

# PINE

Interim Report 1999 / 2000



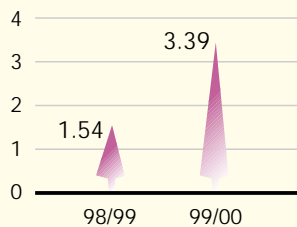
**PINE** 

PINE TECHNOLOGY HOLDINGS LIMITED  
(聯交所的招股有限公司)

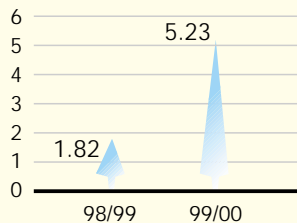


## Highlights for the Half-Yearly Period

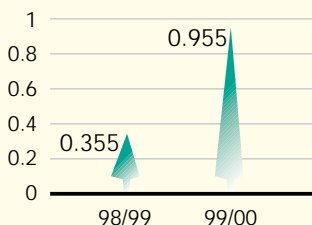
Net profit margin (%)



Net profit (US\$Millions)



Earnings per share (US¢)



- Accomplished a net profit margin growth of approximately 120.13%, increasing to approximately 3.39% from approximately 1.54%.
- Achieved a triple-digit net profit growth of approximately 187.53%.
- Increased earnings per share by approximately 169.01%, generating value enhancement to our shareholders.
- Boosted up the turnover of the Group's own label products by approximately 50.45% with the launch of "Consumer Products" line.
- Set up two new research and development centers in South Korea and Taiwan; and one new business unit in South Korea and one new branch in Melbourne, Australia to consolidate the on-going expansion plan.
- Successful entry to GEM as a publicly listed company.



## INTERIM RESULTS

On behalf of the board of the directors (the "Directors") of PINE Technology Holdings Limited (the "Company"), I am pleased to present the operating results of the Company and its subsidiaries (collectively, the "Group") for the six months (the "Half-Yearly Period") and the three months (the "Quarterly Period") ended 31 December 1999.

### Half-Yearly Period

The unaudited combined profit of the Group for the Half-Yearly Period was approximately US\$5,236,000, representing an increase of approximately 187.53% as compared to the unaudited combined profit of the Group of approximately US\$1,821,000 for the corresponding half-yearly period in 1998. Unaudited combined turnover of the Group for the Half-Yearly Period was about US\$154,358,000, representing a growth of about 30.36% over the unaudited combined turnover of the Group of US\$118,411,000 for the corresponding half-yearly period in 1998.

The unaudited net profit margin of the Group was approximately 3.39% for the Half-Yearly Period which was about 120.13% higher than the unaudited net profit margin of the Group of approximately 1.54% for the corresponding half-yearly period in 1998. The unaudited earnings per share was about 0.955 US cents for the Half-Yearly Period, representing an increase of about 169.01% as compared to the unaudited earnings per share of about 0.355 US cents for the corresponding half-yearly period in 1998.

The launch of the "Consumer Products" line during the Half-Yearly Period has contributed greatly to the Group's turnover. In the Half-Yearly Period, the turnover of the "Consumer Products" line was approximately US\$10,576,000 which was approximately 50.45% of the Group's turnover attributable to its own brand name products of about approximately US\$20,963,000 in the corresponding half-yearly period in 1998.

### Quarterly Period

The unaudited combined profit of the Group for the Quarterly Period was approximately US\$3,203,000, representing an increase of approximately 193.85% as compared to the unaudited combined profit of the Group of approximately US\$1,090,000 for the corresponding quarterly period in 1998. Unaudited combined turnover of the Group for the Quarterly Period was about US\$81,053,000, representing a growth of about 29.51% over the unaudited combined turnover of the Group of US\$62,583,000 for the corresponding quarterly period in 1998.

The unaudited net profit margin of the Group was approximately 3.95% for the Quarterly Period which was about 127.01% higher than the unaudited net profit margin of the Group of approximately 1.74% for the corresponding quarterly period in 1998. The unaudited earnings per share was about US 0.549 cents for the Quarterly Period, representing an increase of about 157.75% as compared to the unaudited earnings per share of about US 0.213 cents for the corresponding quarterly period in 1998.

The unaudited combined results of the Group for the Half-Yearly and the Quarterly Periods together with the unaudited comparative figures for the corresponding periods in 1998 are as follows:

	Notes	Six months ended		Three months ended	
		31 December		31 December	
		1999	1998	1999	1998
		US\$'000	US\$'000	US\$'000	US\$'000
<b>Turnover</b>					
Manufacture and sale of products under the Groups brand names					
Computer products		34,433	17,228	16,241	8,786
Communication products		4,741	3,735	2,186	2,114
Consumer products		<u>10,576</u>	<u>—</u>	<u>7,080</u>	<u>—</u>
Sub Total		49,750	20,963	25,507	10,900
Distribution of other manufacturers' products					
Storage products		62,434	59,355	34,979	30,805
Motherboards		7,449	4,731	4,531	2,384
Monitors		9,049	8,710	2,784	4,837
Others		<u>25,676</u>	<u>24,652</u>	<u>13,252</u>	<u>13,657</u>
Sub Total		<u>104,608</u>	<u>97,448</u>	<u>55,546</u>	<u>51,683</u>
Total Turnover		<u><u>154,358</u></u>	<u><u>118,411</u></u>	<u><u>81,053</u></u>	<u><u>62,583</u></u>
Gross profit		<u><u>15,165</u></u>	<u><u>9,175</u></u>	<u><u>8,471</u></u>	<u><u>4,916</u></u>
Operating Profit before Taxation		6,284	2,148	3,709	1,294
Taxation	2	<u>(1,048)</u>	<u>(297)</u>	<u>(506)</u>	<u>(179)</u>
Profit before minority interests		5,236	1,851	3,203	1,115
Minority interests		<u>—</u>	<u>(30)</u>	<u>—</u>	<u>(25)</u>
Profit for the period		<u><u>5,236</u></u>	<u><u>1,821</u></u>	<u><u>3,203</u></u>	<u><u>1,090</u></u>
Earnings per share (US cents)	3	<u><u>0.955</u></u>	<u><u>0.355</u></u>	<u><u>0.549</u></u>	<u><u>0.213</u></u>

Notes:

## 1. Basis of presentation

The Company was incorporated in Bermuda on 14 September 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. In preparation for a listing of the Company's shares on GEM, a share exchange took place on 9 November 1999 whereby the Company became the holding company of the Group. The Company's shares were listed on GEM on 26 November 1999.

The combined results of the Group have been prepared as if the current group structure had been in existence throughout the periods under review or since their respective dates of incorporation/registration where this is a shorter period, except for the acquisitions of 100% of issued share capital each of CDS (Australia) Pty Ltd., Pineview Industries Limited and Samtack Computer Limited and 30% of issued share capital of Westcom Technology Limited, since their respective dates of acquisition.

All significant intra-group transactions have been eliminated on combination.

## 2. Taxation

	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>1999</b>	1998	<b>1999</b>	1998
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
The charge comprises:				
Hong Kong Profits Tax	<b>462</b>	275	<b>256</b>	128
Taxation arising in other jurisdictions	<b>586</b>	123	<b>250</b>	51
Over provision in prior period	<u>—</u>	<u>(89)</u>	<u>—</u>	<u>—</u>
	<b>1,048</b>	309	<b>506</b>	179
Deferred taxation	<u>—</u>	<u>(12)</u>	<u>—</u>	<u>—</u>
	<b><u>1,048</u></b>	<b><u>297</u></b>	<b><u>506</u></b>	<b><u>179</u></b>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the Period.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

### 3. Earnings per share

The calculation of the earnings per share for the Half-Yearly Period is based on the profit for the Half-Yearly Period of approximately US\$5,236,000 and the weighted average of 548,327,283 shares in issue during the Half-Yearly Period.

The calculation of the earnings per share for the Quarterly Period is based on the profit for that period of approximately US\$3,203,000 and the weighted average of 583,834,565 shares in issue during the Quarterly Period.

The calculation of the earnings per share for the corresponding half-yearly period in 1998 and the corresponding quarterly period in 1998 are based on the profits for these periods of about US\$1,821,000 and US\$1,090,000 respectively and the 512,820,000 shares in issue comprising 4,000,000 shares in issue as at 16 November 1999 and 508,820,000 shares issued pursuant to the capitalisation issue as described more fully in the section headed "Further information about the Company and its subsidiaries" in appendix V to the Company's prospectus dated 16 November 1999 (the "Prospectus").

There is no diluted earnings per share since the Company has no dilutive potential shares.



## INTERIM DIVIDEND

On 20 September 1999, the Group declared an interim dividend of about US\$4,988,000 for the three months ended 30 September 1999 to its then shareholders registered as such on 30 September 1999 (the "Dividend"). Except for the above Dividend, the Directors do not recommend the payment of an interim dividend for the Half-Yearly Period.

The Group has not declared any dividends for the corresponding half-yearly period in 1998, the Quarterly Period and the corresponding quarterly period in 1998.

## BUSINESS REVIEW

### Half-Yearly Review

The Half-Yearly Period marked a good harvest with high profit return and vibrant growth as a result of the Group's continual effort in product innovation and business development. In view of the growing digital consumer sector where the boundary between computer products and digital audio devices is converging, the Group pioneered to bring in one of the first portable MP3 players into the consumer market. The result was phenomenal as the "Consumer Products" line generated approximately 50.45% growth in turnover of the Group's own brand name products.

Dedication to a continuous process of growth and global expansion was the key to the Group's overall success. In the Half-Yearly Period, the Group has successfully broadened and upgraded its pool of expertise for product innovation and development by setting up two new research and development centres in South Korea and Taiwan. The production capacity of the Group has been increased by about 30% by adding a new factory in the Peoples Republic of China. Also the global distribution network was further expanded with the operations of a new business unit in South Korea and a branch in Melbourne, Australia.

The Company was listed on GEM as one of the first batch of companies and became a publicly listed company in November 1999. This accomplishment positions the Group to a new financial frontier that widens the horizon for growth and expansion. Basing on this new solid ground, the Group will seek for more business opportunities to elevate to a higher range of business development.



All these achievements reflect the Group's commitment to the non-stop process of extension which further enhances its business foundation and ensures the future growth to be sustained.

### Quarterly Review

While the half-yearly review shows the main frame of the Group's development in the Half-Yearly Period, the quarterly review highlights some major accomplishments that fueled the on-going process of growth and expansion in the Quarterly Period.

- The successful launch of the digital "Consumer Products" line in the Quarterly Period achieved about 64.95% growth in the Group's turnover attributable to its own brand name products in the corresponding quarterly period in 1998, representing a substantial boost in the overall growth in turnover.
- The Australian branch was set up in Melbourne in November 1999 to further penetrate the Group's reach and coverage in the Pacific region.
- The Company was successfully listed on GEM on 26 November 1999 which has transformed the Group to a new stage of development.



## FUTURE PROSPECTS

Looking into the year 2000, the information technology industry is expected to grow at an explosive rate. With the rising popularity of internet usage and the rapid convergence of computer and consumer applications, the Group envisions great business opportunities in the fast growing digital consumer market. Leveraging on its technical capabilities and leading position in the digital audio technology, the Group plans to break new ground in the MP3 market by bringing more innovative digital audio products to the consumers. Spinning along the MP3 hardware side, the Group will further extend this success to the world of digital music. The Group plans to offer various digital music applications and services to advocate and capture new opportunities and shares in the exploring territory of digital music. The Group is confident that our digital "Consumer Products" line will secure a leading market position in the wide-open boundary of digital consumer market.

The Group will embody a new edge in the booming sphere of e-commerce as the Group has established extensive global distribution network and strong technological expertise. The Group plans to join force with renowned global and regional on-line resellers whose websites have strong Business to Business and Business to Consumer capabilities that target and service millions of potential end users and value-added resellers. On the other hand, the existing E-commerce Partnership Programme will be further expanded, as the Group believes that the revolutionary channels of e-commerce will generate a significant portion of the incremental profit and revenue in future.

Besides exploring and expanding the new areas of digital consumer market and e-commerce, the Group will continue to strengthen its core business, namely the computer hardware manufacturing and global distribution. The Group will devote more resources to research and development for product development. And more business units and branches will be opened to broaden its worldwide distribution coverage. The Group will continue to gear towards building a stronger product and brand image so that its own brand label will be more visible and prevalent on the global platform.

Leveraging on all these capabilities, the management is confident that it will continue to create valuable assets to the Group and generate higher profitability to meet the return expectation of all shareholders.



## BUSINESS OBJECTIVES COMPARISON

During the Half-Yearly Period, the business progress of the Group is substantially in line with the information as provided in the section headed "Statement of Business Objectives" in the Prospectus. The details of the business progress of the Group are categorized as below:

### Product Development

During the Half-Yearly Period, the Group conducted the pilot runs and pre-production preparation of the following products:

- (I) PC133 Mhz motherboards and the high-integration low cost motherboards;
- (II) High memory and new 4X AGP VGA cards;
- (III) New audio card specially designed for the Internet phone applications with echo-cancellation function and the new model capable of interacting through the home stereo system or portable audio system; and
- (IV) Low-cost "Modem Riser Card".

The Group also launched the regional approval modem models for Europe and Australia; and conducted the final circuit and PCB design of the second generation of the "D' music" MP3 players.

The research and development costs incurred by the Group in respect of the above product developments were about HK\$7,424,000, with about HK\$2,134,000 being funded by the listing proceeds. As stated in the Prospectus, the Directors' estimate of the research and development costs to be incurred by the Group for the above product developments during the Half-Yearly Period were about HK\$7,440,000, with about HK\$2,150,000 being funded by the listing proceeds.



### Manufacturing Capacity

The Group set up a new production plant in Houjie Town, Dongguan (the "Houjie Factory") in September 1999. Afterwards, the Group started the first phase of the expansion plan for the Houjie Factory by adding one more production line.

The costs incurred by the Group in respect of the above expansion plans were approximately HK\$30,676,000, with approximately HK\$15,176,000 being funded by the listing proceeds. As stated in the Prospectus, the Directors' estimate of the costs to be incurred by the Group in respect of the above expansion plans during the Half-Yearly Period were approximately HK\$31,000,000, with approximately HK\$15,500,000 being funded by the listing proceeds. The above expansion plans would increase the production capacity of motherboards, add-on cards and MP3 players by about 30,000, 20,000 and 60,000 units per month respectively.

### Distribution Network

The Group opened a branch in Melbourne, Australia in November 1999 to complement its Sydney branch. The costs incurred in respect of such establishment were approximately HK\$1,919,000, of which HK\$1,550,000 were financed by the listing proceeds and the balance of HK\$369,000 were financed by the working capital. As stated in the Prospectus, the Directors' estimate of the costs to be incurred in respect of such establishment during the Half-Yearly Period were HK\$1,550,000 which were to be financed by the listing proceeds. The excess in costs of about HK\$369,000 actually incurred as compared to the estimate in respect of the above establishment was mainly attributable to the purchase of more inventories as base inventories for the anticipated increase in market demand.

### Total Costs incurred

The total costs incurred by the Group in respect of the implementation of its planned strategies during the Half-Yearly Period amounted to about HK\$40,019,000 of which about HK\$18,860,000 was funded by the listing proceeds. As stated in the Prospectus, the Directors' estimate of the total costs to be incurred by the Group in respect of the above implementation of its planned strategies were approximately HK\$39,990,000, with approximately HK\$19,200,000 being funded by the listing proceeds.



## DIRECTORS' INTERESTS

As at 31 December 1999, the interests of the Directors and their associates in the share capital of the Company and its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

Name of director	Number of shares held	
	Corporate Interests	Total
Chiu Hang Tai	161,766,000 ( <i>Note 1</i> )	161,766,000
Ong Se Mon	90,486,000 ( <i>Note 2</i> )	90,486,000

*Note 1:* The 161,766,000 shares are owned by Alliance Express Group Limited which is wholly owned by Mr. Chiu Hang Tai.

*Note 2:* The 90,486,000 shares are owned by Maiden Undertaking Limited which is wholly owned by Mr. Ong Se Mon.

Save as disclosed above, none of the Directors or their associates had any interests in the share capital of the Company or its associated corporations (as defined in the SDI Ordinance).

The interests of the management shareholders (as defined in the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules")) in the share capital of the Company are the same as disclosed above.

## DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

At no time during the Half-Yearly Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire the benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.



## SUBSTANTIAL SHAREHOLDERS

As at 31 December 1999, in addition to those interests as disclosed above in respect of the Directors, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company.

Name	Number of the shares held (Note)
Mr. Chiu Kwong Chi	236,758,500
Madam Wong Wai Ying	236,758,500
Concept Express Investments Limited	122,760,000
Fireball Resources Limited	113,998,500

Note: Mr. Chiu Kwong Chi is the husband of Madam Wong Wai Ying. Therefore Mr. Chiu Kwong Chi and Madam Wong Wai Ying each is deemed to be interested in 236,758,500 shares of which 122,760,000 shares relating to those shares beneficially owned and registered in the name of Concept Express Investments Limited which is beneficially owned as to 47.82% of its entire issued share capital by Mr. Chiu Kwong Chi; and 113,998,500 shares relating to those shares beneficially owned and registered in the name of Fireball Resources Limited which is wholly owned by Madam Wong Wai Ying.

## SPONSOR'S INTERESTS

The associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of the Company's sponsor, Core Pacific — Yamaichi Capital Limited ("CPY"), were interested in 11,262,000 and 11,446,000 shares of HK\$0.10 each in the share capital of the Company as at 31 December 1999 and 24 January 2000 respectively.

Pursuant to the agreement dated 15 November 1999 entered into between the Company and CPY, CPY has received and will receive a fee for acting as the Company's retained sponsor for the period from 26 November 1999 to 30 June 2002.

## COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.



## YEAR 2000 COMPLIANCE

The Group's internal computer systems are primarily used for office automation only, and the Year 2000 compliance issue did not have any material impact on the Group's operations.

The majority of products designed and manufactured by the Group were independently certified Year 2000 compliant by NSTL Inc., an independent testing centre for computer hardware in the United States of America. For those products and components which were not independently certified, the Group had taken all necessary steps such as conducting its own Year 2000 tests on the lower end products and components to ensure such products and components were Year 2000 compliant.

After the successful transition into the Year 2000, the Group is confident that its internal computer systems and other automation systems and its products and components are Year 2000 compliant.

## AUDIT COMMITTEE

The Company established an audit committee on 9 November 1999 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has two members comprising the two independent non-executive Directors, Mr. Kan Siu Kei, Laurie and Mr. Lo Wai Hung.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Half-Yearly Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By order of the Board  
**Chiu Hang Tai**  
*Chairman*

Hong Kong, 25 January 2000

*\* For identification purposes only*