



Arthur Andersen & Co

21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Auditors' Report to the Shareholders of
PACIFIC CHALLENGE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 16 to 51 which have been prepared in accordance with accounting policies generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of the company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and of the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning a petition filed by a shareholder against the company and one of its directors. Details of such petition are described in Note 2 to the financial statements. 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. The accompanying financial statements have been prepared on the going concern basis, on the assumption that the outcome of the petition will be favourable to the company. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that would result should the outcome of the petition not be favourable to the company. We consider that appropriate disclosures have been made and our opinion is therefore not qualified in this respect.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st March, 2002 and of the loss and cash flows of the group for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO

Certified Public Accountants

Hong Kong,
27th June, 2002.