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)

2010 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 2010 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June **2010** *HK$'000* **(Unaudited)**	2009 *HK$'000* (Unaudited)
Turnover	*3*	**350,751**	263,514
Cost of sales		**(302,965)**	(240,005)
Gross profit		**47,786**	23,509
Other income		**3,465**	1,912
Fair value change on derivative financial liabilities		**246**	539
Selling and distribution expenses		**(10,019)**	(9,223)
Administrative expenses		**(11,348)**	(7,885)
Research and development expenses		**(18,507)**	(14,998)
Other operating expenses		**(4,424)**	(2,730)
Finance costs		**(60)**	–
Profit (loss) before taxation	*4*	**7,139**	(8,876)
Taxation	*5*	**(3,349)**	56
Profit (loss) for the period		**3,790**	(8,820)
Profit (loss) for the period attributable to:			
Owners of the Company		**4,025**	(8,680)
Non-controlling interests		**(235)**	(140)
		3,790	(8,820)
Earnings (loss) per share	*7*	***HK cents***	*HK cents*
– Basic and diluted		**1.24**	(2.72)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit (loss) for the period	**3,790**	(8,820)
Exchange differences arising on translation of foreign operations, representing other comprehensive expenses	**1,553**	(1,211)
Total comprehensive income (expenses) for the period	**5,343**	(10,031)
Total comprehensive income (expenses) for the period attributable to:		
Owners of the Company	**5,578**	(9,891)
Non-controlling interests	**(235)**	(140)
	5,343	(10,031)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**75,479**	71,301
Investment property		**4,940**	4,100
Goodwill		**5,857**	5,857
Intangible assets		**17,672**	18,532
Club memberships		**600**	673
Investments in equity securities	*8*	**–**	–
Deposits for purchase of property, plant and equipment	*9*	**22,751**	4,245
		127,299	104,708
Current assets			
Inventories		**106,510**	57,100
Trade and other receivables	*10*	**211,401**	143,013
Amounts due from shareholders		**10,330**	10,592
Cash and cash equivalents		**126,216**	179,386
		454,457	390,091
Current liabilities			
Trade and other payables	*11*	**139,619**	85,537
Bank borrowing – due within one year		**28,486**	111
Tax payables		**41,896**	42,712
		210,001	128,360
Net current assets		**244,456**	261,731
Total assets less current liabilities		**371,755**	366,439
Non-current liabilities			
Bank borrowing – due after one year		**27**	83
Derivative financial liabilities	*12*	**7,145**	7,391
Deferred tax liabilities		**4,661**	4,386
		11,833	11,860
Net assets		**359,922**	354,579
Capital and reserves	*13*		
Share capital		**32,390**	32,390
Reserves		**324,751**	319,173
Equity attributable to owners of the Company		**357,141**	351,563
Non-controlling interests		**2,781**	3,016
Total equity		**359,922**	354,579

Notes:

1. BASIS OF PREPARATION

These interim financial results have been prepared in accordance with the applicable disclosure requirements 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 basis, except for certain properties and financial instruments, which are measured at fair values.

The accounting policies used in 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 2009 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 and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRSs
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK (IFRIC) – INT 17	Distributions of Non-cash Assets to Owners

The Group applied HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the applications of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

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)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issue[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK (IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 January 2013.

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 the 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.

The directors of the Company anticipated that the application of the other new or 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 Six months ended 30 June		Segment profit (loss) Six months ended 30 June	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Composite components	**199,909**	192,021	**2,774**	(4,018)
Unit electronic components	**150,842**	71,493	**3,148**	(6,833)
Total	**350,751**	263,514	**5,922**	(10,851)
Segment profit (loss)			**5,922**	(10,851)
Unallocated other income			**3,465**	1,912
Unallocated expenses			**(2,494)**	(476)
Fair value change on derivative financial liabilities			**246**	539
Profit (loss) before taxation			**7,139**	(8,876)

The entire segment turnover reported above is from external customers.

Segment profit (loss) represents profit (loss) earned/incurred by each segment without allocation of other income, finance cost, unallocated other operating expenses and amortisation of intangible assets. This is the measure reported to the executive directors of the Company, for the purposes of resource allocation and performance assessment.

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

	At 30 June 2010	At 31 December 2009
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Composite components	**193,022**	203,184
Unit electronic components	**149,535**	51,198
Unallocated assets	**239,199**	240,417
Consolidated total assets	**581,756**	494,799

All assets are allocated to reportable segments other than investment property, goodwill, intangible assets, club memberships, certain property, plant and equipment and inventories, cash and cash equivalents, certain trade and other receivables, amounts due from shareholders and deposits for purchase of property, plant and equipment. Assets used jointly by reportable segments allocated on the basis of the production capacity.

4. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit (loss) before taxation is arrived at after charging/(crediting):		
Auditors' remuneration	**323**	325
Allowance for inventories (included in cost of sales)	**1,303**	7,226
Amortisation of intangible assets (included in research and development expenses)	**574**	117
Written off of club membership	**73**	–
Cost of inventories recognised as an expense*	**302,965**	240,005
Depreciation of property, plant and equipment	**8,799**	8,956
Minimum lease payments under operating leases in respect of rented properties	**2,399**	2,444
Impairment loss on trade receivables (included in other operating expenses)	**1,708**	98
Increase in fair value of investment property	**(840)**	–
Gain on disposal of property, plant and equipment	**(841)**	(799)
Interest income	**(558)**	(699)
Net rental income	**(156)**	–
Reversal of impairment loss on trade receivables (included in other income)	**(154)**	(139)
Net foreign exchange gain	**(754)**	(133)

* Cost of inventories recognised as an expense includes amount of approximately HK$5,115,000 (six months ended 30 June 2009: HK$7,898,000) 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	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax		
Provision for the period	**1,738**	–
Under-provision (over-provision) in prior years	**–**	(74)
	1,738	(74)
PRC Corporate Income Tax		
Provision for the period	**1,209**	425
Under-provision in prior years	**58**	11
	1,267	436
	3,005	362
Deferred tax		
Charged (credited) for the period	**344**	(418)
	3,349	(56)

(i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2010. No provision for Hong Kong Profits Tax has been 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 22% (2009: 20%) and 25% (2009: 25%) of estimated assessable profits for the periods, respectively.

The Korea Branch and a subsidiary operated in Korea is subject to corporate income tax at a rate of 12.1% (2009: 12.1%). No provision for taxation has been made for the six months ended 30 June 2010 and 2009 as the tax losses brought forward from prior years exceed the estimated assessable profits for both periods.

(ii) The Group 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 Group 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 Group the basis of its 50:50 offshore concession claims for the years of assessment 2001/02 to 2006/07 in relation to the Group'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 Group 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 concession 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 April 2009.

In March 2010, the HKIRD issued another demand note for additional tax payable for the year of assessment 2003/04 amounted to approximately HK$9,334,000 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$9,334,000 as demanded by the HKIRD in April 2010.

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 Group had made provision for the previously 50:50 offshore claims of approximately HK$35,996,000 during the year ended 31 December 2009.

(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. 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 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.

As of the date of these interim financial results, the Company has obtained an agreement from the Shenzhen Local Tax Bureau to its proposed settlement.

(iv) Pursuant to Shen Guo Shui Fa 2008 notice 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%.

The basic Korean Corporate Tax rates for year starting on or after 1 January 2009 are 11% on the first KRW200,000,000 of the tax base and 22% for the excess. The tax rates are 10% and 22% for 2010. In addition to the basic tax rate, there is a resident tax surcharge of 10% on the income tax liability.

6. DIVIDENDS

No dividends were paid, declared or proposed during the reported period (six months ended 30 June 2009: nil). The directors do not recommend the payment of an interim dividend.

7. EARNINGS (LOSS) PER SHARE

(i) The calculation of basic earnings (loss) per share is based on the profit for the period attributable to owners of the Company of approximately HK$4,025,000 (six months ended 30 June 2009: loss of approximately HK$8,680,000) and the weighted average number of ordinary shares of 323,897,000 (six months ended 30 June 2009: 318,710,000) in issue during the six months ended 30 June 2010.

(ii) There were no dilutive potential ordinary shares during the six months ended 30 June 2010, therefore, diluted earnings per share is the same as the basic earnings per share.

The diluted loss per share was the same as the basic loss per share for the six months ended 30 June 2009 as it did not assume the exercise of the Company's options because the exercise price of those options was higher than the average market price for shares for the six months ended 30 June 2009.

8. 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 2009: HK$1,500,000), against which a full provision for impairment loss has been made in prior years and maintained at 30 June 2010.

9. DEPOSITS FOR PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

The deposits included deposit paid for purchase of machinery and a freehold land in Korea. During the six months ended 30 June 2010, the Group entered into an agreement with a third party for the acquisition of a land for an aggregate cash consideration of KRW7,500,000,000 (approximately HK$48,038,000). Total deposits of KRW3,406,350,000 (approximately HK$21,818,000) were paid upon signing the agreement. The acquisition had been completed after the end of the reporting period.

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Trade and bills receivables (net of allowance for doubtful debts)	**168,025**	120,543
Short term loans to key management personnel and employees	**489**	667
Proceeds receivable from disposal of equity securities	**1,281**	1,333
Tax reserve certificates *(note 5(ii))*	**19,076**	9,742
Deposits, prepayments and other receivables	**22,530**	10,728
	211,401	143,013

The Group allows an average credit period of 30-90 days to its trade customers. The following is an aged analysis of trade and bills receivables (net of allowance for doubtful debts) based on the due date at the end of the reporting period:

	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Current	**129,360**	87,641
Less than 1 month	**22,984**	21,462
1 to 3 months	**15,643**	8,432
More than 3 months but less than 12 months	**38**	3,008
	168,025	120,543

11. TRADE AND OTHER PAYABLES

	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Trade payables	**121,581**	71,653
Accrued expenses and other payables	**18,038**	13,884
	139,619	85,537

The following is an aged analysis of trade payables based on the due date at the end of the reporting period:

	At 30 June 2010 HK$'000 (Unaudited)	At 31 December 2009 HK$'000 (Audited)
Due within 1 month or on demand	**79,418**	52,554
Due after 1 month but within 3 months	**42,163**	19,099
	121,581	71,653

12. DERIVATIVE FINANCIAL LIABILITIES

In March 2009, the Group and the Company 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 and the Company 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 and the Company 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:

	At 30 June 2010	At 31 December 2009
Dividend yield	**0%**	1%
Expected volatility	**86.7%**	85%
Risk-free interest rate	**1.1%**	1.7%
Expected life	**2.75 years**	3.75 years
Weighted average share price	**HK$0.485**	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 the Options varies with different variables of certain subjective assumptions.

Fair value change on derivative financial liabilities of approximately HK$246,000 was recognised during the six months ended 30 June 2010 (six months ended 30 June 2009: HK$539,000).

13. 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$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
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
Shares issued according to a patent transfer agreement	854	2,645	–	–	–	–	–	–	–	3,499	–	3,499
Lapse of share options	–	–	(604)	–	–	–	–	–	604	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	3,025	3,025
Total comprehensive expenses 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
For the six months ended 30 June 2010												
At 1 January 2010 (audited)	32,390	58,566	–	301	9,946	18,386	8,434	(19,088)	242,628	351,563	3,016	354,579
Total comprehensive income (expenses) for the period	–	–	–	–	–	–	–	1,553	4,025	5,578	(235)	5,343
At 30 June 2010 (unaudited)	32,390	58,566	–	301	9,946	18,386	8,434	(17,535)	246,653	357,141	2,781	359,922

INTERIM DIVIDEND

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2010, the global economy has been steadily recovering and the efforts of the Group in research and development of new products started bearing fruit. Accordingly, the Group was able to deliver improved performance with turnover increased by 33.1% to HK$350,751,000 against the corresponding period last year.

Cost of sales for the six months ended 30 June 2010 was HK$302,965,000, an increase of 26.2% compared to HK$240,005,000 in the six months ended 30 June 2009, which was in line with the increase in the turnover. Cost of sales as a percentage of sales decreased from 91.1% in the six months ended 30 June 2009 to 86.4% in the six months ended 30 June 2010, primarily due to a change in product mix and a significant drop in slow moving inventory provision to turnover ratio which decreased from 2.7% in the six months ended 30 June 2009 to 0.4% in the six months ended 30 June 2010.

As a result, gross profit margin climbed to 13.6% as compared with 8.9% for the corresponding period last year, and gross profit also rose to HK$47,786,000, representing a growth of 103.3% as compared with HK$23,509,000 in the corresponding period last year.

Other income increased by 81.2% from HK$1,912,000 in the six months ended 30 June 2009 to HK$3,465,000 in the six months ended 30 June 2010. The increase was mainly attributable to an increase in fair value of investment property of HK$840,000 and an increase in rental income of HK$156,000.

Total operating expenses were HK$44,298,000 in the six months ended 30 June 2010, representing a 27.2% increase from HK$34,836,000 in the corresponding period last year. The increase was mainly attributable to an increase in turnover and additional impairment loss on doubtful debts of HK$1,708,000. When counted as a percentage of the turnover, the total operating expenses were 12.6%, a 0.6% decline compared with the corresponding period in 2009.

In 2008, the HKIRD enquired the Company about the basis of its 50:50 offshore concession claims in relation to its manufacturing activities carried out by Shenzhen Kwang Sung and a third party processing factory in the PRC and the deductibility of lease rentals since year of assessment 2001/02. The Company has lodged objections, purchased tax reserve certificates of HK$19,075,000 as demanded by the HKIRD and made reasonable provision for the previously 50:50 offshore concession claims and deduction of lease rentals.

As up to the date of these financial results, the objections have not been finalised. For the sake of prudence, the Group has adopted a conservative approach to assume no offshore concession claim in relation to its manufacturing activities carried out by Shenzhen Kwang Sung and non-deduction of lease rentals to calculate Hong Kong Profits Tax. As a result of increased pre-tax profit, the Group recorded a Hong Kong Profits Tax of HK$1,738,000 for the period under review.

Moreover, the PRC Corporate Income Tax also increased to HK$1,267,000 for the period under review. Consequently, overall tax expenses were HK$3,349,000 as compared to the net reversal of income tax expenses of HK$56,000 for the corresponding period in 2009.

Taking into account the aforementioned, the Group has turned around its business to report a profit after taxation attributable to owners of the Company of HK$4,025,000 for the six months ended 30 June 2010. This is in contrast with a loss after taxation attributable to owners of the Company of HK$8,680,000 recorded for the corresponding period last year. Basic earnings per share were HK1.24 cents (six months ended 30 June 2009: basic loss per share was HK2.72 cents).

Liquidity, Financial Resources and Capital Structure

The Group generally finances its operation with internal generated cash flows and banking facilities provided by its principal bankers in Hong Kong and Korea.

During the period under review, current ratio, being the ratio of current assets to current liabilities, decreased from 3.04 as at 31 December 2009 to 2.16 as at 30 June 2010, while gearing ratio, in terms of total liabilities to total assets increased from 0.28 as at 31 December 2009 to 0.38 as at 30 June 2010. The decrease in current ratio and the increase in gearing ratio were mainly due to increased bank borrowing to enhance our working capital.

As at 30 June 2010, the bank borrowing was HK$28,513,000. With the cash and cash equivalents of HK$126,216,000 and the banking facilities of HK$115,131,000, the Group is confident to meet its current and future operational and capital expenditure requirements.

Foreign Exchange Exposure, Hedging and Off Balance Sheet Financial Instruments

The Group has been focusing on its own core business and follows a prudent financial policy. It has never invested in any highly leveraged or speculative derivative products. In this respect, the Group continued to adopt a conservative approach to financial risk management.

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

As the Hong Kong Dollars ("HKD") is pegged to the USD and the 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 any 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 is maintained at an acceptable level.

Investment Activities

On 14 May 2010, the Group entered into an agreement with an independent third party to acquire a parcel of land in Korea at a consideration of KRW7,500,000,000 (approximately HK$48,038,000). The land would be used to construct a complex building for its research and development, manufacturing, sales and administrative offices' use.

As at 30 June 2010, the Group has paid KRW3,406,350,000 (approximately HK$21,818,000) as deposit for the acquisition. As the acquisition was not completed by end of interim reporting period, the amount was recorded as "deposits for purchase of property, plant and equipment". In July 2010, the Group has settled the remaining balance and completed the acquisition.

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 2010, the banking facilities of HK$115,131,000 were secured by the Company's land and buildings with an aggregate carrying value of HK$19,356,000.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2010.

Capital Commitments

As at 30 June 2010, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$29,499,000.

Employees and Remuneration Policy

As at 30 June 2010, the Group had about 1,422 employees, including 28 based in Hong Kong, 1,303 in the PRC, and 91 in Korea.

For the six months ended 30 June 2010, staff costs increased by 15.3% from HK$36,957,000 for the corresponding period last year to HK$42,601,000.

Employee remuneration is determined in accordance with prevailing industry practice and employees' performance and experience. Discretionary bonuses are awarded to employees with outstanding performance with regard to the Group's overall audited results. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

BUSINESS REVIEW

Composite Components Business

For the six months ended 30 June 2010, the composite components business, the Group's major revenue source, accounted for 57.0% of the total turnover of the Group. It represented 72.9% of the total turnover for the corresponding period in 2009. This change in the business mix was attributed to the relative outstanding performance in unit electronic components during the review period. Turnover from the segment amounted to HK$199,909,000, however, still an increase of 4.1% as compared with HK$192,021,000 for the corresponding period last year. It is mainly driven by fast recovery of the market demand for the tuner modules for car audio systems and a new product launch of FM transmitters for LCD and LED televisions, which was put into mass production in the review period.

Driven by the global economic recovery, sales of tuner modules for car audio systems increased by 12.0% to HK$48,936,000, accounting for 24.5% of the total turnover from the composite components business. Sales of the Group's wireless solutions including digital wireless audios remained solid, amounting to HK$52,864,000 (six months ended 30 June 2009: HK$33,754,000) and representing 26.4% of the Group's total turnover from the composite components business.

The home audios market, on the other hand, was adversely affected by the fast-changing industry developments in the functions of mobile phones, especially smartphones, personal/notebook computers, and television reception both at home and remote. The turnover of tuner modules for home audios declined by 20.0% to HK$71,828,000 (six months ended 30 June 2009: HK$89,833,000), representing 35.9% of the total turnover from the composite components business. To keep abreast of the market trend, the Group redeployed its resources in research and development of products that can innovate features and enhance functions of the existing products in order to meet requirement for consumer electronic products such as smartphones and televisions.

During the period under review, the sales of tuner modules for digital multimedia broadcasting ("DMB") and digital audio broadcasting ("DAB") of the Group dropped by 49.6% to HK$4,350,000 compared with the corresponding period last year. The drop in sales was primarily due to the combined effects of the rapid change in digital technology and different standards in DAB for various countries which create obstacles in developing and marketing the general and standardised digital products of the Group. To cope with these challenges, the Group has launched a turnkey printed circuit board based solution, the world's first solution for DAB/DAB+/DMB-A in a digital pocket radio, in May. It has been successfully field-tested in the United Kingdom, Sweden and France as well as Australia with delivery to renowned retailers in the United Kingdom and Australia already underway. The Group has plans to actively market this product in the second half of the year and is confident that it can become one of the Group's future growth drivers in the long run.

Designed to remove the hassle of handling multiple connecting wires in homes, offices or in automobiles, the Group has actively marketed an innovative flat flexible cable product, WireTape™, during the period under review. The Group has been actively building its distribution channels all over the world for this product and is progressing well. The Group expects to generate initial sales to several customers in Europe in 2010 and to normalise its sales in 2012.

In addition, the sales of tuner modules for hybrid digital radios ("HD Radio") amounted to HK$5,514,000, representing an increase of 53.5% compared with the corresponding period last year. Leveraging our strong business relationships, the Group has been working with manufacturers in Japan to explore more innovative applications.

Unit Electronic Components Business

For the six months ended 30 June 2010, the Group achieved outstanding results in the unit electronic components business contributed by organic growth from the existing products of coils and traditional transformers as well as a new product, planar transformer. Turnover from the unit electronic components business reached HK$150,842,000, representing an increase of 111.0% compared with HK$71,493,000 for the corresponding period last year. The Group has successfully launched and put into mass production its unique and innovative products, including the planar transformer, which have been well-received by the market. The Group is the first company in the world to put the planar transformer into mass production. Although their contribution to date is still small, the Group sees good potential for these products which are expected to be new growth drivers for the Group in the near future.

PROSPECTS

Today, there is a growing demand for electronic devices that combine high functionality with high performance but in a smaller size in nearly every consumer market. This trend poses both challenges and opportunities for the electronic components industry. The Group is meeting these challenges with innovative technologies which help successfully differentiate itself from other competitors. Looking forward, the Group intends to continue actively developing and marketing new products to serve the changing needs of the market and some of the new products recently launched have been well received by the market. Driven by these new products and in view of its strong orders on hand, the Group is confident of achieving satisfactory performance for the year of 2010.

As the development trend of the television market is towards flatter and lighter television sets, the Group's newly developed planar transformers and FM transmitters for LCD and LED televisions are expected to continue gaining in popularity and become important growth drivers of the Group in the near future, given the Group's first mover advantage. Besides, the Group will devote more efforts in marketing its recently launched products, highlighted by the printed circuit board solution for smartphone docking systems and its turnkey solution for DAB/DAB+/DMB-A digital pocket radios, to grasp the growth opportunities.

In addition, the Group has recently developed a General Radio Receiver ("GRR") in its own physical interface and protocol standards, which can receive and decode AM and FM as well as DAB/DAB+/DMB-A signals in a wide range of radio receivers including but not limited to HD Radio, Internet radio, and digital microphone. The Group has applied for patents and trademark, and plans to target this new product at home and car audio market in 2011. This unique product can stand out in the market with its broad application characteristics, thus it is expected to be well received by manufacturers and consumers.

In the automotive electronic components sector, the Group has applied for patents and trademark for its "Antuna", the integrated analog and digital tuner module with antenna for car audio systems. The Group plans to start supplying this new product in 2011, initially to Korean automobile manufacturers for the PRC and India markets, where many locations are not favourable for radio signal reception.

To strengthen the Group's research and development, manufacturing, and sales and marketing as well as overall administration to better expedite the Group's future business growth, the Group has completed acquisition of a parcel of land in Korea in July 2010 to construct a new facility. The land, which covers approximately 2,481 square metres, is located in Sanbon-dong, Gunpo-si, Gyeonggi-do, Korea. Construction of the new facility is planned to start in September 2010 and be completed in the first half of 2011. Upon completion of the new facility, the Group expects to have a new business platform where it plans to strengthen its market position including but not limited to business foundation, market competitiveness, and business goodwill in Korea market.

Apart from continuous effort in research and development and actively launching new products, the Group intends to continue efforts to enhance operational efficiency. The Group is implementing an Enterprise Resources Planning (ERP) system project and plans to have it in place in the second half of 2010. The ERP system is designed to improve its business processes including research and development, procurement, production, inventory control, sales, cost control, and financial management, with the benefits of enabling more effective business and management decisions and more efficient administrative and operating procedures.

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. The management communicates continually with analysts and institutional investors and provides them with up-to-date and comprehensive information regarding the Company's development. The Company practices timely dissemination of information and makes sure its website (www.kse.com.hk) contains the most current information, including annual reports, interim reports, announcements, monthly returns and press releases, and is updated in a timely manner to ensure transparency.

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 three categories:

1. Marketplace

In the interest of shareholders, the Group has 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 these 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 aid and internships to students of the universities.

2. Employee Health and Welfare

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

The Group also encourages employees to take external job related courses and sponsors such initiative 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 their 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 systems.

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 and Electronic Equipment ("RoHS") for manufacturing activities. All products manufactured by the Group are lead-free and RoHS compliant.

The Group also encourages employees to save energy and resources. To cut down on paper consumption, it encourages double-sided printing and printing when necessary only. It also relays energy saving tips to staff members through a daily learning program. During the period under review, the Company also made donations to charities to help the needy.

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 2010.

Model Code for Securities Transactions by Directors

The Company, having made specific enquiries, confirms that during the six months ended 30 June 2010, 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 2010.

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 2010.

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 mid-September.

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

Hong Kong, 28 August 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.