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)

2008 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Kwang Sung Electronics H.K. Co. Limited (the "Company") announced that the unaudited consolidated interim financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 are as follows:

CONSOLIDATED STATEMENT OF INCOME – UNAUDITED

		Six months ended 30 June	
		2008	2007
	Note	***HK$'000***	*HK$'000*
Turnover	*2*	**392,224**	361,652
Cost of sales		**(339,094)**	(304,554)
Gross profit		**53,130**	57,098
Other revenue		**2,268**	3,122
Selling and distribution expenses		**(12,133)**	(11,855)
Administrative expenses		**(8,297)**	(5,340)
Research and development expenses		**(21,375)**	(23,869)
Other operating expenses		**(7,750)**	(1,731)
Profit from operations and before taxation	*3*	**5,843**	17,425
Income tax	*4*	**(1,034)**	(1,857)
Profit after taxation attributable to equity shareholders of the Company		**4,809**	15,568
Interim dividend declared after the interim period	*5(i)*	**1,577**	4,701
Earnings per share	*6*		
– Basic		**HK1.53 cents**	HK4.97 cents
– Diluted		**HK1.49 cents**	HK4.90 cents

CONSOLIDATED BALANCE SHEET – UNAUDITED

	Note	At 30 June 2008 HK$'000	At 31 December 2007 HK$'000
Non-current assets			
Property, plant and equipment		**87,151**	96,850
Intangible assets		**695**	718
Other equity securities	*7*	**–**	–
		87,846	97,568
Current assets			
Inventories		**96,883**	70,667
Trade and other receivables	*8*	**170,712**	125,795
Tax reserve certificate	*4*	**3,318**	–
Cash and cash equivalents		**153,718**	185,415
		424,631	381,877
Current liabilities			
Trade and other payables	*9*	**116,095**	79,774
Current tax payable		**6,514**	3,137
		122,609	82,911
Net current assets		**302,022**	298,966
Total assets less current liabilities		**389,868**	396,534
Non-current liabilities			
Deferred tax liabilities		**3,033**	1,698
Net assets		**386,835**	394,836
Capital and reserves	*10*		
Share capital		**31,536**	31,358
Reserves		**355,299**	363,478
Total equity – attributable to equity shareholders of the Company		**386,835**	394,836

Notes:

1. Basis of preparation

These interim financial results are unaudited, but have been reviewed by the Company's Audit committee and by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board is included in the interim financial report to be sent out to shareholders of the Company.

These interim financial results have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the HKICPA.

The preparation of these interim financial results in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial results have been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements. The Hong Kong Financial Reporting Standards ("HKFRSs", which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance) that are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of these interim financial results. Therefore the accounting policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of these interim financial results.

These interim financial results contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the financial year ended 31 December 2007 that is included in these interim financial results as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 8 April 2008.

2. Segment reporting

The Group's primary format for reporting segment information is business segments. Turnover represents the sales value of goods supplied to customers less goods returned and after trade discounts.

(i) Business segments

The Group comprises two main business segments:

- manufacture and sale of composite components; and
- manufacture and sale of unit electronic components.

	Composite components Six months ended 30 June		Unit electronic components Six months ended 30 June		Consolidated Six months ended 30 June	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**297,518**	281,009	**94,706**	80,643	**392,224**	361,652
Segment results	**6,879**	10,342	**(3,304)**	3,961	**3,575**	14,303
Unallocated operating income					**2,268**	3,122
Profit from operations					**5,843**	17,425

(ii) Geographical segments

An analysis of the Group's turnover by geographical location determined on the basis of the destination of the products is as follows:

	Turnover Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Mainland China	**211,320**	192,322
Hong Kong	**91,210**	88,923
Korea	**77,463**	72,878
Others	**12,231**	7,529
	392,224	361,652

3. Profit from operations and before taxation

Profit from operations and before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Cost of sales *(note)*	**339,094**	304,554
Depreciation *(note)*	**9,986**	10,090
Interest income	**(2,087)**	(2,529)
Impairment losses on doubtful debts	**3,161**	–
Net foreign exchange loss/(gain)	**1,153**	(1,485)
Auditor's remuneration	**496**	412
Operating lease charges: minimum lease payments – hire of properties *(note)*	**2,476**	2,171

Note: Cost of sales included depreciation expenses and operating lease charges in respect of properties of HK$7,741,000 (2007: HK$7,806,000) which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

4. Income tax

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the period	**433**	1,342
Current tax – PRC taxation		
Provision for the period	**865**	758
Under/(over) provision for PRC tax in respect of prior years	**3,037**	(5)
Tax refund on reinvestment of profit derived from a subsidiary *(note)*	**(3,268)**	–
	634	753
Deferred tax		
Origination and reversal of temporary differences	**161**	(238)
Effect of changes in tax rates on deferred tax balances	**(194)**	–
	(33)	(238)
	1,034	1,857

Note: During the year ended 31 December 2007, the Company reinvested part of the profit derived from its subsidiary, Shenzhen Kwang Sung Electronics Co., Ltd. ("Shenzhen Kwang Sung") which is a wholly-foreign owned enterprise established in the People's Republic of China (the "PRC"), as paid-up capital of the subsidiary. Pursuant to the PRC tax rules and regulations, the Company is entitled to a tax refund of HK$3,268,000 representing the income tax previously paid by the subsidiary on the reinvested amount.

Provision for Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the Group's estimated assessable profits arising in Hong Kong for the six months ended 30 June 2008.

The Company carries out manufacturing activities in the PRC through its subsidiary, 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.

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 and purchased a tax reserve certificate in the same amount to satisfy the HKIRD's requirements for holdover of the additional tax demanded for the year of assessment 2001/02. The amount is included in the balance sheet as at 30 June 2008 under current assets.

Since the operation mode has remained unchanged since the year of assessment 1999/2000, the directors consider that the Company should have the ground to pursue the 50:50 offshore concession 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 interim financial results.

Provision for income tax in respect of the subsidiary in the PRC is calculated at 25% (2007: 15%) of its estimated assessable profits for the six months ended 30 June 2008.

In September 2007, the Shenzhen Local Tax Bureau enquired the related party transactions and the transfer pricing 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 the financial statements for the year ended 31 December 2007.

At of 30 June 2008, the Company is still undergoing negotiation with the Shenzhen Local Tax Bureau on the compromise settlement. Based on their recent negotiation with the Shenzhen Local Tax Bureau, the directors reassessed that the Company would have to pay HK$4,445,000 PRC enterprise income tax in order to reach a compromise settlement. Accordingly, an additional provision of HK$3,037,000 had been provided in the financial statements for the six months ended 30 June 2008.

Out of the tax provision of HK$4,445,000, HK$358,000 was pertained to the 6-month period ended 30 June 2003 which would be indemnified by a substantial shareholder.

Up to the date of these interim 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 consider that adequate provision for PRC income tax has been made in these interim financial results.

No provision has been made for Korea income tax as the Group did not generate assessable profits subject to Korea income tax for the six months ended 30 June 2008 and 2007.

5. Dividends

(i) Dividend payable to equity shareholders of the Company attributable to the interim period:

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Interim dividend declared after the interim period of HK0.5 cents (2007: HK1.5 cents) per ordinary share	**1,577**	4,701

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

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

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period of HK1.4 cents (year ended 31 December 2006: HK1.1 cents) per ordinary share	**4,415**	3,446

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$4,809,000 (2007: HK$15,568,000) and the weighted average number of ordinary shares of 314,925,000 (2007: 313,300,000) in issue during the six months ended 30 June 2008.

(ii) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of HK$4,809,000 (2007: HK$15,568,000) and the weighted average number of ordinary shares of 323,122,000 (2007: 317,890,000) after adjusting for the effect of all dilutive potential ordinary shares.

7. Other equity securities

Other equity securities represent equity investments in an unlisted corporate entity with a cost of HK$1,500,000 (at 31 December 2007: HK$1,500,000), against which a full provision for impairment loss has been made in prior years and maintained at 30 June 2008.

8. Trade and other receivables

	At 30 June 2008	At 31 December 2007
	HK$'000	*HK$'000*
Trade receivables	**153,211**	115,326
Short term loans to key management personnel and employees	**1,208**	1,629
Sales proceeds of other equity securities	**1,684**	1,684
Deposits, prepayments and other receivables	**14,609**	7,156
	170,712	125,795

The ageing analysis of trade receivables (net of impairment losses for bad and doubtful debts) as of the balance sheet date is as follows:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Current	**113,310**	83,073
Less than 1 month past due	**22,817**	20,950
Over 1 month but less than 3 months past due	**15,516**	9,648
Over 3 months but less than 12 months past due	**1,568**	1,655
	153,211	115,326

New customers are normally required to trade on a cash basis. Credit is offered to existing customers following an established payment records. The credit terms granted by the Group to its customers (including a shareholder) generally range from one to two months.

9. Trade and other payables

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Trade payables	**101,176**	66,240
Accrued expenses and other payables	**14,919**	13,534
	116,095	79,774

The ageing analysis of trade payables as of the balance sheet date is as follows:

	At 30 June 2008 *HK$'000*	At 31 December 2007 *HK$'000*
Due within 1 month or on demand	**52,964**	42,761
Due after 1 month but within 3 months	**48,212**	23,479
	101,176	66,240

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$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2007	31,330	52,900	5,839	3,902	3,012	–	264,679	361,662
Transfer between reserves *(note (i))*	–	–	(787)	–	–	–	787	–
Final dividend approved in respect of the previous year *(note 5(ii))*	–	–	–	–	–	–	(3,446)	(3,446)
Equity settled share-based transactions	–	–	27	–	–	–	–	27
Profit for the period	–	–	–	–	–	–	15,568	15,568
At 30 June 2007	31,330	52,900	5,079	3,902	3,012	–	277,588	373,811
Shares issued under share options scheme	28	410	(76)	–	–	–	–	362
Transfer between reserves	–	–	–	–	3,477	–	(3,477)	–
Revaluation surplus, net of deferred tax	–	–	–	10,657	–	–	–	10,657
Profit for the period	–	–	–	–	–	–	14,707	14,707
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
At 1 January 2008	31,358	53,310	5,003	14,559	6,489	–	284,117	394,836
Shares issued under share options scheme	178	2,611	(483)	–	–	–	–	2,306
Transfer between reserves *(note (i))*	–	–	(3,916)	–	–	–	3,916	–
Transfer from deferred tax	–	–	–	(1,368)	–	–	–	(1,368)
Exchange difference on translation of financial statements of overseas branch *(note (ii))*	–	–	–	–	–	(9,333)	–	(9,333)
Final dividend approved in respect of the previous year *(note 5(ii))*	–	–	–	–	–	–	(4,415)	(4,415)
Profit for the period	–	–	–	–	–	–	4,809	4,809
At 30 June 2008	31,536	55,921	604	13,191	6,489	(9,333)	288,427	386,835

Notes:

(i) The transfer from capital reserve to retained profits represents the value of share options lapsed or expired during the period ended 30 June 2008 and 2007.

(ii) At 1 January 2008, the Company has changed the functional currency of the Korea branch from Hong Kong Dollars to Korean Won because the Korea branch has substantially increased its trading activities of electronics components primarily in the Korea market. Sales and purchases conducted in the Korea market were denominated and settled in Korean Won.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK0.5 cents per share for the six months ended 30 June 2008 (six months ended 30 June 2007: HK1.5 cents). Dividend cheques will be despatched by mail on or about 17 October 2008 to shareholders whose names are registered in the register of members of the Company on 10 October 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 October 2008 to 10 October 2008, both dates inclusive, during which period, no transfer of shares will be registered. 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, Tricor Standard Limited, at Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong not later than 4:00 p.m. on 6 October 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2008, the Group's turnover grew by 8.5% from HK$361,652,000 to HK$392,224,000 over the corresponding period last year. Profit for the period amounted to HK$4,809,000, representing a decrease of 69.1% as compared to HK$15,568,000 over the corresponding period last year. Basic earnings per share were HK1.53 cents, 69.2% decrease from HK 4.97 cents over the corresponding period last year.

The increase in turnover was primarily a result of the net sales growth of wireless solutions, offsetting the slow down in the growth of the Group's major products including tuner modules for home audios and car audios.

During the period under review, gross profit was down by 6.9% to HK$53,130,000 as compared to that over the corresponding period last year despite the increase in turnover. The decrease was due to the combined effect of Renminbi ("RMB") appreciation, enactment of the new China Labor Contract Law, rising raw material costs, and the claim from a number of PRC-based employees against the Group in respect of overtime compensation over the past two years. For the period under review, the Group's gross profit margin was 13.5%, as compared to 15.8% over the corresponding period last year.

Other revenue decreased by 27.4% to HK$2,268,000, primarily as a result of decrease in bank interest income during the period.

Operating expenses increased by HK$6,760,000 or 15.8% to HK$49,555,000 as compared to HK$42,795,000 over the corresponding period last year. The increase was mainly attributable to the additional increase in impairment losses on doubtful debts of HK$3,161,000 and the foreign exchange loss of HK$1,515,000.

Income tax decreased by 44.3% from HK$1,857,000 over the corresponding period last year to HK$1,034,000. This amount mainly reflected provision for Hong Kong Profits Tax and PRC income tax of HK$1,298,000 for profits generated during the period, additional provision for PRC income tax of HK$3,037,000 in respect of voluntary transfer pricing adjustment and a tax refund of HK$3,268,000 on reinvestment of profit derived from its subsidiary, as paid-up capital of the subsidiary.

Based on the foregoing, the Group recorded profit after taxation attributable to equity shareholders of HK$4,809,000 for the six months ended 30 June 2008, representing a decrease of 69.1%, as compared to HK$15,568,000 over the corresponding period last year.

Financial Condition, Liquidity and Financial Resources

The Group's operations are generally financed by internally generated cash flow. As at 30 June 2008, the Group had cash and bank balances of HK$153,718,000 and net current assets of HK$302,022,000. Total shareholders' funds amounted to HK$386,835,000 as at 30 June 2008.

As at 30 June 2008, the Group had no outstanding borrowings. Its current ratio, defined as current assets divided by current liabilities, was 3.46, whilst the gearing ratio, defined as total liabilities divided by total assets, was 0.25.

Foreign Exchange Exposure, Hedging and Off Balance Sheet Financial Instruments

The Group is exposed to foreign currency risks, primarily in making 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 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 further significant appreciation of RMB due to stronger USD position. The Group has taken steps to ensure that its net exposure to other currencies such as 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 of its subsidiaries and associated company during the six months ended 30 June 2008.

Charges on Assets

As at 30 June 2008, the Group had banking facilities of HK$155,040,000 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.

Since the 50:50 offshore concession claims had been agreed with the HKIRD in year of assessment 1999/2000 and the mode of operations has remained unchanged, the Company is collecting information in response to the enquiries raised by the HKIRD to substantiate its offshore claims. Accordingly, 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 of Hong Kong Limited (the "Stock Exchange").

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.

Other than the above, the Group did not have any significant contingent liabilities as at 30 June 2008 and 31 December 2007.

Employees and Remuneration Policy

As at 30 June 2008, the Group had about 1,992 employees, of whom 26 are based in Hong Kong, 1,869 in the PRC, and 97 in Korea.

For the six months ended 30 June 2008, staff costs slightly decreased by 1.3% from HK$47,077,000 to HK$46,478,000 over the corresponding period last year.

Employees are remunerated according to their individual performance, work experiences and with reference to 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

During the period under review, composite components business remained the Group's major source of revenue, accounting for 75.9% of the Group's total turnover. Turnover from the segment amounted to HK$297,518,000, an increase of 5.9% as compared to HK$281,009,000 over the corresponding period last year.

Sales of tuner modules for both home audios and car audios slowed down during the review period. This was mainly due to major customers' cautious outlook on consumer demand which resulted in the slowing down of orders to the Group. The two products brought turnover of HK$119,872,000 and HK$64,889,000 respectively, representing 2.8% and 10.5% decrease as compared to those over the corresponding period in 2007.

Sales of wireless solutions, including wireless speaker systems and microphones to leading electronics companies achieved a triple-digit growth of 157.2%, driving turnover from HK$25,916,000 over the corresponding period last year to HK$66,655,000. Such remarkable segmental growth was mainly attributable to the Group's persistent efforts in developing and marketing products with enhanced features to target customers.

Launched in 2006, the digital product category mainly supplies tuner modules for digital multimedia broadcasting ("DMB") in navigation systems and personal multimedia players ("PMP") in Korea. Sales of tuner modules for DMB and digital audio broadcasting ("DAB") for the period amounted to HK$22,190,000, representing a 17.9% decrease as compared to that over the corresponding period last year. The decrease was primarily attributable to the falling market demand driven by economic downturn.

In recent years, the Group has allocated more resources to research and development and launched new products including global positioning system ("GPS") engines, MP3 decoders for car audios, and tuner modules for hybrid digital radio ("HD Radio"). During the period under review, sales of these products progressed steadily, translating into revenues for the Group, despite that they are still relatively insignificant.

Unit Electronic Components Business

For the six months ended 30 June 2008, turnover from unit electronic components business amounted to HK$94,706,000, representing an increase of 17.4% as compared to HK$80,643,000 over the corresponding period last year. The increase in sales of unit electronics components was mainly due to the increase in sales of transformers during the period.

Prospects

Looking forward, the Group expects to face challenges from the sluggish consumer market, rising labor cost and other expenses in the PRC arising from the new Labor Contract Law and the appreciation of RMB in addition to the continuous cost pressure from raw material price amidst global economic downturn. However, the Group will endeavor to neutralise the negative impacts riding on its enhanced market position, financial and operational strengths as well as the growth potential of new business segments.

Despite the negative growth of tuner modules for car audios during the review period, the Group expects orders from newly secured customers to help achieving rebound of the segment in the second half of the year which is the traditional peak season of the industry. Thus, the Group will put its best foot forward in moving this segment back on to the growth track by the end of the year. However, taking into account the Group's dominant market position and saturation of demand for tuner modules for home audios, the Group does not expect growth this year.

The Group believes that the application of its wireless solutions on different consumer products and brands will continue to expand in the years ahead. The Group will explore more new customers and expects to generate sustainable and significant growth in sales for the second half of the 2008 financial year.

Despite the solid market position of digital tuner modules for DMB in Korea, taking into account the market size and other economic factors which limit their growth potential, the Group plans to allocate more resources to GPS engines to create another value-added solution targeting at the camera detector board ("CDB") in addition to personal navigation devices ("PND") and PMP. The Group expects to achieve noteworthy growth in GPS engines by the end of the year.

The Group will maintain its research and development focus to deliver our long-term commitment to enhance the quality and expand the range of products for our customers. Apart from its research and development efforts, the Group will continue to invest in new technologies and accelerate the automation of production lines, so as to boost its production capacity and efficiency. The Group targets to position itself to meet the increasingly demanding customers amid fierce competition.

Exercising prudence, the Group will primarily focus on cementing its business foundation and achieving growth through expanding its product portfolio for the second half of the year. Financially, it expects to achieve improvement in performance in the second half year, barring unforeseen circumstances such as the overtime compensation disputes.

Investor Relations

The Group values its relationship with investors and is committed to maintaining transparency of its 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 including interim reports, annual reports, announcements, press releases and other corporate updates via its website at www.kse.com.hk.

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 interim results announcement, the Company has not maintained the prescribed public float as required by the Listing Rules. The Company and its controlling shareholder are committed to finding possible ways to resolve the issue of insufficient public float of the Company as soon as possible.

Corporate Social Responsibility

As a caring company, the Group has been active in fulfilling its corporate social responsibility by acting in the interest of all stakeholders of the Company, the Company itself, and the society and environment. During the review period, the Company donated a total of HK$960,000 (six months ended 30 June 2007: HK$840,000) to charities to promote the well-being of the needy. The Company complied with the requirement of ISO 14001: 2004 on environmental management system. 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 maintains appropriate safety systems and effective control to minimise 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 thereby providing a fair work environment to its employees.

OTHER INFORMATION

Code on Corporate Governance Practices

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 Listing Rules throughout the six months ended 30 June 2008.

Model Code for Securities Transactions by Directors

The Company, having made specific enquiries, confirms that all directors complied with the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules, and 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, during the six months ended 30 June 2008.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

Review of Accounts

The Audit committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, financial reporting process and internal control matters including a review of the unaudited interim financial report for the six months ended 30 June 2008.

Publication of the Interim Results Announcement and Interim Report

The interim results announcement is published on the websites of the Company (www.kse.com.hk) and the Stock Exchange (www.hkex.com.hk), and the interim report will be available at the said websites and despatched to shareholders of the Company in this late September.

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

Hong Kong, 12 September 2008

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