# FOREBASE INTERNATIONAL HOLDINGS LIMITED
# 申基國際控股有限公司

*(Formerly known as 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 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Forebase International Holdings Limited (the "Company") announced the consolidated financial results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 as follows:

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31 December 2012*

| | *Notes* | **2012** *HK$'000* | 2011 *HK$'000* (Restated) |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | *4* | **363,553** | 568,907 |
| Cost of sales | | **(339,539)** | (547,762) |
| Gross profit | | **24,014** | 21,145 |
| Other income and gains | *5* | **12,799** | 7,889 |
| Selling and distribution expenses | | **(9,345)** | (16,291) |
| Administrative expenses | | **(12,373)** | (14,990) |
| Research and development expenses | | **(14,593)** | (38,653) |
| Other operating expenses | | **(20,254)** | (7,111) |
| Finance costs | *6* | **(44)** | – |
| Loss before taxation | | **(19,796)** | (48,011) |
| Taxation | *7* | **(3,848)** | 4,010 |
| Loss for the year from continuing operations | | **(23,644)** | (44,001) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | *8* | **(30,461)** | (9,309) |
| **Loss for the year** | *9* | **(54,105)** | (53,310) |

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000<br>(Restated) |
|---|---|---|---|
| Loss for the year attributable to owners of the Company: | | | |
| – from continuing operations | | **(23,644)** | (44,001) |
| – from discontinued operations | | **(28,695)** | (8,945) |
| | | **(52,339)** | (52,946) |
| Loss for the year attributable to non-controlling interests: | | | |
| – from continuing operations | | **–** | – |
| – from discontinued operations | | **(1,766)** | (364) |
| | | **(1,766)** | (364) |
| | | **(54,105)** | (53,310) |
| **Loss per share** | *11* | ***HK cents*** | *HK cents* |
| **From continuing and discontinued operations** | | | |
| Basic and diluted | | **(16.16)** | (16.35) |
| **From continuing operations** | | | |
| Basic and diluted | | **(7.30)** | (13.59) |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the year ended 31 December 2012*

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| Loss for the year | **(54,105)** | (53,310) |
| Other comprehensive income: | | |
| Exchange differences arising on translation of foreign operations | **9,123** | 3,916 |
| Surplus on revaluation of land and buildings held for own use | **–** | 1,779 |
| Deferred taxation | **–** | (884) |
| Surplus on revaluation of land and buildings held for own use, net of deferred taxation | **–** | 895 |
| Other comprehensive income for the year, net of tax | **9,123** | 4,811 |
| Total comprehensive expense for the year | **(44,982)** | (48,499) |
| Total comprehensive expense for the year attributable to: | | |
| Owners of the Company | **(43,216)** | (48,135) |
| Non-controlling interests | **(1,766)** | (364) |
| | **(44,982)** | (48,499) |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2012*

| | Notes | 31/12/2012 HK$'000 | 31/12/2011 HK$'000 (Restated) | 1/1/2011 HK$'000 (Restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **23,112** | 173,250 | 134,364 |
| Investment properties | | **56,292** | 29,930 | 5,100 |
| Goodwill | 12 | **–** | – | 5,857 |
| Club memberships | | **600** | 600 | 600 |
| Intangible assets | 13 | **–** | 16,327 | 17,623 |
| Available-for-sale investments | | **–** | – | – |
| Deposits for purchase of property, plant and equipment | | **106** | 6 | 164 |
| | | **80,110** | 220,113 | 163,708 |
| **Current assets** | | | | |
| Inventories | | **26,384** | 64,009 | 82,673 |
| Trade and other receivables | 14 | **65,478** | 150,239 | 140,070 |
| Amounts due from former shareholders | | **–** | 8,478 | 9,946 |
| Bank balances and cash | | **110,250** | 110,182 | 133,505 |
| | | **202,112** | 332,908 | 366,194 |
| **Current liabilities** | | | | |
| Trade and other payables | 15 | **74,513** | 101,809 | 83,856 |
| Tax payables | | **10,757** | 34,134 | 43,286 |
| Financial liabilities at fair value through profit and loss | 16 | **–** | 5,908 | – |
| Bank borrowing – due within one year | | **19,548** | 73,962 | 13,844 |
| | | **104,818** | 215,813 | 140,986 |
| **Net current assets** | | **97,294** | 117,095 | 225,208 |
| Total assets less current liabilities | | **177,404** | 337,208 | 388,916 |
| **Capital and reserves** | 17 | | | |
| Share capital | | **32,390** | 32,390 | 32,390 |
| Reserves | | **134,380** | 289,369 | 338,972 |
| Equity attributable to owners of the Company | | **166,770** | 321,759 | 371,362 |
| Non-controlling interests | | **–** | 2,258 | 2,622 |
| **Total equity** | | **166,770** | 324,017 | 373,984 |
| **Non-current liabilities** | | | | |
| Financial liabilities at fair value through profit and loss | 16 | **–** | – | 6,452 |
| Deferred tax liabilities | 18 | **10,183** | 12,501 | 7,880 |
| Provision for long service payment | | **451** | 690 | 600 |
| | | **10,634** | 13,191 | 14,932 |
| | | **177,404** | 337,208 | 388,916 |

*Notes:*

## 1. GENERAL

The Company was incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are Units 208-209, 2/F., Bio-Informatics Centre, No. 2 Science Park West Avenue, Hong Kong Science Park, Shatin, N.T., Hong Kong.

On 27 September 2012, Mr. Yang Jai Sung ("Mr. Yang"), a then executive director and Kwang Sung Electronics Co., Ltd. ("Kwang Sung Korea") (as vendors) and Ultra Harvest Limited ("Ultra Harvest"), a company incorporated in the British Virgin Islands with limited liability, entered into an agreement (the "Share Sale Agreement") (as amended and supplemented by the supplemental agreement dated 16 October 2012) relating to the sale of an aggregate of 174,082,000 ordinary shares of HK$0.10 in the issued share capital of the Company (the "Shares") to Ultra Harvest, at a price of HK$0.9263 per Share. As conditions precedent to completion of the Share Sale Agreement, the Company was required, among other things, to carry out a group reorganisation (the "Group Reorganisation"), to effect a distribution in specie of shares in Jay Star Holdings Limited, a then wholly-owned subsidiary of the Company ("Jay Star" or the "Privateco") (the "Distribution In Specie"). The transactions contemplated under the Share Sale Agreement were approved by the independent shareholders of the Company at an extraordinary general meeting held on 5 December 2012. Upon satisfaction of other conditions, completion of the Share Sale Agreement took place on 11 December 2012.

Pursuant to the Group Reorganisation, the Company, among other things, reorganised its subsidiaries into two subgroups, the Remaining Group and the Privateco Group.

The Remaining Group is principally engaged in the manufacturing and sale of electronic components to worldwide customers (except for those in the Republic of Korea ("Korea") and Japan) (the "Retained Businesses"). The Privateco Group is engaged in all businesses of the Group prior to the Group Reorganisation, other than the Retained Businesses (the "Distributed Businesses").

Upon completion of the Share Sale Agreement, Ultra Harvest became the controlling shareholder of the Company, holding 174,082,000 Shares, which represented approximately 53.75% of the issued share capital of the Company.

The Privateco Group having 323,896,932 Privateco shares was distributed as a special dividend to the shareholders of the Company on 11 December 2012, whose names appeared on the register of members of the Company on 10 December 2012 (the "Record Date Shareholders"), details of the Distribution In Specie are set out in note 19. As a result of the Group Reorganisation, the Retained Businesses were classified as continuing operations while the Distributed Businesses, being disposed of, were classified as discontinued operations, details of which are set out in note 8.

On 14 December 2012, Haitong International Securities Company Limited ("Haitong International Securities") on behalf of Ultra Harvest made an unconditional mandatory cash offer to acquire all the issued shares in the Company other than those shares already owned or agreed to be acquired by Ultra Harvest and parties acting in concert with any of it at a price of HK$0.9263 per Share (the "Listco Offer").

The Listco Offer was closed on 4 January 2013 with valid acceptances in respect of a total of 69,519,950 Shares, representing 21.46% of the total issued share capital of the Company. Upon completion of the Listco Offer, Ultra Harvest was interested in 243,601,950 shares of the Company, representing approximately 75.21% of the total issued share capital of the Company.

As approved by way of special resolution at an extraordinary general meeting of the Company held on 25 February 2013, the name of the Company was approved to be changed from "Kwang Sung Electronics H.K. Co. Limited 光星電子香港有限公司" to "Forebase International Holdings Limited 申基國際控股有限公司". With effect from 12 March 2013, the Registrar of Companies in Hong Kong approved the change of the Company name and issued the Certificate of Change of Name.

The Company is an investment holding company and the principal activities of its subsidiaries are the manufacture and sale of electronic components. Following the completion of the Distribution In Specie, the Group revisited its businesses activities based on the degree of importance and extended its principal activities to properties investment, i.e. the Group's investment properties portfolios in Hong Kong, Korea and the People's Republic of China (the "PRC").

In the opinion of the directors of the Company, at 31 December 2012, Ultra Harvest is the ultimate holding company of the Company and Mr. Shen Yong, the Chairman of the Company, is the ultimate controlling party of the Company.

The functional currency of the Company is Korean Won ("KRW"). The functional currencies for its certain subsidiaries are Renminbi ("RMB") and KRW. For the purposes of presenting the financial statements, the Group adopted HK$ as its presentation currency as its shares are listed in Hong Kong.

## 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 standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| Amendments to HKFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| Amendments to HKAS 12 | Deferred Tax: Recovery of Underlying Assets |
| Amendments to HKFRS 7 | Financial Instruments: Disclosures – Transfer of Financial Assets |
| Amendments to HKAS 1 | As part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in 2012 |

Except as described below, the application of the amendments to HKFRSs in the current year 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 these financial statements.

**Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets**

The Group has applied for the first time the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered entirely 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 PRC, Korea 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 and concluded that the Group's investment properties situated in Hong Kong, Korea and the PRC amounting to approximately HK$9,800,000 (2011: HK$6,000,000), HK$22,072,000 (2011: Nil) and HK$24,420,000 (2011: HK$23,930,000) 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. Therefore, the directors have determined that the "recover through sale'' 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 and Korea. 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 in disposal of the investment properties in Hong Kong. The amendments to HKAS 12 have been applied retrospectively. The change in accounting policy has resulted in the Group's income tax expenses for the years ended 31 December 2012 and 2011 being decreased by approximately HK$79,000 and increased by approximately HK$3,232,000 respectively and hence resulted in loss for the years ended 31 December 2012 and 2011 being decreased by approximately HK$79,000 and increased by approximately HK$3,232,000 respectively.

The application of the amendments to HKAS12 does not result in any material impact on retained profits of the Group and the Company as at 1 January 2011.

**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 prior years by line items is as follows:

| | Year ended | |
|---|---|---|
| | **31/12/2012** | 31/12/2011 |
| | ***HK$'000*** | *HK$'000* |
| (Decrease) increase in income tax expense and loss for the year | **(79)** | 3,232 |

The effect of the change in accounting policy described above on the financial positions of the Group as at 31 December 2011, is as follows:

| | 31/12/2011 (Originally stated) | Adjustments | 31/12/2011 (Restated) |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Deferred tax liabilities | (9,269) | (3,232) | (12,501) |
| Net assets and total equity | 327,249 | (3,232) | 324,017 |
| Retained profits | 199,220 | (3,232) | 195,988 |

The effect of the above change in accounting policy on the financial position of the Group as at 31 December 2012 is an increase in deferred tax liabilities and decreases in the Group's net assets, retained profits and total equity by approximately HK$3,153,000.

The effect of the above change in accounting policy on the Group's basic and diluted earnings per share for the current and prior years are as follows:

**Impact on basic and diluted loss per share**

| | **2012** | 2011 |
|---|---|---|
| | ***HK cents*** | *HK cents* |
| Basic and diluted loss per share before adjustments | **(16.16)** | (15.35) |
| Adjustments arising from change in accounting policy in relation to: | | |
| – application of amendments to HKAS 12 in respect of deferred taxes on investment properties | – | (1.00) |
| Reported basic and diluted loss per share | **(16.16)** | (16.35) |

**New and revised HKFRSs issued but not yet effective**

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

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2009-2011 Cycle, except for amendment HKAS1[2] |
| Amendments to HKFRS 1 | First-time Adoption of HKFRSs – Government Loans[2] |
| Amendments to HKFRS 7 | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4] |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transaction Guidance[2] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment Entites[3] |
| HKFRS 9 | Financial Instruments[4] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosures of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| 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 Associates and Joint Ventures[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[1] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[3] |
| HK(IFRIC)* – Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

* HK(IFRIC) represents the Hong Kong (International Financial Reporting Interpretation Committee)

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

*Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012*

- The Annual Improvements to HKFRSs 2009 – 2011 Cycle included a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs included the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

- The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements and the Company's statement of financial position.

- The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors anticipate that the amendments to HKAS 32 will have no material effect on the Group's consolidated financial statements and the Company's statement of financial position.

- The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

- The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

- The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim period within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

- The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

***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 this new standard on the results and the financial positions of the Group and 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 five 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 consolidation.

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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, 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 does not have significant impact on amounts reported in the consolidated financial statements.

***Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities***

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The directors of the Company anticipate that these do not have significant impact on amounts reported in the consolidated financial statements as the Company is not an investment entity.

***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 and the Company's 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 and the Company.

***HKAS 19 (as revised in 2011) Employee Benefits***

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application.

The directors anticipate that the application of the amendments to HKAS 19 has had no significant impact on the Group's and the Company's financial performance and positions and/or on the disclosures set out in these consolidated financial statements.

***Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income***

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

Except as described above, the directors anticipate that the application of the new and revised HKFRSs that have been issued but are not yet effective will have no material impact on the Group's financial performance and position and/or disclosures set out in these financial statements.

## 3. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of electronic components and properties investment. The Group's operations are divided into three reportable segments: composite components segment, unit electronic components segment and properties investment segment. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The chief operating decision maker assesses the performance of the operating segment primarily based on segment profit. The Group has only two reportable segments before: composite components segment and unit electronic components segment. Subsequent to the completion of the Group Reorganisation as mentioned in note 1 above, the chief operating decision maker considers the performance of the properties investment as a new reporting segment in the current year based on its relative significance in terms of turnover, profit and assets value attributable to the Group. Accordingly, the Group's performance of properties investment was reclassified from unallocated segment to properties investment segment.

During the year, the Group paid a special dividend by way of Distribution in Specie of shares in a subsidiary, Jay Star in which its subsidiaries carried out the composite components and unit electronic components operations. This resulted in the Group disposing of a separate major geographical area of operations in Korea, as the result from composite components and unit electronic components operations in Korea of the Group for the years ended 31 December 2012 and 2011 are only contributed by the subsidiaries of Jay Star. Details of the discontinued operations are set out in note 8.

**Segment turnover and results**

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

**Year ended 31 December 2012**

| | Continuing operations | | | | Discontinued operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| | Composite components *HK$'000* | Unit electronic components *HK$'000* | Properties investment *HK$'000* | Total *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | **199,257** | **162,218** | **2,078** | **363,553** | **169,240** | **(57,619)** | **475,174** |
| Segment (loss) profit | **(16,941)** | **(17,302)** | **6,221** | **(28,022)** | **(31,676)** | **–** | **(59,698)** |
| Unallocated operating income (expenses) – Others | | | | **8,270** | **285** | | **8,555** |
| Finance costs | | | | **(44)** | **–** | | **(44)** |
| Loss before taxation | | | | **(19,796)** | **(31,391)** | | **(51,187)** |
| Taxation | | | | **(3,848)** | **930** | | **(2,918)** |
| Loss for the year | | | | **(23,644)** | **(30,461)** | | **(54,105)** |

**Segment turnover and results**

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

Year ended 31 December 2011

| | Continuing operations | | | | Discontinued operations | Eliminations | Total |
|---|---|---|---|---|---|---|---|
| | Composite components *HK$'000* | Unit electronic components *HK$'000* | Properties investment *HK$'000* | Total *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* (Restated) |
| Turnover | 293,655 | 274,275 | 977 | 568,907 | 26,971 | (37,350) | 558,528 |
| Segment (loss) profit | (28,400) | (26,216) | 3,517 | (51,099) | (9,085) | – | (60,184) |
| Unallocated operating income (expenses) – Others | | | | 3,088 | (293) | | 2,795 |
| Finance costs | | | | – | – | | – |
| Loss before taxation | | | | (48,011) | (9,378) | | (57,389) |
| Taxation | | | | 4,010 | 69 | | 4,079 |
| Loss for the year | | | | (44,001) | (9,309) | | (53,310) |

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of part of other income (expenses) 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**

For the purposes of monitoring segment performances and allocating resources between segments for the years ended 31 December 2012 and 2011:

- all assets are allocated to reportable segments other than cash and cash equivalents, intangible assets, goodwill, part of other receivables and amounts due from shareholders. 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, financial liabilities at fair value through profit and loss, bank borrowing and deferred tax liabilities.

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

**Year ended 31 December 2012**

| | **Composite components** *HK$'000* | **Unit electronic components** *HK$'000* | **Properties investment** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| Segment assets | **65,447** | **39,439** | **56,311** | **161,197** |
| Unallocated assets | | | | |
| – Bank balances and cash | **–** | **–** | **–** | **110,250** |
| Others | **–** | **–** | **–** | **10,775** |
| **Consolidated assets** | | | | **282,222** |
| Segment liabilities | **21,296** | **25,675** | **70** | **47,041** |
| Unallocated liabilities | | | | |
| – Bank borrowing | **–** | **–** | **–** | **19,548** |
| – Others | **–** | **–** | **–** | **48,863** |
| **Consolidated liabilities** | | | | **115,452** |

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

Year ended 31 December 2011

| | Composite components *HK$'000* | Unit electronic components *HK$'000* | Properties investment *HK$'000* | Consolidated *HK$'000* (Restated) |
|---|---|---|---|---|
| Segment assets | 164,015 | 173,585 | 29,949 | 367,549 |
| Unallocated assets | | | | |
| – Bank balances and cash | – | – | – | 110,182 |
| Others | – | – | – | 75,290 |
| **Consolidated assets** | | | | 553,021 |
| Segment liabilities | 42,871 | 53,290 | 52 | 96,213 |
| Unallocated liabilities | | | | |
| – Bank borrowing | – | – | – | 73,962 |
| – Others | – | – | – | 58,829 |
| **Consolidated liabilities** | | | | 229,004 |

**Other segment information**

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

**Year ended 31 December 2012**

| | **Continuing operations** | | | | | **Discontinued operations** | **Total** |
|---|---|---|---|---|---|---|---|
| | **Composite components** ***HK$'000*** | **Unit electronic components** ***HK$'000*** | **Properties investment** ***HK$'000*** | **Unallocated** ***HK$'000*** | **Total** ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Additions to non-current assets | 2,739 | 2,241 | – | – | 4,980 | 36,227 | 41,207 |
| Depreciation and amortisation | 4,817 | 3,941 | – | – | 8,758 | 5,976 | 14,734 |
| Gain on disposal of property, plant and equipment | (166) | – | – | – | (166) | – | (166) |
| Increase in fair value of investment properties | – | – | (4,292) | – | (4,292) | – | (4,292) |
| Impairment loss recognised on land and buildings held for own use | – | – | – | – | – | 2,178 | 2,178 |
| Impairment loss recognised on intangible assets | – | – | – | – | – | 5,929 | 5,929 |
| Impairment loss recognised on trade and other receivables | 751 | 614 | – | – | 1,365 | – | 1,365 |
| Reversal of impairment loss recognised on trade and other receivables | (78) | (64) | – | – | (142) | – | (142) |
| Allowance for (reversal of allowance for) inventories | 469 | 1,513 | – | – | 1,982 | 3,473 | 5,455 |
| Decrease in fair value of financial liabilities at fair value through profit and loss | – | – | – | (5,908) | (5,908) | – | (5,908) |

**Other segment information**

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

Year ended 31 December 2011

| | Continuing operations | | | | | Discontinued operations | Total |
|---|---|---|---|---|---|---|---|
| | Composite components | Unit electronic components | Properties investment | Unallocated | Total | | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Additions to non-current assets | 642 | 593 | – | – | 1,235 | 73,084 | 74,319 |
| Depreciation and amortisation | 6,705 | 6,189 | – | – | 12,894 | 1,726 | 14,620 |
| Gain on disposal of property, plant and equipment | (3,087) | – | – | (53) | (3,140) | – | (3,140) |
| Increase in fair value of investment properties | – | – | (2,586) | – | (2,586) | – | (2,586) |
| Impairment loss recognised on goodwill | – | – | – | 5,857 | 5,857 | – | 5,857 |
| Impairment loss recognised on trade and other receivables | 18 | 138 | – | – | 156 | – | 156 |
| Reversal of impairment loss recognised on trade and other receivables | (215) | (598) | – | (40) | (853) | – | (853) |
| Allowance for (reversal of allowance for) inventories | 6,903 | 11,994 | – | – | 18,897 | 2,224 | 21,121 |
| Decrease in fair value of financial liabilities at fair value through profit and loss | – | – | – | (544) | (544) | – | (544) |

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

**Geographical information**

The Group's operations are principally located in Hong Kong, Korea and other parts of the PRC.

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location of the assets excluding those relating to discontinued operations are detailed below:

| | Turnover | | Non-current assets | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| | ***HK$'000*** | *HK$'000* (Restated) | ***HK$'000*** | *HK$'000* |
| PRC (other than Hong Kong) | **126,053** | 261,106 | **48,238** | 57,065 |
| Hong Kong | **153,865** | 121,620 | **9,800** | 8,194 |
| Korea | **31,296** | 120,090 | **22,072** | 154,854 |
| Others | **52,339** | 66,091 | **–** | – |
| | **363,553** | 568,907 | **80,110** | 220,113 |

**Information about major customers**

For the year ended 31 December 2012, the Group's customer base has one customer (2011: Nil) with whom transactions have exceeded 10% of the Group's turnover. Turnover from this customer amounted to approximately HK$71,743,000 (2011: HK$40,330,000) 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 and rental income under operating leases.

## 5. OTHER INCOME AND GAINS

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Continuing operations | | |
| Interest income from bank deposits | **135** | 395 |
| Other interest income | **19** | – |
| Gain on disposal of property, plant and equipment | **166** | 3,140 |
| Scrap sales | **369** | 305 |
| Decrease in fair value of financial liabilities at fair value through profit and loss | **5,908** | 544 |
| Increase in fair value of investment properties | **4,292** | 2,586 |
| Freight charge charged to customers | **663** | – |
| Others | **1,247** | 919 |
| | **12,799** | 7,889 |

## 6. FINANCE COSTS

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Continuing operations | | |
| Interest charges on: | | |
| Bank loans wholly repayable within 1 year | **651** | 589 |
| Less: amounts capitalised | **(607)** | (589) |
| | **44** | – |

## 7. TAXATION

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| <u>Continuing operations</u> | | |
| **Hong Kong Profits Tax** | | |
| Provision for the year | **–** | – |
| Over-provision in prior years | **(149)** | (9,652) |
| | **(149)** | (9,652) |
| **PRC Corporate Income Tax** | | |
| Provision for the year | **2,736** | 1,009 |
| Under-provision in prior years | **1,332** | 172 |
| | **4,068** | 1,181 |
| **Korean Corporate Income Tax** | | |
| Under-provision in prior years | **–** | 655 |
| | **–** | 655 |
| **Deferred tax** *(note 18)* | | |
| (Credited) charged for the year | **(71)** | 3,806 |
| | **3,848** | (4,010) |

*Notes:*

(a) For the years ended 31 December 2012 and 2011, no Hong Kong Profits Tax has been provided in the financial statements as the Group has no assessable profits for both years. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

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 25% (2011: 25%) and 25% (2011: 25%) of estimated assessable profits for the year respectively.

The Korea Branch operated in Korea are subject to Korean Corporate Income Tax. The basic Korean Corporate Tax rates for the years ended 31 December 2012 and 2011 are 11% 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 as there is no assessable profit for the years ended 31 December 2012 and 2011.

(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 the year ended 31 December 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 the year ended 31 December 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 the year ended 31 December 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 have 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 had 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 prior years had been reversed in the consolidated statement of comprehensive income for the year ended 31 December 2011.

(c) 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. In 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.

Pursuant to a Deed of Indemnity dated 23 June 2003, two former shareholders, Mr. Yang and Kwang Sung Korea 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$8,478,000 should be therefore borne by the two former shareholders.

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. Under-provision of approximately HK$1,332,000 has been made for the 3 years ended 31 December 2009, 2010 and 2011. The amount was fully settled during the year. The transfer pricing assessment for 2012 is still in negotiation process.

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

| | **2012**<br>***HK$'000*** | 2011<br>*HK$'000*<br>(Restated) |
|---|---|---|
| Loss before taxation from continuing operations | **(19,796)** | (48,011) |
| Notional tax on loss before taxation, calculated at the rates applicable to profit in the tax jurisdictions concerned | **(4,076)** | (6,271) |
| Tax effect of non-deductible expenses for tax purpose | **5,238** | 4,477 |
| Tax effect of non-taxable income for tax purpose | **(1,864)** | (8) |
| Tax effect of unused tax loss and other temporary differences not recognised for deferred tax purposes | **3,367** | 6,617 |
| Under/(over)-provision in prior years | **1,183** | (8,825) |
| Taxation for the year (relating to continuing operations) | **3,848** | (4,010) |

Details of the deferred taxation are set out in note 18.

## 8. DISCONTINUED OPERATIONS

As described in note 1 above, the Privateco Group was distributed to the Record Date Shareholders on 11 December 2012. Thereafter, the Group is principally engaged in the Retained Businesses and the businesses operated by the Privateco Group (i.e. Distributed Business) have been classified as discontinued operations.

The loss for the period/year from the discontinued operations is analysed as follows:

| | **1/1/2012-<br>11/12/2012**<br>***HK$'000*** | Year ended<br>31/12/2011<br>*HK$'000* |
|---|---|---|
| Loss of the composite components and unit electronic components operations of Jay Star Group for the period/year | **(30,461)** | (9,309) |

The results of the Jay Star Group for the period from 1 January 2012 to 11 December 2012, which have been included in the consolidated statement of comprehensive income/income statement, were as follows:

| | **1/1/2012-<br>11/12/2012**<br>***HK$'000*** | Year ended<br>31/12/2011<br>*HK$'000* |
|---|---|---|
| Revenue | **169,240** | 26,971 |
| Cost of sales | **(155,223)** | (26,121) |
| Gross profit | **14,017** | 850 |
| Other income | **15,165** | 10,035 |
| Selling and distribution expenses | **(7,175)** | (1,377) |
| Administrative expenses | **(20,492)** | (5,141) |
| Research and development expenses | **(22,231)** | (5,762) |
| Other operating expenses | **(10,675)** | (7,983) |
| Loss before taxation | **(31,391)** | (9,378) |
| Taxation (deferred taxation) | **930** | 69 |
| Loss for the period/year | **(30,461)** | (9,309) |

Loss for the period/year from discontinued operations include the following:

| | 1/1/2012-<br>11/12/2012<br>*HK$'000* | Year ended<br>31/12/2011<br>*HK$'000* |
|---|---|---|
| Interest income from bank deposits | **11** | 131 |
| Other interest income | **6** | – |
| Auditors' remuneration | **107** | 21 |
| Minimum lease payments under operating leases | | |
| – hire of properties | **1,028** | 532 |
| Staff costs (including directors' remuneration) | | |
| – salaries, wage, allowance and other benefits in kind | **31,587** | 8,223 |
| – retirement scheme contributions | **2,693** | 645 |
| | **34,280** | 8,868 |
| Cost of inventories recognised as an expense | **155,223** | 26,121 |
| Amortisation of intangible assets | **1,095** | 1,168 |
| Impairment loss recognised on intangible assets (included in other operating expenses) | **5,929** | – |
| Impairment loss recognised on land and buildings for own use (included in other operating expenses) | **2,178** | – |
| Net foreign exchange losses | **614** | – |
| Allowance for inventories (included in cost of sales) | **3,473** | 2,224 |
| Depreciation | **4,942** | 696 |
| Less: amount recorded under government grant | **(61)** | (69) |
| Amount charged to the consolidated income statement | **4,881** | 627 |
| Interest charges on: | | |
| Bank loans wholly repayable within 1 year | **2,302** | 639 |
| Less: amounts capitalised | **(2,302)** | (639) |
| | **–** | – |

Cost of inventories includes approximately HK$10,148,000 (2011: HK$1,712,000) relating to staff costs, depreciation and minimum lease payments in respect of rented premises of which amounts are also included in respective total amounts disclosed separately above.

During the year, Jay Star Group contributed approximately HK$39,801,000 outflows (2011: HK$26,195,000 outflows) to the Group's net operating cash flows, approximately HK$33,908,000 outflows (2011: HK$73,095,000 outflows) in respect of investing activities and approximately HK$65,529,000 inflows (2011: HK$ 113,422,000 inflows) in respect of financing activities.

The carrying amounts of the assets and liabilities of Jay Star Group at the date of the Distribution In Specie are disclosed in note 19.

## 9. LOSS FOR THE YEAR

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss for the year from continuing operations is arrived at after charging (crediting): | | |
| **Continuing operations** | | |
| Auditors' remuneration | **615** | 629 |
| Minimum lease payments for rental premises under operating leases | **3,375** | 4,671 |
| Gross rental income less outgoing of HK$149,000 (2011: HK$49,000)) | **(1,929)** | (928) |
| Staff costs (including directors' remuneration) | | |
| – salaries, wage, allowance, long service payment and other benefits in kind | **52,461** | 76,129 |
| – retirement scheme contributions | **1,939** | 4,617 |
| | **54,400** | 80,746 |
| Cost of inventories recognised as an expense | **339,390** | 544,182 |
| Impairment loss recognised on goodwill (included in other operating expenses) | **–** | 5,857 |
| Impairment loss recognised on trade and other receivables (included in other operating expenses) | **1,365** | 156 |
| Reversal of impairment loss recognised on trade and other receivables (included in other operating expenses) | **(142)** | (853) |
| Net foreign exchange losses | **1,730** | 726 |
| Allowance for inventories (included in cost of sales) | **1,982** | 18,897 |
| Depreciation | **8,758** | 12,825 |
| Less: amount recorded under government grant | **–** | – |
| Amount charged to the consolidated income statement | **8,758** | 12,825 |

Cost of inventories includes approximately HK$51,651,000 (2011: HK$53,063,000) 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$1,739,000 (2011: HK$642,000) for staff quarters which is also included and disclosed in staff costs.

## 10. DIVIDENDS

Pursuant to the approval by the shareholders of the Company at the extraordinary general meeting held on 5 December 2012, a special dividend by way of the Distribution In Specie of Jay Star Group was distributed to the shareholders of the Company, amounted to approximately HK$111,773,000. Details of the assets and liabilities distributed are set out in note 19.

Except for the above, no dividend was paid or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

## 11. LOSS PER SHARE

From continuing and discontinued operations

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| **Loss** | | |
| Loss for the purpose of basic and diluted earnings per share | | |
| Loss for the year attributable to owners of the Company | **52,339** | 52,946 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share | **323,896,933** | 323,896,933 |

The diluted loss per share is the same as basic loss per share as the Company has no dilutive potential shares outstanding for both years.

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | | (Restated) |
| **Loss figures are calculated as follows:** | | |
| Loss for the year attributable to owners of the Company | **52,339** | 52,946 |
| Less: Loss for the year from discontinued operations | **(28,695)** | (8,945) |
| Loss for the purpose of basic earnings per share from continuing operations | **23,644** | 44,001 |

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

From discontinued operations

Basic and diluted loss per share for the discontinued operations is HK8.86 cents per share (2011: HK2.76 cents per share), based on the loss for the year from the discontinued operations of approximately HK$28,695,000 (2011: HK$8,945,000).

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

## 12. GOODWILL

| | *HK$'000* |
|---|---|
| **Cost** | |
| At 1 January 2011 and 31 December 2011 | 5,857 |
| Distribution In Specie of shares in a subsidiary *(note 19)* | (5,857) |
| At 31 December 2012 | – |
| **Impairment** | |
| At 1 January 2011 | – |
| Impairment loss recognised | 5,857 |
| At 31 December 2011 | 5,857 |
| Eliminated on the Distribution In Specie of shares in a subsidiary *(note 19)* | (5,857) |
| At 31 December 2012 | – |
| **Carrying values** | |
| At 31 December 2012 | – |
| At 31 December 2011 | – |

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% for the year ended 31 December 2011. The cash flows beyond the ten-year period were assumed constant with zero growth rate. This average growth rate 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 inflow/outflow 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 was recognised.

During the year ended 31 December 2012, the goodwill was released upon the Distribution In Specie of shares in a subsidiary *(note 19)*.

## 13. INTANGIBLE ASSETS

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Cost | | |
| At 1 January | **19,478** | 19,644 |
| Exchange adjustments | **529** | (166) |
| Disposal on the Distribution In Specie of shares in a subsidiary *(note 19)* | **(20,007)** | – |
| At 31 December | **–** | 19,478 |
| Amortisation | | |
| At 1 January | **3,151** | 2,021 |
| Exchange adjustments | **105** | (38) |
| Charge for the year | **1,095** | 1,168 |
| Impairment losses | **5,929** | – |
| Eliminated on the Distribution In Specie of shares in a subsidiary *(note 19)* | **(10,280)** | – |
| At 31 December | **–** | 3,151 |
| Carrying values | | |
| At 31 December | **–** | 16,327 |

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.

During the year ended 31 December 2012, all patents were disposed of on the Distribution In Specie of shares in a subsidiary *(note 19)*.

## 14. TRADE AND OTHER RECEIVABLES

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Trade and bills receivables | **66,479** | 122,339 |
| Less: provision for impairment loss | **(11,194)** | (10,000) |
| | **55,285** | 112,339 |
| Short-term loans to key management personnel and employees | **–** | 553 |
| Tax reserve certificates | **–** | 23,380 |
| Deposits, prepayments and other receivables | **10,193** | 13,967 |
| | **65,478** | 150,239 |

**(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, which approximated the respective revenue recognition dates with the following ageing analysis as of the end of the reporting period:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0-90 days | **52,961** | 98,537 |
| 91-180 days | **2,103** | 13,802 |
| 181-365 days | **221** | – |
| | **55,285** | 112,339 |

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 bills receivables of approximately HK$345,000, which are aged less than 90 days as at 31 December 2011. No bills receivable is outstanding at 31 December 2012.

**(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 are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

At 31 December 2012, the Group's trade and bills receivables of approximately HK$11,194,000 (2011: HK$10,000,000) were individually determined to be impaired.

The movements in impairment losses recognised during the year are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| At 1 January | **10,000** | 13,194 |
| Impairment loss recognised | **1,365** | 156 |
| Amounts written off as uncollectible | – | (2,497) |
| Reversal of impairment loss | **(142)** | (853) |
| Exchange adjustments | **(29)** | – |
| At 31 December | **11,194** | 10,000 |

## 15. TRADE AND OTHER PAYABLES

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **46,322** | 76,314 |
| Accrued expenses and other payables | **28,191** | 25,495 |
| | **74,513** | 101,809 |

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

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0-90 days | **41,978** | 65,385 |
| 91-180 days | **2,709** | 9,971 |
| 181-365 days | **95** | 958 |
| Over 365 days | **1,540** | – |
| | **46,322** | 76,314 |

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.

## 16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

| | **2012** | 2011 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fair value | | |
| At 1 January | **5,908** | 6,452 |
| Fair value change credited to the consolidated income statement | **–** | (544) |
| Release on acceptance of cash offer | **(5,908)** | – |
| At 31 December | **–** | 5,908 |

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 (the "Consideration Shares") 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 (i.e. March 2013), under either condition:

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

(b) 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 Consideration Shares.

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:

| | **2012** | 2011 |
|---|---|---|
| Dividend yield | **N/A** | 0% |
| Expected volatility | **N/A** | 85% |
| Risk-free interest rate | **N/A** | 0.9% |
| Expected life | **N/A** | 1.25 year |
| Weighted average share price | **N/A** | HK$0.600 |

The binomial model has been used as at 31 December 2011 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.

During the year ended 31 December 2012, the Seller accepted cash offer of HK$0.9263 per share and HK$0.38 per share to sell the Consideration Shares to Ultra Harvest and Smart Top Investments Limited, a company which is wholly-owned by Mr. Yang (former shareholder), respectively. Accordingly, obligation under the options was lapsed thereafter as the Seller no longer own the Consideration Shares according to the Agreement.

## 17. 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** |
| | *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 2011 | 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 (restated) | – | – | – | – | 895 | – | 3,916 | (52,946) | (48,135) | (364) | (48,499) |
| Transfer | – | – | – | – | – | 839 | – | (839) | – | – | – |
| Reduction of contributions from shareholders | – | – | – | (1,468) | – | – | – | – | (1,468) | – | (1,468) |
| At 31 December 2011 (as restated) | 32,390 | 58,566 | 301 | 8,478 | 23,142 | 10,215 | (7,321) | 195,988 | 321,759 | 2,258 | 324,017 |
| Total comprehensive income (expense) for the year | – | – | – | – | – | – | 9,123 | (52,339) | (43,216) | (1,766) | (44,982) |
| Released upon the Distribution In Specie of shares in a subsidiary | – | – | (301) | – | – | – | (8,488) | 8,789 | – | (492) | (492) |
| Special dividend by way of the Distribution In Specie of shares in a subsidiary *(note 19)* | – | – | – | – | – | – | – | (111,773) | (111,773) | – | (111,773) |
| At 31 December 2012 | 32,390 | 58,566 | – | 8,478 | 23,142 | 10,215 | (6,686) | 40,665 | 166,770 | – | 166,770 |

## 18. DEFERRED TAX LIABILITIES

The components of deferred tax (assets) liabilities recognised in the Group's and the Company's statements of financial position and the movements during the year are as follows:

| | Depreciation allowances in excess of related depreciation | Revaluation of land and buildings held for own use and investment properties | Patents | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | (Restated) | | (Restated) |
| At 1 January 2011 | 1,114 | 4,338 | 2,428 | 7,880 |
| (Credited) charged to profit or loss *(note 7)* | (288) | 4,206 | (181) | 3,737 |
| Debited to reserve | – | 884 | – | 884 |
| At 31 December 2011 | 826 | 9,428 | 2,247 | 12,501 |
| Charged to profit or loss *(note 7)* | (619) | 548 | (930) | (1,001) |
| Decrease in the Distribution In Specie of shares in a subsidiary *(note 19)* | – | – | (1,317) | (1,317) |
| At 31 December 2012 | 207 | 9,976 | – | 10,183 |

## 19. DISTRIBUTION IN SPECIE OF SHARES IN A SUBSIDIARY

Pursuant to an extraordinary general meeting held on 5 December 2012, the shareholders of the Company approved the Group Reorganisation which involved the transfer of shares in a subsidiary carrying on composite components and unit electronic components operations in Korea and the PRC to a subsidiary of the Company, Jay Star. Pursuant to the Group Reorganisation, the Company distributed all of the ordinary shares in Jay Star to the shareholders of the Company. Details of the Distribution In Specie are set out in the Company's announcements dated 17 October 2012 and 11 December 2012 respectively.

As detailed in note 8, on 11 December 2012, the Group discontinued these operations at the time of disposal of the Jay Star Group. The net assets of Jay Star Group, at the date of disposal were as follows:

**Analysis of assets and liabilities which were distributed during the year:**

| | **11/12/2012** |
|---|---|
| | ***HK$'000*** |
| Property, plant and equipment | **166,542** |
| Intangible assets | **9,727** |
| Deposits paid for acquisition of property, plant and equipment | **2,335** |
| Inventories | **29,597** |
| Trade and other receivables | **48,408** |
| Bank balances and cash | **7,731** |
| Trade and other payables | **(32,749)** |
| Amount due to a former shareholder | **(53,578)** |
| Bank borrowing – due within one year | **(64,431)** |
| Deferred tax liabilities | **(1,317)** |
| Non-controlling interests | **(492)** |
| Net assets attributable to the Group distributed to the shareholders | **111,773** |

**Net cash outflows arising on the Distribution In Specie:**

| | |
|---|---|
| Bank balances and cash disposal of | **7,731** |

## DIVIDEND

The Board did not recommend the payment of final dividend in respect of the year ended 31 December 2012 (2011: 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 optimal returns to shareholders.

## ANNUAL GENERAL MEETING

The annual general meeting (the "AGM") will be held at Training Room A, Joint Professional Centre Ltd, Unit 1, G/F., The Centre, 99 Queen's Road Central, Hong Kong on Thursday, 30 May 2013 at 2:30 p.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.hkexnews.hk, and is intended to be despatched to shareholders on or before Monday, 29 April 2013.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 28 May 2013 to Thursday, 30 May 2013, 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 Monday, 27 May 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Corporate Changes

As mentioned in note 1 above, following the completion of the Group Reorganisation, the Distribution In Specie and the Share Sale Agreement, the Distributed Businesses were classified as discontinued operations and the Group was only engaged in the business of the manufacture and sale of electronic components and Ultra Harvest has become the ultimate holding company of the Company.

The discontinued operations for the year ended 31 December 2012 have been presented as a single amount in the Group's consolidated income statement in accordance with HKFRSs and certain comparative figures have been re-presented to conform to the current year's presentation. During the year, a new reporting segment - properties investment was introduced based on its relative significance in terms of turnover and profit attributable to the Group.

**Continuing Operations**

**Turnover**

Prior to 1 August 2011, the Privateco Group had not yet commenced operations, and all the business in the discontinued operations were operated directly by the Company. Since 1 August 2011, the business in the Privateco Group has commenced gradually. Starting from the beginning of 2012, the Privateco Group has taken full responsibility of the business in the discontinued operations. Therefore, the sales in continuing operations in 2011 included certain businesses in the discontinued operations operated directly by the Company. Due to the fact that the Company was not in charge of any discontinued operations in 2012, turnover from the continuing operations decreased by approximately HK$205,354,000 or 36.1% to approximately HK$363,553,000, of which turnover from sales of composite components amounted to approximately HK$199,257,000, turnover from sales of unit electronic components amounted to approximately HK$162,218,000; and turnover from properties investment amounted to approximately HK$2,078,000.

**Cost of sales**

Cost of sales decreased by approximately HK$208,223,000 or 38.0% to approximately HK$339,539,000. The decrease in cost of sales was in line with decrease in turnover.

**Gross Profit**

Despite decrease in turnover, the gross profit increased by approximately HK$2,869,000 or 13.6% to approximately HK$24,014,000. The increase was primarily due to decrease in slow moving inventory provision by approximately HK$16,915,000. Accordingly, overall gross profit margin increased from 3.7% in 2011 to 6.6% in 2012.

**Other Income and Gains**

Other income and gains increased by approximately HK$4,910,000 or 62.2% to approximately HK$12,799,000. The increase in other income and gains was primarily due to net effect of increase in fair value of investment properties by approximately HK$1,706,000, decrease in fair value of financial liabilities at fair value through profit and loss by approximately HK$5,364,000, and decrease in gain on disposal of property, plant and equipment by approximately HK$2,974,000.

**Operating Expenses**

Operating expenses and finance costs decreased by approximately HK$20,436,000 or 26.5% to approximately HK$56,609,000. This is mainly due to decrease in turnover during the year.

**Taxation**

Taxation expenses amounted to approximately HK$3,848,000 as compared to tax credit of approximately HK$4,010,000 for last year. Out of the taxation expenses of approximately HK$3,848,000, the balance of approximately HK$1,332,000 reflected under-provision of PRC Corporate Income Tax in prior years.

**Loss for the Year**

As a result of the combined effects of the above, the Group recorded a net loss of approximately HK$23,644,000 from the continuing operations.

**Discontinued Operations**

Discontinued operations are directly operated by the Privateco Group, and the business in the Privateco Group gradually commenced only since 1 August 2011. Therefore, sales in discontinued operations in 2011 were relatively lower. But due to the fact that Privateco Group has assumed full responsibility of the business in the discontinued operations in 2012, turnover from the discontinued operations increased by approximately HK$142,269,000 or 527.5% to approximately HK$169,240,000, with a gross profit amount of approximately HK$14,017,000 and a gross profit margin at 8.3%. Other income mainly reflected procurement, sales and research and development fee income of approximately HK$14,880,000. Total operating expenses, including selling and distribution expenses, administrative expenses, research and development expenses and other operating expenses, amounted to approximately HK$60,573,000 in 2012, an increase of approximately HK$40,310,000 against approximately HK$20,263,000 recorded in the previous year. The discontinued operations recorded income tax credit of approximately HK$930,000. Accordingly, net loss for the year ended 31 December 2012 amounted to approximately HK$30,461,000 from the discontinued operations.

Based on the foregoing, the Group recorded a net loss of approximately HK$52,339,000 attributable to owners of the Company, of which net loss from the continuing operations amounted to approximately HK$23,644,000 and net loss from the discontinued operations amounted to approximately HK$28,695,000.

**Liquidity and Financial Resources**

As at 31 December 2012, the Group's net current assets and current ratio were approximately HK$97,294,000 and 1.93 respectively (2011: approximately HK$117,095,000 and 1.54). The increase in current ratio mainly reflected the percentage decrease in current liabilities was higher than percentage decrease in current assets. The gearing ratio (defined as total bank borrowing divided by total equity) as at 31 December 2012 was 0.12 (2011: 0.23). The decrease in gearing ratio primarily represented the percentage decreased in bank borrowing was higher than the percentage decrease in total equity.

As at 31 December 2012, the Group's bank balances and cash amounted to approximately HK$110,250,000 (2011: approximately HK$110,182,000).

**Charge on Assets**

As at 31 December 2012, bank deposits of approximately HK$11,009,000 (2011: approximately HK$472,000), the investment properties of approximately HK$46,492,000 (2011: approximately HK$23,930,000) and the land and buildings of Nil (2011: approximately HK$71,722,000) were pledged to secure banking facilities granting to the Group.

**Capital Structure**

For the year ended 31 December 2012, the Group primarily financed its liquidity requirements through a combination of cash flow as generated from operations and bank borrowing.

**Capital Commitment and Contingent Liabilities**

As at 31 December 2012, the Group had approximately HK$88,000 (2011: approximately HK$14,619,000) of capital commitments and approximately HK$10,414,000 as operating lease commitments (2011: approximately HK$11,078,000). As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: Nil).

**Material Acquisitions and Disposals of Subsidiaries or Associated Companies**

Save for the completion of the Distribution In Specie of the shares of Jay Star by the Company to its then shareholders on 11 December 2012 where Jay Star Group ceased to be members of the Group, the Group did not have any material acquisitions or disposals of subsidiaries or associated companies during the year ended 31 December 2012.

**Staff and Remuneration Policy**

As at 31 December 2012, the Group had approximately 710 employees, including 667 based in the PRC and 43 based in Hong Kong. Staff cost from the continuing operations for the year ended 31 December 2012 was approximately HK$54,400,000, representing a decrease of approximately HK$26,346,000 as compared to approximately HK$80,746,000 of last year.

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 performance of the Group. Employees are also entitled to other staff benefits including medical insurance and mandatory provident fund.

**Foreign Exchange Fluctuation and Hedge**

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to RMB, United States Dollars and KRW. Foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investment in foreign operations.

During the year ended 31 December 2012, the Group did not enter into any forward foreign currency contracts (2011: Nil).

**BUSINESS REVIEW**

**Composite Components Business**

For the year ended 31 December 2012, the turnover from the composite components business dropped by approximately HK$38,650,000 or 13.0% from approximately HK$296,271,000 in 2011 to approximately HK$257,621,000 in 2012. This reduction was mainly due to continued declining customer demand and changes in technical specifications of tuner modules for home audio systems amidst the fast-changing technological and electronic markets. Meanwhile, the sales of this segment contributed 54.2% to the Group's total turnover, compared with 53.1% in the corresponding period in 2011.

The sales from tuner modules for home audio systems decreased by 40.8% to approximately HK$74,731,000, representing 29.0% of the Group's total turnover of the composite components business. The drop in sales of this product was partly recovered from the sales of dual docking systems for mainstream smartphones arising from the rapid growth in the smartphone and tablet personal computer markets. Leveraging the fast-growing mobile devices in home audio market, the Group recorded approximately HK$22,869,000 in sales of dual docking systems during the year.

In view of the declining customer demand of traditional home tuner products, the Group has gradually shifted its business direction to multi-function electronic devices, especially automotive-focused solutions. In line with this strategy, the Group reached satisfactory growth of 7.9% in sales of tuner modules for car audio systems. Turnover marked approximately HK$71,102,000 during the financial year, accounting for 27.6% to the Group's total turnover of the segment. The improvement was attributed to the consistent before-market demand in China and Korea including that of leading Korean automotive manufacturers based in China.

The turnover from wireless solutions amounted to approximately HK$30,084,000, accounting for 11.7% of the Group's total turnover in the composite components business. The decline in sales was mainly due to discontinued orders for wireless speaker systems in home audios. However, the Group has recently worked closely with consumers for Bluetooth speaker systems designed by the Group's research and development resources, thus a greater revenue contribution to this segment is expected.

As for digital solutions in digital audio broadcasting ("DAB") and hybrid digital radio ("HD Radio"), the Group has been working with an integrated circuit manufacturer and supplier for possible strategic alliance for the production of modules and end products.

**Unit Electronic Components Business**

For the year ended 31 December 2012, turnover from the unit electronic components business decreased by approximately HK$45,805,000 or 17.5% from approximately HK$261,280,000 in 2011 to approximately HK$215,475,000 in 2012. The sales of this segment represented 45.3% the Group's total turnover, compared with 46.8% in the corresponding period in 2011.

The turnover from the transformers for LCD and LED televisions as well as adapters for mobile devices increased modestly by 4.5% to approximately HK$80,338,000, representing 37.3% of the Group's total turnover in unit electronic components business thanks to rising demand for automated production of PRC customers to reduce cost burden from high labour costs, while the turnover from the coils for power supplies dropped by 32.4% to approximately HK$92,011,000, representing 42.7% of the Group's total turnover in unit electronic components business.

**Properties Investment Business**

Properties investment business became one of the significant segments to the Group in terms of turnover, profit and assets value of the Group.

For the year ended 31 December 2012, turnover from the properties investment business increased by approximately HK$1,101,000 or 112.7% from approximately HK$977,000 in 2011 to approximately HK$2,078,000 in 2012. The turnover reflected rental income arising from lease of the Group's investment properties located in Hong Kong, the PRC and Korea.

**Prospects**

To cope with the challenges of intense competition and the weak sentiment in traditional consumer electronics markets, the Group will focus on launching new products to enhance its profitability to match the flexible business adjustment strategy. Looking ahead, the Group will continue to realign its production to address the rising customer demand for multi-functional electronic devices such as mobile devices, and digital solutions in DAB and automotive related business segments.

The Group is pleased with the rapidly growing smartphone and tablet personal computer markets, and is developing more new models - the peripheral devices for mainstream smart devices including a dual docking system and a wireless Bluetooth speaker system with "full digital" capability. The Group is one of the recognised vendors of renowned consumer electronics brands in this region and enjoys stable business partnerships with industry leaders. The Group is collaborating closely with clients to develop multi-function electronic devices with innovative functions and expects to secure new orders from its current customers in the future.

In addition, the Group will focus on higher profit margin automotive electronics products. As one of the key suppliers of car audio system solutions in Korea, the Group is striving to further extend its market share and strengthen position in this segment.

On the other hand, the proliferation of smart devices has generated positive prospects for transformer products used in LED televisions and adapters for mobile devices. The Group is currently working closely with leading Korean consumer electronics brands to supply transformer components for the growing demands.

Business performance of the properties investment business has been satisfactory. In the long term, the Group will evaluate its investment strategies towards the investment properties.

## 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 adheres to the business objectives of contributing to the sustainable development of the electronics industry, improving consumer electronics to heighten product efficiency and delivering 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 introduced appropriate safety systems and processes to minimise staffs exposure to potential hazardous materials or adverse working conditions. As an equal opportunity employer, the Group strives to provide a fair work environment to employees and does not tolerate any form of harassment or discrimination in respect of employment and occupation. To retain the best talents, the Group ensures its employee remuneration packages are competitive and that rewards are linked with performance excellence.

The Group also encourages employees to 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 include 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 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 programme. To fulfill its commitment to the 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 maintaining a high standard of corporate governance practices and procedures. The Company has complied with the code provisions ("CP") of the former Code on Corporate Governance Practices (the "Old Code") and of the new Corporate Governance Code (the "CG Code") effective from 1 April 2012 as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following:

Code Provision A.6.7

Pursuant to the code provision A.6.7, independent non-executive directors and other non-executive directors should attend the general meetings of the Company.

The Company held its annual general meeting on 25 May 2012. Dr. Kim Chung Kweon (resigned on 7 January 2013) and Dr. Han Byung Joon (resigned on 7 January 2013) were unable to attend the Company's annual general meeting due to their unavoidable business engagements.

To approve the Distribution In Specie of shares of Jay Star by the Company to the Company's shareholders and to approve the framework supply agreement (details are set out in the Company's circular dated 19 November 2012) entered into by the Company, the Company held an extraordinary general meeting on 5 December 2012. Dr. Kim Chung Kweon, Dr. Han Byung Joon and Mr. Kim Chan Su (resigned on 7 January 2013) were unable to attend the Company's extraordinary general meeting due to their unavoidable business engagements.

The Company will continue to create excellent conditions for independent non-executive directors and (if any) non-executive directors to attend general meetings, so as to support non-executive directors to respond to shareholders' questions in the general meetings.

**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 as at 31 December 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**

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 2012.

**Review of Accounts**

The Audit Committee of the Company, which comprises all independent non-executive directors of the Company, has reviewed the financial results of the Group for the year ended 31 December 2012, 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.hkexnews.hk. The 2012 annual report will be despatched to shareholders on or before Monday, 29 April 2013, which will be also made available on the websites of the Company and the Stock Exchange.

By order of the Board
**Forebase International Holdings Limited**
**SHEN YONG**
*Chairman*

Hong Kong, 26 March 2013

*As at the date hereof, the Board comprises seven executive Directors Mr. SHEN Yong, Mr. Ronald Lew PODLAS, Mr. SHEN Ke, Mr. LI Zhi, Mr. XU Li Jian, Mr. LEUNG Kin Pang and Mr. HONG Sang Joon; and four independent non-executive Directors Mr. YU Lei, Dr. JIANG Ying, Ms. ZHANG Cui Lan and Mr. Ernst Rudolf ZIMMERMANN.*