# PINE

BUILDING BRIGHTER IDEAS

First Quarterly Report

2000/2001

PINE

PINE TECHNOLOGY HOLDINGS LIMITED

## HIGHLIGHTS FOR THE THREE-MONTH PERIOD

- A new Concept and Design team of 2 experienced IT professionals was inaugurated in the USA, perhaps the world's best breeding ground for new technology and a trend-setting place for launching new ideas. This team will also be responsible for identifying new business opportunities and potential strategic partnership.

- The number of our research and development engineers rapidly expanded to over 100 from 35 last November, representing a 186% growth. In addition, five new digital audio products will be launched in the coming year, contributing to a higher and more stable gross profit margin.

- PINE has maintained its business focus on the development of PINE-branded products while concentrating on building up a stronger brand image and adding brand value to ensure higher profit margin.

- Pine has cultivated a valuable partnership with Microsoft to develop Windows Media Application (WMA), which offers high sound quality and increased compression capabilities.

- A new logistics headquarter was established in Rotterdam, Netherlands, this will shorten shipment cycle from Hong Kong by nearly 10 days as opposed to a UK-based location.

## RESULTS

On behalf of the board of the directors (the "Directors") of PINE Technology Holdings Limited (the "Company"), I am pleased to present the unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30 September 2000 (the "Three-Month Period").

The unaudited consolidated profit of the Group for the Three-Month Period was approximately US$1,649,000 representing a decrease of approximately 18.89% as compared to the unaudited consolidated profit of the Group of approximately US$2,033,000 for the corresponding three-month period in 1999. Unaudited consolidated turnover of the Group for the Three-Month Period was about US$84,844,000, representing a growth of about 15.74% over the unaudited consolidated turnover of the Group of US$73,305,000 for the corresponding three-month period in 1999.

The unaudited gross profit margin of the Group was approximately 9.21% for the Three-Month Period which was about 0.88% higher than the gross profit margin of the Group of approximately 9.13% for the corresponding three-month period in 1999.

The unaudited consolidated results of the Group for the Year, together with the comparative figures for the previous year are as follows:

| | | Three months ended 30 September | |
|---|---|---|---|
| | | **2000** | 1999 |
| | *Notes* | ***US$'000*** | *US$'000* |
| Turnover | *2* | **84,844** | 73,305 |
| Gross profit | | **7,810** | 6,694 |
| Profit before Taxation | | **1,805** | 2,575 |
| Taxation | *3* | **(156)** | (542) |
| Profit for the year | | **1,649** | 2,033 |
| Earnings per share (US cents) — Basic | *4* | **0.241** | 0.396 |
| Earnings per share (US cents) — Diluted | *4* | **0.239** | — |

*Notes:*

**1. Basis of presentation**

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

The 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.

2. An analysis of the Group's turnover by type of products sold for the three months ended 30 September 2000 were as follows:

| | Three months ended 30 September | |
|---|---|---|
| | **2000** | 1999 |
| | ***US$'000*** | *US$'000* |
| Manufacture and sale of products under the Group's brand names | **28,312** | 24,243 |
| Distribution of other manufacturers Products | **56,532** | 49,062 |
| | **84,844** | 73,305 |

3. **Taxation**

| | Three months ended 30 September | |
|---|---|---|
| | **2000** | 1999 |
| | ***US$'000*** | *US$'000* |
| The charge comprises: | | |
| Hong Kong Profits Tax | **(46)** | (206) |
| Taxation arising in other jurisdictions | **(110)** | (336) |
| | **(156)** | (542) |

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profit for the Year. (1999: 16%)

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

4. **Earnings per share**

The calculation of the basic earnings per share for the Three-Month Period is based on the profit of approximately US$1,649,000 and the weighted average number of 684,750,000 ordinary shares in issue during the period.

The calculation of the basic earnings per share for the corresponding three-month period in 1999 are based on the profits for the period of about US$2,033,000, and the 512,820,000 shares in issue comprising 4,000,000 shares in issue as at 16 November 1999 and 508,820,000 shares issued pursuant to the capitalisation issue as described more fully in the section headed "Further information about the Company and its subsidiaries" in appendix V to the Company's prospectus dated 16 November 1999 (the "Prospectus").

The calculation of the diluted earnings per share for the Three-Month Period is based on the following data:

| | |
|---|---|
| Profit for the three months ended 30 September 2000 | US$1,649,000 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 684,750,000 |
| Effect of dilutive potential ordinary shares: | |
| Options | 6,404,869 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 691,154,869 |

No diluted earnings per share for the corresponding three-month period in 1999 since the Company has no dilutive potential shares.

## INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the three months ended 30 September 2000. For the corresponding three-month period in 1999, a dividend amounted US$ 4,988,000 was paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation.

## OVERCOMING INDUSTRY CHALLENGES WITH EXPERIENCE, CREATIVITY AND DETERMINATION

## BUSINESS REVIEW

Leveraging our comprehensive experience and understanding of the IT industry and its business cycles, PINE anticipated a leaner result in the first financial quarter, a quarter typically marked by reduced PC and consumer electronics sales. Supply shortages for IC components and a cut in corporate IT expenditures throughout North America have also compounded the situation. On a more optimistic note, PINE has embarked on a determined expansion plan by rapidly increasing R&D personnel to further enhance the Group's capabilities and allow us to produce a wider range of products. Although increased overhead expenses had a negative fiscal impact this quarter, we look forward to favorable financial returns from investments in human capital in coming quarters.

The Group reported revenue of US$84,844,000, up 15.74%, while after-tax net profits dipped 18.89% to US$1,649,000, over the same period last year. This outcome was largely expected, and we view these results as transitory. The outlook for our business remains promising.

We are also confident of reaching our long-term goals for profit growth, based on several factors including high component availability, which keeps prices lower and pushes profit margin higher. According to a Bloomberg News in July quoting Salomon Smith Barney analyst, Jonathan Joseph, IC component manufacturers are beginning to increase capacity, and component prices are starting to fall.

Concerning the recent surge in computer sales, we are heartened by a CNET news report in August stating Lehman Brothers analyst, Dan Niles' comment that "PC sales are oriented towards the end of the year". Also quoted in the same news, "people buy a lot more computers for back-to-school and Christmas", said Doug Audrey, analyst from the Semiconductor Industry Association.

The positive outlook is also buffeted by our strong research and development capabilities, which serve as the cornerstone of our efforts to expand overall profitability. We inaugurated a new Concept and Design team recently in the U.S. because we see the United States as the best breeding ground for new technology and a trend-setting place for launching new ideas. This team will also be responsible for identifying new business opportunities and seeking potential strategic partners.

PINE has aggressively increased the number of its expert engineers to over 100 this year, a 186% increase as compared to 35 in November 1999. This growth will accommodate the demand for continuous product improvement. Five new IA products have been designed and developed and will be launched in coming quarters.

In this quarter, PINE also strengthened a valuable partnership with Microsoft in the development of Windows Media Application (WMA) in July. WMA is at the forefront of today's advanced IT technology, offering superb sound quality and increased compression capabilities. This partnership opens new and extensive global sales channels and is certainly a solid endorsement for PINE's award-winning digital audio devices.

Leveraging the experience and established channels of our U.K. office and the launch of B2B eCommerce operations, PINE established a more centrally located European regional headquarter in Rotterdam, Netherlands last August. The selection of Rotterdam was based on the city's wide range of high quality logistic services as well as other practical advantages. Shipments arrive nearly 10 days sooner than for the UK from Hong Kong. This will result in greater cost advantages for price-sensitive items.

Active efforts have been and will continue to be exerted to building a stronger brand image and adding brand value to our products in order to ensure higher overall profit margins. Successful market expansion launches the PINE brand onto the global stage. Samtack Canada, a subsidiary of the PINE Group, entered into a major agreement with Best Buy Co. Inc., the US largest PC entertainment retailer, in September. This new venture allowed our quality computer components and MP3 players to be sold in over 350 retails stores in 39 states across the US.

## BUSINESS OUTLOOK

The Group has identified three main pillars to achieve healthy growth. One of the pillars includes product-range expansion, especially in the area of digital entertainment. MP3 players, in which PINE is already a market leader, are forecast to grow from US$126 million in 1999 to nearly US$1.25 billion by 2002, according to Cahners In-stat Group. To take advantage of this burgeoning market, PINE is introducing five new products that will combine digital images, music and voice recordings into one advanced 'ultra media' line of component systems. Our rapidly expanding R&D team is making this a reality.

We are also encouraged by a strong 30% growth in the Asia-Pacific PC market, in line with Dataquest projections. PINE saw the emergence of this Pan-Asian growth earlier on and laid a solid foundation by setting up offices in Korea; Singapore; Australia and Guangzhou, China, which have given us an unprecedented opportunity for continued solid revenue generation and profit growth.

Another key factor that we can count on for the future is the fact that the Internet is extending beyond its traditional PC boundaries and is now giving users an enhanced and enriched web experience.

With this in mind, PINE will actively develop advanced hardware and software that will be compatible with non-PC devices to both consumer and business uses. This new paradigm shifts away from PC-based equipment will allow connections to the Internet by more conventional media, such as stereo systems and televisions, that will optimize the benefits of today's growing broadband infrastructure.

PINE will also work very closely with industry leaders in the field of streaming content to better integrate our products with a wider range of devices that go beyond the traditional limits of the Internet. In addition, PINE will continuously search for appropriate strategic partnership to enhance corporate portfolio.

### A high note of anticipation

All players in the high-tech Internet marketplace are facing turbulent times at the outset of this new millennium. PINE Technology has a uniquely solid foundation of creativity and developmental expertise in place that will allow us to thrive amidst ever expanding opportunities ahead.

## DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

### Interests in Share Capital

As at 30 September 2000, the interests of the Directors and their associates in the share capital of the Company and its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as follows:

| Name of director | Number of shares held | | |
|---|---|---|---|
| | Corporate Interests | Personal Interests | Total |
| Chiu Hang Tai | 161,766,000 *(Note 1)* | | 161,766,000 |
| Ong Se Mon | 90,486,000 *(Note 2)* | 318,000 | 90,804,000 |

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

*Note 2:* The 90,486,000 shares are owned by Maiden Undertaking Limited which is wholly owned by Mr. Ong Se Mon. In addition, Mr. Ong Se Mon personally own 318,000 shares of the Company. Together with his interests in Maiden Undertaking Limited, Mr. Ong Se Mon beneficially owns 90,804,000 ordinary shares of the Company, representing an effective interests of approximately 13.26%.

In addition to 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.

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

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

### Interests in Share Options

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

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 | Number of option granted |
|---|---|---|---|---|
| Chiu Hang Tai | 31.1.2000 | 28.1.2001 to 27.1.2006 | 1.674 | 1,088,000 |
| | 31.1.2000 | 28.1.2002 to 27.1.2007 | 1.674 | 1,008,000 |
| | 10.7.2000 | 28.1.2001 to 27.1.2004 | 1.056 | 1,088,000 |
| Ong Se Mon | 31.1.2000 | 28.1.2001 to 27.1.2006 | 1.674 | 1,904,000 |
| | 31.1.2000 | 28.1.2002 to 27.1.2007 | 1.674 | 1,904,000 |
| | 10.7.2000 | 28.1.2001 to 27.1.2004 | 1.056 | 1,904,000 |
| Chiu Hang Chin, Samson | 31.1.2000 | 28.1.2001 to 27.1.2006 | 1.674 | 1,088,000 |
| | 31.1.2000 | 28.1.2002 to 27.1.2007 | 1.674 | 1,088,000 |
| | 10.7.2000 | 28.1.2001 to 27.1.2004 | 1.056 | 1,088,000 |
| Ng Yuk Chun | 31.1.2000 | 28.1.2001 to 27.1.2006 | 1.674 | 300,000 |
| | 31.1.2000 | 28.1.2002 to 27.1.2007 | 1.674 | 300,000 |
| | 10.7.2000 | 28.1.2001 to 27.1.2004 | 1.056 | 300,000 |
| | 10.7.2000 | 10.7.2001 to 9.7.2004 | 1.24 | 200,000 |

As at 30 September 2000, none of the Directors have exercised any of the share options and no allotment and issue of shares pursuant to the exercise of share options have been made nor was there any cancellation and/or re-issue of share options.

Saved as disclosed above, at no time during the Three-Month Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire the benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2000, in addition to those interests as disclosed above in respect of the Directors, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company.

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

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

## SPONSOR'S INTERESTS

Core Pacific - Yamaichi International (H.K.) Limited, an associate of the Company's sponsor, Core Pacific - Yamaichi Capital Limited ("CPY") (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) was beneficially interested in 8,764,000 shares (representing 1.28% of total share capital) of HK$0.1 each in the share capital of the Company as at 30 September 2000 and 10 November 2000. In addition, an employee of Core Pacific - Yamaichi Securities (H.K.) Limited an associate of the Company's Sponsor, was beneficially interested in 50,000 shares of HK$0.1 each in the share capital of the Company as at 30 September 2000 and 10 November 2000. Except for the interest of Core Pacific - Yamaichi International (H.K.) Limited and an employee of Core Pacific - Yamaichi Securities (H.K.) Limited mentioned above, the company's sponsor, directors, employees or associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had no interested in the shares of the Company as at 30 September 2000 and 10 November 2000.

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

## COMPETNG INTERESTS

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

## AUDIT COMMITTEE

The Company established an audit committee on 9 November 1999 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee has two members comprising the two independent non-executive Directors, Mr. Lo Wai Hung and Mr. Li Chi Chung.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

Hong Kong, 13 November 2000