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)

2012 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 2012 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

		Six months ended 30 June	
	Notes	**2012** ***HK$'000*** **(Unaudited)**	2011 *HK$'000* (Unaudited) (Restated)
Turnover	*3*	**232,619**	268,105
Cost of sales		**(214,996)**	(253,875)
Gross profit		**17,623**	14,230
Other income and gains		**4,898**	5,457
Selling and distribution expenses		**(8,320)**	(10,603)
Administrative expenses		**(15,107)**	(13,592)
Research and development expenses		**(15,805)**	(16,227)
Other operating expenses		**(5,962)**	(5,997)
Finance costs		**–**	(305)
Loss before tax	*5*	**(22,673)**	(27,037)
Income tax expense	*6*	**(1,645)**	(918)
Loss for the period		**(24,318)**	(27,955)
Loss for the period attributable to:			
Owners of the Company		**(23,611)**	(27,861)
Non-controlling interests		**(707)**	(94)
		(24,318)	(27,955)
Loss per share	*8*		
– Basic and diluted (HK cents)		**(7.29)**	(8.60)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Restated)
Loss for the period	**(24,318)**	(27,955)
Other comprehensive (expense) income:		
Exchange differences arising on translation of foreign operations	**(4,063)**	6,906
Surplus on revaluation of land and buildings held for own use	**80**	3,868
Deferred tax relating to revaluation of land and buildings held for own use	**(13)**	(638)
Other comprehensive (expense) income for the period, net of tax	**(3,996)**	10,136
Total comprehensive expense for the period	**(28,314)**	(17,819)
Total comprehensive expense for the period attributable to:		
Owners of the Company	**(27,607)**	(17,921)
Non-controlling interests	**(707)**	102
	(28,314)	(17,819)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	At 30 June 2012 HK$'000 (Unaudited)	At 31 December 2011 HK$'000 (Audited) (Restated)
Non-current assets			
Property, plant and equipment	9	**192,071**	173,250
Investment properties	10	**30,697**	29,930
Goodwill		**–**	–
Club memberships		**600**	600
Intangible assets		**13,987**	16,327
Investments in equity securities		**–**	–
Deposits for acquisition of property, plant and equipment		**3,530**	6
		240,885	220,113
Current assets			
Inventories		**63,932**	64,009
Trade and other receivables	11	**122,353**	150,239
Amounts due from shareholders		**8,478**	8,478
Pledged bank deposits		**1,961**	472
Bank balances and cash		**54,291**	109,710
		251,015	332,908
Current liabilities			
Trade and other payables	12	**88,211**	102,499
Tax payables		**12,559**	34,134
Bank borrowings – due within one year	13	**78,447**	73,962
Derivative financial liabilities	14	**5,615**	5,908
		184,832	216,503
Net current assets		**66,183**	116,405
Total assets less current liabilities		**307,068**	336,518
Capital and reserves	15		
Share capital		**32,390**	32,390
Reserves		**258,480**	286,087
Equity attributable to owners of the Company		**290,870**	318,477
Non-controlling interests		**1,551**	2,258
Total equity		**292,421**	320,735
Non-current liability			
Deferred tax liabilities		**14,647**	15,783
		14,647	15,783
		307,068	336,518

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as 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").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical costs basis except for certain financial instruments and properties which are measured at revalued amounts or fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

Under the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets", investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group's investment properties are situated in the People's Republic of China (the "PRC") and Hong Kong, which are measured using the fair value model. As a result of application of the amendments to HKAS 12, the directors reviewed the Group's investment properties portfolios as at 31 December 2011 and concluded that the Group's investment properties situated in Hong Kong and the PRC amounting to HK$6,000,000 (2010: HK$5,100,000) and approximately HK$23,930,000 (2010: Nil) respectively are not held under a business model whose objective is to consume substantially all of the economic benefits embodies in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted.

As a result of the application of the amendments to HKAS 12, the Group has recognised deferred taxes on changes in fair value of the investment properties located in the PRC. On the other hand, the Group does not recognise any deferred tax on changes in fair value of the investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of the investment properties in Hong Kong.

The amendments to HKAS 12 have been applied retrospectively, resulting in a net increase in the Group's deferred tax liabilities amounting to approximately HK$6,514,000 as at 31 December 2011. The corresponding adjustment has been recognised in retained profits. In addition, the application of the amendments has resulted in a reduction of the Group's income tax expense for the six months ended 30 June 2011 amounting to approximately HK$65,000 and hence resulted in a decrease in the loss for the period for the six months ended 30 June 2011 being amounting to approximately HK$65,000.

Summary of the effect of the above change in accounting policy

The effect of the change in accounting policy described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated income statement is as follows:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
Decrease in income tax expense	**–**	(65)
Net decrease in loss for the period	**–**	65

No change is noted for the six months ended 30 June 2012 as the fair values of the investment properties remain the same as at 31 December 2011.

The effect of the change in accounting policy described above on the financial position of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2011, is as follows:

	As at 31 December 2011 (originally stated)	Adjustments	As at 31 December 2011 (restated)
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax liabilities	(9,269)	(6,514)	(15,783)
Total effects on net assets	(9,269)	(6,514)	(15,783)
Retained profits, total effects on equity	199,220	(6,514)	192,706

The effect of the change in accounting policy described above on the financial position of the Group as at the beginning of the comparative period, i.e. 1 January 2011, is as follows:

	As at 1 January 2011 (originally stated)	Adjustments	As at 1 January 2011 (restated)
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax liabilities	(7,880)	365	(7,515)
Total effects on net assets	(7,880)	365	(7,515)
Retained profits, total effects on equity	249,773	365	250,138

Impact on basic and diluted loss per share

	Six months ended 30 June	
	2012	2011
	HK cents	*HK cents*
Basic and diluted loss per share before adjustments	**–**	(8.62)
Adjustments arising from change in accounting policy in relation to:		
– application of amendments to HKAS 12 in respect of deferred taxes on investment properties	**–**	0.02
Reported basic and diluted loss per share	**–**	(8.60)

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 turnover and results by reportable and operating segments:

	Turnover		**Segment loss**	
	Six months ended 30 June		**Six months ended 30 June**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Composite components	**126,204**	131,426	**(17,015)**	(16,082)
Unit electronic components	**106,415**	136,679	**(10,556)**	(16,412)
	232,619	268,105	**(27,571)**	(32,494)
Unallocated operating income				
– Fair value change on derivative financial liabilities			**293**	305
– Others			**4,605**	5,152
Loss before tax			**(22,673)**	(27,037)

The entire segment revenue reported above is from external customers.

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

	At 30 June 2012	At 31 December 2011
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Composite components	**191,636**	178,556
Unit electronic components	**175,459**	188,974
Unallocated assets		
– Bank balances and cash	**54,291**	109,710
– Pledged bank deposits	**1,961**	472
– Others	**68,553**	75,309
Consolidated assets	**491,900**	553,021

All assets are allocated to reportable segments other than bank balances and cash, pledged bank deposits, part of other receivables, amounts due from shareholders and club memberships. Assets used jointly by reportable segments are allocated on the basis of the production capacity.

4. SEASONALITY OF OPERATIONS

The Group generally experiences higher sales in the second half year, due to the increasing customer demands during the summer holiday. As a result, the first half year typically reports lower revenues and segment results for the Group than the second half year.

5. LOSS BEFORE TAX

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss before tax is arrived at after charging (crediting):		
Allowance of inventories (included in cost of sales)	**794**	9,124
Amortisation of intangible assets (included in research and development expenses)	**576**	584
Cost of inventories recognised as an expense *	**214,996**	253,875
Depreciation of property, plant and equipment	**6,823**	6,838
Minimum lease payments under operating leases in respect of rented properties	**3,029**	2,545
Impairment loss recognised on trade receivables (included in other operating expenses)	**425**	–
Revaluation deficit recognised on land and buildings (included in other operating expenses)	**1,756**	–
Impairment loss recognised on patents (included in other operating expenses)	**1,748**	–
Decrease in fair value of derivative financial liabilities	**(293)**	(305)
Net foreign exchange losses	**662**	837
Increase in fair value of investment properties	**(900)**	(900)
Gain on disposal of property, plant and equipment	**(113)**	(3,040)
Interest income	**(119)**	(126)
Rental income (Net of outgoings of approximately HK$24,000 (2011: HK$23,000))	**(832)**	(156)
Reversal of impairment loss recognised on trade receivables (included in other income and gains)	**(140)**	(322)

* Cost of inventories recognised as an expense includes an aggregate amount of approximately HK$7,178,000 (2011: HK$13,331,000) relating to allowance for inventories, 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.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(Restated)
Current tax		
Hong Kong Profits Tax		
Provision for the period	**–**	–
PRC Corporate Income Tax		
Provision for the period	**1,266**	308
Under-provision in prior years	**1,528**	20
	2,794	328
Korean Corporate Income Tax		
Under-provision in prior years	**–**	655
	2,794	983
Deferred tax		
Reversal of temporary differences	**(1,149)**	(65)
	1,645	918

(i) No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2012 and 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 2012 and 30 June 2011.

Provision for the PRC Corporate Income Tax for Shenzhen Kwang Sung Electronics Co., Ltd. ("Shenzhen Kwang Sung"), Kwang Sung Electronics Trading (Shenzhen) Co., Ltd. and Baoying Kwang Sung Electronics Co., Ltd. ("Baoying Kwang Sung") are calculated at 25% (2011: 24%), 25% (2011: 25%) and 25% (2011: Nil) of estimated assessable profits for the periods, respectively. However, since Baoying Kwang Sung is granted certain tax relief under which is exempted from PRC Corporate Income Tax for the first five profit making years and entitled to an income tax reduction to 12.5% for the next five years. No provision of PRC Corporate Income Tax has been made as Baoying Kwang Sung did not have any assessable profits subject to PRC Corporate Income Tax for the period ended 30 June 2012.

The basic Korean Corporate Income Tax rates for year starting on or after 1 January 2011 are 10% on the first KRW200 million of the tax base and 22% for the excess. For the year starting on 1 January 2012 and thereafter, the rates are 10% on the first KRW200 million, 20% from the tax base between KRW200 million and KRW20 billion, and 22% for the excess. 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 2012 as there are no assessable profits subject to Korean Corporate Income Tax. For the six months period ended 30 June 2011, the Korean Corporate Income Tax was calculated at 10% of the estimated assessable profits.

(ii) In prior years, Hong Kong Inland Revenue Department (the "HKIRD") issued demand notes for additional tax payables in relation to the 50:50 offshore claims for profits derived from manufacturing activities carried out by Shenzhen Kwang Sung. On 30 December 2011, the tax representative of the Group, sent a compromising letter to the HKIRD for the settlement of the above tax demand notes. The HKIRD agreed to the compromise and issued tax returns to the Group in February 2012.

During the six months ended 30 June 2012, the tax reserve certificates of approximately HK$23,380,000 included in other receivables had been fully utilised to settle the above mentioned tax payables.

(iii) In 2012, the Group is arranging advanced pricing arrangement with Shenzhen Local Tax Bureau concerning Shenzhen Kwang Sung's transactions with group companies. During the process, the Shenzhen Local Tax Bureau demanded additional tax in respect of prior years transfer pricing adjustment. An estimated tax provision of approximately HK$1,528,000 has been made for the six months ended 30 June 2012. As at 30 June 2012, the negotiation is still in progress.

7. DIVIDENDS

No dividends were paid, declared or proposed during the interim period (six months ended 30 June 2011: Nil). The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 June 2011: Nil).

8. LOSS PER SHARE

(i) The calculation of basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK$23,611,000 (six months ended 30 June 2011 (restated): loss of HK$27,861,000) and the weighted average number of ordinary shares of 323,897,000 (six months ended 30 June 2011: 323,897,000) in issue during the six months ended 30 June 2012.

(ii) There were no dilutive potential ordinary shares during the six months ended 30 June 2012 and 2011, therefore, diluted loss per share is the same as the basic loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

The Group's land and buildings held for own use were revalued as at 30 June 2012 and 31 December 2011 at their open market values 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 not connected with the Group which has staff members of the Hong Kong Institute of Surveyors. A revaluation deficit on land and buildings located in Korea of approximately HK$1,756,000 (six months ended 30 June 2011: Nil) was recognised as other operating expenses in profit or loss. On the other hand, a revaluation surplus on premises located in Korea of approximately HK$80,000 (six months ended 30 June 2011: HK$3,868,000) was transferred to the properties revaluation reserve, net of deferred tax of approximately HK$13,000 (six months ended 30 June 2011: HK$638,000) were recognised for the six months ended 30 June 2012.

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a cost of approximately HK$28,163,000 (six months ended 30 June 2011: HK$32,609,000). In addition, the Group disposed of certain fully depreciated property, plant and equipment with cash proceeds of approximately HK$113,000 (six months ended 30 June 2011: HK$3,040,000), resulting in a gain on disposal of approximately HK$113,000 (six months ended 30 June 2011: HK$3,040,000).

10. INVESTMENT PROPERTIES

The Group's investment properties were revaluated as at 30 June 2012 and 31 December 2011 at their open market values. The valuations as at 30 June 2012 and 31 December 2011 were carried out by Vigers Appraisal & Consulting Limited, which is an independent firm of professional surveyors not connected with the Group and has 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 HK$900,000 (six months ended 30 June 2011: HK$900,000) has been recognised in profit or loss for the six months ended 30 June 2012.

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2012 *HK$'000* (Unaudited)	At 31 December 2011 *HK$'000* (Audited)
Trade and bills receivables (net of allowance for doubtful debts)	**101,064**	112,339
Short term loans to key management personnel and employees	**1,573**	553
Tax reserve certificates	**–**	23,380
Deposits, prepayments and other receivables	**19,716**	13,967
	122,353	150,239

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 as follows:

	At 30 June 2012 *HK$'000* (Unaudited)	At 31 December 2011 *HK$'000* (Audited)
0-90 days	**84,504**	98,537
91-180 days	**16,560**	13,802
	101,064	112,339

12. TRADE AND OTHER PAYABLES

	At 30 June 2012 *HK$'000* (Unaudited)	At 31 December 2011 *HK$'000* (Audited)
Trade payables	**61,665**	76,314
Accrued expenses and other payables	**26,546**	26,185
	88,211	102,499

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

	At 30 June 2012 *HK$'000* (Unaudited)	At 31 December 2011 *HK$'000* (Audited)
0-90 days	**57,959**	65,385
91-180 days	**2,250**	9,971
181-365 days	**798**	958
over 365 days	**658**	–
	61,665	76,314

13. BANK BORROWINGS

During the six months ended 30 June 2012, the Group obtained an unsecured new bank loan of approximately HK$4,704,000. The proceeds were used to finance the acquisition of property, plant and equipment.

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.

No repayment of bank borrowings was made during the six months ended 30 June 2012 (30 June 2011: HK$180,000).

The bank borrowings bear interest ranged from 2.23% to 4.16% (six months ended 30 June 2011: 4.19% to 5.18%) per annum with maturity date within 1 year.

14. DERIVATIVE FINANCIAL LIABILITIES

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 (the "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, multiplied by 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 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.

Fair value change on derivative financial liabilities of approximately HK$293,000 was recognised during the six months ended 30 June 2012 (six months ended 30 June 2011: HK$305,000).

15. CAPITAL AND RESERVES

	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 equity
			Note (a)	*Note (b)*		*Note (c)*					
	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 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
Change in accounting policy, adoption of HKAS12 amendment *(Note 2)*	–	–	–	–	–	–	–	365	365	–	365
At 1 January 2011 (as restated)	32,390	58,566	301	9,946	22,247	9,376	(11,237)	250,138	371,727	2,622	374,349
Loss for the period	–	–	–	–	–	–	–	(27,861)	(27,861)	(94)	(27,955)
Other comprehensive income for the period	–	–	–	–	3,230	–	6,710	–	9,940	196	10,136
At 30 June 2011 (unaudited)	32,390	58,566	301	9,946	25,477	9,376	(4,527)	222,277	353,806	2,724	356,530
For the six months ended 30 June 2012											
At 1 January 2012 (audited)	32,390	58,566	301	8,478	23,142	10,215	(7,321)	199,220	324,991	2,258	327,249
Change in accounting policy, adoption of HKAS12 amendment *(Note 2)*	–	–	–	–	–	–	–	(6,514)	(6,514)	–	(6,514)
At 1 January 2012 (as restated)	32,390	58,566	301	8,478	23,142	10,215	(7,321)	192,706	318,477	2,258	320,735
Loss for the period	–	–	–	–	–	–	–	(23,611)	(23,611)	(707)	(24,318)
Other comprehensive income (expense) for the period	–	–	–	–	67	–	(4,063)	–	(3,996)	–	(3,996)
At 30 June 2012 (unaudited)	32,390	58,566	301	8,478	23,209	10,215	(11,384)	169,095	290,870	1,551	292,421

Notes:

(a) Other reserve

Other reserve represents the acquisition/disposal of partial equity interests of subsidiaries with non-controlling 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.

(c) Statutory reserve

The statutory reserve fund is non-distributable and the transfer to this reserve is determined by the board of directors in accordance with the relevant laws and regulations of the PRC. This reserve can be used to offset accumulated losses and increase capital upon approval from the relevant authorities.

INTERIM DIVIDEND

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

FINANCIAL REVIEW

For the six months ended 30 June 2012, the Group continued to strengthen its product design and development which aims to capture opportunities arising in the dynamic consumer electronic product industry. However, the Group has been facing a challenging business environment mainly brought by the rising market competition and price pressure for the existing products. The Group recorded a turnover of HK$232,619,000, a decline of 13.2% against the last corresponding period.

The cost of sales during the period under review decreased by 15.3% to HK$214,996,000 from HK$253,875,000 in the corresponding period last year. The decrease in cost of sales was in line with decrease in turnover during the period under review.

Accordingly, gross profit increased by 23.8% to HK$17,623,000 as compared with HK$14,230,000 in the last corresponding period, while gross profit margin also increased to 7.6% as compared with 5.3% for the corresponding period last year.

Other income and gains marked HK$4,898,000, a 10.2% decrease from HK$5,457,000 in the six months ended 30 June 2011.

Total operating expenses, including selling and distribution expenses, administrative expenses, research and development expenses and other operating expenses were HK$45,194,000 in the six months ended 30 June 2012, a decrease of 2.6% against HK$46,419,000 recorded in the last corresponding period. The change was mainly due to decrease in selling and distribution expenses arising from decrease in turnover during the period under review.

Finance costs decreased from HK$305,000 in corresponding period last year to nil. This is attributable to finance costs fully capitalised on construction in progress for the Group's new facilities in Korea during the period under review.

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 years of assessment 2001/02 to 2007/08 (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, Hong Kong 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 excess tax provision of HK$9,652,000 made in previous years have been written back to the consolidated income statement in 2011. In February 2012, the tax reserve certificates of HK$23,380,000 had been fully utilised to settle the above mentioned tax payables.

During the period under review, no Hong Kong Profits Tax has been provided in the financial statements as the Group has no assessable profit for the period.

The PRC Corporate Income Tax increased by HK$2,466,000 from HK$328,000 in 2011 to HK$2,794,000 in 2012. The increase primarily reflected a transfer pricing adjustment of HK$1,528,000 for prior years. After a considered reversal of the deferred tax charge of HK$1,149,000, overall tax expenses increased by 79.2% to HK$1,645,000, as compared with HK$918,000 in the corresponding period last year.

As a result of the aforementioned factors, the Group reported a loss after taxation attributable to owners of the Company of HK$23,611,000 for the six months ended 30 June 2012 as compared to a loss after taxation attributable to owners of the Company of HK$27,861,000 in the six months ended 30 June 2011.

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 2012, the Group's bank balances and cash was HK$54,291,000. As at 30 June 2012, the Group had aggregate banking facilities of HK$104,207,000 for overdraft, bank loans and bank guarantee, etc.

Current ratio, being the ratio of current assets to current liabilities, declined from 1.54 as at 31 December 2011 to 1.36 as at 30 June 2012. The decrease in current ratio was mainly due to higher short term bank borrowings to finance capital expenditure in respect of the construction of the Group's new facilities in Korea. Gearing ratio, in terms of total liabilities to total assets, also slightly declined from 0.42 as at 31 December 2011 to 0.41 as at 30 June 2012. The decrease in gearing ratio primarily reflected that percentage decrease in total liabilities was higher than decrease in total assets. The Group intends to restructure existing bank borrowings 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

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 2012, the Group's certain assets with an aggregate carrying value of HK$65,901,000 were pledged to secure banking facilities of the Group.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 30 June 2012.

Capital Commitments

As at 30 June 2012, the Group had total capital commitments in respect of acquisition of property, plant and equipment of HK$1,490,000.

Employees and Remuneration Policy

As at 30 June 2012, the Group had about 1,075 employees, including 29 based in Hong Kong, 966 in the PRC, and 80 in Korea.

For the six months ended 30 June 2012, staff costs increased by 4.2% from HK$43,160,000 for the corresponding period last year to HK$44,954,000.

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 2012, the turnover from the composite components business dropped by 4.0% from HK$131,426,000 in the corresponding period last year to HK$126,204,000. This decline was mainly due to decrease in sales price caused by the shrinking customer demand for and changes in technical specification of tuner modules for home audio systems amidst the fast-changing technological and electronic markets. Sales of the composite components business contributed 54.3% to the Group's total turnover.

The turnover from tuner modules for home audio systems decreased by 36.7% to HK$36,683,000 (six months ended 30 June 2011: HK$57,953,000), accounting for 29.1% of the total turnover of the composite components business. However, the Group was able to leverage the fast-growing mobile devices market arising from the proliferation of smartphones and tablet personal computers by launching a new item in its dual docking systems line for mainstream smartphones from a leading electronic manufacturer located in the PRC, thereby boosting its shares in the home audio market. As a result, the Group recorded HK$10,281,000 in new sales of dual docking systems during the review period.

Sales of tuner modules for car audio recorded HK$29,990,000 during the period under review, a drop of 14.4% compared with HK$35,052,000 in the last corresponding period, accounting for 23.8% to the total turnover of the segment. The decrease in sales of tuner modules for car audio was attributed to a decline in sales to aftermarket customers in the PRC whose export market customers were adversely affected by deteriorating economic conditions in Europe and America. Despite the drop, the Group managed to maintain beforemarket demand in the PRC and Korea, and expected to increase its market share to meet the rising demands for automotive use in both regions in the coming periods.

In view of the reduced customer demand of traditional home tuner products, the Group has gradually shifted its business direction to multi-function electronic devices, especially the automotive-focused products. In line with this strategy, the Group has recorded solid growth of 37.4% in sales of antenna module for automotive applications such as audio/video and navigation ("AVN") systems. Turnover from its antenna module was HK$19,925,000, representing 15.8% of the total turnover of the composite component business.

The Group has also been working closely with one of its target customers to organise business collaboration in order to launch new wireless consumer products in the second half of this year, although revenue from wireless solutions recorded a decrease of 10.1% to HK$18,567,000 for the period under review compared with HK$20,663,000 in the corresponding period of 2011. However, the sales of the Hi-Pass modules for electronic toll collection system ("ETC") in Korea launched last year recorded rather solid growth during the period under review. The turnover from wireless solutions accounted for 14.7% of the Group's total turnover in the composite component business. The Group is confident that the growing market demand and its leadership in wireless solutions technology will enable this segment to become solid foundation for the Group's revenues in the coming period.

The Group's digital solutions in digital audio broadcasting ("DAB"), digital multimedia broadcasting ("DMB") and hybrid digital radio ("HD Radio") face keen competition as well as price erosion in the industry. Turnover from this product group decreased to HK$958,000 (for the six months ended 30 June 2011: HK$10,624,000).

The Group continued to develop Wiretape™ application technology for cars, smartphones, and flat televisions. Although turnover from this product group were still minor during the review period as the products were still under test marketing by customers, the Group has continued to work with customers to develop a diversified portfolio in the Wiretape™ sector.

Unit Electronic Components Business

For the six months ended 30 June 2012, turnover from the unit electronic components business dropped by 22.1% to HK$106,415,000 (six months ended 30 June 2011: HK$136,679,000), representing 45.7% of the Group's total turnover. The turnover from the transformers for LCD and LED televisions as well as adapters for mobile devices increased by 40.0% to HK$44,043,000 due to growing demand for automated production of the customers in the PRC. Due to the general market trend towards smart devices, the Group believes that transformer products represent another potential profit growth engine. Meanwhile, the turnover of manual intensive coil products dropped 33.1% to HK$44,026,000 during the period under review.

The Group continued to refine the prototype of a high efficiency heat sink substrate which untilises the Group's existing ceramic forming, sintering and printing technology. This highly efficient product enhances heat sink rate for LED products including light bulbs and LED back light units ("BLU") to sustain a longer product life and decreased costs. The Group is aiming to start commercial production by the end of 2012.

PROSPECTS

Looking ahead, the Group expects that the keen competition and the weak sentiment in traditional consumer electronics markets will continue to present major challenges to the electronic industry. To alleviate the production pressure, the Group has realigned its current production to cater for the growing demand of multi-function electronic devices such as television, automotive, and mobile device related business segments. Leveraging its solid relationship with its customers in the PRC and Korea, the tuner module for car audio is expected to provide momentum for the Group's future growth. The Group is also embarking on initiatives to extend business opportunities for its newly launched products and expects to see a better business results in the coming periods.

To grasp the dynamic smartphone and tablet personal computer markets, the Group is focusing on the development and commercialisation of the dual docking systems which were launched in the first half of this year, and new wireless consumer products which will be launched in the second half of this year. The Group enjoys a stable positive partnership with consumer electronic manufacturing pioneers and is proactively engaged in initiatives to expand new business opportunities which are progressing well. The Group is one of the pioneer vendors providing a dual docking system to a renowned electronic manufacturer in the PRC for its mobile devices and tablet personal computers. With the good sound quality of its wireless solutions products, the Group is confident it can secure new orders from other customers and extend its business to other segments in the future.

The Group is also pleased to see the growth potential in transformer products for LCD and LED televisions as well as adapters for mobile devices arising from an increase in demand. In addition, the increasing adoption of automated production among its customers in the PRC is expected to accelerate the demand for this type of product. The Group is now actively engaged in marketing transformers and adapters for LCD and LED televisions to major customers.

DAB for AVN is a general market trend for European car manufacturers, which is expected to improve the prospect for the Group's digital multimedia products in the upcoming years.

The Group has completed the production facilities for the newly constructed factory in Korea during the period under review and expects to commence production in the fourth quarter of 2012. The new factory will facilitate the Group to expedite business expansion in the Korean market. The new construction of the Group's Baoying plant in Jiangsu Province will be postponed to start from the end of 2013 due to delay in the transfer of land use rights from the local government. The Group's Baoying plant is expected to absorb subcontracting demand for Korea and Japan markets. Overall, the production plants will raise the Group's production capacity and can effectively reduce the subcontracting expenses in the long run.

To cope with the challenges of intense competition and the global economic slump, the Group will continue to launch new products with high profitability leading market trends and in anticipation of customer needs but in a prudent and cautious way. Having foreseen the erosion of profit margin of labour-intensive products due to increasing labour cost in recent years, the Group has proactively adopted automated production lines especially for unit electronic products in its manufacturing plants, targeting at increasing demand in televisions and adapters for smart devices. The completion of the Group's plants in Korea and Baoying will strengthen the production capacity and enrich product portfolios thereby further strengthening the Group's leading position in the electronics components market niches. The Group will strive to expand its scope of business collaboration and capture market opportunities in a bid to deliver satisfactory returns to 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 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 the society. The Group's corporate social responsibility efforts fall into the following categories:

Marketplace

In the interest of shareholders, the Group has 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.

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.

The Group also arranges regular health checks for all employees to ensure 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.

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. 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

Corporate Governance Code

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 during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code during the period from 1 April 2012 to 30 June 2012 of the Listing Rules.

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 2012, 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

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 2012.

Review of Accounts

The audit committee of the Company (the "Audit Committee") has reviewed and discussed with the management and the external auditors of the Company the accounting principles and practices, financial reporting process, internal control matters, and the unaudited interim financial results for the six months ended 30 June 2012. 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 2012.

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

Hong Kong, 31 August 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.