PINE

www.pinegroup.com

PINE TECHNOLOGY HOLDINGS LIMITED

Interim Report 2001 / 2002

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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 HALF-YEARLY PERIOD

- PINE achieved revenue at approximately US$64,680,000 in the Quarterly Period amid the global economic downturn, which represents an increase of US$10,229,000 as compared to last quarter.

- Net profit attained at approximately US$509,000, an increase of 139.86% and turning around from red of the first quarter.

- Strategic partnership with nVIDIA has secured a 15% increase in Video Graphic Accelerator card revenue.

- The success in the mass merchant channel pushed the distribution revenue from approximately US$35,286,000 to US$42,982,000 this quarter.

INTERIM RESULTS

On behalf of the board of the directors (the "Directors") of PINE Technology Holdings Limited (the "Company"), I am pleased to present the unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the six months (the "Half-Yearly Period") and the three months (the "Quarterly Period") ended 31 December 2001. The interim report for the six months ended 31 December 2001 has been reviewed by the Company's audit committee.

Half-Yearly Period

The unaudited consolidated loss of the Group for the Half-Yearly Period was approximately US$768,000 representing a decrease of approximately 138.73% as compared to the unaudited combined profit of the Group of approximately US$1,983,000 for the corresponding half-yearly period in 2000. Unaudited consolidated turnover of the Group for the Half-Yearly Period was about US$119,131,000, representing a drop of about 26.25% over the unaudited combined turnover of the Group of US$161,532,000 for the corresponding half-yearly period in 2000.

The unaudited gross profit margin of the Group was approximately 9.01% for the Half-Yearly Period which was about 0.43% higher than the unaudited gross profit margin of the Group of approximately 8.58% for the corresponding half-yearly period in 2000.

Quarterly Period

The unaudited consolidated profit of the Group for the Quarterly Period was approximately US$509,000 representing an increase of approximately 52.40% as compared to the unaudited combined profit of the Group of approximately US$334,000 for the corresponding quarterly period in 2000. Unaudited consolidated turnover of the Group for the Quarterly Period was about US$64,680,000 representing a drop of about 15.66% over the unaudited combined turnover of the Group of US$76,688,000 for the corresponding quarterly period in 2000.

The unaudited gross profit margin of the Group was approximately 9.41% for the Quarterly Period which was about 1.51% higher than the unaudited gross profit margin of the Group of approximately 7.90% for the corresponding quarterly period in 2000.

The unaudited consolidated results of the Group for the Half-Yearly Period and the Quarterly Period, together with the unaudited comparative figures for the corresponding periods in 2000 are as follows:

		Six months ended 31 December		**Three months ended 31 December**	
		2001	2000	**2001**	2000
	Notes	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Turnover	*3*	**119,131**	161,532	**64,680**	76,688
Cost of sales		**(108,394)**	(147,666)	**(58,596)**	(70,632)
Gross profit		**10,737**	13,866	**6,084**	6,056
Other income		**305**	468	**169**	211
(Loss)/profit before taxation	*4*	**(842)**	2,132	**482**	327
Taxation	*5*	**(175)**	(149)	**(137)**	7
(Loss)/profit after taxation		**(1,017)**	1,983	**345**	334
Minority interest		**249**	—	**164**	—
(Loss)/profit for the period		**(768)**	1,983	**509**	334
(Loss)/earnings per share (US cents)	*6*				
— Basic		**(0.112)**	0.290	**0.075**	0.049
— Diluted		**N/A**	0.289	**0.067**	0.049

The unaudited consolidated balance sheet of the Group for the Half-Yearly Period and 30 June 2001 are as follows:

	Notes	**31 December 2001** **US$'000**	30 June 2001 US$'000
Non-current assets			
Property, plant and equipment		**5,417**	6,121
Development costs		**1,341**	1,683
Technical know-how		**496**	783
Trade mark		**91**	77
Investments in securities		**2,836**	2,836
		10,181	11,500
Current assets			
Inventories		**23,208**	24,527
Trade receivables	7	**38,185**	36,765
Other current assets		**14,362**	3,925
Cash and bank		**13,660**	14,289
		89,415	79,506
Current liabilities			
Trade payables	8	**13,370**	13,551
Other payables		**10,280**	6,760
Borrowings		**23,946**	25,407
		47,596	45,718
Net current assets		**41,819**	33,788
Total assets less current liabilities		**52,000**	45,288
Non-current liabilities			
Borrowings and debts		**7,000**	—
Net assets		**45,000**	45,288
Capital and reserves			
Share capital		**8,790**	8,790
Share premium & reserves	9	**36,370**	37,062
		45,160	45,852
Minority interest		**(160)**	(564)
		45,000	45,288

The unaudited consolidated statement of recognised gains and losses of the Group for the Half-Yearly Period and the Quarterly Period, together with the unaudited comparative figures for the corresponding periods in 2000 are as follows:

		Six months ended 31 December		Three months ended 31 December	
		2001	2000	**2001**	2000
	Notes	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Exchange differences arising on translation of overseas operations not recognized in the income statement		**43**	(16)	**(47)**	(91)
Net (loss)/profit for the period		**(768)**	1,983	**509**	334
Total recognized (loss)/gains		**(725)**	1,967	**462**	243

The unaudited consolidated cash flow statement of the Group for the Half-Yearly Period is as follows:

	2001
	US$'000
Cashflow from operating activities	
Loss before taxation	(842)
Interest income	(63)
Interest expenses	697
Loss on disposal of fixed assets	35
Loss on disposal of a subsidiary	28
Depreciation and amortization	1,769
Decrease in inventories	1,319
Increase in trade and other receivables	(11,316)
Increase in trade and other payables	2,762
Net cash outflow from operating activities	(5,611)
Returns on investments and servicing of finance	
Interest received	63
Interest paid	(697)
Net cash outflow from returns on investments and servicing of finance	(634)
Taxation	
Hong Kong profit tax paid	—
Overseas tax paid	(140)
Tax paid	(140)
Investing activities	
Proceed from disposal of a subsidiary	10
Development expenditure incurred	(472)
Acquisition of trademarks	(14)
Net cash outflow from investing activities	(476)
Net cash outflow before financing	(6,861)
Financing	
Increase in non-current liabilities	7,000
Repayment of short term borrowings	(1,461)
Proceed from capital injection of minority interests	653
Net cash inflow from financing	6,192
Decrease in cash and cash equivalent	(669)
Cash and cash equivalent at beginning of the period	14,289
Effect of foreign exchange rate changes	40
Cash and cash equivalent at end of the period	13,660

Notes:

1. 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. Principal accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2001.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives using the straight line method. Estimated useful lives of the following items have been revised since 1 July 2001 to properly reflect their actual conditions and the revised rates are as follows:

	Revised depreciation rates	Original depreciation rates
Leasehold improvement	10%	25%
Plant and machinery	16.67%	25%-50%
Motor vehicles	16.67%	25%
Furniture, fixtures and equipment	16.67%	20%-25%

Depreciation is being provided based upon the net asset value as at 30 June 2001 over the estimated remaining useful lives of respective items. Net effect to cost of sales and overheads cost for the Half-Yearly Period are approximately US$370,000 and US$65,000 respectively.

In current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new/revised accounting policies.

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 Segment Reporting. Segment disclosures for the six months ended 31 December 2001 have been amended so that they are presented on a consistent basis.

Goodwill

In the current period, the Group has adopted SSAP 30 Business Combinations and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1 July 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or joint venture, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 July 2001 is capitalized and amortized over its estimated useful life i.e. over periods ranging between 5 to 20 years.

3. Turnover and segment information

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

	Six months ended 31 December		**Three months ended 31 December**	
	2001	2000	**2001**	2000
	US$'000	*US$'000*	***US$'000***	*US$'000*
Manufacture and sale of products under the Group's brand names	**40,863**	55,249	**21,698**	26,937
Distribution of other manufacturers products	**78,268**	106,283	**42,982**	49,751
	119,131	161,532	**64,680**	76,688

The unaudited business segment information for the Half-Yearly Period and the corresponding period in 2000 is as follows:

	Group brand products		Other brand products		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Revenue						
External sales	**40,863**	55,249	**78,268**	106,283	**119,131**	161,532
Inter-segment sales	**—**	—	**—**	—	**—**	—
Total revenue	**40,863**	55,249	**78,268**	106,283	**119,131**	161,532
Result						
Segment result	**309**	312	**168**	2,242	**477**	2,554
Interest expense					**(697)**	(1,165)
Interest income					**63**	261
Unallocated corporate expenses					**(657)**	482
Minority interest					**249**	—
Loss on disposal of a subsidiary					**(28)**	—
					(593)	2,132
Assets						
Segment assets	**54,795**	55,761	**44,389**	60,749	**99,184**	116,510
Unallocated assets					**412**	67
Consolidated level assets					**99,596**	116,577
Liabilities						
Segment liabilities	**28,252**	30,098	**25,664**	38,514	**53,916**	68,612
Unallocated liabilities					**680**	892
Consolidated level liabilities					**54,596**	69,504
Other information						
Capital expenditure	**486**	—	**—**	3,203	**486**	3,203
Depreciation and amortization	**1,246**	1,697	**523**	131	**1,769**	1,828
Non cash expenses other than depreciation and amortization	**170**	254	**570**	277	**740**	531

The unaudited geographical segment information for the Half-Yearly Period and the corresponding half-yearly period in 2000 is as follows:

	Revenue		Assets		Capital additions	
	2001	2000	**2001**	2000	**2001**	2000
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Canada	**37,861**	54,695	**10,690**	24,903	**—**	—
United States	**39,030**	37,912	**16,604**	16,262	**—**	—
Europe	**9,694**	17,046	**4,120**	5,417	**—**	—
Asia	**25,942**	40,575	**56,559**	64,675	**486**	3,203
Others	**6,604**	11,304	**11,211**	5,253	**—**	—
	119,131	161,532	**99,184**	116,510	**486**	3,203

4. (Loss)/profit before taxation

	Six months ended 31 December		Three months ended 31 December	
	2001	2000	**2001**	2000
	US$'000	*US$'000*	***US$'000***	*US$'000*
(Loss)/profit before taxation has been arrived at after charging:				
Depreciation and amortization	**1,769**	1,828	**1,148**	1,607
Interest on borrowings	**697**	1,165	**349**	776
Loss on disposal of a subsidiary	**28**	—	**28**	—
Loss on disposal of fixed assets	**35**	—	**35**	—

5. Taxation

	Six months ended 31 December		Three months ended 31 December	
	2001	2000	**2001**	2000
	US$'000	*US$'000*	***US$'000***	*US$'000*
The charge comprises:				
— Hong Kong Profits Tax	**—**	—	**—**	46
— Taxation arising on other jurisdiction	**(175)**	(149)	**(137)**	(39)
	(175)	(149)	**(137)**	7

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.

6. Loss/earnings per share

No diluted earnings per share has been presented for the Half-Yearly Period 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 basic (loss)/earnings per share for the Half-Yearly Period, the Quarterly Period, the corresponding half-yearly period and quarterly period in 2000, and diluted earnings per share for the Quarterly Period, the corresponding half-yearly period and quarterly period in 2000 are based on the following data:

	Six months ended 31 December		**Three months ended 31 December**	
	2001	2000	**2001**	2000
Earnings for the purpose of basic earnings per share *(US$)*	**(768,000)**	1,983,000	**509,000**	334,000
Effects of dilutive potential ordinary shares in respect of:				
— Interest on convertible bonds	**—**	—	**22,500**	—
	(768,000)	1,983,000	**531,500**	334,000
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**682,786,000**	684,750,000	**682,786,000**	684,750,000
Effects of dilutive potential ordinary shares in respect of:				
— Option	**N/A**	875,017	**—**	795,789
— Convertible bonds	**N/A**	—	**109,808,893**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	685,625,017	**792,594,893**	685,545,789

7. Trade receivables

Included in trade receivables are trade debtors (net of provision for bad debt and doubtful debts) with an aging analysis as at 31 December 2001 and 30 June 2001 as follows:

	31 December 2001	30 June 2001
	US$'000	*US$'000*
0 - 30 days	**28,037**	25,669
31 - 60 days	**6,606**	7,188
Over 61 days	**3,542**	3,908
	38,185	36,765

The Group has a defined credit policy of general credit terms ranged from 0 to 60 days.

8. Trade payables

Included in trade payables are trade creditors with an aging analysis as at 31 December 2001 and 30 June 2001 as follows:

	31 December 2001	30 June 2001
	US$'000	*US$'000*
0 - 30 days	**11,404**	10,056
31 - 60 days	**1,243**	2,085
Over 61 days	**723**	1,410
	13,370	13,551

9. Share premium and reserves

	Share premium account US$'000	Surplus account US$'000	Exchange reserve US$'000	Goodwill reserve US$'000	Capital reserve US$'000	Accum-ulated profits US$'000	Total US$'000
Balance at 30 June 2001	22,215	2,954	(192)	(1,611)	63	13,633	37,062
Exchange differences on translation of overseas operations	—	—	40	3	—	—	43
Transfer to accumulated profits	—	—	—	33	—	(33)	—
Loss for the period	—	—	—	—	—	(735)	(735)
Balance at 31 December 2001	22,215	2,954	(152)	(1,575)	63	12,865	36,370

10. Subsequent event

Subsequent to the balance sheet date, the Company has acquired 90.08% of a Taiwan motherboard designer and manufacturer, the Pro Team Computer Corporation, in consideration of US$2.65m.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the Half-Yearly Period and the Quarterly Period.

The Group has not declared any dividends for the corresponding half-yearly period and quarterly period in 2000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Being chosen by the world no. 1 video graphic chips design house, nVIDIA, [NASDAQ: NVDA] as their certified vendor, PINE became the top two add-in chip manufacturer of nVIDIA and fostered its position in this fast growing PC market. Such strategic partnership secured a revenue increase of 15% from Video Graphic Accelerator cards as compared to last quarter. Moreover, the latest model of MP3 player and recorder with language learning application, which supports MP3 and other digital audio format, and a MP3 CD player, reached the market with positive market responses and higher margin returns of over 15%.

Successful penetration into the North America market through top market players in mass merchant retail customers, like Best Buy, Sam's Club and Wal-Mart has pushed the distribution revenue from US$35,286,000 in last quarter to US$42,982,000 this quarter. Sales and purchase agreements entered with the key players were also expected to jet additional financial returns in the near future.

Operation Review

On the other hand, streamlining activities and reorganization keep overheads low and smart allocation of resources maintained Half-Yearly Period operation overheads at US$11,330,000 representing a drop of US$404,000 as compared to the same period in 2000.

PINE has also deliberately maintained and run the business at a low inventory level to enhance the efficiency of working capital. All these operational enhancements had greatly improved our profitability and competitiveness and therefore we can be more resilient against economic downturn yet thrive as the economy blooms.

Financial Review

Contributed through the uniquely established global network, PINE's overall performance in the second quarter was maintained at a satisfactory level despite the adverse economic impact on worldwide PC market after the 911 incident. The group reported revenue of US$64,680,000 while after tax net profit is US$175,000 over the same quarter last year.

Better inventory control and a higher margin achieved through PINE's own label products raised PINE's gross profit margin from 7.90% to 9.41%, representing a breakthrough for the Group. Even when the sales turnover of this quarter was lower than the same quarter last year, we continue to enjoy a higher gross profit at US$6,084,000 than that of the same quarter last year plus a net profit at US$509,000.

In the six-month perspective, yet, the net profit achieved this quarter was offset by the loss recorded last quarter. While it was undesirable, it was an effective drive for the Group to polish up and refine. We are now much heartened by the better-than-expected economy growth in the US and growing signs of corporate spending suggesting that the worst is, probably over.

Business Prospects

Gearing up to be a leaner and resource-efficient company will continue to be one of our business objectives. We will continue to pursuit on structural enhancement and streamline exercises, which offers us a better and easier target to breakeven. A larger saving, in fact, is expected in the third quarter. Enriched efficiency and productivity will provide the Group a smooth track to ride on the recovery and grow faster than the economy pick-up.

Further development on mass merchant as an extension of PINE's global marketing network is another successful factor towards better financial return. PINE will carry on building its own brand name through strengthening mass merchant sales in the North America with a broadened customer base and new accounts to secure extra source of revenue. PINE is also keen to develop close business relationship and co-operation with vendors so as to secure our position for further business progress.

The US$2.65 million acquisition of the Taiwan motherboard manufacturer, Pro Team Computer Corporation, is expected to bring synergy to the PINE group. Pro-Team's world-class quality performance and research and development expertise will further strengthen PINE's motherboard business. It will attribute also to the better allocation of resources through maximizing the use of existing manufacturing capacity. Through Pro-Team's long established business channels, the acquisition is believed to contribute substantially to the Group's future revenue growth.

Research and development continues to play an important role towards building brand name for the Group to enjoy a higher profit margin. Our strong R&D capabilities facilitate the launch of new series of high performance video graphic accelerators meeting the very strong demand from gaming and multimedia applications, while the Internet Appliance department will focus on the development of MP3 player and recorder with direct downloadable feature independent of computer interface. Together with the partnership with nVIDIA and the acquisition of Pro Team, our own brand products will be enrooted in the marketplace.

The expanding China market will continue to be a focus for our further development. The imminent accession of the PRC to the World Trade Organization is expected to drive up demand for PC related business. Industry experts anticipate that demand in the PC and Internet appliance markets will see tremendous upside potential in the PRC. As a pioneer in this market, we have accumulated significant advantages and will directly be benefited from this flourishing business.

We are pleased with this quarter's performance amid an intense competition, volatility and a weakened global economy. The worst is coming behind us and more signs of recovery are showing in the industry. PINE's fostered partnership with reputable corporations, like nVIDIA and top-tier mass merchant customers will deliver secured revenue. Adding to that is our own label product, which will bring higher profit margin. With these improved efficiency and competitiveness, the PINE Group is well positioned to enjoy a wholesome growth with better profit margin and higher working capital efficiency. Persuaded myself, and I strongly believe that the future is bright and our unyielding commitment will bring to our shareholders values and returns.

Use of proceeds from the initial public offering

From the date of listing on 26 November 1999, the Group invested approximate HK$52.92 million in financial year 2000; HK$36.79 million in financial year 2001 and HK$9.36 million for six months ended 31 December 2001 on various projects.

Financial year 2000

— approximately HK$16,430,000 was used to fund the research & development expenses.

— approximately HK$30,992,000 was used to fund the first and second phase of expansion plans of the Houjie, PRC production facilities.

— approximately HK$4,670,000 was used to set up two branch offices in Melbourne, Australia and Los Angeles, USA to complement its Sydney and New Jersey Branch offices respectively.

— approximately HK$824,000 was used to complete the first stage of the eCommerce project.

Financial year 2001

— approximately HK$23,407,000 was used to fund the research & development expenses.

— approximately HK$8,800,000 was used to fund the second phase of expansion plan of the Houjie, PRC production facilities.

— approximately HK$2,035,000 was used to set up a business unit in Guangzhou and a logistic office in Netherlands.

— approximately HK$2,545,000 was used to upgrade the Group's management information system.

Six months ended 31 December 2001

— approximately HK$9,360,000 was used to fund the research & development expenses.

— the balance of HK$14,027,000 was placed as deposits with banks in Hong Kong as of the period end. The unused proceeds is proposed to be used as the research and development expenses or general working capital in the future financial periods.

The net proceeds raised from the initial listing of the shares of the Company on GEM on 26 November 1999 were approximately HK$230 million. During the Half-Yearly Period, the Group has utilized approximately HK$9,360,000 in accordance with the Group's product development plan as set out in the Prospectus:

	As stated in prospectus for the year ended 30 June 2002 HK$ million	Actual use of proceeds for six months ended 31 December 2001 HK$ million
Product development	—	9.36
	—	9.36

COMPARISON OF THE BUSINESS OBJECTIVES SET OUT IN THE PROSPECTUS WITH ACTUAL BUSINESS PROGRESS

Business Objectives as stated in the Prospectus for the year ending 30 June 2002	**Actual Business Progress for six months ended 31 December 2001**
Product Development	
Launch the 1GHz motherboard line.	Launched the first generation of Pentium 4 1GHz motherboard line.
Launch the low cost Digital Modem series	Launched a series of high performance 256 bits engine video card to support TV output and digital flat panel display for the latest gaming and entertainment applications.
	Conducted technical viability assessment and specification definition of the 500 MHz video accelerator.
Conduct assessment and development on the wireless application of MP4 technology on consumer and automobile wireless audio devices	Conducted pilot run and sample run of SA6400 MMC players. SA6400 besides equips basic features of music playing, voice recording and phone book that are commonly found in other MMC players in the market. One of the unique features of SA6400 is built-in language learning software program that allows user to listen, record & compare voice function.
	Evaluated SA6500 MMC player engineering sample.
	Conducted pilot run of MP3 CD Player SM220C.
	Conducted technical viability assessment of updated version of the MP3 CD Player SM240C that support both MP3 and WMA format.
	Conducted technical viability assessment of Portable CDRW that can support MP3 format playback.

Manufacturing Capacity

No expansion plans for the Group's manufacturing facilities	Pursuant to the second phase of expansion in the Houjie's manufacturing plant that part of the set up were completed in the year. Since previous phases of establishment are in full operation to support the production requirement, the Group has not conducted the third phase expansion plan.

Distribution Network

Plan to open two to three new business units in the prospective markets and developing regions such as Latin America, the Middle East and India.	No additional business unit has been set up as it is not considered appropriate under current market condition.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

Interests in Share Capital

As at 31 December 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 31 December 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 31 December 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 31 December 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 31 December 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 Half-Yearly Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire the benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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

Except for the Sponsorship Agreement dated 15 November 1999, the Company's sponsor, Core Pacific-Yamaichi Capital Limited, has no interest as defined in the GEM Listing Rules 6.36 and 18.45 in the Company as at 31 December 2001.

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.

COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the Half-Yearly Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

By order of the Board
Chiu Hang Tai
Chairman

Hong Kong, 5 February 2002