

*PACIFIC CHALLENGE*

**Pacific Challenge Holdings Limited**  
**Interim Report 2001**

# PACIFIC CHALLENGE HOLDINGS LIMITED

Interim Report 2001

The Directors of Pacific Challenge Holdings Limited (the "Company") present the unaudited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2001 as follows:

## CONSOLIDATED INCOME STATEMENT - UNAUDITED

For the six months ended 30 September 2001

(Expressed in Hong Kong dollars)

	Notes	Six months ended 30 September 2001 \$'000	Six months ended 30 September 2000 \$'000
Turnover			
– Continuing operations	(3), (14)	14,203	16,226
– Discontinued operations	(3)	–	22,285
		<u>14,203</u>	<u>38,511</u>
Cost of sales		<u>(3,175)</u>	<u>–</u>
		11,028	38,511
General and administrative expenses			
– Continuing operations		(12,425)	(9,727)
– Discontinued operations		–	(14,269)
		<u>(1,397)</u>	<u>14,515</u>
Provision for impairment on investment and loss on revaluation of marketable securities		(6,724)	–
Provision for legal fees		(12,000)	–
Gain on disposal of marketable securities		460	–
Gain on disposal of subsidiaries		–	3,800
Other revenue		428	–
(Loss) Profit from operations	(3)	<u>(19,233)</u>	<u>18,315</u>
Interest expense			
– Continuing operations		–	(265)
– Discontinued operations		–	(891)
		<u>–</u>	<u>(1,156)</u>
(Loss) Profit before taxation	(4)	<u>(19,233)</u>	<u>17,159</u>
Taxation	(5)	<u>–</u>	<u>(1,782)</u>
(Loss) Profit after taxation and before minority interest		<u>(19,233)</u>	<u>15,377</u>
Minority interest		(37)	–
(Loss) Profit attributable to shareholders		<u>(19,270)</u>	<u>15,377</u>
Final dividend of \$0.015 (2000 – Nil) per ordinary share		<u>4,297</u>	<u>–</u>
(Loss) Earnings per share – basic	(6)	<u>(6.7 cents)</u>	<u>6.2 cents</u>

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## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES – UNAUDITED

For the six months ended 30 September 2001

(Expressed in Hong Kong dollars)

		Six months ended 30 September 2001 \$'000	Six months ended 30 September 2000 \$'000
	Note		
(Loss) Profit attributable to shareholders		(19,270)	15,377
Write back of revaluation reserve upon disposal of subsidiaries	(13)	–	(3,319)
Translation adjustments	(13)	(590)	–
Net recognised (losses) gains		<u>(19,860)</u>	<u>12,058</u>

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## CONSOLIDATED BALANCE SHEET

As at 30 September 2001

(Expressed in Hong Kong dollars)

	Notes	As at 30 September 2001 (Unaudited) \$'000	As at 31 March 2001 (Restated – Note 1.a) \$'000
<b>NON-CURRENT ASSETS</b>			
Machinery and equipment	(7),(14)	3,488	1,153
Investment in associates	(8)	51,014	1,014
Total non-current assets		54,502	2,167
<b>CURRENT ASSETS</b>			
Inventories	(14)	23,727	–
Loan receivable		3,902	5,696
Deposits, prepayments and other receivables		2,126	2,636
Accounts receivable	(9)	9,686	6,605
Prepaid taxation		1,530	–
Investment in marketable securities		4,953	6,409
Cash and bank balances		184,111	265,624
Total current assets		230,035	286,970
<b>CURRENT LIABILITIES</b>			
Accounts payable	(10)	(7,373)	(4,514)
Accruals and other payables		(24,757)	(18,014)
Due to a minority shareholder of a subsidiary	(14)	(5,587)	–
Taxation payable		(931)	(1,015)
Dividend payable		(4,297)	–
Total current liabilities		(42,945)	(23,543)
Net current assets		187,090	263,427
Total assets less current liabilities		241,592	265,594
<b>NON-CURRENT LIABILITIES</b>			
Deferred taxation	(11)	(106)	(106)
<b>MINORITY INTEREST</b>			
		(155)	–
Net assets		241,331	265,488
Represented by –			
<b>SHARE CAPITAL</b>	(12)	28,648	28,648
<b>RESERVES</b>	(13)	212,683	232,543
<b>PROPOSED DIVIDEND</b>	(13)	–	4,297
Shareholders' equity		241,331	265,488

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## CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

For the six months ended 30 September 2001

(Expressed in Hong Kong dollars)

	Six months ended 30 September 2001 \$'000	Six months ended 30 September 2000 \$'000
Net cash (outflow) inflow from operating activities	<u>(33,588)</u>	<u>81,601</u>
Returns on investments and servicing of finance		
Interest received	6,241	10,797
Interest paid	–	(1,156)
	<u>6,241</u>	<u>9,641</u>
Taxation		
Hong Kong profits tax paid	<u>(1,614)</u>	<u>(1,191)</u>
Investing activities		
Net cash outflow in respect of disposal of subsidiaries	–	(22,872)
Net cash outflow in respect of acquisition of a subsidiary	(483)	–
Purchase of machinery and equipment	(1,507)	–
Purchase of marketable securities	(1,434)	(5,953)
Proceeds from disposal of marketable securities	1,462	–
Increase in investment in an associate	(50,000)	–
	<u>(51,962)</u>	<u>(28,825)</u>
Net cash (outflow) inflow before financing	<u>(80,923)</u>	<u>61,226</u>
Financing		
Proceeds from issuance of ordinary shares	–	31,552
Receipt of short-term loan receivable	–	20,000
Repayment of short-term bank loan	–	(20,000)
	<u>–</u>	<u>31,552</u>
(Decrease) Increase in cash and bank balances	(80,923)	92,778
Effect of foreign exchange rate changes	(590)	–
Cash and bank balances, beginning of period	<u>265,624</u>	<u>184,336</u>
Cash and bank balances, end of period	<u><u>184,111</u></u>	<u><u>277,114</u></u>

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## NOTES TO THE INTERIM FINANCIAL STATEMENTS

### (1) BASIS OF PRESENTATION AND PREPARATION

This interim financial report has been prepared in accordance with the principal accounting policies set out in the Company's audited financial statements as at and for the year ended 31 March 2001 except for changes set out below, and complies with Statement of Standard Accounting Practice ("SSAP") Number 25 issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited. The information included in the interim financial report is unaudited, other than the consolidated balance sheet as at 31 March 2001, which has been extracted from the audited financial statements as at that date.

Effective 1 April 2001, the following SSAPs issued by the HKSA were adopted by the Company and its subsidiaries (collectively "the Group"):

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangibles assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

a. SSAP 9 (revised): Events after the balance sheet date

In the prior year, dividends proposed or declared after the balance sheet date in respect of an accounting period prior to the balance sheet date were recognised as a liability at the balance sheet date. In order to comply with SSAP 9 (revised) "Events after the balance sheet date", the Group recognises a liability for dividends in the accounting period in which they are declared or proposed by the directors. The new accounting policy has been adopted retrospectively, with the opening balance of reserves and the comparative information adjusted for the amounts relating to prior periods.

b. SSAP 26: Segment reporting

In Note 3 to the interim financial report, the Group has disclosed segment revenue and results. The primary segment is defined by business category, while the secondary segment is defined by geographical location of customers.

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c. SSAP 28: Provisions, contingent liabilities and contingent assets

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

d. SSAP 31: Impairment of assets

Machinery and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss, representing the difference between the carrying amount and the recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the disposal of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

Except for the restatement of the opening balance of reserves and the reclassification of comparative figures in the balance sheet in relation to the adoption of SSAP Number 9 (revised), the adoption of the above standards had no material effect on amounts reported in the prior period.

## (2) LEGAL PROCEEDING BROUGHT BY A SHAREHOLDER

On 8 March, 2001, Kistefos Investment, A.S. ("Kistefos"), a shareholder of the Company, filed a petition (the "Petition") against the Company and one of its directors to The Supreme Court of Bermuda (the "Court") under Section 111(1) of the Companies Act 1981 of Bermuda. The Petition was based on an alleged claim that certain affairs of the Company had been conducted in a manner which is oppressive or unfairly prejudicial to the interests of certain shareholders of the Company, including Kistefos itself. Pursuant to the Petition, Kistefos intends to seek an order from the Court to either (i) enforce the Company or the director to purchase all shares in the Company held by Kistefos, at a fair value to be determined by the Court, or (ii) wind up the Company by the Court.

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After taking legal advice from its legal advisors in Bermuda, the Company has made a strike out application in relation to the Petition, the court hearing of which was completed in September 2001. The Company has been advised by its legal advisors in Bermuda that the Acting Judge of the Court has, in his judgement made in October 2001, struck out the relief of winding up the Company claimed by Kistefos, while the remaining relief claimed by Kistefos in the Petition remains to be dealt with by the Court in subsequent hearings. The Directors, after considering advice from its Bermuda legal advisors, believe that the Company has a reasonably good defense to the remaining claimed relief in the Petition. In connection with the Petition, a provision for legal fees amounting to HK\$12,000,000 has been recorded during the six months ended 30 September 2001 (note – HK\$5,000,000 was provided during the year ended 31 March 2001).

### (3) PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

An analysis of the Group's consolidated turnover and contribution to (loss) profit from operations by business segment and geographical location is as follows:

	Turnover		Contribution to (loss)	
	Six months ended		profit from operations	
	30 September		30 September	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By business segment –				
<b>Continuing operations</b>				
Corporate finance advisory and other related fees	4,370	10,838	699	6,056
Manufacturing and trading	4,482	–	560	–
Interest income and others	5,351	5,388	5,351	5,388
	<u>14,203</u>	<u>16,226</u>	<u>6,610</u>	<u>11,444</u>
<b>Discontinued operations</b>				
Stock brokerage	–	18,351	–	5,149
Futures brokerage	–	389	–	(17)
Margin financing and others	–	3,545	–	2,884
	<u>–</u>	<u>22,285</u>	<u>–</u>	<u>8,016</u>
	<u>14,203</u>	<u>38,511</u>	<u>6,610</u>	<u>19,460</u>
Provision for impairment on investment and loss on revaluation of marketable securities			(6,724)	–
Provision for legal fees			(12,000)	–
Gain on disposal of marketable securities			460	–
Gain on disposal of subsidiaries			–	3,800
Other revenue			428	–
Other general and administrative expenses			(8,007)	(4,945)
			<u>(19,233)</u>	<u>18,315</u>



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	Turnover		Contribution to (loss) profit from operations	
	Six months ended 30 September 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	Six months ended 30 September 2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
By geographical location –				
<b>Continuing operations</b>				
Hong Kong	9,721	16,226	(19,793)	10,299
Taiwan	4,482	–	560	–
	<u>14,203</u>	<u>16,226</u>	<u>(19,233)</u>	<u>10,299</u>
<b>Discontinued operations</b>				
Hong Kong	–	22,285	–	8,016
	<u>14,203</u>	<u>38,511</u>	<u>(19,233)</u>	<u>18,315</u>

#### (4) (LOSS) PROFIT BEFORE TAXATION

(Loss) Profit before taxation is arrived at after charging and crediting the following:

	Six months ended 30 September 2001 (Unaudited) HK\$'000	Six months ended 30 September 2000 (Unaudited) HK\$'000
After charging –		
Interest expense on		
– bank loans and overdrafts wholly repayable within five years	–	485
– other loans wholly repayable within five years	–	671
Depreciation of machinery and equipment	453	601
Staff cost (including directors' emoluments)	7,341	9,378
Operating lease rental for rented premises	<u>1,229</u>	<u>1,085</u>
After crediting –		
Interest income from		
– bank deposits	6,095	6,771
– other loans	146	547
– margin loans	<u>–</u>	<u>3,479</u>

#### (5) TAXATION

Taxation consists of:

	Six months ended 30 September 2001 (Unaudited) HK\$'000	Six months ended 30 September 2000 (Unaudited) HK\$'000
Hong Kong profits tax	<u>–</u>	<u>1,782</u>

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No taxation was provided during the period ended 30 September 2001 (2000 – provided at 16%) as the Company had no assessable profit during the period.

The Company is exempted from taxation in Bermuda until 2016.

## (6) (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share was based on the consolidated loss attributable to shareholders of HK\$19,270,000 (2000 – profit of HK\$15,377,000) and on the weighted average number of approximately 286,480,000 (2000 – 247,464,000) shares in issue during the period.

Diluted (loss) earnings per share for the six months ended 30 September 2001 and 2000 have not been calculated because no potential dilutive ordinary shares existed during such periods.

## (7) MACHINERY AND EQUIPMENT

Movements of machinery and equipment were:

	Six months ended 30 September 2001 (Unaudited)					Year ended	
	Leasehold Improvement	Furniture & Fixtures	Computer Equipment	Motor Vehicle	Machinery	Total	31 March 2001 (Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>							
Beginning of period/year	2,054	1,267	276	715	–	4,312	6,695
Additions	–	325	13	323	846	1,507	279
Disposal	–	–	–	–	–	–	(8)
Attributable to the acquisition (disposal) of a subsidiary	323	50	81	–	827	1,281	(2,654)
End of period/year	2,377	1,642	370	1,038	1,673	7,100	4,312
<b>Accumulated depreciation</b>							
Beginning of period/year	1,602	688	154	715	–	3,159	3,541
Charge for the period/year	291	110	27	25	–	453	1,012
Disposal	–	–	–	–	–	–	(8)
Attributable to the disposal of a subsidiary	–	–	–	–	–	–	(1,386)
End of period/year	1,893	798	181	740	–	3,612	3,159
<b>Net book value</b>							
End of period/year	484	844	189	298	1,673	3,488	1,153
Beginning of period/year	452	579	122	–	–	1,153	3,154

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## (8) INVESTMENT IN ASSOCIATES

Investment in associates consists of:

	As at 30 September 2001 (Unaudited) HK\$'000	As at 31 March 2001 (Audited) HK\$'000
Unlisted shares, at cost	<u>51,014</u>	<u>1,014</u>

In the opinion of the Directors, the underlying value of the investment in associates is not less than the carrying value as at 30 September 2001.

Details of associates, held indirectly by the Company as at 30 September 2001 are as follows:

Name	Place of incorporation/ operations	Percentage of nominal value of issued capital held	Issued share capital	Principal activities
E1-SkyTech Investment Company Limited	Cayman Islands/ Hong Kong	50%	HK\$350,000	Operating of a direct investment fund
Pacific Challenge Technology Capital Limited	British Virgin Islands/ Hong Kong	26%	US\$50	Investment holding

## (9) ACCOUNTS RECEIVABLE

The Group has granted credit periods ranging from 0 to 180 days.

The ageing analysis for accounts receivable is as follows:

	As at 30 September 2001 (Unaudited) HK\$'000	As at 31 March 2001 (Audited) HK\$'000
Accounts receivable		
0 – 1 month	8,886	4,792
1 – 2 months	333	–
2 – 3 months	421	–
4 – 6 months	–	1,813
Over 6 months	46	–
	<u>9,686</u>	<u>6,605</u>

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## (10) ACCOUNTS PAYABLE

The ageing analysis for accounts payable is as follows:

	As at 30 September 2001 (Unaudited) HK\$'000	As at 31 March 2001 (Audited) HK\$'000
Accounts payable		
0 – 1 month	755	–
1 – 2 months	2,505	–
2 – 3 months	775	–
4 – 6 months	–	4,514
Over 6 months	3,338	–
	<u>7,373</u>	<u>4,514</u>

## (11) DEFERRED TAXATION

Deferred taxation represents the taxation effect of the timing differences relating to accelerated depreciation for taxation purposes.

As at 30 September 2001, the Group has an unprovided deferred taxation asset, primarily representing the tax effect of cumulative tax losses (subject to the approval of the relevant tax authority), amounting to approximately HK\$2,024,000.

## (12) SHARE CAPITAL

	As at 30 September 2001 (Unaudited)		As at 31 March 2001 (Audited)	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised – shares of HK\$0.10 each	<u>900,000</u>	<u>90,000</u>	<u>900,000</u>	<u>90,000</u>
Issued and fully paid – shares of HK\$0.10 each	<u>286,480</u>	<u>28,648</u>	<u>286,480</u>	<u>28,648</u>

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## (13) RESERVES AND PROPOSED DIVIDEND

	Six months ended 30 September 2001					Six months ended
	Share premium (Unaudited) HK\$'000	Retained profit (Unaudited) HK\$'000	Other reserves (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Proposed dividend* (Unaudited) HK\$'000	30 September 2000 Total (Unaudited) HK\$'000
Beginning of period						
– as originally stated	65,928	157,030	9,585	232,543	–	202,562
– prior year adjustment (Note 1.a)	–	–	–	–	4,297	–
– as restated	65,928	157,030	9,585	232,543	4,297	202,562
Issuance of ordinary shares	–	–	–	–	–	26,792
Write-back of investment revaluation reserve upon disposal of subsidiary companies	–	–	–	–	–	(3,319)
Translation adjustments	–	–	(590)	(590)	–	–
(Loss) Profit attributable to shareholders	–	(19,270)	–	(19,270)	–	15,377
Final dividend for the year ended 31 March 2001	–	–	–	–	(4,297)	–
End of period	<u>65,928</u>	<u>137,760</u>	<u>8,995</u>	<u>212,683</u>	<u>–</u>	<u>241,412</u>

\* There was no proposed dividend in shareholders' equity for the six months ended 30 September 2000.

## (14) RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the period:

	Six months ended 30 September 2001 (Unaudited) HK\$'000	Six months ended 30 September 2000 (Unaudited) HK\$'000
Purchase of machinery and equipment and inventories from a related company, in which Mr. L. Yen, a minority shareholder of a subsidiary, has beneficial interest	15,970	–
Purchase of inventories from a related company, in which Mr. S. C. Kwan, a director of a subsidiary, has beneficial interest	7,488	–
Receipt of investment management fee from E1–SkyTech Investment Limited, an associate	667	–
Receipt of fee income from E1–SkyTech Investment Limited, an associate	<u>500</u>	<u>–</u>

An amount due to a minority shareholder of a subsidiary is unsecured, non-interest bearing and with no fixed repayment terms.

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## MANAGEMENT DISCUSSION AND ANALYSIS

### General Overview

Turnover of the Group for the six months ended 30 September 2001 was about HK\$14.2 million whilst a consolidated loss attributable to shareholders of about HK\$19.2 million was recorded for the period under review. Despite the loss, which was mainly attributed to the significant amount of provision for legal fees in relation to a legal proceeding brought against the Company by a substantial shareholder, the Group's turnover has been increased by about 42% as compared to the six months period immediately preceding the period under review, although the turnover has decreased from HK\$38,511,000 to HK\$14,203,000 for the first six months of the financial year 2001/2002 as a result of the Group's disposal of the brokerage business. The Directors do not recommend a payment of interim dividends.

Investment environment within Hong Kong has not recovered in the recent months. Unemployment rate continues climbing up and is expected to remain at a high level for a period. With the continued decrease in the consumer confidence, particularly after the terrorist attack in the United States in September 2001, business corporations in Hong Kong are facing a reduced economy in terms of business opportunities. The performance of the Group is therefore unavoidably affected by the current difficult economic situation.

### Review of Business Operations

#### *Fee based business*

The Group's corporate finance division continues generating reasonable revenue and profit for the Group, despite the current inactive capital market in Hong Kong, and will maintain the highest professional and quality standard in order to preserve its competitiveness in the marketplace.

The Group has also been able to diversify the revenue base of its fee-based business by securing a direct fund investment management agreement in respect of a direct investment fund. Fee revenue has been recorded in the financial statements for the period under review.

The Directors will continue to explore other fee based business opportunities in order to strengthen the revenue base.

#### *Direct investments*

In May 2001, the Group has completed the joint venture establishment for setting up a direct investment fund of HK\$100 million.

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The Group has also invested about HK\$25 million into two businesses engaged in the trading and manufacturing of precision components processing equipment, in which the Group has 100% and 70% interest respectively. These investments have commenced generating revenue for the Group and the corresponding cost of sales has been recorded in the financial statements for the period under review. The Directors believe that these investments will generate reasonable financial returns for the year ended 31 March 2003.

Subsequent to the terrorist attack in the United States in September 2001, the Directors have decided to make a provision of about HK\$4.8 million for an investment in an internet company in the United States incurred during the period under review on conservative basis.

Generally, the senior management reviews the business proposals made available to the Group on a regular basis and will invest on projects with good investment value for the Group.

## **Review of Financial Position**

The financial position of the Group remains healthy for the period under review. As at 30 September 2001, the Group maintained a cash level of about HK\$184 million, with the current ratio of about 5.4 times. The Group has no bank borrowings and not pledged any of the Group's assets as at the period end date.

## **Foreign Exchange Exposure**

The Group is expected to have reasonable number of transactions conducted in Japanese Yen for merchandise sourcing and in Taiwan Dollars for turnover generated. Fluctuation in these currencies may have impact to the financial performance of the Group.

## **Employment and Remuneration Policy**

As at 30 September 2001, the Group's operations engaged a total of about 110 staff and workers. The remuneration policy of the Group's employees are reviewed and approved by executive directors. Discretionary bonus is linked to the profit performance of the Group as well as individual performance. Benefits include staff accommodation, medical schemes and Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in People's Republic of China and Taiwan.

The employment costs (including directors' emoluments) accounted for approximately HK\$7,341,000 (for the six months ended 30 September 2000 – HK\$9,378,000).

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## **Disruption faced by the Management**

Other than the extremely difficult business environment facing the Group, Kistefos Investment A.S. (“Kistefos”), a substantial shareholder of the Company, presented a petition against the Company before The Supreme Court of Bermuda on 8 March 2001, the particulars of which are detailed in the Company’s annual report 2001 and various announcements. The senior management of the Group has subsequently spent a substantial amount of management time in dealing with the allegations made by Kistefos in the petition, the happening of which is definitely not in the interests of the Company’s shareholders. As a result, the Group’s investment activities have been slowed down.

Nonetheless, the Company has been successful in striking out the claim of Kistefos in winding up the Company in a court hearing in September 2001, although the other claim of Kistefos in requesting the Company to repurchase their shares in the Company is still subject to further court hearings. After taking into consideration the legal advice given by the legal advisors in Bermuda, the Company is taking necessary measures to make appeals against the Court decision of not striking out other claim of Kistefos in requesting the Company to repurchase their shares in the Company. The Directors have also decided to make a significant amount of provision for legal fees in relation to the proceedings of the petition, which significantly affects the result of the Group. Up to 30 September 2001, a total amount of HK\$17 million in relation to the legal fees for the petition has already been provided for in the books of the Company. The Board is currently not in a position to anticipate when the action brought by Kistefos will be finally concluded, and believes that the impact to the Group will increase if the disruption continues and remains.

## **Prospects**

Without any unforeseeable factors, the Directors believe that the financial performance of the Group in the second half of the year 2001/2002 will be improved. The Directors are also confident that, with the recent accession of the People’s Republic of China to the World Trade Organization, more investment opportunities will be made available to the Group. Given the healthy financial position of the Group, which is capable of leveraging the available opportunities, the Directors are optimistic about the long-term future of the Group, provided that the senior management is no longer required to face the management disruption encountered.

## **OTHER INFORMATION**

### **Purchase, sale and redemption of the Company’s listed shares**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed shares during the period under review.



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## Directors' interests in shares

As at 30 September 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:

- Corporate interests represented shares held by Super Drive Inc., a company wholly owned by E1 Media Technology Limited which in turn is a 60% owned subsidiary of Peace City Development Limited. Dr. Lily Chiang has a 100% beneficial interest in Peace City Development Limited.

Save as disclosed above, as at 30 September 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 period under review 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 Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period under review.

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## Substantial shareholders

As at 30 September 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	a	Personal	2,500,000	0.87%
		Corporate	93,544,000	32.65%
Kistefos Investment A.S.	b	Corporate	62,400,000	21.78%

Notes:

- 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.
- 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 30 September 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. Mitsuishi Mitsuo. The audit committee has been delegated the authority from the Board to review the financial reporting and internal control procedures of the Company.

## Code of Best Practice

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company has not complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period ended 30 September 2001, except that the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

By Order of the Board  
**Dr. Chiang Lily**  
*Chairman*

Hong Kong,

17 December 2001.

# PACIFIC CHALLENGE HOLDINGS LIMITED

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## **Independent review report to the Board of Directors of PACIFIC CHALLENGE HOLDINGS LIMITED**

### **Introduction**

We have been instructed by the Board of Directors of Pacific Challenge Holdings Limited to review the interim financial report set out on pages 1 to 12.

### **Directors' responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and have been approved by, the directors.

### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial report" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **Fundamental uncertainty**

In arriving at our review conclusion, we have considered the adequacy of disclosures made in the interim financial report concerning a petition against the company and one of its directors by a shareholder. Details of such petition are described more fully in Note 2 to the interim financial report. Although the directors of the company, after consultation with their legal advisors, are of the view that the company has a reasonably good defense to the case, the future outcome of such petition cannot be assessed with certainty as at the date of this report. We consider that appropriate disclosures have been made and our review conclusion is therefore not modified in this respect.

### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2001.

**ARTHUR ANDERSEN & CO**  
*Certified Public Accountants*

Hong Kong,

17 December 2001.