

IMPORTANT

If you are in any doubt about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pacific Challenge Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

Pacific Challenge Holdings Limited **(太平洋興業集團有限公司)***

(Incorporated in Bermuda with limited liability)

Discloseable transaction – Conditional acquisition by Powerful Union Limited of a controlling interest in Trend Technology Limited

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	4
The Sale and Purchase Agreement	5
The Loan Agreement	6
The Share Subscription Agreement	7
Basis of determination of the aggregate consideration for the Acquisition	7
Funding of the aggregate consideration for the Acquisition and the Loan	10
Shareholding structures of Trend	11
Financial and other information about Trend	12
Completion of the Acquisition	13
Reasons for the Acquisition	14
Financial effects of the Rights Issue and the Acquisition	16
General	17
Appendix – General Information	18

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the conditional acquisition of the entire issued share capital of Tone by the Purchaser for a cash consideration of HK\$50 million pursuant to the Sale and Purchase Agreement
“associate(s)”	has the same meaning ascribed to it in the Listing Rules
“Company”	Pacific Challenge Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Dr. Han”	Dr. Hsiao Yue George Han, the sole and beneficial shareholder of Tone and a party who is independent of and not connected with any of the directors, chief executive and substantial shareholders of the Company and its subsidiaries and any of their respective associates
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	4 April 2003, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan”	an unsecured loan in an aggregate principal amount of HK\$42.6 million to be granted by the Purchaser to Tone pursuant to the Loan Agreement
“Loan Agreement”	the loan agreement entered into between the Purchaser and Tone dated 14 March 2003, pursuant to which the Purchaser shall grant the Loan to Tone upon completion of the Sale and Purchase Agreement
“Options”	the 28,886,800 outstanding options in issue which were granted by the Company to employees of the Group on 15 October 2002 pursuant to the Company’s share option scheme adopted on 30 August 2002, and which are exercisable during the period of five years commencing from 1 February 2003 at a subscription price of HK\$0.67 per Share (subject to adjustments)
“PRC”	People’s Republic of China

DEFINITIONS

“Purchaser”	Powerful Union Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“Qualifying Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date and whose addresses as shown on such register are in Hong Kong, and include Kandy Profits Limited and Kistefos Investment A.S. who are substantial Shareholders and who were beneficially interested in 154,244,000 Shares and 62,400,000 Shares as at the Latest Practicable Date, respectively, representing approximately 53.4% and 21.6% of the Company’s issued share capital as at the Latest Practicable Date, respectively
“Record Date”	8 April 2003, being the record date for the purpose of determining the entitlements of the Qualifying Shareholders under the Rights Issue
“Rights Issue”	rights issue by the Company of not less than 144,434,000 new Shares and not more than 158,877,400 new Shares, on the basis of one new Share for every two existing Shares held on the Record Date at the issue price of HK\$0.30 each raising net proceeds (after expenses) of between approximately HK\$41.1 million and HK\$45.5 million, details and the terms and conditions of which are set out in the Company’s announcement dated 18 March 2003 and in the Company’s prospectus dated 8 April 2003 in relation to the Rights Issue
“Sale and Purchase Agreement”	the conditional sale and purchase agreement entered into between the Purchaser and Dr. Han dated 14 March 2003, pursuant to which the Purchaser shall acquire Dr. Han’s entire beneficial interest in Tone for a cash consideration of HK\$50 million
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Share Subscription Agreement”	the share subscription agreement entered into between Tone and Trend dated 14 March 2003, pursuant to which Tone shall subscribe for 3,705,000 new shares of Trend for a cash consideration of HK\$42.6 million
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Tone”	Tone Communication Limited, a company incorporated in the British Virgin Islands on 20 January 2000 which is wholly and beneficially owned by Dr. Han and which is interested in approximately 69.11% of Trend’s issued share capital as at the Latest Practicable Date
“Trend”	Trend Technology Limited, a company incorporated in the British Virgin Islands on 12 January 2000 and which wholly and beneficially owns Trend Technology (Erzhou)
“Trend Technology (Erzhou)”	趨勢(鄂州)科技有限公司 (Trend Technology (Erzhou) Limited), a wholly foreign-owned enterprise established in the PRC on 17 March 2000 which is principally engaged in the research, development and manufacturing of bio-agricultural pesticide products in Gedian (葛店), Hubei province, the PRC
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“RMB”	Renminbi yuan, the lawful currency of the PRC
“US\$”	United States dollars

For the purpose of this circular, the exchange rates adopted between Hong Kong dollars and Renminbi yuan is HK\$1 = RMB 1.07 and between Hong Kong dollars and United States dollars is US\$1 = HK\$7.80.

LETTER FROM THE BOARD

Pacific Challenge Holdings Limited
(太平洋興業集團有限公司)*

(Incorporated in Bermuda with limited liability)

Executive Directors:

Cheong Tin Yau (*Chairman*)
Lam Kwan Sing

Independent non-Executive Directors:

Lau Ching Yin, Judy
Chau Oi Ching, Samuel
Lo Kwok Hung, John

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place
of business:*

22nd Floor
80 Gloucester Road
Wanchai
Hong Kong

8 April 2003

To the Shareholders

Dear Sir or Madam,

**Discloseable transaction –
Conditional acquisition by Powerful Union Limited
of a controlling interest in
Trend Technology Limited**

INTRODUCTION

On 18 March 2003, the Company announced, inter alia, the following:–

- (i) the conditional acquisition to be made by the Purchaser, Powerful Union Limited which is a wholly owned subsidiary of the Company, of the entire issued share capital of Tone for a cash consideration of HK\$50 million pursuant to the Sale and Purchase Agreement;
- (ii) the advance to be made by the Purchaser to Tone of the Loan in the aggregate principal amount of HK\$42.6 million pursuant to the Loan Agreement; and
- (iii) the subscription to be made by Tone for 3,705,000 new shares of Trend for a cash consideration of HK\$42.6 million pursuant to the Share Subscription Agreement to be funded by the proceeds of the Loan.

The transactions contemplated under the Acquisition constitute a discloseable transaction for the Company under the Listing Rules. The purpose of this circular is to set out further details relating to the Sale and Purchase Agreement, the Loan Agreement, the Share Subscription Agreement and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules.

* For identification purpose only

LETTER FROM THE BOARD

THE SALE AND PURCHASE AGREEMENT

Parties:

Date : 14 March 2003

Vendor : Dr. Han, who is independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company and its subsidiaries and any of their respective associates. Other than the transactions contemplated under or in respect of the Acquisition, none of the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates have/had any current/previous business, personal or other relationships with Dr. Han

Purchaser : Powerful Union Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company

Assets being acquired:

The entire issued share capital of Tone, which is a company incorporated in the British Virgin Islands on 20 January 2000 and which has a beneficial interest in approximately 69.11% of the equity capital of Trend as at the Latest Practicable Date. Based on information supplied by Dr. Han, Tone acquired 3,626 shares (representing approximately 0.06% of Trend's entire issued share capital comprising 6,294,563 shares as at the Latest Practicable Date) and 4,346,374 shares (representing approximately 69.05% of Trend's entire issued share capital comprising 6,294,563 shares as at the Latest Practicable Date) of US\$1.00 each in the capital of Trend on 10 August 2000 and 2 March 2001, respectively, totalling 4,350,000 shares in Trend (representing approximately 69.11% of Trend's entire issued share capital comprising 6,294,563 shares as at the Latest Practicable Date) for an aggregate consideration of US\$4,350,000 (equivalent to approximately HK\$33,930,000). Dr. Han has warranted and confirmed to the Purchaser that, apart from its interest in Trend, Tone does not own any asset or have any liability or carry on any business.

Consideration:

HK\$50 million, which amount is payable by the Purchaser in cash on completion of the Sale and Purchase Agreement and which amount is intended to be funded from the Group's internal resources. The consideration payable by the Purchaser was determined and agreed between the Purchaser and Dr. Han based on arm's length negotiations, and the basis on which it was determined is further described in the paragraph headed "Basis for determination of the aggregate consideration for the Acquisition" below.

Completion of the Sale and Purchase Agreement is conditional upon the fulfilment of a number of conditions referred to in the paragraph headed "Completion of the Acquisition" below, and will not take place unless the Share Subscription Agreement is completed simultaneously.

LETTER FROM THE BOARD

THE LOAN AGREEMENT

Parties:

- Date : 14 March 2003
- Lender : Purchaser
- Borrower : Tone, who is independent of and not connected with any of the directors, chief executive or substantial shareholders of the Company and its subsidiaries and any of their respective associates. Other than the transactions contemplated under or in respect of the Acquisition, none of the directors, chief executive or substantial shareholders of the Company and its subsidiaries or any of their respective associates have/had any current/previous business, personal or other relationships with Tone or Dr. Han, being its sole director and shareholder.

Principal terms:

- Principal amount : an unsecured loan in an aggregate principal amount of HK\$42.6 million, which is intended to be funded from the net proceeds of the Rights Issue. The granting of the Loan by the Purchaser to Tone is subject to and will be effected upon completion of the Sale and Purchase Agreement. Assuming that none of the 28,886,800 Options shall be exercised on or before the Record Date and hence the net proceeds of the Rights Issue would amount to approximately HK\$41.1 million, then the principal of the Loan shall be funded as to HK\$41.1 million from the net proceeds of the Rights Issue and as to the remaining HK\$1.5 million from the Group's internal resources. On the other hand, assuming that all of the 28,886,800 Options shall be exercised on or before the Record Date and hence the net proceeds of the Rights Issue would amount to approximately HK\$45.5 million, then the principal of the Loan shall be funded entirely from the net proceeds of the Rights Issue.
- Repayment : the Loan is repayable in one lump sum upon the service of a written notice of at least 5 business days by the Purchaser on Tone.
- Interest rate : a rate per annum equal to the prime lending rate quoted for Hong Kong dollars from time to time by The Hong Kong and Shanghai Banking Corporation Limited, accrued on a daily basis and payable together with the entire principal amount of the Loan upon maturity of the Loan.
- Prepayment : Tone is entitled, by giving not less than 7 days' notice in writing to the Purchaser, to repay the whole or any part of the outstanding principal amount of the Loan (together with accrued interest) without penalty.
- Purpose : Tone shall use the entire proceeds of the Loan to satisfy the cash consideration payable by it under the Share Subscription Agreement, details of which are summarized in the paragraph headed "The Share Subscription Agreement" below.

LETTER FROM THE BOARD

THE SHARE SUBSCRIPTION AGREEMENT

On 14 March 2003, Tone and Trend entered into the Share Subscription Agreement pursuant to which Tone will subscribe for 3,705,000 new shares of Trend for a cash consideration of HK\$42.6 million payable upon completion. Such 3,705,000 new shares of Trend represent approximately 37.05% of the enlarged issued share capital of Trend after completion of the Share Subscription Agreement. As at the Latest Practicable Date, Tone is beneficially interested in approximately 69.11% of Trend's existing issued share capital. Immediately following completion of the Share Subscription Agreement, Tone will be beneficially interested in approximately 80.55% of Trend's enlarged issued share capital. The consideration of HK\$42.6 million payable by Tone under the Share Subscription Agreement will be funded entirely from the proceeds of the Loan to be advanced to it by the Purchaser under the Loan Agreement which amount, in turn, is intended to be funded from the net proceeds of the Rights Issue and from the Group's internal resources (but only up to a maximum amount of HK\$1.5 million).

The Share Subscription Agreement, if completed, will enable Trend to derive proceeds of HK\$42.6 million for the purpose of funding Trend's general working capital and the business operations of Trend's wholly owned subsidiary, Trend Technology (Erzhou), in the research, development and manufacturing of bio-agricultural pesticide products in the PRC.

Completion of the Share Subscription Agreement will take place upon the proceeds of the Loan being made available to Tone by the Purchaser, and is expected to take place simultaneously with completion of the Sale and Purchase Agreement.

Dr. Han has confirmed to the Purchaser that there is currently no subsisting shareholders' agreements or resolutions in place among the shareholders of Trend which governs their respective rights and obligations arising from their shareholding interest in Trend. Based on this confirmation of Dr. Han and according to the articles of association of Trend as supplied by Tone, the directors of Trend may allot or otherwise dispose of shares in Trend to such persons at such times and upon such terms and conditions as Trend may, by resolution of its directors, determine. There is also no provision in such articles which requires that any capital injection into Trend must be made simultaneously by all its shareholders or otherwise on a pro rata basis. Accordingly, based solely on the above and the constitutional documents of Trend supplied to the Purchaser as at the Latest Practicable Date, no approval from the other shareholders of Trend (which include HTI (H.K.) Limited, Kingdream Public Company Limited and Wuhan Institute of Virology of the Ministry of Science, who were beneficially interested in approximately 16.94%, 11.41% and 2.54% of Trend's issued share capital as at the Latest Practicable Date as referred to in the paragraph headed "Shareholding structures of Trend" below) is required for the issue of new shares by Trend pursuant to the Share Subscription Agreement and none of the abovementioned other shareholders of Trend is required to inject any capital into Trend by virtue of the transactions contemplated under the Share Subscription Agreement. Nevertheless, pursuant to the terms of the Sale and Purchase Agreement, Dr. Han is required to deliver to the Purchaser on completion written confirmations or resolutions from all shareholders of Trend consenting to and approving the issue of new shares by Trend to Tone under the Share Subscription Agreement.

BASIS OF DETERMINATION OF THE AGGREGATE CONSIDERATION FOR THE ACQUISITION

The consideration payable by the Purchaser to Dr. Han pursuant to the Sale and Purchase Agreement amounts to HK\$50 million and the Loan to be advanced by the Purchaser to fund Tone's acquisition of a further interest in Trend pursuant to the Share Subscription Agreement amounts to HK\$42.6 million, totalling HK\$92.6 million in aggregate.

LETTER FROM THE BOARD

The Purchaser was informed by Dr. Han that no financial accounts have been prepared by Tone since the date of its incorporation on 20 January 2000 up to and including the Latest Practicable Date, for reason that apart from its approximately 69.11% interest in Trend and apart from the transactions contemplated under the Loan Agreement and the Share Subscription Agreement, Tone does not own any asset or have any liability or carry on any business.

No audited financial accounts have been prepared by Trend since the date of its incorporation on 12 January 2000 up to and including the Latest Practicable Date or by its wholly owned subsidiary, Trend Technology (Erzhou), since the date of its establishment on 17 March 2000 up to and including the Latest Practicable Date, for reason that as referred to in the paragraph headed “Financial and other information about Trend” below, Trend Technology (Erzhou) has not yet commenced its commercial operation in the manufacture of bio-agricultural pesticide products in the PRC on a commercial scale as at the Latest Practicable Date.

As referred to in the paragraph headed “Financial and other information about Trend” below, Trend recorded unaudited combined net tangible assets of approximately RMB42.1 million (equivalent to approximately HK\$39.3 million) as at 31 December 2002. The difference between such figure and Trend’s unaudited combined net assets of approximately RMB50.7 million (equivalent to approximately HK\$47.4 million) as at 31 December 2002, as referred to below, is represented by Trend’s intangible assets as at 31 December 2002 which amounted to approximately RMB8.6 million (equivalent to approximately HK\$8.1 million) and comprised (i) the cost of usage rights in respect of certain bio-chemical virus technologies of approximately RMB5.9 million (equivalent to approximately HK\$5.5 million); and (ii) capitalized costs in relation to the establishment of Trend Technology (Erzhou) of approximately RMB2.7 million (equivalent to approximately HK\$2.6 million). Taking into account the proceeds of HK\$42.6 million to be derived from the Share Subscription Agreement, the resultant unaudited combined net tangible assets of Trend would amount to approximately RMB87.6 million (equivalent to approximately HK\$81.9 million) immediately following completion of the Share Subscription Agreement. Completion of the Share Subscription Agreement is expected to take place simultaneously with completion of the Sale and Purchase Agreement, as a result of which the Purchaser will, through its interest in Tone, be interested in approximately 80.55% of the enlarged issued share capital of Trend after completion of the Share Subscription Agreement.

Furthermore, as referred to in the paragraph headed “Financial and other information about Trend” below, the unaudited combined net assets of Trend of approximately RMB50.7 million (equivalent to approximately HK\$47.4 million) as at 31 December 2002 includes land use rights which were stated at cost of RMB10 million (equivalent to approximately HK\$9.3 million) in respect of the land upon which the operating facilities of Trend Technology (Erzhou) are situated within the Hubei Gedian Economic and Technology Development Zone (湖北省葛店經濟技術開發區). Given that the consideration payable by the Purchaser to Dr. Han and the Loan to be advanced by the Purchaser to Tone in connection with the Purchaser’s acquisition of an approximately 80.55% effective interest in Trend amount to HK\$92.6 million (which value includes the consideration attributable to such land use rights) which represents less than 50% of the Company’s published audited consolidated net tangible assets of approximately HK\$220.3 million as at 31 March 2002, such land use rights are not subject to the requirements of an independent valuation in accordance with Chapter 5 of the Listing Rules.

As mentioned above, Tone was interested in approximately 69.11% of Trend’s issued share capital as at the Latest Practicable Date and Trend recorded unaudited combined net tangible assets of approximately RMB42.1 million (equivalent to approximately HK\$39.3 million) as at 31 December 2002. The consideration of HK\$50 million payable by the Purchaser under the Sale and

LETTER FROM THE BOARD

Purchase Agreement represents a premium of approximately HK\$22.8 million, or approximately 83.8%, to the amount of HK\$27.2 million, which is equivalent to an approximately 69.11% attributable interest in the unaudited combined net tangible assets of Trend of approximately HK\$39.3 million as at 31 December 2002. However, when determining the aggregate amount of HK\$92.6 million payable by the Purchaser under the Sale and Purchase Agreement and the Loan Agreement, the Purchaser, instead of taking account of the premium described above, had regard to the premium derived from comparing such aggregate amount of HK\$92.6 million to the amount of approximately HK\$66 million, which is equivalent to an approximately 80.55% attributable interest in the resultant unaudited combined net tangible assets of Trend of approximately HK\$81.9 million immediately following completion of the Share Subscription Agreement. Further details on such comparison and the reasoning behind it are set out in the following sub-paragraph.

The abovementioned aggregate amount of HK\$92.6 million, of which about 54% is represented by the HK\$50 million consideration payable under the Sale and Purchase Agreement and the remaining 46% is represented by the HK\$42.6 million to be derived from the Loan, was determined and agreed between the Purchaser and Dr. Han based on arm's length negotiations and having regard to an approximately 80.55% attributable interest in the resultant unaudited combined net tangible assets of Trend of approximately HK\$81.9 million immediately following completion of the Share Subscription Agreement as referred to above. This is because completion of the Acquisition and the Share Subscription Agreement are expected to take place on the same day, following which the Purchaser will, through Tone, have an approximately 80.55% interest in Trend and Trend's unaudited combined net tangible assets will be enlarged by the proceeds derived from completion of the Share Subscription Agreement. Such aggregate amount of HK\$92.6 million represents a premium of approximately HK\$26.6 million, or approximately 40.3%, to the amount of HK\$66.0 million which is equivalent to an approximately 80.55% attributable interest in the resultant unaudited combined net tangible assets of Trend of approximately HK\$81.9 million immediately following completion of the Share Subscription Agreement. In determining the premium as represented by the aggregate amount of HK\$92.6 million which is payable by the Purchaser under the Sale and Purchase Agreement and the Loan Agreement as referred to above, the Purchaser has given regard to the growth and development potentials of bio-agricultural pesticide products in the PRC and overseas markets as discussed in the paragraph headed "Reasons for the Acquisition" below, and hence the prospects to the Group arising from the Acquisition. The Purchaser also took the view that, since completion of the Acquisition is conditional on, amongst others, a due diligence to be performed by it on the business, operations and prospects of Trend and its subsidiary, the Purchaser will have the opportunity to further verify and evaluate such growth and development potentials and, in the event that it is not fully satisfied, the Purchaser could opt to not proceed with the Acquisition. On this basis, the Purchaser decided to enter into the Sale and Purchase Agreement with Dr. Han so as to secure a business opportunity to invest in a business that has potentially good prospects which might benefit the Group's financial position.

According to Trend, it is currently undertaking research and development of bio-agricultural pesticide products using certain bio-chemical virus technologies and such technologies deploy the DNA restructuring process of the nucleopolyhedrosis virus which in turn is used in the manufacturing of bio-agricultural pesticide products. The Purchaser understands from Tone that Trend has itself performed feasibility studies and assessed the potential market demand for these bio-agricultural pesticide products in the PRC. Dr. Han has informed the Purchaser that Trend had, during its research conducted while performing its feasibility studies, estimated that there were around 90 million hectare of cotton farm, 860 million hectare of wheat farmland and 20 million hectare of tobacco farmland in the PRC and the demand for the bio-agricultural pesticide products from these farmlands is expected to exceed 50,000 tonnes per year. Based on these studies, Trend plans to

LETTER FROM THE BOARD

commence commercial production around the last quarter of 2003 for a maximum annual output capacity of 5,000 tonnes of bio-agricultural pesticide products, which are initially targeted for sales and distribution in Xinjiang province (being the largest cotton growing province in the PRC) as well as in provinces along the Yellow River region, Guangdong, Guangxi, Hainan and Sichuan provinces which are provinces in the PRC predominantly engaged in agricultural activities. Trend also intends to expand the sales and distribution of its bio-agricultural pesticide products to overseas markets after it has established a market share in the PRC.

Having considered the reasons described above and in the paragraph headed “Reasons for the Acquisition” below, the Directors (including independent non-executive Directors) believe that it is in the interest of the Purchaser to enter into the Sale and Purchase Agreement and the Loan Agreement and that the terms of these agreements, including the amounts payable by the Purchaser under these agreements, are fair and reasonable.

FUNDING OF THE AGGREGATE CONSIDERATION FOR THE ACQUISITION AND THE LOAN

The cash consideration of HK\$50 million which is payable by the Purchaser pursuant to the Sale and Purchase Agreement is intended to be funded from the Group’s internal resources. The cash proceeds of HK\$42.6 million to be made available by the Purchaser to Tone under the Loan Agreement (and hence the subscription proceeds of the same amount payable by Tone to Trend pursuant to the Share Subscription Agreement) is intended to be funded from the net proceeds of the Rights Issue, in the manner described below.

Assuming that none of the 28,886,800 Options shall be exercised on or before the Record Date and hence the net proceeds of the Rights Issue would amount to approximately HK\$41.1 million, the cash proceeds to be made available by the Purchaser to Tone under the Loan Agreement (and hence the subscription proceeds of the same amount payable by Tone to Trend pursuant to the Share Subscription Agreement) is intended to be funded as to (i) approximately HK\$41.1 million from the entire net proceeds of the Rights Issue; and (ii) the remaining balance of approximately HK\$1.5 million from the Group’s internal resources. On the other hand, assuming that all of the 28,886,800 Options shall be exercised on or before the Record Date and hence the net proceeds of the Rights Issue would amount to approximately HK\$45.5 million, the cash proceeds to be made available by the Purchaser to Tone under the Loan Agreement (and hence the subscription proceeds of the same amount payable by Tone to Trend pursuant to the Share Subscription Agreement) is intended to be funded entirely by the net proceeds of the Rights Issue, whilst the remaining balance of the net proceeds of the Rights Issue (after meeting the designated usage above) of approximately HK\$2.9 million shall be reserved for the Group’s working capital purposes.

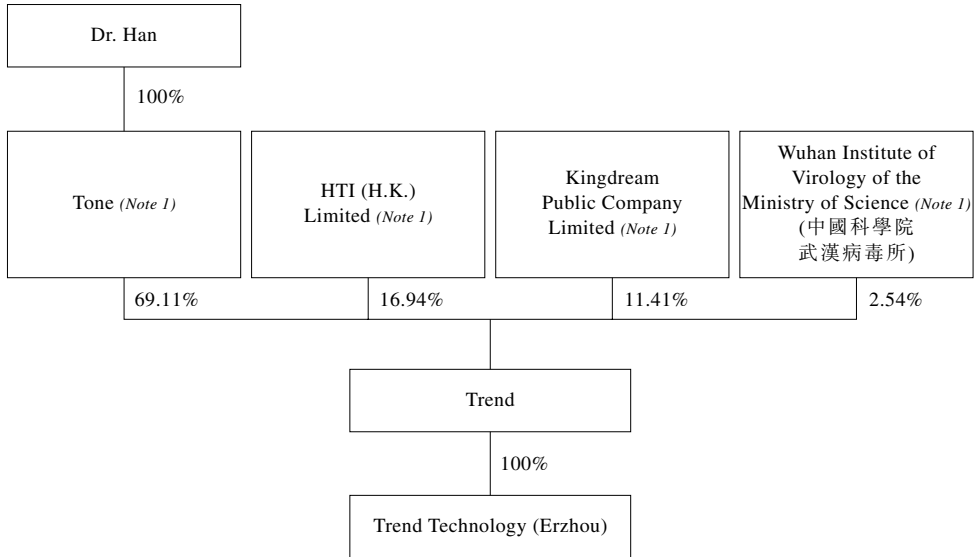
Furthermore, the Acquisition is conditional. In the event that completion of the Acquisition does not take place, the Directors intend to re-designate the entire net proceeds of the Rights Issue as the Group’s cash reserves, which amount may be used by the Group to acquire or invest in appropriate businesses as and when such opportunities arise. The Directors confirm that no such business opportunities have been identified as at the Latest Practicable Date, but will cause the Company to make the relevant announcement(s) required by the Listing Rules if it has identified any such business opportunities.

LETTER FROM THE BOARD

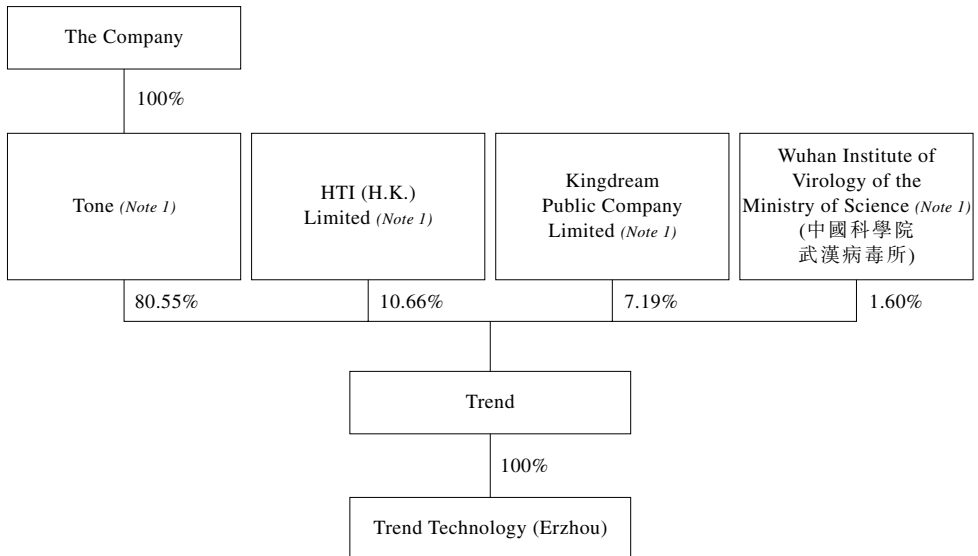
SHAREHOLDING STRUCTURES OF TREND

Set out below are the shareholding structures of Trend before and after completion of the Acquisition and the Share Subscription Agreement:–

Before completion of the Acquisition and the Share Subscription Agreement (Note 2)



After completion of the Acquisition and the Share Subscription Agreement (Note 2)



Note 1: Each of Tone and the other shareholders of Trend is not connected with any of the directors, chief executive or substantial shareholders of the Company and its subsidiaries and any of their respective associates.

Note 2: As described in the paragraph headed “Completion of the Acquisition” below, completion of the Acquisition will not take place unless the Share Subscription Agreement is completed at the same time. Therefore, if the conditions precedent contained in the Sale and Purchase Agreement are fulfilled in accordance with its terms, completion of the Acquisition and the Share Subscription Agreement will take place on the same day resulting in the Purchaser holding through Tone an approximately 80.55% interest in Trend immediately after completion.

LETTER FROM THE BOARD

FINANCIAL AND OTHER INFORMATION ABOUT TREND

The sole asset of Trend is its entire beneficial interest in Trend Technology (Erzhou), a wholly foreign-owned enterprise established in the PRC on 17 March 2000 which is located in Hubei Gedian Economic and Technology Development Zone (湖北省葛店經濟技術開發區) and which is principally engaged in the research, development and manufacturing of bio-agricultural pesticide products in Gedian (葛店), Hubei province, the PRC.

As at the Latest Practicable Date, Trend Technology (Erzhou) has not yet commenced its commercial operation in the manufacture of bio-agricultural pesticide products in the PRC on a commercial scale. Accordingly, no profit and loss accounts have been prepared by Trend since its date of incorporation of 12 January 2000. Nevertheless, based on information supplied by Tone, the aggregate administrative and operating costs incurred by Trend and its subsidiary amounted to approximately RMB1.45 million (equivalent to approximately HK\$1.36 million) and RMB1.27 million (equivalent to approximately HK\$1.19 million) during the two years ended 31 December 2001 and 31 December 2002, respectively, which amounts have been capitalized as deferred assets of Trend and which will be amortised or written off by Trend upon commencement of commercial operation.

Based on Trend's unaudited combined management accounts as at 31 December 2002, the unaudited combined net assets of Trend amounted to approximately RMB50.7 million (equivalent to approximately HK\$47.4 million) which comprises (i) fixed assets of approximately RMB17.6 million (equivalent to approximately HK\$16.4 million) of which land use rights were stated at cost of RMB10 million (equivalent to approximately HK\$9.3 million); (ii) construction in progress of approximately RMB19.5 million (equivalent to approximately HK\$18.2 million) which relates to the costs of site foundation and site engineering for the erection and installation of the operating and production facilities of Trend Technology (Erzhou) (which, however, has not yet commenced manufacturing of bio-agricultural pesticide products on a commercial scale as at the Latest Practicable Date); (iii) intangible assets of approximately RMB8.6 million (equivalent to approximately HK\$8.1 million) of which RMB5.9 million (equivalent to approximately HK\$5.5 million) relates to the cost of the usage rights in respect of certain bio-chemical virus technologies which were assigned from a shareholder of Trend in favour of Trend Technology (Erzhou) (and which rights, according to Dr. Han, are exclusive to Trend Technology (Erzhou)) and RMB2.7 million (equivalent to approximately HK\$2.6 million) relates to capitalized costs incurred by Trend in relation to the establishment of Trend Technology (Erzhou); and (iv) current assets of approximately RMB5 million (equivalent to approximately HK\$4.7 million) comprising cash in bank and prepayments. Based on the foregoing, the unaudited combined net tangible assets of Trend as at 31 December 2002 amounted to approximately RMB42.1 million (equivalent to approximately HK\$39.3 million).

As explained in the paragraph headed "The Share Subscription Agreement" above, the subscription proceeds of HK\$42.6 million receivable by Trend is intended to be used for the sole purpose of funding the business operations of Trend Technology (Erzhou) in the research, development and manufacturing of bio-agricultural pesticide products in the PRC. The Purchaser has not made any commitment to inject any capital into Tone or Trend following completion of the Acquisition. The Directors expect that, following completion, Trend and its subsidiary will have sufficient funds to meet its business and operational requirements (including funding requirements for research and development, if any) for the immediate future.

LETTER FROM THE BOARD

Dr. Han has informed the Purchaser that the development of the bio-agricultural pesticide products by Trend has reached its final stage and such products are ready for mass production. The Purchaser understands from Dr. Han that, consequently, no further capital commitment is required by Trend for the research and development of such products. The Purchaser also understands from Dr. Han that all approvals and licences, as well as production facilities, required for the manufacturing of bio-agricultural pesticide products through the use of bio-chemical virus technologies by Trend Technology (Erzhou) and for its sale and distribution of such products in the PRC, have been granted. Dr. Han has also informed the Purchaser that Trend Technology (Erzhou) is the legal owner of all its real properties in the PRC and has the relevant land use rights in respect of these properties. All information concerning Tone, Trend and Trend Technology (Erzhou) which are currently in the Company's possession has been supplied by Dr. Han and Tone and all such information is subject to verification by the Purchaser through a due diligence exercise to be conducted by it in connection with, amongst others, these entities and their respective businesses, assets and affairs (including, without limitation, whether Trend Technology (Erzhou) has the relevant approvals for the operation of its business or the relevant land use rights relating to its real properties in the PRC). It is a condition precedent to completion of the Sale and Purchase Agreement that the results of such an exercise be satisfactory to the Purchaser (including its receipt of such legal opinions as the Purchaser considers necessary). Accordingly, if the Purchaser is not satisfied with such results, completion of the Acquisition will not proceed.

COMPLETION OF THE ACQUISITION

Completion of the Acquisition is subject to the following conditions being fulfilled or waived, as applicable, on or before the date falling 90 days after the date of the Sale and Purchase Agreement (i.e. 12 June 2003) or such other date as may be agreed between the Purchaser and Dr. Han:—

- (a) the result of a due diligence exercise to be carried out by the Purchaser in the properties, assets, liabilities and business of Tone, Trend and Trend Technology (Erzhou) and on the books, records, constitutional documents, contracts, accounting records and any other documents relating to any of them and their respective assets, properties and businesses being satisfactory to the Purchaser (including, without limitation, the receipt by the Purchaser of such legal opinions as it considers necessary and in such form and substance as are satisfactory to it for the purposes of such due diligence exercise) and written notice to that effect having been given to Dr. Han;
- (b) all necessary consents, permits, approvals, licences and authorisations having been obtained from, and all necessary filings and registrations having been performed with, all relevant governmental, regulatory and other authorities, agencies and departments in Hong Kong and in any other applicable jurisdiction in connection with the transactions contemplated under the Sale and Purchase Agreement and the Share Subscription Agreement, the implementation of and all other matters incidental to any or all of the abovementioned agreements; and
- (c) the Rights Issue having been completed.

LETTER FROM THE BOARD

Pursuant to the Sale and Purchase Agreement, the Purchaser has the discretion to waive all or any part of the condition described in sub-paragraph (a) above. The Purchaser has confirmed that it will not exercise this discretion if the result of such an exercise is expected to be materially detrimental to the Purchaser and its business and financial conditions. If the conditions set out above are not fulfilled or so waived by 12 June 2003 or such other date as the Purchaser and Dr. Han may agree, the Sale and Purchase Agreement will, subject to the liability of any party to the other in respect of any antecedent breaches, be null and void and of no effect. If the Sale and Purchase Agreement is terminated, the Acquisition will not proceed and the Purchaser's obligations under the Loan Agreement (including its obligation to grant the Loan) will also cease.

In the event of a termination of the Sale and Purchase Agreement and the Loan Agreement as a result of which completion of the Acquisition will not take place, the Directors intend to re-designate the entire net proceeds of the Rights Issue as the Group's cash reserves, which amount may be used by the Company to acquire or invest in appropriate businesses as and when such opportunities arise. The Directors confirm that no such business opportunities have been identified as at the Latest Practicable Date, but will cause the Company to make the relevant announcement(s) required by the Listing Rules if it has identified any such business opportunities.

The granting of the Loan is subject to and is to be effected on completion of the Sale and Purchase Agreement. Completion of the Sale and Purchase Agreement is subject to the fulfilment or waiver, as applicable, of the conditions precedent described above in this section. Such conditions include the completion of the Rights Issue, the net proceeds from which will be used towards funding the advance of the Loan by the Purchaser. Accordingly, if any such conditions is not fulfilled or so waived by 12 June 2003 (or such other date as may be agreed between the Purchaser and Dr. Han), the Acquisition will not proceed and the Loan will not be granted.

In addition to the fulfilment or waiver, as applicable, of the conditions referred to above, completion of the Sale and Purchase Agreement will not take place unless the Share Subscription Agreement is completed at the same time. Accordingly, if the Share Subscription Agreement is not completed on the same day as completion of the Sale and Purchase Agreement, the Acquisition will not proceed and the Loan will not be granted. If, however, the Acquisition proceeds to completion in accordance with the Sale and Purchase Agreement, the Loan will be granted by the Purchaser to Tone upon such completion and the Share Subscription Agreement is expected to be completed immediately on or following the granting of the Loan.

REASONS FOR THE ACQUISITION

The Directors are of the view that in line with the recent trends with most European countries and in the United States of America, the PRC government has recently encouraged the promotion, research and development of bio-agricultural pesticide products for application in the PRC's agricultural industry (for instance, by way of granting profits tax concessions to enterprises engaged in the research, development and production of bio-agricultural pesticide products) for reason of health and environmental considerations. The Directors also consider that in view of the large population of the PRC of over 1.2 billion people and the affluent states of economy in Europe and North America in terms of their leading levels in gross domestic products ("GDP") per capita which exceeded US\$20,000 during the year 2001 (according to the World Factbook 2002 published by Central Intelligence Agency), enormous market potentials exist in the agricultural sectors of the PRC, Europe and North America which are expected to generate strong demands for bio-agricultural pesticide products.

LETTER FROM THE BOARD

The Group is principally engaged in (i) the provision of corporate finance and investment advisory services; (ii) manufacturing and trading; and (iii) investment activities. The Company reported audited consolidated net loss attributable to Shareholders of approximately HK\$39.9 million during the financial year ended 31 March 2002 and unaudited consolidated net loss attributable to Shareholders of approximately HK\$28.0 million during the six months ended 30 September 2002. Furthermore, as referred to in the Company's interim report for the six months ended 30 September 2002, the Directors are of the view that Hong Kong will continue to play an important role in channeling funds, by way of direct investment activities in PRC enterprises, after the accession of the PRC into the World Trade Organization and that under the Group's business plans, the Directors will actively look into appropriate business and investment opportunities for the Group. Based on the Directors' view above that (i) the PRC government has recently encouraged the promotion, research and development of bio-agricultural pesticide products for application in the PRC's agricultural industry for reason of health and environmental considerations; and (ii) enormous market potentials exist in the agricultural sectors in the PRC (in view of its large population of over 1.2 billion people based on statistics published by U.S. Census Bureau, International Data Base in October 2002), Europe and North America (in view of their leading GDP per capita levels as published by the Central Intelligence Agency statistics referred to above) which are expected to generate strong demands for bio-agricultural pesticide products, the Directors therefore consider that the Acquisition constitutes an attractive investment opportunity for the Group which accords with the Group's business plans and provides an opportunity for the Group to diversify into a new business with good prospects and potentials for growth and development. **Shareholders should however note that the commercial success of the bio-agricultural pesticide products to be manufactured by Trend Technology (Erzhou) remains to be seen, and the Directors are unable to give any assurance regarding the commercial success of such bio-agricultural pesticide products. Shareholders and investors who contemplate in dealing in the shares of the Company should exercise extreme caution.**

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE RIGHTS ISSUE AND THE ACQUISITION

Set out below is the Group's proforma consolidated net tangible assets both before and after completion of the Rights Issue and the Acquisition:–

	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>
Audited consolidated net tangible assets of the Group as at 31 March 2002	220,348	220,348
<i>Less:</i>		
Unaudited consolidated net loss attributable to Shareholders for the six months ended 30 September 2002	(27,967)	(27,967)
<i>Add:</i>		
Issue of shares	764	764
Translation adjustments	214	214
Proceeds from the full exercise of the Options	–	19,354
Proforma unaudited consolidated net tangible assets of the Group before completion of the Rights Issue and the Acquisition	193,359	212,713
<i>Add:</i>		
Net proceeds from the Rights Issue	41,100	45,500
<i>Less:</i>		
Consideration payable by the Purchaser for the Acquisition	(50,000)	(50,000)
Subscription of shares in Trend	(42,600)	(42,600)
<i>Add:</i>		
Share of unaudited net asset value of Trend, after the subscription of shares	66,000	66,000
Proforma adjusted unaudited consolidated net tangible assets of the Group after completion of the Rights Issue and the Acquisition	207,859	231,613
Number of issued Shares comprised in the Company's issued share capital:		
– Before completion of the Rights Issue and the Acquisition	288,868,000	317,754,800
– After completion of the Rights Issue and the Acquisition	433,302,000	476,632,200
Proforma adjusted unaudited consolidated net tangible asset value per Share:		
– Before completion of the Rights Issue and the Acquisition	HK\$0.67	HK\$0.67
– After completion of the Rights Issue and the Acquisition	HK\$0.48	HK\$0.49

LETTER FROM THE BOARD

Notes:

1. *Assuming that none of the 28,886,800 Options shall be exercised by the holders thereof on or before the Record Date, such that the Company's issued share capital (as enlarged by the Rights Issue) shall comprise an aggregate of 433,302,000 Shares.*
2. *Assuming that all of the 28,886,800 Options shall be exercised by the holders thereof on or before the Record Date, such that the Company's issued share capital (as enlarged by the Rights Issue) shall comprise an aggregate of 476,632,200 Shares.*

Nevertheless, in view of the fact that Trend Technology (Erzhou) has not yet commenced commercial operations and that no consolidated profit and loss accounts have been prepared by Trend since its date of incorporation of 12 January 2000, the Directors consider that it would be inappropriate to evaluate the financial effects of the Acquisition and the Share Subscription Agreement on the financial results performance of the Group. In view of the fact that the aggregate administrative and operating costs incurred by Trend and its subsidiary during the two years ended 31 December 2001 and 31 December 2002 only amounted to approximately RMB1.45 million (equivalent to approximately HK\$1.36 million) and approximately RMB1.27 million (equivalent to approximately HK\$1.19 million), respectively as referred to in the paragraph headed "Financial and other information about Trend" above, and based on the Company's reported consolidated net losses attributable to Shareholders of approximately HK\$39.9 million and HK\$28.0 million during the financial year ended 31 March 2002 and during the six months ended 30 September 2002, respectively as referred to in the paragraph headed "Reasons for the Acquisition" above, the Directors consider that prior to the stage where bio-agricultural pesticide products are being manufactured by Trend Technology (Erzhou) on a commercial scale, completion of the Acquisition is unlikely to generate any material and adverse impact on the Group's financial position.

GENERAL

Your attention is also drawn to the information set out in the appendix to this circular.

By order of the Board
Pacific Challenge Holdings Limited
Cheong Tin Yau
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

2.1 Interests of the Directors

As at the Latest Practicable Date, 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 352 of the SFO were as follows:

Name	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 the Latest Practicable Date, none of the Directors or their associates had any interests in the securities of the Company or any of its associated corporations (within the meaning of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Section 341 of the SFO (including interests which they were deemed or taken to have under Sections 344 or 345 of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

2.2 Substantial Shareholders' interest in Shares

As at the Latest Practicable Date, so far as were known to the Directors, the following persons, other than a Director, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Number of Shares	Note
Kandy Profits Limited	154,244,000	<i>a</i>
Kistefos Investment A.S.	62,400,000	<i>b</i>

Note:

(a) Details of the 154,244,000 Shares beneficially held by Kandy Profits Limited are set out in the sub-paragraph headed "Interests of the Directors" above.

(b) Kistefos Investment A.S. is wholly owned by A.S. Kistefos Traesliberi, in which Christen Sveaas has an 85% interest.

Save as disclosed above, the Directors are not aware of any person, other than a Director, who was, as at the Latest Practicable Date, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or in any options in respect of such capital.

3. LITIGATION

On 8 March 2001, Kistefos Investment A.S. (“Kistefos”), a substantial Shareholder, filed a petition (“the Petition”) against the Company and one of the former Directors, in the Supreme Court of Bermuda (the “Court”) under Section 111 (1) of the Companies Act 1981 of Bermuda. The Petition was based on a claim that certain affairs of the Company had been conducted in a manner which was oppressive or unfairly prejudicial to the interests of certain Shareholders, including Kistefos itself.

In the Petition, Kistefos sought an order from the Court to:–

- (i) compel the Company or the former Director to purchase Kistefos’ shareholding in the Company at a fair value to be determined by the Court; or
- (ii) wind up the Company.

The Company and the former Director sought to strike out the Petition. In October 2001, the Court struck out the claim of Kistefos to wind up the Company but refused to strike out the claim of Kistefos for an order compelling the Company or the former Director to repurchase the shareholding of Kistefos. This latter claim remains to be tried in the Court.

In June 2002, following the hearing of an appeal brought by the Company against the decision of October 2001, the Court of Appeal of Bermuda (the “Court of Appeal”) confirmed the earlier order of the Court. Accordingly, the claim of Kistefos to wind up the Company remains struck out, but the claim of Kistefos to compel the Company or the former Director to repurchase its shareholding remains to be tried.

Following the decision of the Court of Appeal in June 2002, the proceedings were dormant until recently. Kistefos filed a summons dated 7 March 2003 in the Court seeking directions for the future conduct of the litigation. In addition, Kistefos sought in its summons to re-amend the Petition. The application by Kistefos to make the amendments to the Petition was heard by the Court on 27 March 2003. On 28 March 2003, the Company announced that it was informed by its legal adviser in Bermuda that Kistefos did not proceed with the summons for directions at the Court hearing of 27 March 2003 but had instead asked that the existing Petition, as it currently stands, be set down for trial. Consequently, the Petition was not re-amended and the Court ordered that the Petition, as it currently stands, be set down for trial but no date has yet been fixed for any further Court hearing.

The Petition remains at a preliminary stage. The Directors, after considering the advice from its Bermuda legal advisers, consider that the Company has a reasonably good defence to the original claim by Kistefos that the Company or the former Director should buy out the shareholding of Kistefos in the Company.

Save as disclosed above, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

4. MISCELLANEOUS

- (a) The English text of this circular shall prevail over the Chinese text.
- (b) The secretary of the Company is Ms. Yim Lai Wa, who has more than five years' professional company secretarial experience and is an associate member of both The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators.