BUSINESS REVIEW AND PROSPECTS

The following sets out the financial highlights for the six months ended 30 September 2006, with the comparative figures for the corresponding six months period of 2005.

	Six months ended 30 September	
	2006	2005
	HK$'million	*HK$'million*
Revenue		
Marketing and distribution	**1,421.0**	1,046.3
Design and manufacture	**25.8**	175.9
	1,446.8	1,222.2
Earnings before interest, tax, depreciation, amortisation and non-cash items		
Corporate	**10.4**	2.0
Marketing and distribution	**16.6**	19.8
Design and manufacture	**(9.2)**	(11.3)
Gain on disposal of a subsidiary	**–**	39.7
Gain on disposal of equity investments	**–**	37.5
	17.8	87.7
Depreciation, amortisation and non-cash items		
Marketing and distribution	**(1.3)**	(2.1)
Design and manufacture	**(4.7)**	(21.7)
	(6.0)	(23.8)
Earnings before interest and tax	**11.8**	63.9
Interest expenses	**(10.9)**	(8.6)
Profit before tax	**0.9**	55.3
Tax	**–**	(7.2)
Profit for the period	**0.9**	48.1

BUSINESS REVIEW

The Group's turnover for the six months ended 30 September 2006 increased 18% to HK$1,446.8 million (2005: HK$1,222.2 million), mainly attributable to the stable growth of the marketing and distribution business. Profit for the period was HK$0.9 million (2005 restated: HK$48.1 million). Earnings per share was HK0.2 cent. The change in the Group's profit from the same period last year was mainly attributable to:

(i) during the six months ended 30 September 2005, the Group disposed of all the remaining investment in Reigncom Limited, resulting in a net pre-tax gain of HK$37.5 million on disposal of equity investment; and

(ii) another disposal gain of HK$39.7 million was recorded in the same period from the disposal of the Group's 50% equity interests in AV BreconRidge Limited to the long-term business partner BreconRidge Manufacturing Solutions Corporation, a Canadian EMS manufacturer.

Marketing and Distribution Business

During the period under review, market conditions were tough for the marketing and distribution business with prices especially for flash memory products plunging. Despite the challenging market, the Group managed to maintain its edge with the marketing and distribution business as its core revenue contributor, accounting for 98% of its total turnover. The segment's turnover increased 36% to HK$1,421.0 million, however, affected by the tough market, the segment's EBITDA (i.e. earnings before interest, tax, depreciation, amortisation and non-cash items) amounted to HK$16.6 million, which was 16% lower than that of the same period last year.

The segmental profit for the period was HK$14.8 million (2005: HK$17.7 million).

The Group's semiconductor products continued to record stable growth in sales. Backed by an extensive distribution network and experienced sales and marketing team, the Group enjoys stable and long term relationships with its internationally renowned customers, as well as suppliers, including Samsung Electronics and Fairchild. The Group aims at becoming a one-stop service provider for semiconductor customers in the People's Republic of China ("PRC").

The market for flash memory products was fiercely competitive during the period under review. The prices of low-capacity flash memory declined sharply. However, demand for the Group's flash memory products continued to increase and sales remained satisfactory. This encouraging performance was attributable to the value added technical design and engineering support the Group provided to customers, which distinguished it from its competitors.

Design and Manufacturing Business

After AV Concept discontinued its MP3 business in the previous financial year, the Group has been shifting the focus of its design and manufacturing business to high margin products with longer product life cycles. During the period under review, the Group stepped up development of special care products, including niche market electronics and medical equipments for the aged and disabled. However, due to severe market competition and the exit of MP3 business, the turnover of the design and manufacturing segment decreased to HK$25.8 million. The segment's EBITDA was a loss of HK$9.2 million (2005: EBITDA loss of HK$11.3 million), while the segmental loss was HK$14.2 million (2005: segmental loss of HK$34.8 million).

Medical Equipment Distribution Business

To capture opportunities arising from a growing elderly and special-needs population worldwide, the Group established AVC Medical Technology Limited ("AVC Medical") to tap these niche markets. The Group's strategy is to focus on the development, manufacture and distribution of premium and intellectual right protected medical equipment.

Determined to build a portfolio of innovative products, the Group started cooperation with US-based Fall Prevention Technologies LLC ("Fall Prevention") in 2005 to jointly develop state-of-the-art balanceback™ equipments for treating balance disorders. AVC Medical is the exclusive manufacturer and sole distributor of balanceback™ equipments in Asia. During the period under review, the Group also reached an agreement with a Korean medical equipment manufacturer to be the exclusive distributor for quality medical equipment targeting hospitals and clinics in the PRC. The Group is in the process of getting distribution approvals, and in the meantime, it has started pre-marketing efforts and building a distribution network in the PRC.

Joint Venture with BreconRidge

In 2005, the Group entered into a cooperative arrangement with its long-term business partner and Canadian EMS giant BreconRidge Manufacturing Solutions Corporation ("BreconRidge"). The management believes the cooperation will not only allow the Group to streamline its manufacturing business, but will also give it access to BreconRidge's world-class engineering expertise and prominent client base. In the long term, the Group expects this partnership with the world-class EMS solutions provider to help it generate more significant returns for shareholders.

Conditional Mandatory Cash Offer

On 9 October 2006, Jade Concept Limited ("Jade Concept"), a company wholly-owned by the Group's Chairman Mr. So Yuk Kwan, agreed to acquire an aggregate of 31.18 million shares of the Company from two independent parties for a total consideration of HK$15.59 million, boosting its stake in the Group from 34.76% to 42.26%. Jade Concept is required under Rule 26.1 of the Takeovers Code to make a conditional mandatory cash offer for all the issued shares in the Company (other than those shares already owned by it and parties acting in concert with it) at prices no higher than the offer price of HK$0.53 per share ("Cash Offer"), the details of which are set out in the Company's circular dated 31 October 2006. By increasing his controlling stake in the Group, Mr. So Yuk Kwan demonstrated his confidence in the long term prospects of the Group.

On 21 November 2006, the Cash Offer was successfully closed and Mr. So Yuk Kwan's controlling stake in the Group was increased to approximately 52.79%.

PROSPECTS

Going forward, the Group will continue to consolidate its existing business that promises steady growth, and at the same time nurture and strengthen newly developed businesses. In particular, the Group expects the newly developed medical equipment distribution business to start contributing profit as early as the second half of FY2007/2008.

For its well-established marketing and distribution business, the Group expects the market to remain tough in the second half of the year. In combat, the Group will strengthen its cost control measures, such as inventory control, and at the same time continue to grow its market share and maintain its position as a leading semiconductor distributor in Asia for Samsung Electronics. To boost this business, the Group plans to continue to expand its distribution network in the PRC and open new offices in major cities. In November 2006, the Group established its representative office in Beijing.

The Group sees strong potential in the market for special care products as governments worldwide increase financial aid to the needy for purchasing such products. Hence, the Group expects more growth for the design and manufacturing of special care products segment. It will put more efforts into developing this business and focus on high margin products with longer product life cycles.

In addition to manufacturing special care products, the Group is diversifying into distribution of niche medical equipment in Asia. With extensive experience in electronics distribution in the Greater China region and in dealing with Korean suppliers, the Group sees abundant potential for these niche medical products from Korea and the PRC. However, as the business is still in the investment stage, the Group's strategy continues to be to focus on distributing high quality medical products that are in demand and yield high returns and growth potential.

In the long term, the management is committed to exploring business opportunities with high growth potential with the aim of enhancing shareholders' value.

LIQUIDITY AND FINANCIAL RESOURCES

The net debt position as at 30 September 2006 and 31 March 2006 and the corresponding gearing ratio are shown as follows:

	30 September 2006	31 March 2006
	HK$'million	*HK$'million*
Bank debts	**435.9**	394.2
Cash and cash equivalents	**151.5**	164.9
Equity investments under current assets	**189.6**	138.3
Cash and cash equivalents and Equity Investments	**341.1**	303.2
Net debt	**94.8**	91.0
Total equity	**414.2**	417.1
Net debt to total equity	**23%**	22%

As at 30 September 2006, the Group had a balance of cash and cash equivalents (i.e. cash and bank balances and time deposits) of HK$151.5 million (31 March 2006: HK$164.9 million), while the Group's equity investments at fair value through profit or loss amounted to HK$189.6 million (31 March 2006: HK$138.3 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 2006 was 23% (31 March 2006: 22%), while the Group's total equity was HK$414.2 million (2005: HK$417.1 million).

The working capital position of the Group remains healthy. As at 30 September 2006, the liquidity ratio (as determined with reference to the ratio of current assets to current liabilities) was 144% (31 March 2006: 150%).

	30 September 2006	31 March 2006
	HK$'million	*HK$'million*
Current assets	**876.8**	805.1
Current liabilities	**(610.1)**	(536.7)
Net current assets	**266.7**	268.4
Current assets to current liabilities (%)	**144%**	150%

The management is confident that the Group follows a policy of prudence in managing its treasury position, and maintains a high level of liquidity to ensure that the Group is well placed to take advantage of growth opportunities for the business.

CONTINGENT LIABILITIES

On 31 October 2005, a writ of summons was filed by a former customer (the "Plaintiff") against AVC Technology Limited ("AVCT"), a wholly-owned subsidiary of the Company in respect of a dispute on goods sold and delivered by AVCT to the Plaintiff. The total claim filed against AVCT was approximately HK$28.1 million.

AVCT has sought legal advice from the Company's legal counsel on the claim. Based on the advice of the Company's legal counsel, the Company's directors believe that AVCT has merit in its defence to the claim. The Company's directors therefore are of the opinion that the claim is unlikely to succeed and consider that the claim will not cause any significant impact on the operations and financial position on the Group as a whole. The proceeding is still outstanding before the High Court of Hong Kong as at the date of this report.