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PINE TECHNOLOGY HOLDINGS LIMITED

The 1st Quarterly Report 2001 / 2002

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

HIGHLIGHTS FOR THE THREE-MONTH PERIOD

- Pine reported revenue of approximately US\$54,451,000 while after tax net loss US\$1,277,000 for the three-month period.
- The Group's issue of unlisted and unsecured convertible bonds with Credit Suisse First Boston gave ample reserve of capital and helped to maintain a healthy financial structure.
- Pine attained valuable partnership with Pro Team Computer Corporation. The partnership is expected to bring additional sub-contracting profit of approximately US\$750,000 this fiscal year.
- Pine relocated offices from higher cost countries to strengthen operational effectiveness. An estimation of US\$3 million overhead saving is targeted to achieve for the whole year.

FIRST QUARTERLY RESULTS

On behalf of the board of the directors (the "Directors") of PINE Technology Holdings Limited (the "Company"), I am pleased to present the unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the three months (the "Three-Month Period") ended 30 September 2001.

The unaudited consolidated loss of the Group for the Three-Month Period was approximately US\$1,277,000 representing a decrease of approximately 177.4% as compared to the unaudited combined profit of the Group of approximately US\$1,649,000 for the corresponding quarterly period in 2000. Unaudited consolidated turnover of the Group for the Three-Month Period was about US\$54,451,000, representing a drop of about 35.8% over the unaudited combined turnover of the Group of US\$84,844,000 for the corresponding three-month period in 2000.

The unaudited gross profit margin of the Group was approximately 8.55% for the Three-Month Period which was about 0.66% lower than the unaudited gross profit margin of the Group of approximately 9.21% for the corresponding quarterly period in 2000.

The unaudited consolidated results of the Group for the Three-Month Period, together with the unaudited comparative figures for the corresponding period in 2000 are as follows:

	Notes	Three months ended	
		2001	2000
		US\$'000	US\$'000
Turnover	2	54,451	84,844
Gross profit		4,653	7,810
(Loss)/profit before taxation		(1,324)	1,805
Taxation	3	<u>(38)</u>	<u>(156)</u>
(Loss)/profit after taxation		(1,362)	1,649
Minority interest		<u>85</u>	<u>—</u>
(Loss)/profit for the period		<u><u>(1,277)</u></u>	<u><u>1,649</u></u>
(Loss)/earnings per share (US cents)	4		
— Basic		<u><u>(0.187)</u></u>	<u><u>0.241</u></u>
— Diluted		<u><u>N/A</u></u>	<u><u>0.239</u></u>

Notes:

I. Basis of preparation

The accounts 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.

2. Turnover

An analysis of the Group's turnover by type of products sold for the Three-Month Period were as follows:

	Three months ended	
	30 September	
	2001	2000
	US\$'000	US\$'000
Manufacture and sale of products under the Group's brand names	19,165	28,312
Distribution of other manufacturers products	35,286	56,532
	54,451	84,844

3. Taxation

	Three months ended	
	30 September	
	2001	2000
	US\$'000	US\$'000
The charge comprises:		
— Hong Kong Profits Tax	—	(46)
— Taxation arising on other jurisdiction	(38)	(110)
	(38)	(156)

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

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

4. Loss/earnings per share

The calculation of the basic loss per share for the Three-Month Period is based on the unaudited loss for the period of approximately US\$1,277,000 and the weighted average number of 682,786,000 ordinary shares in issue during the period.

The calculation of the basic earnings per share for the corresponding three-month period in 2000 is based on the unaudited profit for the period of approximately US\$1,649,000, and 684,750,000 ordinary shares in issue during the period.

No diluted earnings per share has been presented because the exercise of the Company's outstanding share options and conversion of the Company's outstanding convertible bonds would result in a decrease in net loss per share.

The calculation of the diluted earnings per share for the three-month period ended 30 September 2000 is based on the following data:

Profit for the period	<u><u>US\$1,649,000</u></u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	684,750,000
Effects of dilutive potential ordinary shares in respect of: Options	<u>6,404,869</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>691,154,869</u></u>

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the Three-Month Period. The Group has not declared any dividends for the corresponding quarterly period in 2000.

BUSINESS REVIEW

For the first time in 15 years, it was reported that the world bought less PCs than it did the year before. The slip had hit PC makers, chips manufacturers and had had a knock-on effect on other IT businesses, which experienced profits and jobs disappear. PINE was not exempted. The continuing depressed worldwide economic conditions caused yet another quarter of falling short. The group reported revenue of US\$54,451,000 down 35.8%, while after tax net profit down 177.4% to loss US\$1,277,000, over the same period last year.

Though disappointing, we are able to actively fulfilling our business objective of maximizing revenue growth from diversified products, value-added services and fostering precious strategic partners. The issue of unlisted and unsecured convertible bonds with Credit Suisse First Boston in August 2001 provided additional working capital, which allowed us stepping further to securing a long-term competitive advantage.

The Group also attained valuable partnership with a Taiwan leading motherboard developer, Pro Team Computer Corporation in September, which will utilize the existing production capacity to its full extent. It is expected to bring additional sub-contracting profit of approximately US\$750,000 this fiscal year. On the other hand, this partnership will also stretch PINE's presence in Taiwan IT industry and allows the Group to better seize opportunities arise.

Smart operation is another priority on the agenda. PINE completed a vigorous retrenchment exercise in September, which relocated offices from higher cost countries to strengthen operational effectiveness. American office was relocated to Canada, UK to Netherlands and more operations were moved to China. An overhead expense of roughly US\$500,000 was inevitably incurred in the course of the exercise, yet, a saving of US\$3 million is targeted to achieve for the whole year.

July to September is traditionally the slow season of the industry. However, the September 11 attacks and subsequent events further accentuated an already difficult economic environment. Political instability in the US lengthened the “wait-and-see” attitude. PINE was badly affected since trade was almost frozen for two and a half weeks and buying incentives were put off. We, therefore, experienced a significant revenue drop of nearly 35.8%.

Yet, we will not be severely influenced in the long run. Though nearly 60% of the group’s revenue appears to be contributed from North America, only 10% of the revenue came straight from the US, while nearly 35% were conferred by Canada where is still enjoying a fairly stable and sound economic environment. The remaining 15% were revenue diverted through Miami, USA.

Business Prospects

Amidst many setbacks, we are heartened by an IDC forecast, which stated that consumer conservatism and a softening business segment significantly affected more mature regions like Europe and the US, while Asia and other emerging regions were more robust. The Group, in fact, is soundly poised to expand into these relatively profitable markets with its extensive network connections and competitive pricing strategies.

Taking advantage before China joins WTO, PINE established an early foothold in China through building extensive logistic network of regional offices and retail shop. The appointment by NVIDIA as their Certified Vendor speeds up the group’s penetration into the market, which also builds recognition and confidence in our services and products towards acquiring quality trade partners of tier one system integrators.

Sales and gross profit are expected to grow with the maturity of Mass Merchant activities and the development of PINE products. We are currently one of the top Computer Optical Device sellers in North America and the product family is expected to expand further in the coming year, which will significantly contribute to the group’s revenue and profit.

Research and development will continue to play a major role in the medium term. We are committed to improve design through dynamic research and development exercises and think beyond the simple price and performance metrics that has traditionally dominated the industry’s mentality. We maintain focus on our own brand products to optimize profit margins. The Group’s extensive marketing network will enhance market share and help gearing towards building a stronger brand image and brand value.

Two Internet Appliance products, a multi-audio player, SA6400 and a MP3 CD player, SM220C, will be launched in the coming quarter, which are expected to accelerate the growth of the revenue and sales.

We, at PINE, believe technology is an integral part of everyday life in the future. Yet, as with any period of growth and innovation, there will be bumps along the way. What we witnessed in our industry these past years reminds us of the speed with which changes occur. All these ups and downs of business cycles are no strangers to PINE. Flexibility is the key to riding recession. Brave decisions and quick actions will finally guide us to success. We are actively preparing to position PINE well for an eventual market and economic upswing to delivering a satisfying return.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

Interests in Share Capital

As at 30 September 2001, the interests of the directors and their associates' interest 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
Chiu Hang Tai	161,766,000 (Note 1)	—	—	—	161,766,000
Ong Se Mon	90,486,000 (Note 2)	318,000	—	—	90,804,000

Notes:

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

In addition to above, Mr. Chiu Hang Tai beneficially owned 600,000 non-voting deferred shares in Pineview Industries Limited, a subsidiary of the Group as at September 30, 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 company. On winding up, the holders of the deferred shares are entitled to distribution out of the remaining assets of the subsidiary only after the distribution of HK\$1,000 million, as specified in the Articles of Association of the company, to holders of ordinary shares.

Apart from the above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of the Company or any of its associated corporations as at 30 September 2001.

Interests in Share Options

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

As at 30 September 2001, share options of directors to subscribe for shares in the Company are as follows:

Name of director	Date of grant	Exercisable period	Exercise price	Option granted
Chiu Hang Tai	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,088,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	1,088,000
Ong Se Mon	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,904,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,904,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	1,904,000
Chiu Hang Chin, Samson	31.1.2000	28.1.2001 to 27.1.2006	1.674	1,088,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	1,088,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	1,088,000
Ng Yuk Chun	31.1.2000	28.1.2001 to 27.1.2006	1.674	300,000
	31.1.2000	28.1.2002 to 27.1.2007	1.674	300,000
	10.7.2000	28.1.2001 to 27.1.2004	1.056	300,000
	10.7.2000	10.7.2001 to 9.7.2004	1.240	200,000

As at 30 September 2001, none of the Directors have exercised any of the share options and no allotment and issue of shares pursuant to the exercise of share options have been made nor was there any cancellation and/or re-issue of share options.

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

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2001, in addition to those interests as disclosed above in respect of the Directors, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company had been notified of the following interests, being 10% or more in the issued share capital of the Company.

Name	Number of shares held (Note)	Percentage of issued share capital
Mr. Chiu Kwong Chi	174,998,732	25.63%
Madam Wong Wai Ying	174,998,732	25.63%
Concept Express Investments Limited	122,760,000	17.98%

Note: Mr. Chiu Kwong Chi is the husband of Madam Wong Wai Ying. By virtue of the SDI Ordinance, Mr. Chiu Kwong Chi and Madam Wong Wai Ying are each deemed to be interested in 174,998,732 shares of which 122,760,000 shares are beneficially owned and registered in the name of Concept Express Investments Limited, which is beneficially owned as to 47.82% of its entire issued share capital by Mr. Chiu Kwong Chi; and 52,238,732 shares are beneficially owned and registered in the name of Fireball Resources Limited which is wholly owned by Madam Wong Wai Ying.

SPONSOR'S INTERESTS

Core Pacific — Yamaichi International (H.K.) Limited (“CPYI”), an associate of the Company’s sponsor, Core Pacific — Yamaichi Capital Limited (“CPY”) (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) was beneficially interested in 7,994,000 shares (representing 1.17% of total share capital) of HK\$0.10 each in the share capital of the Company as at 30 September 2001 and 9 November 2001. In addition, an employee of CPYI, was beneficially interested in 50,000 shares of HK\$0.10 each in the share capital of the Company as at 30 September 2001 and 9 November 2001. Except for the interest of CPYI and an employee of CPYI mentioned above, the company’s sponsor, directors, employees or associate (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had no interested in the shares of the Company as at 30 September 2001 and 9 November 2001.

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

COMPETING INTERESTS

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

AUDIT COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

By order of the Board
Chiu Hang Tai
Chairman

Hong Kong, 13 November 2001