

INTERIM REPORT 2000-2001

PINE TECHNOLOGY HOLDINGS LIMITED



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This announcement for which the directors of PINE Technology Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to PINE Technology Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: — (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS FOR THE HALF-YEARLY PERIOD

- PINE launched NVIDIA GeForce2 MX™ high-end gaming graphic card which offers superior performance by using 166MHz SDRAM, having memory speed over 16% faster.
- Internet Appliance products like, MP3 and MP3 CD players garner widespread acclaim at prestigious exhibitions around the globe.
- PINE extends marketing channel to mass merchant, which brings Group products into chain stores and channels as a key marketing strategy.

INTERIM RESULTS

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

Half-Yearly Period

The unaudited consolidated profit of the Group for the Half-Yearly Period was approximately US\$1,983,000 representing a decrease of approximately 62.13% as compared to the unaudited combined profit of the Group of approximately US\$5,236,000 for the corresponding half-yearly period in 1999. Unaudited consolidated turnover of the Group for the Half-Yearly Period was about US\$161,532,000, representing a growth of about 4.65% over the unaudited combined turnover of the Group of US\$154,358,000 for the corresponding half-yearly period in 1999.

The unaudited gross profit margin of the Group was approximately 8.58% for the Half-Yearly Period which was about 1.24% lower than the unaudited gross profit margin of the Group of approximately 9.82% for the corresponding half-yearly period in 1999.

Quarterly Period

The unaudited consolidated profit of the Group for the Quarterly Period was approximately US\$334,000 representing a decrease of approximately 89.57% as compared to the unaudited combined profit of the Group of approximately US\$3,203,000 for the corresponding quarterly period in 1999. Unaudited consolidated turnover of the Group for the Quarterly Period was about US\$76,688,000, representing a drop of about 5.39% over the unaudited combined turnover of the Group of US\$81,053,000 for the corresponding quarterly period in 1999.

The unaudited gross profit margin of the Group was approximately 7.90% for the Quarterly Period which was about 2.55% lower than the unaudited gross profit margin of the Group of approximately 10.45% for the corresponding quarterly period in 1999.

The unaudited consolidated results of the Group for the Half-Yearly and the Quarterly Periods, together with the unaudited comparative figures for the corresponding periods in 1999 are as follows:

	Notes	Six months ended		Three months ended	
		31 December		31 December	
		2000	1999	2000	1999
		US\$'000	US\$'000	US\$'000	US\$'000
Turnover	2	161,532	154,358	76,688	81,053
Gross profit		13,866	15,165	6,056	8,471
Profit before taxation		2,132	6,284	327	3,709
Taxation	3	<u>(149)</u>	<u>(1,048)</u>	<u>7</u>	<u>(506)</u>
Profit for the period		<u>1,983</u>	<u>5,236</u>	<u>334</u>	<u>3,203</u>
Earnings per share (US cents)	4				
— Basic		<u>0.290</u>	<u>0.955</u>	<u>0.049</u>	<u>0.549</u>
— Diluted		<u>0.289</u>	<u>—</u>	<u>0.049</u>	<u>—</u>

Notes:

1 Basis of preparation

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

An analysis of the Group's turnover by type of products sold for the Half-Yearly Period and the Quarterly Period were as follows:

	Six months ended		Three months ended	
	31 December		31 December	
	2000	1999	2000	1999
	US\$'000	US\$'000	US\$'000	US\$'000
Manufacture and sale of products under the Group's brand names	55,249	49,750	26,937	25,507
Distribution of other manufacturers products	106,283	104,608	49,751	55,546
	<u>161,532</u>	<u>154,358</u>	<u>76,688</u>	<u>81,053</u>

3 Taxation

	Six months ended		Three months ended	
	31 December		31 December	
	2000	1999	2000	1999
	US\$'000	US\$'000	US\$'000	US\$'000
The charge comprises:				
— Hong Kong Profits Tax	—	(462)	46	(256)
— Taxation arising on other jurisdiction	(149)	(586)	(39)	(250)
	<u>(149)</u>	<u>(1,048)</u>	<u>7</u>	<u>(506)</u>

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

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

4 Earnings per share

The calculation of the basic earnings per share for the Half-Yearly Period and the Quarterly Period are based on the profits of approximately US\$1,983,000 and US\$334,000 respectively, and the weighted average number of 684,750,000 shares in issue during the Half-Yearly Period and the Quarterly Period.

The calculation of the basic earnings per share for the corresponding half-yearly period in 1999 and the corresponding quarterly period in 1999 are based on the profits for these periods of about US\$5,236,000 and US\$3,203,000 respectively, and 548,327,283 shares and 583,834,565 shares in issue respectively during the periods.

The calculation of diluted earnings per share for the Half-Yearly Period and the Quarterly Period was based on profit attributable to shareholders of approximately US\$1,983,000 and US\$334,000 respectively, and the diluted weighted average number of approximately 685,625,017 shares and 685,545,789 shares respectively in issue during the periods. They have been calculated after taking into account all dilutive instruments outstanding as at 31 December 2000. The effect of the dilutive potential ordinary shares on the weighted average number of shares in issue during the Half-Yearly Period and the Quarterly Period resulting from the issuance of share option were approximately 875,017 shares and 795,789 shares respectively which were deemed to have been issued at no consideration as if all outstanding share options had been exercised on the date the option were granted and accepted.

There is no diluted earnings per share for the corresponding half-yearly period and the quarterly 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 Half-Yearly Period and the Quarterly Period.

The Group has not declared any dividends for the corresponding quarterly period in 1999. For the corresponding half-yearly 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.

BUSINESS OBJECTIVES REVIEW

The following sections compare the Group's actual business progress to the information provided in the statement of business objectives as set out in the Prospectus.

Product Development

The Group has continued to focus on enhancing its research and development capability. The Group's R&D centres has been expanded into four, which located strategically in Korea, Taiwan, Hong Kong and China. The Group has been conducting the feasibility study in the MP4 players with more advance technology in the device. Second generation of MMC MP3 player (Palmp-3) has been launched in the market. The R&D team is developing another updated versions of the MMC players. Both SA6400 and SA6500 MMC players will contain the multi-audio function to support both MP3 and WMA format and can be firmware upgradable in the field. SA6500 also empowers with encoding feature that allows direct line in from musical devices other than from PC. Second generation of the Portable MP3 CD

Discman (SM200C+) with additional features has been launched in the market. The Group has launched a high integration low cost motherboard for low cost PC segment and two other models are in designing phase. The product development on broad bandwidth digital modem line is ahead of the schedule that the product is in designing phase. The Group also launched a high performance 128 bits VGA card for the high-end gaming segment. The costs incurred by the Group in respect of the above product developments were about HK\$13,017,000 from the listing proceeds.

Manufacturing Capacity

Pursuant to the previous phases of expansion in the Houjie's manufacturing plant that are enough to support the current production requirement, the Group has not started the set up stage for the third phase of expansion plan.

Distribution Network

The Group's well-covered distribution channels have been developed to another extent. A Guangzhou business unit and a logistic office in Netherlands were established in March 2000 and August 2000 respectively. The costs incurred by the Group in respect of the above distribution networks were about HK\$2,440,000 from the listing proceeds.

Others

During the period the Group invested about HK\$2,035,000 from the listing proceeds in upgrading its management information system for eCommerce by developing and installing new application software.

BUSINESS REVIEW

Due to a continued deterioration of worldwide PC demand and increasing pricing pressure, PINE shared this temporary problem with the industry as a whole and experienced a less than satisfactory profit performance. PINE reported revenue of US\$76,688,000 for the quarter, down 5.39%, while after-tax net profit dipped 89.57% to US\$334,000 over the same period last year. This outcome is largely anticipated and we see our fundamental long-term outlook, however, remains bright. We are well on our way to producing steady returns for our shareholders in the coming years.

Product Development

Development of Internet Appliance products like, MP3 and MP3 CD players are continuing apace. While still in the early investment stage, the contribution of these products will remain negligible in this quarter. However, these award-winning products are garnering widespread acclaim at prestigious exhibitions around the globe. Our digital audio and imaging device won Design and Engineering Award in the CES show in the US while Computer paper reviewed our MP3 CD player and said it's "highly recommended".

PINE launched the NVIDIA GeForce2 MX™ high-end gaming graphic card which received well by customers worldwide. It offers superior performance by using 166MHz SDRAM, having memory speed over 16% faster than what is available in market. The widened width for data processing to 128 bit created a new platform for a new segment of products, which will shed positive impact on the Group revenue.

Channel Development

Our extensive marketing and distribution network is an enormous asset to the company, which gathers market intelligence while reducing the adverse impact of a business downturn in any particular region. We have extended marketing channel to mass merchant, which brings Group products into chain stores and channels as a key marketing strategy.

Operation Enhancement

In addition, PINE has taken a number of actions to better position the company for enhanced growth and profitability in the face of the current demand and macroeconomic realities.

During the previous period of high market sentiment, PINE undertook a vigorous expansion to capture promising emerging business opportunities. Now that worldwide business is showing signs of a slowdown we will adapt flexibly to this new situation in order to maximise our strengths and maintain prudent strategies for growth and profitability. To help achieve this more effectively PINE will embark on a structural enhancement plan to streamline overhead and maintenance costs in an effort to improve operational efficiency and productivity.

Prospects

As we move forward, we expect the various Internet and media markets that we compete in to continue to be highly dynamic and to substantial restructuring. We believe steady growth can be achieved by creating best products and offering best services.

PINE will continue to look for investment and strategic alliances that complement our operating businesses. Despite today's negative market sentiment, we remain optimistic for PINE's growth prospects. Tough times call for tough decisions. We are confident that the steps we are taking today will make us a stronger company. In light of these challenges, however, our top priority will remain the same: to provide substantial returns to our shareholders.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

Interests in Share Capital

As at 31 December 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 (<i>Note 1</i>)	—	161,766,000
Ong Se Mon	90,486,000 (<i>Note 2</i>)	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.

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.

As at 31 December 2000, share options of directors to subscribe for shares in the Company are as follows:

Name of director	Date of grant	Exercisable period	Exercise price	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	1,088,000
	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 31 December 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 Half-Yearly Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire the benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 and 8,784,000 shares (both representing approximately 1.28% of total share capital) of HK\$0.10 each in the share capital of the Company as at 31 December 2000 and 12 February 2001 respectively. 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\$0.10 each in the share capital of the Company as at 31 December 2000 and 12 February 2001. 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 interest in the shares of the Company as at 31 December 2000 and 12 February 2001.

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

COMPETING INTERESTS

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

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

By order of the Board
Chiu Hang Tai
Chairman

Hong Kong, 13 February 2001