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 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Kwang Sung Electronics H.K. Co. Limited (the "Company") announced the consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	*2, 3*	**797,912**	783,453
Cost of sales		**(707,402)**	(660,375)
Gross profit		**90,510**	123,078
Other revenue	*4*	**4,239**	6,609
Selling and distribution expenses		**(25,014)**	(27,047)
Administrative expenses		**(16,745)**	(16,485)
Research and development expenses		**(39,259)**	(44,471)
Surplus on revaluation of land and buildings		**–**	1,456
Other operating expenses		**(15,269)**	(8,270)
(Loss)/profit before taxation	*5*	**(1,538)**	34,870
Income tax	*6*	**(760)**	(4,595)
(Loss)/profit after taxation attributable to equity shareholders of the Company		**(2,298)**	30,275
Dividends payable to equity shareholders of the Company attributable to the year:	*7*		
Interim dividend declared during the year		**1,577**	4,701
Final dividend proposed after the balance sheet date		**–**	4,415
		1,577	9,116
(Loss)/earnings per share	*8*	*HK cents*	*HK cents*
Basic		**(0.73)**	9.66
Diluted		**(0.73)**	9.46

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment		**75,728**	96,850
Intangible assets		**673**	718
Investments in equity securities	*9*	**–**	–
Other receivables		**616**	–
Deposits for purchase of property, plant and equipment		**967**	–
		77,984	97,568
Current assets			
Marketable securities	*10*	**7,840**	–
Inventories		**81,242**	70,667
Trade and other receivables	*11*	**108,001**	125,795
Cash and cash equivalents		**155,692**	185,415
		352,775	381,877
Current liabilities			
Trade and other payables	*12*	**64,378**	79,774
Current tax payable		**5,227**	3,137
		69,605	82,911
Net current assets		**283,170**	298,966
Total assets less current liabilities		**361,154**	396,534
Non-current liabilities			
Deferred tax liabilities		**2,009**	1,698
Net assets		**359,145**	394,836
Capital and reserves	*13*		
Share capital		**31,536**	31,358
Reserves		**327,609**	363,478
Total equity		**359,145**	394,836

Notes

1. Basis of preparation

The annual 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 applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The HKICPA has issued a number of new interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group. However, none of these developments are relevant to the Group's operations.

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

Change in functional currency of the Company's Korea Branch

At 1 January 2008, the Company determined to change functional currency of the Company's branch in Korea ("Korea Branch") from Hong Kong Dollars ("HKD") to Korean Won ("KRW") following the Korea Branch has substantially increased its trading activities in the Korean market. The effect of the change in the functional currency of the Korea Branch has been accounted for prospectively since 1 January 2008. Exchange differences arising from the translation of financial statements of the Korea Branch was recognised in equity. During the year ended 31 December 2008, the Group recognised HK$25,193,000 exchange losses arising from the translation of financial statements of overseas operations directly in equity.

2. Segmental reporting

The Group's operations are divided into two business segments: composite components segment and unit electronic components segment. In accordance with the Group's internal financial reporting, business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

(a) Business segments

An analysis of the Group's results of operations and the Group's financial position by business segments is as follows:

	Composite components		**Unit electronic components**		**Consolidated**	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**624,358**	598,338	**173,554**	185,115	**797,912**	783,453
Segment result	**20,833**	29,466	**(9,865)**	13,824	**10,968**	43,290
Unallocated operating income and expenses					**(12,506)**	(8,420)
(Loss)/profit from operations					**(1,538)**	34,870
Income tax					**(760)**	(4,595)
(Loss)/profit after taxation attributable to equity shareholders of the Company					**(2,298)**	30,275
Depreciation	**(15,285)**	(15,435)	**(3,731)**	(4,777)	**(19,016)**	(20,212)
Impairment loss on trade receivables	**(2,029)**	(981)	**(3,682)**	(2)	**(5,711)**	(983)
Reversal of impairment loss on trade receivables	**256**	1,061	**95**	88	**351**	1,149
Write down of inventories	**(378)**	(2,322)	**(1,020)**	(339)	**(1,398)**	(2,661)

	Composite components		Unit electronic components		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**191,578**	215,861	**59,305**	66,982	**250,883**	282,843
Unallocated assets					**179,876**	196,602
Total assets					**430,759**	479,445
Segment liabilities	**35,715**	46,345	**14,829**	24,100	**50,544**	70,445
Unallocated liabilities					**21,070**	14,164
Total liabilities					**71,614**	84,609
Capital expenditure incurred during the year	**9,410**	8,225	**1,657**	451	**11,067**	8,676

(b) *Geographical segments*

The Group's business is principally managed in Hong Kong and other parts of the People's Republic of China (the "PRC"). The principal markets for the Group's products are the PRC (including Hong Kong) and Korea. Geographical segment turnover is presented based on the locations of the Group's customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Turnover		Segment assets		Capital expenditure incurred during the year	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
PRC (other than Hong Kong)	**436,065**	404,463	**148,777**	158,730	**9,220**	7,618
Hong Kong	**193,297**	215,311	**17,718**	30,310	**1,104**	41
Korea	**143,485**	143,261	**77,776**	91,794	**743**	1,017
Others	**25,065**	20,418	**6,612**	2,009	**–**	–
	797,912	783,453	**250,883**	282,843	**11,067**	8,676

3. Turnover

The principal activities of the Group are the manufacture and sale of electronic components.

Turnover represents the sales value of goods supplied to customers less goods returned and trade discounts.

4. Other revenue

	2008	2007
	HK$'000	*HK$'000*
Interest income from bank deposits	**3,368**	5,221
Gains on disposal of property, plant and equipment	**172**	134
Scrap sales	**108**	318
Unrealised gain on marketable securities	**79**	–
Write back of trade and other payables	**–**	333
Others	**512**	603
	4,239	6,609

5. (Loss)/profit before taxation

The Group's (loss)/profit before taxation is arrived at after charging:

	2008	2007
	HK$'000	*HK$'000*
Amortisation of intangible assets	**45**	36
Depreciation	**19,016**	20,212
Impairment loss on trade receivables	**5,711**	983

6. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2008	2007
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax		
Provision for the year	**–**	2,813
Over provision in respect of prior years	**–**	(293)
	–	2,520
PRC Corporate Income Tax		
Provision for the year	**1,054**	1,628
Tax refund on reinvestment of profit derived from a subsidiary *(note (iv))*	**(3,280)**	–
Under provision in respect of prior years	**3,310**	776
	1,084	2,404
	1,084	4,924
Deferred tax		
Origination and reversal of temporary differences	**(242)**	(329)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(82)**	–
	(324)	(329)
Actual tax expenses	**760**	4,595

(i) In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the Group's and the Company's 2008 financial statements. Accordingly, the provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balance of deferred tax has been re-estimated accordingly. No provision for Hong Kong Profits Tax is made for the year ended 31 December 2008 as the Company did not have any assessable profit.

Provision for PRC Corporate Income Tax for Shenzhen Kwang Sung Electronics Co., Ltd. ("Shenzhen Kwang Sung") and Kwang Sung Electronics Trading (Shenzhen) Co., Ltd. is calculated at 18% (2007: 15%) and 25% of estimated assessable profits for the year, respectively.

The Korea Branch operated in Korea is subject to corporate income tax at a rate of 12.1% (2007: 14.3%). No income tax provision has been made for the year ended 31 December 2008 as the tax losses brought forward from prior years exceed the estimated assessable profit for the year. No income tax provision has been made for the year ended 31 December 2007 as the Korea Branch sustained a tax loss.

(ii) 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 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 and purchased a tax reserve certificate of HK$3,318,000 in 2008.

In March 2009, HKIRD issued another demand note for additional tax payable for the year of assessment 2002/03 amounted to HK$6,424,000 in relation to the above 50:50 offshore claims. The Company is in the process of lodging objection against this additional assessment.

Since the Group's operation has remained unchanged since 1999/2000, the directors consider that the Company should have valid grounds to pursue the 50:50 offshore claims. Therefore, no provision has been made for the additional assessments or for any other additional tax liabilities for the years under enquiry. The amount paid in relation to the additional assessment is recorded as other receivables.

In the opinion of the directors, adequate provision for Hong Kong Profits Tax has been made.

(iii) In 2007, the Shenzhen Local Tax Bureau enquired the related party transactions and the transfer price policy of Shenzhen Kwang Sung for 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 and estimated that an additional income tax payable of HK$1,408,000 in respect of the enquiries was required. Full provision for the estimated additional income tax payable of HK$1,408,000 was made in the 2007 financial statements.

In 2008, the scope of enquiries regarding the transfer price policy of Shenzhen Kwang Sung from Shenzhen Local Tax Bureau has been changed to cover the five years from 1 January 2003 to 31 December 2007. Directors of the Company reassessed the matter and estimated that the Group would have to pay in total of HK$4,445,000. Accordingly, an additional provision for PRC Corporate Income Tax of HK$3,037,000 was made.

As of the date of this result announcement, the Company has yet to obtain an agreement from the Shenzhen Local Tax Bureau to its proposed settlement. However, the directors of the Company consider that adequate provision for the above enquires has been made.

(iv) During the year ended 31 December 2007, the Company reinvested part of the profit derived from its subsidiary, Shenzhen Kwang Sung, which is a wholly-foreign owned enterprise established in 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$3,280,000, representing the income tax previously paid by Shenzhen Kwang Sung on the reinvested amounted.

(v) Pursuant to Shen Guo Shui Fa 2008 notice 145, Shenzhen Kwang Sung is subject to PRC Corporate Income Tax at a rate of 20% in 2009, 22% in 2010, 24% in 2011. From 1 January 2012, the applicable tax rate will be 25%.

(vi) Pursuant to the Corporate Tax Act of Republic of Korea, Korean corporate income tax rate will be changed to 11% for assessable income up to KRW200 million and 24% for assessable income over KRW200 million for the year 2009. From 1 January 2010 onwards, corporate income tax rate will be 11% for assessable income up to KRW200 million and 22% for assessable income over KRW200 million.

7. Dividends

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

	2008	2007
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK0.5 cents (2007: HK1.5 cents) per ordinary share	**1,577**	4,701
Final dividend proposed after the balance sheet date of Nil HK cent (2007: HK1.4 cents) per ordinary share	**–**	4,415
	1,577	9,116

The final dividend proposed for 2007 after the balance sheet date had not been recognised as a liability at the balance sheet date.

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

	2008	2007
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK1.4 cents (2007: HK1.1 cents) per ordinary share	**4,415**	3,446

8. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of HK$2,298,000 (2007: profit of HK$30,275,000) and the weighted average number of ordinary shares of 315,145,000 (2007: 313,355,000) in issue during the year.

Weighted average number of ordinary shares

	Number of shares	
	2008	2007
	'000	*'000*
Issued ordinary shares at 1 January	**313,580**	313,300
Effect of share options exercised	**1,565**	55
Weighted average number of ordinary shares	**315,145**	313,355

(b) Diluted (loss)/earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company of HK$30,275,000 and the weighted average number of ordinary shares of 320,105,000 after adjusting for the effect of all dilutive potential ordinary shares. The diluted loss per share for the year ended 31 December 2008 is the same as the basic loss per share as the potential ordinary shares outstanding during the year ended 31 December 2008 were anti-dilutive.

(c) Reconciliation

	Number of shares	
	2008	2007
	'000	*'000*
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	**315,145**	313,355
Deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**4,059**	6,750
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	**319,204**	320,105

9. Investments in equity securities

	2008	2007
	HK$'000	*HK$'000*
Unlisted equity securities, at cost		
At 1 January	**1,500**	3,184
Disposal	**–**	(1,684)
	1,500	1,500
Less: impairment loss	**(1,500)**	(1,500)
At 31 December	**–**	–

In view of significant operating losses incurred by the investee, full impairment provision had been made for the cost of investment in that entity of HK$1,500,000 in prior years.

On 31 December 2007, the Company disposed of an investment in equity securities with carrying value of HK$1,684,000 to another shareholder of that entity at KRW200 million. Pursuant to the sales and purchase agreement dated 31 December 2007, the consideration should be settled on or before 30 June 2008. On 1 July 2008, the Company agreed to extend the repayment of sales proceeds in instalments of KRW50 million (equivalent to HK$308,000) each, payable on 30 June 2009 and 31 December 2009, respectively and the remaining KRW100 million (equivalent to HK$616,000) payable on 30 June 2010. The outstanding sales proceeds receivable bear an interest at 6% per annum.

10. Marketable securities

Marketable securities are investments in a money market fund comprising a portfolio of financial assets denominated in Renminbi Yuan ("RMB") and managed by Fortis Investment Management Belgium S.A. which are stated at their open market value at 31 December 2008.

11. Trade and other receivables

	2008	2007
	HK$'000	*HK$'000*
Trade and bills receivables	**104,607**	120,660
Less: allowance for doubtful debts	**(10,694)**	(5,334)
	93,913	115,326
Short term loans to key management personnel and employees	**280**	1,629
Proceeds receivable from disposal of equity securities	**616**	1,684
Tax reserve certificate	**3,318**	—
Deposits, prepayments and other receivables	**9,874**	7,156
	108,001	125,795

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 is an amount of HK$593,000 (2007: HK$1,390,000) due from a shareholder, Kwang Sung Electronics Co., Ltd.

(a) Ageing analysis

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

	2008	2007
	HK$'000	*HK$'000*
Current	**62,263**	83,073
Less than 1 month past due	**16,530**	20,950
1 to 3 months past due	**14,270**	9,648
More than 3 months but less than 12 months past due	**830**	1,655
More than 12 months	**20**	–
Amounts past due	**31,650**	32,253
	93,913	115,326

12. Trade and other payables

	2008 HK$'000	2007 HK$'000
Trade creditors	**50,544**	66,240
Accrued expenses and other payables	**13,834**	13,534
	64,378	79,774

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:

	2008 HK$'000	2007 HK$'000
Due within 1 month or on demand	**43,012**	42,761
Due after 1 month but within 3 months	**7,532**	23,479
	50,544	66,240

13. Capital and reserves

	Attributable to equity shareholders of the Company							
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000*	**Property revaluation reserve** *HK$'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
Final dividend approved in respect of the previous year *(note 7(b))*	–	–	–	–	–	–	(3,446)	(3,446)
Shares 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 7(a))*	–	–	–	–	–	–	(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
Final dividend approved in respect of the previous year *(note 7(b))*	–	–	–	–	–	–	(4,415)	(4,415)
Shares issued under share option scheme	178	2,611	(483)	–	–	–	–	2,306
Transfer between reserves	–	–	(3,916)	–	1,004	–	2,912	–
Exchange difference on translation of financial statements of overseas operations	–	–	–	–	–	(25,193)	–	(25,193)
Revaluation deficit, net of deferred tax	–	–	–	(4,514)	–	–	–	(4,514)
Loss for the year	–	–	–	–	–	–	(2,298)	(2,298)
Dividend declared in respect of the current year *(note 7(a))*	–	–	–	–	–	–	(1,577)	(1,577)
At 31 December 2008	31,536	55,921	604	10,045	7,493	(25,193)	278,739	359,145

DIVIDEND

The Board do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: HK1.4 cents per share). The Group's long-term dividend policy is to distribute not less than 30% of its net profit as dividend each financial year, and the Board will review this dividend policy from time to time to ensure optimum returns to shareholders.

CLOSURE OF REGISTER OF MEMBERS

The Company's share register will be closed between 13 May 2009 and 19 May 2009, both dates inclusive. During the period, no transfer of shares will be registered. In order to qualify for 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 12 May 2009.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") will be held at Convention Hall 2, 1/F, Core Building 1, Phase 1, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Tuesday, 19 May 2009 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 of Hong Kong Limited at www.hkex.com.hk in due course, and despatched to shareholders on or about Thursday, 16 April 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The global economic meltdown has affected many industries and put operational pressures on a number of enterprises including the Group in its peak season in the second half of 2008. In all, 2008 became a slow year for the Group. For the year ended 31 December 2008, the Group's turnover increased by 1.8% to HK$797,912,000, but gross profit for the year was eroded to HK$90,510,000 (2007: HK$123,078,000), with loss of HK$1,538,000 derived from operations (2007: profit of HK$34,870,000). Loss after taxation was HK$2,298,000 (2007: profit after taxation of HK$30,275,000). Loss per share was HK0.73 cents.

Turnover

The slight increase in overall turnover for the year against HK$783,453,000 reported in 2007 was attributable mainly to the growth in sales of wireless solutions. Turnover from composite components reached HK$624,358,000 (2007: HK$598,338,000), representing an increase of 4.3% as compared with last year, and accounted for 78.2% of the Group's total turnover (2007: 76.4%). Unit electronic components recorded a decline of 6.2% in turnover to HK$173,554,000 (2007: HK$185,115,000) and accounted for 21.8% of the Group's total turnover (2007: 23.6%).

Gross Profit

Despite the slight growth in turnover, gross profit of the Group for the year was adversely affected by increased cost of sales resulting from change of product mix, risen material costs, appreciation of the RMB, the increased staff costs arising from the implementation of the new China Labour Contract Law and a one-off overtime compensation for a number of employees based in the PRC. During the year, gross profit amounted to HK$90,510,000 (2007: HK$123,078,000) with gross profit margin at 11.3% (2007: 15.7%).

Other Revenue

The Group's other revenue decreased to HK$4,239,000 during the year, representing a 35.9% lower than HK$6,609,000 reported in 2007. This is mainly due to decrease in interest income by HK$1,853,000.

Operating Expenses

The Group's operating expenses for the year was maintained at HK$96,287,000 (2007: HK$96,273,000). Although the Group's sales and research and development operation kept at about the same level as 2007, selling and distribution expenses and research and development expenses decreased by 7.5% and 11.7% to HK$25,014,000 and HK$39,259,000, respectively. The decrease was primarily attributable to decrease in expenses of Korea Branch, arising from devaluation of the KRW. Administrative expenses kept at about same level as 2007. Other operating expenses increased by 84.6% from HK$8,270,000 in 2007 to HK$15,269,000 in 2008. The increase was mainly due to impairment loss on trade receivables of HK$5,711,000 incurred during the year.

Taxation

Income tax expenses decreased by 83.5% from HK$4,595,000 in 2007 to HK$760,000 in 2008.

Loss for the Year

Based on the foregoing, the Group recorded loss after taxation of HK$2,298,000 (2007: profit after taxation of HK$30,275,000) attributable to equity shareholders.

Financial Condition, Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow. As at 31 December 2008, the Group had cash and bank balances of HK$155,692,000 (2007: HK$185,415,000) and net current assets of HK$283,170,000 (2007: HK$298,966,000). Shareholders' funds amounted to HK$359,145,000 as at 31 December 2008 (2007: HK$394,836,000). Current ratio of the Group, being the ratio of current assets to current liabilities, was strong at 5.07 (2007: 4.61), while gearing ratio, in terms of total liabilities to total assets, was kept low at 0.17 (2007: 0.18). The average debtor turnover days in 2008 was 72 days (2007: 66 days). Average creditor turnover and average inventory turnover were 49 days (2007: 59 days) and 51 days (2007: 55 days) respectively. All taken into account, the Group continued to be in a healthy financial position with sufficient financial resources to support its 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 which give rise to receivables, payables and cash balances that are denominated in United States Dollars ("USD"), Japanese Yen ("JPY"), RMB and KRW.

As HKD is pegged to USD, the Group does not expect any significant fluctuation in the USD/HKD exchange rate. For other currencies such as JPY, RMB and KRW, the Group has taken steps to ensure net exposure is kept at an acceptable level. It buys and sells foreign currencies at spot rates when necessary to address short-term imbalance.

As the Group's production plants are based in the PRC, most wages and salaries and factory overheads are denominated in RMB. As the deposit interest rate differential between the RMB and the USD has been within the range of manageable level of exchange rate risk, the directors are of the view that it is not necessary for the Group to purchase any foreign exchange forward or options contracts to hedge against exchange rate risks. However, the Group will closely monitor the exchange rate trend.

Investment Activities

The Group did not make any material acquisition or dispose of any subsidiary and associated company during the year ended 31 December 2008.

Charges on Assets

As at 31 December 2008, the Group had banking facilities of HK$149,632,000 but no assets were pledged to banks during the year to secure them (2007: HK$158,520,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2008 and 2007.

Employees and Remuneration Policy

As at 31 December 2008, the Group had about 1,302 employees (2007: 1,711). Among them, 25 are based in Hong Kong (2007: 22), 1,186 in the PRC (2007: 1,580) and 91 in Korea (2007: 109). For the year ended 31 December 2008, staff costs increased to HK$109,933,000 (2007: HK$102,747,000).

Our employees are remunerated according to their performances and work experiences, and also market conditions. In addition to basic salaries and retirement scheme protection, staff benefits also include medical coverage, discretionary share options and performance bonuses.

BUSINESS REVIEW

Composite Components Business

Composite components business continued to be the Group's major source of revenue for the year ended 31 December 2008, accounting for 78.2% of the total turnover of the Group. The segmental turnover was HK$624,358,000, an increase of 4.3% against HK$598,338,000 in 2007. The increase was mainly attributable to the growth in turnover from wireless solutions.

Despite the slowdown of the global automotive industry, turnover from tuner modules for car audios reported a 4.6% growth to HK$135,859,000 (2007: HK$129,899,000). The product line accounted for 21.8% (2007: 21.7%) of the total turnover of the composite components business. The growth, though small, reflected the solid business foundation of the Group braced by a diversified customer base. With such solid fundamentals, the Group has weathered relatively well the extreme turbulence in the current market.

The global economic meltdown has affected consumer demand for home audios and, in turn, that for tuner modules for home audios produced by of the Group. Turnover from the product line declined by 11.1% to HK$254,986,000 (2007: HK$286,756,000), accounting for 40.8% (2007: 47.9%) of the total turnover from composite components business. As for tuner modules for portable devices, which was also affected by poor demand, its turnover dropped sharply by 74.7% from HK$29,796,000 in 2007 to HK$7,541,000 in 2008.

Wireless solutions including wireless speaker systems achieved triple-digit turnover growth of 152.3%, to HK$136,409,000 (2007: HK$54,061,000) during 2008. The products are mainly supplied to leading electronic product companies as parts of their final products. However, the base of the segment was still relatively small for the growth in turnover to bring significant impact on the Group's overall results for the year. Notwithstanding that, the Group sees strong potential in its wireless solutions as a bundle product especially for televisions, as a profit contributor in the future, worthy of investment and development efforts.

Digital product category primarily includes digital tuner modules for digital multimedia broadcasting ("DMB") that are mainly used in navigation systems and personal multimedia players ("PMP"), digital tuner modules for digital audio broadcasting ("DAB") that are used in home and portable audio devices, and global positioning system ("GPS") engines used in the camera detector boards ("CDB") and personal navigation devices ("PND"). During the year, these product lines reported a drop of 26.9% in turnover to HK$43,571,000 (2007: HK$59,578,000) despite sound growth of GPS engines. Cost pressure arising from the higher price of imported main chips because of depreciation of the KRW and pricing pressure from customers experiencing contracted consumer demand worsened the situation for this product category of the Group.

The Group launched new tuner modules for hybrid digital radio ("HD Radio") for the US market in 2008. Although sales from this new product line was relatively small, it was the fruit of research and development efforts in diversifying and enhancing the product portfolio of the Group.

Unit Electronic Components Business

During the year, turnover from unit electronic components business amounted to HK$173,554,000, representing a decrease of 6.2% against HK$185,115,000 in 2007. The main reason for this decrease was the overall decline in industrial demand affected by financial and economic factors. The segmental turnover accounted for 21.8% of the Group's total turnover.

Prospects

As the financial turmoil spread fast across economies worldwide, particularly in the second half of 2008, the number of orders is not expected to rebound to the normal level in 2009. Although the macroeconomic environment is beyond its control, the Group will exercise prudence and carefully assess risks when conducting business in the coming year, so as to make sure it is able to overcome challenges in the turbulent market. The Group will focus on minimising unnecessary expenditure and strengthening its cash flow management to ensure it can promptly respond to changes in the uncertain market.

In addition to identifying room for improvement in management, the Group will also keep up research and development efforts to make sure it is well equipped in developing new products and in identifying business opportunities. Although wireless solutions, HD Radio and GPS products are still in budding stage, the Group sees potential in them and is cautiously optimistic about their prospects in the long run. Once these products can achieve economy of scale, they will be able to contribute to the Group's profitability. Although challenges are expected in the foreseeable future, the Group remains confident of the long-term growth of the industry.

Corporate Social Responsibility

As a caring corporate, the Group has been active in fulfilling its social responsibilities to the interest of all stakeholders as well as the society. The Group's corporate social responsibility efforts fall into the following categories:

1. Marketplace

In the interest of our shareholders, we have worked by the business objectives of contributing to the sustainable development of the electronic industry and improving consumer electronics to heighten efficiency and deliver the best user experiences. To such ends, the Group invests substantially in research and development and internal quality control to ensure it continuously deliver quality and reliable products to customers. The Company complied with the requirements of (1) ISO/TS 16949:2002 on design and manufacture of Car Tuner and (2) ISO 9001:2000 on production and servicing of electronic products, namely transformers, intermediate frequency transformers, antennas, filters, coils, coil inductors, electrical meters, dielectric filters, tuners, tuner modules, wireless modules, switching mode power supplies, digital tuner modules for DAB and digital amplifiers. From time to time, the Group received customers' performance certificates recognising its efforts and indicating their appreciation of the products of the Group.

The Company recognises the need and the benefits of cooperation between the industry and universities. It hopes to ride on the resources of universities and certain graduate schools to customise training that can help develop the business and management expertise of its people for competing globally and in return to provide consultancy services, financial aids and internship to students of the universities.

2. Employee Health and Welfare

Caring about the health and work safety of its staff, the Group has appropriate safety systems and measures in place to minimise staff exposure to potentially hazardous materials or adverse work conditions. As an equal opportunity employer, the Group strives to provide a fair work environment to employees and does not tolerate any form of harassment or discrimination in respect of employment and occupation. To retain the best talents, the Group ensures its employee remuneration packages are competitive and that rewards are linked with performance excellence.

The Group also provides various in-house training to employees, helping them to enhance their skills, strengthening their understanding of the Group's culture and internal procedures, and providing them with professional development. This year, the Group organised a workshop in Yunhai Villa at Xiasha Dapeng, Longgang, Shenzhen during which senior staff from different regions gathered to share their experience and get to know each other. During the workshop, training was provided to help them realise their full potential and improve their ability to cope with changes and new challenges.

The Group also encourages employees to take external job-related courses and sponsors such initiatives when appropriate. All new employees are required to take programs on topics including internal control and information protection, ISO and quality management system, as a part of job orientation.

It also arranges regular health checks for all employees to ensure their good health and productivity at work. In case of sickness, employees are protected by comprehensive group medical insurance policies. Retirement and comprehensive pension funds are also provided to employees in accordance to relevant legislations.

3. Environment and Community

The Company complied with the requirement of ISO 14001:2004 on environmental management system. The Group also continued to make sure its products comply with the European Union's environmental protection guidelines including the Directive on the Restriction of the use of certain Hazardous Substances in Electrical Equipment ("RoHS") for manufacturing activities. All products manufactured by the Group are lead-free and RoHS compliant.

The Group also encourages employees to save energy and resources. To cut down on paper consumption, it encourages double-side printing, prints only when necessary and prints two pages on one sheet. It also relays energy saving tips to staff members through a daily learning program.

During the year, the Company also made donations to charities to help the needy.

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 Listing Rules throughout the year ended 31 December 2008.

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 have 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 financial results of the Group for the year ended 31 December 2008.

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 of Hong Kong Limited at www.hkex.com.hk. The 2008 annual report will be despatched to 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, 31 March 2009

As at the date of this announcement, the Board 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.