



**AV CONCEPT HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 595

# INTERIM REPORT 2011-2012



## INCOME STATEMENT HIGHLIGHTS

|   | Six Months Ended          |                           |
|---|---------------------------|---------------------------|
|   | 30/9/2011<br>HK\$'million | 30/9/2010<br>HK\$'million |
| Revenue   | <b>1,869.8</b>            | 1,173.1                   |
| Earnings before interest, tax, depreciation,<br>amortisation and non-cash items |                           |                           |
| – Corporate   | (26.7)                    | 5.8                       |
| – Semiconductor distribution  | 37.2                      | 24.0                      |
| – Consumer electronic product   | 11.3                      | 13.7                      |
| – LED   | (2.5)                     | 5.9                       |
|   | <b>19.3</b>               | 49.4                      |
| Depreciation, amortisation and non-cash items                                   | <b>(6.0)</b>              | (4.3)                     |
| Profit for the period attributable to:  |                           |                           |
| Owners of the Company   | 2.8                       | 37.0                      |
| Non-controlling interests   | 2.1                       | (0.3)                     |
|   | <b>4.9</b>                | 36.7                      |
| Interim dividend  | <b>6.1</b>                | 15.7                      |

## STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

|  | 30/9/2011<br>HK\$'million | 31/3/2011<br>HK\$'million |
|--|---------------------------|---------------------------|
| Total assets   | <b>1,650.3</b>            | 1,387.2                   |
| Total assets less current liabilities                                | <b>687.7</b>              | 684.8                     |
| Total equity   | <b>648.4</b>              | 679.3                     |
| Bank debts   | <b>673.0</b>              | 507.3                     |
| Cash and cash equivalents  | <b>130.9</b>              | 287.4                     |
| Equity investments at fair value through profit or loss              | <b>92.3</b>               | 223.3                     |
| Cash and cash equivalents and equity investments                     | <b>223.2</b>              | 510.7                     |
| Net debt   | <b>449.8</b>              | –                         |
| Net debt to total equity (%)   | <b>69%</b>                | –                         |
| Current assets to current liabilities (%)                            | <b>119%</b>               | 148%                      |
| Cash and cash equivalents and equity investments<br>per share (HK\$) | <b>0.37</b>               | 0.82                      |
| Total equity per share (HK\$)  | <b>1.06</b>               | 1.09                      |

## UNAUDITED INTERIM RESULTS

The Board of Directors of AV Concept Holdings Limited (the “Company” or “AV Concept”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together referred to as the “Group”) for the six months ended 30 September 2011 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

|   |              | Six months ended<br>30 September |                                 |
|---|--------------|----------------------------------|---------------------------------|
|   |              | 2011<br>(Unaudited)<br>HK\$'000  | 2010<br>(Unaudited)<br>HK\$'000 |
|   | <i>Notes</i> |                                  |                                 |
| <b>REVENUE</b>  | 3            | <b>1,869,790</b>                 | 1,173,076                       |
| Cost of sales   |              | <u>(1,735,230)</u>               | <u>(1,106,239)</u>              |
| Gross profit  |              | <b>134,560</b>                   | 66,837                          |
| Other income and gains  | 4            | <b>35,671</b>                    | 14,100                          |
| Selling and distribution costs  |              | <b>(54,443)</b>                  | (17,976)                        |
| Administrative expenses   |              | <b>(73,906)</b>                  | (44,862)                        |
| Fair value (losses)/gains on equity investments at fair value through profit or loss, net |              | <b>(55,348)</b>                  | 6,305                           |
| Fair value losses on derivative instrument at fair value through profit or loss           |              | -                                | (7,178)                         |
| Revaluation of a pre-existing interest in an acquired subsidiary to fair value            |              | -                                | 5,613                           |
| Gain on disposal of subsidiaries  |              | <b>28,274</b>                    | -                               |
| Other expenses  |              | <b>(101)</b>                     | (1,093)                         |
| Share of profits and losses of:<br>a jointly-controlled entity associates                 |              | <b>180</b>                       | 10,072                          |
|   |              | <u>(1,535)</u>                   | <u>13,307</u>                   |
| <b>PROFIT FROM OPERATING ACTIVITIES</b>   |              | <b>13,352</b>                    | 45,125                          |
| Finance costs   | 5            | <u>(11,388)</u>                  | <u>(7,562)</u>                  |
| <b>PROFIT BEFORE TAX</b>  | 6            | <b>1,964</b>                     | 37,563                          |
| Income tax  | 7            | <b>3,019</b>                     | (814)                           |
| <b>PROFIT FOR THE PERIOD</b>  |              | <u><b>4,983</b></u>              | <u>36,749</u>                   |
| <b>Attributable to:</b>   |              |                                  |                                 |
| Owners of the Company   |              | <b>2,859</b>                     | 37,063                          |
| Non-controlling interests   |              | <b>2,124</b>                     | (314)                           |
|   |              | <u><b>4,983</b></u>              | <u>36,749</u>                   |
| <b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>          | 9            |                                  |                                 |
| Basic   |              | <u><b>0.4 cents</b></u>          | <u>7.3 cents</u>                |
| Diluted   |              | <u><b>0.4 cents</b></u>          | <u>7.3 cents</u>                |

Details of the dividend payable and proposed for the period are disclosed in note 8 to Condensed Consolidated Interim Financial Statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|   | Six months ended<br>30 September |               |
|---|----------------------------------|---------------|
|   | 2011                             | 2010          |
|   | (Unaudited)                      | (Unaudited)   |
|   | HK\$'000                         | HK\$'000      |
| <b>PROFIT FOR THE PERIOD</b>  | <b>4,983</b>                     | <b>36,749</b> |
| <b>OTHER COMPREHENSIVE INCOME</b>   |                                  |               |
| Exchange differences on translation of foreign<br>operations and other comprehensive income<br>for the period, net of tax | (536)                            | (55)          |
| <b>TOTAL COMPREHENSIVE INCOME<br/>FOR THE PERIOD</b>  | <b>4,447</b>                     | <b>36,694</b> |
| <b>Attributable to:</b>   |                                  |               |
| Owners of the Company   | 2,323                            | 37,008        |
| Non-controlling interests   | 2,124                            | (314)         |
|   | <b>4,447</b>                     | <b>36,694</b> |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|   |              | 30 September<br>2011<br>(Unaudited)<br>HK\$'000 | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|---|--------------|---|---|
|   | <i>Notes</i> |   |   |
| <b>NON-CURRENT ASSETS</b>                               |              |   |   |
| Property, plant and equipment                           |              | 121,905   | 67,724                                    |
| Investment property                                     |              | 29,689  | 24,701                                    |
| Goodwill  | 12           | 59,100  | 37,729                                    |
| Other intangible assets                                 | 10           | 24,124  | 26,592                                    |
| Investment in a jointly-controlled entity               |              | 2,243   | 14,458                                    |
| Investments in associates                               |              | 253,924   | 173,679                                   |
| Available-for-sale investments                          | 11           | 10,623  | 1,750                                     |
| Deferred tax assets                                     |              | 2,796   | 2,796                                     |
|   |              | <hr/>   | <hr/>                                     |
| Total non-current assets                                |              | 504,404   | 349,429                                   |
|   |              | <hr/>   | <hr/>                                     |
| <b>CURRENT ASSETS</b>                                   |              |   |   |
| Inventories   | 13           | 366,756   | 257,881                                   |
| Trade and bills receivables                             | 14           | 461,049   | 237,876                                   |
| Prepayments, deposits and other receivables             |              | 94,854  | 31,313                                    |
| Equity investments at fair value through profit or loss | 15           | 92,288  | 223,339                                   |
| Time deposits   |              | -   | 62,204                                    |
| Cash and bank balances                                  |              | 130,934   | 225,160                                   |
|   |              | <hr/>   | <hr/>                                     |
| Total current assets                                    |              | 1,145,881                                       | 1,037,773                                 |
|   |              | <hr/>   | <hr/>                                     |
| <b>CURRENT LIABILITIES</b>                              |              |   |   |
| Trade payables, deposits received and accrued expenses  | 16           | 322,119   | 192,125                                   |
| Interest-bearing bank borrowings                        |              | 637,949   | 505,268                                   |
| Finance lease payables                                  |              | 635   | 423                                       |
| Tax payable   |              | 648   | 3,250                                     |
| Financial guarantee obligation                          |              | 1,262   | 1,262                                     |
|   |              | <hr/>   | <hr/>                                     |
| Total current liabilities                               |              | 962,613   | 702,328                                   |
|   |              | <hr/>   | <hr/>                                     |
| <b>NET CURRENT ASSETS</b>                               |              | <b>183,268</b>                                  | <b>335,445</b>                            |
|   |              | <hr/>   | <hr/>                                     |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | 30 September<br>2011<br>(Unaudited)<br>HK\$'000 | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|--|---|---|
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> | <b>687,672</b>                                  | 684,874                                   |
| <b>NON-CURRENT LIABILITIES</b>               |   |   |
| Interest-bearing bank borrowings             | 33,273  | –   |
| Finance lease payables                       | 1,142   | 1,565                                     |
| Retirement benefit liabilities               | 1,262   | –   |
| Deferred tax liabilities                     | 3,585   | 4,042                                     |
|  | <hr/>   | <hr/>                                     |
| Total non-current liabilities                | 39,262  | 5,607                                     |
|  | <hr/>   | <hr/>                                     |
| <b>Net assets</b>                            | <b>648,410</b>                                  | 679,267                                   |
|  | <hr/>   | <hr/>                                     |
| <b>EQUITY</b>                                |   |   |
| Issued capital                               | 60,884  | 62,056                                    |
| Reserves                                     | 580,551   | 593,622                                   |
| Proposed dividends                           | 6,088   | 24,822                                    |
|  | <hr/>   | <hr/>                                     |
| Equity attributable to owners of the Company | 647,523   | 680,504                                   |
| Non-controlling interests                    | 887   | (1,237)                                   |
|  | <hr/>   | <hr/>                                     |
| Total equity                                 | 648,410   | 679,267                                   |
|  | <hr/>   | <hr/>                                     |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

|  | Issued<br>capital<br>(Unaudited)<br>HK\$'000 | Share<br>premium<br>account<br>(Unaudited)<br>HK\$'000 | Capital<br>reserve<br>(Unaudited)<br>HK\$'000 | Equity-<br>settled<br>share-based<br>payment<br>expenses<br>reserve<br>(Unaudited)<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>(Unaudited)<br>HK\$'000 | Retained<br>profits<br>(Unaudited)<br>HK\$'000 | Proposed<br>dividend<br>(Unaudited)<br>HK\$'000 | Total<br>(Unaudited)<br>HK\$'000 | Non-<br>controlling<br>interests<br>(Unaudited)<br>HK\$'000 | Total<br>equity<br>(Unaudited)<br>HK\$'000 |
|--|--|--|---|--|---|--|---|----------------------------------|---|--|
| As at 1 April 2010   | 46,636                                       | 191,298  | 15,778  | 2,660  | 4,155   | 99,616   | 20,934  | 381,077                          | -   | 381,077                                    |
| Total comprehensive income<br>for the period   | -  | -  | -   | -  | (55)  | 37,063   | -   | 37,008                           | (314)   | 36,694                                     |
| Placing of shares  | 5,700  | 54,150   | -   | -  | -   | -  | -   | 59,850                           | -   | 59,850                                     |
| Shares placing expenses  | -  | (3,514)  | -   | -  | -   | -  | -   | (3,514)                          | -   | (3,514)                                    |
| Revaluation of a pre-existing<br>interest in an acquired<br>subsidiary to fair value | -  | -  | -   | -  | -   | -  | -   | -                                | 4,136   | 4,136                                      |
| Final 2010 dividend  | -  | -  | -   | -  | -   | -  | (20,934)  | (20,934)                         | -   | (20,934)                                   |
| Proposed interim 2011 dividend   | -  | -  | -   | -  | -   | (15,701)                                       | 15,701  | -                                | -   | -  |
| As at 30 September 2010  | <u>52,336</u>                                | <u>241,934</u>   | <u>15,778</u>                                 | <u>2,660</u>   | <u>4,100</u>  | <u>120,978</u>                                 | <u>15,701</u>                                   | <u>453,487</u>                   | <u>3,822</u>  | <u>457,309</u>                             |
| As at 1 April 2011   | 62,056                                       | 383,227  | 15,778  | 2,660  | 10,392  | 180,186  | 24,822  | 679,121                          | (1,237)   | 677,884                                    |
| Total comprehensive income<br>for the period   | -  | -  | -   | -  | (536)   | 2,859  | -   | 2,323                            | 2,124   | 4,447                                      |
| Equity-settled share option<br>arrangement   | -  | -  | -   | 497  | -   | -  | -   | 497                              | -   | 497  |
| Repurchase of shares   | (1,172)                                      | (8,424)  | 1,172   | -  | -   | (1,172)  | -   | (9,596)                          | -   | (9,596)                                    |
| Final 2011 dividend  | -  | -  | -   | -  | -   | -  | (24,822)  | (24,822)                         | -   | (24,822)                                   |
| Proposed interim 2011 dividend   | -  | -  | -   | -  | -   | (6,088)  | 6,088   | -                                | -   | -  |
| As at 30 September 2011  | <u>60,884</u>                                | <u>374,803</u>   | <u>16,950</u>                                 | <u>3,157</u>   | <u>9,856</u>  | <u>175,785</u>                                 | <u>6,088</u>                                    | <u>647,523</u>                   | <u>887</u>  | <u>648,410</u>                             |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

|  | Six months ended<br>30 September |                                 |
|--|----------------------------------|---------------------------------|
|  | 2011<br>(Unaudited)<br>HK\$'000  | 2010<br>(Unaudited)<br>HK\$'000 |
| Net cash outflow from operating activities               | (186,781)                        | (125,808)                       |
| Net cash outflow from investment activities              | (100,903)                        | (113,398)                       |
| Net cash inflow from financing activities                | <u>131,323</u>                   | <u>176,142</u>                  |
| Net decrease in cash and cash equivalents                | (156,361)                        | (63,064)                        |
| Cash and cash equivalents at beginning of period         | 287,364                          | 151,214                         |
| Effect of foreign exchange rate changes, net             | <u>(69)</u>                      | <u>(10)</u>                     |
| Cash and cash equivalents at end of period               | <u>130,934</u>                   | <u>88,140</u>                   |
| <b>Analysis of balances of cash and cash equivalents</b> |                                  |                                 |
| Cash and bank balances                                   | <u>130,934</u>                   | <u>88,140</u>                   |



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2011.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time for the current period’s unaudited condensed consolidated interim financial statements.

|  |  |
|--|--|
| HKFRS 1 Amendment                              | Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters |
| HKAS 24 (Revised)                              | Related Party Disclosures  |
| HK(IFRIC) – Int 14 Amendments                  | Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement  |
| HK(IFRIC) – Int 19 Improvements to HKFRSs 2010 | Extinguishing Financial Liabilities with Equity Instruments<br>Amendments to a number of HKFRSs  |

The adoption of the new/revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognized.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- the semiconductor distribution segment engages in the sale and distribution of electronic components;
- the consumer electronic product segment engages in the design, development and sale of electronic products; and
- the others segment mainly comprises the Group’s trading of Light-emitting Diode (“LED”) business.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Intersegment sales and transfers are transacted at costs.

### 3. OPERATING SEGMENT INFORMATION (continued)

An analysis of the Group's turnover and profit for the period by principal activity is as follows:

For the six-month period ended 30 September 2011

|   | Semiconductor<br>distribution<br><i>HK\$'000</i> | Consumer<br>electronic<br>product<br><i>HK\$'000</i> | Others<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|--|--|---------------------------|--------------------------|
| <b>Segment revenue:</b>   |  |  |                           |                          |
| Sales to external customers   | 1,709,647  | 137,566  | 22,577                    | 1,869,790                |
| Intersegment sales  | <u>204,335</u>                                   | <u>72,011</u>  | <u>139</u>                | <u>276,485</u>           |
|   | 1,913,982  | 209,577  | 22,716                    | 2,146,275                |
| <i>Reconciliation:</i>  |  |  |                           |                          |
| Elimination of intersegment sales   |  |  |                           | <u>(276,485)</u>         |
| Revenue   |  |  |                           | <u>1,869,790</u>         |
| <b>Segment results</b>  | <b>20,804</b>                                    | <b>10,365</b>  | <b>(4,204)</b>            | <b>26,965</b>            |
| <i>Reconciliation:</i>  |  |  |                           |                          |
| Bank interest income  |  |  |                           | 2,030                    |
| Interest income from debt securities  |  |  |                           | 763                      |
| Dividend income from listed investments   |  |  |                           | 238                      |
| Management fee income from associates   |  |  |                           | 8,557                    |
| Rental income   |  |  |                           | 221                      |
| Gain on disposal of items of property, plant and equipment                      |  |  |                           | 15,785                   |
| Gain on disposal of subsidiaries  |  |  |                           | 28,274                   |
| Share of profit of a jointly-controlled entity                                  |  |  |                           | 180                      |
| Share of profits and losses of associates                                       |  |  |                           | (1,535)                  |
| Fair value loss on equity investments at fair value through profit or loss, net |  |  |                           | (55,348)                 |
| Unallocated expenses  |  |  |                           | (12,778)                 |
| Finance costs   |  |  |                           | <u>(11,388)</u>          |
| Profit before tax   |  |  |                           | <u>1,964</u>             |

### 3. OPERATING SEGMENT INFORMATION (continued)

For the six-month period ended 30 September 2010

|   | Semiconductor<br>distribution<br>HK\$'000 | Consumer<br>electronic<br>product<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---|--------------------|-------------------|
| <b>Segment revenue:</b>   |   |   |                    |                   |
| Sales to external customers   | 1,116,340                                 | 56,007  | 729                | 1,173,076         |
| Intersegment sales  | 41,242                                    | 43,978  | –                  | 85,220            |
|   | <u>1,157,582</u>                          | <u>99,985</u>                                 | <u>729</u>         | <u>1,258,296</u>  |
| <i>Reconciliation:</i>  |   |   |                    |                   |
| Elimination of intersegment sales   |   |   |                    | <u>(85,220)</u>   |
| Revenue   |   |   |                    | <u>1,173,076</u>  |
| <b>Segment results</b>  | 24,279                                    | 1,770   | (4,381)            | 21,668            |
| <i>Reconciliation:</i>  |   |   |                    |                   |
| Bank interest income  |   |   |                    | 243               |
| Interest income from debt securities  |   |   |                    | 391               |
| Interest income from a<br>convertible note receivable                               |   |   |                    | 1,669             |
| Dividend income from<br>listed investments  |   |   |                    | 370               |
| Management fee income<br>from associates  |   |   |                    | 3,287             |
| Rental income   |   |   |                    | 589               |
| Gain on disposal of items of<br>property, plant and equipment                       |   |   |                    | 16                |
| Share of profit of a<br>jointly-controlled entity                                   |   |   |                    | 10,072            |
| Share of profits of associates  |   |   |                    | 13,307            |
| Fair value gains on equity investments<br>at fair value through profit or loss, net |   |   |                    | 6,305             |
| Fair value loss on a derivative instrument<br>at fair value through profit or loss  |   |   |                    | (7,178)           |
| Revaluation of a pre-existing interest in<br>an acquired subsidiary to fair value   |   |   |                    | 5,613             |
| Unallocated expenses  |   |   |                    | (11,227)          |
| Finance costs   |   |   |                    | <u>(7,562)</u>    |
| Profit before tax   |   |   |                    | <u>37,563</u>     |

### 3. OPERATING SEGMENT INFORMATION (continued)

An analysis of the Group's turnover by geographical segment is as follows:

|                       | Six months ended<br>30 September |             |
|-----------------------|----------------------------------|-------------|
|                       | 2011                             | 2010        |
|                       | (Unaudited)                      | (Unaudited) |
|                       | HK\$'000                         | HK\$'000    |
| Geographical segment: |                                  |             |
| Hong Kong             | 902,507                          | 624,213     |
| Singapore             | 737,266                          | 500,559     |
| United States         | 93,167                           | –           |
| Korea                 | 124,796                          | 37,710      |
| Other locations       | 12,054                           | 10,594      |
|                       | <hr/>                            | <hr/>       |
|                       | 1,869,790                        | 1,173,076   |
|                       | <hr/>                            | <hr/>       |

### 4. OTHER INCOME AND GAINS

|   | Six months ended<br>30 September |             |
|---|----------------------------------|-------------|
|   | 2011                             | 2010        |
|   | (Unaudited)                      | (Unaudited) |
|   | HK\$'000                         | HK\$'000    |
| Bank interest income  | 2,030                            | 243         |
| Dividend income from listed investments                       | 238                              | 370         |
| Interest income from debt securities                          | 763                              | 391         |
| Rental income   | 221                              | 589         |
| Management fee income from associates                         | 8,557                            | 3,287       |
| Gain on disposal of items of property,<br>plant and equipment | 15,785                           | 16          |
| Interest income from a convertible note receivable            | –                                | 1,669       |
| Others  | 8,077                            | 7,535       |
|   | <hr/>                            | <hr/>       |
|   | 35,671                           | 14,100      |
|   | <hr/>                            | <hr/>       |

## 5. FINANCE COSTS

|                                     | Six months ended<br>30 September |              |
|-------------------------------------|----------------------------------|--------------|
|                                     | 2011                             | 2010         |
|                                     | (Unaudited)                      | (Unaudited)  |
|                                     | HK\$'000                         | HK\$'000     |
| Interest on bank and mortgage loans | 11,360                           | 7,546        |
| Interest on finance leases          | 28                               | 16           |
|                                     | <u>11,388</u>                    | <u>7,562</u> |

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

|  | Six months ended<br>30 September |                |
|--|----------------------------------|----------------|
|  | 2011                             | 2010           |
|  | (Unaudited)                      | (Unaudited)    |
|  | HK\$'000                         | HK\$'000       |
| Depreciation of property, plant and equipment                        | 3,178                            | 2,388          |
| Amortisation of intangible assets                                    | 2,827                            | 1,906          |
| (Gain)/loss on disposal of items of property,<br>plant and equipment | (15,785)                         | 16             |
| Equity-settled share option expense                                  | 497                              | –              |
| Exchange gain, net   | (3,165)                          | (1,773)        |
|  | <u>(3,165)</u>                   | <u>(1,773)</u> |

## 7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2011. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing laws, interpretations and practices in respect thereof.

|  | Six months ended<br>30 September |              |
|--|----------------------------------|--------------|
|  | 2011                             | 2010         |
|  | (Unaudited)                      | (Unaudited)  |
|  | HK\$'000                         | HK\$'000     |
| (Overprovision)/charge for the period    | (2,561)                          | 1,052        |
| Deferred                                 | <u>(458)</u>                     | <u>(238)</u> |
| Total tax charge/(credit) for the period | <u><b>(3,019)</b></u>            | <u>814</u>   |

## 8. INTERIM DIVIDEND

|   | Six months ended<br>30 September |               |
|---|----------------------------------|---------------|
|   | 2011                             | 2010          |
|   | (Unaudited)                      | (Unaudited)   |
|   | HK\$'000                         | HK\$'000      |
| Proposed interim – HK 1 cent (2010: HK 3 cents)<br>per ordinary share | <u><b>6,088</b></u>              | <u>15,701</u> |

The Board of Directors has resolved to declare an interim dividend of HK 1 cent in issue in respect of the six months ended 30 September 2011 (2010: HK 3 cents) per ordinary share payable on or around 20 December 2011 to shareholders whose names appear on the register of members of the Company on 8 December 2011.

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation and weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of the basic and diluted earnings per share are based on:

|   | <b>Six months ended<br/>30 September<br/>2011<br/>(Unaudited)<br/>HK\$'000</b> | <b>2010<br/>(Unaudited)<br/>HK\$'000</b> |
|---|--|--|
| <b>Earnings:</b>  |  |  |
| Profit attributable to ordinary equity holders of the Company, used in basic and diluted earnings per share calculation | <b>2,859</b>   | 37,063                                   |
|   | <b>2,859</b>   | 37,063                                   |
|   |  |  |
|   | <b>Number of Shares</b>  |  |
|   | <b>2011</b>  | <b>2010</b>                              |
|   | <b>30 September</b>  | <b>30 September</b>                      |
| <b>Shares:</b>  |  |  |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation  | <b>618,487,683</b>   | 506,135,144                              |
| Effect of dilution-weighted average number of ordinary shares:  |  |  |
| Share options   | <b>3,669,836</b>   | 3,817,419                                |
|   | <b>3,669,836</b>   | 3,817,419                                |
| <b>Total</b>  | <b>622,157,519</b>   | 509,952,563                              |
|   | <b>622,157,519</b>   | 509,952,563                              |

## 10. OTHER INTANGIBLE ASSETS

|  | Club<br>memberships<br><i>HK\$'000</i> | Trademarks<br><i>HK\$'000</i> | Customer<br>relationship<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|--|--|-------------------------------|---|--------------------------|
| At 1 April 2011:   |  |                               |   |                          |
| Cost   | 4,499                                  | 59                            | 27,710                                      | 32,268                   |
| Accumulated amortisation<br>and impairment                                 | (990)                                  | (29)                          | (4,657)                                     | (5,676)                  |
| Net carrying amount  | <u>3,509</u>                           | <u>30</u>                     | <u>23,053</u>                               | <u>26,592</u>            |
| Cost at 1 April 2011, net of<br>accumulated amortisation<br>and impairment | 3,509                                  | 30                            | 23,053                                      | 26,592                   |
| Additions  | –                                      | 359                           | –   | 359                      |
| Amortisation provided<br>during the period                                 | (19)                                   | (37)                          | (2,771)                                     | (2,827)                  |
| At 30 September 2011   | <u>3,490</u>                           | <u>352</u>                    | <u>20,282</u>                               | <u>24,124</u>            |
| At 30 September 2011:  |  |                               |   |                          |
| Cost   | 4,499                                  | 418                           | 27,710                                      | 32,627                   |
| Accumulated amortisation<br>and impairment                                 | (1,009)                                | (66)                          | (7,428)                                     | (8,503)                  |
| Net carrying amount  | <u>3,490</u>                           | <u>352</u>                    | <u>20,282</u>                               | <u>24,124</u>            |
| At 1 April 2010:   |  |                               |   |                          |
| Cost   | 2,431                                  | 59                            | –   | 2,490                    |
| Accumulated amortisation<br>and impairment                                 | (900)                                  | (23)                          | –   | (923)                    |
| Net carrying amount  | <u>1,531</u>                           | <u>36</u>                     | <u>–</u>                                    | <u>1,567</u>             |
| Cost at 1 April 2010, net of<br>accumulated amortisation<br>and impairment | 1,531                                  | 36                            | –   | 1,567                    |
| Acquisition of subsidiaries  | –                                      | –                             | 27,710                                      | 27,710                   |
| Additions  | 1,950                                  | –                             | –   | 1,950                    |
| Amortisation provided<br>during the year                                   | (37)                                   | (6)                           | (4,657)                                     | (4,700)                  |
| Exchange realignment   | 65                                     | –                             | –   | 65                       |
| At 31 March 2011   | <u>3,509</u>                           | <u>30</u>                     | <u>23,053</u>                               | <u>26,592</u>            |
| At 31 March 2011:  |  |                               |   |                          |
| Cost   | 4,499                                  | 59                            | 27,710                                      | 32,268                   |
| Accumulated amortisation<br>and impairment                                 | (990)                                  | (29)                          | (4,657)                                     | (5,676)                  |
| Net carrying amount  | <u>3,509</u>                           | <u>30</u>                     | <u>23,053</u>                               | <u>26,592</u>            |



## 10. OTHER INTANGIBLE ASSETS (continued)

### *Club memberships*

The Group's club memberships are stated at cost less any accumulated amortisation and any accumulated impairment losses, on an individual basis.

### *Trademarks and Customer relationship*

Trademarks and customer relationship are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

## 11. AVAILABLE-FOR-SALE INVESTMENTS

|                                      | <b>30 September<br/>2011<br/>(Unaudited)<br/>HK\$'000</b> | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|--------------------------------------|---|---|
| Unlisted equity investments, at cost | <b>14,650</b>   | 5,777                                     |
| Provision for impairment             | <b>(4,027)</b>  | (4,027)                                   |
|                                      | <b>10,623</b>   | 1,750                                     |

The balance as at 30 September 2011 and 31 March 2011 included the unlisted equity investments which were designated as available-for-sale investments and have no fixed maturity date or coupon rate.

During the six months ended 30 September 2011, the directors of the Company reviewed the carrying amount of the equity investments with reference to the estimated future cash flows discounted to the present value. The equity investments are measured at cost.

## 12. GOODWILL

|   | <b>30 September<br/>2011<br/>(Unaudited)<br/>HK\$'000</b> | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|---|---|---|
| Carrying amount at beginning of period/year | <b>37,729</b>   | –   |
| Acquisition of subsidiaries                 | <b>21,371</b>   | 37,729                                    |
|   | <b>59,100</b>   | 37,729                                    |

For the purpose of impairment testing, goodwill have been allocated to the CGUs of semiconductor distribution business. The recoverable amount of the CGUs has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management. A key assumption for the value in use calculation is budgeted growth rate, which is determined based on past performance and management's expectations for the market development.

Management considered no impairment on goodwill was noted and believes that any reasonably possible change in any of the assumptions would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

### 13. INVENTORIES

|                | 30 September<br>2011<br>(Unaudited)<br>HK\$'000 | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|----------------|---|---|
| Finished goods | <u>366,756</u>                                  | <u>257,881</u>                            |

### 14. TRADE AND BILLS RECEIVABLES

|                  | 30 September<br>2011<br>(Unaudited)<br>HK\$'000 | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|------------------|---|---|
| Trade receivable | 463,372   | 239,160                                   |
| Impairment       | <u>(2,323)</u>                                  | <u>(1,284)</u>                            |
|                  | <u>461,049</u>                                  | <u>237,876</u>                            |

The Group's trading terms with customers vary with the type of products supplied. Invoices are normally payable within 30 days of issuance, except for well-established customers, where the terms are extended to 60 days. For customer-specific and highly specialised items, deposits in advance or letters of credit may be required prior to the acceptance and delivery of the products. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. A credit committee consisting of senior management and the directors of the Group has been established to review and approve large customer credits. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at 30 September 2011, based on invoice due date and net of provisions, is as follows:

|              | 30 September<br>2011<br>(Unaudited)<br>HK\$'000 | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|--------------|---|---|
| Current      | 327,118   | 195,986                                   |
| 1 – 30 days  | 101,329   | 33,436                                    |
| 31 – 60 days | 22,727  | 7,031                                     |
| Over 60 days | <u>12,198</u>                                   | <u>2,707</u>                              |
|              | <u>463,372</u>                                  | <u>239,160</u>                            |

## 15. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | 30 September<br>2011<br>(Unaudited)<br>HK\$'000 | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|---|---|---|
| Managed funds, outside Hong Kong, at market value   | 48,937  | 45,397                                    |
| Listed equity investments, at market value          |   |   |
| Hong Kong   | 25,502  | 7,131                                     |
| Elsewhere   | 3,305   | 146,237                                   |
| Listed debt investments, Hong Kong, at market value | 14,544  | 24,574                                    |
|   | <b>92,288</b>                                   | <b>223,339</b>                            |

All the above investments as at 30 September 2011 were classified as held for trading.

## 16. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

An aged analysis of the trade payables, deposits received and accrued expenses as at 30 September 2011, based on invoice due date, is as follows:

|                   | 30 September<br>2011<br>(Unaudited)<br>HK\$'000 | 31 March<br>2011<br>(Audited)<br>HK\$'000 |
|-------------------|---|---|
| Current           | 143,293   | 133,632                                   |
| 1 – 30 days       | 70,435  | 27,801                                    |
| 31 – 60 days      | 1,026   | 459                                       |
| Over 60 days      | 6,029   | 1,193                                     |
|                   | <b>220,783</b>                                  | <b>163,085</b>                            |
| Deposits received | 7,600   | 8,143                                     |
| Accrued expenses  | 93,736  | 20,897                                    |
|                   | <b>322,119</b>                                  | <b>192,125</b>                            |

The trade payables and accrued expenses are non-interest-bearing and are normally settled between 30 and 90 days. The carrying amounts of trade payables approximate to their fair values.

## 17. SHARE OPTION SCHEME

The maximum number of unexercised share options currently permitted to be granted under the existing share option scheme of the Company ("the Scheme") must not in aggregate exceed 30% of the shares of the Company in issue at any time. As at 30 September 2011, the Company had 21,140,000 share options (2010: 12,820,000 share options) outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 21,140,000 additional ordinary shares of the Company and additional share capital of HK\$2,114,000 and share premium of HK\$20,447,600 (before issue expenses). At the date of approval of these condensed consolidated interim financial statements, the Company had 21,140,000 share options outstanding under the Scheme, which represented approximately 3.4% of the Company's shares in issue as at that date.

During the six months ended 30 September 2011, equity-settled share-based payment expenses were amounted to HK\$496,000 (2010: Nil).

## 18. ACQUISITION OF SUBSIDIARIES

On 31 May 2011, the Group acquired all equity interest in Bestore Limited ("Bestore") at a cash consideration of HK\$811,000. The principal activity of Bestore is investment holding.

On 3 June 2011, the Group acquired an additional 50% equity interest in a former associate, Signeo Venture Partners Limited ("SVP") (formerly known as Darwin Investment Strategies Limited), at a cash consideration of HK\$1, and SVP has become a wholly-owned subsidiary of the Group. The principal activity of SVP is investment holding.

On 8 July 2011, the Group acquired all equity interest in People & Semiconductor Co., Ltd. ("P&S") at a cash consideration of KRW6,478,000,000 (equivalent to HKD48,000,000) The principal activity of P&S is trading of electronic components.

The fair values of the identifiable assets and liabilities as at the date of acquisition were as follows:

|   | <b>Fair value<br/>recognised<br/>on acquisition</b><br><i>HK\$'000</i> |
|---|--|
| Net assets acquired:                                    |  |
| Property, plant and equipment                           | 5,912  |
| Equity investments at fair value through profit or loss | 24,295   |
| Inventories   | 38,772   |
| Trade and other receivables                             | 39,311   |
| Cash and bank balances                                  | 5,640  |
| Trade and other payables                                | (60,808)   |
| Amount due to fellow subsidiaries                       | (1,392)  |
| Interest-bearing bank borrowings                        | (24,328)   |
| Retirement benefit liabilities                          | (1,124)  |
|   | <hr/>  |
| Total identifiable net assets at fair value             | 26,278   |
| Goodwill on acquisition                                 | 21,371   |
|   | <hr/>  |
|   | 47,649   |
|   | <hr/>  |
| Satisfied by cash                                       | 47,649   |
|   | <hr/>  |

The fair values of trade and other receivables as at the date of acquisition amounted to HK\$39,311,000. The gross contractual amount of trade and other receivables was HK\$39,311,000, of which none of the above balances are expected to be uncollected.

## 18. ACQUISITION OF SUBSIDIARIES (continued)

HK\$'000

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

|   |                 |
|---|-----------------|
| Cash consideration  | (47,649)        |
| Cash and bank balances acquired   | <u>5,640</u>    |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | <u>(42,009)</u> |

Since its acquisition, the acquired subsidiaries contributed HK\$54,229,000 to the Group's turnover and HK\$2,325,000 to the consolidated profit for the period ended 30 September 2011.

Had the combination taken place at the beginning of the period, the revenue of the Group and the profit of the Group for the period would have been HK\$111,515,000 and HK\$4,956,000 respectively.

The Group incurred transaction costs of HK\$1,100,000 for these acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

## 19. DISPOSAL OF SUBSIDIARIES

Pursuant to the approval of the share transfer agreement dated on 31 May 2011, the Group disposed of 100% equity interest of Dragon Favour Technology Limited ("Dragon Favour"). As a result of the disposal, the Group does not hold any equity interest in Dragon Favour and its associates ("Disposal Group").

The disposal had the following effect on the Group's assets and liabilities:

HK\$'000

|   |               |
|---|---------------|
| <b>Net assets disposed of:</b>                        |               |
| Investment in associates                              | 35,116        |
| Cash and cash equivalents                             | <u>46</u>     |
|   | 35,162        |
| Gain on disposal                                      | <u>28,274</u> |
| Consideration receivable for disposal of subsidiaries | <u>63,436</u> |
| <b>Satisfied by:</b>                                  |               |
| Cash  | <u>63,436</u> |
| Net cash inflow from disposal:                        | 63,436        |
| Cash consideration                                    | <u>(46)</u>   |
| Cash and cash equivalents disposed                    | <u>63,390</u> |

For the period from 1 April 2011 to the date of disposal, the disposal Group was engaged in investment holding.

## BUSINESS REVIEW AND PROSPECTS

The following sets out the financial highlights for the six months ended 30 September 2011, with the comparative figures for the corresponding six months period of 2010.

|  | <b>Six Months Ended</b> |                     |
|--|-------------------------|---------------------|
|  | <b>30/9/2011</b>        | <b>30/9/2010</b>    |
|  | <i>HK\$'million</i>     | <i>HK\$'million</i> |
| Revenue  |                         |                     |
| Semiconductor distribution   | <b>1,709.6</b>          | 1,116.4             |
| Consumer electronic product  | <b>137.6</b>            | 56.0                |
| LED  | <b>22.6</b>             | 0.7                 |
|  | <b><u>1,869.8</u></b>   | <u>1,173.1</u>      |
| Earnings before interest, tax, depreciation, amortisation and non-cash items |                         |                     |
| Corporate  | <b>(26.7)</b>           | 5.8                 |
| Semiconductor distribution   | <b>37.2</b>             | 24.0                |
| Consumer electronic product  | <b>11.3</b>             | 13.7                |
| LED  | <b>(2.5)</b>            | 5.9                 |
|  | <b><u>19.3</u></b>      | <u>49.4</u>         |
| Depreciation, amortisation and non-cash items                                |                         |                     |
| Corporate  | <b>(0.9)</b>            | (0.6)               |
| Semiconductor distribution   | <b>(3.5)</b>            | (2.2)               |
| Consumer electronic product  | <b>(1.6)</b>            | (1.5)               |
|  | <b><u>(6.0)</u></b>     | <u>(4.3)</u>        |
| Earnings before interest and tax   | <b>13.3</b>             | 45.1                |
| Interest expenses  | <b>(11.4)</b>           | (7.6)               |
| Profit before tax  | <b>1.9</b>              | 37.5                |
| Tax  | <b>3.0</b>              | (0.8)               |
| Profit for the period  | <b><u>4.9</u></b>       | <u>36.7</u>         |

## BUSINESS REVIEW

The first half of FY2011/12 has been a challenging time for the industry. The financial uncertainties hovering over the US and Europe have weakened consumer demand in those regions, while the earthquake and tsunami in Japan have also temporarily disrupted the supply of electronics components in Asia-Pacific. Despite such concerns, AV Concept has been able to achieve satisfactory results in its three core businesses (consumer electronic products, semiconductor distribution and LED businesses), in addition to the successful global launch of the Group's own brand – SOUL by Ludacris®. For the six months ended 30 September 2011, the Group's revenue increased by 59.4% to HK\$1,869.8 million, up from HK\$1,173.1 million compared to the corresponding period last year. The significant increase was attributable to the new business lines and overall improvement in sales from the core businesses.

Gross profit surged by 101.3% to HK\$134.6 million for the period under review (FY2010/11 Interim: HK\$66.8 million), representing a higher gross profit margin of 7.2% (FY2010/11 Interim: 5.7%). Thanks to the Group's strategies in owning its brands and moving towards upstream business, it has successfully achieved a higher gross profit margin due to the new sales at higher margin. During the period under review, the Group recorded a slight increase in EBITDA (earnings before interest, tax, depreciation, amortisation and non-cash items) from its three core businesses to HK\$46.0 million (FY2010/11 Interim: HK\$43.6 million). The flat increase was partly due to the lack of contribution generated from business of LED distribution for display backlight modules, FLEX Technology Limited ("FLEX"), because the Group decided to segregate in order to focus more on the businesses with greater potential and return. A loss of HK\$26.7 million in the Group's Corporate EBITDA was mainly due to the fair value loss of the Group's equity shareholdings on Accupix Co. Ltd (056730:KQ, "Accupix") which has been listed on KOSDAQ since December 2010. As a result, the overall Group's EBITDA dropped to HK\$19.3 million and net profit was HK\$5.0 million (FY2010/11 Interim: HK\$36.7 million) during the review period.

### Consumer Electronic Product Business

Turnover of the consumer electronic product business rose by 145.7% to HK\$137.6 million (FY2010/11 Interim: HK\$56.0 million), mainly derived from the new sales of its successful brand SOUL by Ludacris®. Collaborating with the Grammy-winning and globally renowned artist, Chris "Ludacris" Bridges, this new line is well recognised in the market for the superior sound quality of a professional headphone and its stylish design since its worldwide launch in early 2011. Moreover, the Group strategically introduced the product line through partnerships within major target markets in Asia, including Mainland China and South Korea, to further expand its footprint. SOUL by Ludacris® is expected to be launched in other key countries within Asia and North America in 2011 with channels to be extended to the European market in 2012. The Group is confident that this product line will become a key revenue driver in the foreseeable future.

Advanced new portable gadgets such as smart phones and tablet computers are getting more popular which continue to drive demand for associated peripheral electronic products, for example, high-end Bluetooth headsets and related accessories. The Group continues to enhance the features of its consumer electronic products as well as redouble its sales effort to capture the business opportunities that arise in the market.

## Semiconductor Distribution Business

For the six months ended 30 September 2011, the semiconductor distribution business continued as one of the major income streams of the Group. This segment achieved a noteworthy organic growth in turnover of 53.14% to HK\$1,709.6 million.

During the review period, the Group continuously sought to broaden its distribution network, diversify its product mix and expand its customer base. In July 2011, the Group has fully acquired the entire issued shares of People & Semiconductor Co., Ltd. ("P&S"), a Korean company principally engaged in the distribution business of semiconductor products of Fairchild Semiconductor International Inc. ("Fairchild Semiconductor") in Korea, at a total consideration of approximately HK\$48,000,000. Over the years, the Group's semiconductor distribution business has already established a solid foundation. Leveraging the extensive distribution network of P&S, the Group has been able to further expand and strengthen its position in the East Asian market. In consideration of raising the power conversion efficiency and saving energy, AV Concept is fully committed to develop this business segment by delivering more new green products, translating into a greater contribution towards the Group's overall performance.

## LED Business

Wavesquare continued to receive encouraging orders, mainly from domestic LED packaging companies in the PRC. Having made solid inroads in the LED business, Wavesquare has been under mass production.

Separately, China's 12th Five Year Plan (12th FYP) for the 2011-2015 period also announced the promotion of the use of LED lighting to replace high energy consuming incandescent lighting by 2016 in response to the market trend of energy saving spurred by increasing concern for environmental protection. This policy is favourable to the Group's business direction of advancing technology with green and environmentally-friendly electronic components. Coupled with the expanded production capacity and the rising market demand for LEDs, the LED business is expected to an area of high business growth potential.

Wavesquare, together with the LED solutions, registered satisfactory growth with turnover increased 31 times to HK\$22.6 million compared to the corresponding period last year. Along with the Group's strategy to reallocate its financial resources to other businesses with higher return, it has strategically discontinued its joint venture, FLEX, which is principally engaged in the distribution of LEDs for display backlight modules, in order to reflect the tremendous sales growth achieved in this segment.



## PROSPECTS

As the fast-changing electronics industry advances across various fronts, the ability to remain flexible to address changes will be paramount – this is always the aim of AV Concept.

To establish a strong and solid foundation, the Group has made relentless efforts in expanding its sales and distribution network, maintaining close ties with key electronics manufacturers, developing a strong business partnership and diversifying its product portfolio in the past decades. Looking ahead, the Group intends continuing to focus on its three core businesses to bring the Group to new heights in the coming years.

The Group has always been able to identify suitable new products in time to satisfy the changing needs of its customers. The high definition headphones under the SOUL by Ludacris® brand have enjoyed strong market response in the US and Hong Kong as well as new markets in Asia including Mainland China and South Korea after the second roll out in September 2011. This business line will be further extended to the European market in 2012. With the continuous take-up of smart phones among global customers, the demand for related accessories such as high quality headphones is expected to surge accordingly. Given such a favourable market trend, the Group is confident that the consumer electronic products will continue to contribute to the Group's goal of deepening its penetration of the international market in terms of coverage and sales and that this product segment will be the Group's growth driver in the coming years.

With regards to the LED business, supported by efforts from governments around the world, especially Mainland China, in promoting environmental protection and development of industries involved in energy conservation, the Group is optimistic about the business potential of its high brightness LED business driven by the tremendous demand of consumers in the long run. Wavesquare is actively engaging in discussion of strategic partnership to enhance the production capacity and maximise its economies of scale in order to better grasp the anticipated business growth, especially in the general lighting market.

Leveraging the Group's diversified product portfolio, established distribution network and comprehensive clientele profile, the semiconductor distribution business is expected to grow in a steady pace. Witnessing the rising public concern on energy conservation, the Group plans to engage in more green and energy-saving electronic components as a way to protect the environment.

The management maintains a conservative, but positive outlook towards achieving sustained business development and growth in the long run, as its vision of delivering high quality products and creating a more advantageous position for its businesses remains unchanged. Risk control measures are employed on credit limit of customers. Moving forward, the Group is fully determined to enhance its all-round capabilities, developing and delivering new technologies that address the latest trends and strengthen its position in core businesses, ultimately boosting overall competitiveness and profitability. With a clear business direction and a series of operating strategies in place, AV Concept strives to deliver long-term returns to its shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

The net debt position as at 30 September 2011 and 31 March 2011 and the corresponding gearing ratio are shown as follows:

|   | <b>30/9/2011</b><br><i>HK\$'million</i> | 31/3/2011<br><i>HK\$'million</i> |
|---|---|----------------------------------|
| Bank debts  | <b>673.0</b>                            | 507.3                            |
| Cash and cash equivalents                               | <b>130.9</b>                            | 287.4                            |
| Equity investments at fair value through profit or loss | <b>92.3</b>                             | 223.3                            |
| Cash and cash equivalents and Equity Investments        | <b>223.2</b>                            | 510.7                            |
| Net debt  | <b>449.8</b>                            | –                                |
| Total equity  | <b>648.4</b>                            | 679.3                            |
| Net debt to total equity                                | <b>69%</b>                              | Nil                              |

As at 30 September 2011, the Group had a balance of cash and cash equivalents (i.e. cash and bank balances and time deposits) of HK\$130.9 million (31 March 2011: HK\$287.4 million), while the Group's equity investments at fair value through profit or loss amounted to HK\$92.3 million (31 March 2011: HK\$223.3 million). The equity investments included a balanced mix of fixed income, equity and alternative investments and such amount represented the cash reserves held for the Group's medium to long term business development and would form an integral part of the Group's treasury.

The net debt to total equity ratio as at 30 September 2011 was 69% (31 March 2011: Nil), while the Group's total equity was HK\$648.4 million (31 March 2011: HK\$679.3 million).

Currently, the Group's bank debts are mainly on a floating rate basis and are denominated in either Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business, and accordingly, the Group does not have any significant foreign exchange exposure.

The working capital position of the Group remains healthy. As at 30 September 2011, the liquidity ratio (as determined with reference to the ratio of current assets to current liabilities) was 119% (31 March 2011: 148%).

|   | <b>30/9/2011</b><br><i>HK\$'million</i> | 31/3/2011<br><i>HK\$'million</i> |
|---|---|----------------------------------|
| Current assets                            | <b>1,145.9</b>                          | 1,037.8                          |
| Current liabilities                       | <b>(962.6)</b>                          | (702.4)                          |
| Net current assets                        | <b>183.3</b>                            | 335.4                            |
| Current assets to current liabilities (%) | <b>119%</b>                             | 148%                             |

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Tuesday, 6 December 2011 to Thursday, 8 December 2011, both days inclusive, during which period no transfer of shares will be effected. In order to establish entitlements to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 5 December 2011.

## **INTERIM DIVIDEND**

The Board of Directors has resolved to declare the payment of an interim dividend of HK1 cent (2010: HK3 cents) per ordinary share in issue for the six months ended 30 September 2011 to the shareholders whose names appear on the Register of Members of the Company on Thursday, 8 December 2011. The payment of interim dividend will be made on Tuesday, 20 December 2011.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 September 2011, the Group employed a total of approximately 266 (31 March 2011: approximately 230) full time employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. In addition, the Group operates a share option scheme for eligible employees to provide incentive to the participants for their contribution, and continuing efforts to promote the interests of the Group.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in the Listing Rules, were as follows:

### Long position in the shares of the Company

| Name of director     | Capacity                            | Number of shares and nature of interests |                              |             | Approximate percentage of shareholding |
|----------------------|-------------------------------------|--|------------------------------|-------------|--|
|                      |                                     | Personal interests                       | Corporate interests          | Total       |  |
| Dr. Hon. So Yuk Kwan | Interest of controlled corporations | –  | 269,778,189<br><i>(Note)</i> | 269,778,189 | 44.10%                                 |
| Mr. So Chi On        | Beneficial owner                    | 1,000,000                                | –                            | 1,000,000   | 0.16%                                  |

*Note:*

This represents the total number of shares held by B.K.S. Company Limited ("BKS") and Jade Concept Limited ("Jade Concept") respectively. Dr. Hon. So Yuk Kwan is deemed to be interested in 269,778,189 shares of the Company by virtue of his interests in BKS and Jade Concept, the particulars are more fully described in the section headed "Substantial Shareholders' Interest and Short Positions in Shares, Underlying Shares and Debentures" below.

## Long position in the underlying shares of the Company

| Name of director               | Capacity         | Number of underlying shares and nature of interests |                     |           | Approximate percentage of shareholding |
|--------------------------------|------------------|---|---------------------|-----------|--|
|                                |                  | Personal interests                                  | Corporate interests | Total     |  |
| Dr. Hon. So Yuk Kwan           | Beneficial owner | 620,000<br><i>(Note)</i>                            | –                   | 620,000   | 0.10%                                  |
| Mr. So Chi On                  | Beneficial owner | 9,700,000<br><i>(Note)</i>                          | –                   | 9,700,000 | 1.59%                                  |
| Mr. Ho Choi Yan<br>Christopher | Beneficial owner | 1,500,000<br><i>(Note)</i>                          | –                   | 1,500,000 | 0.25%                                  |

*Note:*

These underlying shares represent interests in the share options granted to the respective directors of the Company pursuant to the share option scheme adopted by the Company.

Save as disclosed above, as at 30 September 2011, none of the directors or chief executive had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

## Directors' right to acquire shares and debentures of the Company

Pursuant to the share option scheme adopted by the Company, directors were granted share options to subscribe for shares of the Company, details of which as at 30 September 2011 were as follows:

| Name of Director               | Number of share options |                                 |                                   |                                |                                   | Outstanding<br>as at 30<br>September<br>2011 | Exercise<br>period<br>(both dates<br>inclusive) | Date<br>of grant | Exercise<br>price<br>per share |
|--------------------------------|-------------------------|---------------------------------|-----------------------------------|--------------------------------|-----------------------------------|--|---|------------------|--------------------------------|
|                                | As at 1<br>April 2011   | Granted<br>during<br>the period | Exercised<br>during<br>the period | Lapsed<br>during<br>the period | Cancelled<br>during<br>the period |  |   |                  |                                |
| Dr. Hon. So Yuk Kwan           | -                       | 620,000                         | -                                 | -                              | -                                 | 620,000                                      | 15/7/2011-<br>12/5/2012                         | 15/7/2011        | HK\$1.28                       |
| Mr. So Chi On                  | 3,500,000               | -                               | -                                 | -                              | -                                 | 3,500,000                                    | 19/7/2007-<br>12/5/2012                         | 18/7/2007        | HK\$0.5                        |
|                                | -                       | 6,200,000                       | -                                 | -                              | -                                 | 6,200,000                                    | 15/7/2011-<br>12/5/2012                         | 15/7/2011        | HK\$1.28                       |
| Mr. Ho Choi Yan<br>Christopher | -                       | 1,500,000                       | -                                 | -                              | -                                 | 1,500,000                                    | 15/7/2011-<br>12/5/2012                         | 15/7/2011        | HK\$1.28                       |
| Total                          | <u>3,500,000</u>        | <u>8,320,000</u>                | <u>-</u>                          | <u>-</u>                       | <u>-</u>                          | <u>11,820,000</u>                            |   |                  |                                |

Other than disclosed above, as at 30 September 2011, none of the directors or their associates was granted options to subscribe for shares of the Company, nor had exercised such rights.

## SHARE OPTION SCHEME

As at 30 September 2011, options to subscribe for an aggregate of 21,140,000 shares of the Company which were granted to the directors and non-employees of the Group were outstanding. Details of which were as follows:

|               | Number of share options |                                 |                                   |                                |                                   | Outstanding<br>as at 30<br>September<br>2011 | Exercise<br>period<br>(both dates<br>inclusive) | Date<br>of grant | Exercise<br>price<br>per share |
|---------------|-------------------------|---------------------------------|-----------------------------------|--------------------------------|-----------------------------------|--|---|------------------|--------------------------------|
|               | As at 1<br>April 2011   | Granted<br>during<br>the period | Exercised<br>during<br>the period | Lapsed<br>during<br>the period | Cancelled<br>during<br>the period |  |   |                  |                                |
| Directors     | 3,500,000               | -                               | -                                 | -                              | -                                 | 3,500,000<br><i>(Note)</i>                   | 19/7/2007-<br>12/5/2012                         | 18/7/2007        | HK\$0.5                        |
|               | -                       | 8,320,000                       | -                                 | -                              | -                                 | 8,320,000<br><i>(Note)</i>                   | 15/7/2011-<br>12/5/2012                         | 15/7/2011        | HK\$1.28                       |
| Non-employees | 4,660,000               | -                               | -                                 | -                              | -                                 | 4,660,000                                    | 9/3/2010-<br>8/3/2012                           | 9/3/2010         | HK\$1.01                       |
|               | 4,660,000               | -                               | -                                 | -                              | -                                 | 4,660,000                                    | 9/3/2011-<br>8/3/2012                           | 9/3/2010         | HK\$1.01                       |
| <b>Total</b>  | <b>12,820,000</b>       | <b>8,320,000</b>                | <b>-</b>                          | <b>-</b>                       | <b>-</b>                          | <b>21,140,000</b>                            |   |                  |                                |

*Note:*

Details of the options granted to the directors are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

## SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2011, the interests and short positions of the following persons, other than the directors and the chief executive of the Company, in the shares and underlying shares of the Company which have been disclosed to the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

### Long position in the shares of the Company

| Name                                     | Capacity                            | Number of shares held          | Approximate percentage of issued share capital as at 30 September 2011 |
|--|-------------------------------------|--------------------------------|--|
| B.K.S. Company Limited<br>("BKS")        | Beneficial owner                    | 189,138,300<br><i>(note 1)</i> | 30.92%   |
| Jade Concept Limited<br>("Jade Concept") | Beneficial owner                    | 80,639,889<br><i>(note 2)</i>  | 13.18%   |
| Yeung Kit Ling<br>("Madam Yeung")        | Interest of spouse                  | 269,778,189<br><i>(note 3)</i> | 44.10%   |
| Och Daniel Saul                          | Interest of controlled corporations | 49,684,000                     | 8.12%  |
| Och-Ziff Capital Management Group LLC    | Interest of controlled corporations | 49,684,000                     | 8.12%  |
| OZ Management L.P.                       | Investment manager                  | 49,684,000                     | 8.12%  |

#### Notes:

- 189,138,800 shares are held by BKS, a company wholly owned by Dr. Hon. So Yuk Kwan ("Dr. So"). By virtue of the SFO, Dr. So is deemed to be interested in 189,138,300 shares of the Company held by BKS.
- Since Jade Concept is beneficially owned by Dr. So, by virtue of the SFO, Dr. So is deemed to be interested in 80,639,889 shares of the Company held by Jade Concept.
- Since Madam Yeung, is the spouse of Dr. So, by virtue of the SFO, she is deemed to be interested in all shares of the Company in which Dr. So is interested.



## Long position in the underlying shares of the Company

| Name        | Capacity           | Number of underlying shares held | Approximate percentage of issued share capital as at 30 September 2011 |
|-------------|--------------------|----------------------------------|--|
| Madam Yeung | Interest of spouse | 620,000<br><i>(note)</i>         | 0.10%  |

*Note:*

Since Madam Yeung is the spouse of Dr. So, by virtue of the SFO, she is deemed to be interested in all the underlying share of the Company in which Dr. So is interested.

Save as disclosed above, as at 30 September 2011, no other person had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2011, the Company had repurchased a total of 11,724,000 shares of HK\$0.1 each in the Company on The Stock Exchange of Hong Kong Limited, all of which were subsequently cancelled by the Company. Particulars of the aforesaid repurchases are as follow:

| Date              | Number of shares repurchased | Price per share or highest price paid per share | Lowest price paid per share | Aggregate price paid |
|-------------------|------------------------------|---|-----------------------------|----------------------|
|                   |                              | HK\$  | HK\$                        | HK\$                 |
| 3 August 2011     | 304,000                      | 1.23  | 1.19                        | 366,200              |
| 4 August 2011     | 452,000                      | 1.25  | 1.21                        | 553,940              |
| 5 August 2011     | 222,000                      | 1.19  | 1.15                        | 259,320              |
| 8 August 2011     | 246,000                      | 1.10  | 1.04                        | 260,980              |
| 10 August 2011    | 378,000                      | 0.99  | 0.97                        | 371,540              |
| 11 August 2011    | 1,180,000                    | 0.77  | 0.73                        | 881,880              |
| 12 August 2011    | 784,000                      | 0.85  | 0.77                        | 639,560              |
| 16 August 2011    | 686,000                      | 0.81  | 0.80                        | 551,960              |
| 17 August 2011    | 554,000                      | 0.84  | 0.82                        | 459,120              |
| 18 August 2011    | 1,264,000                    | 0.84  | 0.80                        | 1,031,400            |
| 26 August 2011    | 790,000                      | 0.77  | 0.72                        | 583,600              |
| 6 September 2011  | 898,000                      | 0.71  | 0.66                        | 618,740              |
| 7 September 2011  | 682,000                      | 0.74  | 0.69                        | 485,480              |
| 12 September 2011 | 442,000                      | 0.71  | 0.67                        | 304,760              |
| 23 September 2011 | 34,000                       | 0.60  | 0.60                        | 20,400               |
| 26 September 2011 | 974,000                      | 0.61  | 0.54                        | 562,260              |
| 27 September 2011 | 1,434,000                    | 0.67  | 0.62                        | 930,340              |
| 28 September 2011 | 400,000                      | 0.66  | 0.63                        | 259,500              |

Save as disclosed above, during the six months ended 30 September 2011, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's securities.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board of Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the six months ended 30 September 2011.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) contained in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard as set out in the Model Code throughout the six months ended 30 September 2011.

## **REVIEW BY AUDIT COMMITTEE**

The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Company and discussed the auditing, financial reporting matters and internal controls. The audit committee comprises three independent non-executive directors of the Company. The unaudited condensed consolidated results of the Group for the six months ended 30 September 2011 have been reviewed by the Audit Committee of the Company.

By Order of the Board  
**AV CONCEPT HOLDINGS LIMITED**  
**So Yuk Kwan**  
*Chairman*

Hong Kong, 21 November 2011

*As at the date of this report, the Board comprises three executive Directors, Dr. Hon. So Yuk Kwan (Chairman), Mr. So Chi On and Mr. Ho Choi Yan Christopher and three independent non-executive Directors, Dr. Hon. Lui Ming Wah, SBS, JP, Mr. Charles E. Chapman and Mr. Wong Ka Kit.*