



Third Quarterly Report 1999/2000



**PINE**



**PINE TECHNOLOGY HOLDINGS LIMITED**

(松景科技控股有限公司)

(incorporated in Bermuda with limited liability)

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## **Highlights for the Nine-Month Period**

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- **Accomplished a net profit margin growth of approximately 2.15 times, increasing to approximately 3.40% from approximately 1.58%.**
- **Achieved a triple-digit net profit growth of approximately 174.12%.**
- **Increased earnings per share by approximately 137.02%, generating value enhancement to our shareholders.**
- **Set up two new research and development centres in South Korea and Taiwan; and three new business units in South Korea, Singapore and Guangzhou, China; and two new branches in Melbourne and Los Angeles to consolidate the on-going expansion plan.**
- **Joined forces with renowned computer companies to expand the B2C business channels worldwide.**
- **Launched the B2B eCommerce model in UK to set the stage for full-force development in Europe.**
- **Successful entry to GEM as a public listed company.**
- **Except for an interim dividend of US\$4,988,000 declared at September 1999, the Directors do not recommend the payment of interim dividend for the Nine-Month Period. Please see the section headed "Interim dividend" for detail.**



## THIRD QUARTERLY RESULTS (UNAUDITED)

On behalf of the board of the directors (the "Directors") of PINE Technology Holdings Limited (the "Company"), I am pleased to present the unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the nine months (the "Nine-Month Period") and the three months (the "Quarterly Period") ended 31 March 2000.

### NINE-MONTH PERIOD

The unaudited combined profit of the Group for the Nine-Month Period was approximately US\$8,018,000, representing an increase of approximately 174.12% as compared to the unaudited combined profit of the Group of approximately US\$2,925,000 for the corresponding nine-month period in 1999. Unaudited combined turnover of the Group for the Nine-Month Period was about US\$235,730,000, representing a growth of about 27.31% over the unaudited combined turnover of the Group of US\$185,165,000 for the corresponding nine-month period in 1999.

The unaudited net profit margin of the Group was approximately 3.40% for the Nine-Month Period which was about 2.15 times higher than the unaudited net profit margin of the Group of approximately 1.58% for the corresponding nine-month period in 1999. The unaudited earnings per share was about 1.351 US cents for the Nine-Month Period, representing an increase of about 137.02% as compared to the unaudited earnings per share of about 0.570 US cents for the corresponding nine-month period in 1999.

### QUARTERLY PERIOD

The unaudited combined profit of the Group for the Quarterly Period was approximately US\$2,782,000, representing an increase of approximately 151.99% as compared to the unaudited combined profit of the Group of approximately US\$1,104,000 for the corresponding quarterly period in 1999. Unaudited combined turnover of the Group for the Quarterly Period was about US\$81,372,000, representing a growth of about 21.90% over the unaudited combined turnover of the Group of US\$66,754,000 for the corresponding quarterly period in 1999.

The unaudited net profit margin of the Group was approximately 3.42% for the Quarterly Period which was about 2.07 times higher than the unaudited net profit margin of the Group of approximately 1.65% for the corresponding quarterly period in 1999. The unaudited earnings per share was about 0.406 US cents for the Quarterly Period, representing an increase of about 88.84% as compared to the unaudited earnings per share of about 0.215 US cents for the corresponding quarterly period in 1999.

The unaudited combined results of the Group for the Nine-Month and the Quarterly Periods together with the unaudited comparative figures for the corresponding periods in 1999 are as follows:

	Notes	Nine months ended 31 March		Three months ended 31 March	
		2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000
Turnover					
<i>Manufacture and sale of products under the Group's brand names</i>					
Computer products		54,355	26,212	19,922	8,984
Communication products		7,541	5,975	2,800	2,240
Consumer products		15,775	—	5,199	—
Sub Total		<u>77,671</u>	<u>32,187</u>	<u>27,921</u>	<u>11,224</u>
<i>Distribution of other manufacturers' products</i>					
Storage products		96,246	94,328	33,812	34,973
Motherboards		11,385	7,298	3,936	2,567
Monitors		12,952	12,759	3,903	4,049
Others		37,476	38,593	11,800	13,941
Sub Total		<u>158,059</u>	<u>152,978</u>	<u>53,451</u>	<u>55,530</u>
Total Turnover		<u>235,730</u>	<u>185,165</u>	<u>81,372</u>	<u>66,754</u>
Gross profit		<u>23,358</u>	<u>14,268</u>	<u>8,193</u>	<u>5,093</u>
Operating Profit before Taxation		9,393	3,341	3,109	1,193
Taxation	2	<u>(1,375)</u>	<u>(472)</u>	<u>(327)</u>	<u>(175)</u>
Profit before minority interests		8,018	2,869	2,782	1,018
Minority interests		—	56	—	86
Profit for the period		<u>8,018</u>	<u>2,925</u>	<u>2,782</u>	<u>1,104</u>
Earnings per share (US cents)	3	<u>1.351</u>	<u>0.570</u>	<u>0.406</u>	<u>0.215</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>Nine months ended</b>		<b>Three months ended</b>	
	<b>31 March</b>		<b>31 March</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
<i>Notes</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
The charge comprises:				
Hong Kong Profits Tax	687	396	225	121
Taxation arising in other jurisdictions	688	177	102	54
Over provision in prior period	—	(89)	—	—
	<u>1,375</u>	<u>484</u>	<u>327</u>	<u>175</u>
Deferred taxation	—	(12)	—	—
	<u><u>1,375</u></u>	<u><u>472</u></u>	<u><u>327</u></u>	<u><u>175</u></u>

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 Nine-Month Period is based on the profit for the Nine-Month Period of approximately US\$8,018,000 and the weighted average of 593,470,800 shares in issue during the Nine-Month Period.

The calculation of the earnings per share for the Quarterly Period is based on the profit for that period of approximately US\$2,782,000 and the weighted average of 684,750,000 shares in issue during the Quarterly Period.

The calculation of the earnings per share for the corresponding nine-month period in 1999 and the corresponding quarterly period in 1999 are based on the profits for these periods of about US\$2,925,000, and US\$1,104,000 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").

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for both of the Nine-Month Period and the Quarterly Period.

## **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 Nine-Month Period.

The Group has not declared any dividends for the corresponding nine-month period in 1999, the Quarterly Period and the corresponding quarterly period in 1999.





## BUSINESS REVIEW

### **Nine-Month Review**

The Group accomplishes an impressive profit growth of approximately 174.12% in the Nine-Month Period. This outstanding performance proves that the Group's emphasis on technology and new product development is a successful strategy that achieves a satisfactory net profit growth and a dynamic route for expansion. The on-going process of breaking new grounds in research and development enables the Group to keep abreast of the most advance technology and be volatile enough to launch innovative and creative products on a timely basis.

Wide geographical coverage and diversified sales network is an enormous asset to the Group for building strong distribution capacity and market intelligence as well as reducing adverse impact from a downturn of a particular region. In addition to newly established research and development centres in South Korea and Taiwan in July and September 1999 respectively, branch in Melbourne and business unit in South Korea were set up in November 1999 and January 2000 respectively, two new business units in Singapore and Guangzhou and one branch in Los Angeles were set up to further broaden the Group's global mapping. Serving Singapore, Thailand, Indonesia and Malaysia markets, the Singapore business unit was set up in March to foster the Group's relationship with renowned US and European computer manufacturers and to establish influence in Indo-Asia Region. The Los Angeles branch, on the other hand, was added to the well-established US base in February to maintain the firm foothold of the Group in the North American market.

China represents a massive developing market with an explosive demand for the Internet. The Guangzhou business unit was officially inaugurated in March 2000 under the name Guangzhou Pine Technology Limited. Entering the China market a year earlier than planning marked an important strategic move for the Group to tap the US\$8.7 billion China market.

On top of adding new branches to the global distribution network, the Group is constantly searching for new business opportunities. By joining forces with well-known strategic partners and computer companies, namely Dell Computer Corporation and Ingram Micro Inc., the B2C distribution channels were further expanded.

The B2B eCommerce business model was launched in UK in March 2000. This move paved way for the Group to enter the world of virtual business and set the stage for the Group to implement the mechanism of the B2B eCommerce model in full force in Europe.



Embarking on the solid foundations, the Group is in a positive position to deliver a steady and satisfactory revenue growth, which falls in line with the Company's long-term financial objectives. We will continue to sharpen our focus and strengthen our portfolio as we strive to achieve these results.

### **Quarterly Review**

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

- The Group joined forces with Dell Computer and Ingram Micro to expand the B2C distribution channels.
- The B2B eCommerce business model was launched in UK in March 2000.
- The Los Angeles branch and Singapore business unit were set up in February and March 2000 respectively to further the global penetration of the Group.
- The Guangzhou business unit was set up in March 2000 to pave way for the future development in China.

## **FUTURE PROSPECTS**

Leveraging on the solid competitive strengths, the growing profit margin and steady net profit growth, the Group will proceed to focus on enhancing the research and development capability and expanding the global channel. The management is confident that the Group will continue to produce valuable assets and to generate profit to meet the return expectations of shareholders.

### *Mechanism of B2B eCommerce in a global sense*

Considering the nature of IT industry which is ever changing and fast moving, its products usually carry short life cycle. B2B eCommerce is known as an ideal model and an effective tool to expand business sectors, market channel in a rapid fashion at a lower operation cost.



Striving to offer our dealers and resellers the widest choice of premium quality internet-related products at the most affordable prices, the Group is creating a global B2B eCommerce business model and targets to generate one-third of the sales revenue from this model. Gearing on an improved global inventory system, the B2B business model enables better inventory control and reduced inventory turnover period, resulting an improved working capital management.

It is anticipated that the improved operating efficiency will increase gross profit margin and reduce overhead by over 10%. Extended new business sectors, channel expansion and increased market share are also expected.

#### *Extensive Marketing Network*

China represents the fastest growing IT market with sales expected to surge from US\$2.1 billion in 1999 to US\$8.7 billion by 2000. The Group established its first business unit in Guangzhou in March 2000, which set the stage for rapid expansion of four more sales branches in Shanghai, Beijing, Nanjing & Chengdu in the next six months. A total investment of approximately US\$1 million is expected to be injected in the China project in which around US\$200,000 was funded by the listing proceeds for the Guangzhou office set up. About US\$800,000 will be funded by internal generated resources of the Group for the remaining four offices. Research and development centres will also be established near these sales branches to enhance their expertise and knowledge of the China market.

In order to strengthen the Group's influence in European markets, a logistic office will be set up in Holland in the second quarter of 2000. About US\$200,000 will be funded by the listing proceeds for the Holland office set up. This new office will play a significant logistic role to support both the physical distribution channel and the implementation of B2B eCommerce model. It is also expected to provide a solid base for the Group to further expand its penetration into the European market.

#### *Research and Development*

Dedication to research and development is the sustainable effort to enhance gross profit margin and to succeed in the fast growing IT arena. The Taiwan research and development office will be expanded further over the next 2 to 3 months to extend the scope of the existing digital consumer products into Internet Appliance.

## DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

### Interests in Share Capital

As at 31 March 2000, 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 (Note 1)	161,766,000
Ong Se Mon	90,486,000 (Note 2)	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.

### Interests in Share Options

Pursuant to the share option scheme of the Company adopted on 9 November, 1999, the Directors and employees of the Company and its subsidiaries may be granted share options to subscribe for shares of HK\$0.10 each of the Company.



On 21 February 2000, the Company granted two types of share options to the Directors for consideration of HK\$1.00 for each grant of share options: Option A entitles the Directors to exercise the share option within a period of five years commencing from 28 January 2001 and expiring on 27 January 2006. Option B entitles the Directors to exercise the share option within a period of five years commencing from 28 January 2002 and expiring on 27 January 2007. The subscription price per share is HK\$1.674 for both types of share options.

Particulars of share options held by the Directors during the Nine Months Period are as follows:

<b>Name of director</b>	<b>Number of share options held</b>	
	<b>Option A</b>	<b>Option B</b>
Chiu Hang Tai	1,088,000	1,088,000
Ong Se Mon	1,904,000	1,904,000
Chiu Hang Chin, Samson	1,088,000	1,088,000
Ng Yuk Chun	300,000	300,000

None of the Directors have exercised any of the share options and no allotment and issue of shares pursuant to the exercise of share options have been made nor was there any cancellation and/or re-issue of share options.

Saved as disclosed above, at no time during the Nine-Month Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age 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 March 2000, 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.

<b>Name</b>	<b>Number of the shares held (Note)</b>
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 9,264,000 shares of HK\$0.1 each in the share capital of the Company as at 31 March 2000 and 28 April 2000.

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 , 5.24 and 5.25 of the GEM Listing Rules. The audit committee has two members comprising the two independent non-executive Directors, Mr. Lo Wai Hung and Mr. Kan Siu Kei, Laurie.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Nine Month 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, 3 May 2000