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)

2009 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Kwang Sung Electronics H.K. Co. Limited (the "Company") announced that the unaudited condensed consolidated interim financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
		2009	2008
	Note	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**263,514**	392,224
Cost of sales		**(240,005)**	(339,094)
Gross profit		**23,509**	53,130
Other revenue		**1,912**	2,268
Fair value change on derivative financial liabilities		**539**	–
Selling and distribution expenses		**(9,223)**	(12,133)
Administrative expenses		**(7,885)**	(8,297)
Research and development expenses		**(14,998)**	(21,375)
Other operating expenses		**(2,730)**	(7,750)
(Loss) profit before taxation	*4*	**(8,876)**	5,843
Taxation	*5*	**56**	(1,034)
(Loss) profit for the period		**(8,820)**	4,809
Attributable to:			
Owners of the parent		**(8,680)**	4,809
Minority interests		**(140)**	–
		(8,820)	4,809
(Loss) earnings per share	*7*	***HK cents***	*HK cents*
– Basic, for (loss) profit for the period attributable to ordinary owners of the parent		**(2.72)**	1.53
– Diluted, for (loss) profit for the period attributable to ordinary owners of the parent		**(2.72)**	1.49

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) profit for the period	**(8,820)**	4,809
Exchange differences arising on translation of foreign operations, representing other comprehensive loss for the period	**(1,211)**	(9,333)
Total comprehensive loss for the period	**(10,031)**	(4,524)
Attributable to:		
Owners of the parent	**(9,891)**	(4,524)
Minority interests	**(140)**	–
	(10,031)	(4,524)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 30 June 2009 HK$'000 (Unaudited)	At 31 December 2008 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**69,981**	75,728
Goodwill		**5,857**	–
Intangible assets	*8*	**19,450**	–
Club memberships		**651**	673
Investments in equity securities	*9*	**–**	–
Other receivables		**–**	616
Deposits for purchase of property, plant and equipment		**360**	967
		96,299	77,984
Current assets			
Marketable securities		**–**	7,840
Inventories		**48,778**	81,242
Trade and other receivables	*10*	**133,334**	108,001
Short term bank deposits		**34,824**	20,139
Cash and cash equivalents		**131,913**	135,553
		348,849	352,775
Current liabilities			
Trade and other payables	*11*	**74,307**	64,378
Bank borrowing – due within one year		**101**	–
Tax payable		**5,229**	5,227
		79,637	69,605
Net current assets		**269,212**	283,170
Total assets less current liabilities		**365,511**	361,154
Non-current liabilities			
Bank borrowing – due after one year		**126**	–
Derivative financial liabilities	*12*	**7,369**	–
Deferred tax liabilities		**2,378**	2,009
		9,873	2,009
Net assets		**355,638**	359,145
Capital and reserves	*13*		
Share capital		**32,390**	31,536
Reserves		**320,363**	327,609
Equity attributable to owners of the parent		**352,753**	359,145
Minority interests		**2,885**	–
Total equity		**355,638**	359,145

Notes:

1. Basis of preparation

These interim financial results have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34, *"Interim Financial Reporting"*, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Significant accounting policies

The interim financial results have been prepared on the historical cost convention, except for certain properties and financial instruments that are measured at revalued amounts or fair values, as appropriate.

The accounting policies adopted in the preparation of the interim financial results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except as described below.

In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendments to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs 2009 in relation to the amendment to paragraph 80 to HKAS 39
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) — Interpretation ("Int") 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of these new HKFRSs had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented except for the change in presentation as described below.

HKAS 1 (Revised) *"Presentation of Financial Statements"*

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

HKFRS 8 *"Operating Segments"*

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting.

The Group has not early adopted the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in April 2009[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters[4]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 2 (Amendment)	Share-based Payment – Group Cash-settled Share-based Payment Transactions[4]
HKFRS 3 (Revised)	Business Combinations[1]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[3]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.
3 Effective for transfers of assets from customers received on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 January 2010.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Turnover and segment information

The following is an analysis of the Group's turnover and results by operating segments for the periods under review:

	Turnover		Segment (loss) profit	
	Six months ended 30 June		Six months ended 30 June	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Composite components	**192,021**	297,518	**(4,018)**	6,879
Unit electronic components	**71,493**	94,706	**(6,833)**	(3,304)
Total	**263,514**	392,224	**(10,851)**	3,575
Segment (loss) profit			**(10,851)**	3,575
Unallocated other revenue			**1,912**	2,268
Unallocated other operating expenses			**(359)**	–
Fair value change on derivative financial liabilities			**539**	–
Amortisation of intangible assets			**(117)**	–
(Loss) profit before taxation			**(8,876)**	5,843

All of the segment turnover reported above is from external customers.

Segment (loss)/profit represents (loss)/profit attributable to each segment without allocation of other revenue, unallocated other operating expenses and amortisation of intangible assets. This is the measure reported to the Group's chief executive officer for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by operating segment:

	At 30 June	At 31 December
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Composite components	**163,004**	191,578
Unit electronic components	**66,768**	59,305
Total segment assets	**229,772**	250,883

4. (Loss) profit before taxation

(Loss) profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Auditors' remuneration	**325**	496
Allowance (written back of allowance) for inventories (included in cost of sales)	**7,226**	(1,568)
Amortisation of intangible assets	**117**	–
Amortisation of club memberships	**22**	22
Cost of inventories recognised as an expense*	**240,005**	339,094
Depreciation of property, plant and equipment	**8,956**	9,986
Operating lease rentals in respect of land and buildings	**2,444**	2,476
Impairment loss on trade receivables	**98**	3,161
Gain on disposal of property, plant and equipment	**(799)**	–
Interest income	**(699)**	(2,087)
Reversal of impairment loss on trade receivables	**(139)**	–
Net foreign exchange (gain) loss	**(133)**	1,153

* Cost of inventories recognised as an expense includes amount of approximately HK$7,898,000 (2008: HK$ 7,741,000) relating to depreciation of property, plant and equipment and operating lease rentals in respect of land and buildings, which amounts are also included in the respective total amounts disclosed separately above.

5. Taxation

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax		
Provision for the period	**–**	433
Over-provision in respect of prior years	**(74)**	–
	(74)	433
PRC Corporate Income Tax		
Provision for the period	**425**	865
Under-provision in respect of prior years	**11**	3,037
Tax refund on reinvestment of profit derived from a subsidiary *(Note (iv))*	**–**	(3,268)
	436	634
	362	1,067
Deferred tax		
Origination and reversal of temporary differences	**(418)**	161
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	(194)
	(418)	(33)
	(56)	1,034

(i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2009 and 2008. No provision for Hong Kong Profits Tax is made for the six months ended 30 June 2009 as the Group did not have any assessable profits.

Provision for the People's Republic of China (the "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 20% (2008: 18%) and 25% (2008: 25%) of estimated assessable profits for the periods, respectively.

The Korea Branch operated in Korea is subject to corporate income tax at a rate of 12.1% (2008: 12.1%). No provision for taxation has been made for the six months ended 30 June 2009 and 2008 as the tax losses brought forward from prior years exceed the estimated assessable profits for both periods.

Brocoli Co., Ltd. ("Brocoli"), a newly acquired subsidiary operated in Korea, is subject to corporate income tax at a rate of 12.1%. No provision for taxation has been made for the six months ended 30 June 2009 as the subsidiary did not have any assessable profits.

(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 (the "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 approximately 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 concession 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 approximately HK$3,318,000 in May 2008 as demanded by the HKIRD.

In March 2009, the HKIRD issued another demand note for additional tax payable for the year of assessment 2002/03 amounted to approximately HK$6,424,000 in relation to the above 50:50 offshore concession claims. The Company lodged an objection against the additional assessment and purchased a tax reserve certificate of approximately HK$6,424,000 in April 2009 as demanded by the HKIRD.

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 concession claims. Therefore, no provision has been made for the additional assessments or for any other additional tax liabilities for the years under enquiry. The amounts paid in relation to the additional assessments are recorded as other receivables in these interim financial results.

The scope and outcome of the claims cannot be readily ascertained at this stage. The directors of the Company believe that no significant amount of additional profits tax will be payable and no provision for additional Hong Kong Profits Tax is therefore necessary.

(iii) In September 2007, the Shenzhen Local Tax Bureau enquired the related party transactions and transfer pricing 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 fully provided in that year.

In 2008, the scope of enquiries regarding the transfer pricing policy of Shenzhen Kwang Sung from the Shenzhen Local Tax Bureau has been changed to cover the five years from 1 January 2003 to 31 December 2007. The 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 the PRC Corporate Income Tax of HK$3,037,000 was provided in the financial statements for the year ended 31 December 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.

As of the date of these interim financial results, 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 in these interim financial results.

(iv) During the year 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. During the six months ended 30 June 2008, the Company received a tax refund of HK$3,268,000 in connection to the income tax previously paid by Shenzhen Kwang Sung on the reinvested amount.

(v) Pursuant to Shen Guo Shui Fa [2008] No. 145, Shenzhen Kwang Sung is subject to the PRC Corporate Income Tax at a rate of 20% in 2009, 22% in 2010 and 24% in 2011. From 1 January 2012, the applicable tax rate will be 25%.

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 KRW200,000,000 and 24% for assessable income over KRW200,000,000 for the year 2009. From 1 January 2010 onwards, corporate income tax rate will be 11% for assessable income up to KRW200,000,000 and 22% for assessable income over KRW200,000,000.

6. Dividends

(i) Dividend payable to owners of the parent attributable to the interim period:

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim dividend declared after the interim period, nil (2008: HK0.5 cents) per ordinary share	**–**	1,577

The interim dividend has not been recognised as a liability at the end of reporting period.

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

	Six months ended 30 June	
	2009	2008
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the financial year ended 31 December 2008, approved and paid during the following interim period of nil (year ended 31 December 2007: HK1.4 cents) per ordinary share	**–**	4,415

7. (Loss) earnings per share

(i) Basic (loss) earnings per share

The calculation of basic (loss) earnings per share is based on the loss for the period attributable to owners of the parent of approximately HK$8,680,000 (Six months ended 30 June 2008: profit of approximately HK$4,809,000) and the weighted average number of ordinary shares of 318,710,000 (Six months ended 30 June 2008: 314,925,000) in issue during the six months ended 30 June 2009.

(ii) Diluted (loss) earnings per share

The diluted loss per share for the six months ended 30 June 2009 is the same as the basic loss per share as the potential ordinary shares outstanding during the six months ended 30 June 2009 were anti-dilutive. The calculation of diluted earnings per share for the six months ended 30 June 2008 was based on the profit for the period attributable to owners of the parent of HK$4,809,000 and the weighted average number of ordinary shares of 323,122,000 after adjusting for the effect of all dilutive potential ordinary shares.

8. Intangible assets

During the six months ended 30 June 2009, the Group acquired certain patents with an aggregate fair value of approximately HK$19,450,000 as at 30 June 2009 in which an amount of approximately HK$11,407,000 was acquired from an independent third party and the remaining of approximately HK$8,043,000 was acquired through the acquisition of a subsidiary. They are stated at cost less accumulated amortisation and impairment losses.

9. Investments in equity securities

Investments in equity securities represent equity investments in an unlisted corporate entity with a cost of HK$1,500,000 (31 December 2008: HK$1,500,000), against which a full provision for impairment loss has been made in prior years and maintained at 30 June 2009.

10. Trade and other receivables

	At **30 June** **2009** ***HK$'000*** **(Unaudited)**	At 31 December 2008 *HK$'000* (Audited)
Trade and bills receivables (net of allowance for trade receivables)	**113,960**	93,913
Short term loans to key management personnel and employees	**728**	280
Proceeds receivable from disposal of equity securities	**1,232**	616
Tax reserve certificates *(Note 5(ii))*	**9,742**	3,318
Deposits, prepayments and other receivables	**7,672**	9,874
	133,334	108,001

Trade receivables are due within 30-60 days from the date of billing. The following is an aged analysis of trade receivables (net of allowance for trade receivables) at the reporting date:

	At **30 June** **2009** ***HK$'000*** **(Unaudited)**	At 31 December 2008 *HK$'000* (Audited)
Current	**82,851**	62,263
Less than 1 month past due	**15,466**	16,530
1 to 3 months past due	**12,866**	14,270
More than 3 months but less than 12 months past due	**2,425**	830
More than 12 months	**352**	20
	113,960	93,913

11. Trade and other payables

	At **30 June** **2009** ***HK$'000*** **(Unaudited)**	At 31 December 2008 *HK$'000* (Audited)
Trade payables	**61,492**	50,544
Accrued expenses and other payables	**12,815**	13,834
	74,307	64,378

The following is an aged analysis of trade payables at the reporting date:

	At 30 June 2009 *HK$'000* **(Unaudited)**	At 31 December 2008 *HK$'000* (Audited)
Due within 1 month or on demand	**38,426**	43,012
Due after 1 month but within 3 months	**23,066**	7,532
	61,492	50,544

12. Derivative financial liabilities

In March 2009, the Group entered into a patent transfer agreement (the "Agreement") with an independent third party (the "Seller"). Put options ("Options") were granted of which was related to the consideration of the patents transfer as set out in the Agreement. The transfer of patents shall be paid for an aggregate consideration of approximately HK$10,242,000, which shall be satisfied by paying the first payment in cash at approximately HK$3,499,000 (the "First Purchase Price") upon the completion of the patent transfer. The Company shall issue 8,534,933 shares at HK$0.41 per share to the Seller and the Seller shall utilise the First Purchase Price to subscribe. The shortfall of the transaction is approximately HK$6,743,000 that will be settled under either condition:

(i) on period from the end of third year to the end of forth year after the transaction, the Group will not be required to make further payment if the share price of the Group is higher than HK$1.2; or

(ii) if the share price of the Group is lower than HK$1.2, the Group will be required to pay the difference of the basis price (being HK$1.2) and the share price, multiple the number of shares sold to the Seller.

The fair value of the Options granted is estimated at the date of grant using the binomial model taking into account the terms and conditions upon which the Options were granted. The inputs into the model were as follows:

Dividend yield	1%
Expected volatility	85%
Risk-free interest rate	1.7%
Expected life	3.75 years
Weighted average share price	HK$0.475

The binomial model has been used to estimate the fair value of the Options. The variables and assumptions used in computing the fair value of the Options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

13. Capital and reserves

	Attributable to owners of the parent									
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Properties revaluation reserve *HK$'000*	Statutory reserve *HK$'000*	Exchange reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total equity *HK$'000*
For the six months ended 30 June 2008										
At 1 January 2008 (audited)	31,358	53,310	5,003	14,559	6,489	—	284,117	394,836	—	394,836
Final dividend approved in respect of the previous year *(Note 6 (ii))*	—	—	—	—	—	—	(4,415)	(4,415)	—	(4,415)
Shares issued under share option scheme	178	2,611	(483)	—	—	—	—	2,306	—	2,306
Lapse of share options	—	—	(3,916)	—	—	—	3,916	—	—	—
Transfer from deferred tax	—	—	—	(1,368)	—	—	—	(1,368)	—	(1,368)
Total comprehensive (loss) income for the period	—	—	—	—	—	(9,333)	4,809	(4,524)	—	(4,524)
At 30 June 2008 (unaudited)	31,536	55,921	604	13,191	6,489	(9,333)	288,427	386,835	—	386,835
For the six months ended 30 June 2009										
At 1 January 2009 (audited)	31,536	55,921	604	10,045	7,493	(25,193)	278,739	359,145	—	359,145
Derivative financial liabilities *(Note 12)*	854	2,645	—	—	—	—	—	3,499	—	3,499
Lapse of share options	—	—	(604)	—	—	—	604	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	3,025	3,025
Total comprehensive loss for the period	—	—	—	—	—	(1,211)	(8,680)	(9,891)	(140)	(10,031)
At 30 June 2009 (unaudited)	32,390	58,566	—	10,045	7,493	(26,404)	270,663	352,753	2,885	355,638

INTERIM DIVIDEND

The Board of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: HK0.5 cents per share).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2009, the electronic components industry was hard hit by the global economic crisis and the operating environment for the Group became extremely challenging. As a result of spending cuts by consumers and delayed purchases by customers, there was a decline in our business during the period under review. The Group recorded a turnover of HK$263,514,000, representing a decrease of 32.8% against the corresponding period of last year.

During the period under review, the raw material cost was stable. However, provision on slow moving inventory and the percentage of factory overhead to sales increased markedly as a result of reduced sales and orders. Thus, gross profit margin dropped to 8.9% as compared with 13.5% for the corresponding period of last year, and gross profit of the Group also decreased to HK$23,509,000 accordingly, representing a drop of 55.8% as compared with the corresponding period of last year.

Excluding a profit of HK$539,000 arising from fair value change on derivative financial liabilities, the Group recorded other revenue of HK$1,912,000, a decrease of 15.7% when compared with the corresponding period of last year. The decrease was mainly due to the net effect of a decrease in bank interest income by HK$1,413,000 and a gain on disposal of fixed assets of HK$799,000 during the period under review.

Operating expenses decreased by 29.7% to HK$34,836,000 from HK$49,555,000 in corresponding period of last year. The decrease mainly reflected our efforts to implement various effective measures on costs control and streamline our research and development operation in Korea.

During the period under review, the Group recorded a net reversal of income tax expenses of HK$56,000. This was mainly attributable to the net effect of reversal of deferred tax expenses of HK$418,000 and the provision for the PRC corporate income tax of HK$436,000.

Taking into account the aforementioned, the Group recorded a loss after taxation attributable to owners of the parent of HK$8,680,000 for the six months ended 30 June 2009, comparing with a profit after taxation attributable to owners of the parent of HK$4,809,000 recorded for the corresponding period of last year. Basic loss per share was HK2.72 cents (2008: basic earnings per share were HK1.53 cents).

Financial Condition, Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow. As at 30 June 2009, the Group recorded cash and bank balances of HK$166,737,000 and net current assets of HK$269,212,000. Shareholders' funds totaled HK$352,753,000 as at 30 June 2009.

As at 30 June 2009, the Group's current ratio, being the ratio of current assets to current liabilities, was 4.38, and the gearing ratio, being the ratio of total liabilities to total assets, was 0.20.

Foreign Exchange Exposure, Hedging and Off Balance Sheet Financial Instruments

The Group is exposed to foreign currency risks, which mainly due to its sales and purchases which are denominated in United States Dollars ("USD") and Japanese Yen ("JPY") and operating expenses paid in Korean Won ("KRW") by its Korean operation.

As Hong Kong Dollars ("HKD") is pegged to USD and Renminbi ("RMB") is being adjusted within the daily fluctuation by a managed floating exchange rate policy with reference to a basket of currencies, the Group does not expect any significant fluctuation in the exchange rates of the HKD/USD and RMB/USD. In light of short term imbalance, the Group also takes action to deal with foreign currencies at current exchange rates where necessary, to ensure that the net exposure to other currencies such as JPY and KRW maintain at an acceptable level.

Investment Activities

During the six months ended 30 June 2009, the Company acquired 59.5% of equity interests of Brocoli at consideration of HK$10,300,000. On 4 September 2009, the Company further acquired 10.2% of equity interests of Brocoli to 69.7% at consideration of HK$1,264,000.

Other than the above, the Group did not make any material acquisition or disposal of any of its subsidiaries or associated company during the period under review.

Charges on Assets

As at 30 June 2009, the Group had banking facilities of HK$131,043,000 without any pledge of assets.

Contingent Liabilities

Other than the above, the Group did not have any significant contingent liabilities as at 30 June 2009.

Employees and Remuneration Policy

As at 30 June 2009, the Group had about 1,318 employees, including 30 based in Hong Kong, 1,199 in the PRC, and 89 in Korea.

For the six months ended 30 June 2009, staff costs decreased by 20.4% from HK$46,478,000 for the corresponding period of last year to HK$36,957,000.

Employees are remunerated according to their individual performance, working experience and market conditions. In addition to basic salaries and retirement schemes, staff benefits include medical coverage, discretionary share options and performance bonuses.

BUSINESS REVIEW

Composite Components Business

During the period under review, composite components business remained as the Group's major revenue source and accounted for 72.9% of the Group's total turnover. Turnover from the segment amounted to HK$192,021,000, representing a decrease of 35.5% as compared with HK$297,518,000 for the corresponding period of last year, reflecting a weak demand for consumer electronic products in the economic downturn.

During the period under review, sales growth of the Group's major products, namely the tuner modules for home audios and car audios, decreased by 25.1% and 32.7% respectively, recording turnover of HK$89,833,000 and HK$43,690,000 for the period respectively. These traditional products suffer more from the changes in economic situation and consumer demand. Although sales of the Group were seriously hit by the economic downturn and the decline of consumer demand during the period under review, the Group was still able to maintain its overall market share. The Group expects to tap into the demand for essential consumer products when the market starts to recover in the near future.

The Group's wireless solutions include wireless speaker systems, which recorded a turnover of HK$33,754,000, representing a drop of 49.3% as compared with the corresponding period of last year. The drop was due to the failure to secure orders from one of the major customers for this product and the Group's failure to market its own product models under the shrunken business environment during the period under review.

The Group's digital products were mainly sold to customers in Korea, including small end-product manufacturers. During the period under review, as these manufacturers were seriously affected by the global economic downturn, the sales of tuner modules for digital multimedia broadcasting ("DMB") and digital audio broadcasting ("DAB") of the Group dropped by 61.1% to HK$8,625,000 as compared with the corresponding period of last year. Taking into account that the demand for DMB products is limited in Korea and DMB standard has yet to be adopted by other countries, the Group redeployed its research and development resources for digital tuner business with DAB loading products that have a better outlook for the Group's future digital tuner business. In addition, as digital tuner modules for DAB are applicable in different types of hand-held products, the Group worked closely with OEM (original equipment manufacturer) customers in Hong Kong and the PRC during the period to boost sales of the products.

The sales of new products such as global positioning system ("GPS") engines and tuner modules for hybrid digital radio ("HD Radio") amounted to HK$4,058,000 and HK$3,593,000 respectively, representing an increase of 139.8% and 19.8% as compared with the corresponding period of last year. Although the contributions from GPS engines and HD Radio were relatively insignificant in the period under review, the Group considered there would be high potential in the products in exploring more applications in the future.

Unit Electronic Components Business

For the six months ended 30 June 2009, turnover from unit electronic components business reached HK$71,493,000, representing a decline of 24.5% as compared with HK$94,706,000 for the corresponding period of last year.

PROSPECTS

Entering the second half of the year, the global economy has started to show signs of recovery and the public generally believed that the market started to recover from the bottom. However, as it takes time for consumer's spending power to restore, it is expected that the demand in the market will shift to lower cost products, hence, it is still extremely challenging for the traditional electronic components industry in the second half of the year. In view of the orders on hand, the Group expects to perform better, though not a full recovery, in the second half of the year comparing with the first half. Although there will still be hurdles to overcome in the near future, the Group remains confident of the long term growth of the industry.

To boost its strengths, the Group will sharpen its edges over its competitors by minimising unnecessary expenditure and managing cash flow. Moreover, it will also redeploy research and development resources to support products with high potential and identify possible business opportunities with its business partners with the aims of diversifying its product portfolio and exploring more income sources.

Recently, the Group acquired four technology patents and majority shareholdings of Brocoli which specializes in developing and manufacturing an innovative flat flexible cable product, namely WireTape™, which was designed to solve the problems of having multiple connecting wires at home, in the office or in automobiles. Brocoli became a subsidiary of the Group in April of this year after the Group invested a total of approximately HK$10,300,000 to acquire 59.5% interest in Brocoli; while the Company further invested HK$1,264,000 to increase its shareholdings in Brocoli to 69.7% in early September.

Subsequent to the acquisition of the patents and Brocoli, the Group also developed a new WireTape™ product to replace the existing HDMI (High-Definition Multimedia Interface) cables for the electronics industry. The Group is currently working with potential customers from construction and electronics industries as well as the wire and cable industry to market and apply this light-weight flat cable. The Group will make efforts in marketing to stimulate the demand for the product and setting up factories for mass production to satisfy the anticipated strong demand for the product. The Group will also ensure the compliance with the required technology standard by its products and the high quality of its output which will be delivered to customers all over the world through various sales channels and networks.

In addition, the Group plans to expand its business scope to cover automobile electronics. In this regard, it will work with automobile manufacturers in Korea. As we had established business relations with such manufacturers, they confirmed that our quality standards have met their requirements. The Group will expand its electronic components business from tuner modules for car audios to cover various types of automobile electronic components, such as wireless modules for automatic toll pass which is named Hi-Pass that is used in Korea, antenna modules for automobiles, and other complex modules combined with GPS, DMB and DAB functions.

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 period under review, the Group arranged meetings with fund managers and analysts to share and exchange opinions. The Company also made timely publication in order to ensure that latest information, including interim reports, annual reports, announcements, press releases and other corporate updates, are contained in its website (www.kse.com.hk).

In February 2009, the Company announced its restoration of public float rate of not less than 25% after the transfers of 33,118,000 shares of the Company from a controlling shareholder to public shareholders. Since then, based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, the Company keeps maintaining the prescribed public float under the Listing Rules up to the date of this interim results announcement.

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 and the society and contributing to the industry and other aspects, including employee's health and welfare, environmental protection and betterment of the community.

During the period under review, the Group made a substantial investment in research and development and internal quality control to ensure the continuous delivery of quality and reliable products to customers. The Company also complied with various standards: (1) ISO/TS 16949:2002 on the design and manufacture of Car Tuner and (2) ISO 9001:2000 on the production and servicing of electronic products, namely transformers, intermediate frequency transformers, antennas, filters, coils, coil inductors, electrical meters, tuners, tuner modules, wireless modules, switching mode power supplies, digital tuner modules for DAB and digital amplifiers.

Caring about the health and work safety of its staff, the Group maintains appropriate safety systems and measures to minimise the exposure to potentially harmful materials or poor working conditions for our staff. The Group also ensures employees with equal opportunities, thus it strives to provide a fair working environment to employees and does not tolerate any form of harassment or discrimination in respect of employment and occupation. It also provides adequate training to all management personnel and employees and arranges regular health checks for all employees to ensure their good health and productivity.

During the period under review, the Company also devoted itself for the betterment of the environment and community. It made donations to charities to help the needy, complied with the requirements on environmental management system for its production activities of electronic products under ISO 14001:2004, and continued to make sure that its products comply with the environmental protection guidelines issued by the European Union, 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 are in compliance with RoHS.

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 in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2009.

Model Code for Securities Transactions by Directors

The Company, having made specific enquiries, confirms that during the six months ended 30 June 2009, all directors complied 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 the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

Review of Accounts

The Audit Committee of the Company 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 results for the six months ended 30 June 2009.

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 of Hong Kong Limited (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, 18 September 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.