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)

2011 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 2011 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Six months ended 30 June 2011** *HK$'000* **(Unaudited)**	2010 *HK$'000* (Unaudited)
Turnover	*3*	**268,105**	350,751
Cost of sales		**(253,875)**	(302,965)
Gross profit		**14,230**	47,786
Other income		**5,152**	3,465
Fair value change on derivative financial liabilities		**305**	246
Selling and distribution expenses		**(10,603)**	(10,019)
Administrative expenses		**(13,592)**	(11,348)
Research and development expenses		**(16,227)**	(18,507)
Other operating expenses		**(5,997)**	(4,424)
Finance costs		**(305)**	(60)
(Loss) profit before taxation	*4*	**(27,037)**	7,139
Taxation	*5*	**(983)**	(3,349)
(Loss) profit for the period		**(28,020)**	3,790
(Loss) profit for the period attributable to:			
Owners of the Company		**(27,926)**	4,025
Non-controlling interests		**(94)**	(235)
		(28,020)	3,790
(Loss) earnings per share	*7*	***HK cents***	*HK cents*
– Basic and diluted		**(8.62)**	1.24

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) profit for the period	**(28,020)**	3,790
Exchange differences arising on translation of foreign operations	**6,906**	1,553
Surplus on revaluation of land and building held for own use	**3,868**	–
Deferred tax	**(638)**	–
	3,230	–
	10,136	1,553
Total comprehensive (expense) income for the period	**(17,884)**	5,343
Total comprehensive (expense) income for the period attributable to:		
Owners of the Company	**(17,986)**	5,578
Non-controlling interests	**102**	(235)
	(17,884)	5,343

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At **30 June 2011** ***HK$'000*** **(Unaudited)**	At 31 December 2010 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*8*	**169,770**	134,364
Investment property	*9*	**6,000**	5,100
Goodwill		**5,857**	5,857
Club memberships		**600**	600
Intangible assets		**17,399**	17,623
Investments in equity securities	*10*	**–**	–
Deposits for acquisition of property, plant and equipment		**69**	164
		199,695	163,708
Current assets			
Inventories		**85,399**	82,673
Trade and other receivables	*11*	**165,763**	140,070
Amounts due from shareholders		**9,946**	9,946
Cash and cash equivalents		**94,706**	133,505
		355,814	366,194
Current liabilities			
Trade and other payables	*12*	**98,205**	84,456
Tax payables		**43,390**	43,286
Bank borrowings – due within one year	*13*	**43,149**	13,844
Derivative financial liabilities	*14*	**6,147**	–
		190,891	141,586
Net current assets		**164,923**	224,608
Total assets less current liabilities		**364,618**	388,316
Capital and reserves	*15*		
Share capital		**32,390**	32,390
Reserves		**320,986**	338,972
Equity attributable to owners of the Company		**353,376**	371,362
Non-controlling interests		**2,724**	2,622
Total equity		**356,100**	373,984
Non-current liabilities			
Derivative financial liabilities		**–**	6,452
Deferred tax liabilities		**8,518**	7,880
		8,518	14,332
		364,618	388,316

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

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

The accounting policies and methods of computation used in these interim financial results for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new or revised HKFRSs") issued by the HKICPA:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 1 (Amendment)	Disclosures for First-time Adopters Limited Exemption from Comparative HKFRS 7
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendment)	Classification of Rights Issues
HK (IFRIC) – INT 14 (Amendment)	Prepayments of a Minimum Funding Requirement
HK (IFRIC) – INT 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these interim financial results and/or disclosures set out in these interim financial results.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the six months ended 30 June 2011 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]

[1] Effective for annual periods beginning on or after 1 January 2013.

The five new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of the five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 might result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated.

Other than disclosed above, the directors of the Company anticipate that the application of the new or revised standards will have no material impact on the results and the financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

	Turnover		**Segment (loss) profit**	
	Six months ended 30 June		**Six months ended 30 June**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Composite components	**131,426**	199,909	**(16,082)**	1,606
Unit electronic components	**136,679**	150,842	**(16,412)**	1,822
Total	**268,105**	350,751	**(32,494)**	3,428
Segment (loss) profit			**(32,494)**	3,428
Unallocated other income			**5,152**	3,465
Fair value change on derivative financial liabilities			**305**	246
(Loss) profit before taxation			**(27,037)**	7,139

The entire segment turnover reported above is from external customers.

Segment (loss) profit represents (loss) profit incurred/earned by each segment without allocation of other income. 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 2011 HK$'000 (Unaudited)	At 31 December 2010 HK$'000 (Audited)
Composite components	**204,962**	178,618
Unit electronic components	**197,156**	145,047
Unallocated assets	**153,391**	206,237
Consolidated total assets	**555,509**	529,902

All assets are allocated to reportable segments other than investment property, cash and cash equivalents, part of other receivables, amounts due from shareholders and deposits for acquisition of property, plant and equipment. Assets used jointly by reportable segments allocated on the basis of the production capacity.

4. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss) profit before taxation is arrived at after charging (crediting):		
Auditors' remuneration	**310**	323
Allowance for inventories (included in cost of sales)	**9,124**	1,303
Amortisation of intangible assets (included in research and development expenses)	**584**	574
Written off of club membership	**–**	73
Cost of inventories recognised as an expense *	**253,875**	302,965
Depreciation of property, plant and equipment	**6,838**	8,799
Minimum lease payments under operating leases in respect of rented properties	**2,545**	2,399
Impairment loss on trade receivables (included in other operating expenses)	**–**	1,708
Increase in fair value of investment property	**(900)**	(840)
Gain on disposal of property, plant and equipment	**(3,040)**	(841)
Interest income	**(126)**	(558)
Net rental income	**(156)**	(156)
Reversal of impairment loss on trade receivables (included in other income)	**(322)**	(154)
Net foreign exchange loss (gain)	**837**	(754)

* Cost of inventories recognised as an expense includes amount of approximately HK$4,207,000 (2010: HK$5,115,000) 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	
	2011	2010
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax		
Provision for the period	**–**	1,738
PRC Corporate Income Tax		
Provision for the period	**308**	1,209
Under-provision in prior years	**20**	58
	328	1,267
Korean Corporate Income Tax		
Under-provision in prior years	**655**	–
	983	3,005
Deferred tax		
Charged for the period	**–**	344
	983	3,349

(i) Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2011 and 2010. No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2011 as the Group does not have any assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2011.

Pursuant to Shen Guo Shui Fa 2008 notice 145, Shenzhen Kwang Sung Electronics Co., Ltd. ("Shenzhen Kwang Sung") is subject to the People's Republic of China (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%.

Provision for the PRC Corporate Income Tax for Shenzhen Kwang Sung and Kwang Sung Electronics Trading (Shenzhen) Co., Ltd. is calculated at 24% (2010: 22%) and 25% (2010: 25%) of estimated assessable profits for the periods, respectively.

The basic Korean Corporate Income Tax rates for year starting on or after 1 January 2010 are 10% on the first KRW200,000,000 of the tax base and 22% for the excess. The tax rates are 10% and 22% for 2011. In addition to the tax rate, there is a resident surcharge of 10% on the income tax liability. No provision for taxation has been made for the six months ended 30 June 2011 and 2010 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 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 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.

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 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 2010.

In March 2011, the HKIRD issued another demand note for additional tax payable for the year of assessment 2004/05 amounted to approximately HK$4,306,000 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$4,306,000 as demanded by the HKIRD in 2011.

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, however, a sum of tax expense of approximately HK$9,946,000 should be borne by two shareholders.

6. DIVIDENDS

No dividends were paid, declared or proposed during the reporting period (six months ended 30 June 2010: nil). The directors do not recommend the payment of an interim dividend.

7. (LOSS) EARNINGS PER SHARE

(i) The calculation of basic (loss) earnings per share is based on the (loss) profit for the period attributable to owners of the Company of approximately HK$27,926,000 (six months ended 30 June 2010: profit of approximately HK$4,025,000) and the weighted average number of ordinary shares of 323,897,000 (six months ended 30 June 2010: 323,897,000) in issue during the six months ended 30 June 2011.

(ii) There were no dilutive potential ordinary shares during the six months ended 30 June 2011 and 2010, therefore, diluted earnings per share is the same as the basic earnings per share.

8. PROPERTY, PLANT AND EQUIPMENT

The Group's land and buildings held for own use were revalued as at 30 June 2011 and 31 December 2010 at their open market value by reference to recent market evidence of transaction prices for similar properties in the same locations and conditions. The valuations were carried out by Vigers Appraisal & Consulting Limited, an independent firm of professional surveyors who had among their staff members of the Hong Kong Institute of Surveyors. A revaluation surplus of approximately HK$3,868,000 (2010: nil) was transferred to the properties revaluation reserve, net of deferred tax of approximately HK$638,000 (2010: nil) which was included in the consolidated income statement for the six months ended 30 June 2011.

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment with a cost of approximately HK$32,609,000 (six months ended 30 June 2010: HK$10,929,000). In addition, the Group disposed of certain fully depreciated property, plant and equipment with cash proceeds of approximately HK$3,040,000 (six months ended 30 June 2010: zero carrying value and cash proceeds of HK$841,000), resulting in a gain on disposal of approximately HK$3,040,000 (six months ended 30 June 2010: HK$841,000).

9. INVESTMENT PROPERTY

The Group's investment property was revaluated as at 30 June 2011 and 31 December 2010 at its open market value. The valuations as at 30 June 2011 and 31 December 2010 were carried out by Vigers Appraisal & Consulting Limited, which is independent professional surveyors not connected with the Group and had among staff members of the Hong Kong Institute of Surveyors. The valuations were arrived at by reference to the market evidence of transaction price for similar properties in the same locations and conditions. The resulting increase in fair value of approximately HK$900,000 (2010: HK$840,000) has been recognised in profit or loss for the six months ended 30 June 2011.

10. INVESTMENTS IN EQUITY SECURITIES

Investments in equity securities represent equity securities in an unlisted corporate entity with a cost of HK$1,500,000 (31 December 2010: HK$1,500,000), against which a full provision for impairment loss has been made in prior years.

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2011 *HK$'000* **(Unaudited)**	At 31 December 2010 *HK$'000* (Audited)
Trade and bills receivables (net of allowance for doubtful debts)	**118,151**	105,870
Short term loans to key management personnel and employees	**82**	128
Proceeds receivable from disposal of equity securities	**722**	688
Tax reserve certificates *(note 5(ii))*	**23,382**	19,075
Deposits, prepayments and other receivables	**23,426**	14,309
	165,763	140,070

The Group allows an average credit period of 30-90 days to its trade customers. The aged analysis of the Group's trade and bills receivables, presented based on the invoice date, net of allowance for doubtful debts, is a follows:

	At 30 June 2011 *HK$'000* **(Unaudited)**	At 31 December 2010 *HK$'000* (Audited)
0-90 days	**108,344**	95,591
91-180 days	**9,398**	10,279
181-365 days	**409**	–
	118,151	105,870

12. TRADE AND OTHER PAYABLES

	At 30 June 2011 *HK$'000* **(Unaudited)**	At 31 December 2010 *HK$'000* (Audited)
Trade payables	**74,959**	65,825
Accrued expenses and other payables	**23,246**	18,631
	98,205	84,456

The following is an analysis of trade payables by age, presented based on the invoice date:

	At 30 June 2011 *HK$'000* **(Unaudited)**	At 31 December 2010 *HK$'000* (Audited)
0-90 days	**73,130**	64,938
91-180 days	**1,077**	767
181-365 days	**631**	120
over 365 days	**121**	–
	74,959	65,825

13. BANK BORROWINGS

During the six months ended 30 June 2011, the Group obtained a new bank loan of approximately HK$29,485,000 secured by the Company's land and buildings with an aggregate carrying value of approximately HK$56,075,000. The proceeds were used to finance the acquisition of property, plant and equipment.

The Group also repaid bank borrowings of approximately HK$180,000 during the six months ended 30 June 2011.

During the six months ended 30 June 2010, the Group obtained a new bank loan of approximately HK$12,811,000 secured by the Company's land and buildings with an aggregate carrying value of approximately HK$19,356,000 and an unsecured loan of approximately HK$15,569,000. The proceeds were used to finance the acquisition of property, plant and equipment.

The bank borrowings bears interest ranged from 4.19% to 5.18% per annum with maturity date within 1 year (30 June 2010: 3.02% to 5.18% per annum with maturity date ranged from 2 to 4 years).

14. 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 2011	At 31 December 2010
Dividend yield	**0%**	0%
Expected volatility	**66%**	87%
Risk-free interest rate	**0.3%**	0.8%
Expected life	**1.75 years**	2.25 years
Weighted average share price	**HK$0.540**	HK$0.630

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$305,000 was recognised during the six months ended 30 June 2011 (six months ended 30 June 2010: HK$246,000).

15. CAPITAL AND RESERVES

	Attributable to owners of the Company										
	Share capital	Share premium	Other reserve *Note (a)*	Contribution reserve *Note (b)*	Properties revaluation reserve	Statutory reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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 (expense) 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
For the six months ended 30 June 2011											
At 1 January 2011 (audited)	32,390	58,566	301	9,946	22,247	9,376	(11,237)	249,773	371,362	2,622	373,984
Total comprehensive income (expense) for the period	–	–	–	–	3,230	–	6,710	(27,926)	(17,986)	102	(17,884)
At 30 June 2011 (unaudited)	32,390	58,566	301	9,946	25,477	9,376	(4,527)	221,847	353,376	2,724	356,100

Note:

(a) Other reserve

Other reserve represents the acquisition/disposal of partial equity interests of subsidiaries with minority shareholders without changes in control.

(b) Contribution reserve

Contribution reserve represents contributions from shareholders for indemnity liabilities payable for periods prior to 30 June 2003.

INTERIM DIVIDEND

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2011, the Group continued transforming itself from a passive OEM (original equipment manufacturer)/ODM (original design manufacturer) electronic components manufacturer into a more proactive industry player by moving downstream and designing, developing and promoting new innovative products to tap high-growth opportunities and lead the market. The Group was also in the early stages of changing its product mix towards automotive electronic products with better prospect and profitability while keeping abreast of the technology revolution. As time is required to reshape its product line-up of the Group while the Group was faced with keen pricing competition for the existing products in markets, the Group recorded a turnover of HK$268,105,000, a decline of 23.6% against the corresponding period last year.

During the period under review, cost of sales decreased by 16.2% to HK$253,875,000 in the six months ended 30 June 2011 from HK$302,965,000 in the corresponding period last year. However, cost of sales as a percentage of sales rose from 86.4% in the six months ended 30 June 2010 to 94.7% in the six months ended 30 June 2011. This was mainly attributable to the increase in subcontracting fee and slow moving inventory provision.

As a result, gross profit was reduced to HK$14,230,000, a significant drop of 70.2% as compared with HK$47,786,000 in the corresponding period last year. Gross profit margin also decreased to 5.3% as compared with 13.6% in the corresponding period last year.

Other revenue climbed by 48.7% from HK$3,465,000 in the six months ended 30 June 2010 to HK$5,152,000 in the six months ended 30 June 2011. The rise was mainly attributable to an increase in gain on disposal of fixed assets of HK$2,199,000.

Total operating expenses, including selling and distribution expenses, administrative expenses, research and development expenses and other operating expenses, amounted to HK$46,419,000 in the six months ended 30 June 2011, an increase of 4.8% against HK$44,298,000 recorded in the same period last year. The increase was mainly attributable to the increase in operating expenses in Korea. When counted as a percentage of the turnover, the total operating expenses were 17.3%, a rise of 4.7% compared with the corresponding period in 2010.

Finance costs for bank borrowings was HK$305,000 as compared to HK$60,000 recorded in the same period last year. The increase was due to increase in bank borrowings to finance capital expenditure for construction of the Group's new facilities in Korea.

In 2008, the HKIRD enquired the Company about the basis of its 50:50 offshore 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 with the HKIRD, made provision of HK$35,996,000 for the previously 50:50 offshore claims and deduction of lease rentals in 2009. As at 30 June 2011, the Company purchased tax reserve certificates of HK$23,382,000 as demanded by the HKIRD.

During the period under review, the Company received a letter from the HKIRD that the HKIRD has not agreed to the objection lodged by the Company on its 50:50 offshore claims in respect of its manufacturing profits derived under the processing arrangement with Shenzhen Kwang Sung and the deductibility of lease rentals. A settlement proposal has been made by the HKIRD on the additional profits tax assessment for the years of assessment 2001/02 to 2005/06. In July 2011, the Company prepared and submitted a counter settlement proposal to the HKIRD in order to conclude this tax dispute. As up to the date of these interim financial results, the Company's taxation affairs for the years of assessment 2001/02 to 2010/11 have not been finalised.

There was no provision for Hong Kong Profits Tax for the period under review. Moreover, the PRC Corporate Income Tax also decreased by 74.1% from HK$1,267,000 in 2010 to HK$328,000 in 2011. After considered Korean Corporate Income Tax of HK$655,000, overall tax expenses significantly decreased by 70.6% to HK$983,000, as compared with HK$3,349,000 in the corresponding period last year.

Taking into account the aforementioned factors, the Group reported a loss after taxation attributable to owners of the Company of HK$27,926,000 for the six months ended 30 June 2011 as compared to a profit after taxation attributable to owners of the Company of HK$4,025,000 in the six months ended 30 June 2010.

Liquidity, Financial Resources and Capital Structure

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

As at 30 June 2011, the Group's bank balances and cash was HK$94,706,000. As at 30 June 2011, the Group had aggregate banking facilities of HK$148,876,000 for overdrafts, loans and trade financing, etc. After considered bank borrowings of HK$43,149,000 as at 30 June 2011, the Group's unused banking facilities as at the same date amounted to HK$105,727,000.

Current ratio, being the ratio of current assets to current liabilities, declined from 2.59 as at 31 December 2010 to 1.86 as at 30 June 2011, while gearing ratio, in terms of total liabilities to total assets, climbed from 0.29 as at 31 December 2010 to 0.36 as at 30 June 2011. The decrease in current ratio and the increase in gearing ratio were mainly due to higher bank borrowings to finance capital expenditure in respect of the construction of the Group's new facilities in Korea.

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") and Japanese Yen ("JPY") and operating expenses paid in Korean Won ("KRW") by its Korean operation.

As the Hong Kong Dollars ("HKD") is pegged to the USD and the PRC's Renminbi ("RMB") is being adjusted within the daily fluctuation range under 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

In 2010, the Group acquired a parcel of land in Korea at a consideration of HK$52,120,000 and started the construction of new facilities in December 2010. It is planned to construct a complex building for the Group's research and development, manufacturing, and sales and marketing as well as administrative offices. Up to the end of June 2011, the Group has invested HK$34,559,000 in construction of the complex building, which is expected to be completed by the end of 2011.

In addition, the Group is also establishing a new manufacturing plant in Baoying Anyi New and High Technology Industrial Zone in Jiangsu Province, the PRC. The plant will produce electronic components for automotive, communications, and household electronic products upon its completion by the end of 2012.

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 2011, the Group's certain assets with an aggregate carrying value of HK$85,090,000 were pledged to secure banking facilities of the Group.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2011.

Capital Commitments

As at 30 June 2011, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$18,902,000.

Employees and Remuneration Policy

As at 30 June 2011, the Group had about 1,024 employees, including 32 based in Hong Kong, 905 in the PRC, and 87 in Korea.

For the six months ended 30 June 2011, staff costs increased by 1.3% from HK$42,601,000 in the corresponding period of last year to HK$43,160,000.

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 reference 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 2011, the composite components business representing 49.0% of the total turnover of the Group compared with 57.0% in the corresponding period in 2010. The decline was due to the fast-changing market trend, which dampened the demand for traditional home audio tuner modules and aggravated price competition in the market. In the meantime, the transformation of the Group's product mix with innovative solutions for emerging high-growth applications recently launched and planned to be launched has been delayed for further enhancement and refinement of new products with customers. Turnover from the segment amounted to HK$131,426,000, a significant drop of 34.3% as compared with HK$199,909,000 in the corresponding period last year.

During the period under review, turnover from tuner modules for home audio systems declined by 19.3% to HK$57,953,000 (six months ended 30 June 2010: HK$71,828,000), representing 44.1% of the total turnover from the composite components business. Sales of tuner modules for car audios decreased by 28.4% to HK$35,052,000 (six months ended 30 June 2010: HK$48,936,000), accounting for 26.7% of the total turnover from the composite components business.

The sales of tuner modules for digital multimedia broadcasting ("DMB") and digital audio broadcasting ("DAB") of the Group declined by 64.6% to HK$1,542,000 compared with the corresponding period last year. The decrease in sales was primarily due to the rising production cost and keen competition in the traditional DAB and DMB product market. To cope with these challenges, the Group has recently redirected its initiatives with customers for automotive electronic products such as DAB and Dead Reckoning GPS ("DR GPS") as it is the general trend that automotive manufacturers are beginning to adopt DAB and DR GPS in AVN (Audio, Video and Navigation) systems in motor vehicles. The Group is confident that its leadership in automotive oriented digital products can become one of its growth drivers in the Group's automotive electronics and digital multimedia products in the near future.

To keep abreast of the market trends of multi-functionality and interconnectivity with different consumer electronic products and the market demand trend for various turnkey solutions, the Group has endeavored to redeploy its resources in research and development and work closely with potential customers to create and commercialise new products derived from the General Radio Receiver ("GRR™") Interface Protocol of the Group.

During the period under review, in-line with the Group's new focus on and change of direction to the products with multi-functionality and interconnectivity such as those based on the GRR™ Interface Protocol, sales of the Group's wireless solutions of FM transmitters and digital wireless audios have declined by 60.9% to HK$20,663,000 (six months ended 30 June 2010: HK$52,864,000).

Besides, during the period under review the Group was actively promoting Wiretape™, a flat flexible cable product designed to remove the hassle of handling multiple connecting wires in homes, offices or automobiles, with trial marketing to several retail customers in Europe already started. As there are hurdles presented by the Group to obtain power and HDMI certification for broader application of Wiretape™, the contribution from Wiretape™ was still insignificant during the period under review. However, the Group is confident that this product has great growth potential due to its broad application.

Unit Electronic Components Business

For the six months ended 30 June 2011, turnover from the unit electronic components business reached HK$136,679,000, a drop of 9.4% compared with HK$150,842,000 in the corresponding period last year. Although there were rising sales of the Group's existing products of coils and traditional transformers, suspension of orders for planar transformers resulted in the drop of sales from the unit electronic components business during the period under review. However, riding on the irreversible trend of the television market towards flatter and lighter television sets, the Group is continuing its efforts to market the planar transformers for LCD and LED televisions to renowned television manufacturers and is confident of these products in the mid-to-long term due to their superb product performance.

On the other hand, the sales of ceramic components amounted to HK$23,094,000, representing an increase of 43.0% primarily due to increase in sales of antenna modules for motor vehicles during the period under review.

Operational Efficiency

The Group has adopted a new Enterprise Resources Planning ("ERP") system which was installed in the second half of 2010. The Group is striving to enhance its business processes including research and development, procurement, production, inventory control, sales, cost control, and financial management. This implementation facilitates the Group's efforts to achieve effective business and management decisions and greater operational efficiency.

PROSPECTS

Looking ahead, the Group expects that the keen competition and economic slump will continue to pose challenges to the consumer electronics products industry and put pressure on the Group's business. However, as there is a growing demand for multi-function electronic devices in every consumer and automotive market segment, the Company will continue to market its new products to tap the business opportunities presented by this trend.

The Group is striving to promote its GRR™ Interface Protocol technology to major store retailers and international manufacturers, targeting to launch it in 2012, either on an OEM basis or by providing end-products. GRR™ is a unique radio frequency physical interface protocol, which can accommodate all kinds of broadcasting and wireless connectivity such as HD Radio, DAB, AM/FM, digital wireless microphone, digital wireless audio, Bluetooth, and Wi-Fi.

Apart from continuing its efforts to market the planar transformers for LCD and LED televisions to renowned television manufacturers to cater for the television market trend towards flatter and lighter television sets, the Group has also developed the production technology for a new product, high efficiency heat sink substrate for LED illumination and back light units ("BLU") based on its dielectric ceramic technology. This new product enhances heat sink rate for currently available LED products such as light bulbs and LED BLU to sustain longer product life at lower product costs. The Group has already developed the prototype of this new product and is promoting it to LED illumination and BLU manufacturing companies. It is expected to be launched by early next year, which will provide an additional solid revenue source to the Group in the long run.

On the other hand, the Group plans to accelerate shifting its business focus from home electronics to automotive electronics, where it sees higher potential to enhance its business profitability. Currently, tuner modules for car audios, key components for AVN systems such as DAB, antenna modules and High Pass modules for auto toll in Korea have been lined up. In addition, the Group will try to commercialise the Antuna™ (the integrated analog and digital tuner module with antenna for car audio systems), automotive emergency call ("e-call"), 3D DR GPS and planar transformers to the electronics systems for electric and hybrid vehicles which are under development, and testing with customers.

To strengthen the Group's competitiveness and consolidate its market position in Korea, the Group started the construction of new facilities in December 2010 and expects to begin commercial production in the first quarter of 2012. A new manufacturing plant in Baoying Anyi New and High Technology Industrial Zone in Jiangsu Province, the PRC, is also under preparation. Phase 1 of the plant is to commence operation around October 2011 at temporary facilities provided free of charge by the local government until the Group completes its own production facilities at the end of 2012. The new plant will facilitate the Group's expansion in the Mainland China market.

The management is dedicated to maintaining the Group's competitiveness in the electronic components industry by focusing on research and development of new products responsive to market needs, enhancing its economies of scale, adopting effective cost control measures and downsizing of some operations at times when necessary. With continuing management focus on strengthening its competitive edge in market, the Group will strive to turn around its business to deliver satisfactory returns to the shareholders in the long run.

INVESTOR RELATIONS

The Group values its relationship with investors, and, guided by its management philosophy, is committed to maintaining transparency of operational performance and strategic development plans. The management communicates continually with analysts and institutional investors and provides them with up-to-date comprehensive information regarding the Group'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 maintain transparency.

CORPORATE SOCIAL RESPONSIBILITY

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

1. Marketplace

In the interest of shareholders, we have worked adhering to the business objectives of contributing to the sustainable development of the electronics industry and improving consumer electronics to heighten product efficiency and deliver the best end-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 ISO/TS 16949:2002 on design and manufacture of its car tuners and ISO 9001:2000 on production and servicing of electronic products. These products would include 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. The Group also frequently received customers' performance certificates that signified recognition of the Group's efforts and appreciation of product quality.

The Company recognises the need and the cross-fertilisation benefits of cooperation between industry and academia. It hopes to ride on the resources of universities and selected graduate schools to customise training courses and programmes that can help develop the business and professional competence of its people for competing globally. In return, the Company provides consultancy services, financial aid and internships to university students.

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 talent, 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 part of the orientation procedure, all new employees are required to go through programmes on topics including internal control and information protection, ISO and quality management systems.

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 legislation.

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 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. In a further commitment to society during the period under review, the Company has also made donations to charities to help the needy.

OTHER INFORMATION

Code on Corporate Governance Practices

The Company is committed to achieve a high standard of practices of corporate governance so as to ensure the protection of shareholders' interests with better transparency. The Company has complied with the code provisions as set out in the Appendix 14, Code on Corporate Governance Practices, of the Listing Rules throughout the six months ended 30 June 2011.

Model Code for Securities Transactions by Directors

The Company has adopted Appendix 10, Model Code for Securities Transactions by Directors of Listed Issuers, of the Listing Rules (the "Model Code") as the code of practice for carrying out securities transactions by the directors of the Company. The Company, having made specific enquiries to all directors of the Company, confirmed that throughout the six months ended 30 June 2011, all directors have complied with the code provision as set out in the Model Code. 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

There was no purchase, sale or redemption of the Company's listed securities by the Company nor any of its subsidiaries during the six months ended 30 June 2011.

Review of Accounts

The Audit Committee of the Company has reviewed and discussed with the management and the external auditors of the Company: (i) the accounting principles and practices adopted by the Group; (ii) financial reporting process; (iii) internal control matters of the Group; and (iv) the unaudited interim financial results for the six months ended 30 June 2011. The Audit Committee consists of a non-executive director and three independent non-executive directors who have appropriate professional qualifications and experience in financial matters.

Publication of the Interim Results Announcement and Interim Report

The interim results announcement has been published on the websites of the Company at www.kse.com.hk and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The relevant interim report will be despatched to the shareholders of the Company and made available on the above websites in the middle of September 2011.

By Order of the Board
Kwang Sung Electronics H.K. Co. Limited
Yang Jai Sung
Executive Director

Hong Kong, 26 August 2011

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.