NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005, except that the Group has changed certain of its accounting policies and adopted new accounting policies following a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations). These HKFRSs became effective for accounting periods beginning on or after 1 January 2005 and are adopted for the first time for the current period's unaudited condensed consolidated interim financial statements. These include:

HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

(a) HKAS 31 – Interests in Joint Ventures

The Group has applied HKAS 31 "Interests in Joint Ventures" which allows entity to use either proportionate consolidation or the equity method to account for its interest in a jointly-controlled entity. Upon the application of HKAS 31, the Group has elected to apply the proportionate consolidation method to account for its interest in a jointly-controlled entity.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior periods, the Group classified its investments in equity securities as long term investments which were held for non-trading purposes and were stated at cost less any impairment losses.

Short term investments of the Group were investments in equity securities or other investments held for trading purposes. Changes in the fair value of short term investments were recognised in the income statement in the period in which they arise.

Upon the adoption of HKASs 32 and 39, the Group's long term investments and short term investments were redesignated as available-for-sale investments and financial assets at fair value through profit or loss. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale investment previously recognised in the income statement.

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Following the adoption of this accounting policy and the associated transitional provisions, the gain on the initial revaluation of available-for-sale investment as at 1 April 2005 of approximately HK$62.8m was credited to retained profits instead of the income statement for the current period, thus reducing the profit of the Group by approximately HK$62.8m for the six months ended 30 September 2005. The accounting policy has no effect on the comparative amounts.

(ii) *Derivative financial instruments – Foreign currency contracts*
The Group uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Foreign currency contracts entered into subsequent to the adoption of HKAS 39 are designated as hedges.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. Hedges are expected to be highly effective and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In accordance with HKAS 39, foreign currency contracts are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Such derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The accounting for changes in the fair value (i.e. gains or losses) of a derivative financial instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative financial instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge or a cash flow hedge.

For derivative financial instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative financial instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognised in the income statement during the period of the change in fair values. For derivative financial instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on a derivative financial instrument is reported in equity and reclassified into earnings in the same period or periods during which the hedged transaction affects income. The remaining gain or loss on the derivative financial instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognised in the income statement during the period of change. For derivative financial instruments not designated as hedging instruments, the gain or loss is recognised in the income statement during the period of change.

Following the adoption of this accounting policy, the amount of HK$971,000, being the fair value of the foreign currency contract, was credited to the income statement for the six months ended 30 September 2005 (2004: Nil).

(c) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined using Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Following the adoption of HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested by 1 January 2005, the opening balance on the Group's retained profits at 1 April 2005 was decreased by HK$8.8 million (1 April 2004: nil). In addition, employee share-based expenses of approximately HK$4.4 million were charged to the income statement for the six months period ended 30 September 2004.

(d) HKFRS 3 – Business Combinations

In prior periods, goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated retained profits in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Upon the adoption of HKFRS 3, goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Following the adoption of this accounting policy, the goodwill in respect of the disposal of 50% equity interest in a subsidiary during the period of HK$2.3m remained eliminated against consolidated retained profits.

2. SEGMENT INFORMATION

The Group principally engages in the marketing and distribution of electronic components and the design, manufacture and sale of electronic products.

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity is as follows:

	Segment revenue Six months ended 30 September		Segment results Six months ended 30 September	
	2005	2004	**2005**	2004
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
				(Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By business segments:				
Marketing and distribution	**1,046,293**	919,288	**17,735**	11,687
Design and manufacture	**175,937**	215,325	**(34,839)**	14,574
	1,222,230	1,134,613	**(17,104)**	26,261
Interest income			**1,776**	49
Unallocated corporate expenses			**(2,209)**	(486)
Unrealised holding gain/(loss) on revaluation of financial assets at fair value through profit or loss			**2,424**	(522)
Gain/(loss) on disposal of available-for-sale investment			**(25,350)**	46,893
Gain on partial disposal of a subsidiary			**39,693**	–
Profit/(loss) from operating activities			**(770)**	72,195

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

	Six months ended 30 September	
	2005	2004
	(Unaudited)	*(Unaudited)*
		(Restated)
	HK$'000	*HK$'000*
Geographical segment:		
Hong Kong	**889,233**	798,079
Mainland China	**1,247**	–
Singapore	**204,535**	144,402
Korea	**33,599**	42,932
Japan	**79,991**	31,768
Other locations	**13,625**	117,432
	1,222,230	1,134,613

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

Profit/(loss) from operating activities is arrived at after charging/(crediting):

	Six months ended 30 September	
	2005	2004
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Depreciation	**8,652**	7,799
Amortisation of intangible assets	**638**	978
Impairment of fixed assets	**1,114**	–
Loss on disposal of fixed assets	**596**	–
Unrealised holding (gain)/loss on revaluation of financial assets at fair value through profit or loss	**(2,424)**	522
Exchange (gains)/losses, net	**3,475**	(121)
Gain on disposal of financial assets at fair value through profit or loss	**(60)**	–
Dividend income	**(510)**	–
Interest income	**(1,776)**	(49)

4. FINANCE COSTS

	Six months ended 30 September	
	2005	2004
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**8,540**	4,435
Interest on finance leases	**76**	103
	8,616	4,538

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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	
	2005	2004
	(Unaudited)	*(Unaudited)*
	HK$'000	*HK$'000*
Provision for tax for the period:		
Hong Kong	**2,233**	3,695
Overseas	**4,978**	4,991
Deferred	**–**	825
Tax charge for the period	**7,211**	9,511

6. INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the period (2004: HK 2.8 cents per ordinary share).

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on loss attributable to equity holders of the parent of HK$14,710,000 (2004: profit attributable to equity holders of the parent of HK$58,146,000 as restated) and the weighted average of 405,082,419 (2004: 405,082,419) ordinary shares in issue during the period.

Diluted earnings/(loss) per share have not been disclosed as the share options outstanding during the periods had an anti-dilutive effect on the basic earnings/(loss) per share for these periods.

8. WARRANT

A warrant was issued by BreconRidge Manufacturing Solutions Corporation ("BreconRidge"), an unlisted entity incorporated in Canada, to the Group as consideration for the disposal of 50% equity interest in a subsidiary. Such warrant entitles the Group to subscribe for 7.5 million common shares in BreconRidge. Further details of terms of the warrant were set out in the Company's circular to shareholders dated 15 July 2005.

9. INVENTORIES

	30 September 2005	31 March 2005
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Raw materials	**61,186**	53,315
Work in progress	**8,590**	10,637
Finished goods	**196,467**	212,262
	266,243	276,214

10. TRADE RECEIVABLES

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.

The aged analysis of the trade receivables as at 30 September 2005, based on the invoice due date and stated net of provision for doubtful debts, was as follows:

	30 September 2005	31 March 2005
	(Unaudited)	*(Audited)*
	HK$'000	*HK$'000*
Current	**185,897**	194,401
1 – 30 days	**79,669**	60,922
31 – 60 days	**29,664**	25,214
Over 60 days	**26,364**	37,240
	321,594	317,777

11. TRADE PAYABLES AND ACCRUED EXPENSES

The aged analysis of the trade payables as at 30 September 2005, based on the invoice due date, was as follows:

	30 September 2005 (Unaudited) HK$'000	31 March 2005 (Audited) HK$'000
Current	**115,789**	113,421
1 – 30 days	**21,558**	28,104
31 – 60 days	**4,665**	14,352
Over 60 days	**3,523**	1,607
	145,535	157,484
Accrued expenses	**36,943**	26,340
	182,478	183,824

12. COMPARATIVE AMOUNTS

Due to the adoption of the certain new and revised HKFRSs during the current period, the accounting treatment and presentation of certain items and balances in the unaudited condensed consolidated interim financial statements have been revised to comply with the new requirements. Accordingly, a prior period adjustment has been made and certain comparative amounts have been reclassified and restated to conform to the current period's presentation.

BUSINESS REVIEW

Supported by the steady growth of the marketing and distribution business, the Group's turnover for the six months ended 30 September 2005 increased 8% to HK$1,222 million (2004: HK$1,135 million). However, due to the adoption of new and revised Hong Kong Financial Reporting Standards, the Group was required to recognise an after tax loss of approximately HK$30 million related to the disposal of Reigncom Shares during the period. Furthermore, one-off restructuring cost was incurred as the Group underwent a major restructuring to the manufacturing business during the period under review. Loss attributable to equity holders of the parent was HK$15 million (Profit attributable to equity holders of the parent in 2004: HK$58 million as restated). Loss per share was HK 3.6 cents.

The marketing and distribution business continued to be the Group's core revenue driver during the review period. Supported by strong demand and increased market share, sales of the Group's flash memory product remained satisfactory. The Group continued to differentiate itself from its competitors in the region by providing technical design and engineering support to customers. These value added elements are fundamental to the Group's business practices and crucial to the development of long-term relationships with major customers.

As the MP3 and electronics manufacturing market matures and competition becomes more acute, margins are inevitably squeezed. During the period under review, the Group underwent a major restructuring to consolidate the manufacturing business and reallocated resources to focus on brand management including product design, brand building and distribution channel management to maintain its gross margin. The management understands the need to switch focus from manufacturing to areas with higher margins and growth potential. As such, a number of strategic moves were made during the review period to capture opportunities in the changing market environment.

ESTABLISHMENT OF AVC TECHNOLOGY JAPAN

In June 2005, the Group's wholly owned subsidiary, AVC Technology Limited ("AVCT"), established its first office in Japan – AVC Technology Japan Ltd. ("AVC Japan"), and at the same time launched its flagship brand – "SIGNEO" in the market. The move marked the Group's full-scale penetration of the lucrative Japanese digital audio player market. The extensive distribution channels the Group enjoys, is a high barrier to cross for other retail chains. To meet increasingly sophisticated market demands in Japan, the Group injected more resources into brand building such as launching limited cross-over design with renowned artists. As a result, in just two short months, AVCT assumed impressive market share in the Japan digital audio player market.

JOINT VENTURE WITH BRECONRIDGE

In August 2005, the Group initially completed the joint venture arrangement with its long-term business partner BreconRidge Manufacturing Solutions Corporation ("BreconRidge"), a Canadian EMS manufacturer. The Group disposed 50% equity interests in its wholly owned subsidiary AV BreconRidge Limited ("AV BreconRidge", formerly known as AV Chaseway Limited) in exchange for a warrant (the "Warrant") which entitles the Group to subscribe for shares in BreconRidge. The Warrant of approximately HK$61 million was included in the balance sheet of the Group under non-current asset. The transaction brought to the Group a gain of approximately HK$40 million during the period.

After the initial completion, AV BreconRidge ceased to be a subsidiary of the Company and held as to 50% by the Group and as to 50% by BreconRidge. AV BreconRidge became a jointly-controlled entity of the Company and became managed and operated as a joint venture and proportionately consolidated in the Group's financial statements.

Leveraging BreconRidge's world-class engineering expertise and prominent client base, the management believes the joint venture will help to streamline the Group's manufacturing business. Having direct interest in a world-class EMS solutions provider will allow the Group to generate more significant returns for its shareholders.