Mr. Yang and/or the companies controlled by Mr. Yang are beneficially interested, directly and indirectly, whether individually or taken together, in 20% or more of the issued share capital of the Company, Kwang Sung Korea and Mr. Yang will not, and Kwang Sung Korea and Mr. Yang will procure that none of its subsidiaries (other than the Group) and the companies controlled by him (other than the Group), respectively, will engage or otherwise be involved in any business which competes or is likely to compete, either directly or indirectly, with any of the businesses carried out by any member of the Group from time to time (the "Restricted Business") in any of the regions in which the Group is engaged in and undertakes the Restricted Business (such regions include Korea and the People's Republic of China ("PRC"), including Hong Kong).

Kwang Sung Korea has agreed to first refer all customers' orders for the production of electronic components received by Kwang Sung Korea from its customers (subject to certain conditions) and the results and/or products developed by the product design and research and development centre of Kwang Sung Korea and the KSK Factory and/or any intellectual property right in or arising from such results and/or products to the Group on terms in accordance with the Deed of Undertaking, the Commission Agreement and the Research and Development Service Agreement, respectively.

According to the supplementary Deed of Undertaking effective 20 September 2005, KS-Tech Group Corporation is no longer a party to the Deed of Undertaking as it is no longer beneficially owned by Kwang Sung Korea.

董事在合約的利益

韓國光星是本公司之主要股東，並為本公司五大客戶及五大供應商之一。梁在星先生及其親屬以及金善哲先生因作為分別持有韓國光星股本79.5%及5.7%權益之韓國光星股東，而於該等安排中佔有權益。

除財務報告附註26「重大關連人士交易」一節所披露者外，於本年度結束時或於本年度內任何時間，本公司或其附屬公司並無訂立任何重大且本公司董事曾經直接或間接擁有重大權益之合約。

董事於競爭性業務之權益

於截至二零零六年十二月三十一日期間內，本公司董事梁在星先生及金善哲先生均為韓國光星之股東兼董事，而韓國光星之業務會或可能會對本集團業務構成直接或間接競爭。韓國光星之主要業務如下：

- (1) 電子元件及相關產品之研究、設計及產品開發，並透過韓國光星經營之研究、設計及產品開發工廠（「韓國光星工廠」），替直接向韓國光星落單之獨家訂單，製造電器及通訊設備之電子元件，及於韓國市場出售，惟須遵守承諾契據及研發服務協議之條款及受所載之範疇限制。
- (2) 銷售、市場推廣、購買及分銷電器及通訊設備之電子元件，惟受承諾契據及佣金協議之條款及範圍所規限。

就本公司股份於聯交所主板上市，韓國光星、KS-Tech Group Corporation及梁在星先生（「梁先生」）已各自為本集團之利益，而訂立承諾契據，只要韓國光星及／或其任何附屬公司、梁先生及／或由梁先生控制之公司直接或間接（不論個人或共同）實益擁有本公司已發行股本之20%或以上，則韓國光星及梁先生將不會，並將分別促使其附屬公司（本集團除外）及由其控制之公司（本集團除外）不會從事或以其他方式參與任何業務，而該等業務與本集團經營及從事受限制業務之任何地區（包括韓國及中華人民共和國（「中國」）（包括香港））內之任何本集團成員公司可能從事之任何業務（「受限制業務」）直接或間接構成或很可能構成競爭。

韓國光星已同意，首先分別根據承諾契據、佣金協議及研發服務協議之條款，向本集團轉介韓國光星從其客戶接獲生產電子元件之所有客戶訂單（受若干條件所規限），及由韓國光星之產品設計及研究與開發中心及韓國光星工廠開發之成果及／或產品及／或於或由該等成果及／或產品而產生之任何知識產權。

根據於二零零五年九月二十日生效之補充承諾契據，由於KS-Tech Group Corporation不再為韓國光星實益擁有，故其不再成為承諾契據的一方。

REPORT OF THE DIRECTORS

董事會報告書

Pursuant to the supplementary deed inter alia, for so long as Kwang Sung Korea and/or any of its subsidiaries and Mr. Yang and/or any of the companies controlled by him are beneficially interested, directly or indirectly, whether individually or taken together, in 10% or more of the issued share capital of the Company, Kwang Sung Korea and Mr. Yang will not, and Kwang Sung Korea and Mr. Yang will procure that none of its subsidiaries (other than the Group) and the companies controlled by him (other than the Group), respectively, will engage or otherwise be involved in any business which competes or is likely to compete, either directly or indirectly, with any of the Restricted Business in any of the regions in which the Group engages in and undertakes the Restricted Business (such regions include Korea and the PRC (including Hong Kong)).

The transactions with Kwang Sung Korea are set out in the paragraph headed “Connected Transactions”. There has been no material change in directors’ interests in any competing business subsequent to 31 December 2005.

CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions with Kwang Sung Korea, which constituted continuing connected transactions (the “connected transactions”) as defined in the Listing Rules.

- (1) In the ordinary course of business, the Group sold electronic components to Kwang Sung Korea for resale to ultimate customers; the Group also sourced certain raw materials necessary for production from Kwang Sung Korea. These transactions were entered into on normal commercial terms and on prices and terms comparable to the prevailing market rate or practice.

During the year ended 31 December 2006, sales of electronic components to Kwang Sung Korea amounted to approximately HK\$27,685,000 (2005: HK\$61,495,000) and purchases of raw materials from Kwang Sung Korea amounted to approximately HK\$14,672,000 (2005: HK\$38,954,000).

- (2) Pursuant to a Commission Agreement, Kwang Sung Korea referred a number of customers to the Group. These customers place orders directly with the Group and upon completion of the production, the Group sold the electronic components to the customers directly. The Group paid Kwang Sung Korea a referral commission which represents not more than 3% of the total sales to these customers. The referral commission rate was comparable to the referral commission rates payable by the Group to independent third parties and was on terms comparable to the prevailing market rate or practice.

In view of the declining marketing support from Kwang Sung Korea for the referral business, the Company and Kwang Sung Korea entered into a supplementary agreement on 16 September 2005 pursuant to which the commission rate was reduced from 3% to 2% of the amount of sales for electronic component and related products (the “Products”) to such customers with retrospective effect from 1 July 2005.

During the year ended 31 December 2006, referral commission paid/payable by the Group to Kwang Sung Korea amounted to approximately HK\$6,672,000 (2005: HK\$8,868,000).

根據補充契據(其中包括)，只要韓國光星及／或其任何附屬公司、梁先生及／或由梁先生控制之公司直接或間接(不論個人或共同)實益擁有本公司已發行股本之10%或以上，則韓國光星及梁先生將不會，並將分別促使其附屬公司(本集團除外)及由其控制之公司(本集團除外)不會從事或以其他方式參與任何業務，而該等業務與本集團經營及從事受限制業務之任何地區(包括韓國及中國(包括香港))內之任何受限制業務直接或間接構成或很可能構成競爭。

與韓國光星之交易詳情載於「關連交易」一段。於二零零五年十二月三十一日後，董事於競爭業務之權益並無任何重大轉變。

關連交易

年內，本集團與韓國光星進行下列交易，該等交易構成上市規則所界定之持續關連交易(「關連交易」)。

- (1) 本集團於日常業務過程中向韓國光星出售電子元件，以供轉售予最終客戶。本集團亦向韓國光星購買部分生產所需原料。該等交易乃按正常商業條款及根據可與現行市場價格或慣例比較之價格及條款進行。

於截至二零零六年十二月三十一日止年度，向韓國光星銷售電子元件之銷售額約為27,685,000港元(二零零五年：61,495,000港元)；而向韓國光星採購原料之金額約為14,672,000港元(二零零五年：38,954,000港元)。

- (2) 根據佣金協議，韓國光星已轉介若干客戶至本集團，此等客戶直接向本集團落單，待生產完成後，本集團直接向該等客戶銷售電子元件。本集團已支付轉介佣金予韓國光星，金額不多於銷售予該等客戶之總銷售額之3%。轉介佣金與本集團向獨立第三者支付之轉介佣金相若，並根據與現時市場價格或慣例相若之條款釐定。

鑑於韓國光星對於轉介業務之宣傳推廣支持出現減退，本公司與韓國光星於二零零五年九月十六日訂立補充協議，據此，轉介佣金將由向該等顧客銷售電子元件及相關產品(「產品」)之銷售額之3%減至2%，協議可追溯應用，由二零零五年七月一日起生效。

於截至二零零六年十二月三十一日止年度，本集團已付／應付予韓國光星之轉介佣金約為6,672,000港元(二零零五年：8,868,000港元)。

REPORT OF THE DIRECTORS

董事會報告書

It is expected that sale of products to Kwang Sung Korea, referral commission payable to Kwang Sung Korea and purchase of raw materials from Kwang Sung Korea will continue. At the extraordinary general meeting of 20 December 2005, the Company has

sought approval from the independent shareholders of the non-exempt continuing connected transactions up to the limits specified in the new caps for each of the three financial years ending 31 December 2008 mentioned below:

Transactions	Annual cap on the aggregate value of the transactions for financial years ended/ending 31 December		
	2006 HK\$'000	2007 HK\$'000	2008 HK\$'000
Sale of products to Kwang Sung Korea by the Group	50,000	50,000	50,000
Commission payable to Kwang Sung Korea by the Group for sales orders placed by the customers referred by Kwang Sung Korea	9,500	9,500	9,500
Purchase of raw materials from Kwang Sung Korea by the Group	15,000	–	–

The directors, including the independent non-executive directors, of the Company have reviewed the connected transactions and confirmed that:

- (1) the connected transactions were:
- (i) entered into by the Group in its ordinary and usual course of business;
 - (ii) entered into by the Group either on normal commercial terms (to the extent that there are comparable transactions), or, where there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties; and
 - (iii) on terms that are fair and reasonable and in the interests of independent shareholders of the Company as a whole.

- (2) the connected transactions entered into during the year ended 31 December 2006 have been conducted such that the aggregate amount for each type of the transactions has not exceeded the respective caps set out above.

The Company's auditors have confirmed in a letter to the board of directors that:

- (i) the connected transactions have received the approval of the Company's board of directors;
- (ii) the connected transactions were in accordance with either the terms of the relevant agreements where there are such agreements or the pricing policies of the Group, if any; and
- (iii) the aggregate consideration of each type of the connected transactions did not exceed the respective caps as set out above.

預期中的出售產品予韓國光星、應付予韓國光星之轉介佣金及向韓國光星購買原材料將會繼續。於二零零五年十二月二十日舉行之股東特別大會，本公司尋求獨立股

東批准不獲豁免持續關連交易，金額最高為下文所述截至二零零八年十二月三十一日止三個財政年度之新上限：

交易	截至／將截至十二月三十一日止財政年度 總交易額年度上限		
	二零零六年 千港元	二零零七年 千港元	二零零八年 千港元
本集團向韓國光星銷售產品	50,000	50,000	50,000
本集團就韓國光星轉介客戶所發出之 銷貨訂單應付予韓國光星之佣金	9,500	9,500	9,500
本集團向韓國光星採購原材料	15,000	-	-

本公司董事(包括獨立非執行董事)已審閱關連交易，並確認：

(2) 於截至二零零六年十二月三十一日止年度內進行之關連交易，其金額並無超出上述各類交易之上限。

(1) 關連交易屬：

本公司核數師於一封致董事會之函件中確認：

- (i) 本集團於日常及一般業務過程中訂立；
- (ii) 本集團按照正常商業條款(只限有可供比較之交易而言)，或倘若並無足夠之可供比較交易判斷是否按正常商業條款訂立，則按照不遜於本集團給予或自獨立第三者取得(如適用)之條款訂立；及
- (iii) 按照公平合理及符合本公司獨立股東整體利益之條款。

- (i) 關連交易已獲本公司董事會批准；
- (ii) 倘本集團有訂立協議或定價政策(如有)，關連交易則已符合該等協議之條款；及
- (iii) 每類關連交易之總代價不會超過上述各自之上限。

REPORT OF THE DIRECTORS

董事會報告書

RETIREMENT SCHEMES

Details of the retirement schemes participated by the Group are set out in note 20 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 125 to 126 of the annual report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Yang Ho Sung

Chairman

Hong Kong, 17 April 2007

退休計劃

有關本集團參與之退休計劃之詳情，載於財務報表附註20。

五年財務概要

本集團過去五個財政年度業績、資產與負債概要載於本年報第125及126頁。

確認獨立性

本公司已根據上市規則第3.13條，收取各獨立非執行董事之年度獨立性確認函件，並認為所有獨立非執行董事均維持獨立。

核數師

畢馬威會計師事務所即將告退，惟符合資格並願膺選連任。重新委聘畢馬威會計師事務所為本公司核數師的決議，將於即將召開的股東週年大會上提出。

承董事會命
主席
梁皓星

香港，二零零七年四月十七日