

PRIME

BUILDING BRIGHTER IDEAS

ANNUAL REPORT

99/00

年報

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

香港聯合交易所有限公司（「聯交所」）創業板市場（「創業板」）之特點

成立創業板之目的在於吸納可能涉及高風險之公司，尤其是可能並無溢利紀錄或毋須作出未來溢利預測之公司。此外，在創業板上市之公司由於仍屬發展階段，或者所經營業務或地區可能涉及風險，有意投資者須留意投資該等公司之潛在風險，且應仔細審慎考慮後方可作出投資決定。創業板具有較高風險及其他特點，較適合專業及其他資深投資者參與。

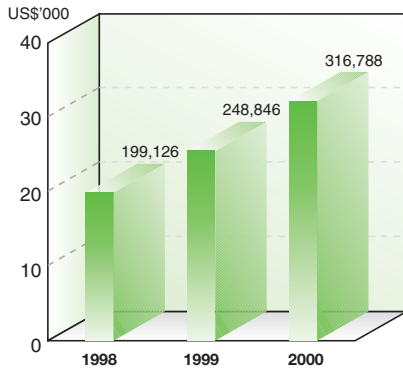
基於在創業板上市之公司仍屬發展階段，因此在創業板所買賣證券之市場波動幅度或會較聯交所主板市場之證券為大，且不保證創業板之證券有高度流通之市場。

發放創業板訊息之主要途徑為聯交所管理之網站。上市公司一般毋須在憲報認可之報章刊登公佈，因此有意投資者請留意須在創業板網站查閱創業板上市公司之最新資料。

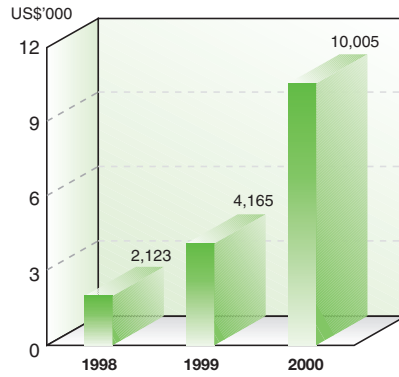
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- **Accomplished a net profit margin growth for the year ended 30 June 2000 of approximately 1.89 times, increasing to approximately 3.16% from approximately 1.67% as of last year.**
- **Achieved a triple-digit net profit growth of approximately 140.22%.**
- **Increased earnings per share by approximately 100.00% for the year ended 30 June 2000 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.**
- **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.**
- **The directors recommend the payment of a final dividend of approximately US\$1,757,000 in respect of the year ended 30 June 2000.**

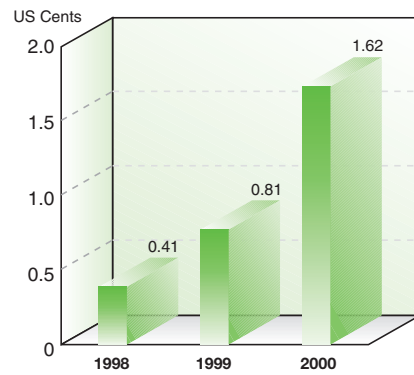
TURNOVER



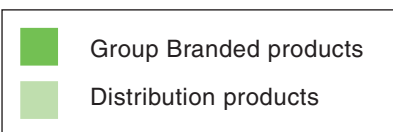
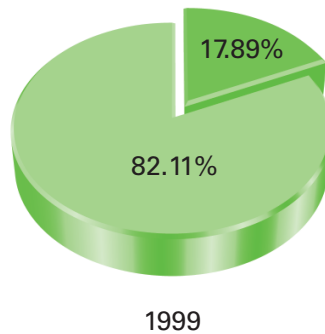
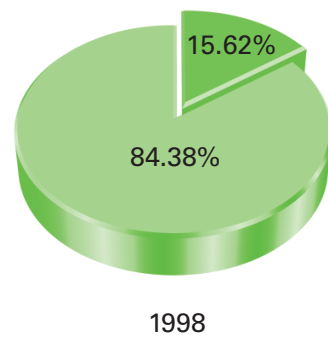
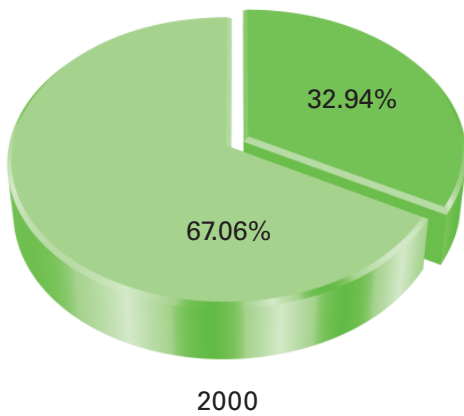
NET PROFIT



EARNINGS PER SHARE



GROUP BRANDED PRODUCTS & DISTRIBUTION PRODUCTS



BOARD OF DIRECTORS

Executive Directors

Mr. Chiu Hang Tai

(Chairman)

Mr. Ong Se Mon

(CEO & Vice Chairman)

Mr. Chiu Hang Chin, Samson

(Vice Chairman)

Ms. Ng Yuk Chun

Independent Non-Executive Directors

Mr. Li Chi Chung

Mr. Lo Wai Hung

Compliance Officer

Ms. Ng Yuk Chun, CPA (Aust.), AHKSA

Company Secretary

Mr. Leung Yiu Ming, CPA (Aust.), AHKSA

Authorised Representative

Ms. Ng Yuk Chun

Mr. Leung Yiu Ming

Qualified Accountant

Mr. Lau Siu Fai, AIA

Audit Committee

Mr. Li Chi Chung

Mr. Lo Wai Hung

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Head Office and Principal Place of Business

Room 1001, 1002 and 1016 - 1018 on 10th Floor

China Merchants Tower

Shun Tak Centre

168 - 200 Connaught Road Central

Hong Kong

Principal Bankers

Bank of America (Asia) Limited

DBS Kwong On Bank

Deutsche Financial Services

Dao Heng Bank

Fortis Bank

HSBC Australia

HSBC HK

HSBC USA

Standard Chartered Bank

United Overseas Bank Group

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Secretaries Limited
5/F Wing On Centre
111 Connaught Road Central
Hong Kong

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Sponsor

Core Pacific-Yamaichi Capital Limited

Legal Advisers

As to Bermuda Law:
Conyers Dill & Pearman

As to Hong Kong Law:

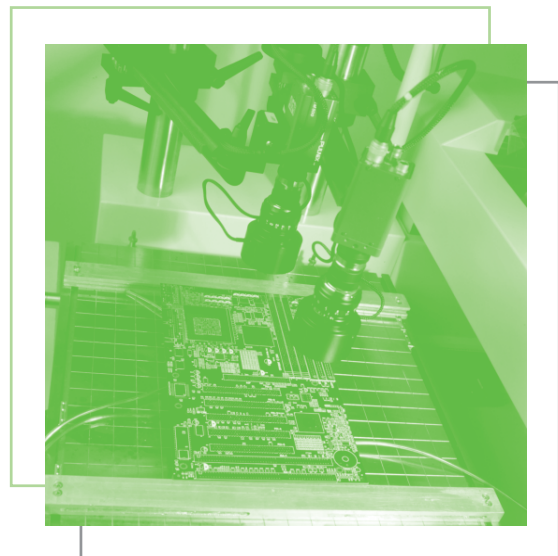
Fairbairn Catley Low & Kong

Stock Quote

8013

Website of the company

www.pinegroup.com



Since its inception in 1989, PINE Technology Holdings Limited (“PINE” or the “Company”) and its subsidiaries (collectively, the “Group”) strives to be a leading force in the IT industry. Its innovative ideas have added new dimensions to the design, development, manufacturing and distribution of computers, communications as well as Internet-related digital consumer products. Its success with creating quality is reflected in the widespread popularity of our brands: “PINE”, “D’music” and “RetailPlus”. In November 1999, PINE was one of the very first high-tech companies successfully listed on the GEM board of the Hong Kong Stock Exchange.

The main thrust of PINE’s business strategy is to constantly strengthen its research and development (R&D) capabilities to develop creative and innovative products. Establishing R&D centres has always been done with care and a clear understanding of the synergies each region has to offer. The company now have four R&D centres strategically located in Korea, Taiwan, Hong Kong and China. This plus two state-of-the-art manufacturing plants and a worldwide staff of over 1,000 has led to over ten consecutive years of continued solid profitability and steady growth within the industry.

One of the most significant factors differentiating PINE from other companies is our truly global marketing network and distribution expertise. This is an enormous asset to the Group for building solid channel capabilities and market intelligence. Throughout North America, Europe and Asia, PINE operates an extensive marketing and distribution network comprising 16 branch offices, covering over 50

countries, providing world-class products and services.

Embracing the growing market for Internet Appliances, PINE has strategically diversified its product portfolio recently. PINE is at the forefront in the development of portable digital audio and imaging technology. The Company designed and developed one of the lightest MP3 portable units in the world.

In the years beyond, PINE continues to pursue its strategic intent to be a ‘Blue Chip’ company on the HKGEM board and to explore novel areas of innovation to create valuable new assets for the Group and the shareholders.





Dear Shareholders,

A VIBRANT INDUSTRY BREEDS EXCEPTIONAL OPPORTUNITIES

2000 was another year of plenty for PINE Technology Holdings Limited. Continuing on the tenth straight year of high growth, we reported revenue of US\$316,788,000, up 27.30% over 1999. Most importantly, the Company has accomplished an impressive profit growth of approximately 140.22%. Our earnings per share rose to US cents 1.62, representing a 100.00% increase. These promising numbers are the result of our dedication in building and expanding a solid foundation as well as our ceaseless endeavors in strengthening our business portfolio.

Both industry players and consumers today are experiencing the unparalleled benefits of a new era in technology advancement. From its beginnings nearly ten years ago, the IT sector has skyrocketed to global prominence and importance.

Given today's evolving computing marketplace, it is clear that we have to drive our business in new ways. PINE was among the first pioneers to recognise the potential of the IT industry. We had a vision to create and market promising technologies that would have a direct impact around the globe. That vision, along with our agile ability to position our focus in an ever-changing environment has allowed us to record an impressive ten years of solid profitability. Our exceptional performance has been well recognised : PINE was one of the first batch of companies to successfully list on the Hong Kong Stock Market's GEM Board, which is undoubtedly a remarkable milestone that took PINE to a new height. These achievements and many others have given rise to our confidence and determination to take ever-greater steps forward.

BUSINESS REVIEW

Channel Expansion

Extended Geographical Coverage

One of the most significant factors that makes PINE different from many other companies is our unique marketing and distribution expertise. This is an enormous asset to the Company that builds solid distribution channel and gathers market intelligence while reducing the adverse impact of a business downturn in any particular region.

From our existing network of sales offices, we have added new sales branches in South Korea, Melbourne and also in Los Angeles, which will further solidify our position in North America, one of our top markets. Our new office in Singapore asserts influence in the Southeast Asian region, serving the Singapore, Thailand,

Indonesian and Malaysian markets. Holland is a logistical centre that further strengthens our network in Europe and sets the stage for our global B2B eCommerce network.

The China Market

Along with the advances of the IT industry has come the emergence of China's phenomenal economic growth and maturity, reflected in a market now worth US\$8.7 billion. Realizing the tremendous potential of over a billion consumers, PINE has made China a key factor in its future expansion plans both for manufacturing and for a broad-based network of retail outlets. In addition, once China formally enters the World Trade Organisation (WTO), our prospects will gather further momentum. Our Guangzhou business unit was inaugurated in March, a full year ahead of the originally planned opening.

The B2B Virtual Network

Progress in the IT industry has naturally given rise to the epoch-making developments of eCommerce, which is re-shaping our lives in remarkable ways. Though only several years old, eCommerce has redefined large business sectors like communications, finance and retail trade, which accounts for nearly 30% of worldwide Gross Domestic Product.

We are very excited about our entry into this promising field last March when we began eCommerce activities. Our eCommerce initiative in the UK broadens the Company's sales channels and opens incredible opportunities for expanding the distribution of niche products. It heightens our marketing capabilities and increases our interaction with consumers around the world in a most cost-effective way, which otherwise would have required multi-million investments over several years. Confident in the potential of this new channel, we expect to generate promising revenue through eCommerce.

Enhanced Capabilities

New Research and Development (R&D) Centres

Research and development continues to be the backbone of all operations at PINE. Our cutting-edge R&D work has made it possible to create some of today's most innovative products and services. It was through successful R&D efforts as well that we were able to produce our internationally award-winning MP3 product line, which now comprises MP3 players, MP3 FM players and MP3 CD players.

Establishing R&D centres has always been conducted with care and a clear understanding of the synergies each region has to offer. A new R&D centre was established in South Korea seeing that the country is among the most mature market in the region for digital consumer audio and visual products.

Product Expansion

The Convergence of Computer and Internet Products

PINE has traditionally focused on the design and manufacture of "3C" products: computers, communications and consumer products. In the past year, we introduced a total of over 20 new products. We have designed and produced a 15 million triangle-per-second video accelerator, a four-channel surround sound audio card and a 56K fax modem suitable for over 20 countries.

More recently, we have embraced the growing market for Internet Appliances, which has strategically diversified our product portfolio. The successful launch of consumer products, MP3 player in the year achieved about 52% growth in the Group's turnover of its own-brand products as compared with last year.

Following growth in MP3 technology, The Group offered various digital music applications to capture rising opportunities and market share in the exploding territory of digital music market. We have expanded our MP3 product line by launching a second generation product with radio. We have also conducted technical viability assessments for an MP3 CD player, which supports both CD-R and CR-RW functionality and features exquisite near-CD sound quality.

In short, PINE has made product diversification and R&D excellence to increase our efficiency and reap the financial gains and profitability that reflect our position as a leading player in the industry.

BUSINESS PURSUITS

Ten years ago, people bought personal computer (PCs) for personal productivity needs - spreadsheets, word processing and the like. Today, the number one reason people buy PCs is to access the Internet. As the computing universe becomes more and more interconnected, demands on PCs and the entire computing infrastructure are expanding at an explosive rate. We are entering a period of increased demand for every product we offer: hardware, services, component technology and expertise. In the year 2000 and beyond, we will pursue our strategic intent to be a major force behind the Internet revolution and capture a corresponding market share that covers all segments.

Accelerating Network Expansion

Technologies evolve swiftly and offer truly exciting possibilities, which aim to transform into real business opportunities through

our extensive marketing network. This rapid expansion will continue to create new revenue streams and build a broader base upon which we can explore new areas of innovation.

Given its increasingly sophisticated population and growing interest in the Internet, China represents a significant developing market for the IT industry. Research indicates substantial growth in demand for computer products, with sales expected to grow from US\$2.1 billion in 1999 to US\$8.7 billion by 2000. China is going to be the world's largest and fastest growing computer market in five to ten years' time.

Taking advantage before China joins WTO, PINE established an early foothold in China to enhance the logistic network through the set up of regional offices and retail shops in many major cities with population of over 1 million. The Group is applying its thorough experience in China and is determined to reap the huge potential of this growing market worth US\$8.7 million.

According to a reputable IT professional, eCommerce opportunities will approach US\$600 billion by 2003. While the overall information technology industry is growing at an annual rate of 11%, the eCommerce sector is growing much faster - more than 22%. This is a tremendous opportunity for PINE. We look to eCommerce to develop the best and most effective model to market timely IT products. This model will help us take advantage of better inventory management, which will enhance the utilization of working capital and at the same time will reduce operation cost.

Accelerating Product Expansion

PINE Products

The main thrust of PINE's global strategy is to constantly strengthen its R&D capabilities to develop creative and innovative products and we maintain our focus on PINE-branded products to ensure higher profit margins. The Group's extensive marketing network as well will enhance market share and help gear us towards building a stronger brand image and brand value. As a result, the PINE label will be more visible and prevalent on the global stage in the future.

Internet Appliance (IA) products

Being one of the leading and most successful players in the design and manufacture of the world's lightest MP3 players, we are sharpening our competitive edge by utilising the latest state-of-the-art technology to offer the highest quality that have trendy and fashionably design. We believe that we will be the benchmark for the IA industry in digital entertainment and information products in the next five years.

As we closely watch the growing popularity of the Internet, plus the maturity of the market and ever-expanding bandwidths, PINE is expanding its product range from digital audio into digital imaging equipment. Our first product in this line will be a high quality PC camera to be launched later this year.

A Future Filled With Promises

PINE strives to be a "Blue Chip" listing on the HKGEM board. The Internet is still in its infancy, accounting for just 0.5% of the global economy. As it grows, unlimited opportunities will blossom

which we will embrace through channel expansion, enhanced R&D capabilities and product diversification. PINE is at the same time on a constant search for new business opportunities and new partners to enhance our capabilities and to bring added value to our shareholders' portfolios.

Leveraging on the flourishing IT sector, and the Group's readiness to change and innovate, the management is confident that PINE will tap these remarkable business opportunities with a new level of aggressiveness, transforming promising potential into new revenue streams. We will continue to explore novel areas of innovation to create valuable new assets for the Group and generate profitability that will exceed the expectations of shareholders.

On behalf of the Group, I would like to express my sincere thanks and appreciation to all our staff for their commitment, loyalty and hard work and to our suppliers, customers, bankers and shareholders for their continuous support.

Chiu Hang Tai

Chairman

Hong Kong 20 September 2000



**Business Objectives as stated in
the Prospectus**

**Actual Business Progress for the year
ended 30 June 2000**

Product Development

Launched the PC133 Mhz motherboards and the high-integration low cost motherboards;

Launched the high-memory and new 4X AGP VGA cards;

Launched the 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;

Launched low-cost modem models;

Launched the second-generation D'music MP3 players;

Conducted the technical viability assessment and specification definition of the MP4 players;

Conducted the technical viability assessment and specification definition, and testing and circuit validation of the MMC MP3 players, MP3 CD players and PC cameras.

The research & development costs incurred by the Group in respect of the above product developments were about HK\$23,167,000, with about HK\$16,430,000 being funded by the listing proceeds.

Manufacturing Capacity

The Group's production facilities in Houjie are in full operation. The Group completed the first and second phase of expansion plans by adding two production lines.

The costs incurred by the Group in respect of the above expansion plans were approximately HK\$46,843,000 of which about HK\$30,992,000 was funded by the listing proceeds. The above expansion plans would increase the production capacity of motherboards, add-on cards and MP3 players by about 40,000, 40,000 and 110,000 units per month respectively.

Distribution Network

The Group opened two branch offices in Melbourne, Australia and Los Angeles, USA to complement its Sydney and New Jersey branch offices respectively

Three business units in South Korea, Singapore and Guangzhou were set up to further broaden the Group's global mapping.

The costs incurred in respect of such establishment were about HK\$6,599,000 of which HK\$4,670,000 were financed by the listing proceeds.

Others

The Group has completed the first stage of the eCommerce project. The software installed fully integrates with existing computerised accounting system and provides facilities of dynamic contents. The Group is still in the process of selecting the management information system to have the best integration with our eCommerce business model.

The costs incurred in respect of such installation were about HK\$824,000 and was entirely financed by the listing proceeds. There is about HK\$6,924,000 from the listing proceeds to finance the second stage of the eCommerce project.

TOTAL COSTS INCURRED

The total incurred by the Group in respect of the implementation of its planned strategies for the year ended amounted to about HK\$77,433,000 of which about HK\$52,916,000 was funded by the listing proceeds.

EXECUTIVE DIRECTORS

Mr. Chiu Hang Tai, aged 40, is the chairman of the Company and is the co-founder of the Group. He is responsible for the Group's overall strategic planning and formulation of corporate strategy of the Technology Division. He holds a bachelor degree of science in economics from Salem State College in the US and a master degree in business administration from Northeastern University in the United States. He has over eleven years of experience in computer industry. He is also a director and general manager of a Chinese medicine trading company. He was awarded 1999 Young Industrialist Award of Hong Kong in 1999. He is the brother of Mr. Chiu Hang Chin, Samson.

Mr. Ong Se Mon, aged 37, is the vice-chairman and chief executive officer of the Company. He is responsible for the Group's overall strategic planning and coherent running of the Company. He holds a bachelor degree in statistics and computer science from the New South Wales University, Australia. He has over ten years of experience in the PC industry. Before joining the Group in July 1994, he has previously held senior management position in an actuary and consulting firm. He is the brother of Mr. Wang, Shih Zen.

Mr. Chiu Hang Chin, Samson, aged 42, is the vice-chairman of the Company and is the co-founder of the Group. He is responsible for the Group's overall strategic planning and formulation of corporate strategy of the Sales and Distribution

Division. He holds a bachelor degree in applied science from Queen's University in Canada and a master degree in business administration from York University in Canada. He has over seventeen years of experience in the PC industry. He is the brother of Mr. Chiu Hang Tai.

Ms. Ng Yuk Chun, aged 36, is an executive director of the Company. She is also the compliance officer of the Company and is responsible for the Group's financial and accounting function. She holds a bachelor degree in business from University of Ballarat in Australia. She has over eight years of experience in finance and accounting field and is a member of CPA Australia and member of the Hong Kong Society of Accountants. She joined the Group in January 1994.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Chi Chung, aged 32, is a non-executive Director of the Group. Mr. Li is admitted as a solicitor of the Supreme Court of Hong Kong and a partner of a law firm in Hong Kong. He is also an independent non-executive Director of a company listed on the Main Board of the Stock

Exchange of Hong Kong Limited. He was appointed as an independent non-executive director of the Group on 9th June 2000.

Mr. Lo Wai Hung, aged 40, holds a bachelor degree in commerce from James Cook University of North Queensland in Australia. He has over fifteen years of experience in finance and accounting field and is a member of Australian Institute of Chartered Accountants and member of the Hong Kong Society of Accountants. He was appointed as an independent non-executive director of the Company on 9th November 1999.

COMPANY SECRETARY

Mr. Leung Yiu Ming, aged 29, is the company secretary of the Company. He is responsible for the Group's financial, accounting and legal affairs. He holds a bachelor degree in commerce from Australian National University in Australia. He is a member of CPA Australia and member of the Hong Kong Society of Accountants. Prior to joining the Group in August 1998, he was an auditor with one of the Big Five accounting firms. Mr. Leung was appointed as a company secretary on 9th June 2000.

QUALIFIED ACCOUNTANT

Mr. Lau Siu Fai, aged 41, is responsible for the Group's Asia Pacific financial, accounting control. He holds a master degree in accounting from Sussex College of Technology UK and a MBA degree in accounting and auditing from Clayton University

in the US. He has over eighteen years of experience in accounting, finance and administration and is an associate member of the Cost and Executive Accountants, an affiliated member of the Association of International Accountants. Before joining the Group in March 2000, he has held various senior management positions in companies in the Asia Pacific region.

SENIOR MANAGEMENT

Mr. Chan Chak Hung, Eugene, aged 38, is responsible for the sales and marketing activities in Australia and Singapore. He holds a bachelor degree in electrical engineering from University of New South Wales in Australia. He has eleven years of experience in the PC industry in Australia. Prior to joining the Group in November 1998, he has over eleven years of experience in PC industry.

Mr. Cheung Chi Ming, aged 50, is responsible for managing the Group's production plants in China. He holds a master degree in industrial engineering from Oregon State University in the US. Prior to joining the Group in March 2000, he has previously held senior management positions in several electronics companies.

Mr. Brian Hamilton, aged 31, is responsible for planning and developing digital audio projects on Internet in US. He is also managing the Group's sales and distribution in US and has over eleven years of experience in sales and marketing. He joined the Group in June 1992 and left in November 1995. In March 1997, he rejoined the Group.

Ms. Ji Yueh-Er, aged 36, is responsible for managing the internal operations for North American offices as well as planning and overseeing the Group's Corporate Communications strategies and tactics. She holds a master degree in business administration from Pace University in the US. She has over ten years experience in financial industry. She also served as the CFO and Spokesperson of a Singapore-listed packaged food company. She joined the Group in March 2000.

Mr. Kim Kwang Hoe, aged 44, is responsible for the development of digital multi-media technology. He holds a bachelor degree in mechanical engineering from Aju University in South Korea. He has more than fifteen years of experience in digital product development. Before joining the Group in June 2000, he has previously held senior management position in an international electronics company.

Mr. Liu Ming, David, aged 35, is responsible for the Group's sales and distribution in Asia, Middle East, Africa and Europe. He holds a master degree in business administration from Willamette University in the US and a bachelor degree in business administration from Western Oregon University.

Before joining the Group in June 1995, he worked in the computer industry in Los Angeles, the US and taught English in the PRC.

Mr. Ng Khing Fah, Royson, aged 41, is responsible for managing the Group's operations in North America and oversees the development of Mass Merchant strategies. He holds a master degree in business administration from University of Sarasota in the US. He has nine years of experience in the PC industry in North America and Canada. Prior to joining the Group in September 1997, he has held various management positions in the retail industry.

Mr. Ra Ching Ju, aged 36, is responsible for the Group's operations in South Korea. He holds a bachelor degree in economics from South Korea University in South Korea. He has more than eleven years of experience in computer and consumer electronics field. Prior to joining the Group in January 1999, he has previously held senior management position in an international electronics company.

Mr. Martin Edward Sutton, aged 35, is responsible for managing the Group's eBusiness Division. He has over eighteen years of experience in manufacturing, trading, sales

and marketing industry. Before joining the Group in July 1992, he has held various senior management positions in manufacturing and import and export companies.

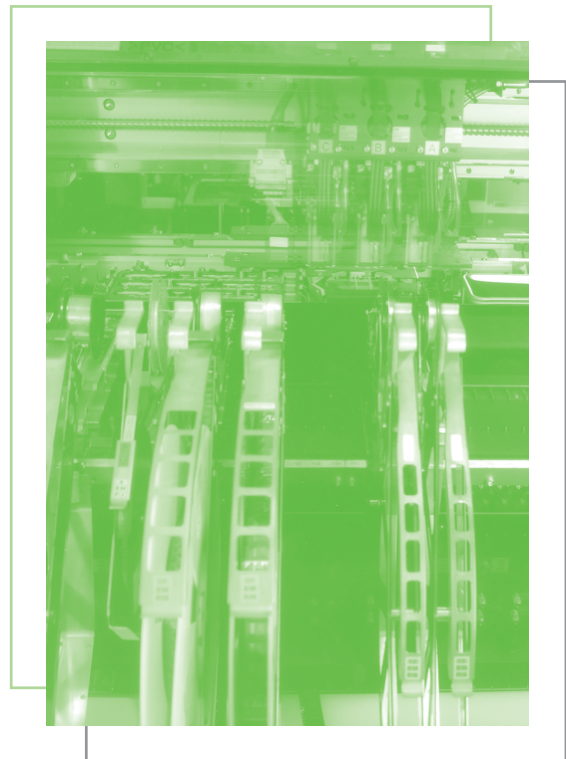
Mr. Wang Shih Zen, aged 40, is responsible for the planning, developing and managing the Group's Internet Appliance division. He holds a master degree in engineering from New South Wales University in Australia and a bachelor degree in electrical electronic engineering from James Cook University in Australia. He has over thirteen years of experience in the field of information technology. Prior to joining the Group in January 2000, he has held various senior management positions in telecommunications companies. He is the brother of Mr. Ong Se Mon.

Mr. Wong Man Fai, Danny, aged 39, is responsible for the material planning and purchasing, factories and production facilities of the Group. He holds a diploma in management studies from Hong Kong Management Association jointly with Hong Kong Polytechnic University. He has over eighteen years of experience in electronics industry. Prior to joining the Group in June 1995, he has previously held various senior management positions in PC and electronics manufacturing companies.

Mr. Yang Wei-Te, Allen, aged 39, is responsible for managing the Group's sales and distribution in Taiwan. He holds a bachelor degree in electronic computer science from Tamsui Oxford College in Taiwan. He has over fifteen years of

experience in sales and marketing. Before joining the Group in August 1998, he has held various senior sales and management positions in several computer companies.

Mr. Yu Wen Chen, James, aged 38, is responsible for the research and development of information technology and Internet Appliance technology in Taiwan. He has more than thirteen years of experience in product development and research and development in computer industry. Prior to joining the Group in May 2000, he has held various senior management positions in several computer companies.



The directors have pleasure in presenting their first report and the audited financial statements of the Company during the period from 14 September 1999 (date of incorporation) to 30 June 2000.

GROUP REORGANISATION AND LISTING OF THE COMPANY'S SHARES ON THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was incorporated on 14 September 1999 as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda.

On 9 November 1999, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") underwent a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the GEM of the Stock Exchange.

Details of the Group Reorganisation are set out in the paragraph headed "Group reorganisation" in Appendix V of the prospectus dated 16 November 1999 issued by the Company.

The shares of the Company are listed on the GEM of the Stock Exchange with effect from 26 November 1999.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 35 to the financial statements.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operations by type of products sold and geographical market for the year ended 30 June 2000 were as follows:

	Turnover <i>US\$'000</i>	Contribution to profit from operations <i>US\$'000</i>
<i>By type of products sold</i>		
Manufacture and sale of the Group's branded products	104,363	15,274
Distribution of other manufacturers' products	212,425	15,672
	<u>316,788</u>	<u>30,946</u>
Other revenue		1,391
Selling and distribution expenses		(5,732)
General and administrative expenses		(13,773)
Finance costs		(1,886)
Profit before taxation		<u>10,946</u>
		Contribution to profit from operations
	Turnover <i>US\$'000</i>	<i>US\$'000</i>
<i>By geographical market</i>		
North America	182,686	14,213
Europe	42,805	4,150
Asia	70,320	10,590
Middle East and Africa	4,889	713
Australia	16,088	1,280
	<u>316,788</u>	<u>30,946</u>
Other revenue		1,391
Selling and distribution expenses		(5,732)
General and administrative expenses		(13,773)
Finance costs		(1,886)
Profit before taxation		<u>10,946</u>

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2000, the top five suppliers of the Group accounted for about 34% of the Group's total purchases of materials and components, and the largest supplier accounted for about 11% of the Group's total purchases of materials and components.

None of the directors, their respective associates or any shareholders of the Company who will own more than 5% of the issued share capital of the Company has any interest in the Group's five largest suppliers during the year.

In respect of products of other manufacturers distributed by the Group, the top five vendors accounted for about 30% for the year ended 30 June 2000 of the Group's purchases of products for its distribution business.

The Group's five largest customers accounted for about 7% of the total sales of the Group for the year ended 30 June 2000. The Group's largest customer accounted for about 2% of the total sales of the Group for the year ended 30 June 2000.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2000 are set out in the consolidated income statement on page 29 of the annual report.

The Group's profit for the year ended 30 June 2000, which amounted to US\$10.01 million, was in line with the forecast of not less than US\$9.84 million as set out in the Company's prospectus dated 16 November 2000.

During the year, dividend amounting to approximately US\$4.99 million were distributed by a subsidiary to its former shareholders prior to Group Reorganisation. The directors recommend the payment of a final dividend of HK\$0.02 (equivalent approximately US cents 0.26) per share for the year ended 30 June 2000 to the shareholders whose names appeared on the register of members on 7 November 2000, amounting to approximately US\$1.76 million.

FINANCIAL SUMMARY

A summary of the results of the Group for the past three financial years ended 30 June 2000 is set out on page 63 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired additional property, plant and equipment at a cost of approximately US\$6.3 million for business expansion. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 11 to the financial statements.

BORROWINGS

Details of bank and other borrowings of the Group are set out in notes 19 and 20 to the financial statements respectively.

No interest was capitalised by the Group during the year.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 35 to the financial statements.

SHARE CAPITAL

Details of movements during the period from 14 September 1999 (date of incorporation) to 30 June 2000 in the share capital of the Company are set out in note 21 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 23 to the financial statements.

DIRECTORS

The directors of the Company for the period and up to the date of this report were:

Executive directors:

Mr. Chiu Hang Tai - Chairman	(appointed on 14 September 1999)
Mr. Ong Se Mon - Vice Chairman	(appointed on 14 September 1999)
Mr. Chiu Hang Chin, Samson - Vice Chairman	(appointed on 9 November 1999)
Ms. Ng Yuk Chun	(appointed on 9 November 1999)

Independent non-executive directors:

Mr. Lo Wai Hung	(appointed on 9 November 1999)
Mr. Li Chi Chung	(appointed on 9 June 2000)
Mr. Kan Siu Kei, Laurie	(appointed on 9 November 1999 and resigned on 9 June 2000)

In accordance with Clause 111 of the Company's Bye-laws, Ms. Ng Yuk Chun, Mr. Lo Wai Hung and Mr. Li Chi Chung retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining directors continue in office.

The non-executive directors as with the executive directors are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's Bye-laws.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 November 1999.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2000, the interests of the directors and their associates' interests in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") were as follows:

Director	Corporate interests	Personal interests	Family interests	Other interests	Total interests
Mr. Chiu Hang Tai	161,766,000 (Note 1)	—	—	—	161,766,000
Mr. Ong Se Mon	90,486,000 (Note 2)	318,000	—	—	90,804,000

Notes:

1. These shares are beneficially owned by and registered in the name of Alliance Express Group Limited. Mr. Chiu Hang Tai beneficially owns the entire issued share capital of Alliance Express Group Limited.
2. These shares are beneficially owned by and registered in the name of Maiden Undertaking Limited. Mr. Ong Se Mon beneficially owns the entire issued share capital of Maiden Undertaking Limited.

In addition to the above, Mr. Chiu Hang Tai beneficially owned 600,000 non-voting deferred shares in Pineview Industries Limited, a subsidiary of the Group as at 30 June 2000.

The non-voting deferred shares practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the company. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the subsidiary only after the distribution of HK\$1,000 million, as specified in the Articles of Association of the company, to holders of ordinary shares.

Apart from the above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of the Company or any of its associated corporations as at 30 June 2000.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2000, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that the following shareholders had interests representing 10% or more of the issued share capital of the Company:

Name	Number of shares	Approximate percentage of issued shares held
Alliance Express Group Limited	161,766,000 (Note 1)	23.62
Concept Express Investments Limited	122,760,000 (Note 2)	17.93
Fireball Resources Limited	113,998,500 (Note 3)	16.65
Maiden Undertaking Limited	90,486,000 (Note 4)	13.21

Notes:

1. The entire issued share capital of Alliance Express Group Limited is beneficially owned by Mr. Chiu Hang Tai.
2. The entire issued share capital of Concept Express Investments Limited is beneficially owned as to 47.82% by Mr. Chiu Kwong Chi and as to 26.09% by each of Mr. Chiu Hang Tung and Ms. Chiu Man Wah. Mr. Chiu Kwong Chi is the father of Mr. Chiu Hang Tung, Ms. Chiu Man Wah, Mr. Chiu Hang Chin, Samson and Mr. Chiu Hang Tai.
3. The entire issued share capital of Fireball Resources Limited is beneficially owned by Madam Wong Wai Ying. Madam Wong Wai Ying is the wife of Mr. Chiu Kwong Chi.
4. The entire issued share capital of Maiden Undertaking Limited is beneficially owned by Mr. Ong Se Mon.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 30 June 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the period, certain directors of the Company were granted share options to subscribe for shares in the Company as follows:

Name of director	Date of grant	Exercisable period	Exercise price HK\$	Number of options granted during the period and balance at 30th June 2000
Mr. Chiu Hang Tai	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000
		28.1.2002 to 27.1.2007	1.674	1,088,000
Mr. Ong Se Mon	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,904,000
		28.1.2002 to 27.1.2007	1.674	1,904,000
Mr. Chiu Hang Chin, Samson	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000
		28.1.2002 to 27.1.2007	1.674	1,088,000
Ms. Ng Yuk Chun	31.1.2000	28.1.2001 to 27.1.2006	1.674	300,000
		28.1.2002 to 27.1.2007	1.674	300,000

Details of the Company's share option scheme are set out in note 22 to the financial statements. Changes in the Company's share options subsequent to 30 June 2000 are set out in note 34 to the financial statements.

Save as disclosed above (including pursuant to the Group Reorganisation), at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements:

- (i) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "Listing Rules"); and
- (ii) no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the incorporation of the Company to the date of this report.

SUBSEQUENT EVENT

Details of the significant event which has taken place subsequent to the balance sheet date are set out in note 34 to the financial statements.

AUDIT COMMITTEE

On 9 November 1999, the Company established an Audit Committee comprising the two independent non-executive directors of the Company, namely, Messrs. Lo Wai Hung and Kan Siu Kei, Laurie. In establishing the terms of reference for this committee, the directors have had regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

On 9 June 2000, the directors appointed Mr. Li Chi Chung, an independent non-executive director of the Company, as a member of the Audit Committee in place of Mr. Kan Siu Kei, Laurie who has resigned as an independent non-executive director of the Company with effective from 9 June 2000.

Up to the date of approval of these financial statements, the Audit Committee has held two meetings and has reviewed and commented on the Company's draft annual and interim financial reports.

AUDITORS

Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company since its incorporation.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

CHIU HANG TAI

Chairman

Hong Kong, 20 September 2000

德勤·關黃陳方會計師行

Certified Public Accountants
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111 Connaught Road Central
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香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

TO THE SHAREHOLDERS OF PINE TECHNOLOGY HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 29 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 20 September 2000

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2000

	NOTES	2000 US\$'000	1999 US\$'000 (Note 1)
Turnover		316,788	248,846
Cost of sales		<u>(285,842)</u>	<u>(229,612)</u>
Gross profit		30,946	19,234
Other revenue		1,391	1,461
Selling and distribution expenses		(5,732)	(5,918)
General and administrative expenses		<u>(13,773)</u>	<u>(8,647)</u>
Profit from operations	3	12,832	6,130
Finance costs	4	<u>(1,886)</u>	<u>(1,337)</u>
Profit before taxation		10,946	4,793
Taxation	7	<u>(941)</u>	<u>(684)</u>
Profit after taxation		10,005	4,109
Minority interests		<u>—</u>	<u>56</u>
Net profit for the year	8	<u><u>10,005</u></u>	<u><u>4,165</u></u>
Dividends	9	<u><u>6,745</u></u>	<u><u>3,936</u></u>
Earnings per share			
Basic (US cents)	10	<u><u>1.62</u></u>	<u><u>0.81</u></u>

CONSOLIDATED BALANCE SHEET

At 30 June 2000

	NOTES	2000 US\$'000	1999 US\$'000 (Note 1)
Non-current assets			
Property, plant and equipment	11	6,170	719
Development costs	12	1,027	151
Technical know-how	13	1,169	1,000
Trade mark		78	66
		<u>8,444</u>	<u>1,936</u>
Current assets			
Inventories	15	27,894	15,743
Trade and other receivables		39,364	25,408
Tax recoverable		86	39
Investments in securities	16	47	—
Pledged bank deposits	17	2,121	2,280
Bank balances and cash		17,114	2,987
		<u>86,626</u>	<u>46,457</u>
Current liabilities			
Trade and other payables		23,722	19,658
Bills payable		2,413	3,232
Taxation		970	598
Proposed dividend		1,757	2,000
Advance from a director	18	—	1,983
Obligations under finance leases and hire purchase contracts		—	3
Bank borrowings - due within one year	19	15,371	10,189
Other borrowings	20	420	—
		<u>44,653</u>	<u>37,663</u>
Net current assets		<u>41,973</u>	<u>8,794</u>
		<u>50,417</u>	<u>10,730</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2000

	NOTES	2000 US\$'000	1999 US\$'000 (Note 1)
Capital and reserves			
Share capital	21	8,815	3,006
Share premium and reserves	23	<u>36,291</u>	<u>7,724</u>
		45,106	10,730
Non-current liabilities			
Bank borrowings - due after one year	19	<u>5,311</u>	<u>—</u>
		<u>50,417</u>	<u>10,730</u>

The financial statements on pages 29 to 62 were approved by the Board of Directors on 20 September 2000 and are signed on its behalf by:

CHIU HANG TAI
DIRECTOR

ONG SE MON
DIRECTOR

BALANCE SHEET

At 30 June 2000

	NOTES	US\$'000
Non-current assets		
Investments in subsidiaries	14	9,087
Current assets		
Amount due from subsidiary		<u>31,107</u>
		<u>40,194</u>
Capital and reserves		
Share capital	21	8,815
Share premium and reserves	23	<u>31,379</u>
		<u>40,194</u>

CHIU HANG TAI
DIRECTOR

ONG SE MON
DIRECTOR

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 30 June 2000

	<i>Notes</i>	2000 HK\$'000	1999 <i>HK\$'000</i> (Note 1)
Net profit for the year		10,005	4,165
Exchange differences arising on translation of overseas operations	<i>23</i>	<u>26</u>	<u>68</u>
Total recognised gains		10,031	4,233
Goodwill reserve arising on acquisition of subsidiaries	<i>23</i>	<u>—</u>	<u>(103)</u>
		<u>10,031</u>	<u>4,130</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2000

	Notes	2000 HK\$'000	1999 HK\$'000 (Note 1)
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	25	<u>(8,687)</u>	<u>11,110</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		752	137
Interest paid to a director		(43)	(123)
Interest paid on bank borrowings		(1,799)	(1,212)
Interest paid on other borrowings		(44)	—
Interest paid on finance leases		—	(2)
Dividends paid		<u>(6,988)</u>	<u>(1,936)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(8,122)</u>	<u>(3,136)</u>
TAXATION			
Hong Kong Profits Tax paid		(243)	(694)
Overseas tax paid		<u>(377)</u>	<u>(211)</u>
TAX PAID		<u>(620)</u>	<u>(905)</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(6,259)	(3,354)
Proceeds from disposal of property, plant and equipment		—	3,061
Acquisition of additional interest in a subsidiary		—	(93)
Purchase of subsidiaries (net of cash and cash equivalents acquired)	26	—	29
Purchase of investment in securities		(47)	—
Development expenditure incurred		(1,927)	(263)
Acquisition of technical know-how		(375)	(1,000)
Acquisition of trade mark		(15)	—
Pledge of bank fixed deposits		<u>159</u>	<u>(2,280)</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(8,464)</u>	<u>(3,900)</u>
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		<u>(25,893)</u>	<u>3,169</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2000

	<i>Notes</i>	2000 HK\$'000	1999 <i>HK\$'000</i> (Note 1)
FINANCING	27		
Proceeds on issue of shares on public flotation		33,199	—
Share issue expenses		(2,109)	—
New bank loan raised		5,311	—
Other borrowings raised		420	—
Issue of shares in subsidiaries to then shareholders prior to Group Reorganisation		—	556
Repayment of obligations under finance leases and hire purchase contracts		(3)	(29)
Advances from a director raised		—	277
Repayment of advances from a director		(1,983)	—
NET CASH INFLOW FROM FINANCING		34,835	804
INCREASE IN CASH AND CASH EQUIVALENTS		8,942	3,973
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(7,202)	(11,181)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		3	6
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		1,743	(7,202)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		17,114	2,987
Short-term bank borrowings		(15,371)	(10,189)
		1,743	(7,202)

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated on 14 September 1999 as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda.

The Company acts as an investment holding company. Details of the principal activities of the subsidiaries are set out in note 35.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued shares in exchange for the entire issued share capital of Pine Technology (BVI) Limited and its subsidiaries and thereby became the holding company of the Group on 9 November 1999. Details of the Group Reorganisation and the new issue and placing of shares of the Company ("New Issue and Placing") are set out in the prospectus dated 16 November 1999 issued by the Company.

The shares of the Company have been listed on the GEM of the Stock Exchange with effect from 26 November 1999.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared on a merger accounting basis as if the Company had always been the holding company of the Group. In the opinion of the directors, the financial statements, prepared on the above basis, present fairly the results, cash flows and the state of affairs of the Group as a whole.

The financial statements are presented in United States dollars, the currency in which the majority of the transactions are denominated.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention modified for the revaluation of certain investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill or capital reserve

Goodwill or capital reserve arising on consolidation or acquisition of interest in a subsidiary represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets of subsidiaries at the date of acquisition. Goodwill or capital reserve is written off or credited directly to reserves respectively in the year of acquisition.

On disposal of subsidiaries, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit and loss on disposal of the subsidiaries.

Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers during the year.

Revenue recognition

Sales of goods is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged as expense in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the assets.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is included in the net profit or loss for the year.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment** (continued)

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives using the straight line method, at the following rates per annum:

Leasehold improvements	25%
Plant and machinery	25% - 50%
Motor vehicles	25%
Furniture, fixtures and equipment	20% - 25%
Computer equipment	20% - 25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the leases.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Assets held under finance leases and hire purchase contracts

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor and hirer, net of interest charges, is included in the balance sheet as a finance lease and hire purchase obligation. Finance costs, which represent the difference between the finance lease and hire purchase commitments and the fair value of the assets acquired, are charged as expenses over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Research and development costs

Expenditure on research and development is charged as expenses in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation subject to a maximum of two years.

Technical know-how

Expenditure on acquiring rights to technical know-how from third parties for production of the Group's new or modified products are stated at cost less amortisation. Amortisation is provided to write off the cost on a straight-line basis over a maximum period of five years.

The directors review and evaluate, taking into consideration current results and future prospects, the carrying amount of technical know-how periodically. Where the recoverable amount of the technical know how has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade mark

Trade mark represents the initial cost of registration in respect of the Group's trade mark. Cost incurred in subsequent renewals is charged as expense.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. Results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Foreign currencies

Transactions in currencies other than United States dollars are translated into United States dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than United States dollars are re-translated into United States dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries are translated to United States dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with through the exchange reserve.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Investments in securities**

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effects of timing differences, computed using the liability method, are recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged as expense on a straight-line basis over the term of the relevant lease.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

3. PROFIT FROM OPERATIONS

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
Profit from operations has been arrived at after charging:		
Auditors' remuneration	286	79
Amortisation of development costs	1,050	259
Amortisation of technical know-how	199	—
Depreciation		
Owned assets	800	330
Assets held under finance leases and hire purchase contracts	—	8
	<u>800</u>	<u>338</u>
Staff costs including directors' remuneration	10,017	6,671
Operating lease rentals in respect of land and buildings	1,176	769
Exchange loss	290	—
and after crediting:		
Exchange gain	—	251
Gain on disposal of property, plant and equipment	—	5
Interest income	752	137
	<u><u>752</u></u>	<u><u>137</u></u>

4. FINANCE COSTS

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
Interest on bank borrowings wholly repayable within five years	(1,799)	(1,212)
Interest on other borrowings wholly repayable within five years	(44)	—
Interest on advances from a director	(43)	(123)
Finance leases and hire purchase contract charges	—	(2)
	<u><u>(1,886)</u></u>	<u><u>(1,337)</u></u>

5. DIRECTORS' REMUNERATION

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
Fees:		
Executive directors	26	12
Non-executive directors	<u>20</u>	<u>—</u>
	<u>46</u>	<u>12</u>
Other emoluments:		
Basic salaries and other benefits	468	408
Bonus	200	—
Retirement benefit scheme contributions	<u>15</u>	<u>14</u>
	<u>683</u>	<u>422</u>
	<u><u>729</u></u>	<u><u>434</u></u>

The emoluments of the directors were within the following bands:

	2000 Number of directors	1999 Number of directors
US\$nil to US\$129,000	5	3
US\$129,001 to US\$193,000	1	2
US\$322,501 to 387,000	<u>1</u>	<u>—</u>

The executive directors received individual emoluments for the year ended 30 June 2000 of approximately US\$138,000 (1999: US\$178,000), US\$382,000 (1999: US\$168,000), US\$95,000 (1999: US\$4,000) and US\$94,000 (1999: US\$53,000).

The independent non-executive directors received director's fee for the year ended 30 June 2000 of approximately US\$10,000 (1999: US\$Nil), US\$1,000 (1999: US\$Nil) and US\$9,000 (1999: US\$Nil). No (1999: One) independent non-executive director receive other emoluments for the year ended 30 June 2000 (1999: US\$31,000).

6. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included four (1999: two) executive directors of the Company, whose emoluments are included in note 5 above. The emoluments of the remaining one (1999: three) individuals are as follows:

	2000 US\$'000	1999 US\$'000 (Note 1)
Basic salaries and other benefits	108	320
Retirement benefit scheme contributions	5	7
	113	327

The aggregate emolument of each of the employees are within the band of US\$nil to US\$129,000.

During each of the two years ended 30 June 2000, no emoluments were paid by the Group to the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors have waived any emoluments during each of the two years ended 30 June 2000.

7. TAXATION

	2000 US\$'000	1999 US\$'000 (Note 1)
The charge comprises:		
Hong Kong Profits Tax	(610)	(542)
Taxation arising in other jurisdictions	(334)	(243)
Over provision in prior year		
Hong Kong	—	89
Other jurisdictions	3	—
	(941)	(696)
Deferred taxation	—	12
	(941)	(684)

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits for the year.

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

Pursuant to the relevant laws and regulations in The People's Republic of China (the "PRC"), the Company's PRC subsidiary, Dongguan Pan Eagle Electronic Limited (東莞業榮電子有限公司) ("DPE"), is entitled to an exemption from income tax for two years from its first profitable year of operation, followed by a 50% reduction for the next three years. The first profitable year of DPE started as from 1 January 1998.

Details of the potential deferred taxation are set out in note 24.

8. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of US\$10,005,000, a profit of US\$17,000 has been dealt with in the financial statements of the Company.

9. DIVIDENDS

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
Dividends paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation	4,988	3,936
Final dividend, proposed - HK\$0.02 (equivalent approximately US cents 0.26) per share (1999: nil)	<u>1,757</u>	<u>—</u>
	<u>6,745</u>	<u>3,936</u>

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on the net profit for the year of US\$10,005,000 (1999: US\$4,165,000) and on the weighted average number of 616,165,902 (1999: 512,820,000) ordinary shares in issue during the year.

The number of shares for the year ended 30 June 1999 of 512,820,000 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.

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 the year.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Motor vehicle	Furniture, fixtures and equipment	Computer equipment	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
THE GROUP						
COST						
At 1 July 1999	405	1,112	52	841	213	2,623
Exchange adjustments	(5)	(10)	—	(11)	(1)	(27)
Additions	<u>3,220</u>	<u>1,952</u>	<u>245</u>	<u>290</u>	<u>552</u>	<u>6,259</u>
At 30 June 2000	<u>3,620</u>	<u>3,054</u>	<u>297</u>	<u>1,120</u>	<u>764</u>	<u>8,855</u>
DEPRECIATION						
At 1 July 1999	333	808	48	561	154	1,904
Exchange adjustments	(3)	(8)	—	(7)	(1)	(19)
Provided for the year	<u>344</u>	<u>188</u>	<u>52</u>	<u>67</u>	<u>149</u>	<u>800</u>
At 30 June 2000	<u>674</u>	<u>988</u>	<u>100</u>	<u>621</u>	<u>302</u>	<u>2,685</u>
NET BOOK VALUES						
At 30 June 2000	<u><u>2,946</u></u>	<u><u>2,066</u></u>	<u><u>197</u></u>	<u><u>499</u></u>	<u><u>462</u></u>	<u><u>6,170</u></u>
At 30 June 1999	<u><u>72</u></u>	<u><u>304</u></u>	<u><u>4</u></u>	<u><u>280</u></u>	<u><u>59</u></u>	<u><u>719</u></u>

At 30 June 2000, the net book value of property, plant and equipment does not include any assets held under finance leases and hire purchase contracts (1999: US\$34,000).

12. DEVELOPMENT COSTS

	<i>US\$'000</i>
THE GROUP	
COST	
At 1 July 1999	846
Exchange differences	(5)
Additions	<u>1,927</u>
At 30 June 2000	<u>2,768</u>
AMORTISATION	
At 1 July 1999	695
Exchange differences	(4)
Provided for the year	<u>1,050</u>
At 30 June 2000	<u>1,741</u>
NET BOOK VALUE	
At 30 June 2000	<u><u>1,027</u></u>
At 30 June 1999	<u><u>151</u></u>

13. TECHNICAL KNOW-HOW

	<i>US\$'000</i>
THE GROUP	
COST	
At 1 July 1999	1,000
Exchange differences	(7)
Additions	<u>375</u>
At 30 June 2000	<u>1,368</u>
AMORTISATION	
At 1 July 1999	—
Provided for the year	<u>199</u>
At 30 June 2000	<u>199</u>
NET BOOK VALUE	
At 30 June 2000	<u><u>1,169</u></u>
At 30 June 1999	<u><u>1,000</u></u>

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY
	2000
	<i>US\$'000</i>
Unlisted shares	<u><u>9,087</u></u>

The carrying value of the Company's investment in the subsidiaries is determined by the directors on the basis of the underlying assets of the subsidiaries at the time they were acquired by the Company pursuant to the Group Reorganisation which took place on 9 November 1999.

Particulars of the Company's subsidiaries at 30 June 2000 are set out in note 35.

15. INVENTORIES

	THE GROUP	
	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
Raw materials	9,222	1,736
Work in progress	3,436	987
Finished goods	<u>15,236</u>	<u>13,020</u>
	<u>27,894</u>	<u>15,743</u>

Included above are finished goods of US\$8,300,000 (1999: US\$4,107,000) which are carried at net realisable value and no (1999: US\$1,736,000) raw materials is carried at net realisable value.

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
Shares listed in United States, at cost less provision	<u>47</u>	<u>—</u>
Market value of shares listed in United States	<u>47</u>	<u>—</u>

17. PLEDGED BANK DEPOSITS**THE GROUP**

The pledged bank deposits have been placed in designated bank accounts in favour of the banks as part of the security for the short term banking facilities granted to the Group by banks.

18. ADVANCE FROM A DIRECTOR**THE GROUP**

The advance from a director is unsecured, bears interest at Hong Kong prime rate plus 1% per annum and has been fully repaid during the year.

19. BANK BORROWINGS

	THE GROUP	
	2000	1999
	US\$'000	<i>US\$'000</i>
		(Note 1)
Bank borrowings comprise the following:		
Trust receipts and import loans	8,021	2,927
Other bank loans	12,622	5,924
Bank overdrafts	39	1,338
	<u>20,682</u>	<u>10,189</u>
	2000	1999
	US\$'000	<i>US\$'000</i>
Secured	20,324	8,089
Unsecured	358	2,100
	<u>20,682</u>	<u>10,189</u>
The bank borrowings are repayable as follows:		
On demand or within one year	15,371	10,189
More than two years, but not exceeding five years	5,311	—
	<u>20,682</u>	10,189
Less: Amounts due within one year shown under current liabilities	<u>(15,371)</u>	<u>(10,189)</u>
	<u>5,311</u>	<u>—</u>

20. OTHER BORROWINGS

THE GROUP

Other borrowings are secured by the Group's certain trade receivable amounting to US\$933,000 (1999: nil), bear interest at prevailing market rate and are repayable within one year.

21. SHARE CAPITAL

Movements in the share capital of the Company for the period from 14 September 1999 (date of incorporation) to 30 June 2000 were as follows:

	Number of shares	Value <i>HK\$'000</i>	United States dollars equivalent <i>US\$'000</i>
Ordinary shares of HK\$0.1 each:			
Authorised			
On incorporation	1,000,000	100	13
Increased in authorised share capital	<u>1,999,000,000</u>	<u>199,900</u>	<u>25,734</u>
At 30 June 2000	<u><u>2,000,000,000</u></u>	<u><u>200,000</u></u>	<u><u>25,747</u></u>
Issued and fully paid			
Allotted and issued nil paid on incorporation	1,000,000	—	—
Issue of shares upon the Group Reorganisation	3,000,000	300	39
Credited as fully paid from contributed surplus account	—	100	13
Issue of shares resulted from capitalisation of the share premium account	508,820,000	50,882	6,550
Issue of shares pursuant to the New Issue and Placing	<u>171,930,000</u>	<u>17,193</u>	<u>2,213</u>
At 30 June 2000	<u><u>684,750,000</u></u>	<u><u>68,475</u></u>	<u><u>8,815</u></u>

The following changes in the share capital of the Company took place during the period from 14 September 1999 (date of incorporation) to 30 June 2000:

- (a) The Company was incorporated on 14 September 1999 with an authorised share capital of HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.1 each, all of which were allotted and issued nil paid on 20 September 1999.
- (b) Pursuant to a written resolutions of the sole shareholder of the Company passed on 9 November 1999:
 - (i) the authorised share capital of the Company was increased from HK\$100,000 to HK\$400,000 by the creation of an additional 3,000,000 new ordinary shares of HK\$0.1 each. The new shares rank pari passu in all respects with the existing shares;
 - (ii) as consideration for the acquisition of the entire issued share capital of Pine Technology (BVI) Limited and its subsidiaries, the directors were authorised to allot and issue an aggregate of 3,000,000 ordinary shares, credited as fully paid under the Group Reorganisation which took place on 9 November 1999; and
 - (iii) an amount of HK\$100,000 credited to the contributed surplus account of the Company arising from the issue of 3,000,000 shares in acquisition of the entire issued share capital of Pine Technology (BVI) Limited and its subsidiaries above was applied in paying up in full at par value the 1,000,000 ordinary shares, which were allotted and issued nil paid on 20 September 1999.

21. SHARE CAPITAL (continued)

- (c) Pursuant to a written resolution of all the shareholders of the Company passed on 9 November 1999 and the prospectus of the Company dated 16 November 1999:
- (i) the authorised share capital of the Company was increased from HK\$400,000 to HK\$200,000,000 by the creation of a further 1,996,000,000 new ordinary shares of HK\$0.1 each. The new shares rank pari passu in all respects with the existing shares;
 - (ii) the new issue and placing of 171,930,000 (including the exercise of 24,750,000 over-allotment option) shares of the Company of HK\$0.1 each at a price of HK\$1.50 per share, were approved and, the directors were authorised to allot and issue the new shares in connection with the New Issue and Placing; and
 - (iii) the directors were also authorised to allot and issue a total of 508,820,000 shares credited as fully paid at par to the holders of shares on the register of members at the close of business on 9 November 1999 in proportion to their then existing holding by way of capitalisation of the sum of HK\$50,882,000 standing to the credit of the share premium account of the Company following the new issue and placing of shares mentioned above.

On 24 November 1999, the Company completed the issue, allotment and despatchment of 171,930,000 shares of the Company of HK\$0.1 each in connection with the New Issue and Placing. The above resolution became unconditional on 26 November 1999 when the Company's shares were listed on the GEM of the Stock Exchange. The proceeds from the shares issued above were used for financing the Group's sales and distribution channels, production facilities, research and development activities and product range.

The share capital of 30 June 1999 as shown in the consolidated balance sheet represented the nominal value of the issued share capital of Pine Group Limited and Pan Eagle Limited, the then holding companies of the subsidiaries, acquired by the Company pursuant to the Group Reorganisation.

22. SHARE OPTIONS

Pursuant to the Company's share options scheme adopted on 9 November 1999, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the closing price of the shares of the Company on the Stock Exchange on the date of grant of the particular option or the average of the closing prices of the shares of the Company for the five trading days immediately preceding the date of the grant of the options or the nominal value of the shares, whichever is the higher. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company in issue from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme.

22. SHARE OPTIONS (continued)

During the period, share options were granted under the share option scheme to subscribe for the shares in the Company as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options granted during the period and balance at 30 June 2000
31.1.2000	28.1.2001 - 27.1.2006	1.674	9,462,000
31.1.2000	28.1.2002 - 27.1.2007	1.674	9,108,000
			18,570,000

No share option to subscribe for the shares of the Company was exercised during the period.

Changes in the Company's share options subsequent to 30 June 2000 are set out in note 34.

23. SHARE PREMIUM AND RESERVES

	Share premium account US\$'000	Surplus account US\$'000	Exchange reserve US\$'000	Goodwill reserve US\$'000	Capital reserve US\$'000	Accumulated profits US\$'000	Total US\$'000
THE GROUP							
Balance at 1 July 1998	—	—	(238)	(1,508)	—	9,276	7,530
Exchange differences on translation of overseas operations	—	—	68	—	—	—	68
Reserve arising on acquisition of subsidiary	—	—	—	(32)	—	—	(32)
Reserve arising on acquisition of additional interest in a subsidiary	—	—	—	(71)	—	—	(71)
Profit for the year	—	—	—	—	—	4,165	4,165
Dividends	—	—	—	—	—	(3,936)	(3,936)
Balance at 30 June 1999	—	—	(170)	(1,611)	—	9,505	7,724
Shares issued at premium	30,986	—	—	—	—	—	30,986
Share issue expenses	(2,109)	—	—	—	—	—	(2,109)
Capitalisation issue of shares to then shareholders	(6,550)	—	—	—	—	—	(6,550)
Reserve arising on Group Reorganisation	—	2,954	—	—	—	—	2,954
Exchange differences on translation of overseas operations	—	—	26	—	—	—	26
Profit for the year	—	—	—	—	—	10,005	10,005
Dividends	—	—	—	—	—	(6,745)	(6,745)
Transfer to reserve	—	—	—	—	63	(63)	—
Balance at 30 June 2000	22,327	2,954	(144)	(1,611)	63	12,702	36,291

23. SHARE PREMIUM AND RESERVES (continued)

	Share premium account US\$'000	Contributed surplus US\$'000	Accumulated profit US\$'000	Total US\$'000
THE COMPANY				
Surplus arising on Group Reorganisation	—	9,035	—	9,035
Shares issued at premium	30,986	—	—	30,986
Share issue expenses	(2,109)	—	—	(2,109)
Capitalisation issue of shares to then shareholders	(6,550)	—	—	(6,550)
Profit for the period	—	—	17	17
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2000	<u>22,327</u>	<u>9,035</u>	<u>17</u>	<u>31,379</u>

Surplus account represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserve accounts of Pine Technology (BVI) Limited, the subsidiary which was acquired by the Company pursuant to the Group Reorganisation.

Capital reserve represents PRC statutory reserves transferred from accumulated profits during the year as required by the relevant PRC laws and regulations applicable to the Group's PRC subsidiary.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Pine Technology (BVI) Limited at the date on which the Group Reorganisation became effective and the nominal amount of the share capital of the Company issued under the Group Reorganisation.

Under the Companies Act 1981 of Bermuda, contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if;

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	<i>US\$'000</i>
Contributed surplus	9,035
Accumulated profit	<u>17</u>
	<u>9,052</u>

24. POTENTIAL DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred tax assets (liabilities) of the Group are as follows:

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
THE GROUP		
Tax effect of timing difference because of:		
Tax losses	147	84
Other timing differences	94	9
Excess of tax allowances over depreciation	<u>(18)</u>	<u>(5)</u>
	<u>223</u>	<u>88</u>

The amount of the potential deferred tax credit (charge) for the year are as follows:

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
THE GROUP		
Tax effect of timing differences because of:		
Tax losses arising	63	76
Other timing differences	85	11
Excess of tax allowances over depreciation	<u>(13)</u>	<u>(6)</u>
	<u>135</u>	<u>81</u>

The deferred tax assets in respect of tax losses available to set off against future taxable profits has not been recognised in the financial statements as it is not certain that the benefit will crystallise in the foreseeable future.

No provision for deferred taxation has been recognised in the financial statements in respect of certain other timing differences arising during the year as it is not expected that the potential deferred taxation will reverse in the foreseeable future.

25. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i> (Note 1)
Profit from ordinary activities before taxation	10,946	4,793
Interest income	(752)	(137)
Interest expenses on advances from a director	43	123
Interest expenses on bank borrowings	1,799	1,212
Interest expenses on other borrowings	44	—
Interest expenses on finance leases and hire purchase contracts	—	2
Depreciation of property, plant and equipment	800	338
Gain on disposal of property, plant and equipment	—	(5)
Amortisation of development cost	1,050	259
Amortisation of technical know-how	199	—
Increase in inventories	(12,133)	(575)
Increase in trade and other receivables	(13,927)	(2,575)
Increase in trade and other payable	4,063	4,443
(Decrease) increase in bills payable	(819)	3,232
	<hr/>	<hr/>
Net cash (outflow) inflow from operating activities	(8,687)	11,110

26. PURCHASE OF SUBSIDIARIES

During the year ended 30 June 1999, the Group acquired all the issued share capital of CDS (Australia) Pty Ltd., Pineview Industries Limited and Samtack Computer Limited for a total consideration of US\$26,000. These acquisitions have been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was US\$32,000. The profit after taxation of these subsidiaries included in the consolidated income statement for the year ended 30 June 1999 amounted to US\$22,549.

	2000	1999
	US\$'000	US\$'000
		(Note 1)
NET ASSETS ACQUIRED		
Property, plant and equipment	—	21
Inventories	—	349
Trade and other receivables	—	147
Bank balances and cash	—	55
Trade and other payables	—	(578)
	<u>—</u>	<u>—</u>
	—	(6)
Goodwill	—	32
	<u>—</u>	<u>26</u>
SATISFIED BY		
Cash	—	26
	<u>—</u>	<u>26</u>
Net cash inflow arising on acquisition:		
	2000	1999
	US\$'000	US\$'000
Bank balances and cash acquired	—	55
Cash consideration	—	(26)
	<u>—</u>	<u>—</u>
Net inflow of cash and cash equivalents in respect of the purchase of subsidiaries	—	29
	<u>—</u>	<u>29</u>

The subsidiaries acquired during the year ended 30 June 1999 did not contribute significantly to the Group's operating profit and cash flows.

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium <i>US\$'000</i>	Bank borrowings <i>US\$'000</i>	Other borrowing <i>US\$'000</i>	Advance from a director <i>US\$'000</i>	Obligations under finance leases and hire purchase contracts <i>US\$'000</i>	Minority interests <i>US\$'000</i>
Balance at 1 July 1998	2,450	—	—	1,706	32	78
Issue of shares in subsidiaries to then shareholders prior to Group Reorganisation	556	—	—	—	—	—
Advances from a director raised during the year	—	—	—	277	—	—
Repayment during the year	—	—	—	—	(29)	—
Share of loss for the year	—	—	—	—	—	(56)
Acquisition of additional interest in a subsidiary	—	—	—	—	—	(22)
Balance at 30 June 1999	3,006	—	—	1,983	3	—
Capitalisation of reserves arising on Group Reorganisation	(2,954)	—	—	—	—	—
Issue of shares pursuant to the New Shares and Placing	31,090	—	—	—	—	—
New bank loan raised	—	5,311	—	—	—	—
Other borrowing raised	—	—	420	—	—	—
Repayment during the year	—	—	—	(1,983)	(3)	—
Balance at 30 June 2000	<u>31,142</u>	<u>5,311</u>	<u>420</u>	<u>—</u>	<u>—</u>	<u>—</u>

28. PLEDGE OF ASSETS

Save as disclosed in note 17, the Group has also pledged all assets of certain subsidiaries as floating charges to banks for facilities of US\$20,266,000 (1999: US\$24,288,000) granted to the Group at 30 June 2000. The total facilities utilised by the Group as at 30 June 2000 amounted to US\$12,622,000 (1999: US\$8,089,000). Details of the assets that have been pledged to banks are as follows:

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i>
Property, plant and equipment	428	177
Inventories	8,192	6,278
Trade and other receivables	21,812	12,822
Bank balances and cash	888	2,280
Investments in securities	47	—
	<u>31,367</u>	<u>21,557</u>

29. OPERATING LEASE COMMITMENTS

At 30 June 2000, the Group had the following commitments payable within the next year under non-cancellable operating leases in respect of land and buildings:

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i>
Operating leases which expire:		
Within one year	453	100
In the second to fifth years inclusive	1,420	211
Over five years	137	126
	<u>2,010</u>	<u>437</u>

30. CAPITAL COMMITMENTS

	2000 <i>US\$'000</i>	1999 <i>US\$'000</i>
Capital expenditure contracted but not provided for with respect to plant and machinery	231	184
Capital expenditure authorised but not contracted for with respect to plant and machinery	—	2,000
	<u>231</u>	<u>2,184</u>

At 30 June 2000, the Group had following capital commitments:

31. CONTINGENT LIABILITIES

THE GROUP

At 30 June 2000, the Group had bills discounted with recourse amounting to US\$395,000 (1999: US\$229,000).

THE COMPANY

At 30 June, 2000, the Company had executed certain unlimited guarantees and corporate guarantees amounting to approximately US\$33,000,000 to secure for the general banking facilities granted to its subsidiaries. The total amount of facilities utilised by the subsidiaries as at 30 June, 2000 amounting to approximately US\$12,912,000.

32. RETIREMENT BENEFITS SCHEME

The Group operates defined contribution retirement benefits schemes in various countries for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The amount of retirement benefits contributions charged as expenses represents contributions payable to these funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The details of retirement benefits contributions for the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group for each of the periods referred to in this report are as follows:

	2000 US\$'000	1999 <i>US\$'000</i> (Note 1)
Gross retirement benefits schemes contributions	103	103
Less: Forfeited contributions for the year	<u>(8)</u>	<u>(15)</u>
Net retirement benefits schemes contributions	<u>95</u>	<u>88</u>

There was no significant amount of forfeited contributions available to reduce future contributions payable by the Group as at 30 June 2000.

33. RELATED PARTY TRANSACTIONS

During the year, the following related party transactions took place:

Name of related party	Nature of transactions	2000	1999
		US\$'000	US\$'000 (Note 1)
Honwood Development Limited	Rental expenses	24	96
Chiu Hang Tai	Interests expenses	43	123

The directors and shareholders of Honwood Development Limited are parents of the directors, Messrs. Chiu Hang Tai and Chiu Hang Chin, Samson.

For the year ended 30 June 1999 and as at 30 June 1999, the Group has given a cross guarantee up to US\$2.4 million (HK\$18.8 million) to a related company which is principally owned by certain directors, Messrs. Chiu Hang Tai and Chiu Hang Chin, Samson, and their family members in order to obtain certain banking facilities by the related company. However, at 30 June 1999, no amount of such facilities was utilised by the related company. In addition, Honwood Development Limited has pledged its property to a bank to secure the credit facilities granted to the Group. The bankers have released these guarantees upon the successful listing of the shares of the Company during the year.

In the opinion of the directors, the above transactions were carried out on normal commercial terms in the ordinary course of business of the Group. These transactions have been discontinued following the listing of the Company's shares on the GEM of the Stock Exchange.

34. SUBSEQUENT EVENT

Subsequent to the balance sheet date, share options were granted under the Company's share option scheme to subscribe for shares in the Company as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of shares granted
10.7.2000	28.1.2001 - 27.1.2004	1.056	7,980,000
10.7.2000	10.7.2001 - 9.7.2004	1.056	1,424,000
10.7.2000	10.7.2001 - 9.7.2004	1.240	15,000,000
10.7.2000	10.7.2002 - 9.7.2005	1.056	1,396,000
			<u>25,800,000</u>

No share option to subscribe for the shares of the Company was exercised up to the date of approval of these financial statements.

35. SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2000 were as follows:

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital %	Principal activities
CDS (Australia) Pty Ltd	Australia	AUD10	100	Wholesaling and distribution of computer components
Dongguan Pan Eagle Electronic Limited (東莞業榮電子有限公司)	PRC	HK\$6,800,000*	100	Manufacturing of computer hardware
E23 Inc.	Western Samoa/ PRC	US\$10,000	100	Wholesaling and distribution of computer components
Eagle Technology Inc.	Western Samoa	US\$1	100	Investment holding
Eastcom, Inc. (Alternate names: Pine Technology Inc. and Santack USA Inc.)	United States of America	US\$1,000	100	Wholesaling and distribution of computer components
Gold View Group Limited	Western Samoa	US\$10	100	Investment holding
i. Concept Inc.	Western Samoa	US\$1	100	Investment holding
Pan Eagle Limited	British Virgin Islands	US\$100	100	Investment holding
Pine Global Limited	Western Samoa/ PRC	US\$10,000	100	Wholesaling and distribution of computer components
Pine Group Hong Kong Limited	Hong Kong	HK\$2	100	Investment holding
Pine Group Limited	British Virgin Islands	US\$10,000 Common Shares US\$2,995,729 Class A shares	100	Investment holding
Pine Group (North America) Limited	United Kingdom	GBP100	100	Investment holding
Pine Group UK Limited	United Kingdom	GBP35,100	100	Investment holding
Pine Laboratory Korea Inc.	South Korea	WON50,000,000	100	Research and development of electronics and computer digital audio device

35. SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital %	Principal activities
Pine Net Korea Limited	South Korea	WON100,000,000	100	Provider of online information service, electronic commerce and internet service
Pine Technology Australia Pty Ltd	Australia	AUD1	100	Investment holding
Pine Technology and Components Limited	United Kingdom	GBP100	100	Investment holding
Pine Technology Korea Ltd	South Korea	WON50,000,000	100	Sales and distribution of computer hardware
Pine Technology Limited	Hong Kong	HK\$3	100	Manufacturing and trading of computer hardware
Pine Technology Pte. Limited	Republic of Singapore	SGD2	100	Wholesaling and trading of computer components
Pine Technology (BVI) Limited	British Virgin Islands	US\$10,000	100	Investment holding
Pineview Industries Limited	United Kingdom	GBP100	100	Inactive
Pineview Industries Limited	Hong Kong	HK\$1,000 Ordinary HK\$2,400,000 Non-voting 5% deferred shares (Note b)	100	Provision of production and other facilities to group companies
PNS Technology Ltd	Western Samoa/ PRC	US\$10,000	100	Wholesaling and distribution of computer components
Quality Eagle Limited	Western Samoa	US\$1	100	Investment holding
Quality Eagle Technology Dongguan Ltd (品嘉電子(東莞)有限公司)	PRC	HK\$10,000,000*	100	Manufacturing of electronics and computer digital audio device
Samtack Computer Inc.	Canada	CAD5 Common shares CAD2,041,250 Class A shares	100	Wholesaling and distribution of computer components

35. SUBSIDIARIES (continued)

Name of company	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital*	Proportion of nominal value of issued capital/ registered capital/ %	Principal activities
Samtack Computers Limited	United Kingdom	US\$100	100	Inactive
Samtack Computers USA Inc.	United States of America	US\$10,000	100	Inactive
Westcom Technology Limited	United Kingdom	GBP50,000	100	Wholesaling and distribution of computer components
松景科技有限公司	Republic of China	NT1,000,000	99.9996	Wholesaling and distribution of computer components and international purchasing function

Notes:

- (a) The Company directly holds the entire interest in Pine Technology (BVI) Limited. The interests of all other companies are indirectly held by the Company.
- (b) There is HK\$1,800,000 in the deferred shares of the Company which are not held by the Group. The deferred shares practically carry no right to dividend or to receive notice of or to attend or vote at any general meeting of the Company. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the company only after the distribution of HK\$1,000 million, as specified in the Articles of Association, to holders of ordinary shares.

None of the subsidiaries had any loan capital outstanding at 30 June 2000 or at any time during the year.

	Year ended 30 June		
	1998 US\$'000	1999 US\$'000	2000 US\$'000
Turnover	199,126	248,846	316,788
Cost of sales	<u>(182,619)</u>	<u>(229,612)</u>	<u>(285,842)</u>
Gross profit	16,507	19,234	30,946
Other income	923	1,461	1,391
Selling and distribution expenses	(5,849)	(5,918)	(5,732)
General and administrative expenses	<u>(7,487)</u>	<u>(8,647)</u>	<u>(13,773)</u>
Profit from operations	4,094	6,130	12,832
Finance costs	<u>(1,384)</u>	<u>(1,337)</u>	<u>(1,886)</u>
Profit before taxation	2,710	4,793	10,946
Taxation	<u>(607)</u>	<u>(684)</u>	<u>(941)</u>
Profit after taxation	2,103	4,109	10,005
Minority interests	<u>20</u>	<u>56</u>	<u>—</u>
Net profit for the year	<u><u>2,123</u></u>	<u><u>4,165</u></u>	<u><u>10,005</u></u>

Notes:

1. The Company was incorporated in Bermuda on 14 September 1999 and became the holding company of the Group with effect from 9 November 1999 as a result of the Group Reorganisation as set out in the Company's prospectus dated 16 November 1999. Accordingly, the only consolidated balance sheets prepared by the Group are those set out on pages 30 and 31 of the annual report.
2. The results of the Group for each of the two years ended 30 June 1998 and 1999 have been prepared on a combined basis as if the current group structure had been in existence throughout the years concerned and have been extracted from the Company's prospectus dated 16 November 1999.
3. The results for the year ended 30 June 2000 have been extracted from the audited consolidated income statement, which include the results of the Company and its subsidiaries from 1 July 1999 or since their respective dates of incorporation/establishment, where it is a shorter period, are set out on page 29 of the annual report.

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of PINE TECHNOLOGY HOLDINGS LIMITED (“the Company”) will be held at B/1 Monaco Room, Regal Hong Kong Hotel, No. 88 Yee Wo Street, Causeway Bay, Hong Kong on Tuesday, 7 November, 2000 at 2:30 p.m. for the following purposes:—

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the period from 14th September, 1999 (date of incorporation) to 30th June, 2000.
2. To declare a final dividend for the period ended 30th June, 2000.
3. To re-elect the retiring directors and to authorise the Board of Directors to fix the directors’ remuneration.
4. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.
5. As special business, to consider and if thought fit, pass the following resolutions as Ordinary Resolutions:—

A. “THAT

- (a) subject to paragraph A(b) below, the exercise by the directors of the Company (“the Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this

purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (as amended from time to time) or of any other stock exchange, be and is hereby generally and unconditionally approved and authorised;

- (b) the aggregate nominal amount of the shares of the Company to be purchased by the Company pursuant to the approval in paragraph A(a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the approval pursuant to paragraph A(a) shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual

general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and

- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

B. “THAT

- (a) subject to paragraph B(b) below, a general mandate be and is hereby unconditionally given to the directors of the Company (the “Directors”) to exercise all the powers of the Company during the Relevant Period (as hereinafter defined) to allot, issue and deal with the new shares in the capital of the Company or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make and grant offers, agreements and options which would or might require the exercise of such powers, whether during the continuance of the Relevant Period or thereafter;
- (b) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted or dealt with pursuant to the approval in paragraph B(a) above during the Relevant Period, otherwise than pursuant to the following, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly:—
 - (i) a rights issue where shares are offered for a period fixed by the Directors to shareholders on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard, as appropriate, to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or stock exchange in, or in any territory applicable to the Company);
 - (ii) an issue of shares under any share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company;
 - (iii) any scrip dividend scheme or similar arrangement implemented in accordance with the bye-laws of the Company; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period

from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

C. “**THAT** conditional upon Resolutions 5A and 5B being passed, the general mandate granted to the directors of the Company pursuant to Resolution 5B to exercise the powers of the Company to allot shares in the capital of the Company be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 5A, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution.”

On behalf of the Board

Chiu Hang Tai

Chairman

Hong Kong, 22 September, 2000

Head Office:

Rooms 1001, 1002 and 1016-18, 10th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. In order to be valid, the form of proxy must be deposited with the Company’s Branch Share Registrars in Hong Kong, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
- (2) The register of members of the Company will be closed from Thursday, 2nd November, 2000 to Tuesday, 7th November, 2000, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrars in Hong Kong, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Wednesday, 1st November, 2000.
- (3) A circular containing further details regarding Resolution no. 5 as required by the GEM Listing Rules will be despatched to shareholders together with 2000 Annual Report.