

Pacific Challenge Holdings Limited

Pacific Challenge Holdings Limited
Interim Report 2002

2002

The board of directors (the "Board") of Pacific Challenge Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

(Expressed in Hong Kong dollars)

		Six months ended 30 September 2002 \$'000	Six months ended 30 September 2001 \$'000
	<i>Notes</i>		
Turnover	(3)	19,839	14,203
Cost of sales		<u>(14,376)</u>	<u>(3,175)</u>
		5,463	11,028
General and administrative expenses		<u>(18,570)</u>	<u>(12,425)</u>
		(13,107)	(1,397)
Unrealised loss on marketable securities		(17,255)	(6,724)
Provision for legal fees		-	(12,000)
Gain on disposal of marketable securities		1,426	460
Other revenue		<u>1,081</u>	<u>428</u>
Loss before taxation	(4)	(27,855)	(19,233)
Finance costs		<u>-</u>	<u>-</u>
		(27,855)	(19,233)
Taxation	(5)	<u>-</u>	<u>-</u>
Loss after taxation and before minority interest		(27,855)	(19,233)
Minority interest		<u>(112)</u>	<u>(37)</u>
Loss attributable to shareholders		<u>(27,967)</u>	<u>(19,270)</u>
Dividend	(6)	<u>-</u>	<u>4,297</u>
Loss per share – basic	(7)	<u>(9.7 cents)</u>	<u>(6.7 cents)</u>

CONDENSED CONSOLIDATED BALANCE SHEET*(Expressed in Hong Kong dollars)*

		30 September 2002 (Unaudited) \$'000	31 March 2002 (Audited) \$'000
	<i>Notes</i>		
FIXED ASSETS		23,825	3,063
CURRENT ASSETS			
Inventories		16,575	18,983
Accounts receivable	(8)	16,958	17,027
Deposits, prepayments and other receivables		5,125	4,792
Investments in marketable securities		58,860	19,976
Cash and bank balances		110,591	203,119
Total current assets		208,109	263,897
CURRENT LIABILITIES			
Accounts payable	(9)	(11,654)	(14,531)
Accruals and other payables		(21,662)	(26,942)
Due to a minority shareholder of a subsidiary		(3,972)	(3,964)
Taxation payable		(1,069)	(1,069)
Total current liabilities		(38,357)	(46,506)
Net current assets		169,752	217,391
Total assets less current liabilities		193,577	220,454
NON-CURRENT LIABILITIES			
Deferred taxation	(10)	(106)	(106)
MINORITY INTEREST		(112)	-
Net assets		193,359	220,348
Represented by:			
SHARE CAPITAL	(11)	28,887	28,648
RESERVES		75,293	74,554
RETAINED PROFIT		89,179	117,146
Shareholders' equity		193,359	220,348

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended 30 September 2002 \$'000	Six months ended 30 September 2001 \$'000
Total shareholders' fund at 1 April as previously reported	220,348	261,191
Prior year adjustment	<u>-</u>	<u>4,297</u>
Total shareholders' fund at 1 April as restated	220,348	265,488
Issue of shares	764	-
Translation adjustments	214	(590)
Loss for the period	(27,967)	(19,270)
Final dividend	<u>-</u>	<u>(4,297)</u>
Total shareholders' fund at 30 September	<u>193,359</u>	<u>241,331</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*(Expressed in Hong Kong dollars)*

	Six months ended 30 September 2002 \$'000	Six months ended 30 September 2001 \$'000
OPERATING ACTIVITIES		
Operations	(17,470)	(27,347)
Interest paid	-	-
Taxation	-	(1,614)
	<hr/>	<hr/>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(17,470)	(28,961)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(75,822)	(52,552)
NET CASH INFLOW/ (OUTFLOW) FROM FINANCING ACTIVITIES	764	-
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(92,528)	(81,513)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	203,119	265,624
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	110,591	184,111
	<hr/>	<hr/>
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and time deposits	110,591	184,111
	<hr/>	<hr/>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. BASIS OF PRESENTATION AND PREPARATION

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the audited financial statements for the year ended 31 March 2002, except that the Group has changed certain of its accounting policies following the adoption of the SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

(a) SSAP 1 (Revised) "Presentation of financial statement"

The consolidated statement of recognized gains and losses is replaced by the consolidated statement of changes in equity.

(b) SSAP 11 (Revised) "Foreign currency translation"

This revised SSAP has had no major impact on this interim financial statement.

(c) SSAP 15 (Revised) "Cash flow statements"

The consolidated cash flow statement for the current interim period and comparative figures has been presented in accordance with the revised SSAP 15.

(d) SSAP 34 "Employee benefits"

There is no material effect on the Group's results for both periods presented.

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 former 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 former 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.

After taking legal advice from its legal advisors in Bermuda, the Company made a strike out application in relation to the Petition, the Court hearing of which was completed in September 2001. The Company was 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. In December 2001, the Company dissatisfied with the judgement made by the Court in relation to the remaining

relief claimed by Kistefos in the Petition and appealed to the Court of Appeal of Bermuda to strike out the entire Petition. In February 2002, Kistefos filed a notice of intention to the Court of Appeal of Bermuda to contend the decision made by the Court to strike out the relief of winding up the Company. The hearing of the appeal was conducted in June 2002 and the Bermuda Court of Appeal dismissed both the appeal of the Company and the cross-appeal of Kistefos. As a result, the claim of Kistefos to wind up the Company remains struck out, while the remaining relief will be dealt with by the Court in subsequent trial. The Directors of the Company, 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. Accordingly, the unaudited condensed consolidated financial statements have been prepared on the going concern basis.

3. SEGMENT INFORMATION

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

	Turnover Six months ended 30 September		Contribution to loss from operations Six months ended 30 September	
	2002 (Unaudited) \$'000	2001 (Unaudited) \$'000	2002 (Unaudited) \$'000	2001 (Unaudited) \$'000
By business segment –				
Corporate finance advisory and other related fees	1,030	4,370	(833)	699
Manufacturing and trading Securities investment and financial services	18,026	4,482	3,649	560
	<u>783</u>	<u>5,351</u>	<u>783</u>	<u>5,351</u>
	<u>19,839</u>	<u>14,203</u>	<u>3,599</u>	<u>6,610</u>
Unrealised loss on marketable securities			(17,255)	(6,724)
Provision for legal fees			–	(12,000)
Gain on disposal of marketable securities			1,426	460
Other revenue			1,081	428
Other general and administrative expenses			(16,706)	(8,007)
			<u>(27,855)</u>	<u>(19,233)</u>
By geographical location –				
Hong Kong	6,671	9,721	(28,409)	(19,793)
China	5,085	–	882	–
Taiwan	8,083	4,482	(328)	560
	<u>19,839</u>	<u>14,203</u>	<u>(27,855)</u>	<u>(19,233)</u>

4. LOSS BEFORE TAXATION

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

	Six months ended 30 September 2002 (Unaudited) \$'000	Six months ended 30 September 2001 (Unaudited) \$'000
After charging –		
Depreciation	310	453
Staff cost (including directors' emoluments)	9,206	7,341
Operating lease rentals for rented premises	<u>1,163</u>	<u>1,229</u>
After crediting –		
Interest income from		
– bank deposits	1,082	6,095
– other loans	<u>9</u>	<u>146</u>

5. TAXATION

No taxation was provided during the period ended 30 September 2002 as the Company had no assessable profit during the period.

The Company is exempted from taxation in Bermuda until 2016.

6. DIVIDEND

No dividend was paid during the period. The Directors do not recommend the payment of interim dividend for the six months ended 30 September 2002.

A final dividend for the year ended 31 March 2001 of \$4,297,000 was approved during the six months ended 30 September 2001.

7. LOSS PER SHARE

The calculation of basic loss per share was based on the consolidated loss attributable to shareholders of \$27,967,000 (30 September 2001 – \$19,270,000) and on the weighted average number of approximately 288,271,000 (30 September 2001 – 286,480,000) shares in issue during the period.

Diluted loss per share for the six months ended 30 September 2002 and 2001 have not been calculated because no potential dilutive ordinary shares existed during such period.

8. ACCOUNTS RECEIVABLE

The Group's sales are primarily made on an open account basis and the terms of the group range from 0 to 180 days. An aging analysis of accounts receivable is as follows:

	As at 30 September 2002 (Unaudited) \$'000	As at 31 March 2002 (Audited) \$'000
Accounts receivable		
0 – 1 month	3,469	4,715
1 – 3 months	3,611	6,740
3 – 6 months	3,467	5,928
Over 6 months	7,359	3,526
	17,906	20,909
Less: Provision for doubtful receivables	(948)	(3,882)
	16,958	17,027

9. ACCOUNTS PAYABLE

An aging analysis of accounts payable is as follows:

	As at 30 September 2002 (Unaudited) \$'000	As at 31 March 2002 (Audited) \$'000
Accounts payable		
0 – 1 month	2,848	4,012
1 – 3 months	3,013	4,916
3 – 6 months	984	2,255
Over 6 months	4,809	3,348
	11,654	14,531

10. DEFERRED TAXATION

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

11. SHARE CAPITAL

	As at 30 September 2002 (Unaudited)		As at 31 March 2002 (Audited)	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised				
– shares of \$0.10 each	900,000	90,000	900,000	90,000
Issued and fully paid				
– shares of \$0.10 each				
Beginning of period/year	286,480	28,648	286,480	28,648
Exercise of share options	2,388	239	–	–
End of the period/year	288,868	28,887	286,480	28,648

MANAGEMENT DISCUSSION AND ANALYSIS

General Overview

For the six months ended 30 September 2002, the Group's turnover increased by approximately 39.7% to approximately HK\$19.8 million as compared HK\$14.2 million for the last corresponding period. The increase was mainly due to the inclusion of full six-month results of the manufacturing and trading division for the current period as compared to the two-month results since the acquisition of the manufacturing and trading division by the end of July 2001. The Group recorded a loss attributable to shareholders of approximately HK\$27.9 million (30 September 2001 – HK\$19.3 million). The increase in loss attributable to shareholders for the period was mainly due to the provision for unrealized loss on marketable securities which amounted to HK\$17.3 million (30 September 2001 – HK\$6.7 million). The Directors do not recommend any interim dividend for the six months ended 30 September 2002 (30 September 2001 – Nil).

Review of Business Operations

Corporate finance and investment advisory

The corporate finance and investment advisory market in Hong Kong had been volatile since the last financial year. Given the current capital market conditions and competitions from other market participants, the performance of our corporate finance division had been deteriorating from HK\$4.4 million in the last corresponding period to HK\$1 million for the period under review. Despite of the limited corporate finance activities currently, the management will continue to explore other fee based business opportunities to strengthen the earnings base.

Manufacturing and trading

The performance of the manufacturing and trading division had been stable over the period under review, generating a turnover of HK\$18 million as compared to HK\$4.5 million (two-month results since the acquisition of the trading and manufacturing division by the end of July 2001) in the last corresponding period. Although the manufacturing and trading division has not been able to bring in significant amount of profit, the management believes it will provide a stable earnings stream for the Group.

Investments

The investment environment in Hong Kong has not been improved during the current period. Provision for unrealized loss on marketable securities of HK\$17.3 million had been made for the period as compared to HK\$6.7 million in the last corresponding period. Despite of the poor market condition for the period, the management believes the securities market will recover in the coming future.

Review of Financial Position

The financial position of the Group remains healthy for the period under review. As at 30 September 2002, the Group maintained a cash level of about HK\$111 million, with the current ratio of about 5.4 times (2001 – 5.4 times). The Group has no bank borrowings and not pledged any of the Group's assets as at the period end date (2001 – Nil).

Foreign exchange exposure

The Group expects to have a reasonable number of transactions conducted in Taiwan Dollars. Fluctuation in this currency may have an impact on the financial performance of the Group. Although the management believes the impact will be insignificant, the management will closely monitor the fluctuation in this currency and take appropriate actions when condition arises.

Employment, training and remuneration policy

As at 30 September 2002, the Group's operations engaged a total of about 100 staffs and workers. The remuneration policy of the Group's employees are reviewed and approved by the executive directors. Discretionary bonus is linked to the profit performance of the Group as well as individual performance. Share options granted under the share option scheme adopted by the Company on 11 September 1998 have been renounced and cancelled in the conditional cash offer by Kandy Profits Limited after 25 July 2002. A new share option scheme was subsequently approved in a shareholding meeting of the Company on 30 August 2002. Benefits include staff accommodation, medical schemes and Mandatory Provident Fund Scheme for Hong Kong employees, and state-sponsored retirement plans for employees in the People's Republic of China and Taiwan.

Prospects

Although the problems of deflation and unemployment have continued and the global economy continued to be volatile, the management believes that Hong Kong's role as an international financial center is unlikely to be overtaken by any major cities in the region. The accession of the People's Republic of China to the World Trade Organization, Hong Kong will continue to play an important role in channeling funds and more investment opportunities will be made available to the Group. Accordingly, the management will actively look into any business opportunities when appropriate.

The Group will continue to maintain the highest professional and quality standard of the corporate finance division to preserve its competitiveness in the market. The management believes, the corporate finance advisory services will bring in reasonable amount of profit to the Group as the capital market recovers.

The performance of the manufacturing and trading division has been stable throughout the period. Although the division will not bring in significant contribution to the Group in the coming future, the management will closely monitor and further reduce the operation overheads of the division.

OTHER INFORMATION

Directors' interests in shares

As at 30 September 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:

	Nature of interest	Number of Shares	Percentage of voting power
Cheong Tin Yau	Corporate (<i>Note</i>)	154,244,000	53.4%

Note:

This corporate interest was held by Kandy Profits Limited, a company wholly owned by Mr. Cheong Tin Yau.

Save as disclosed above, as at 30 September 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 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.

Share Option Scheme

The Company had adopted a share option scheme (the "Old Scheme") pursuant to written resolution of the sole shareholder of the Company dated 11 September 1998 under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company.

Pursuant to a resolution passed by the shareholders of the Company at an extraordinary meeting held on 30 August 2002, the Old Scheme was superseded by a new share option scheme (the "New Scheme") in order to comply with the amended Chapter 17 of the Listing Rules governing share option schemes, which become effective from 1 September 2001. Pursuant to the New Scheme, the Company may grant options to those eligible persons (including directors of the Company) to subscribe for shares of the Company.

The following table discloses movements in the Company's share options granted under the Old Scheme during the six months ended 30 September 2002:

Date of grant	Exercise period	Exercise price	Number of share options			Balance as at 30 September 2002
			Balance as at 31 March 2002	Exercised during the period	Cancelled during the period	
			'000	'000	'000	'000
4 February 2002	7 May 2002 to 31 December 2007	HK\$0.32	23,880	2,388	21,492	-

Subsequent to the acceptance of offer made by Kandy Profits Limited in renunciation of share options held by the Directors and employees of the Company, all the share option granted under the Old Scheme of the Company had been cancelled after 25 July 2002.

No option was granted under the New Scheme during the six months ended 30 September 2002.

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 period or at any time during the period under review.

Substantial shareholders

In June 2002, the Company's shareholders received a voluntary conditional cash offers from TingKong – RexCapital Securities International Limited on behalf of Kandy Profits Limited to acquire all the issued shares of the Company and outstanding options to subscribe for shares of the Company. The Offer was completed on 2 August 2002 and Kandy Profits Limited became the major controlling shareholder of the Company.

As at 30 September 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 power
Kandy Profits Limited	<i>a</i>	Corporate	154,244,000	53.4%
Kistefos Investment A.S.	<i>b</i>	Corporate	62,400,000	21.6%

Notes:

- a. Details of the interest of 154,244,000 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 30 September 2002 as recorded in the register required to be kept by the Company under Section 16(1) of the SDI Ordinance.

Changes of Directors

On 29 July 2002, Mr. Cheong Tin Yau was appointed Executive Director and Chairman of the Company subsequent to his acquisition of a controlling stake in the Company through his wholly-owned company, Kandy Profits Limited and Mr. Lam Kwan Sing was appointed as Executive Director whilst Ms. Lau Ching Yin, Judy and Mr. Chau Oi Ching, Samuel were appointed as Independent Non-Executive Directors. On the same date, Dr. Chiang Lily resigned as Executive Director and Chairman of the Company, Ms. Chan Yim Fong, Teli and Mr. Shah Tahir Hussain resigned as Executive Directors and Messrs. Tzang Hing Chung, Alexander, Woo Ping Tao, Pedro and Mitsuishi Mitsuo resigned as Independent Non-Executive Directors whilst Mr. Hubert Chak, who had been appointed as alternate to Dr. Chiang Lily on 15 July 2002, ceased to be an alternate to Dr. Chiang.

On 20 November 2002, Mr. Lo Kwok Hung, John was appointed as Independent Non-Executive Director.

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.

Audit Committee

The Company's audit committee comprises three independent non-executive directors of the Company, namely Ms. Lau Ching Yin, Judy, Mr. Chau Oi Ching, Samuel and Mr. Lo Kwok Hung, John. The audit committee has been delegated the authority from the Board to review the financial reporting and internal control procedures of the Company including a review of the accounts for the six months ended 30 September 2002 with the Directors.

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 2002, 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
Cheong Tin Yau
Chairman

Hong Kong, 10 December 2002