

BUILDING BRIGHTER IDEAS

PINE

TECHNOLOGY
HOLDINGS LIMITED

松景科技控股有限公司

ANNUAL REPORT 00/01

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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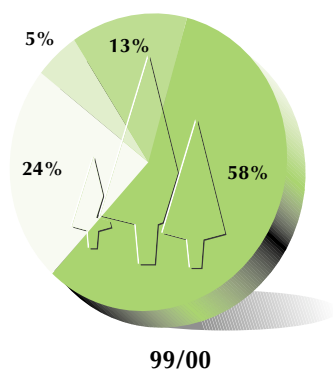
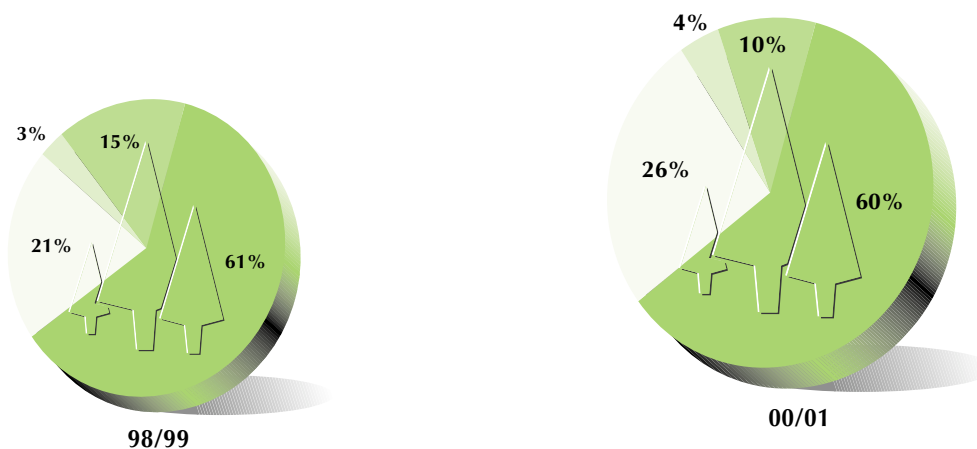
HIGHLIGHTS OF THE YEAR

- Due to the worldwide economic downturn in the IT industry, PINE reported a first time plunge in its net profit margin. By the year ending 30 June 2001, the turnover was approximately US\$297,434,000, a decrease of approximately 6.11% compared with last year's figure while profit totals came in at approximately US\$931,000.
- Our distribution network arrangement with Mass Merchant was beefed up to which helped contribute around 10% of total turnover.
- Moreover, a new European logistics hub was established in Rotterdam, Netherlands. Compared with operating a UK logistics center, our Dutch location has helped to shorten shipment periods from Hong Kong to Europe by nearly 10 days.
- MP3 player model SA6500 and SA6400 received the following international design awards: *Best Design and Engineering Award* at the Consumer Electronics Show in Las Vegas, and the *Hong Kong Best Technology* prize conferred by Eurotrade at Taipei Computex. This year, we were also honored to be awarded the title of certified vendor by NVIDIA.
- 2001 also saw the launch of the new MP3 CD player model SM200C+, along with the release of our 2nd generation MP3 CD player equipped with new enhanced features.

HIGHLIGHTS OF THE YEAR

	98/99 (US\$'000)	99/00 (US\$'000)	00/01 (US\$'000)
Turnover	248,846	316,788	297,434
Net Profit	4,165	10,005	931
Earning Per Share (US Cents)	0.81	1.62	0.14

GLOBAL MARKET PRESENCE



- North America
- Europe
- Australia
- Asia Pacific and Others

CORPORATE INFORMATION

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. Leung Yiu Ming

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, 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
Nanyang Commercial Bank Limited
The Sanwa Bank Limited
Standard Chartered Bank
United Overseas Bank Group

Principal Share Register and Transfer Office

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

CORPORATE INFORMATION

Hong Kong Branch Share Register 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:

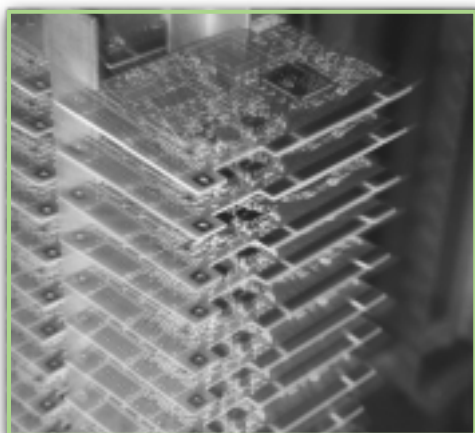
Fairbairn Catley Low & Kong

Stock Quote

8013

Website of the company

www.pinegroup.com



CORPORATE PROFILE

Since the inception in 1989, PINE Technology Holdings Limited (“PINE” or the “Company”) and its subsidiaries (collectively, the “Group”) have worked hard to become the leading force in the IT industry. Our innovative ideas have added new dimensions to the design, development, manufacturing and distribution of computers, communications as well as Internet-related digital consumer products. Our success with creating lasting 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 to successfully list 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. That’s why establishing R&D centres has always been done with great care and a clear understanding of the synergies each region has to offer. We now have four R&D sites strategically located in Korea, Taiwan, Hong Kong and China. This along with two state-of-the-art manufacturing plants and a worldwide staff of over 1,000 has led to highly efficient operations throughout our company.

One of the most significant factors differentiating PINE from other firms is our truly globalized marketing network and

distribution expertise. This is an enormous asset to the Group, allowing us to build solid channel capabilities and market intelligence. Throughout North America, Europe and Asia, PINE operates an extensive marketing and distribution network, comprising 12 branch offices in over 50 countries, providing world-class products and services.

As a pioneer in the field of PC product development, PINE has been recently designated as a certified vendor for NVIDIA. Moreover, we have pledged to provide customers with NVIDIA reference design add-in cards and to support the use of the NVIDIA reference drivers. All of these have helped strengthen the competitive advantage of PINE’s PC products in the marketplace.

Embracing the growing market demand for Internet Appliances, we have also strategically diversified our product portfolio. PINE is now at the forefront in the development of portable digital audio and imaging technology. We have also designed and developed one of the lightest MP3 portable units in the world.

In the years ahead, PINE will continue to apply its strategic expertise to become a world-class Blue Chip company on the HKGEM board and explore cutting-edge areas of innovation to create valuable new assets for the Group.



CHAIRMAN'S STATEMENT



Dear Shareholders,

During the past year, under the negative effects of a general worldwide economic slowdown, the America PC market declined for the first time in history, and the global PC market achieved only an anemic single digit growth. With this volatile market situation in mind, we achieved less optimistic financial results than what we expected in the last year.

Despite the global business environment, the Group is still ready to face any challenge ahead. To this end, we have embarked on a restructuring plan that calls for streamlining overhead and operational charges for greater cost efficiency and enhanced productivity. The Group will continue to focus its R&D capabilities and to strengthen

our worldwide distribution network. Taking advantage of China's imminent entry into the WTO, we expect more business opportunities to emerge.

TURNOVER AND PROFIT

Faced with a bleak market outlook and strong pricing pressures, the Group also suffered from a first-time ever drop in turnover of approximately US\$297,434,000. A 6.11% decrease compared with last year's figures while profit totals came in at approximately US\$931,000. Macro-economy slowdown and industry diminution has accumulated surplus inventory. In order to maintain market share, we sold large volumes of stock at more competitive prices, which lead to lower profit margins and a drop in the Group's overall net profits.

CHAIRMAN'S STATEMENT

Nevertheless, the Group still enjoys a very healthy financial structure with sufficient reserves of capital. The issue of unlisted and unsecured convertible bonds with CSFB provides the Group with a solid base, allowing us to seek possible business alliances partners and business development opportunities in the future.

YEAR IN REVIEW

Distribution Network Enhancement

Our Group further expanded its distribution capabilities through the performance of Mass Merchant, which contributes about 10% of our total turnover. In addition, we have reviewed our logistical operations and re-located our European headquarters to Rotterdam, Netherlands which shortening our shipment cycle from Hong Kong by nearly 10 days compared with maintaining a UK-based location. In result, it improved our operation competitiveness.

Product Development

PC-related products

The Group is honored to become a certified vendor of NVIDIA which reflects our proven success in developing both sales and R&D capabilities. Our product strategy

covered both high to low end products to help protect profit margin and sales. Furthermore, the Group achieved fruitful results in product development. Capitalizing on the trend of applying multi-media applications, the Group launched a high performance 128-bit VGA card. In response to lowered prices for PC- related products, a high integration, low cost motherboard was launched to meet the many challenges posed by current market price pressures.

Internet Appliances

As one of the world's leading and most innovative MP3 player manufacturers, we have already launched the second generation MMC MP3 player, Pal@MP3 and MP3 CD player SM220C+. Moreover, our Group also formed a key partnership with Microsoft to develop Windows Media Applications (WMA), which will deliver superior sound quality and increased compression capabilities. We expect revenues and profits to improve considerably once the WMA series is introduced to the market.

R&D Capabilities

The Group continue to focus on our R&D capabilities to help lift the Group's overall market presence with innovative products and top quality services. The Group's products have been recognized for their innovative

CHAIRMAN'S STATEMENT

designs. The SA6500 was awarded as the *Best in Design and Engineering* at the Consumer Electronics Show in Las Vegas, and the 6400 was awarded as *Hong Kong Best Technology* by Eurotrade at Taipei Computex 2000.

In the PC category, we have already completed a technical specification viability definition for a broad bandwidth digital modem line and a 1 GHz motherboard line.

Business Alliances

To strengthen our overall group network, we have taken an 18% share in Zetta Media Holdings Limited which provides Internet hardware and mobile communication solutions. The investment offered strategic value and returns for the Group. In addition, we concluded an agreement with Toshiba and Pioneer on co-branding marketing events for DVD products in North America, which contributed additional turnover to our Group.

BUSINESS PROSPECTS

In overcoming the impact of a slowdown economy which reduced consumer spending, both the immediate remedy and medium-long term strategies will be adopted for consolidating the Group's position and driving further profit in the coming year.

Operational Efficiency

Following the restructure of our global operations centers, we will be able to maximize our network capacity and overall cost efficiency. To this end, control of logistics, finance and operations will be centralized to regional offices, using Holland for Europe, Canada for North America region, and China for the Asia-Pacific region. Together with full utilization of two factories and R&D centers in China, we will also be able to strengthen our product development capacity at a lower cost. This leads to a saving of US\$3 million in the coming year.

Focus in Greater China region

China has recorded a 8% GDP growth and is now on the verge of entering the WTO. As a result, industry experts anticipate that demand in the PC and Internet Appliance markets will see tremendous upside potential in the PRC over the long term. With this in mind, the Group will actively seek out greater market opportunities and focus on developing retail networks in China. We will also target the system integrator market at both the provincial and city levels, which will help contribute additional revenues to our Group.

In Taiwan, we have already secured a deal with one of the leading motherboard developers, which is anticipated to contribute additional sub-contracting revenues to the Group in the coming year.

CHAIRMAN'S STATEMENT

Expansion in Emerging Markets

In emerging markets like India and Eastern Europe, the outlook calls for considerable growth potential in PC-related products. The Group is, therefore, well poised because we have already developed competitively priced products to satisfy market demand. We have also concluded cooperative deals with Krystaltech Lynex, Zanicom and Tradezone, which will provide promising profits for our Group.

In South East Asia, the Group has already established a solid foundation in Singapore, utilizing our existing networks. We are also now expanding our distribution capabilities in Malaysia, Indonesia, Vietnam and Thailand as well. This expanded market presence will make up the negative effects of economic downside in North America.

Market Driven Strategy in research and development

In order to achieve long-term growth in our business and solid profits returns, we will continue to focus on R&D. In coming year, we will make use of the latest Pentium 4 architecture, Microsoft XP operation system and MP3 CDs to create new products to meet the market trend. We believe our cutting-edge R&D centers that produce world-class products will keep us ahead of market trends. This will ultimately lead us to Group profits.

Today's technology industry is boundless and new demand never ceases. With our expertise in cutting-edge technological development, savvy market-focused strategies and extensive global network, we believe the Group can capture new business opportunities. I strongly believe that our unyielding commitment and dedication will lead us to success in this most challenging time.

On behalf of the Group, I would like to take this opportunity to extend our gratitude to our suppliers, customers, bankers and shareholders for their continuous support and our staff for their dedication and contribution in past year.

Chiu Hang Tai

Chairman

Hong Kong

21 September 2001

BUSINESS OBJECTIVES AND ACTIVE BUSINESS PROGRESS COMPARISON

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

From the date of listing on 26 November 1999, the Group has invested approximate HK\$52.92 million and HK\$36.79 million on the following various projects for the financial years 2000 and 2001:

FINANCIAL YEAR 2000

- Approximately HK\$16,430,000 was used to fund research and development projects.
- Approximately HK\$30,992,000 was used to fund the first and second phase expansion plans of the Houjie, PRC production facilities.
- Approximately HK\$4,670,000 was earmarked to set up two branch offices in Melbourne and Los Angeles to complement its Sydney and New Jersey Branch offices respectively.
- Approximately HK\$824,000 was spent to complete the first stage of the eCommerce project.

FINANCIAL YEAR 2001

- Approximately HK\$23,407,000 was used to fund research and development projects.
- Approximately HK\$8,800,000 was earmarked to fund the second phase expansion plans for the Houjie, PRC production facilities.
- Approximately HK\$2,035,000 was spent to set up a business unit in Guangzhou and a logistics office in Netherlands.
- Approximately HK\$2,545,000 was earmarked to upgrade the Group's management information systems.
- The balance of HK\$23,387,000 was placed as bank deposits in Hong Kong as of the year end.

BUSINESS OBJECTIVES AND ACTIVE BUSINESS PROGRESS COMPARISON

COMPARISON OF THE BUSINESS OBJECTIVES LISTED IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the Prospectus

Product Development

Actual Business Progress for the year ended 30 June 2001

Launched a high integration, low cost motherboard for low end PC segment

Launched a high performance, 128-bit VGA card for the high-end gaming sector

Completed technical viability assessment, specification definition of broad bandwidth digital modem line

Conducted technical viability assessments and specification definitions of the 1GHz motherboard line

Launched the second generation of MMC MP3 player (Pal@MP3)

Launched the second generation of the Portable MP3 CD Player (SM200C+) equipped with additional features. Completed technical viability assessment on the third generation MP3 CD Player (SM220C), scheduled to debut in October 2001

BUSINESS OBJECTIVES AND ACTIVE BUSINESS PROGRESS COMPARISON

Business Objectives as stated in the Prospectus

Actual Business Progress for the year ended 30 June 2001

Completed technical viability assessment of another updated version of the MMC players — SA6400 and SA6500. Both versions contain multi-audio function to support both MP3 and WMA formats and can be firmware upgradable in the field. The SA6500 also comes with an encoding feature that allows direct line in from musical devices other than PCs. Scheduled launch is for October 2001 and February 2002 for SA6400 and SA6500 respectively;

Manufacturing Capacity

Completed the second phase expansion of the Houjie manufacturing plant in China following the previous phase of construction, which is already in full operation to support product output needs. The Group has not yet started the third phase of expansion plans.

Distribution Network

The Group established one business unit in Guangzhou and one logistics office in the Netherlands in March 2000 and August 2000 respectively.

Others

The Group upgraded its management information system for eCommerce by developing and installing new application software.

MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Chiu Hang Tai, aged 41, is the chairman of the Company and co-founder of the Group. He is responsible for overall strategic planning and formulation of corporate strategy of the Company. He holds a bachelor degree of Science in Economics from Salem State College in the US and a masters degree in Business Administration from Northeastern University in the United States. He has over twelve years of experience in the computer industry and also served as director of 2 health food companies. Chiu was awarded the 1999 Young Industrialist Award of Hong Kong. He is the brother of Mr. Chiu Hang Chin, Samson.

Mr. Ong Se Mon, aged 38, is vice-chairman and chief executive officer of the Group. He is responsible for the Group's overall strategic planning and organization of the company. He holds a bachelor degree in statistics and computer science from New South Wales University, Australia. He has over eleven years' experience in the PC industry. Before joining the Group in July 1994, he previously held a senior management position in an actuary and consulting firm. He is the brother of Mr. Wang, Shih Zen.

Mr. Chiu Hang Chin, Samson, aged 43, is the vice-chairman of the Company and is the co-founder of the Group. He is responsible for overall strategic planning and formulation of corporate strategy for 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. Chiu has over seventeen years of

experience in the PC industry. He is the brother of Mr. Chiu Hang Tai.

Ms Ng Yuk Chun, aged 37 is an executive director of the Company. She also serves as compliance officer and is responsible for the Group's financial and accounting functions. She holds a bachelor degree in business from the University of Ballarat in Australia. She has over nine years' experience in finance and accounting and is a member of CPA Australia and a member of the Hong Kong Society of Accountants. She joined the Group in January 1994.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Chi Chung, aged 33, 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 in 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 41, holds a bachelor degree in commerce from James Cook University of North Queensland in Australia. He has over fifteen years experience in the finance and accounting fields and is a member of the Australian Institute of Chartered Accountants and a member of the Hong Kong Society of Accountants. He was appointed as an independent non-executive director of the Company on 9th November 1999.

MANAGEMENT PROFILE

COMPANY SECRETARY & QUALIFIED ACCOUNTANT

Mr. Leung Yiu Ming, aged 30, is the Company Secretary and Qualified Accountant of the Company. He is responsible for the Group's Hong Kong subsidiary financial and accounting control. He holds a bachelor degree in commerce from the Australian National University. He is a member of the CPA in Australia and a member of the Hong Kong Society of Accountants. Prior to joining the Group in August 1999, he was an auditor with one of the Big Five Accounting firms.

SENIOR MANAGEMENT

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

Mr. Ng Khing Fah, Royson, aged 42, is responsible for managing the Group's operations in North America and oversees the development of Mass Merchant Strategies. He holds a masters degree in business administration from the University of Sarasota in the US. He has over ten years experience in the PC industry in North America and Canada. Prior to joining the Group in September 1997, he held various management positions in the retail industry.

Mr. Kevin Shin, aged 40, is responsible for managing the R&D operations for the Group's Internet Appliance Division. He holds a bachelors degree in business administration from Sung Kyun Kwan University. He has over twelve years of consumer electronics industry experience. Prior to joining the Group in 1999, he worked as a key marketing and sales professional at LG electronics for 10 years.

Mr. Martin Edward Sutton, aged 36, is the vice president for sales (Graphics Division) in Europe. He has over eighteen years' experience in manufacturing, trading, as well as sales and marketing. Before joining the Group in July 1992, he held various senior management positions in manufacturing as well as with import and export companies.

Mr. Wang Shih Zen, aged 41, is responsible for the planning, developing and managing the Group's Internet Appliance division. He holds a masters degree in Engineering from New South Wales University in Australia and a bachelors degree in Electronic engineering from James Cook University in Australia. He has over fourteen years' 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.

MANAGEMENT PROFILE

Mr. Wong Man Fai, Danny, aged 40, is responsible for the material planning and purchasing, as well as factories and production facilities of the Group. He holds a diploma in management studies jointly from the Hong Kong Management Association and Hong Kong Polytechnic University. He has over eighteen years of experience in the electronics industry. Prior to joining the Group in June 1995, he held various senior management positions in PC and electronics manufacturing companies.

Mr. Yang Wei-Te, Allen, aged 40, is responsible for managing the Group's sales and distribution in Taiwan. He has a bachelors degree in electronic computer science from Tamsui Oxford College in Taiwan. He has over sixteen years of experience in sales and marketing. Before joining the Group in August 1998, he held various senior sales and management positions in several top computer companies.

Mr. Yu Wen Chen, James, aged 39, is responsible for the research and development of information technology and Internet Appliance technology in Taiwan. He has more than fourteen years of experience in product development and research as well as development in the computer industry. Prior to joining the Group in May 2000, he held various senior management positions at several computer companies.

Mr. Choi Chung Sing, Patrick, aged 42, is responsible for managing the Group's operation, sales & marketing strategies in Australia. He holds a higher certificate in mechanical engineer from Hong Kong Polytechnic in Hong Kong. He has fourteen years' experience in the field of electronic manufacturing industry prior to joining the Group in June 2000, he has held various.

Mr. Koh Ming Shan, Micheal, aged 30, is responsible for managing the operations for the Group in Singapore and the function of sales and marketing in South East Asia. He holds a diploma in sales and marketing from Marketing Institute of Singapore. He has over ten years of PC industry experience. Prior to joining the Group in 1999, he worked as a key marketing and sales professional at top PC companies for 10 years.

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 30 June 2001.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit before taxation by type of products sold and geographical market for the year ended 30 June 2001 is as follows:

	Turnover <i>US\$'000</i>	Contribution to profit before taxation <i>US\$'000</i>
<i>By type of products sold</i>		
Manufacture and sale of the Group's branded products	95,821	13,889
Distribution of other manufacturers' products	201,613	12,260
	<u>297,434</u>	<u>26,149</u>
Other revenue		633
Selling and distribution expenses		(6,211)
General and administrative expenses		(17,499)
Gain on disposal of partial interest in a subsidiary		578
Finance costs		<u>(2,464)</u>
Profit before taxation		<u>1,186</u>

DIRECTORS' REPORT

SEGMENTAL INFORMATION *(continued)*

	Turnover <i>US\$'000</i>	Contribution to profit before taxation <i>US\$'000</i>
<i>By geographical market</i>		
North America	180,145	12,304
Europe	28,939	1,040
Asia	70,472	11,601
Middle East and Africa	6,117	340
Australia	11,761	864
	<u>297,434</u>	<u>26,149</u>
Other revenue		633
Selling and distribution expenses		(6,211)
General and administrative expenses		(17,499)
Gain on disposal of partial interest in a subsidiary		578
Finance costs		<u>(2,464)</u>
Profit before taxation		<u>1,186</u>

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2001, the top five suppliers of the Group accounted for about 39% of the Group's total purchases of materials and components, and the largest supplier accounted for about 10% of the Group's total purchases of materials and components.

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

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

In respect of other manufacturers' products distributed by the Group, the top five vendors accounted for about 22% of the Group's purchases of products for the year ended 30 June 2001.

The Group's five largest customers accounted for about 7% of the total sales of the Group for the year ended 30 June 2001. The Group's largest customer accounted for about 4% of the total sales of the Group for the year ended 30 June 2001.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2001 are set out in the consolidated income statement on page 28 of the annual report.

The directors of the Company do not recommend the payment of a dividend and propose that the profit for the year be retained.

FINANCIAL SUMMARY

A summary of the results of the Group for the past four financial years ended 30 June 2001 is set out on page 70 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\$2.2 million for business expansion.

Details of these and other movements in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

DIRECTORS' REPORT

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 AND SHARE OPTIONS

Details of movements during the year in the share capital and share options of the Company are set out in notes 21 and 22 to the financial statements respectively.

During the year, the Company repurchased certain of its own shares through the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 21 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

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' REPORT

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive directors:

Mr. Chiu Hang Tai — *Chairman*

Mr. Ong Se Mon — *Vice Chairman*

Mr. Chiu Hang Chin, Samson — *Vice Chairman*

Ms. Ng Yuk Chun

Independent non-executive directors:

Mr. Lo Wai Hung

Mr. Li Chi Chung

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

Non-executive directors and 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' REPORT

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, 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") are as follows:

Director	Corporate interests	Personal interests	Family interests	Other interests	Total interests
Mr. Chiu Hang Tai	161,766,000 (<i>Note 1</i>)	—	—	—	161,766,000
Mr. Ong Se Mon	90,486,000 (<i>Note 2</i>)	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 Company as at 30 June 2001. 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 subsidiary. 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 subsidiary, 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 2001.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

A summary of the movements of share options granted to certain directors to subscribe for shares in the Company is as follows:

Name of director	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK\$	Number of share options		
				At 1 July 2000	Granted during the year	At 30 June 2001
Mr. Chiu Hang Tai	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000	—	1,088,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,088,000	—	1,088,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	—	1,088,000	1,088,000
Mr. Ong Se Mon	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,904,000	—	1,904,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,904,000	—	1,904,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	—	1,904,000	1,904,000
Mr. Chiu Hang Chin, Samson	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000	—	1,088,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,088,000	—	1,088,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	—	1,088,000	1,088,000
Ms. Ng Yuk Chun	31.1.2000	28.1.2001 to 27.1.2006	1.674	300,000	—	300,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	300,000	—	300,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	—	300,000	300,000
	10.7.2000	10.7.2001 to 9.7.2004	1.240	—	200,000	200,000

No share option was exercised by the directors during the year.

Details of the Company's share option scheme are set out in note 22 to the financial statements.

Save as disclosed above, 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.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, 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)	23.69
Concept Express Investments Limited	122,760,000 (Note 2)	17.98
Fireball Resources Limited	92,998,500 (Note 3)	13.62
Maiden Undertaking Limited	90,486,000 (Note 4)	13.25

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 2001.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Saved as disclosed in note 33 to the financial statements:

- (i) there was no transaction 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 "GEM Listing Rules"); and
- (ii) no contract 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 is no provision 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.

SUBSEQUENT EVENT

Details of the significant event which took place subsequent to 30 June 2001 are set out in note 34 to the financial statements.

SPONSORS' INTEREST

At 30 June 2001, none of the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), its directors, employees or associates had any interest in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

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.

DIRECTORS' REPORT

AUDIT COMMITTEE

During the year, the Audit Committee comprised the two independent non-executive directors of the Company, namely, Messrs. Lo Wai Hung and Li Chi Chung.

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 30 June 2001 with the corporate governance matters as set out in Chapter 5 of the GEM Listing Rules.

AUDITORS

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, 21 September 2001

AUDITORS' REPORT

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

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

松景科技控股有限公司

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 69 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 2001 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, 21 September 2001

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2001

	NOTES	2001 <i>US\$'000</i>	2000 <i>US\$'000</i>
Turnover		297,434	316,788
Cost of sales		<u>(271,285)</u>	<u>(285,842)</u>
Gross profit		26,149	30,946
Other revenue		633	1,391
Selling and distribution expenses		(6,211)	(5,732)
General and administrative expenses		<u>(17,499)</u>	<u>(13,773)</u>
Profit from operations	4	3,072	12,832
Gain on disposal of partial interest in a subsidiary		578	—
Finance costs	5	<u>(2,464)</u>	<u>(1,886)</u>
Profit before taxation		1,186	10,946
Taxation	8	<u>(255)</u>	<u>(941)</u>
Net profit for the year	9	<u>931</u>	<u>10,005</u>
Dividends	10	<u>—</u>	<u>6,745</u>
Earnings per share	11		
Basic (US cents)		<u>0.14</u>	<u>1.62</u>
Diluted (US cents)		<u>0.14</u>	<u>—</u>

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2001

	NOTES	2001 US\$'000	2000 US\$'000
Non-current assets			
Property, plant and equipment	12	6,121	6,170
Development costs	13	1,683	1,027
Technical know-how	14	783	1,169
Trade mark		77	78
Investments in securities	16	2,836	—
		<u>11,500</u>	<u>8,444</u>
Current assets			
Inventories	17	24,527	27,894
Trade and other receivables		40,580	39,364
Tax recoverable		110	86
Investments in securities	16	—	47
Pledged bank deposits	18	2,839	2,121
Bank balances and cash		11,450	17,114
		<u>79,506</u>	<u>86,626</u>
Current liabilities			
Trade and other payables		18,837	23,722
Bills payable		2,394	2,413
Taxation		103	970
Proposed dividend		—	1,757
Bank borrowings — due within one year	19	24,322	15,371
Other borrowings	20	62	420
		<u>45,718</u>	<u>44,653</u>
Net current assets		<u>33,788</u>	<u>41,973</u>
		<u>45,288</u>	<u>50,417</u>
Capital and reserves			
Share capital	21	8,790	8,815
Share premium and reserves	23	37,062	36,291
		<u>45,852</u>	<u>45,106</u>
Minority interest	24	(564)	—
Non-current liabilities			
Bank borrowings — due after one year	19	—	5,311
		<u>45,288</u>	<u>50,417</u>

The financial statements on pages 28 to 69 were approved by the Board of Directors on 21 September 2001 and are signed on its behalf by:

Chiu Hang Tai
 DIRECTOR

Ong Se Mon
 DIRECTOR

BALANCE SHEET

AS AT 30 JUNE 2001

	NOTES	2001 US\$'000	2000 US\$'000
Non-current assets			
Investments in subsidiaries	15	9,087	9,087
Trade mark		4	—
		<u>9,091</u>	<u>9,087</u>
Current assets			
Other receivables		1	—
Amount due from a subsidiary		30,950	32,864
		<u>30,951</u>	<u>32,864</u>
Current liability			
Proposed dividend		—	(1,757)
Net current assets		<u>30,951</u>	<u>31,107</u>
		<u>40,042</u>	<u>40,194</u>
Capital and reserves			
Share capital	21	8,790	8,815
Share premium and reserves	23	31,252	31,379
		<u>40,042</u>	<u>40,194</u>
		<u>40,042</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 2001

	NOTES	2001 US\$'000	2000 US\$'000
Exchange differences arising on translation of overseas operations not recognised in the income statement	23	(48)	26
Net profit for the year		<u>931</u>	<u>10,005</u>
Total recognised gains		<u><u>883</u></u>	<u><u>10,031</u></u>

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2001

	NOTES	2001 <i>US\$'000</i>	2000 <i>US\$'000</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	26	<u>3,930</u>	<u>(8,687)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		390	752
Interest paid to a director		—	(43)
Interest paid on bank borrowings		(2,422)	(1,799)
Interest paid on other borrowings		(42)	(44)
Dividends paid		<u>(1,757)</u>	<u>(6,988)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(3,831)</u>	<u>(8,122)</u>
TAXATION			
Hong Kong Profits Tax paid		(903)	(243)
Overseas tax paid		<u>(238)</u>	<u>(377)</u>
TAX PAID		<u>(1,141)</u>	<u>(620)</u>
INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		45	—
Proceeds from disposal of partial interest in a subsidiary		14	—
Proceeds from disposal of investment in securities		47	—
Purchase of property, plant and equipment		(2,194)	(6,259)
Purchase of investment in securities		(2,836)	(47)
Development expenditure incurred		(2,311)	(1,927)
Acquisition of technical know-how		—	(375)
Acquisition of trade mark		(4)	(15)
(Increase)/decrease in pledged bank deposits		<u>(719)</u>	<u>159</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(7,958)</u>	<u>(8,464)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(9,000)</u>	<u>(25,893)</u>

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2001

	NOTES	2001 US\$'000	2000 US\$'000
FINANCING	27		
New bank loans raised		3,010	5,311
Proceeds on issue of shares on public flotation		—	33,199
Other borrowings raised		—	420
Repayment of bank borrowings		(5,311)	—
Repayment of other borrowings		(327)	—
Repurchase of own shares		(137)	—
Share issue expenses		—	(2,109)
Repayment of obligations under finance leases and hire purchase contracts		—	(3)
Repayment of advance from a director		—	(1,983)
		<u> </u>	<u> </u>
NET CASH (OUTFLOW)/INFLOW FROM FINANCING		<u>(2,765)</u>	<u>34,835</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(11,765)	8,942
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,743	(7,202)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		<u>160</u>	<u>3</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>(9,862)</u></u>	<u><u>1,743</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		11,450	17,114
Short-term bank borrowings		<u>(21,312)</u>	<u>(15,371)</u>
		<u><u>(9,862)</u></u>	<u><u>1,743</u></u>

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda. The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

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

2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, Statement of Standard Accounting Practice 14 (Revised) “Leases” (“SSAP 14”) issued by the Hong Kong Society of Accountants.

SSAP 14 is concerned with the accounting policies and disclosure requirements in relation to finance and operating leases.

In particular, an analysis of future minimum lease payments under non-cancellable operating leases instead of the operating lease commitments payable in the following year has been presented to meet the disclosure requirements of the revised standard. Comparative amounts have been restated in order to achieve a consistent presentation.

The amendment outlined above has not affected the results for the current or prior periods.

NOTES TO THE FINANCIAL STATEMENTS

3. 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.

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 asset of the subsidiary 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 gain 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 disposal or retirement of an asset is determined as the difference between the sale proceed 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.

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%

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***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 the carrying amount of technical know-how periodically, taking into consideration current results and future prospects. 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.

Trade mark

Trade mark represents the initial cost of registration in respect of the Group's trade mark. Costs incurred in subsequent renewals are 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/registered 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.

NOTES TO THE FINANCIAL STATEMENTS

3. 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 debt 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 debt 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.

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.

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 effect 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.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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.

NOTES TO THE FINANCIAL STATEMENTS

4. PROFIT FROM OPERATIONS

	2001	2000
	US\$'000	US\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	255	286
Amortisation of development costs	1,631	1,050
Amortisation of technical know-how	386	199
Depreciation of property, plant and equipment	2,116	800
Staff costs including directors' remuneration	10,515	10,017
Minimum lease payments paid under operating leases	1,706	1,176
Exchange loss	685	290
Loss on disposal of property, plant and equipment	76	—
and after crediting:		
Interest income	<u>390</u>	<u>752</u>

5. FINANCE COSTS

	2001	2000
	US\$'000	US\$'000
Interest on bank borrowings wholly repayable within five years	(2,422)	(1,799)
Interest on other borrowings wholly repayable within five years	(42)	(44)
Interest on advances from a director	<u>—</u>	<u>(43)</u>
	<u>(2,464)</u>	<u>(1,886)</u>

NOTES TO THE FINANCIAL STATEMENTS

6. DIRECTORS' REMUNERATION

	2001	2000
	US\$'000	US\$'000
Fees:		
Executive directors	—	26
Independent non-executive directors	<u>32</u>	<u>20</u>
	<u>32</u>	<u>46</u>
Other emoluments to executive directors:		
Basic salaries and other benefits	668	468
Bonus	—	200
Retirement benefits scheme contributions	<u>20</u>	<u>15</u>
	<u>688</u>	<u>683</u>
	<u>720</u>	<u>729</u>

The emoluments of the directors were within the following bands:

	2001	2000
	Number of directors	Number of directors
US\$Nil to US\$129,000	3	5
US\$129,001 to US\$193,000	2	1
US\$258,000 to US\$322,000	1	—
US\$322,001 to US\$386,000	<u>—</u>	<u>1</u>

The executive directors received individual emoluments for the year ended 30 June 2001 of approximately US\$130,000 (2000: US\$138,000), US\$263,000 (2000: US\$382,000), US\$193,000 (2000: US\$95,000) and US\$102,000 (2000: US\$94,000).

The independent non-executive directors received director's fee for the year ended 30 June 2001 of approximately US\$16,000 (2000: US\$10,000), US\$16,000 (2000: US\$1,000) and US\$Nil (2000: US\$9,000).

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included three (2000: four) executive directors of the Company, whose emoluments are included in note 6 above. The emoluments of the remaining two (2000: one) individuals are as follows:

	2001	2000
	US\$'000	US\$'000
Basic salaries and other benefits	276	108
Retirement benefits scheme contributions	13	5
	<u>289</u>	<u>113</u>

The aggregate emoluments of each of the employees are within the band of US\$129,001 to US\$193,000 (2000: US\$Nil to US\$129,000).

During each of the two years ended 30 June 2001, no emolument was 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 director has waived any emoluments during each of the two years ended 30 June 2001.

8. TAXATION

	2001	2000
	US\$'000	US\$'000
The charge comprises:		
Hong Kong Profits Tax	—	(610)
Taxation arising in other jurisdictions	(210)	(334)
(Under)overprovision in prior year		
— Hong Kong	(45)	—
— Other jurisdictions	—	3
	<u>(255)</u>	<u>(941)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

8. TAXATION (Continued)

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 subsidiaries, Dongguan Pan Eagle Electronic Limited (東莞業榮電子有限公司) ("DPE") and Quality Eagle Technology Dougguan Ltd (品嘉電子(東莞)有限公司) ("QET"), are 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. QET is still exempted from income tax for the year.

Details of the potential deferred taxation are set out in note 25.

9. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of US\$931,000 (2000: US\$10,005,000), a loss of US\$15,000 (2000: profit of US\$1,774,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2001 US\$'000	2000 US\$'000
Dividends paid by a subsidiary of the Company to the then shareholders prior to the Group Reorganisation (note 15)	—	4,988
Final dividend, proposed — HK\$Nil (2000: HK\$0.02 (equivalent to approximately US cents 0.26) per share)	—	1,757
	<u>—</u>	<u>6,745</u>

NOTES TO THE FINANCIAL STATEMENTS

11. 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\$931,000 (2000: US\$10,005,000) and on the weighted average number of 684,062,258 (2000: 616,165,902) ordinary shares in issue during the year.

The diluted earnings per share for the year is computed as follows:

	<i>US\$'000</i>
Earnings for the purposes of calculating diluted earnings per share	<u>931</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	684,062,258
Effect of dilutive potential ordinary shares:	
Share options	<u>983,468</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>685,045,726</u>

No diluted earnings per share has been presented for 2000 because the exercise price of the Company's share options was higher than the average market price for shares in that year.

NOTES TO THE FINANCIAL STATEMENTS
12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Motor vehicles	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 2000	3,620	3,054	297	1,120	764	8,855
Exchange adjustments	22	(17)	(3)	(33)	(13)	(44)
Additions	357	1,181	22	366	268	2,194
Disposals	(71)	(162)	(9)	(209)	—	(451)
	<u>3,928</u>	<u>4,056</u>	<u>307</u>	<u>1,244</u>	<u>1,019</u>	<u>10,554</u>
At 30 June 2001	<u>3,928</u>	<u>4,056</u>	<u>307</u>	<u>1,244</u>	<u>1,019</u>	<u>10,554</u>
DEPRECIATION						
At 1 July 2000	674	988	100	621	302	2,685
Exchange adjustments	(3)	(13)	—	(14)	(8)	(38)
Provided for the year	896	725	66	236	193	2,116
Eliminated on disposals	(49)	(133)	(3)	(145)	—	(330)
	<u>1,518</u>	<u>1,567</u>	<u>163</u>	<u>698</u>	<u>487</u>	<u>4,433</u>
At 30 June 2001	<u>1,518</u>	<u>1,567</u>	<u>163</u>	<u>698</u>	<u>487</u>	<u>4,433</u>
NET BOOK VALUES						
At 30 June 2001	<u><u>2,410</u></u>	<u><u>2,489</u></u>	<u><u>144</u></u>	<u><u>546</u></u>	<u><u>532</u></u>	<u><u>6,121</u></u>
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>

NOTES TO THE FINANCIAL STATEMENTS

13. DEVELOPMENT COSTS

	<i>US\$'000</i>
THE GROUP	
COST	
At 1 July 2000	2,768
Exchange differences	(28)
Additions	<u>2,311</u>
At 30 June 2001	<u>5,051</u>
AMORTISATION	
At 1 July 2000	1,741
Exchange differences	(4)
Provided for the year	<u>1,631</u>
At 30 June 2001	<u>3,368</u>
NET BOOK VALUES	
At 30 June 2001	<u><u>1,683</u></u>
At 30 June 2000	<u><u>1,027</u></u>

NOTES TO THE FINANCIAL STATEMENTS

14. TECHNICAL KNOW-HOW

	<i>US\$'000</i>
THE GROUP	
COST	
At 1 July 2000	1,368
Exchange differences	<u>(1)</u>
At 30 June 2001	<u>1,367</u>
AMORTISATION	
At 1 July 2000	199
Exchange differences	(1)
Provided for the year	<u>386</u>
At 30 June 2001	<u>584</u>
NET BOOK VALUES	
At 30 June 2001	<u><u>783</u></u>
At 30 June 2000	<u><u>1,169</u></u>

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2001 & 2000 <i>US\$'000</i>
Unlisted shares	<u><u>9,087</u></u>

The Company's investments 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 ("Group Reorganisation").

Particulars of the Company's subsidiaries at 30 June 2001 are set out in note 35.

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Other securities, unlisted	2,836	—
Trading securities listed in the United States, at cost less provision	—	47
	<u>2,836</u>	<u>47</u>
Market value of listed shares	—	47
	<u>—</u>	<u>47</u>
Carrying amount analysed for reporting purposes as:		
Non-current	2,836	—
Current	—	47
	<u>2,836</u>	<u>47</u>

17. INVENTORIES

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Raw materials	6,786	9,222
Work in progress	1,018	3,436
Finished goods	16,723	15,236
	<u>24,527</u>	<u>27,894</u>

Included above are raw materials of US\$6,647,000 (2000: US\$Nil) and finished goods of US\$13,840,000 (2000: US\$8,300,000) which are carried at net realisable value and no work in progress is carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS
18. 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.

19. BANK BORROWINGS

	THE GROUP	
	2001	2000
	<i>US\$'000</i>	<i>US\$'000</i>
Bank borrowings comprise the following:		
Trust receipts and import loans	13,777	8,021
Other bank loans	9,411	12,622
Bank overdrafts	1,134	39
	<u>24,322</u>	<u>20,682</u>
Secured	24,226	20,324
Unsecured	96	358
	<u>24,322</u>	<u>20,682</u>
The bank borrowings are repayable as follows:		
On demand or within one year	24,322	15,371
More than two years, but not exceeding five years	—	5,311
	<u>24,322</u>	<u>20,682</u>
Less: amounts due within one year shown under current liabilities	<u>(24,322)</u>	<u>(15,371)</u>
Amounts due after one year	<u>—</u>	<u>5,311</u>

NOTES TO THE FINANCIAL STATEMENTS

20. OTHER BORROWINGS

THE GROUP

Other borrowings are secured by certain of the Group's trade receivables amounting to US\$274,000 (2000: US\$933,000), bear interest at prevailing market rates and are repayable within one year.

21. SHARE CAPITAL

Movements in the share capital of the Company were as follows:

	Number of shares	Value <i>HK\$'000</i>	United States dollars equivalent <i>US\$'000</i>
Ordinary shares of HK\$0.10 each:			
Authorised			
On incorporation	1,000,000	100	13
Increase in authorised share capital	1,999,000,000	199,900	25,734
At 30 June 2000 and 30 June 2001	<u>2,000,000,000</u>	<u>200,000</u>	<u>25,747</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	171,930,000	17,193	2,213
At 30 June 2000	684,750,000	68,475	8,815
Shares repurchased and cancelled	(1,964,000)	(196)	(25)
At 30 June 2001	<u>682,786,000</u>	<u>68,279</u>	<u>8,790</u>

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL *(Continued)*

The following changes in the share capital of the Company took place during the two years ended 30 June 2001:

- (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\$0.10 each, all of which were allotted and issued nil paid on 20 September 1999.
- (b) Pursuant to 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\$0.10 each. The new shares rank pari passu in all respects with the then 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 as consideration for the acquisition of the entire issued share capital of Pine Technology (BVI) Limited and its subsidiaries; 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.
- (c) Pursuant to written resolutions 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\$0.10 each. The new shares rank pari passu in all respects with the then 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\$0.10 each at a price of HK\$1.50 per share (“New Issue and Placing”), were approved and, the directors were authorised to allot and issue the new shares in connection with the New Issue and Placing; and

NOTES TO THE FINANCIAL STATEMENTS

21. SHARE CAPITAL *(Continued)*

(c) *(Continued)*

(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.

(d) On 24 November 1999, the Company completed the issue, allotment and despatchment of 171,930,000 shares of the Company of HK\$0.10 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.

(e) In February 2001, the Company repurchased 1,964,000 shares of its own ordinary shares of HK\$0.10 each through the GEM of the Stock Exchange and subsequently cancelled them. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company. The highest and lowest price per share was HK\$0.55 and HK\$0.53 respectively. The aggregate consideration paid was HK\$1,069,000 (equivalent to US\$137,000).

Save as disclosed above, none of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

NOTES TO THE FINANCIAL STATEMENTS

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 GEM of 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.

Movements of the share options granted under the share option scheme to subscribe for the shares in the Company as follows:

Date of grant	Exercisable period (both dates inclusive)	Exercise price HK\$	Number of share options			
			At 1 July 2000	Granted during the year	Cancelled during the year	At 30 June 2001
31.1.2000	28.1.2001 — 27.1.2006	1.674	9,462,000	—	(1,536,000)	7,926,000
31.1.2000	28.1.2002 — 27.1.2007	1.674	9,108,000	—	(1,412,000)	7,696,000
10.7.2000	28.1.2001 — 27.1.2004	1.056	—	7,980,000	(746,000)	7,234,000
10.7.2000	10.7.2001 — 9.7.2004	1.056	—	1,424,000	(310,000)	1,114,000
10.7.2000	10.7.2001 — 9.7.2005	1.056	—	1,396,000	(258,000)	1,138,000
10.7.2000	10.7.2001 — 9.7.2004	1.240	—	15,000,000	(3,744,000)	11,256,000
12.4.2001	16.5.2001 — 15.5.2006	0.335	—	8,100,000	—	8,100,000
12.4.2001	1.10.2001 — 30.9.2006	0.335	—	2,500,000	—	2,500,000
			<u>18,570,000</u>	<u>36,400,000</u>	<u>(8,006,000)</u>	<u>46,964,000</u>

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

The share options cancelled during the year were those options granted to eligible employees who ceased to be employed by the Group.

NOTES TO THE FINANCIAL STATEMENTS

23. SHARE PREMIUM AND RESERVES

	Share premium account <i>US\$'000</i>	Surplus account <i>US\$'000</i>	Exchange reserve <i>US\$'000</i>	Goodwill reserve <i>US\$'000</i>	Capital reserve <i>US\$'000</i>	Accumulated profits <i>US\$'000</i>	Total <i>US\$'000</i>
THE GROUP							
Balance at 1 July 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 the 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
Premium paid on shares repurchased	(112)	—	—	—	—	—	(112)
Exchange differences on translation of overseas operations	—	—	(48)	—	—	—	(48)
Profit for the year	—	—	—	—	—	931	931
Balance at 30 June 2001	<u>22,215</u>	<u>2,954</u>	<u>(192)</u>	<u>(1,611)</u>	<u>63</u>	<u>13,633</u>	<u>37,062</u>

NOTES TO THE FINANCIAL STATEMENTS

23. SHARE PREMIUM AND RESERVES (Continued)

	Share premium account <i>US\$'000</i>	Contributed surplus <i>US\$'000</i>	Accumulated profits <i>US\$'000</i>	Total <i>US\$'000</i>
THE COMPANY				
Surplus arising on the 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	—	—	1,774	1,774
Dividends	—	—	(1,757)	(1,757)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2000	22,327	9,035	17	31,379
Premium paid on shares repurchased	(112)	—	—	(112)
Loss for the year	—	—	(15)	(15)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2001	<u>22,215</u>	<u>9,035</u>	<u>2</u>	<u>31,252</u>

The 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 as required by the relevant PRC laws and regulations applicable to the Group's PRC subsidiaries.

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.

NOTES TO THE FINANCIAL STATEMENTS

23. SHARE PREMIUM AND RESERVES *(Continued)*

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:

	2001	2000
	US\$'000	US\$'000
Contributed surplus	9,035	9,035
Accumulated profits	2	17
	<u>9,037</u>	<u>9,052</u>

24. MINORITY INTEREST

The balance of minority interest represents the shareholders' deficit attributable to the minority shareholder of 松景科技有限公司 ("Pine Taiwan"), a subsidiary of the Company incorporated in the Republic of China. Pursuant to the sale and purchase agreement entered into between the Group and the minority shareholder, Mr. Ong Se Mon ("Mr. Ong"), a director of the Company, on 21 May 2001, Mr. Ong has an obligation to make good the attributable losses and accordingly the share of deficit attributed to the minority shareholder is in excess of the minority interest in the equity of Pine Taiwan. Further details are set out in note 33.

The Group and the minority shareholder are now applying to the relevant authorities in the Republic of China to enlarge the capital base of Pine Taiwan. On 18 September 2001, the minority shareholder contributed US\$564,000 to Pine Taiwan as a shareholder's loan for the purpose of capital injection to Pine Taiwan in the near future.

NOTES TO THE FINANCIAL STATEMENTS

25. POTENTIAL DEFERRED TAXATION

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

	2001	2000
	<i>US\$'000</i>	<i>US\$'000</i>
THE GROUP		
Tax effect of timing differences because of:		
Tax losses	455	147
Excess of tax allowances over depreciation	(20)	(18)
Other timing differences	(56)	94
	<u>379</u>	<u>223</u>

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

	2001	2000
	<i>US\$'000</i>	<i>US\$'000</i>
THE GROUP		
Tax effect of timing differences because of:		
Tax losses	308	63
Excess of tax allowances over depreciation	(2)	(13)
Other timing differences	(150)	85
	<u>156</u>	<u>135</u>

The potential deferred tax assets has not been recognised in the financial statements as it is not certain that the benefit will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

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

	2001	2000
	<i>US\$'000</i>	<i>US\$'000</i>
Profit before taxation	1,186	10,946
Interest income	(390)	(752)
Interest expenses on bank borrowings	2,422	1,799
Interest expenses on other borrowings	42	44
Interest expenses on advances from a director	—	43
Loss on disposal of property, plant and equipment	76	—
Gain on disposal of partial interest in a subsidiary	(578)	—
Amortisation of development costs	1,631	1,050
Amortisation of technical know-how	386	199
Depreciation of property, plant and equipment	2,116	800
Decrease/(increase) in inventories	2,692	(12,133)
Increase in trade and other receivables	(1,911)	(13,927)
(Decrease)/increase in trade and other payables	(3,720)	4,063
Decrease in bills payable	(22)	(819)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<u>3,930</u>	<u>(8,687)</u>

NOTES TO THE FINANCIAL STATEMENTS
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 borrowings <i>US\$'000</i>	Advance from a director <i>US\$'000</i>	Obligations under finance leases and hire purchase contracts <i>US\$'000</i>
Balance at 1 July 1999	3,006	—	—	1,983	3
Capitalisation of reserves arising on the Group Reorganisation	(2,954)	—	—	—	—
Issue of shares pursuant to the New Issue and Placing	31,090	—	—	—	—
New bank loans raised	—	5,311	—	—	—
Other borrowings raised	—	—	420	—	—
Repayment during the year	—	—	—	(1,983)	(3)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2000	31,142	5,311	420	—	—
Cash outflow in connection with shares repurchased	(137)	—	—	—	—
New bank loans raised	—	3,010	—	—	—
Repayment during the year	—	(5,311)	(327)	—	—
Exchange differences	—	—	(31)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2001	<u>31,005</u>	<u>3,010</u>	<u>62</u>	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

28. PLEDGE OF ASSETS

In addition to the pledge of deposits as disclosed in note 18, the Group has also pledged all assets of certain subsidiaries as floating charges to banks for facilities of US\$20,266,000 (2000: US\$20,266,000) granted to the Group at 30 June 2001. The total facilities utilised by the Group as at 30 June 2001 amounted to US\$8,017,000 (2000: US\$12,622,000). Details of the assets that have been pledged to banks are as follows:

	2001	2000
	US\$'000	US\$'000
Property, plant and equipment	327	428
Inventories	9,147	8,192
Trade and other receivables	18,185	21,812
Investments in securities	—	47
Bank balances and cash	<u>1,631</u>	<u>888</u>
	<u>29,290</u>	<u>31,367</u>

29. OPERATING LEASE ARRANGEMENTS

At 30 June 2001, the Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings for each of the following periods:

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Not later than one year	1,206	1,326
Later than one year and not later than five years	1,283	2,169
Later than five years	<u>840</u>	<u>989</u>
	<u>3,329</u>	<u>4,484</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties and factories.

NOTES TO THE FINANCIAL STATEMENTS

30. CAPITAL COMMITMENTS**THE GROUP**

At 30 June 2001, the Group had capital commitments amounting to US\$14,000 (2000: US\$231,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements.

31. CONTINGENT LIABILITIES**THE GROUP**

At 30 June 2001, the Group had bills discounted with recourse amounting to US\$300,000 (2000: US\$395,000).

THE COMPANY

At 30 June 2001, the Company had executed certain unlimited guarantees and corporate guarantees amounting to approximately US\$30,510,000 (2000: 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 2001 amounting to approximately US\$16,451,000 (2000: US\$12,912,000).

32. RETIREMENT BENEFITS SCHEMES

During the year, the Group operated defined contribution retirement benefits schemes ("Defined Contribution Schemes") in various countries outside Hong Kong for all qualifying employees. Prior to 1 December 2000, the Group also operated a defined contribution scheme for its qualifying employees in Hong Kong. The assets of these Defined Contribution Schemes are held separately from those of the Group in funds under the control of independent trustees.

Where there are employees who leave the Defined Contribution Schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

With effective from 1 December 2000, the Group joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

NOTES TO THE FINANCIAL STATEMENTS

32. RETIREMENT BENEFITS SCHEMES *(Continued)*

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefits scheme contribution in respect of the Defined Contribution Schemes and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

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 are as follows:

	2001	2000
	US\$'000	US\$'000
Gross retirement benefits scheme contributions	124	103
Less: Forfeited contributions for the year	(8)	(8)
	<u> </u>	<u> </u>
Net retirement benefits scheme contributions	<u>116</u>	<u>95</u>

At the balance sheet date, the Group had no significant forfeited contributions available to reduce the contributions payable by the Group in the future years.

NOTES TO THE FINANCIAL STATEMENTS

33. RELATED PARTY TRANSACTIONS

- (a) Pursuant to a sale and purchase agreement entered into between Pan Eagle Limited ("Pan Eagle"), a wholly-owned subsidiary of the Company, and Mr. Ong on 21 May 2001, Mr. Ong agreed to acquire and Pan Eagle agreed to disposal of 45% equity interest in Pine Taiwan, a subsidiary of the Company incorporated in Republic of China, for a consideration of NT449,999 (equivalent to US\$14,000). The consideration is mutually agreed by both parties and determined by the par value of the 45% share capital of Pine Taiwan acquired by Mr. Ong.

The transaction was completed upon obtaining the approval from the relevant authorities in the Republic of China on 21 June 2001.

- (b) The Group had following related party transactions took place:

Name of related party	Nature of transactions	2001 <i>US\$'000</i>	2000 <i>US\$'000</i>
Honwood Development Limited	Rental expenses paid by the Group	—	24
Chiu Hang Tai	Interest expenses paid by the Group	—	43
		<u>—</u>	<u>43</u>

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

These transactions have been discontinued following the listing of the Company's shares on the GEM of the Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

34. SUBSEQUENT EVENT

On 30 August 2001, an agreement was entered into between the Company and an independent institutional investor ("Investor") relating to the subscription and issue of 3% Convertible Bonds ("3% Bonds").

The 3% Bonds consist of two tranches: Tranche 1 Bonds and Tranche 2 Bonds. Each of the two tranches has a principal amount of US\$3,000,000. The Company has granted an option to the Investor under the agreement to require the Company to issue the additional Tranche 1 Bonds with principal amount of US\$3,000,000, such option to be exercisable by the Investor during the period of one year from 1 March 2002 or the date on which the Investor has first converted in aggregate 50% or more of the principal amount of the Tranche 1 Bonds into shares of the Company in accordance with the terms of the 3% Bonds, whichever is earlier.

The Investor has granted an option to the Company under the agreement to require the Investor to subscribe and pay for the Tranche 2 Bonds, such option to be exercisable by the Company within sixty calendar days following and subject to the conversion of the last of the Tranche 1 Bonds and subject to the satisfaction of certain conditions as below:

- (a) The average closing prices per share for the thirty business days immediately preceding the date on which the Company exercises the option is greater than the average closing prices per share for the fifty consecutive business days immediately preceding 31 August 2001;
- (b) The average trading volume of the shares for each of the thirty business days immediately preceding the date on which the Company exercises the option is greater than 2,500,000 shares; and
- (c) The Company has obtained the approval of its shareholders to the issue of the maximum number of shares which could be required to be issued under the terms of the 3% Bonds.

NOTES TO THE FINANCIAL STATEMENTS

34. SUBSEQUENT EVENT *(Continued)*

The principal terms of the 3% Bonds include the followings:

- (a) The 3% Bonds may be converted into new ordinary shares of HK\$0.10 each of the Company forty five days after the date of issue to 23 August 2004.
- (b) The conversion price for the 3% Bonds would be the lower of:
 - (i) 130% of the average closing prices per share on the GEM of the Stock Exchange for the fifty consecutive business days immediately prior to the date of issue; or
 - (ii) 93% of the average of any five consecutive closing prices per share on the GEM of the Stock Exchange as selected by the Investor during the twenty five consecutive business days immediately prior to the date of conversion.
- (c) The 3% Bonds bear interest at 3% per annum payable semi-annually in arrears on 30 June and 30 December in each year.
- (d) The maturity date of the 3% Bonds is 30 August 2004.
- (e) The Company has the right at any time before the maturity date to redeem the outstanding 3% Bonds for an amount between 110% and 115% of the principal amount plus accrued interest. Such redemption amount is:
 - (i) 110% of the principal amount of the 3% Bonds if redemption is made within the first 360 days after the date of issue; and
 - (ii) 115% of the principal amount of the 3% Bonds for the remaining period up to 30 August 2004.
- (f) The shares allotted and issued upon the exercise of the conversion rights attaching to the 3% Bonds are rank pari passu in all respects with all other existing shares in issue on the date of conversion.

NOTES TO THE FINANCIAL STATEMENTS

34. SUBSEQUENT EVENT *(Continued)*

The subscription and issue of the Original Tranche 1 Bonds took place on 31 August 2001 and the Company received in cash the sum of US\$2,957,000, net of arrangement fee.

Pursuant to the agreement, the Company has also granted to the Investor the option for the subscription of up to 13,000,000 new shares of the Company of HK\$0.10 each ("Subscription Right") at various prices based on the average closing prices during the twenty consecutive business days immediately before 31 August 2001. The Subscription Right is exercisable by the Investor at any time from 31 August 2001 to 30 August 2004.

35. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 30 June 2001 were as follows:

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/ contributed 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.	Samoa/PRC	US\$10,000	100	Wholesaling and distribution of computer components
Eagle Technology Inc.	Samoa	US\$1	100	Investment holding
Eastcom, Inc. (Alternate names: Pine Technology Inc. and Samtack USA Inc.)	United States of America	US\$1,000	100	Wholesaling and distribution of computer components
Gold View Group Limited	Samoa	US\$10	100	Investment holding
i. Concept Inc.	Samoa	US\$1	100	Investment holding
Pan Eagle Limited	British Virgin Islands	US\$100	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

35. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/contributed capital *	Proportion of nominal value of issued capital /registered capital %	Principal activities
Pine Global Limited	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	WON270,000,000	100	Research and development of electronics and computer digital audio device
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

NOTES TO THE FINANCIAL STATEMENTS

35. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ contributed capital *	Proportion of nominal value of issued capital /registered capital %	Principal activities
Pine Technology Limited	Hong Kong	HK\$3	100	Trading of computer components
Pine Technology Netherlands B.V.	Netherlands	EUR18,200	100	Wholesaling and distribution of computer components
Pine Technology Pte. Limited	Republic of Singapore	SGD543,602	100	Wholesaling and distribution 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	Samoa/PRC	US\$10,000	100	Wholesaling and distribution of computer components
Quality Eagle Limited	Samoa	US\$1	100	Investment holding
Quality Eagle Technology Dongguan Ltd (品嘉電子(東莞)有限公司)	PRC	HK\$14,993,898*	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
Samtack Computers Limited	United Kingdom	US\$100	100	Inactive
Samtack Computers USA Inc.	United States of America	US\$10,000	100	Inactive

NOTES TO THE FINANCIAL STATEMENTS

35. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/ contributed capital *	Proportion of nominal value of issued capital /registered capital %	Principal activities
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	54.9996	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 2001 or at any time during the year.

FINANCIAL SUMMARY

	Year ended 30 June			
	1998 US\$'000	1999 US\$'000	2000 US\$'000	2001 US\$'000
Turnover	199,126	248,846	316,788	297,434
Cost of sales	(182,619)	(229,612)	(285,842)	(271,285)
Gross profit	16,507	19,234	30,946	26,149
Other revenue	923	1,461	1,391	633
Selling and distribution expenses	(5,849)	(5,918)	(5,732)	(6,211)
General and administrative expenses	(7,487)	(8,647)	(13,773)	(17,499)
Profit from operations	4,094	6,130	12,832	3,072
Gain on disposal of partial interest in a subsidiary	—	—	—	578
Finance costs	(1,384)	(1,337)	(1,886)	(2,464)
Profit before taxation	2,710	4,793	10,946	1,186
Taxation	(607)	(684)	(941)	(255)
Profit before minority interests	2,103	4,109	10,005	931
Minority interests	20	56	—	—
Net profit for the year	<u>2,123</u>	<u>4,165</u>	<u>10,005</u>	<u>931</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 page 29 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 two years ended 30 June 2000 and 2001 have been extracted from the audited consolidated income statements, which include the results of the Company and its subsidiaries from 1 July or since their respective dates of incorporation/establishment, where it is a shorter period, are set out on page 28 of the annual report.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of PINE TECHNOLOGY HOLDINGS LIMITED (the “Company”) will be held at Room 1001, 10th Floor, China Merchants Tower, Shun Tak Center, 168-200 Connaught Road Central, Hong Kong on Friday, 23 November 2001 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 year ended 30 June 2001.
2. To re-elect the retiring director and to authorise the Board of Directors to fix the directors’ remuneration.
3. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.
4. 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

NOTICE OF ANNUAL GENERAL MEETING

(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

NOTICE OF ANNUAL GENERAL MEETING

- 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.”

NOTICE OF ANNUAL GENERAL MEETING

- C. **“THAT** conditional upon Resolutions 4A and 4B being passed, the general mandate granted to the directors of the Company pursuant to Resolution 4B 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 4A, 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, 21 September 2001

Head Office:

Rooms 1001, 10th Floor

China Merchants Tower

Shun Tak Center

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 Center, 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 Tuesday, 20 November 2001 to Friday, 23 November 2001, 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 Center, 111 Connaught Road Central, Hong Kong for registration no later than 4:00 p.m. on Monday, 19 November 2001.
- (3) A circular containing further details regarding Resolution no. 4 as required by the GEM Listing Rules will be despatched to shareholders together with 2001 Annual Report.

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