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AV CONCEPT HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 595)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

Income Statement Highlights

	Six Months Ended	
	30/9/2014	30/9/2013
	HK\$'million	HK\$'million
		(Restated)
CONTINUING OPERATIONS		
Revenue		
– Semiconductor distribution	1,078.6	1,363.1
– Consumer electronic product	32.6	32.5
– Others	0.9	–
	<u>1,112.1</u>	<u>1,395.6</u>
Profit/(loss) before interest, tax, depreciation, amortisation and non-cash items		
– Corporate	20.5	(8.7)
– Venture capital	(32.7)	3.8
– Semiconductor distribution	66.0	50.9
– Consumer electronic product	(1.4)	(0.8)
– Others	(4.5)	0.0
	<u>47.9</u>	<u>45.2</u>
Depreciation and amortisation	<u>(5.5)</u>	<u>(6.1)</u>
DISCONTINUED OPERATION		
Loss for the period from a discontinued operation	(59.7)	(7.7)
Profit/(loss) for the period attributable to:		
Owners of the Company	(24.8)	20.0
Non-controlling interests	0.3	0.3
	<u>(24.5)</u>	<u>20.3</u>
Interim dividend	<u>–</u>	<u>–</u>

Statement of Financial Position Highlights

	30/9/2014 <i>HK\$'million</i>	31/3/2014 <i>HK\$'million</i>
Total assets	1,184.8	1,335.5
Total assets less current liabilities	698.5	694.1
Total equity	673.8	668.7
Borrowings and finance lease payables	350.2	511.4
Cash and cash equivalents	116.0	87.8
Equity investments at fair value through profit or loss	132.2	199.1
Cash and cash equivalents and equity investments	248.2	286.9
Total debt to total equity (%)	52%	76%
Current assets to current liabilities (%)	159%	152%
Cash and cash equivalents and equity investments per share (HK\$)	0.35	0.40
Total equity per share (HK\$)	0.95	0.94

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 2014 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 September	
		2014	2013
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
			(Restated)
CONTINUING OPERATIONS			
REVENUE	3	1,112,105	1,395,504
Cost of sales		<u>(1,065,332)</u>	<u>(1,335,669)</u>
Gross profit		46,773	59,835
Other income and gains	4	6,357	6,486
Selling and distribution costs		(11,624)	(14,974)
Administrative expenses		(50,019)	(46,404)
Fair value gains/(losses) on equity investments			
at fair value through profit or loss, net		(29,820)	5,897
Fair value gain on investment		15,229	—
Gain on disposal of subsidiaries		15,850	—
Other expenses		(3,156)	(2,698)
Finance costs	5	(7,081)	(10,558)
Share of profits and losses of:			
a jointly-controlled entity		52,813	30,965
associates		<u>—</u>	<u>(81)</u>
PROFIT/(LOSS) BEFORE TAX			
FROM CONTINUING OPERATIONS	6	35,322	28,468
Income tax	7	<u>(104)</u>	<u>(490)</u>
PROFIT/(LOSS) FOR THE PERIOD			
FROM CONTINUING OPERATIONS		35,218	27,978
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation		<u>(59,737)</u>	<u>(7,712)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>(24,519)</u>	<u>20,266</u>

CONDENSED CONSOLIDATED INCOME STATEMENT (CON'T)

		Six months ended	
		30 September	
		2014	2013
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
			(Restated)
Notes			
Attributable to:			
Owners of the Company			
	Profit for the period from continuing operations	35,356	27,726
	Loss for the period from a discontinued operation	(59,586)	(7,712)
	Profit/(loss) for the period attributable to owners of the Company	(24,230)	20,014
Non-controlling interests			
	Profit/(loss) for the period from continuing operations	(137)	252
	Loss for the period from a discontinued operation	(152)	–
	Profit/(loss) for the period attributable to non-controlling interests	(289)	252
		(24,519)	20,266
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
8			
Basic			
	– For profit/(loss) for the period	(3.4) cents	3.2 cents
	– For profit from continuing operations	5.0 cents	4.4 cents
Diluted			
	– For profit/(loss) for the period	(3.4) cents	3.1 cents
	– For profit from continuing operations	5.0 cents	4.4 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
PROFIT/(LOSS) FOR THE PERIOD	(24,519)	20,266
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>179</u>	<u>2,063</u>
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<u>179</u>	<u>2,063</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>179</u>	<u>2,063</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>(24,340)</u>	<u>22,329</u>
Attributable to:		
Owners of the Company	(24,051)	22,077
Non-controlling interests	<u>(289)</u>	<u>252</u>
	<u>(24,340)</u>	<u>22,329</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		53,487	53,019
Investment properties		80,407	80,764
Goodwill		32,780	32,780
Other intangible assets		16,221	20,464
Investments in joint ventures		182,756	123,396
Investments in associates		2,450	2,450
Available-for-sale investments		42,920	42,920
Deposits and other receivables		–	680
Pledged time deposits		677	2,686
Total non-current assets		411,698	359,159
CURRENT ASSETS			
Available-for-sale investments		2,217	–
Inventories	9	191,490	262,427
Trade receivables	10	146,914	219,222
Due from associates		38,015	33,726
Prepayments, deposits and other receivables		137,772	130,611
Equity investments at fair value through profit or loss	11	132,223	199,110
Convertible bonds		6,509	6,509
Tax recoverable		1,958	2,202
Cash and cash equivalents		115,984	87,755
		773,082	941,562
Assets of a disposal group classified as held for sale		–	34,738
Total current assets		773,082	976,300
CURRENT LIABILITIES			
Trade payables, deposits received and accrued expenses	12	146,316	131,616
Interest-bearing bank and other borrowings		332,362	493,688
Finance lease payables		560	239
Tax payable		1,378	1,230
Financial guarantee obligation		5,694	5,694
		486,310	632,467
Liabilities directly associated with a disposal group classified as held for sale		–	8,870
Total current liabilities		486,310	641,337
NET CURRENT ASSETS		286,772	334,963

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CON'T)

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES	698,470	694,122
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	17,325	17,026
Finance lease payables	–	479
Deferred tax liabilities	7,301	7,964
Total non-current liabilities	24,626	25,469
Net assets	673,844	668,653
EQUITY		
Issued capital	71,111	71,111
Reserves	598,837	622,688
Equity attributable to equity holders of the Company	669,948	693,799
Non-controlling interests	3,896	(25,146)
Total equity	673,844	668,653

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 2014.

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 2014, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA for the first time for the current period’s unaudited condensed consolidated interim financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

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 four reportable operating segments as follows:

- (a) the semiconductor distribution segment engages in the sale and distribution of electronic components;
- (b) the consumer electronic product segment engages in the design, development and sale of electronic products;
- (c) the venture capital segment engages in the investments in listed/unlisted equity investments with an ultimate objective of capital gain on investee’s equity listing or, in some circumstances, prior to listing. It also includes investments in real estates or managed funds; and
- (d) the others segment mainly comprises the Group’s trading of Light-emitting Diode (“LED”) and mobile application development business.

3. OPERATING SEGMENT INFORMATION (CON'T)

Management monitors the results of the Group's 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 is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, dividend income from listed investments, management fee income, rental income, share of profits and losses of associates and joint ventures, fair value gains/(losses) on equity investments at fair value through profit or loss, gain on disposal of items of property, plant and equipment, gains on disposal of subsidiaries and associates, changes in fair value of investment properties, finance costs and unallocated expenses are excluded from such measurement.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Semiconductor distribution <i>HK\$'000</i>	Consumer electronic product <i>HK\$'000</i>	Venture capital <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Period ended 30 September 2014						
Segment revenue:						
Sales to external customers	1,078,649	32,594	-	862	-	1,112,105
Intersegment sales	-	-	-	-	-	-
Total revenue from continuing operations	<u>1,078,649</u>	<u>32,594</u>	<u>-</u>	<u>862</u>	<u>-</u>	<u>1,112,105</u>
Segment results	9,136	(3,095)	(4,107)	(5,476)	-	(3,542)
Reconciliation:						
Bank interest income						794
Dividend income from listed investments						791
Rental income						1,690
Service fee income						16
Share of profit of a jointly-controlled entity						52,813
Fair value losses on equity investments at fair value through profit or loss, net						(29,820)
Fair value gain on investment						15,229
Gain on disposal of subsidiaries						15,850
Unallocated expenses						(11,418)
Finance costs						<u>(7,081)</u>
Profit before tax from continuing operations						<u>35,322</u>

3. OPERATING SEGMENT INFORMATION (CON'T)

	Semiconductor distribution <i>HK\$'000</i>	Consumer electronic product <i>HK\$'000</i> (Restated)	Venture capital <i>HK\$'000</i>	Others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i> (Restated)
Period ended 30 September 2013						
Segment revenue:						
Sales to external customers	1,363,052	32,452	–	–	–	1,395,504
Intersegment sales	<u>2</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(2)</u>	<u>–</u>
Total revenue from continuing operations	<u><u>1,363,054</u></u>	<u><u>32,452</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>(2)</u></u>	<u><u>1,395,504</u></u>
Segment results	14,194	(2,593)	3,255	–	–	14,856
<i>Reconciliation:</i>						
Bank interest income						928
Dividend income from listed investments						237
Rental income						869
Share of profit of a jointly-controlled entity						30,965
Share of profits and losses of associates						(81)
Fair value gains on equity investments						
at fair value through profit or loss, net						64
Unallocated expenses						(8,813)
Finance costs						<u>(10,557)</u>
Profit before tax from continuing operations						<u><u>28,468</u></u>

3. OPERATING SEGMENT INFORMATION (CON'T)

	Semiconductor distribution <i>HK\$'000</i>	Consumer electronic product <i>HK\$'000</i>	Venture capital <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Period ended 30 September 2014					
Segment assets	708,733	34,522	317,505	32,610	1,093,370
Reconciliation:					
Elimination of intersegment receivables					(239,664)
Investments in associates	285	2,165	–	–	2,450
Investments in joint ventures	182,756	–	–	–	182,756
Corporate and other unallocated assets					145,869
Total assets					<u>1,184,781</u>
Segment liabilities	133,696	184,618	54,859	11,370	384,543
Reconciliation:					
Elimination of intersegment payables					(239,664)
Corporate and other unallocated liabilities					366,057
Total liabilities					<u>510,936</u>
Year ended 31 March 2014					
Segment assets	903,556	47,556	433,279	32,104	1,416,495
Reconciliation:					
Elimination of intersegment receivables					(370,222)
Investments in associates	285	2,165	–	–	2,450
Investments in joint ventures	123,396	–	–	–	123,396
Corporate and other unallocated assets					128,602
Assets classified as held for sale					34,738
Total assets					<u>1,335,459</u>
Segment liabilities	124,530	243,537	124,376	7,057	499,500
Reconciliation:					
Elimination of intersegment payables					(370,222)
Corporate and other unallocated liabilities					528,658
Liabilities related to a discontinued operation					8,870
Total liabilities					<u>666,806</u>

3. OPERATING SEGMENT INFORMATION (CON'T)

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

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Geographical segment:		
Hong Kong	222,110	409,236
Singapore	809,011	888,357
Korea	71,272	85,926
Other locations	9,712	11,985
	<u>1,112,105</u>	<u>1,395,504</u>

4. OTHER INCOME AND GAINS

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Bank interest income	794	928
Dividend income from listed investments	304	598
Interest income from debt securities	487	733
Rental income	1,689	956
Others	3,083	3,271
	<u>6,357</u>	<u>6,486</u>

5. FINANCE COSTS

	Six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Interest on bank and mortgage loans	7,064	10,530
Interest on finance leases	17	28
	<u>7,081</u>	<u>10,558</u>

6. PROFIT BEFORE TAX

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

	Six months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Depreciation of property, plant and equipment	1,942	3,153
Amortisation of other intangible assets	3,576	3,901
Loss on disposal of subsidiary of discontinued operation	(46,097)	—
Exchange loss/(gain), net	(2,021)	2,569
	<u>(2,021)</u>	<u>2,569</u>

7. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 September 2014. 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	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Provision for the period	767	1,202
Deferred	(663)	(712)
	<u>104</u>	<u>490</u>
Total tax charge for the period	<u>104</u>	<u>490</u>

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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 711,108,419 (2013: 624,566,661) 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 number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the 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 basic and diluted earnings per share are based on:

	Six months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
		(Restated)
Earnings		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation:		
From continuing operations	35,218	27,978
From a discontinued operation	(59,737)	(7,712)
	(24,519)	20,266
	30 September	30 September
	2014	2013
Shares:		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	711,108,419	624,566,661
Effect of dilution-weighted average number of ordinary shares:		
Share options	216,176	2,522,034
Total	711,324,595	627,088,695

9. INVENTORIES

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Finished goods	<u>191,490</u>	<u>262,427</u>

10. TRADE RECEIVABLES

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Trade receivables	148,751	223,466
Impairment	<u>(1,837)</u>	<u>(4,244)</u>
	<u>146,914</u>	<u>219,222</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 over 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. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing. The carrying amounts of the trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at 30 September 2014, based on the payment due date, is as follows:

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Current	73,213	153,722
1 to 30 days	33,223	46,005
31 to 60 days	9,248	12,524
Over 60 days	<u>33,067</u>	<u>11,215</u>
	<u>148,751</u>	<u>223,466</u>

11. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Investment in an associate (<i>Note</i>)	125,433	143,019
Managed funds, outside Hong Kong, at market value	334	40,282
Listed equity investments, in Hong Kong, at market value	6,456	6,829
Debt securities, at market value	–	8,980
	6,790	56,091
	132,223	199,110

The above equity investments with a carrying amount of HK\$6,790,000 (31 March 2014: HK\$56,091,000) at 30 September 2014 were classified as held for trading.

At 30 September 2014, equity investments amounting to HK\$6,456,000 (31 March 2014: HK\$42,302,000) were pledged to secure certain of the Group's interest-bearing bank and other borrowings.

Note:

During the year ended 31 March 2013, the Group (through a wholly-owned subsidiary, a venture capital organisation) acquired 35.94% equity interest in Integrated Energy Limited ("IEL"), a limited liability company incorporated in Korea. During the year ended 31 March 2014, the Group (through a wholly-owned subsidiary, a venture capital organisation) converted certain convertible bonds issued by IEL to ordinary shares of IEL amounting to HK\$52,174,000. As at 31 March 2014, the Group held 33.13% equity interest in IEL.

The investment in IEL was classified as an investment in an associate as the Group exercises significant influence over financial and operating policies of IEL. As this associate is held as part of venture capital organisation's investment portfolio, it is carried in the consolidated statement of financial position at fair value. This treatment is permitted by HKAS 28 (2011) "Investment in Associates and Joint Ventures" which requires investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit and loss and accounted for in accordance with HKAS 39, with changes in fair value recognised in the consolidated statement of profit or loss in the period of change.

12. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUED EXPENSES

An aged analysis of the trade payables, deposits received and accrued expenses as at 30 September 2014, based on the payment due date, is as follows:

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Trade payables:		
Current	80,817	86,173
1 to 30 days	2,437	15,603
31 to 60 days	25,564	1,328
Over 60 days	109	4,112
	<hr/>	<hr/>
	108,927	107,216
Deposits received	3,325	9,685
Accrued expenses	34,064	14,715
	<hr/>	<hr/>
	146,316	131,616
	<hr/> <hr/>	<hr/> <hr/>

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

13. DISPOSAL OF SUBSIDIARIES

During the period ended 30 September 2014, the Group disposed of its entire interest in Soul Limited to an independent third party at a consideration of HK\$9,800,000.

14. COMPARATIVE AMOUNTS

Certain comparative amounts in the statement of profit or loss have been reclassified to conform with the current period's presentation, which the directors consider to more appropriately present the results of the Group. As a result of the Group's decision to discontinue the operation of SOUL[®] headphone business during the period, the comparative consolidated statement of profit or loss has been re-presented as if the operation discontinued during the current period had been discontinued at the beginning of the comparative period.

BUSINESS REVIEW AND PROSPECTS

The following sets out the financial highlights for the six months ended 30 September 2014, with the comparative figures for the corresponding six months period of 2013.

	Six Months Ended	
	30/9/2014	30/9/2013
	<i>HK\$'million</i>	<i>HK\$'million</i>
		(Restated)
CONTINUING OPERATIONS		
Revenue		
Semiconductor distribution	1,078.6	1,363.1
Consumer electronic product	32.6	32.5
Others	0.9	0.0
	<u>1,112.1</u>	<u>1,395.6</u>
Earnings/(loss) before interest, tax, depreciation, amortisation and non-cash items		
Corporate	20.5	(8.7)
Venture capital	(32.7)	3.8
Semiconductor distribution	66.0	50.9
Consumer electronic product	(1.4)	(0.8)
Others	(4.5)	0.0
	<u>47.9</u>	<u>45.2</u>
Depreciation and amortisation		
Corporate	(0.1)	(0.1)
Venture capital	(0.4)	(0.5)
Semiconductor distribution	(2.6)	(3.9)
Consumer electronic product	(1.5)	(1.6)
Others	(0.9)	—
	<u>(5.5)</u>	<u>(6.1)</u>
Total depreciation and amortisation		
Profit before interest and tax	42.4	39.0
Interest expenses	(7.1)	(10.5)
Profit before tax from continuing operations	35.3	28.5
Income tax	(0.1)	(0.5)
Profit for the period from continuing operations	<u>35.2</u>	<u>28.0</u>

BUSINESS REVIEW AND PROSPECTS (CON'T)

	Six Months Ended	
	30/9/2014	30/9/2013
	<i>HK\$'million</i>	<i>HK\$'million</i>
		(Restated)
DISCONTINUED OPERATION		
Loss for the period from a discontinued operation	(59.7)	(7.7)
Profit/(loss) for the period	<u>(24.5)</u>	<u>20.3</u>
Profit/(loss) for the period attributable to:		
Owners of the Company	(24.2)	20.0
Non-controlling interests	<u>(0.3)</u>	<u>0.3</u>
	<u>(24.5)</u>	<u>20.3</u>

BUSINESS REVIEW

For the reviewing period of the six months ended 30 September 2014, in face of the challenging environment of the global macro-economic environment especially the dampened consumer sentiment in the United States and European region, as well as the truth of slowing down in economic growth in China, the Group has officially discontinued the operation of SOUL[®] headphone business and set clear and prudent development strategies in order to fully utilize our resources to promote and support fast growing business and develop other potential business. During the reviewing period, thanks to the fast growing global demand for smartphones and handheld tablets, in particular the rapidly increasing market share of low-end mobile phones in China, the Group recorded rather satisfactory results for its semiconductor distribution business. During the reviewing period, the Group's revenue from continuing operations was HK\$1,112,100,000 (2013: HK\$1,395,600,000), decreased by 20%. Gross profit was HK\$46,773,000 (2013: HK\$59,835,000). Given the Group's SOUL[®] headphone business has officially become a discontinued operation since August 2014, a book loss on the disposal without affecting cash flow was approximately HK\$46,100,000. As this book loss was to be reflected on the accounts for the period under review, a loss attributable to shareholders of HK\$24,519,000 (2013: gain of HK\$20,266,000) was recorded. Among which semiconductor distribution business recorded a turnover of HK\$1,078,600,000 (2013: HK\$1,363,100,000). Mobile application business recorded a revenue of HK\$900,000.

BUSINESS REVIEW (CON'T)

Semiconductor Distribution Business

During the period under review, the turnover of the Group's semiconductor distribution business decreased to HK\$1,078,600,000 (2013: HK\$1,363,100,000) which mainly due to the restructuring and optimization of customer base in order to maintain a desirable profit margin in the future. The Group continued to enjoy the economic benefits from the fast growing global demand for smartphones and handheld tablets. During the period under review, AVPEL Group recorded a significant growth of 88% in turnover to HK\$3,635,000,000 (2013: HK\$1,932,800,000) mainly brought forth by the semiconductor distribution of Samsung Electronics Co., Ltd. ("Samsung Electronics"). Of which, the revenue growth from the exclusive distribution of Samsung CMOS images sensors was the most significant. While the growth in other Samsung Electronics products under distribution including multi-chip packages and ARM processors were also substantial.

We expect China smartphone business to enjoy huge market potential under the growing demand for the mid to low-end smartphones. A report from global mobile internet industry data agency iMedia Research shows that, as of first half of 2014, the sales in China smartphone market reached 185.563 million units, representing a 9% growth as compared to second half of 2013. And as of end of June 2014, China smartphone users reached 556 million, a 4.5% growth compared to same period last year. This clearly indicates China handheld market is getting more important within the global smartphone market, which is exhibiting moderate growth only. The Group will focus its resources in expanding smartphones and mobile games related businesses in order to bring greater returns for shareholders.

According to the June 2014 report issued by IDC's Global Mobile Phone Tracker, the world's total smartphone shipments reached 1.2 billion units, jumped 23.1% as compared to 2013; among which China's total smartphone shipments reached 420 million units, representing a 19.8% year on year. The report also mentions, China's total shipments would take up to 1/3 of the world's by 2018. As per the report, due to the fierce competition in China market and the rising awareness of local brands, domestically produced smartphones are increasingly gaining popularity. The report is optimistic about the potentials of low-end handhelds in China and expects a double-digit growth rate. Thanks to the foresight of management, the entry into the mid to low-end smartphone markets for the semiconductor distribution business has become a key growth driver due to the sharp increase in shipments of mid to low-end smartphones in China. The expansion into new distribution channels not only promotes overall business growth, but also lowers the Group's business risk of over-dependency on single client.

BUSINESS REVIEW (CON'T)

Consumer Electronic Product Business

The Group has decisively discontinued its SOUL® headphone business since August 2014 in order to focus its resources on developing its semiconductor distribution business as well as mobile phone applications and games that come with synergic effects. Given the Group's SOUL® headphone business has officially become a discontinued operation since August 2014, the loss on the disposal was approximately HK\$46,100,000. In the long run, this decision will raise the competitiveness of the Group and reduce operation cost. We believe the success of SOUL® headphone business in terms of its global sales has laid a solid foundation for the Group in expanding global business in the future.

Mobile Application Business

The Group invested in Me2on Co., Ltd. ("Me2on"), a fast-growing mobile games developer and publisher in Korea and Koocell Limited ("Koocell"), an innovative mobile game company with mobile games publishing platform and is dedicated in developing the most sought-after mobile applications as well as mobile games and both have brought satisfactory business performance during the period under review. The mobile phone application developed by Koocell, including Free4U application, is still popular among users. In January 2014, Koocell launched its first mobile puzzle RPG Three Kingdoms related mobile game called "Tales of Three Kingdoms" and is also a big hit. Later in 2014, Koocell will also launch a new smartphone game named "GGO Football" which is created based on an animation cartoon series "GGO Football" in China. Given it has 1 billion viewing rate and is broadcasted in 18 different countries, its smartphone game is very popular in the gaming world. Being the Group's newly developed business, the mobile application business recorded a revenue of HK\$900,000 during the period under review.

In September, global mobile internet industry data agency iMedia Research released a report regarding the study of China's mobile games for the first half of 2014. The study shows that the scale of China's mobile games has reached RMB11.78 billion, representing a 63.4% over the corresponding last year; while the number of mobile game users has reached 448 million, representing a 16.4% growth over the corresponding period of last year. The report also forecasts that mobile game industry ecosystem will gradually become more comprehensive with the scale of users steadily expanding. Ministry of Industry and Information Technology of PRC released the "Mobile Internet White Paper" in May 2014 reiterating the importance of developing smart terminus industry. Further, according to the statistics from China Semiconductor Industry Association, semiconductor industry is showing signs of continuous growth. The Group will focus its resources in expanding smart phones and mobile games related businesses in order to bring greater returns for shareholders.

BUSINESS REVIEW (CON'T)

Venture Capital Business

As of 30 September 2014, various funds, equity investments, and debt securities were held at fair market value of HK\$132,223,000 (as of 31 March 2014: HK\$199,110,000) in the Group. During the period under review, as compared to same period last year, the venture capital business of the Group recorded a loss of HK\$29,820,000 (2013: gain of HK\$5,800,000), which was the mark-to-market loss incurred after accounting treatment. During the period, the Group retained 33.13% equity interest in Integrated Energy Limited. The management cautiously monitored the Venture Capital Business by reference to the world financial markets. Although global economy is volatile with uncertainties ahead, the Group will strive for satisfactory results for its venture capital business.

Prospect

Looking ahead, semiconductor distribution business will continue to be the driver for the Group's development. During recent years, with more than two decades of solid experience in semiconductors distribution, the Group has established its market reputation, credit and advantage, together with the close ties with key mobile phone manufacturers, AV Concept is managed to pre-install the mobile games distribution platform apps in the smartphones of the semiconductor clients which speeds up the development of Koocell in the mid and low-end smartphone market and promotes mobile games developed by Me2on, so as to develop the AV Concept smartphone business eco-chain which takes a very unique advantage.

During the period under review, the market demand for mid to low-end smartphones continues to heat up, pushing handheld developers to launch more mid to low-end products with better performances, which in turn drives up the demand for the associated semiconductors. In view of the success of the Group's semiconductor distribution business, we believe the Group will continue to enjoy the economic benefits from the growing smartphone market and we expect significant growth in the recorded revenue. Therefore, the Group will devote more resources in consolidating the operating scale of the semiconductor distribution business and expanding relevant sales network.

At the same time, to catch up with the exponential growth of the mobile gaming industry, the Group will speed up the development of its mobile gaming applications and mobile game publishing platforms. The Group's Koocell and Me2on launched several popular smartphone games, which have drawn significant influence in Hong Kong and other Asian regions. In future, the Group will assist Me2on for its business expansion in Northeast Asia and explore bigger market opportunities.

LIQUIDITY AND FINANCIAL RESOURCES

The total debt position as at 30 September 2014 and 31 March 2014 and the corresponding gearing ratio are shown as follows:

	30/9/2014 <i>HK\$'million</i>	31/3/2014 <i>HK\$'million</i>
Cash and cash equivalents	116.0	87.8
Equity investments at fair value through profit or loss	132.2	199.1
Cash and cash equivalents and equity investments	248.2	286.9
Borrowings and finance lease payable	350.2	511.4
Total equity	673.8	668.7
Total debt to total equity	52%	76%

As at 30 September 2014, the Group had cash and cash equivalents (i.e., cash and bank balances and unpledged time deposits) of 116.0 million (31 March 2014: HK\$87.8 million), while the Group's equity investments at fair value through profit or loss amounted to 132.2 million (31 March 2014: HK\$199.1 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 total debt to total equity ratio as at 30 September 2014 was 52% (31 March 2014: 76%), while the Group's total equity was 673.8 million (31 March 2014: HK\$668.7 million), with the total balances of cash and cash equivalents and equity investments as at 30 September 2014 of HK\$248.2 million (31 March 2014: HK\$286.9 million).

The working capital position of the Group remains healthy. As at 30 September 2014, the liquidity ratio was 159% (31 March 2014: 152%).

LIQUIDITY AND FINANCIAL RESOURCES (CON'T)

	30/9/2014 HK\$'million	31/3/2014 <i>HK\$'million</i>
Current assets	773.1	976.3
Current liabilities	(486.3)	(641.3)
Net current assets	286.8	335.0
Current assets to current liabilities (%)	159%	152%

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2014 (2013: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2014, the Group employed a total of approximately 288 (31 March 2014: approximately 316) full time employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. The remuneration policy and package are 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.

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

During the six months ended 30 September 2014, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

In the opinion of the Board of Directors, the Company has complied with the code provisions set out in the Corporate Governance Code 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 2014.

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 2014.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprises three independent non-executive Directors, namely, Dr. Lui Ming Wah, *SBS, JP*, Mr. Charles E. Chapman and Mr. Wong Ka Kit. The Audit Committee has reviewed with the management and the Company’s auditor the accounting principles and practices adopted by the Group and discussed auditing, financial reporting process and internal control matters including a review of the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2014.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.avconcept.com respectively. The interim report will be despatched to the shareholders of the Company and will be available on the aforesaid websites in due course.

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

Hong Kong, 27 November 2014

As at the date of this announcement, 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. Lui Ming Wah, SBS, JP, Mr. Charles E. Chapman and Mr. Wong Ka Kit.