

PINE  **TECHNOLOGY HOLDINGS LIMITED**

The 1st Quarterly Report 2002/2003

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HIGHLIGHTS FOR THE THREE-MONTH PERIOD

- Revenue attained at approximately US\$62,596,000 for the three-month period.
- Net loss reported at approximately US\$2,039,000 for the three-month period.
- “it is a testament to their commitment to reaching the top and being considered a key player in the market.....” commented by nV News in August 2002 after their review of our XFX video line.

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 2002. The first quarterly report for the three months ended 30 September 2002 has been reviewed by the Company’s audit committee.

The unaudited consolidated loss of the Group for the Three-Month Period was approximately US\$2,039,000, as compared to the unaudited consolidated loss of the Group of approximately US\$1,277,000 for the corresponding three-month period in 2001. Unaudited consolidated turnover of the Group for the Quarterly Period was about US\$62,596,000, representing an increase of about 14.96% over the unaudited consolidated turnover of the Group of US\$54,451,000 for the corresponding three-month period in 2001.

The unaudited gross profit margin of the Group was approximately 5.17% for the Three-Month Period which was about 39.53% lower than the unaudited gross profit margin of the Group of approximately 8.55% for the corresponding three-month period in 2001.

The unaudited consolidated results of the Group for the Three-Month Period, together with the unaudited comparative figures for the corresponding three-month period in 2001 are as follows:

	Notes	Three months ended	
		2002	2001
		US\$'000	US\$'000
Turnover	2	62,596	54,451
Gross profit		3,234	4,653
Loss from operation		(2,414)	(1,324)
Profit on disposal of investment in securities		375	–
Loss before taxation		(2,039)	(1,324)
Taxation	3	(21)	(38)
Loss after taxation		(2,060)	(1,362)
Minority interests		21	85
Loss for the period		<u>(2,039)</u>	<u>(1,277)</u>
Loss per share (US cents)	4		
– Basic		<u>(0.299)</u>	<u>(0.187)</u>

Notes:

1. Basis of presentation

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 Three-Month Period were as follows:

	Three months ended	
	30 September	
	2002	2001
	US\$'000	US\$'000
Manufacture and sales of products under the Group's brand names	29,423	19,165
Distribution of other manufacturers products	33,173	35,286
	<u>62,596</u>	<u>54,451</u>

3. Taxation

	Three months ended	
	30 September	
	2002	2001
	US\$'000	US\$'000
The charge comprises:		
– Hong Kong Profits Tax	–	–
– Taxation arising in other jurisdictions	(21)	(38)
	<u>(21)</u>	<u>(38)</u>

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

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

4. Loss per share

The calculation of the basic loss per share for the Three-Month Period and the corresponding three-month period in 2001 is based on the following data:

	Three months ended	
	2002	2001
	US\$'000	US\$'000
Loss for the period	<u>(2,039,000)</u>	<u>(1,277,000)</u>
Weighted average number of ordinary shares	<u>682,786,000</u>	<u>682,786,000</u>

No diluted loss per share has been presented for the Three-Month Period and corresponding three-month period in 2001 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.

5. Share premium and reserves

	Share		Exchange reserve	Goodwill reserve	Capital reserve	Investments		Total
	premium account	Surplus account				revaluation reserve	Accumulated profits	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 July 2001	22,215	2,954	(192)	(1,611)	63	-	13,633	37,062
Exchange differences on translation of overseas operations	-	-	88	-	-	-	-	88
Loss for the period	-	-	-	-	-	-	(1,277)	(1,277)
Balance at 30 September 2001	<u>22,215</u>	<u>2,954</u>	<u>(104)</u>	<u>(1,611)</u>	<u>63</u>	<u>-</u>	<u>12,356</u>	<u>35,873</u>
Balance at 1 July 2002	22,215	2,954	(1)	(1,578)	67	1,997	14,032	39,686
Exchange differences on translation of overseas operations	-	-	(206)	-	-	-	-	(206)
Release upon disposal of a non-current investment in securities	-	-	-	-	-	(560)	-	(560)
Loss for the period	-	-	-	-	-	-	(2,039)	(2,039)
Balance at 30 September 2002	<u>22,215</u>	<u>2,954</u>	<u>(207)</u>	<u>(1,578)</u>	<u>67</u>	<u>1,437</u>	<u>11,993</u>	<u>36,881</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 three-month period in 2001.

BUSINESS REVIEW

July through September is historically the weakest quarter for technology-related products, this year, weak seasonality was also compounded by an overall weakness in the global economic environment. Pine managed to grow its revenue, beating many challenges, to US\$62,596,000, an increase of 14.96% over the same period last year. The growth in revenue reflected a steady performance at the mass merchant channel together with growing popularity of Pine products and high quality Proteam's motherboard products. However, we also saw declining gross profit as a result of competitive business environment, causing an operational loss at US\$2,414,000.

Solid revenue growth was sustained through the XFX line of products which were exceptionally well received in the market. One of the Hi-tech news agent, nV News commented in August 2002, "it is a testament to their commitment to reaching the top and being considered a key player in the market...." This was a major success. It encouraged us to continue investment in research and development of our own brand name products, which will bring higher profit margin in the long run.

The significant revenue growth was also contributed by the rapid expansion in the Mass Merchant channel. Through capturing new business opportunities and the launch of Pine's own-branded XFX high-end graphic card in the Canadian market, new streams of revenue was attained.

While resources were tactically invested into channel expansion and market position consolidation, the slow economy and sluggish market has made business environment increasingly competitive and therefore delayed the return of our investment from this quarter. Overcoming such a challenging environment, we adopted flexible pricing strategies to sustain better market position and future profitability. Yet, we did endure a short-term gross margin loss in this quarter.

We are confident that the business is on the right track and that newly established business partnership, new products and crucial market position will contribute sustainable revenue and improve margin in the coming quarters when the business environment returns to normal.

PROSPECTS

Rigorous product development - The cutting-edge development of the XFX line of products attracted increasing attention from the users and secured prominent market position. The Sharky Extreme, a game-enthusiast cited, "What we have here is a stable, well-designed product backed by an experienced company with an obvious understanding of what customers and enthusiasts are looking for..."

Robust Mass Merchant channel development - Fast and stable growth in the mass merchant channel will continue to create new streams of revenue for us to explore new arena of technology.

Streamlined overhead - Overhead will be maintained at the optimized level. The new competitive business model after reengineering started to settle firmly in which will improve efficiency and support a scaleable turnover in the near future.

Our strategic focus on the fundamentals has steered each group companies towards achieving industry leading performance benchmarks, with the result to continued margin enhancement. We will concentrate on the product development, channel expansion, overhead saving and effective cash flow management to capitalize the maximum return for the shareholders.

In closing, I would like to thank the management and staff who contributed to this successful quarter through their hard work and continuing commitment.

DIRECTORS' INTERESTS IN SHARE CAPITAL AND OPTIONS

Interests in Share Capital

As at 30 September 2002, 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 30 September 2002. 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 2002.

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 2002, 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 2002, 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.

Save 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 2002, 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.

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 comprised the two independent non-executive Directors, Mr. Lo Wai Hung and Mr. Li Chi Chung. On 13 September 2002, Mr. Lo Wai Hung resigned from the audit committee and Mr. So Hon Cheung, Stephen is appointed as a member of the audit committee.

BOARD PRACTICES AND PROCEDURES

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 Three-Month Period.

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 2002