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 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Kwang Sung Electronics H.K. Co. Limited (the "Company") announced the consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	**2011** ***HK$'000***	2010 *HK$'000*
Turnover	*4*	**557,551**	680,481
Cost of sales		**(536,487)**	(587,618)
Gross profit		**21,064**	92,863
Other income and gains	*5*	**8,982**	8,552
Selling and distribution expenses		**(17,668)**	(21,308)
Administrative expenses		**(19,845)**	(19,644)
Research and development expenses		**(34,828)**	(35,658)
Other operating expenses		**(15,094)**	(10,398)
Finance costs		**–**	(389)
(Loss) profit before taxation		**(57,389)**	14,018
Taxation	*6*	**7,311**	(6,325)
(Loss) profit for the year	*7*	**(50,078)**	7,693
(Loss) profit for the year attributable to:			
Owners of the Company		**(49,714)**	8,087
Non-controlling interests		**(364)**	(394)
		(50,078)	7,693
(Loss) earnings per share	*9*	***HK cents***	*HK cents*
Basic and diluted		**(15.35)**	2.50

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	HK$'000	*HK$'000*
(Loss) profit for the year	**(50,078)**	7,693
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	**3,916**	7,851
Surplus on revaluation of land and buildings held for own use	**1,779**	6,470
Deferred tax	**(884)**	(2,609)
Surplus on revaluation of land and buildings held for own use, net of deferred tax	**895**	3,861
Other comprehensive income for the year, net of tax	**4,811**	11,712
Total comprehensive (expense) income for the year	**(45,267)**	19,405
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	**(44,903)**	19,799
Non-controlling interests	**(364)**	(394)
	(45,267)	19,405

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**173,250**	134,364
Investment properties		**29,930**	5,100
Goodwill	*10*	**–**	5,857
Club memberships		**600**	600
Intangible assets	*11*	**16,327**	17,623
Investments in equity securities	*12*	**–**	–
Deposits for purchase of property, plant and equipment		**6**	164
		220,113	163,708
Current assets			
Inventories		**64,009**	82,673
Trade and other receivables	*13*	**150,239**	140,070
Amounts due from shareholders		**8,478**	9,946
Cash and cash equivalents		**110,182**	133,505
		332,908	366,194
Current liabilities			
Trade and other payables	*14*	**102,499**	84,456
Tax payables		**34,134**	43,286
Derivative financial liabilities	*16*	**5,908**	–
Bank borrowing – due within one year		**73,962**	13,844
		216,503	141,586
Net current assets		**116,405**	224,608
Total assets less current liabilities		**336,518**	388,316
Capital and reserves	*15*		
Share capital		**32,390**	32,390
Reserves		**292,601**	338,972
Equity attributable to owners of the Company		**324,991**	371,362
Non-controlling interests		**2,258**	2,622
Total equity		**327,249**	373,984
Non-current liabilities			
Derivative financial liabilities	*16*	**–**	6,452
Deferred tax liabilities		**9,269**	7,880
		9,269	14,332
		336,518	388,316

Notes:

1. BASIS OF PREPARATION

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
Amendment to HKFRS1	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Hong Kong Accounting Standards ("HKAS") 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to International Financial Reporting Interpretation Committee ("IFRIC") HK(IFRIC)-Interpretation ("Int") 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in the financial statements.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRS 1	Severe Hyperinflations and Removal of Fixed Dates for First-time Adopters[1]
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangement[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

– HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

– The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company are in the process of assessing the impact from the application of new standard on the results and the consolidated financial position of the Company.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these fives standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. 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) the ability to use its power over the invests to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC) – Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joints arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. In general, the disclosure requirements in HKRFS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 may result in the Group no longer consolidating some of its investees, and consolidating investees that were not previously consolidated (e.g. the Group's investment in associates may become the Group's subsidiaries based on the new definition of control and the related guidance in HKFRS 10). However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

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

3. SEGMENT INFORMATION

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

Segment turnover and results

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

	Composite components		Unit electronic components		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	**296,271**	391,814	**261,280**	288,667	**557,551**	680,481
Segment (loss) profit	**(33,364)**	7,327	**(29,406)**	4,183	**(62,770)**	11,510
Unallocated operating income						
– Increase in fair value of investment properties					**2,586**	1,000
– Others					**2,795**	1,897
– Finance costs					**–**	(389)
(Loss) profit before taxation					**(57,389)**	14,018

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of part of other income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

	Composite components		Unit electronic components		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**178,556**	178,618	**188,974**	145,047	**367,530**	323,665
Unallocated assets						
– Bank balances and cash					**110,182**	133,505
– Others					**75,309**	72,732
Consolidated assets					**553,021**	529,902
Segment liabilities	**42,871**	43,793	**53,290**	39,530	**96,161**	83,323
Unallocated liabilities						
– Bank borrowing					**73,962**	13,844
– Others					**55,649**	58,751
Consolidated liabilities					**225,772**	155,918

For the purposes of monitoring segment performances and allocating resources between segments:

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

- all liabilities are allocated to reportable segments other than part of other payables, derivative financial liabilities, bank borrowing and current and deferred tax liabilities.

Other segment information

Amount included in the measure of segment profit or loss or segment assets:

	Composite components		**Unit electronic components**		**Unallocated**		**Consolidated**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Additions to non-current assets	**39,492**	38,560	**34,827**	28,384	**–**	–	**74,319**	66,944
Depreciation and amortisation	**8,316**	12,448	**6,304**	5,422	**–**	–	**14,620**	17,870
Gain on disposal of property, plant and equipment	**(3,087)**	(1,707)	**–**	–	**(53)**	–	**(3,140)**	(1,707)
Impairment loss recognised on trade and other receivables	**18**	2,118	**138**	654	**–**	–	**156**	2,772
Reversal of impairment loss recognised on trade and other receivables	**(215)**	(118)	**(598)**	(42)	**(40)**	–	**(853)**	(160)
Allowance for (reversal of allowance for) inventories	**1,623**	(1,834)	**6,312**	2,013	**13,186**	–	**21,121**	179
Decrease in fair value of derivative financial liabilities	**(544)**	(939)	**–**	–	**–**	–	**(544)**	(939)

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

Geographical information

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

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

	Turnover		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC (other than Hong Kong)	**267,218**	330,562	**57,065**	76,775
Hong Kong	**113,480**	152,039	**8,194**	7,566
Korea	**110,017**	141,510	**154,854**	79,367
Others	**66,836**	56,370	**–**	–
	557,551	680,481	**220,113**	163,708

Information about major customers

For the year ended 31 December 2010, the Group's customer base included one customer (2011: Nil) with whom transactions have exceeded 10% of the Group's turnover. Turnover from this customer amounted to approximately HK$72 million from composite components and unit electronic components.

4. TURNOVER

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

5. OTHER INCOME AND GAINS

	2011	2010
	HK$'000	*HK$'000*
Interest income from bank deposits	**526**	637
Interest income from proceeds receivables from disposal of equity securities	**–**	81
Rental income (Net of outgoings HK$46,000 (2010: HK$42,000))	**645**	312
Gain on disposal of property, plant and equipment	**3,140**	1,707
Scrap sales	**5**	169
Value added tax refund *(Note)*	**–**	2,748
Decrease in fair value of derivative financial liabilities	**544**	939
Increase in fair value of investment properties	**2,586**	1,000
Others	**1,536**	959
	8,982	8,552

Note: A tax concession was granted by the PRC tax authority to one of the Company's PRC subsidiaries which is engaged in the export sales of electronic products. Under this concession, the PRC subsidiary is entitled to a refund of value added tax paid in excess of the rate stipulated in tax concession. The amount of value added tax refund is recognised as other income on an accrual basis.

6. TAXATION

	2011	2010
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Provision for the year	**–**	3,674
Over-provision in prior years	**(9,652)**	–
	(9,652)	3,674
PRC Corporate Income Tax		
Provision for the year	**1,009**	1,708
Under-provision in prior years	**172**	58
	1,181	1,766
Korean Corporate Income Tax		
Under-provision in prior years	**655**	–
	(7,816)	5,440
Deferred tax		
Charged for the year	**505**	885
	(7,311)	6,325

Notes:

(a) No Hong Kong Profits Tax has been provided for in the financial statements as the Group has no assessable profits for the year ended 31 December 2011. For the year ended 31 December 2010, Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits for that year.

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

The Korea Branch and a subsidiary operated in Korea are subject to Korean Corporate Income Tax. The basic Korean Corporate Tax rates for the year are 10% on the first KRW200,000,000 of the tax base and 22% for the excess. In addition to the basic tax rate, there is a resident surcharge of 10% on the income tax liability. No provision for taxation has been made for the year ended 31 December 2011 as the Korea branch and the subsidiary had no assessable profits for the year.

(b) 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$6,423,000 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$6,423,000 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$4,305,000 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$4,305,000 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. In February 2012, HKIRD and the Company has reached a compromise settlement in relation to the Company's taxation affairs for the years of assessment 2001/02 to 2007/08 (the "Period"). Based on revised notices of assessment and letters received from HKIRD, net Profits Tax payable for the Period has been revised to approximately HK$24,239,000. As the Company has made provision for Hong Kong Profits Tax of approximately HK$33,891,000 for the Period, the excessive tax provision of approximately HK$9,652,000 made in previous years has been reversed in the consolidated income statement for the year ended 31 December 2011.

Pursuant to a Deed of Indemnity dated 23 June 2003, two shareholders, Mr. Yang Jai Sung and Kwang Sung Electronics Co., Ltd. would indemnify the Group for any tax liabilities for period prior to 30 June 2003. Out of the above tax liabilities of approximately HK$24,239,000, a sum of tax expenses of approximately HK$8,479,000 (2010: HK$9,946,000) should be therefore borne by the two shareholders. During the year, the difference of HK$1,468,000 was charged to the contribution reserve in the consolidated statement of changes in equity.

The taxation for the years can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	2011	2010
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(57,389)**	14,018
Notional tax on (loss) profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**(7,614)**	2,629
Tax effect of non-deductible expenses for tax purpose	**4,477**	2,767
Tax effect of non-taxable income for tax purpose	**(141)**	(828)
Tax effect of unused tax loss and other temporary differences not recognised for deferred tax purposes	**4,792**	1,699
(Over) under-provision in prior years	**(8,825)**	58
Taxation for the year	**(7,311)**	6,325

Note: According to Hong Kong Inland Revenue Ordinance S.16(1)g, the sum expensed for the registration of patents used in the trade, profession or business which produces profits are allowed to be deducted from the Hong Kong Profits Tax.

7. (LOSS) PROFIT FOR THE YEAR

	2011	2010
	HK$'000	*HK$'000*
(Loss) profit for the year is arrived at after charging (crediting):		
Auditors' remuneration	**650**	475
Minimum lease payments under operating leases		
– hire of properties	**5,203**	4,093
Staff costs (including directors' remunerations)		
– salaries, wage, allowance and other benefits in kind	**84,352**	83,965
– retirement scheme contributions	**5,262**	1,871
	89,614	85,836
Cost of inventories recognised as an expense	**460,591**	587,618
Written down of club memberships	**–**	73
Amortisation of intangible assets	**1,168**	1,145
Impairment loss recognised on trade and other receivables (included in other operating expenses)	**156**	2,772
Reversal of impairment loss recognised on trade and other receivables (included in administrative expenses)	**(853)**	(160)
Impairment loss recognised on goodwill (included in other operating expenses)	**5,857**	–
Net foreign exchange losses (gains)	**729**	(247)
Allowance for inventories (included in cost of sales)	**21,121**	2,013
Reversal of allowance for inventories	**–**	(1,834)
Depreciation	**13,452**	16,791
Less: amount recorded under government grant	**(69)**	(66)
Amount charged to the consolidated income statement	**13,383**	16,725

Cost of inventories includes approximately HK$54,775,000 (2010: HK$55,640,000) relating to staff costs, depreciation and minimum lease payments in respect of rented premises, of which amounts are also included in the respective total amounts disclosed separately above.

Minimum lease payments include an amount of approximately HK$642,000 (2010: HK$675,000) for staff quarters which is also included and disclosed in staff costs.

8. DIVIDENDS

No dividend was paid or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

9. (LOSS) EARNINGS PER SHARE

(a) Basic (loss) earnings per share

The calculation of basic (loss) earnings per share is based on the loss for the year attributable to owners of the Company of approximately HK$49,714,000 (2010: profit for the year of approximately HK$8,087,000) and the weighted average number of ordinary shares of 323,897,000 (2010: 323,897,000) in issue during the year.

(b) Diluted (loss) earnings per share

Diluted (loss) earnings per share are the same as basic (loss) earnings per share for the year ended 31 December 2011 and 2010 because the Company had no outstanding dilutive potential shares during the both years.

10. GOODWILL

	HK$'000
COST	
At 31 December 2011 and 2010	5,857
IMPAIRMENT	
At 31 December 2010 and 1 January 2011	–
Impairment loss recognised	5,857
At 31 December 2011	5,857
CARRYING VALUES	
At 31 December 2011	–
At 31 December 2010	5,857

The carrying amount of goodwill as at the end of reporting periods are attributable to the Group's cash generating unit ("CGU") representing sale of products using Wiretape™ cabling technology.

The recoverable amount of the CGU is determined by reference to value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a ten-year period, and at a pre-tax discount rate of approximately 14.3% (2010: 13.4%). The cash flows beyond the ten-year period were assumed constant with zero growth rate. The average growth rate used in the cash flow projection is based on the relevant industry growth rate. Since CGU benefits from the possession of 17-year patents on its primary product registered in 2009, management of the Group believes that the average growth rate is reasonable. Other key assumptions for the value-in-use calculations relate to the estimation of each inflows/outflows including budgeted sales and gross margin, such estimation is based on the management's expectations for the market development and the directors considered appropriate.

During the year ended 31 December 2011, impairment loss on goodwill of approximately HK$5,857,000 (2010: Nil) was recognised.

11. INTANGIBLE ASSETS

	Patents	
	2011	2010
	HK$'000	*HK$'000*
Cost		
At 1 January	**19,644**	19,387
Exchange adjustments	**(166)**	257
At 31 December	**19,478**	19,644
Amortisation		
At 1 January	**2,021**	855
Exchange adjustments	**(38)**	21
Charge for the year	**1,168**	1,145
At 31 December	**3,151**	2,021
Carrying values		
At 31 December	**16,327**	17,623

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

12. INVESTMENTS IN EQUITY SECURITIES

	2011	2010
	HK$'000	*HK$'000*
Unlisted equity securities, at cost		
At 1 January	**1,500**	1,500
Less: impairment loss recognised	**(1,500)**	(1,500)
At 31 December	**–**	–

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

13. TRADE AND OTHER RECEIVABLES

	2011 *HK$'000*	2010 *HK$'000*
Trade and bills receivables	**122,339**	119,064
Less: provision for impairment loss	**(10,000)**	(13,194)
	112,339	105,870
Short-term loans to key management personnel and employees	**553**	128
Proceeds receivable from disposal of equity securities	**–**	688
Tax reserve certificates	**23,380**	19,075
Deposits, prepayments and other receivables	**13,967**	14,309
	150,239	140,070

(a) Ageing analysis

The Group allows an average credit period of 30 – 90 days to its trade customers. The Group does not hold any collateral or other credit enhancements over its trade receivables. Trade and bills receivables (net of provision for impairment loss) presented based on the invoice date with the following ageing analysis as of the end of the reporting period:

	2011 *HK$'000*	2010 *HK$'000*
0-90 days	**98,537**	95,591
91-180 days	**13,802**	10,279
	112,339	105,870

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

Included in the above ageing analysis, there are HK$345,000 (2010: HK$687,000) bills receivables aged less than 90 days as at 31 December 2011.

(b) Impairment of trade and bills receivables

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

The movement in the provision for impairment loss during the year is as follows:

	2011 *HK$'000*	2010 *HK$'000*
At 1 January	**13,194**	10,582
Impairment loss recognised	**156**	2,772
Amounts written off as uncollectible	**(2,497)**	–
Reversal of impairment loss	**(853)**	(160)
At 31 December	**10,000**	13,194

For the year ended 31 December 2011, the Group's trade and bills receivables of approximately HK$10,000,000 (2010: HK$13,194,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered.

14. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables	**76,314**	65,825
Accrued expenses and other payables	**26,185**	18,631
	102,499	84,456

An ageing analysis of the trade payables as of the end of the reporting period based on invoice date is as follows:

	2011	2010
	HK$'000	*HK$'000*
0-90 days	**65,385**	64,938
91-180 days	**9,971**	767
181-365 days	**958**	120
	76,314	65,825

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

15. CAPITAL AND RESERVE

	Attributable to owners of the Company										
	Share capital	Share premium	Other reserve	Contribution reserve	Properties revaluation reserve	Statutory reserve	Exchange reserve	Retained profits	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2010	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 year	–	–	–	–	3,861	–	7,851	8,087	19,799	(394)	19,405
Transfer	–	–	–	–	–	942	–	(942)	–	–	–
At 31 December 2010	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 year	–	–	–	–	895	–	3,916	(49,714)	(44,903)	(364)	(45,267)
Transfer	–	–	–	–	–	839	–	(839)	–	–	–
Reduction of contributions from shareholders	–	–	–	(1,468)	–	–	–	–	(1,468)	–	(1,468)
At 31 December 2011	32,390	58,566	301	8,478	23,142	10,215	(7,321)	199,220	324,991	2,258	327,249

16. DERIVATIVE FINANCIAL LIABILITIES

	2011	2010
	HK$'000	*HK$'000*
Fair value		
At 1 January	**6,452**	7,391
Fair value change credited to the consolidated income statement	**(544)**	(939)
At 31 December	**5,908**	6,452

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

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

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

The details of the Options were set out in the Agreement and the Company's announcement dated 30 March 2009.

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

	2011	2010
Dividend yield	**0%**	0%
Expected volatility	**85%**	87%
Risk-free interest rate	**0.9%**	0.8%
Expected life	**1.25 years**	2.25 years
Weighted average share price	**HK$0.600**	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 an option varies with different variables of certain subjective assumptions.

DIVIDEND

The Board of the Company did not recommend the payment of final dividend in respect of the year ended 31 December 2011 (2010: Nil). The Group's long-term dividend policy is to distribute not less than 30% of its net profit as dividend each financial year, and the Board will review this dividend policy from time to time to ensure optimum returns to shareholders.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") will be held at Conference Hall 03, 1/F, Core Building 1, Phase 1, No. 1 Science Park East Avenue, Hong Kong Science Park, Shatin, New Territories, Hong Kong on Friday, 25 May 2012 at 10:00 a.m. The Notice of AGM will be published on the websites of the Company at www.kse.com.hk and the Stock Exchange at www.hkex.com.hk, and despatched to shareholders on or before Wednesday, 25 April 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 May 2012 to Friday, 25 May 2012, both days inclusive, during which period, no transfer of shares will be registered. To be eligibility for attending and voting at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Standard Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 22 May 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

Total turnover decreased by HK$122,930,000 or 18.1%, from HK$680,481,000 in 2010 to HK$557,551,000 in 2011. This mainly reflected decrease in sales of composite components by HK$95,543,000 and unit electronic components by HK$27,387,000.

Cost of Sales

Cost of sales decreased by HK$51,131,000 or 8.7% to HK$536,487,000 (2010: HK$587,618,000). Cost of sales as a percentage of sales rose from 86.4% in 2010 to 96.2% in 2011. Cost of materials consumed remained unchanged, accounting for 66.4% of the total cost of sales in both years. The decline in cost of sales was mainly due to a drop in the Group's turnover in 2011.

Gross Profit

As a result of decrease in turnover, gross profit decreased by HK$71,799,000 or 77.3%, to HK$21,064,000 in 2011 (2010: HK$92,863,000). The drop in gross profit was primarily due to an increase in slow moving inventory provision by HK$20,942,000, increase in subcontracting fee by HK$7,723,000 and increase in direct labour by HK$4,247,000. Accordingly, overall gross profit margin also declined from 13.6% in 2010 to 3.8% in 2011.

Other Income and Gains

Other income and gains increased by HK$430,000 or 5.0% from HK$8,552,000 in 2010 to HK$8,982,000 in 2011. The rise in other income and gains was primarily due to net effect of an increase in gain on disposal of fixed assets of HK$1,433,000 and rise in fair value of investment property of HK$1,586,000 and decrease in value added tax refund of HK$2,748,000.

Selling and Distribution Expenses

Selling and distribution expenses decreased by HK$3,640,000 or 17.1%, from HK$21,308,000 in 2010 to HK$17,668,000 in 2011. The reduction in such expenses corresponded with the decline in turnover.

Administrative Expenses

Administrative expenses increased by HK$201,000 or 1.0%, from HK$19,644,000 in 2010 to HK$19,845,000 in 2011. Administrative expenses kept at about the same level as 2010.

Research and Development Expenses

Research and development expenses slightly decreased by HK$830,000 or 2.3%, from HK$35,658,000 in 2010 to HK$34,828,000 in 2011. The decline was due to the net effect of an increase in sundry research and development costs by HK$1,629,000 and decrease in salaries by HK$2,659,000.

Other Operating Expenses

Other operating expenses increased by HK$4,696,000 or 45.2% from HK$10,398,000 in 2010 to HK$15,094,000 in 2011. The increase was primarily due to the impairment loss on goodwill of HK$5,857,000, arising from acquisition of a subsidiary in prior years.

Finance Costs

No finance costs were recorded in 2011. This reflected finance costs capitalised on construction in progress for the Group's new facilities in Korea.

Taxation

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 and issued additional assessments for the prior years. Accordingly, the Company has lodged objections, made provision for Hong Kong Profits Tax of HK$33,891,000 for the previously 50:50 offshore claims and deduction of lease rentals for the Period and purchased tax reserve certificates of HK$23,380,000 as demanded by the HKIRD.

Having considered the advice from the Company's tax advisor, on 30 December 2011, the Company submitted a compromise settlement proposal (the "Proposal") regarding the Company's taxation affairs for the Period to the HKIRD, via its tax advisor, with a view of compromising on the tax assessment dispute.

With the Proposal accepted by the HKIRD, tax dispute in respect of the Period is now settled. Based on notices and letters received from the HKIRD, net Profits Tax payable for the Period has been revised to HK$24,239,000. As the Company has made provision for Hong Kong Profits Tax of HK$33,891,000 for the Period, the excessive tax provision of HK$9,652,000 made in previous years have been written back to the consolidated income statement in 2011.

Pursuant to a Deed of Indemnity dated 23 June 2003, two shareholders, Mr. Yang Jai Sung and Kwang Sung Electronics Co., Ltd. would indemnify the Group for any tax liabilities for period prior to 30 June 2003. Out of the above tax liabilities of HK$24,239,000, a sum of tax expenses of HK$8,479,000 should be therefore borne by the two shareholders.

On the other hand, the HKIRD currently issued notices of assessment and statement of loss to the Company for the years of assessment 2008/09 to 2010/11 in accordance with the Profits Tax returns submitted to the HKIRD for the respective years although the compromise settlement bases agreed under the Proposal have yet to be applied. Based on currently available information, in the opinion of the directors, the current provision for Hong Kong Profits Tax for years of assessment 2008/09 to 2010/11 is sufficient.

The PRC Corporate Income Tax decreased by HK$585,000 or 33.1% from HK$1,766,000 in 2010 to HK$1,181,000 in 2011. Taking into consideration the above reversal of provision of HK$9,652,000 in Hong Kong Profits Tax, under provision of Korean Corporate Income Tax of HK$655,000 for prior years and deferred tax charge of HK$505,000 net overall tax credit amount to HK$7,311,000 in 2011, as compared with overall tax expenses of HK$6,325,000 in 2010.

(Loss) profit for the Year

As a result of the foregoing, the Group reported a loss after taxation attributable to owners of the Company of HK$49,714,000 in 2011 compared to a profit after taxation attributable to owners of the Company of HK$8,087,000 in 2010.

Working Capital

Trade and bills receivable increased by HK$6,469,000 or 6.1% from HK$105,870,000 as at 31 December 2010 to HK$112,339,000 as at 31 December 2011. This was primarily a result of an increase in turnover from HK$66,819,000 in the last two months of 2010 to HK$96,476,000 in the last two months of 2011. Accordingly, trade and bills receivable turnover days increased from 60.7 days in 2010 to 71.4 days in 2011. Trade and bills receivables turnover days are equal to the average trade and bills receivables divided by turnover and multiplied by 365 days for the year.

Inventory balance decreased by HK$18,664,000 or 22.6% from HK$82,673,000 as at 31 December 2010 to HK$64,009,000 as at 31 December 2011. The decrease in inventory balance was mainly due to an increase in the slow moving stocks provision provided during the year. Inventory turnover days increased from 43.4 days in 2010 to 49.9 days in 2011. The calculation of inventory turnover days is based on the average inventory balances divided by cost of sales and multiplied by 365 days for the year.

Trade payable increased by HK$10,489,000 or 15.9% from HK$65,825,000 as at 31 December 2010 to HK$76,314,000 as at 31 December 2011. The increase in trade payable was primarily due to the increase in purchase of raw material from HK$77,734,000 in the last quarter of 2010 to HK$94,737,000 in the last quarter of 2011. Trade payable turnover days increased from 42.7 days in 2010 to 48.4 days in 2011. Trade payables turnover days is equal to the average trade payables divided by cost of sales and multiplied by 365 days for the year.

Liquidity, Financial Resources and Capital Structure

The Group generally finances its operation with internally generated cash and banking facilities provided by its principal bankers. The net cash position (total cash and bank balances less total bank borrowings) decreased by HK$83,441,000 or 69.7% from HK$119,661,000 as at 31 December 2010 to HK$36,220,000 as at 31 December 2011. The decrease in net cash position primarily reflected the additional bank loans drawn by the Group to meet its capital needs for construction of facilities in Korea.

Current ratio, being the ratio of current assets to current liabilities, decreased from 2.59 as at 31 December 2010 to 1.54 as at 31 December 2011. Gearing ratio, in terms of total liabilities to total assets, increased from 0.29 as at 31 December 2010 to 0.41 as at 31 December 2011. The decrease in current ratio and increase in gearing ratio were primarily due to higher bank borrowings to finance capital expenditure in respect of the Group's new facilities in Korea that are under construction. However, the Group intends to restructure existing bank borrowing from short term bank borrowing to long term bank borrowing in 2012 in order to enhance the Group's liquidity.

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 conducted using United States Dollars ("USD") and Japanese Yen ("JPY"), and operating expenses paid in Korean Won ("KRW") by its Korean operation.

As the Hong Kong Dollar ("HKD") is pegged to the USD and Renminbi ("RMB") is 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 the foreseeable future. In the instance where short-term imbalance occurs, the Group will take necessary steps to ensure that net exposure to other currencies such as JPY and KRW is maintained at an acceptable level. The Group will continue to closely monitor exchange rate trends.

Investment Activities

In 2010, the Group acquired a parcel of land in Korea at a consideration of HK$52,120,000 and commenced construction of new facilities in December 2010. The project, when completed, will facilitate the Group's research and development, manufacturing, and sales and marketing activities as well as provide administrative offices. As at 31 December 2011, the Group has invested HK$62,721,000 in construction of the building complex, which is expected to be completed by April 2012.

Aside from the aforementioned, the Group did not make any material acquisitions or dispose of any of its subsidiaries or associated companies during the year.

Charges on Assets

As at 31 December 2011, the Group's certain assets of the Group, with an aggregate carrying value of HK$57,822,000 were pledged to secure banking facilities.

Contingent Liabilities

The Group had no material contingent liabilities as at 31 December 2011. The Group is not involved in any current material legal proceedings, nor is it aware of any pending or potential material legal proceedings involving the Group.

Capital Commitments

As at 31 December 2011, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$14,619,000.

Employees and Remuneration Policy

As at 31 December 2011, the Group had 953 employees, including 28 based in Hong Kong, 840 in the PRC and 85 in Korea.

Staff costs increased by HK$3,778,000 or 4.4%, from HK$85,836,000 in 2010 to HK$89,614,000 in 2011.

Employee remuneration is determined in accordance with prevailing industry practices, as well as employees' performance and experience. Discretionary bonuses are awarded to employees who have demonstrated 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

The turnover from the composite components business decreased by 24.4% to HK$296,271,000 (2010: HK$391,814,000) for the year ended 31 December 2011. The drop was mainly due to the declining demand and technological change for traditional home audios. The contribution of this segment to the Group's total turnover has therefore been reduced to 53.1% compared with 57.6% in 2010.

The sales from tuner modules for home audio systems decreased by 11.5% to HK$126,159,000 during the financial year, representing 42.6% of the total turnover from the composite components business. Turnover of tuner modules for car audios also dropped by 25.7% to HK$65,875,000 (2010: HK$88,665,000), which accounted for 22.2% of the total turnover from that business. However, the Group strengthened its position in before market segment in fulfilling the demand for automotive use during the year.

In addition, in line with the Group's direction for automotive electronics focus, the Group has successfully marketed antenna modules for car audios and audio/video and navigation ("AVN") systems, which was launched in 2009. The sale of antenna modules, which are active antenna modules in automotive vehicles for before market, increased by 126.8% to HK$34,565,000 (2010: HK$15,238,000) during the year.

Sales of the Group's wireless solutions have decreased by 64.6% to HK$36,969,000 during the year (2010: HK$104,505,000) mainly due to discontinued orders for FM transmitters for LCD and LED televisions, and declining orders for wireless speaker solutions from the existing customers. However, the Group launched High Pass modules for auto toll in Korea in the second half of 2011, and also obtained new orders from one of the renowned electronic company in Japan for Bluetooth speaker systems recently, which was designed by the Group's research and development resources, and thus expect to recoup its revenues in this segment.

During the year, the sales of the Group's digital solutions such as digital audio broadcasting ("DAB"), digital multimedia broadcasting ("DMB"), and hybrid digital radio ("HD Radio") also decreased by 32.8% to HK$10,624,000 (2010: HK$15,800,000). Despite the recent decline in this product group, the Group believes that digital solutions will be one of the essential kits in home and automotive audio products in European market, and will become one of key growth drivers of the Group's digital multimedia products in the upcoming years.

Leveraging the technology of Wiretape™, the Group has developed the Wiretape™ application technology for cars and smartphones such as flexible PCB antenna modules for cars and augmented antenna for mobile devices, respectively. This augmented antenna used for boosting signals for mobile phones indoors was tested and well received by customers. The Group has cooperated with customers in Europe, Japan, and Korea to explore sales of Wiretape™ and its derived products in order to build a diversified portfolio in the Wiretape™ sector and generate satisfactory revenues in the near future.

Unit Electronic Components Business

For the year ended 31 December 2011, turnover from the unit electronic components business recorded a drop of 9.5% to HK$261,280,000 (2010: HK$288,667,000). The decrease was primarily net effect of decrease in sales of planar transformers by HK$43,231,000 arising from the production suspension during the first half of 2011 and increase in sales of coil products by HK$22,702,000.

The Group has taken the initiative to switch its customers' demand to the products by automated production lines during the year. The Group believed that switch from labour intensive manufacturing to automation for traditional unit electronic components will eventually bring positive returns in the mid to long run, in light of the surging manufacturing cost in the PRC including labour cost hikes in recent periods.

Operational Efficiency

The Group is utilizing the Enterprise Resources Planning ("ERP") system installed in 2010 to enhance its business processes, which encompass research and development, procurement, production, inventory control, sales, cost control and financial management. During the year, the Group also extended the same ERP system to cover newly established manufacturing plant in Baoying Anyi New and High Technology Industrial Zone in Jiangsu Province, the PRC. The ERP system is a useful tool for assisting the Group making effective business and management decisions and achieving higher operational efficiency.

PROSPECTS

Looking ahead, the Group anticipates fierce market competition and rising production costs will both be major factors that negatively affect the consumer electronic products industry and the Group's business. To alleviate adverse impact on its business results from some of sluggish market segments in the coming periods, the Group has made efforts to diversify its concentrated market on consumer electronics, especially home audios into automotive, communications, and industrial segments during the past periods. In addition, newly launched products have received positive market feedback, and the Group expects to see improved business results during the second half of 2012.

For short-term being, the Group will continue to work for renowned electronic brands as an OEM and ODM. Also, to cope with declining trends in traditional home audio segment, the Group plans to launch accessory products for the dynamic market for mobile devices for home use, such as smartphone dual docking systems for mainstream smartphones, and Bluetooth speaker systems for mobile devices in 2012. The Group believes that the fast growing smartphone market will continue to create a rising demand for a docking system and external wireless speaker solutions. Positive market response has been received for these products, and the Group has successfully secured orders from a renowned Korean and Japanese consumer electronics brands.

To align with the Group's business strategies by geographical regions with automotive focus, its new production facilities in Korea will be completed by early second quarter of 2012 while Baoying production plant in Jiangsu Province, the PRC started up its operation in the fourth quarter of 2011. The new plants will serve demands for Korea and Japan, and northern China, respectively, while the existing Shenzhen plants will supply products in Southern China and overseas markets. The product line-up consisted of tuner modules and DAB modules for car audios, antenna modules for AVN systems, and High Pass modules for auto toll in Korea.

The Group is pleased to see the growing demand for traditional types of unit electronic components from major customers. However, the profit margin of this labour-intensive product is weakened by the rising labour cost. The Group therefore proactively guides its customers to switch to products manufactured by automated production lines. This enables the Group to reduce the sub-contracting expenses and labour expenses, achieve higher utilisation of the Group's production facilities, and, ultimately, enjoy a satisfactory return in the long run.

On the other hand, the Group has already developed the prototype of a high efficiency heat sink substrate untilising the Group's existing ceramic forming, sintering, and printing technology, and is promoting it to LED illumination and back light unit ("BLU") customers. This highly efficient product enhances heat sink rate for LED products such as light bulbs and LED BLUs to sustain a longer product life at a lower product cost. The Group is striving to market this product to renowned electronic or illumination product manufacturer, and this product is expected to launch in the second half of 2012.

Facing the opportunities and uncertainties in the year ahead, the Group will continue to adjust its business strategies by actively launching new products with better profitability and address the ever-changing market trends in a prudent and pragmatic way to meet changing market demand. The completion of the Korea plant and the commencement of commercial production will further strengthen the Group's competitive position in the electronic components industry. In the long term, the Group will pay attention to the opportunities that will boost its business development, thus generating a long term return for shareholders.

Investor Relations

The Company 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 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 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 and society. The Group's corporate social responsibility efforts fall into the three following categories:

Marketplace

In the interest of shareholders, the Group have adhered 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 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 has also frequently received customers' performance certificates that signified recognition of the Group's professional procedures and appreciation of product quality.

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

Employee Health and Welfare

Caring about the health and work safety of its staff, the Group has appropriate safety systems and processes 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 enroll in external job-related courses and sponsors these initiatives when appropriate. As part of the orientation procedure, all new employees are required to participate in programmes on topics including internal control and information protection, ISO and quality management systems.

The Group also arranges regular health checks for all employees to protect their health and therefore maintain 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.

Environment and Community

The Company complies with the requirements of ISO 14001:2004 on environmental management systems and procedures.

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, the Group encourages double-sided printing and printing when necessary only. The Group also relays energy-saving tips to staff members through a daily learning program. To fulfil its commitment to society during the year, the Company has also provided donations to charities to help the needy.

OTHER INFORMATION

Corporate Governance

The Company is committed to achieving high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest. The Company has complied with the code provisions as set out in Appendix 14, Code on Corporate Governance Practices, of the Listing Rules throughout the year ended 31 December 2011.

The Company has received, from each of the independent non-executive directors of the Company, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive directors are independent.

Model Code for Securities Transactions by Directors

The Company 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 year ended 31 December 2011, all directors have complied with the code provisions 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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

Review of Accounts

The Audit Committee of the Company, which is comprised of all independent non-executive directors and a non-executive director of the Company, has reviewed the financial results of the Group for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group, and has reviewed and discussed with the management on the effectiveness of the Group's system regarding the internal controls and accounts.

Publication of the Final Results and Annual Report

This results announcement has been published on the Company's website at www.kse.com.hk and the website of the Stock Exchange at www.hkex.com.hk. The 2011 annual report will be despatched to shareholders on or before 25 April 2012, which will be also made available on the websites of the Company and the Stock Exchange.

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

Hong Kong, 30 March 2012

As at the date of this announcement, the Board of the Company comprises non-executive director Mr. YANG Ho Sung (Chairman), executive directors Mr. YANG Jai Sung, Mr. LEE Kyu Young and Mr. HONG Sang Joon and independent non-executive directors Dr. KIM Chung Kweon, Dr. HAN Byung Joon and Mr. KIM Chan Su.