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 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 2009 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
Turnover	3, 4	**592,280**	797,912
Cost of sales		**(517,780)**	(707,511)
Gross profit		**74,500**	90,401
Other income	5	**5,749**	4,348
Selling and distribution expenses		**(19,148)**	(25,014)
Administrative expenses		**(16,627)**	(16,745)
Research and development expenses		**(31,066)**	(39,259)
Other operating expenses		**(10,100)**	(15,269)
Profit (loss) before taxation		**3,308**	(1,538)
Taxation	6	**(39,592)**	(760)
Loss for the year	7	**(36,284)**	(2,298)
Loss for the year attributable to:			
Owners of the Company		**(35,774)**	(2,298)
Minority interests		**(510)**	–
		(36,284)	(2,298)
Dividends payable to owners of the Company attributable to the year:	8		
Interim dividend declared during the year		**–**	1,577
Final dividend proposed after the end of the reporting period		**–**	–
		–	1,577
		HK cents	*HK cents*
Loss per share	9		
Basic		**(11.13)**	(0.73)
Diluted		**(11.13)**	(0.73)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	HK$'000	*HK$'000*
Loss for the year	**(36,284)**	(2,298)
Other comprehensive income (expense)		
Exchange differences arising on translation of foreign operations	**6,907**	(25,193)
Surplus (deficit) on revaluation of land and buildings held for own use	**9,167**	(3,879)
Deferred tax	**(826)**	(635)
Surplus (deficit) on revaluation of land and buildings held for own use, net of deferred tax	**8,341**	(4,514)
Other comprehensive income (expense) for the year, net of tax	**15,248**	(29,707)
Total comprehensive expense for the year	**(21,036)**	(32,005)
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	**(21,328)**	(32,005)
Minority interests	**292**	–
	(21,036)	(32,005)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	At 31/12/2009 HK$'000	At 31/12/2008 HK$'000	At 1/1/2008 HK$'000
Non-current assets				
Property, plant and equipment		**71,301**	75,728	96,850
Investment property		**4,100**	–	–
Goodwill		**5,857**	–	–
Club memberships		**673**	673	718
Intangible assets	*10*	**18,532**	–	–
Investments in equity securities	*11*	**–**	–	–
Other receivables	*13*	**–**	616	–
Deposits for purchase of property, plant and equipment		**4,245**	967	–
		104,708	77,984	97,568
Current assets				
Marketable securities	*12*	**–**	7,840	–
Inventories		**57,100**	81,242	70,667
Trade and other receivables	*13*	**143,013**	107,050	123,773
Amounts due from shareholders		**10,592**	608	675
Short-term bank deposits		**–**	20,139	26,505
Cash and cash equivalents		**179,386**	135,553	158,910
		390,091	352,432	380,530
Current liabilities				
Trade and other payables	*14*	**85,537**	64,035	78,427
Tax payables		**42,712**	5,227	3,137
Bank borrowing – due within one year		**111**	–	–
		128,360	69,262	81,564
Net current assets		**261,731**	283,170	298,966
Total assets less current liabilities		**366,439**	361,154	396,534
Capital and reserves	*16*			
Share capital		**32,390**	31,536	31,358
Reserves		**319,173**	327,609	363,478
Equity attributable to owners of the Company		**351,563**	359,145	394,836
Minority interests		**3,016**	–	–
Total equity		**354,579**	359,145	394,836
Non-current liabilities				
Bank borrowing – due after one year		**83**	–	–
Derivative financial liabilities	*15*	**7,391**	–	–
Deferred tax liabilities		**4,386**	2,009	1,698
		11,860	2,009	1,698
		366,439	361,154	396,534

Notes:

1. BASIS OF PREPARATION

The annual results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

2. SIGNIFICANT ACCOUNTING POLICIES

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK (IFRIC) – Interpretation ("Int") 9 and HKAS 39 (Amendments)	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
HK (IFRIC) – Int 18	Transfers of Assets from Customers

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has changed the basis of measurement of the Group's segment profit or loss. However, the adoption of HKFRS 8 has not resulted in a re-designation of the Group's reportable segments.

The Group has not early applied the following new and 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 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

[1] Effective for annual periods beginning on or after 1 July 2009.
[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
[3] Effective for annual periods beginning on or after 1 January 2010.
[4] Effective for annual periods beginning on or after 1 February 2010.
[5] Effective for annual periods beginning on or after 1 July 2010.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of Improvement to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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 financial position of the Group.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group is principally engaged in the manufacture and sale of electronic components. The Group's operations are divided into two reportable segments: composite components segment and unit electronic components segment.

Segment turnover and results

The following is an analysis of the Group's turnover and results by reportable segments:

	Composite components		**Unit electronic components**		**Consolidated**	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**422,027**	624,358	**170,253**	173,554	**592,280**	797,912
Segment profit (loss)	**7,087**	7,986	**(6,610)**	(13,412)	**477**	(5,426)
Unallocated operating income and expenses					**2,831**	3,888
Profit (loss) before taxation					**3,308**	(1,538)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit/loss represents the profit earned by/loss from each segment without allocation of part of other income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

	Composite components			Unit electronic components			Consolidated		
	At 31/12/2009	At 31/12/2008	At 1/1/2008	**At 31/12/2009**	At 31/12/2008	At 1/1/2008	**At 31/12/2009**	At 31/12/2008	At 1/1/2008
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*	*HK$'000*	***HK$'000***	*HK$'000*	*HK$'000*
Segment assets	**153,232**	191,578	215,861	**30,521**	59,305	66,982	**183,753**	250,883	282,843
Unallocated assets							**311,046**	179,533	195,255
Consolidated assets							**494,799**	430,416	478,098
Segment liabilities	**62,148**	35,715	46,345	**20,859**	14,829	24,100	**83,007**	50,544	70,445
Unallocated liabilities							**57,213**	20,727	12,817
Consolidated liabilities							**140,220**	71,271	83,262

Geographical information

The Group's operation is principally located in Hong Kong and other parts of the People's Republic of China ("the PRC").

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Turnover		Non-current assets	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC (other than Hong Kong)	**354,537**	496,610	**41,954**	46,804
Hong Kong	**91,945**	145,336	**5,666**	5,445
Korea	**103,561**	136,518	**28,454**	24,768
Others	**42,237**	19,448	**–**	–
	592,280	797,912	**76,074**	77,017

Note: Non-current assets excluded goodwill, intangible assets and deposits for purchase of property, plant and equipment.

4. TURNOVER

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

5. OTHER INCOME

	2009	2008
	HK$'000	*HK$'000*
Interest income from bank deposits	**1,823**	3,368
Interest income from proceeds receivables from disposal of equity securities *(note 11)*	**65**	51
Rental income	**249**	–
Gain on disposal of property, plant and equipment	**830**	172
Scrap sales	**214**	108
Unrealised gain on marketable securities	**14**	79
Reversal of impairment loss on trade and other receivables	**308**	351
Value added tax refund	**1,022**	109
Fair value change of derivative financial liabilities	**517**	–
Increase in fair value of investment property	**400**	–
Others	**307**	110
	5,749	4,348

6. TAXATION

	2009 *HK$'000*	2008 *HK$'000*
Hong Kong Profits Tax		
Provision for the year	**1,042**	–
Under-provision in prior years	**35,996**	–
	37,038	–
PRC Corporate Income Tax		
Provision for the year	**2,095**	1,054
Tax refund on reinvestment of profit derived from a subsidiary *(note (iv))*	**–**	(3,280)
Under (over) provision in prior years	**(185)**	3,310
	1,910	1,084
	38,948	1,084
Deferred tax		
Charged (credited) for the year	**644**	(242)
Attributable to change in tax rate	**–**	(82)
	644	(324)
	39,592	760

Notes:

(i) Hong Kong Profits Tax had been provided for in the financial statements at 16.5% on the estimated assessable profits for the year.

In addition, Hong Kong Profits Tax had been provided for in the financial statements for the years of assessment 2001/02 to 2008/09 at 16% to 17.5% on the estimated assessable profits for those years.

Provision for 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% and 25% (2008: 18% and 25%) of estimated assessable profits for the year, respectively.

The Korea Branch and a subsidiary operated in Korea are subject to corporate income tax at a rate of 12.1% (2008: 12.1%). No income tax provision has been made for two years ended 31 December 2009 and 2008 as the tax losses brought forward from prior years exceed the estimated assessable profits for both years.

(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 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 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 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 as demanded by the HKIRD in 2008.

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 claims. The Company lodged an objection against the additional assessment and purchased a tax reserve certificate of approximately HK$6,424,000 as demanded by the HKIRD in 2009.

The Group's operation has remained unchanged since 1999/2000, in view of the stringent approach adopted by the HKIRD in treating 50:50 manufacturing offshore profits claim, the directors of the Company consider that the Group should make provision for the previously 50:50 offshore claims in the current year. Thus, an additional provision of approximately HK$35,996,000 has been provided in the consolidated income statement, however, a sum of tax expense of approximately HK$9,946,000 should be borne by two shareholders, Mr. Yang Jai Sung and Kwang Sung Electronics Co., Ltd ("Kwang Sung Korea").

In the opinion of the directors of the Company, adequate provision for Hong Kong Profits Tax has been made in this annual results announcement.

(iii) In 2007, the Shenzhen Local Tax Bureau enquired the related party transactions and 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 in the financial statements during the year ended 31 December 2008.

The directors of the Company consider that adequate provision for the above enquires has been made in this annual results announcement.

(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. During the year ended 31 December 2008, the Company received a tax refund of HK$3,280,000 in connection to the income tax previously paid by Shenzhen Kwang Sung on the reinvested amount.

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

(vi) Pursuant to the Corporate Tax Act of Republic of Korea, Korean corporate income tax rate was changed from 12.1% to 11% for assessable income up to KRW200,000,000 and from 25% to 24% for assessable income over KRW200,000,000 for the year of 2009.

7. LOSS FOR THE YEAR

	2009	2008
	HK$'000	*HK$'000*
Loss for the year is arrived at after charging (crediting):		
Auditors' remuneration		
– audit services	**450**	750
– tax services	**–**	50
– other services	**–**	1,368
Minimum lease payments under operating leases		
– hire of properties	**4,527**	4,780
Staff costs (including directors' remunerations)		
– salaries, wages, allowance and other benefits in kind	**74,708**	106,710
– retirement scheme contributions	**1,787**	2,754
– termination benefits	**–**	469
	76,495	109,933
Cost of inventories recognised as an expense	**515,903**	707,402
Amortisation of intangible assets	**855**	–
Amortisation of club memberships (included in other operating expenses)	**–**	45
Impairment loss on trade receivables (included in other operating expenses)	**196**	5,711
Net foreign exchange losses	**2,746**	2,338
Write down of inventories (included in cost of sales)	**4,394**	1,398
Depreciation	**18,177**	19,016
Less: amount recorded under government grant	**(40)**	–
Amount charged to the consolidated income statement	**18,137**	19,016
Net rental income	**(249)**	–

Cost of inventories includes approximately HK$57,130,000 (2008: HK$75,938,000) relating to staff costs, depreciation and minimum lease payments in respect of rented premises, of which amounts are also included in the respective total amounts disclosed separately above.

Minimum lease payments include an amount of approximately HK$704,000 (2008: HK$701,000) for staff quarters which is also included and disclosed in staff costs.

8. DIVIDENDS

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

	2009	2008
	HK$'000	*HK$'000*
Interim dividend declared and paid of nil (2008: HK0.5 cents) per ordinary share	**–**	1,577
Final dividend proposed after the end of the reporting period of nil (2008: nil) per ordinary share	**–**	–
	–	1,577

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

	2009	2008
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of nil (2008: HK1.4 cents) per ordinary share	**–**	4,415

9. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$35,774,000 (2008: HK$2,298,000) and the weighted average number of ordinary shares of 321,325,000 (2008: 315,145,000) in issue during the year.

Weighted average number of ordinary shares

	Number of shares	
	2009	2008
	'000	*'000*
Issued ordinary shares at 1 January	**315,362**	313,580
Effect of share options exercised	**–**	1,565
Effect of new shares issued	**5,963**	–
Weighted average number of ordinary shares	**321,325**	315,145

(b) Diluted loss per share

The computation of diluted loss per share does not assume the concession of the Company's outstanding share options since their exercise would result in decrease in loss per share.

	Number of shares 2009 *'000*	2008 *'000*
Weighted average number of ordinary shares used in calculating basic loss per share	**321,325**	315,145
Deemed issue of ordinary shares under the Company's share option scheme for nil consideration	**329**	4,059
Weighted average number of ordinary shares used in calculating diluted loss per share	**321,654**	319,204

10. INTANGIBLE ASSETS

	Patents 2009 *HK$'000*	2008 *HK$'000*
Cost		
At 1 January	**–**	–
Exchange adjustments	**(63)**	–
Additions	**11,407**	–
Acquired on acquisition of a subsidiary	**8,043**	–
At 31 December	**19,387**	–
Amortisation		
At 1 January	**–**	–
Charge for the year	**855**	–
At 31 December	**855**	–
Carrying values		
At 31 December	**18,532**	–

The patents entitle the Group to manufacture products using WireTape™ cabling technology over 17 years from the date of acquisition. The carrying values will therefore be amortised over the remaining useful lives of 17 years.

11. INVESTMENTS IN EQUITY SECURITIES

	2009	2008
	HK$'000	*HK$'000*
Unlisted equity securities, at cost		
At 1 January	**1,500**	1,500
Less: impairment loss recognised	**(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 previous years.

On 31 December 2007, the Group disposed of an investment in equity securities with carrying value of approximately HK$1,684,000 to another shareholder of that entity at KRW200,000,000. Pursuant to the sales and purchase agreement dated 31 December 2007, the consideration should be settled on or before 30 June 2008. On 28 September 2009, the Group agreed to extend the repayment of sales proceeds by installments of KRW100,000,000 (equivalent to approximately HK$666,000) each, payable on 30 June 2010 and 31 December 2010 respectively. The outstanding sales proceeds receivable bears an interest at 6% per annum.

12. MARKETABLE SECURITIES

Marketable securities were investments in a money market fund comprising a portfolio of financial assets denominated in RMB and managed by Fortis Investment Management Belgium S.A. which were stated at their open market values at 31 December 2008. For the year ended 31 December 2009, all of them were disposed of.

13. TRADE AND OTHER RECEIVABLES

	At 31/12/2009	At 31/12/2008	At 1/1/2008
	HK$'000	*HK$'000*	*HK$'000*
Trade and bills receivables	**131,125**	104,014	118,638
Less: allowance for doubtful debts	**(10,582)**	(10,694)	(5,334)
	120,543	93,320	113,304
Short-term loans to key management personnel and employees	**667**	280	1,629
Proceeds receivable from disposal of equity securities *(note 11)*	**1,333**	1,232	1,684
Tax reserve certificate *(note 6(ii))*	**9,742**	3,318	–
Deposits, prepayments and other receivables	**10,728**	9,516	7,156
	143,013	107,666	123,773

	At **31/12/2009** ***HK$'000***	At 31/12/2008 *HK$'000*	At 1/1/2008 *HK$'000*
Analysed for reporting purposes as:			
Current assets	**143,013**	107,050	123,773
Non-current assets	**–**	616	–
	143,013	107,666	123,773

(a) Ageing analysis

The Group allows an average credit period of 30 - 90 days to its trade customers. Included in trade receivables are trade and bills receivables (net of allowance for doubtful debts) presented based on the due date with the following ageing analysis as of the end of the reporting period:

	At **31/12/2009** ***HK$'000***	At 31/12/2008 *HK$'000*	At 1/1/2008 *HK$'000*
Current	**87,641**	62,151	81,051
Less than 1 month	**21,462**	16,049	20,950
1 to 3 months	**8,432**	14,270	9,648
More than 3 months but less than 12 months	**2,984**	830	1,655
More than 12 months	**24**	20	–
	32,902	31,169	32,253
	120,543	93,320	113,304

Trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the year, including specific loss components, is as follows:

	2009 ***HK$'000***	2008 *HK$'000*
At 1 January	**10,694**	5,334
Impairment loss recognised	**196**	5,711
Reversal of impairment loss	**(308)**	(351)
At 31 December	**10,582**	10,694

For the year ended 31 December 2009, the Group's trade and bills receivables of approximately HK$10,582,000 (2008: HK$10,694,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances (2008: except an amount of approximately HK$506,000).

(c) The ageing analysis of trade and bills receivables which are past due but not impaired:

	At 31/12/2009 *HK$'000*	At 31/12/2008 *HK$'000*	At 1/1/2008 *HK$'000*
Less than 1 month	**21,462**	16,049	20,950
1 to 3 months	**8,432**	14,270	9,648
More than 3 months but less than 12 months	**2,984**	830	1,655
More than 12 months	**24**	20	–
	32,902	31,169	32,253

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately HK$32,902,000 (2008: HK$31,169,000) which are past due as at the reporting date for which the Group has not provided for impairment loss.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances except for in 2008 collateral provided by a Korean customer. The average age of these receivables is 102 days (2008: 114 days).

14. TRADE AND OTHER PAYABLES

	At 31/12/2009 *HK$'000*	At 31/12/2008 *HK$'000*	At 1/1/2008 *HK$'000*
Trade creditors	**71,653**	50,544	66,226
Accrued expenses and other payables	**13,884**	13,491	12,201
	85,537	64,035	78,427

Included in trade and other payables are trade creditors presented based on the due date with the following ageing analysis as of the end of the reporting period:

	At 31/12/2009 *HK$'000*	At 31/12/2008 *HK$'000*	At 1/1/2008 *HK$'000*
Due within 1 month or on demand	**52,554**	43,012	42,761
Due after 1 month but within 3 months	**19,099**	7,532	23,465
	71,653	50,544	66,226

The average credit period on purchases of goods is 0 - 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

15. DERIVATIVE FINANCIAL LIABILITIES

	At **31/12/2009** ***HK$'000***	At 31/12/2008 *HK$'000*	At 1/1/2008 *HK$'000*
Fair value			
At the date of acquisition	**7,908**	–	–
Fair value change credited to the consolidated income statement	**(517)**	–	–
At 31 December	**7,391**	–	–

In March 2009, the Group entered into a patent transfer agreement (the "Agreement") with an independent third party (the "Seller"). The consideration of approximately HK$10,242,000 was partially satisfied by issuing 8,534,933 shares of the Company at HK$0.41 per share to the Seller and the remaining consideration of approximately HK$6,743,000 will be settled in cash along with put options ("Options") on period from the end of third year to the end of forth year after the transaction, under either condition:

(i) the Group will not be required to make further payment if the share price of the Company is higher than HK$1.2; or

(ii) if the share price of the Company 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 details of the Options were set out in the Agreement and the Company's announcement dated 30 March 2009.

The fair value of the Options granted is estimated at the date of grant using 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.

16. CAPITAL AND RESERVES

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Other reserve HK$'000	Contribution reserve HK$'000	Properties revaluation reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Sub-total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2008	31,358	53,310	5,003	–	–	14,559	6,489	–	284,117	394,836	–	394,836
Total comprehensive expense for the year	–	–	–	–	–	(4,514)	–	(25,193)	(2,298)	(32,005)	–	(32,005)
Final dividend approved in respect of the previous year *(note 8(b))*	–	–	–	–	–	–	–	–	(4,415)	(4,415)	–	(4,415)
Shares issued under share option scheme	178	2,611	(483)	–	–	–	–	–	–	2,306	–	2,306
Transfer from reserves	–	–	–	–	–	–	1,004	–	(1,004)	–	–	–
Forfeiture of share options	–	–	(3,916)	–	–	–	–	–	3,916	–	–	–
Dividend declared in respect of the current year *(note 8(a))*	–	–	–	–	–	–	–	–	(1,577)	(1,577)	–	(1,577)
At 31 December 2008	31,536	55,921	604	–	–	10,045	7,493	(25,193)	278,739	359,145	–	359,145
Total comprehensive income (expense) for the year	–	–	–	–	–	8,341	–	6,105	(35,774)	(21,328)	292	(21,036)
Final dividend approved in respect of the previous year *(note 8(b))*	–	–	–	–	–	–	–	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	3,025	3,025
Contribution from shareholders	–	–	–	–	9,946	–	–	–	–	9,946	–	9,946
Deemed acquisition of additional interest in a subsidiary	–	–	–	301	–	–	–	–	–	301	(301)	–
Shares issued according to a patent transfer agreement *(note 15)*	854	2,645	–	–	–	–	–	–	–	3,499	–	3,499
Lapse of share options	–	–	(604)	–	–	–	–	–	604	–	–	–
Transfer from reserves	–	–	–	–	–	–	941	–	(941)	–	–	–
Dividend declared in respect of the current year *(note 8(a))*	–	–	–	–	–	–	–	–	–	–	–	–
At 31 December 2009	32,390	58,566	–	301	9,946	18,386	8,434	(19,088)	242,628	351,563	3,016	354,579

DIVIDEND

The Board of the Company does not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: Nil). 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 24 May 2010 and 26 May 2010, 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 20 May 2010.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") will be held on Wednesday, 26 May 2010. 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, 22 April 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The global economy started to recover in the second half of 2009. Although turnover has been improving since the second half year, it still decreased by 25.8% year-on-year to HK$592,280,000 in 2009. For the year ended 31 December 2009, the Group recorded profit before taxation of HK$3,308,000, as compared with a loss before taxation of HK$1,538,000 for 2008. As a result of tax provision of HK$35,996,000, including HK$9,946,000 to be borne by two shareholders, Mr. Yang Jai Sung and Kwang Sung Korea, for prior periods in respect of a tax dispute with the HKIRD over the Company's 50:50 offshore profit claim and deductibility of lease rentals, loss after taxation attributable to owners of the Company increased to HK$35,774,000. Basic loss per share was HK11.13 cents.

Turnover

Turnover decreased by 25.8% from HK$797,912,000 in 2008 to HK$592,280,000 in 2009 mainly because of a decline in sales of composite components. Turnover from composite components was HK$422,027,000 (2008: HK$624,358,000), down 32.4% against last year, accounting for 71.3% of the Group's total turnover (2008: 78.2%). Sales of unit electronic components remained solid, amounting to HK$170,253,000 (2008: HK$173,554,000) and accounting for 28.7% of the Group's total turnover (2008: 21.8%).

Cost of Sales

Cost Structure

Overall cost of sales decreased by 26.8% from HK$707,511,000 in 2008 to HK$517,780,000 in 2009. The rate of decrease in cost of sales is higher than that of turnover. This is mainly due to a decrease in materials costs arising from change in product mix. During the year, provision for slow moving inventory increased markedly from HK$1,398,000 in 2008 to HK$4,394,000 in 2009. However, this negative effect was offset by a decrease in factory overhead during the year.

Gross Profit

Gross profit was HK$74,500,000, which represented a decrease of 17.6% from HK$90,401,000 in 2008. The decrease in gross profit was mainly attributable to a decreased turnover in 2009. However, compensated by the drop in cost of sales, the gross profit margin rose to 12.6% (2008: 11.3%).

Other Income

Other income increased by 32.2% from HK$4,348,000 in 2008 to HK$5,749,000 in 2009. The increase was primarily due to the net effect of a HK$913,000 increase in value added tax refund, a HK$658,000 increase in gain on disposal of property, plant and equipment, a HK$400,000 increase in fair value of investment property, fair value change of HK$517,000 on derivative financial liabilities and a HK$1,545,000 decrease in interest income from bank deposits.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 23.5% to HK$19,148,000 in 2009 from HK$25,014,000 in 2008, which was in line with the decrease in turnover.

Administrative Expenses

Administrative expenses were kept at about the same level as in 2008.

Research and Development Expenses

Research and development expenses decreased by 20.9% to HK$31,066,000 in 2009 from HK$39,259,000 in 2008. The decrease mainly reflected the Group streamlined its research and development operation, resulting in decrease in staff salaries and tooling charge in Korea.

Other Operating Expenses

Other operating expenses decreased by 33.9% from HK$15,269,000 in 2008 to HK$10,100,000 in 2009. This was primarily attributable to a HK$5,515,000 decrease in impairment loss on trade receivables during the year.

Taxation

Income tax expenses increased significantly from HK$760,000 in 2008 to HK$39,592,000 in 2009. The significant increase was mainly due to a provision for Hong Kong Profits Tax of HK$35,996,000 for prior years.

In 2008, the HKIRD enquired the Company the basis of its 50:50 offshore concession claims in relation to the Company's manufacturing activities carried out by Shenzhen Kwang Sung and a third party processing factory in the PRC and deductibility of lease rentals since year of assessment 2001/02. The HKIRD made additional assessment of approximately HK$3,318,000 for year of assessment 2001/02 in February 2008, approximately HK$6,424,000 for year of assessment 2002/03 in March 2009 and approximately HK$9,333,000 for year of assessment 2003/04 in March 2010.

Up to the date of this annual results announcement, the Company has lodged objections and purchased tax reserve certificates of HK$9,742,000 as demanded by the HKIRD. In addition, the Company has also submitted documentation information against these additional assessments.

Out of the provision for Hong Kong Profits Tax of HK$35,996,000 for prior years, the balance represented provision of HK$1,587,000, HK$4,652,000, HK$7,415,000, HK$6,591,000, HK$4,724,000, HK$4,089,000, HK$4,833,000 and HK$2,105,000 for years of assessment 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. However, a sum of tax expense of HK$9,946,000 should be borne by two shareholders, Mr. Yang Jai Sung and Kwang Sung Korea. The directors are of the opinion that the provision is to ensure our financial statements consistent with our conservative approach and would not adversely affect our objections against the above additional assessments made by the HKIRD.

Other than the above, the PRC Corporate Income Tax also increased by 76.2% to HK$1,910,000. The increase was mainly attributable to increased profit recorded in Shenzhen Kwang Sung.

Loss for the Year

As a result of the combined effects of the above, the Group recorded a loss after taxation attributable to owners of the Company of HK$35,774,000 for the year ended 31 December 2009, as compared with a loss after taxation attributable to owners of the Company of HK$2,298,000 for last year. Basic loss per share was HK11.13 cents (2008: HK0.73 cents).

Financial Condition, Liquidity and Financial Resources

The Group primarily finances its operations with internally generated cash flow. As at 31 December 2009, the Group had cash and bank balances of HK$179,386,000 (2008: HK$155,692,000) and net current assets of HK$261,731,000 (2008: HK$283,170,000). Shareholders' funds amounted to HK$354,579,000 as at 31 December 2009 (2008: HK$359,145,000).

During the year, the Group recorded provision for Hong Kong Profits Tax of HK$37,038,000. The amount represented provision for Hong Kong Profits Tax of HK$1,042,000 for current year and HK$35,996,000 for prior years in relation to a tax dispute with the HKIRD. Owing mainly to the tax provision for the prior years, the tax payables under current liabilities significantly increased from HK$5,227,000 as at 31 December 2008 to HK$42,712,000 as at 31 December 2009.

Pursuant to a Deed of indemnity dated 23 June 2003, shareholders, Mr. Yang Jai Sung and Kwang Sung Korea would indemnify the Group for any tax liability payables prior to 30 June 2003. Accordingly, the amounts due from shareholders under current assets also increased by HK$9,984,000 to HK$10,592,000 as at 31 December 2009.

Based on the foregoing, current ratio of the Group, being the ratio of current assets to current liabilities, decreased to 3.04 (2008: 5.09), while gearing ratio, in terms of total liabilities to total assets, increased to 0.28 (2008: 0.17).

The average debtor turnover day increased from 72 days in 2008 to 75 days in 2009. This was mainly result of longer credit terms granted to certain major customers with good repayment historical records. The average creditor turnover decreased to 42 days in 2009 from 49 days in 2008. This was mainly attributable to purchase of raw materials from new vendors with shorter credit terms. The average inventory turnover decreased from 51 days in 2008 to 45 days in 2009, primarily due to the stringent inventory control system adopted by the Group.

All taken into account, the Group continued to be in a healthy financial position with sufficient financial resources to support future development.

Foreign Exchange, Exposure, Hedging and Off Balance Sheet Financial Instruments

The Group is exposed to foreign currency risks primarily in sales and purchases which give rise to receivables, payables and cash balances that are denominated in United States Dollars ("USD"), Japanese Yen ("JPY"), and RMB and KRW. With Hong Kong Dollars ("HKD") pegged to USD, the Group does not expect any significant fluctuation in the USD/HKD exchange rate in the foreseeable future. For other currencies such as JPY, RMB and KRW, the Group has taken steps to ensure net exposure is kept at acceptable levels. It buys and sells foreign currencies at spot rates when necessary to address short term imbalance.

With its production workforce 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 USD has been within a manageable range in terms 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

In April 2009, the Company acquired 59.5% of equity interest in Brocoli Co., Ltd. ("Brocoli") at a consideration of HK$10,300,000 and, in September 2009, increased the stake to 69.7% at an additional 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 year.

Charges on Assets

As at 31 December 2009, the Group had banking facilities of HK$131,043,000 and no pledging of assets to banks was involved during the year to secure the facilities (2008: HK$149,632,000).

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2009 and 2008.

Employees and Remuneration Policy

As at 31 December 2009, the Group had about 1,268 employees (2008: 1,302), of whom 29 were based in Hong Kong (2008: 25), 1,149 in the PRC (2008: 1,186) and 90 in Korea (2008: 91). For the year ended 31 December 2009, staff costs decreased to HK$76,495,000 (2008: $109,933,000).

BUSINESS REVIEW

Composite Components Business

Composite components business remained as the Group's major revenue source for the year ended 31 December 2009, accounting for 71.3% of the total turnover of the Group. Affected by the economic downturn during the first half of 2009, the segmental turnover was HK$422,027,000, a decrease of 32.4% as compared to HK$624,358,000 in 2008. However, sales in the second half year recorded significant improvement as compared with the first half year.

Both the home audios and car audios markets are highly susceptible to change in economic situation, thus sales of the Group in these two markets were affected in similar extent during the year. Sales of tuner modules for car audios decreased by 23.0% to HK$104,545,000 during 2009 (2008: HK$135,859,000), accounting for 24.8% (2008: 21.8%) of the total turnover from composite components business. However, the Group braced by a solid business foundation saw orders for tuner modules for car audios rebounded notably in the second half year, thus being able to maintain its competitiveness and overall market share despite the hard times during the year. Turning to the home audios market, hit hard by the combined effect of the economic downturn and change of market trends, turnover from tuner modules for home audios declined by 24.2% to HK$193,259,000 (2008: HK$254,986,000), representing 45.8% (2008: 40.8%) of the total turnover from composite components business.

Sales of the Group's wireless solutions including wireless speaker systems also decreased, by 47.5%, to HK$71,586,000 (2008: HK$136,409,000). The drop was a result of the Group failing to secure orders from a major customer for this product and to market its own product models in the poor operating environment during the year. However, the Group has laid a solid business foundation through our strong relationships with existing customers, which will be necessary to develop our own product models in the coming years.

Sales of the Group's digital products for the digital multimedia market have not been growing as well as expected. Rapid change in digital technology and a variety of standards in digital audio broadcasting over the world becomes obstacles in developing and marketing the general and standardized digital products of the Group. Such a market phenomenon plus economic downturn led to a 44.5% decrease in sales of the Group's tuner modules for digital multimedia broadcasting ("DMB") and digital audio broadcasting ("DAB"), and global positioning system ("GPS") engines to HK$24,175,000 (2008: HK$43,571,000).

To cope with the challenging market, the Group started integrating various types of modules products into total solutions products such as an integrated printed circuit board solution that can accommodate different digital signals for receipt by a smart-phone docking system and has been working closely with OEM (original equipment manufacturer) customers in Hong Kong and the PRC to boost sales of the products.

In addition, tuner modules for hybrid digital radio ("HD Radio") were well received by the market, generating HK$5,564,000 in turnover to the Group, representing an increase of 13.0% as compared with 2008.

Unit Electronic Components Business

During the year, turnover from unit electronic components business amounted to HK$170,253,000, similar to the level in 2008. Turnover of this segment accounted for 28.7% of the Group total. The Group has successfully developed unique and innovative products including a planar transformer, the first in the world of its kind, which is targeted at the flat panel LED television and automotive electronics sectors. It is scheduled to be put into mass production from 2010.

PROSPECTS

Looking forward, as the world economy has yet fully recovered and the financial market and business environment may experience further fluctuations, the Group is cautiously optimistic about the market outlook in 2010. The Group expects to maintain sales of its existing products at similar levels as in 2009 providing that the market does not turn worse. Moreover, the Group will continue to actively identify new business opportunities, strive to serve the changing needs of the market and strategically allocate its resources to develop products and services with strong market potential.

Tapping into the trend of convergence into mobile phones, especially smart-phones, personal/notebook computers, and televisions in electronics industry for home and away, the Group has developed new products such as a printed circuit board solution for smart-phone docking systems which can integrate tuner modules for home audio systems and DAB, digital amplifiers and other components. So far, the printed circuit board solution for smart-phone docking system that was developed by the Group has been certified by a world-renowned smart-phone manufacturer and will be launched in the market in the first half of 2010. Strongly confident of the growth potential of total solutions in printed circuit boards, the Group will invest more resources in development of this product to lead the industry trend.

The Group has also developed new and innovative products of a FM transmitter and a planar transformer for LCD and LED televisions which have attracted orders from a renowned Korean television manufacturer. FM transmitters are used to transmit television sound in FM signals from televisions to wireless speakers in home audio systems, and planar transformers has evolved from traditional bulky form to planar form, enabling televisions and automotive electronic systems to be flatter and lighter. These new products are expected to be new growth drivers for the Group in the television and automotive electronics sectors in the near future.

In addition, the Group has planned to expand its automotive electronic components business from tuner modules for car audios to various types of automotive electronic components. The Group has recently developed an integrated analog and digital tuner modules with antenna for car audio systems and planned to supply this product to a Korean automobile manufacturer in the coming years. The Group is also planning to launch new products such as wireless modules for the auto-toll pass named Hi-Pass in Korea.

Furthermore, in 2009, the Group acquired majority shareholding of Brocoli which specialises in developing and manufacturing an innovative flat flexible cable product, namely the WireTape™, and four technology patents in relation to the product. WireTape™ was designed to remove the hassle of handling multiple connecting wires in the home, the office or in automobiles. The Group has appointed distributors and will work with potential distributors all over the world to market WireTape™ and related electronic products, which will be developed and manufactured by the Group. In addition, the Group plans to develop new electronic products for home, mobile, and car use by applying WireTape™ technology at the same time. In the meantime, the breakthrough technology of WireTape™ has been well received by the industry, evidenced by the numerous awards the product has earned, highlighted by the Innovative Award for 2009 and 2010 in the Consumer Electronics Show held in Las Vegas in the US, and the Best Product Innovation Award from DISTREE XXL 2010 held in Monte Carlo in Monaco. The Group believes that with obvious advantages, the WireTape™ series will win the appreciation of consumers, hence bring sustainable returns to its business and handsome rewards to shareholders in the long run.

Apart from remaining prudent in executing its business development strategies and managing cash flow, the Group will continue enhancing operational efficiency. The Group is developing an Enterprise Resources Planning ("ERP") system and plans to have it in place in the second half of 2010. The ERP system will allow the Group to improve its business processes including research and development, procurement, production, inventory control, sales, cost control, and financial management, which will benefit the Group by enabling the Group to make business and management decisions more effectively.

Although in the short run the macroeconomic environment will remain unstable, the Group is confident of the long-term prospect of the consumer electronics industry fuelled by continuous innovation and new applications. The Group also believes that once its new products are launched to the market and achieve economies of scale, they will realize satisfactory returns and contribute to the long term growth of the Group.

CORPORATE SOCIAL RESPONSIBILITY

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

1. Marketplace

In the interest of shareholders, we have worked by the business objectives of contributing to the sustainable development of the electronics industry and improving consumer electronics to heighten efficiency and deliver the best user experience. To such ends, the Group invests substantially in research and development and internal quality control to ensure the continuous delivery of quality and reliable products to customers. The Company complies 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 that signify recognition of the Group's efforts and appreciation of the Group's products.

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 trainings that can help develop the business and management expertise of its people for competing globally. In return, the Company provides 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 minimize 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.

With a view to nurture their professional development, the Group also provides in-house trainings to employees, not only to upgrade their professional competency but also to further efficiency in implementing internal procedures and enhancing process adherence, while strengthening their understanding of the Group's culture. To achieve better communication within the organisation and more constructive interaction among various divisions, the Group has launched an internal seminar presentation programme to provide insights into its operations and developments within each division and therefore broadening employees' knowledge of the Group as a whole. To encourage staff to participate in the programme, prizes will be rewarded to the best presenters of the programme.

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

It also arranges regular health checks for all employees to ensure their health and therefore 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 complies with the requirements of ISO 14001:2004 on environmental management system.

The Group also continues to make sure that 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 leadfree and RoHS compliant.

The Group also encourages employees to save energy and resources. To cut down on paper consumption, it encourages double-sided printing and printing when necessary only. 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 2009.

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 enquiries, confirms that throughout the year, 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 year.

Review of Accounts

The Audit Committee of the Company has reviewed the financial results of the Group for the year ended 31 December 2009, including the accounting principles and practices adopted by the Group, and has discussed with the management its internal controls and accounts.

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 2009 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, 26 March 2010

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 and Mr. LEE Kyu Young, and independent non-executive directors Dr. KIM Chung Kweon, Dr. HAN Byung Joon and Mr. KIM Chan Su.