

Chairman's Statement

TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the annual report of AV Concept Holdings Limited and its subsidiaries for the year ended 31 March 2001.

The year ended 31 March 2001 was a year of development and investment for the Group.

Turnover grew by 15% to HK\$1,100 million and gross profit grew by 21% to HK\$97,415,000. A generic growth primarily attributable to the Group's successful semiconductors sales and distribution business.

During the year under review, the Group embarked on a program of investment and re-engineered its manufacturing operation. The Group acquired a 20% interest in Reigncom Limited ("Reigncom"), an award winning design company incorporated in Korea, and invested over HK\$12 million in new plant and equipment to enhance the Group's manufacturing capabilities.

Higher selling and distribution expenses and one-off other operating expenses incurred during the expansion reduced the Group's net profit from ordinary activities attributable to shareholders by 28% to HK\$16,127,000.

BUSINESS REVIEW

Sales and distribution

During the year under review, the Group enlarged its semiconductors sales team by adding new sales engineers and two senior Korean sales directors. Turnover from semiconductors marketing and distribution rose by 16% to HK\$941,086,000.

Despite a background of weakening demand for semiconductors, in particular starting from the last quarter of the financial year, the expanded semiconductors marketing and distribution division was able to maintain its gross profit margin and achieved its budgeted growth. Increased market share in Samsung LCD driver IC's and Fairchild electronic components are key factors for the robust performance.

Design and manufacturing

During the year, the Group acquired a net 20% interest in Reigncom. Reigncom specialises in the development of DSP products, Internet appliances and other electronic products. The first product introduced under the partnership with Reigncom was the Internet media player ("iMP"), an advanced discman capable of playing audio CD's and compressed digital music recorded on CD-R and CD-RW, including MP3, WMA and AAC formats.

Designed by Reigncom and manufactured by the Group, the iMP product has won many awards and accolades. Amongst which include the Year 2000 Ten Best Design Award given by the Korea Institute of Industrial Design Promotion, and has been highly rated by many industry journals and computer magazines.

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In November 2000, the Group's factory in Shenzhen purchased two new SMT production lines at an investment cost of approximately HK\$12 million. The new SMT production lines greatly improved the Group's capability and speed in handling advanced digital electronic products. The lines commenced production service in December 2000 and they were applied to manufacture the Group's iMP products.

Mass production of the iMP product commenced in January 2001 and has already accounted for approximately 26% of the Group's manufacturing turnover for the year. In addition, the Group's share of profit before taxation from Reigncom amounted to HK\$5,463,000 (2000: Nil).

New versions of the iMP are being developed with improved outlook and added features. The product is expected to meet the market in September 2001.

Information technology

The Group also acquired a 35% interest in Guangzhou Thinker E-Commerce Co., Ltd ("Thinker"), a sino-foreign co-operative joint venture incorporated in the PRC. The joint venture specialises in system integration and E-commerce application software development. Key customers of the joint venture include Guangdong Telecom and other regional mobile telecommunication companies in the PRC.

During the year under review, the Group's share of loss from Thinker amounted to HK\$196,000.

Since the Group's participation in the joint venture, it has signed up a number of new key customers and actively participated in new E-commerce projects in the PRC. Thinker is expected to be profitable and cash generating in the coming financial years.

PROSPECTS

Since the beginning of 2001, the semiconductors industry has noted a significant decrease in demand. In particular, in the computer and computer peripherals market segments. The weakness is also attributable to the general slow down of the economy of the United States, the world's largest market for electronic products.

As a leading semiconductors distributor in Asia, the Group is unlikely to be immuned from the overall market downturn. While the Group has relatively little exposure to the computer market and escapes the brunt of the fall, weakened demand has affected customers of the Group who mainly export to the US market. Turnover for semiconductors marketing and distribution for the coming year is anticipated to be lower than that of the current year.

Nevertheless, with the enlarged sales force and increasing market share, the Group is positioned to counter the expected downturn.

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The manufacturing division continues to be the star business of the Group. Following the huge success of the iMP product, the new versions of the iMP are expected to command an equally impressive sales track record. New features and technological advances will continue to distinguish the product from the rest of the market. A low cost variant will compete in the volume market based on cost.

The management expects manufacturing turnover for the coming year will leapfrog that of the current year.

After a year of successful expansion, the management is focused on cost control and financial discipline. One-off expenses relating to the expansion and investments by the Group are not expected to recur.

Balancing the Group's semiconductors marketing and distribution business and its manufacturing operation, the management anticipates a stable outlook for the Group's turnover and profitability in the coming year.

On behalf of the Board of Directors, I would like to thank the management and all of our staff for their diligence, enthusiasm and their contribution to the growth of the Group.

On behalf of the Board

So Yuk Kwan

Chairman

Hong Kong

26 July 2001