

REPORT OF THE DIRECTORS

The Directors have the pleasure in presenting their report together with the audited financial statements of Pacific Challenge Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 31st March, 2001.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of corporate finance advisory and other related services, and investment holding. In addition, during the year, the Group disposed of three subsidiaries which were principally engaged in the provision of stock brokerage, futures brokerage, and margin financing services.

The Group’s turnover by principal activities together with their respective contributions to profit before taxation for the year ended 31st March, 2001 is analysed as follows:

	Turnover <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>
Continuing operations		
Corporate finance advisory and other related fees	14,065	3,169
Interest income from bank deposits, corporate finance operations and others	12,027	205
	<u>26,092</u>	<u>3,374</u>
Discontinued operations		
Stock brokerage income	18,351	6,040
Futures brokerage income	389	(17)
Margin financing operations and others	3,646	2,884
	<u>22,386</u>	<u>8,907</u>
	<u>48,478</u>	12,281
Unrealised loss on revaluation of investment in marketable securities, net		(4,027)
Gain on disposal of investment in marketable securities		923
Other revenue		1,310
Gain on disposal of subsidiaries		3,800
Interest expense		
– Continuing operations		(603)
– Discontinued operations		(891)
		<u>12,793</u>

Substantially all of the Group’s turnover is derived from Hong Kong.

MAJOR CUSTOMERS

For the year ended 31st March, 2001, approximately 8.6% of the Group's turnover was attributable to the Group's five largest customers. In addition, the largest customer accounted for approximately 4.1% of the Group's turnover.

As at 31st March, 2001, none of the directors, their associates, or any shareholder (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st March, 2001 are set out in the consolidated income statement on page 18 of this annual report.

The directors did not declare any interim dividend. The directors have recommended the payment of a final dividend of HK\$0.015 per share, totalling approximately HK\$4,297,000.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital during the year ended 31st March, 2001 and share options of the Company are set out in Notes 21 and 22 to the accompanying financial statements, respectively.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 23 to the accompanying financial statements.

As at 31st March, 2001, the Company's reserves of approximately HK\$122,864,000 (subject to the provisions under the Companies Act of Bermuda) and retained profit of approximately HK\$1,502,000 were available for distribution to its shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's bye-laws and the laws of Bermuda.

SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and associate are set out in Notes 13 and 14 to the accompanying financial statements respectively.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 12 to the accompanying financial statements.

PENSION SCHEME

Details of the Group's pension scheme are set out in Note 27 to the accompanying financial statements.

SUBSEQUENT EVENT

Details of a significant subsequent event are set out in Note 28 to the accompanying financial statements.

DIRECTORS

The Directors of the Company who held office during the year and up to the date of this report are:

Executive Directors

Dr. Lily Chiang (Chairman)
Chan Yim Fong, Teli
Shah Tahir Hussain

Independent non-executive Directors

Woo Ping Tao, Pedro	
Tzang Hing Chung, Alexander	(Appointed on 9th October, 2000)
Mitsuishi Mitsuo	(Appointed on 9th October, 2000)
Cheng Mo Chi, Moses	(Resigned on 15th November, 2000)

In accordance with the Company's Bye-Law No. 86(2) and No. 87(1), Tzang Hing Chung, Alexander, Mitsuishi Mitsuo and Woo Ping Tao, Pedro shall retire by rotation from office and, being eligible, offer themselves for re-election.

None of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2001, the interests of the Directors in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Personal interests	Number of shares		Percentage of voting power
		Corporate interests (Note a)	Total	
Dr. Lily Chiang	2,500,000	93,544,000	96,044,000	33.52%
Chan Yim Fong, Teli	432,000	–	432,000	0.15%

Note:

- a. Corporate interests represented shares held by Super Drive Inc., a company wholly owned by EI Media Technology Limited which in turn is 60% owned by Peace City Development Limited. Dr. Lily Chiang has a 100% beneficial interest in Peace City Development Limited.

Save as disclosed above, as at 31st March, 2001, none of the Directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or in any rights to subscribe for the securities of the Company, which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (including interests which they are deemed or taken to have under Section 31 or Part I of the Schedule to that Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Director or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register of interests required to be kept by the Company under Section 16(1) of the SDI Ordinance:

Name of shareholder	Note	Type of interests	Number of shares	Percentage of voting power
Dr. Lily Chiang		Personal	2,500,000	0.87%
	a	Corporate	93,544,000	32.65%
Kistefos Investment A.S.	b	Corporate	62,400,000	21.78%

Notes:

- a. Details of the interest of Dr. Lily Chiang in the shares of the Company are set out in the section "Directors' Interests in Shares" of this report.
- b. Kistefos Investment A.S. is wholly owned by A.S. Kistefos Traesliberi, in which Christen Sveaas has a 85% beneficial interest.

Save as disclosed above, the Directors are not aware of any person being interested in at least 10% of the total issued share capital of the Company as at 31st March, 2001 as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

AUDIT COMMITTEE

The Company's audit committee comprises two independent non-executive directors of the Company, namely Mr. Woo Ping Tao, Pedro and Mr. Mitsubishi Mitsuo. The audit committee has been delegated the authority from the Board to review the financial reporting and internal control procedures of the Company.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

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CODE OF BEST PRACTICE

In the opinion of the Directors, the Company had complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year covered by the annual report, except that the non-executive directors of the Company are not appointed for a specific term. However, the non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-Laws.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for their reappointment as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Dr. Lily Chiang

Chairman

Hong Kong,
10th July, 2001.