

## REPORT OF THE DIRECTORS

The Directors are pleased to present 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, 2002.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) the manufacturing and trading of precision components processing equipment; (ii) securities investment and financial services, and (iii) corporate finance and investment advisory services.

The Group’s turnover by principal activity and by geographical location, together with their respective contributions to profit (loss) after taxation for the year ended 31st March, 2002 are analysed as follows:

	Turnover <i>HK\$'000</i>	Profit (Loss) after taxation <i>HK\$'000</i>
a. By principal activity –		
Manufacturing and trading of precision components processing equipment	30,937	269
Securities investment and financial services	7,101	(9,656)
Corporate finance and investment advisory services	6,952	833
	<u>44,990</u>	<u>(8,554)</u>
Other revenue		4,337
Impairment loss on investments		(10,494)
Provision for legal and professional fees		(18,079)
Loss on investment in marketable securities		(5,800)
Impairment loss on investment in associates		(1,014)
Share of loss of associates		(222)
Taxation		(140)
		<u>(39,966)</u>
b. By geographical location –		
Hong Kong	13,746	(40,235)
Mainland China	20,137	1,622
Taiwan	11,107	(1,353)
	<u>44,990</u>	<u>(39,966)</u>

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31st March, 2002, the five largest customers of the Group accounted for approximately 21.8% of the Group's turnover while the five largest suppliers of the Group accounted for 53.1% of the Group's purchases. In addition, the largest customer of the Group accounted for approximately 8.9% of the Group's turnover while the largest supplier of the Group accounted for 30.0% of the Group's purchases.

None of the directors, their associates or any shareholders (who, 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 or five largest suppliers.

## RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st March, 2002 are set out in the consolidated income statement on page 16 of this annual report.

The Directors do not recommend the payment of a dividend and recommend that the retained profit of approximately HK\$36,331,000 and the contributed surplus of approximately HK\$122,864,000 as at 31st March, 2002 be carried forward.

## SHARE CAPITAL

Details of movements in share capital during the year ended 31st March, 2002 are set out in Note 25 to the accompanying financial statements.

## RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 27 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 16 of this annual report.

As at 31st March, 2002, 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\$36,331,000 were available for distribution to its shareholders.

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## PRE-EMPTIVE RIGHTS

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

## **SUBSIDIARIES AND ASSOCIATES**

Details of the Company's subsidiaries and associates are set out in Notes 15 and 16 to the accompanying financial statements respectively.

## **FIXED ASSETS**

Details of movements in the fixed assets of the Group are set out in Note 14 to the accompanying financial statements.

## **PENSION SCHEMES**

Details of the Group's pension schemes are set out in Note 31 to the accompanying financial statements.

## **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

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

### **Executive directors:**

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

### **Independent non-executive directors:**

Mr. Woo Ping Tao, Pedro  
Mr. Tzang Hing Chung, Alexander  
Mr. Mitsubishi Mitsuo

In accordance with the Company's Bye-Law No. 87(1), Ms. Chan Yim Fong, Teli and Mr. Shah Tahir Hussain 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).

## DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2002, 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	Total	
Dr. Lily Chiang	2,500,000	93,544,000 (Note a)	96,044,000	33.52%
Chan Yim Fong, Teli	432,000	–	432,000	0.15%

Note:

- a. Corporate interests represent 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, 2002, 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 of Hong Kong Limited ("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 directors 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.

## SHARE OPTION SCHEME

The Company's share option scheme ("the Scheme") was adopted pursuant to written resolutions of the sole shareholder of the Company dated 11th September, 1998 for the purpose of providing incentives to employees, including executive directors, of the Group, and will expire in September, 2008. The maximum number of shares in respect of which options may be granted (together with options exercised and options outstanding) under the Scheme may not exceed 10% of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options pursuant to the Scheme. No option may be granted to any one person which if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

The offer of grant of options is open for acceptance for 28 days from the date of the offer of the option (but not later than the date of the tenth anniversary of the date of adoption of the Scheme or the date of termination of the Scheme for a consideration of \$10 per option. The subscription price for shares under the Scheme will be not less than 80% of the average of the closing prices of the shares on the Stock Exchange as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of offer of the option, or the nominal value of the shares, whichever is the higher.

The Stock Exchange amended the requirements for share option schemes under the Listing Rules. The new requirements came into effect on 1st September, 2001. In order to comply with the new Listing Rules requirements, a new share option scheme will be tabled for shareholders' approval at the forthcoming annual general meeting and the existing share option scheme adopted on 11th September, 1998 will be terminated accordingly.

During the year ended 31st March, 2002, the Company granted options to certain employees of the Group to subscribe for 23,880,000 shares at an exercise price of HK\$0.32 per share between 7th May, 2002 and 31st December, 2007. As of the date of this report, options to subscribe for 21,492,000 shares remain outstanding. Movements in the Company's share options during the year are set out in Note 26 to the accompanying financial statements.

With effect from 1st September, 2001, the Stock Exchange requires that the exercise price of options to be at least the higher of the closing price of the shares on the Stock Exchange on the date of grant and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant. Up to the date of this report, certain options were granted to employees of the Company pursuant to the new requirements after 1st September, 2001.

The directors do not consider it appropriate to disclose a theoretical value of the share options granted during the year, because in the absence of a readily available market value of the share options on the ordinary shares of the Company, the directors were unable to arrive at an assessment of the value of these share options.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2002, 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 right
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 Mr. 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, 2002 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 and the Group.

## 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.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year covered by this 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, who do not seek re-appointment upon their retirement at the forthcoming annual general meeting. A resolution for the appointment of a new auditing firm as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Chan Yim Fong, Teli**

*Executive Director*

Hong Kong,  
27th June, 2002.