KWANG SUNG ELECTRONICS H.K. CO. LIMITED

光星電子香港有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2310)

2007 ANNUAL RESULTS ANNOUNCEMENT

The directors of Kwang Sung Electronics H.K. Co. Limited (the "Company") announced the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Turnover	*2*	**783,453**	611,215
Cost of sales		**(660,375)**	(517,479)
Gross profit		**123,078**	93,736
Other revenue		**6,609**	6,928
Selling and distribution expenses		**(27,047)**	(22,602)
Administrative expenses		**(16,485)**	(10,448)
Research and development expenses		**(44,471)**	(40,629)
Surplus on revaluation of land and buildings		**1,456**	–
Other operating expenses		**(8,270)**	(6,099)
Profit from operations	*3*	**34,870**	20,886
Finance costs		**–**	(1)
Profit before taxation		**34,870**	20,885
Income tax	*4*	**(4,595)**	(2,427)
Profit after taxation attributable to equity shareholders of the Company		**30,275**	18,458
Dividends payable to equity shareholders of the Company attributable to the year:	*5*		
Interim dividend declared during the year		**4,701**	2,193
Final dividend proposed after the balance sheet date		**4,412**	3,446
		9,113	5,639
Earnings per share	*6*		
		HK cents	*HK cents*
Basic		**9.66**	5.89
Diluted		**9.46**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Non-current assets			
Property, plant and equipment		**96,850**	96,288
Intangible assets		**718**	661
Other equity securities	*7*	**–**	1,684
		97,568	98,633
Current assets			
Inventories		**70,667**	69,222
Trade and other receivables	*8*	**125,795**	116,242
Current tax recoverable		**–**	605
Cash and cash equivalents		**185,415**	169,679
		381,877	355,748
Current liabilities			
Trade and other payables	*9*	**79,774**	90,239
Current tax payable		**3,137**	461
		82,911	90,700
Net current assets		**298,966**	265,048
Total assets less current liabilities		**396,534**	363,681
Non-current liabilities			
Deferred tax liabilities		**1,698**	2,019
Net assets		**394,836**	361,662
Capital and reserves	*10*		
Share capital		**31,358**	31,330
Reserves		**363,478**	330,332
Total equity – attributable to equity shareholders of the Company		**394,836**	361,662

Notes:

1. **Basis of preparation**

   These financial results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

   The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. There were no significant changes to accounting policies resulting from these developments and no effect on the current and prior accounting periods reflected in these financial results.

   The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2. **Segmental reporting**

   Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system.

   (i) Business segments

   The Group is engaged in the manufacture and sale of electronic components which can be divided into two product segments – composite components and unit electronic components. An analysis of the Group's results of operations and the Group's financial position by product segments is as follows:

	Composite components		**Unit electronic components**		**Consolidated**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**598,338**	473,110	**185,115**	138,105	**783,453**	611,215
Segment result	**51,786**	45,895	**19,834**	10,192	**71,620**	56,087
Unallocated operating income and expenses					**(36,750)**	(35,201)
Profit from operations					**34,870**	20,886
Finance costs					**–**	(1)
Income tax					**(4,595)**	(2,427)
Profit after tax					**30,275**	18,458
Depreciation	**(15,435)**	(15,379)	**(4,777)**	(4,532)	**(20,212)**	(19,911)
Impairment losses on trade receivables	**(981)**	(3,352)	**(2)**	(779)	**(983)**	(4,131)
Reversal of impairment losses on trade receivables	**1,061**	2,451	**88**	301	**1,149**	2,752
Write down of inventories	**(2,322)**	(316)	**(339)**	(92)	**(2,661)**	(408)
Segment assets	**215,861**	209,574	**66,982**	64,237	**282,843**	273,811
Unallocated assets					**196,602**	180,570
Total assets					**479,445**	454,381
Segment liabilities	**46,345**	56,692	**24,100**	26,302	**70,445**	82,994
Unallocated liabilities					**14,164**	9,725
Total liabilities					**84,609**	92,719
Capital expenditure incurred during the year	**8,225**	21,329	**451**	8,343	**8,676**	29,672

(ii) *Geographical segments*

The Group's business is principally managed in Hong Kong and other parts of the People's Republic of China ("PRC"). The principal markets for the Group's products are the PRC (including Hong Kong) and Korea.

In presenting information on the basis of geographical segments, segment turnover is based on the destination of the Group's products. Segment assets and capital expenditure are based on the geographical location of the assets.

	Turnover		**Segment assets**		**Capital expenditure incurred during the year**	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
PRC (other than Hong Kong)	**404,463**	322,056	**158,730**	165,641	**7,618**	20,324
Hong Kong	**215,311**	183,815	**30,310**	32,336	**41**	15
Korea	**143,261**	97,130	**91,794**	75,217	**1,017**	9,333
Others	**20,418**	8,214	**2,009**	617	**–**	–

3. Profit from operations

Profit from operations is arrived at after charging depreciation of HK$20,212,000 (2006: HK$19,911,000) and amortization of HK$36,000 (2006: HK$36,000).

4. Income tax

	2007	2006
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**2,813**	1,056
Over provision for Hong Kong Profits Tax in respect of prior years	**(293)**	(173)
	2,520	883
Current tax – PRC taxation		
Provision for the year	**1,628**	1,269
Under/(over) provision for PRC tax in respect of prior years	**776**	(409)
	2,404	860
	4,924	1,743
Deferred tax		
Origination and reversal of temporary differences	**(329)**	684
	4,595	2,427

Provision for Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

The Company carries out manufacturing activities in the PRC through its subsidiary, Shenzhen Kwang Sung Electronics Co., Ltd. ("Shenzhen Kwang Sung") and under the terms of a processing agreement with a third party factory, and has substantial involvement in these manufacturing activities undertaken in the PRC. The profits earned are thus considered to be partly arising and derived from the manufacturing activities carried out in the PRC and partly from other activities performed in Hong Kong. Accordingly, the Company claimed a 50:50 offshore concession claim in respect of Hong Kong Profits Tax which had been agreed with the Hong Kong Inland Revenue Department ("HKIRD") in the year of assessment 1999/2000.

During 2008, the HKIRD enquired the Company the basis of its 50:50 offshore concession claims for the years of assessment 2001/02 to 2006/07 in relation to the Company's manufacturing activities carried out in the PRC, and issued an additional assessment of HK$3,318,000 for the year of assessment 2001/02 on the basis that the Company was not eligible to the 50:50 offshore claims for profits derived from manufacturing activities carried out by Shenzhen Kwang Sung. The Company lodged an objection against the additional assessment in March 2008. In the meantime, the Company has yet to receive further comments from the HKIRD for its objection on the additional assessment and is still in the progress of collating information in response to the above enquiries raised by the HKIRD.

Since the operation mode has remained unchanged since 1999/2000, the directors consider that the Company should have the ground to pursue the 50:50 offshore claims. Therefore, no provision has been made for the 2001/02 additional assessment or for any other additional tax liabilities for the years under enquiry. In the opinion of the directors, adequate provision for Hong Kong Profits Tax has been made in these financial results.

Provision for income tax in respect of the subsidiary in the PRC is calculated at 15% (2006: 15%) of its estimated assessable profits for the year.

Effective 1 January 2008, the applicable tax rate for the subsidiary operating in the PRC will be 25% pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People's Congress on 16 March 2007 (the "new tax law").

In September 2007, the Shenzhen Local Tax Bureau enquired the related party transactions and the transfer price policy of Shenzhen Kwang Sung during the five years from 1 January 2002 to 31 December 2006. Shenzhen Kwang Sung had submitted the requested information to the Shenzhen Local Tax Bureau in September 2007 and proposed a compromise settlement of an additional income tax payable of HK$1,408,000 in respect of the transfer pricing adjustment. Full provision of HK$1,408,000 has been provided in these financial results, in which HK$632,000 is to be indemnified and recovered from a substantial shareholder, Mr. Yang Jai Sung, in accordance with the Deed of Indemnity dated 23 June 2003, which was entered into upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Up to the date of these financial results, the Company has yet to obtain the agreement of the Shenzhen Local Tax Bureau to its proposed settlement, but the directors of the Company are of the opinion that adequate provision for PRC income tax has been made in these financial results.

Effective 1 January 2008, a 10% withholding tax will be levied on dividends declared to foreign investors from the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign investor. Pursuant to a double tax arrangement between the PRC and Hong Kong, the Company is subject to a withholding tax at the rate of 5% for any dividend payment from its PRC subsidiary.

On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earning as at 31 December 2007 are exempted from the withholding tax.

No provision has been made for Korea income tax as the Group did not generate assessable profits subject to Korea income tax for the years presented.

5. Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2007	2006
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK1.5 cents (2006: HK0.7 cents) per ordinary share	**4,701**	2,193
Final dividend proposed after the balance sheet date HK1.4 cents (2006: HK1.1 cents) per ordinary share	**4,412**	3,446
	9,113	5,639

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. The calculation of the 2007 final dividend is based on the number of ordinary shares outstanding at the date of this results announcement.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2007	2006
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.1 cents (2006: HK1.9 cents) per ordinary share	**3,446**	5,953

6. Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$30,275,000 (2006: HK$18,458,000) and the weighted average number of ordinary shares of 313,355,000 (2006: 313,300,000) in issue during the year.

Weighted average number of ordinary shares:

	2007	2006
	'000	*'000*
Issued ordinary shares at 1 January	**313,300**	313,300
Effect of share options exercised	**55**	–
Weighted average number of ordinary shares at 31 December	**313,355**	313,300

(ii) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to shareholders of HK$30,275,000 and the weighted average number of ordinary shares of 320,105,000 after adjusting the effect of all dilutive potential ordinary shares.

Diluted earnings per share is same as the basic earnings per share for the year ended 31 December 2006 as the inclusion of the effect of deemed issue of ordinary shares under the share options scheme would have an anti-dilutive effect on the basic earnings per share.

7. Other equity securities

	2007	2006
	HK$'000	*HK$'000*
Unlisted equity securities, at cost:		
At 1 January	**3,184**	1,500
Addition	**–**	1,684
Disposal	**(1,684)**	–
	1,500	3,184
Less: impairment loss	**(1,500)**	(1,500)
At 31 December	**–**	1,684

In 2004 and 2006, the Company acquired certain unlisted equity securities in corporate entities for cash consideration of HK$1,500,000 and HK$1,684,000 respectively. These equity securities are stated at cost less impairment losses as their fair value cannot be measured reliably because the entities are unlisted and no sufficient financial information is made available to the Company to enable it to determine the fair value of these entities.

In view of the substantial losses incurred by the entity acquired in 2004, the directors of the Company assessed the recoverable amount of these equity securities by reference to the net assets value of the entity, where the directors considered the best estimate of the fair value of the entity. Based on their assessment, a full provision for impairment loss was made at 31 December 2004.

On 31 December 2007, the Company disposed of an investment in equity securities bought in 2006 with carrying value of HK$1,684,000 to another shareholder of that investing entity at cost. Pursuant to the sales and purchase agreement dated 31 December 2007, the consideration will be settled on or before 30 June 2008.

8. Trade and other receivables

	2007	2006
	HK$'000	*HK$'000*
Trade debtors and bills receivable	**120,660**	114,272
Less: Allowance for doubtful debts	**(5,334)**	(5,500)
Trade receivables	**115,326**	108,772
Short term loans to key management personnel and employees	**1,629**	849
Sales proceeds of other equity securities	**1,684**	–
Deposits, prepayments and other receivables	**7,156**	6,621
	125,795	116,242

All of the trade and other receivables are expected to be recovered within one year. Trade debtors are due within 30-60 days from the date of billing.

Included in trade receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	2007 *HK$'000*	2006 *HK$'000*
Current	**83,073**	69,666
Less than 1 month past due	**20,950**	28,396
1 to 3 months past due	**9,648**	10,206
More than 3 months but less than 12 months past due	**1,655**	504
Amounts past due	**32,253**	39,106
	115,326	108,772

9. Trade and other payables

	2007 *HK$'000*	2006 *HK$'000*
Creditors	**66,240**	74,690
Accrued expenses and other payables	**13,534**	15,549
	79,774	90,239

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	2007 *HK$'000*	2006 *HK$'000*
Due within 1 month or on demand	**42,761**	53,503
Due after 1 month but within 3 months	**23,479**	21,187
	66,240	74,690

10. Capital and reserves

	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Land and buildings revaluation reserve *HK$'000*	Statutory reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2006	31,330	52,900	5,227	3,902	1,486	255,893	350,738
Final dividend approved in respect of the previous year *(note 5(ii))*	–	–	–	–	–	(5,953)	(5,953)
Transfer between reserves	–	–	–	–	1,526	(1,526)	–
Equity settled share-based transactions	–	–	612	–	–	–	612
Profit for the year	–	–	–	–	–	18,458	18,458
Dividend declared in respect of the current year *(note 5(i))*	–	–	–	–	–	(2,193)	(2,193)
At 31 December 2006	31,330	52,900	5,839	3,902	3,012	264,679	361,662
At 1 January 2007	31,330	52,900	5,839	3,902	3,012	264,679	361,662
Final dividend approved in respect of the previous year *(note 5(ii))*	–	–	–	–	–	(3,446)	(3,446)
Share issued under share option scheme	28	410	(76)	–	–	–	362
Transfer between reserves	–	–	(787)	–	3,477	(2,690)	–
Revaluation surplus, net of deferred tax	–	–	–	10,657	–	–	10,657
Equity settled share-based transactions	–	–	27	–	–	–	27
Profit for the year	–	–	–	–	–	30,275	30,275
Dividend declared in respect of the current year *(note 5(i))*	–	–	–	–	–	(4,701)	(4,701)
At 31 December 2007	31,358	53,310	5,003	14,559	6,489	284,117	394,836

PROPOSED FINAL DIVIDEND

The Board of Directors (the "Board") has recommended the payment of a final dividend of HK1.4 cents per share in respect of the year ended 31 December 2007 (2006: HK1.1 cents) to shareholders whose names appear in the register of members on 23 May 2008. The final dividend is subject to the approval of shareholders at the Annual General Meeting to be held on 23 May 2008. The Group's long-term dividend policy is to distribute not less than 30% of its net profit as dividend each financial year. However, the Board will review this dividend policy from time to time to provide attractive returns to shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Company's share register will be closed from 21 May 2008 to 23 May 2008, both dates inclusive. During the period, no transfer of shares will be registered. Dividend cheques will be dispatched to shareholders on or about 3 June 2008. In order to qualify for the final dividend and the entitlement to attend and vote at the upcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong not later than 4:00 p.m. on 20 May 2008.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") will be held at Vinson Room, Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 23 May 2008 at 10:00 a.m. The Notice of AGM will be published on the Company's website at www.kse.com.hk and the website of the Stock Exchange at www.hkex.com.hk in due course.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's business developed considerably during the past year. In addition to the strong sales of our existing major products, we achieved organic growth by launching some other new products, such as digital multimedia broadcasting ("DMB") and digital audio broadcasting ("DAB") tuner modules. As a result, the Group's turnover increased by 28.2% to HK$783,453,000 in the year ended 31 December 2007 and our gross profit rose by 31.3% to HK$123,078,000. The profit derived from our operations increased by 67.0% to HK$34,870,000, whereas profit after taxation grew by 64.0% to HK$30,275,000. Earnings per share amounted to HK9.66 cents.

Turnover

The Group's turnover increased by 28.2% from HK$611,215,000 to HK$783,453,000 during the year. This was mainly due to the strong growth in sales of our tuner modules for car and home audios, and also DMB. The turnover of our composite components business amounted to HK$598,338,000 (2006: HK$473,110,000), an increase of 26.5%. This accounted for 76.4% of the Group's total turnover, compared with 77.4% in the previous year. The turnover of the Group's unit electronic components business rose by 34.0% from HK$138,105,000 in 2006 to HK$185,115,000 in 2007, accounting for 23.6% of the Group's total turnover, compared with 22.6% during 2006.

Gross Profit

As a result of the Group's increased turnover, our gross profit grew to HK$123,078,000 (2006: HK$93,736,000), and our gross profit margin also increased slightly to 15.7%, compared with 15.3% in 2006.

Other Revenue

The Group's other revenue decreased by 4.6%, from HK$6,928,000 in 2006 to HK$6,609,000 in 2007. This was primarily due to the net effect of a HK$998,000 increase in interest income and a HK$1,533,000 decrease in gains on the disposal of fixed assets.

Operating Expenses

Excluding surplus of HK$1,456,000 on revaluation of land and buildings, the Group's operating expenses increased by 20.7%, from HK$79,778,000 in 2006 to HK$96,273,000. This was mainly attributable to the expansion of our operations in Korea.

Taxation

The Group's income tax expenses rose by 89.3%, from HK$2,427,000 in 2006 to HK$4,595,000 in 2007. This was primarily the result of an increase in our pre-tax profit.

Profit for the Year

Profit after taxation attributable to the Company's equity shareholders increased by 64.0%, from HK$18,458,000 in 2006 to HK$30,275,000 in 2007. Meanwhile, our net profit margin increased from 3.0% in 2006 to 3.9% in 2007.

Financial Condition, Liquidity and Financial Resources

The Group's operations are usually financed by internally generated cash flow. As at 31 December 2007, the Group had cash and bank balances of HK$185,415,000 (2006: HK$169,679,000) and net current assets of HK$298,966,000 (2006: HK$265,048,000). Shareholders' funds amounted to HK$394,836,000 as at 31 December 2007 (2006: HK$361,662,000). At the year-end, the Group had no outstanding borrowings. Our current ratio (the ratio of current assets to current liabilities) was maintained at the strong level of 4.61 (2006: 3.92), and our gearing ratio (total liabilities to total assets) stood at 0.18 (2006: 0.20). The Group managed to improve our average debtor turnover days from 77 days in 2006 to 66 days in 2007, and our average inventory turnover days from 64 days in 2006 to 55 days in 2007. The average creditor turnover days was 59 days (2006: 65 days). Overall, the Group maintained a healthy financial status, with sufficient financial resources to support future development.

Foreign Exchange Exposure, Hedging and Off Balance Sheet Financial Instruments

The Group is exposed to foreign currency risks, primarily in sales and purchases denominated in United States Dollars ("USD") and Japanese Yen ("JPY"). Our operation in Korea pays its operating expenses in Korean Won ("KRW").

As Hong Kong Dollars ("HKD") is pegged to USD and Renminbi ("RMB") is managed float with reference to a basket of currencies yet within the limited per day fluctuation, the Group does not expect any significant fluctuation in the HKD/USD and RMB/USD exchange rate. The Group has taken steps to ensure that our net exposure to other currencies, such as the JPY and KRW, is kept at an acceptable level by buying and selling foreign currencies at spot rates when necessary to address short-term imbalances.

Investment Activities

The Group did not make any material acquisition or disposal of any subsidiary and associated company during the year ended 31 December 2007.

Charges on Assets

As at 31 December 2007, the Group had banking facilities of HK$158,520,000 (2006: HK$133,400,000) but no assets were pledged to banks to secure them.

Contingent Liabilities

In February 2008, the HKIRD enquired the Company the basis of its 50:50 offshore concession claims for the years of assessment 2001/02 to 2006/07 in relation to the Company's manufacturing activities carried out by Shenzhen Kwang Sung and the third party processing factory in the PRC, and issued an additional assessment of HK$3,318,000 for the year of assessment 2001/02. The Company lodged an objection against the additional assessment in March 2008. The Company has yet to receive further comments from the HKIRD for its objection on the additional assessment.

Should the Company be unable to provide sufficient documentation information for the objection, the Company would have to pay an additional Hong Kong Profits Tax for the years of assessment 2001/02 to 2006/07.

Since the Company lodged an objection against the additional assessment and is still in the progress of collecting information in response to the enquiries raised by the HKIRD, the directors of the Company consider it is premature to quantify or provide for any additional tax liabilities in this regard.

Pursuant to a Deed of Indemnity dated 23 June 2003, the additional tax liability in relation to the Company's operations prior to 23 June 2003 is indemnified by the substantial shareholders upon the listing of the Company's shares on the Stock Exchange.

Other than the above, the Group did not have any significant contingent liabilities as at 31 December 2007 and 2006.

Employees and Remuneration Policy

As at 31 December 2007, the Group had about 1,711 employees (2006: 1,951), of whom 22 are based in Hong Kong (2006: 22), 1,580 in PRC (2006: 1,828) and 109 in Korea (2006: 101). Staff costs increased to HK$102,747,000 during the year ended 31 December 2007, compared with HK$89,467,000 during 2006. This was mainly due to the expansion of our operations in Korea.

Our employees are remunerated according to their performance and work experience, as well as market conditions. In addition to basic salaries and retirement schemes, staff benefits include medical care, discretionary share options and performance bonuses.

BUSINESS REVIEW

Composite Components Business

Our composite components business remained the Group's major source of revenue, accounting for 76.4% of our total turnover during the year ended 31 December 2007. The segment's turnover amounted to HK$598,338,000, an increase of 26.5% compared with the previous year's figure of HK$473,110,000. This trend was mainly attributable to growth in the sales of our tuner modules for car audios, home audios and DMB products.

The Group's turnover from sales of tuner modules for car audios increased by 25.4% to HK$129,899,000 during 2007. This impressive double-digit growth rate was mainly attributable to increased orders from our existing customers. It also reflected our persistence and determination to expand our market share by strengthening our ties with existing and new ones. The strong technical backing of our in-house research and development engineering teams enabled us to ensure our products consistently to meet the most stringent quality requirements of our customers during the year. The customers' strong confidence in the Group's products is one of our most important competitive edges.

Sales of the Group's tuner modules for home audios grew by 17.0% during 2007, from HK$245,076,000 to HK$286,756,000. This segment accounted for 47.9% of the total turnover of the Group's composite components business. The satisfactory growth rate was mainly due to the enhanced support we provided to our existing customers. This helped their businesses to prosper, and in turn it increased their demand for the Group's products. The Group's customer base was also diversified to include suppliers and manufacturers which serve brand owners. Most of these new customers provide OEM (original equipment manufacturer) and/or ODM (original design manufacturer) services to end-users or brand owners. A special drive to secure orders for the tuner modules used in portable devices resulted in a 53.2% leap in the sales of these products, which rose to HK$29,796,000.

Sales of the Group's wireless solutions, including wireless speaker systems, microphones and bluetooth modules, grew by 18.9% to HK$54,061,000 during 2007. Such components are mainly incorporated into the finished products of leading electronics companies.

Launched in 2006, the Group's digital product category supplies digital tuner modules for DMB in navigation systems and personal multimedia players ("PMP"). These were sold primarily in the Korea market. Sales of our digital tuner modules for DMB and DAB increased significantly during the year, totalling HK$58,575,000. In particular, our sales of digital tuner modules for DMB rocketed by around 130.0%.

The Group continued to devote resources to the research and development of new products in order to diversify and enhance our product portfolio. These included tuner modules for hybrid digital radio ("HD Radio") and for the Integrated Services Digital Broadcasting – Terrestrial ("ISDB-T") standard used in Japan, as well as global positioning system ("GPS") engines.

Unit Electronic Components Business

The turnover from our unit electronic components business amounted to HK$185,115,000 during the year. This represented an increase of 34.0% compared with that in 2006 of HK$138,105,000. This segment accounted for 23.6% of the Group's total turnover. The growth of our unit electronic components business was mainly attributable to the increased sales of transformers due to our strengthened market position.

Prospects

Despite the risk of a possible economic downturn that might lead to reduced consumer demand for electronic products, the Group remains cautiously optimistic about the outlook for our business during 2008. While we expect our turnover to grow satisfactorily in the coming year, we also anticipate a surge in direct labour costs arising from the change in the labour law in the PRC, which may restrain our ability from improving profit margins. To capitalise on the trend towards digitalisation that is prevalent among new multimedia devices, the Group will step up efforts to increase our market share and strengthen our market position. We believe there is still a lot of room to expand the market that we currently serve, as well as to satisfy the continuously growing demand for the products we manufacture in underdeveloped and developing countries. In response to these factors, we will continue to strengthen our collaboration with key customers around the world.

The strong relationships we enjoy with our major customers and the recognised quality of our products make the Group confident that sales of our tuner modules for car audios and digital tuner modules for DMB and DAB will grow substantially in the coming years. Our success in attracting major new customers in the past year also leads us to believe that demand for our tuner modules for car audios will continue to increase at a healthy pace in the future. The Group will continue to capitalise on our status as one of Korea's leading digital tuner modules supplier in order to expand our shares of the personal navigation devices ("PND") and PMP markets. We expect these to become major revenue sources in the coming year, while sales of our other types of tuner modules are likely to continue growing steadily. The Group also anticipates further good progress in the sales of our wireless solutions, including wireless speaker systems.

Since 2007, the Group has been contracted by the iBiquity Digital Corporation, a US company, to develop the tuner modules for HD Radio to satisfy demand in the terrestrial-based American digital audio market. We expect to begin generating revenue from HD Radio during the first half of 2008, and we will continue to nurture this product segment so that it will become a major income source for the Group in the near future. We also expect our GPS engines to generate satisfactory revenues from 2008 onwards.

The Group increased our investment of resources into research and development efforts to the equivalent of 5.7% of turnover in 2007; and we intend to maintain our research and development budget at this level during the coming year. This reflects our long-term commitment to enhancing the quality and scope of our products. It also empowers us to meet our customers' ever-changing demands in the digital era. Aside from investing in research and development, we will also invest in new equipment and automated production lines to enhance our efficiency and production capacity.

While we embark on developing new products, the Group will continue to manage our finances prudently, and keep a close watch on costs. We will also remain constantly on the lookout for fresh opportunities that will enable us to ensure the long-term sustainable growth and expansion of our business.

CORPORATE SOCIAL RESPONSIBILITY

As a public company, the Group has been actively fulfilling its corporate social responsibility by protecting the interest of all stakeholders of the Company, the Company itself, and the society and environment. During the year, the Company donated a total of HK$1,680,000 (2006: HK$1,560,000) to charities to promote the well-being of the needy. It also continued to make sure its products conform to the European Union's environmental protection guidelines including the Directive on the Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment on manufacturing activities.

Caring about the health and work safety of its staff, in addition to providing adequate training to all its managers and employees, the Group also maintains appropriate safety systems and effective control to minimize staff exposure to potentially hazardous materials or adverse work conditions. The Group also ensures employees enjoy equal opportunities. It does not tolerate any form of harassment or discrimination in respect of employment and occupation in its bid to provide a fair work environment to its employees.

OTHER INFORMATION

Corporate Governance

The Company is committed to achieving high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Corporate Governance Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2007 except for the derivation of code provision E.1.2.

The code provision E.1.2 of the Corporate Governance Code provides that the Chairman of the Board should attend the annual general meeting of the Company. Due to other business commitments, Mr. Yang Ho Sung, the Chairman of the Board who resides in Korea, was unable to attend the annual general meeting of the Company held on 18 May 2007 in Hong Kong. This constitutes a deviation from the code provision E.1.2 of the Corporate Governance Code.

The Company has received, from each of the independent non-executive directors, a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive directors are independent.

Model Code for Securities Transactions by Directors

The Company, having made specific enquiry, confirms that all directors complied throughout the year with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The relevant employees who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

Purchase, Sale or Redemption of Listed Securities

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

Review of Accounts

The audit committee examined the accounting principles and practices adopted by the Group and discussed with the management its internal controls and accounts. The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2007.

Publication of the Final Results and Annual Report

The results announcement is published on the Company's website at www.kse.com.hk and the website of the Stock Exchange at www.hkex.com.hk. The 2007 annual report will be dispatched to the shareholders and available on the said websites in due course.

By Order of the Board
Kwang Sung Electronics H.K. Co. Limited
YANG Jai Sung
Executive director and Chief executive officer

Hong Kong, 8 April 2008

As of the date hereof, the board of directors comprises non-executive director Mr. YANG Ho Sung (Chairman), executive directors Mr. YANG Jai Sung, Mr. WOO Nam Jin and Mr. LEE Kyu Young, and independent non-executive directors Dr. KIM Chung Kweon, Dr. HAN Byung Joon and Mr. KIM Chan Su.