

### Overview

The previous year ended 31st March, 2000 saw a pre-tax profit of HK\$379 million including the exceptional profit of HK\$75 million. The current year ended 31st March, 2001 recorded a pre-tax profit of HK\$234 million, representing a 23% reduction after deducting the exceptional profit last year. Turnover was down by 12% reflecting tighter commercial conditions.

### Dividend

The Board of Directors recommends the payment of a final dividend of HK3.5 cents (2000: HK5 cents) per share payable to shareholders whose names appear on the Register of Members of the Company on Friday, 21st September, 2001. This, together with the interim dividend of HK2.5 cents (2000: HK3 cents) per share paid during the year, represents a dividend distribution of HK6 cents (2000: HK8 cents) per share for the year ended 31st March, 2001.



Dr CHOW Yei Ching LL.D. (Hon)  
Honorary Consul of the State of Bahrain in Hong Kong  
Officer of the Order of the British Empire  
Officer in the Order of the Crown (Belgium)  
Officier de l'Ordre National du Mérite (France)  
Order of Sacred Treasure (Japan)

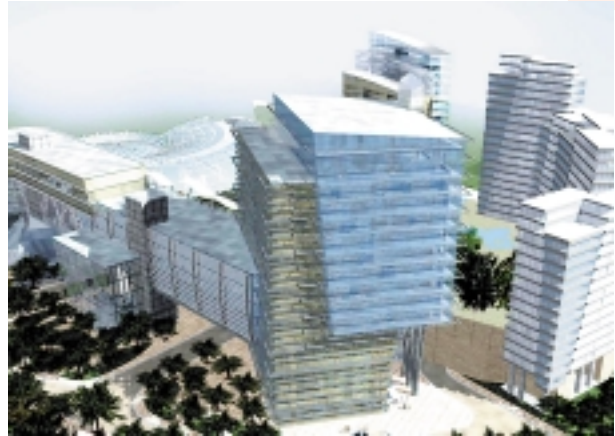
Subject to the approval of shareholders at the forthcoming Annual General Meeting, the dividend warrants will be paid on or about Friday, 2nd November, 2001 in cash, with shareholders being given the option to receive shares of HK\$0.25 each ("New Shares") in the Company in lieu of cash in respect of part or all of such dividend ("Scrip Dividend Scheme"). The number of New Shares will be calculated on the basis of the average of the closing prices per share of the Company on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") for the five consecutive trading days from Monday, 17th September, 2001 to Friday, 21st September, 2001, less a discount of 5%. A circular giving full details of the Scrip Dividend Scheme and a form of election will be sent to shareholders on or around Wednesday, 10th October, 2001. The Scrip Dividend Scheme is conditional upon the Stock Exchange granting the listing of and permission to deal in the New Shares to be issued.

## Review of Operations

### THE COMPANY

#### *Building Services*

The lifts and escalators and other building services divisions were affected by the sluggish property market in Hong Kong. Even though the housing affordability improved after the fall in prices over the past few years and the significant rate cuts in the past six months, the property market remained comparatively slow because of abundant supply and lack of confidence. As a result, the building services market has shrunk and become more competitive. Nevertheless, the Lifts and



Aluminium and Curtain Wall project for Cyberport Development



Lift and Escalator, Mechanical, Electrical and Fire Protection Installation for Macau Tower Entertainment Centre

Escalators Division has secured a number of contracts in Hong Kong from major developers and Hong Kong Housing Authority ("HKHA"). Aluminium and Curtain Wall Division also secured contracts for Cyberport Development, the Northern Site Podium at the Hong Kong Station of the Airport Express and KCRC Service Department at Hung Hom Bay during the year.

The Group acquired 45% interest in Preussag Pipe Rehabilitation Hong Kong Limited ("PPRHK") and PPRHK debt for a total consideration of HK\$21,248,000 from Chevalier Construction Holdings Limited in August 2000. PPRHK introduced the pipe rehabilitation technology in Hong Kong since 1998 and has successfully completed a number of trial jobs for various government authorities.



Relining of Asbestos Cement Fresh Watermain by Process Phoenix Structural Liner at Jockey Club Road

### Environmental Business



Pipe installation at Tai Po Water Treatment Works and Pumping Station

Chevalier (Envirotech) Limited currently operates 5 air quality monitoring stations in Hong Kong. In August 2000, our joint venture company, Chevalier Enviro Services, Inc. commenced its medical waste treatment operation in Manila. The company is making use of the advanced and environmentally safe SANITEC Microwave Disinfection System. The technology was also introduced to Vietnam by the end of last year. Moreover, work on Tai Po Water Treatment Plant project is progressing smoothly and is planned for completion at the end of 2002.

### Property Investment and Property Management

Property market in Shanghai recovered tremendously in last year. The occupancy rate of Chevalier Place, the Group's luxury residential property in Shanghai, has increased to approximately 90% and rental income derived thereon has increased significantly. In Hong Kong, during the year, rental revenue of approximately HK\$19 million was received from the investment properties.

The Group's property management division secured contracts from the HKHA for the provision of management services for residential units, shopping arcades, carparks and other communal facilities. At present, the Group manages 16 estates and buildings with a portfolio of approximately 20 million square feet.

### Insurance

Despite the increasing competition, the Group's insurance division recorded a significant improvement in both turnover and premium income in last year. As at 31st March, 2001, its gross premium portfolio significantly increased by 6 times to approximately HK\$136 million compared to same period last year. Business growth is maintained in the first quarter of the current financial year.

### Hotel Investment

Overall performance of the Group's two hotels in the Xinyang and Jiujiang of Mainland China showed modest increase in room rates with occupancy rate improved to about 70%. Construction works of the third hotel project in Dongguan has recently been completed and the grand opening will be held very soon.

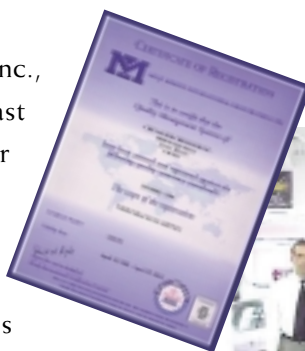


Qi Shi Hotel at Dongguan

Performance of the hotel business in Canada, the "Rosedale on Robson Suite Hotel", is in line with expectations and provided a stable stream of revenue to the Group during the year under review.

### *Overseas Business*

In April of this year, Chevalier Chrysler Inc., which celebrated its 10th anniversary last year, was granted ISO 9002 certification for quality assurance in the scope of vehicle sales, service and parts. In addition, Honda dealership won Quality Dealer Award for the year of 2001 due to its remarkable sales volume and achievements in customer satisfaction. Overall performance of car dealership business in last year improved because of the outstanding service quality and continued economic growth in North America.



Outstanding performance in the overseas dealership of automobiles

### *Subsequent Events*

In April 2001, the Group acquired 4,500,000 shares in NordiTube Technologies AB ("NordiTube"), representing 19% interest in NordiTube's issued share capital. The total investment in NordiTube amounted to approximately HK\$5,600,000. NordiTube is a company listed on the Stockholm Stock Exchange and is principally engaged in the design and construction for rehabilitating water-supply system, gas-supply system and sewers. At present, the Group together with PRS Rohrsanierung GmbH ("PRS"), the Group's joint venture partner in pipe rehabilitation business, own 19% and 32% equity of NordiTube respectively and have become the major shareholders of NordiTube.

In June 2001, the Company invested further in PRS by subscribing 6,482,000 shares at a consideration of approximately HK\$39 million, representing 44% of enlarged share capital of PRS. Currently, PRS owns 30% interest in PPRHK.

### **CHEVALIER iTech HOLDINGS LIMITED ("CiTL")**

During the year, CiTL Group's results were affected by the continued reductions in capital spending of the small and medium enterprises and the sluggish local economy. Its turnover dropped to HK\$1,055 million. Profit attributable to shareholders reduced to HK\$7.76 million. Earnings per share decreased to HK0.91 cent.



Chevalier (OA) Limited announced the launch of Toshiba e-Studio digital copiers and promotion of other Toshiba products

During the year, the computer market was adversely affected by rapid changes in technology and global production capacity. Telecommunication market, on the other hand, benefited from the development of information technology and the improved quality of telecommunication products and services. Revenue generated from the mobile phone retail business and related valued-added services continued to grow. However, the market will become more difficult because of the slowdown in domestic demand and delay in the introduction of new technology. Overall performance of Q-Mart

Shops was satisfactory despite losses still incurred due to the write-offs of the initial setup costs and depreciation charges. Currently, CiTL Group operates a total of 14 Q-Mart Shops in various locations.

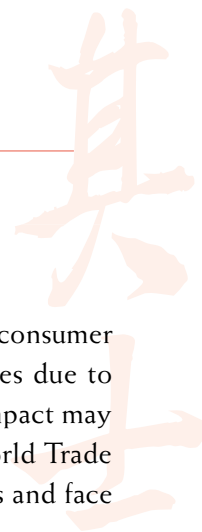
In mid-2000, Chevalier (Network Solutions) Limited was established to provide one-stop IT solutions and services. As at 31st March, 2001, a major contract includes the fibre network and telephone system installation and maintenance which was awarded by Television Broadcasts Limited with a contract value of approximately HK\$20 million.



Chevalier (Network Solutions) Limited exhibited as e-frastructure solution provider in IT Expo 2000

During the year, the Internet Division has discontinued the Internet dial-up services and has shifted its focus to broadband services, VPN connectivity and IP security to corporate users. Subsequent to the year-end, CiTL Group disposed of all interest in the paging services.

CiTL Group's business in Thailand continued to maintain a stable growth. In September last year, Chevalier iTech Thai Limited (formerly known as Chevalier OA (Thailand) Limited) received two awards namely the "Outstanding Solution Sales" and "Best Report Award (Outstanding Analysis)" in marketing of office equipment in Thailand. Recently, the Thailand operation has undergone corporate restructuring so as to streamline CiTL Group's financial resources in Thailand and strengthen its capital base.



Looking forward, the business outlook of CiTL will be extremely difficult. This is because consumer spending remains low due to global economic downturn and keen competition continues due to excessive supply of merchandise and rapid change in technology. However, the negative impact may gradually be offset by the long-term benefit to Hong Kong after the entry of China to World Trade Organization. CiTL has re-aligned its business plan in order to improve its competitiveness and face the new challenge.

#### CHEVALIER CONSTRUCTION HOLDINGS LIMITED ("CCHL")



The Professional Complex Development at The Hong Kong Polytechnic University

During the year, CCHL Group was awarded a contract valued at HK\$148 million for the building of The Professional Complex Development at The Hong Kong Polytechnic University. As at 31st March, 2001, the value of outstanding construction works and civil engineering works amounted to HK\$606 million and HK\$303 million respectively.

CCHL Group's turnover for the year ended 31st March, 2001 decreased to HK\$1,226 million. Loss for the year amounted to HK\$27.6 million and loss per share was HK11.66 cents. The construction industry in Hong Kong has been affected by the prolonged slowdown in the property market. The unsatisfactory performance of CCHL was mainly due to the shortage of new jobs and delay in the progress of certain projects in the first half of the year.



Construction of Seawalls and Reclamation at Tseung Kwan O Port Development at Area 137, Stage 2

After the significant rate cuts during the first half of 2001 and the government's commitment to stabilize the property prices, the market sentiment has improved gradually. The construction industry in the long run will also be affected and business opportunities for CCHL is expected to increase. In the meantime, CCHL will continue to strengthen its management team and implement stringent cost control measures.

### CHEVALIER SINGAPORE HOLDINGS LIMITED ("CSHL")

Despite the continuing poor sentiment in the construction sector in Singapore, CSHL, a 71.1% subsidiary company of the Group, has managed to perform well during financial year ended 31st March, 2001. Its post-tax profit reported a 17.8% growth to S\$5.6 million for the year as compared with last year regardless the turnover fell 34% to S\$35.9 million for the year ended 31st March, 2001. The profitability is principally attributable to better collections resulting in a net write-back of provision on doubtful accounts and repayment of all bank loans and overdrafts resulting in significant reduction of interest expenses.

CSHL has noted the Singapore government's continuing expenditure in the building construction sector, as a result of which institutional building and infrastructure development projects have increased. In line with the growth in this public sector, CSHL has secured bulk orders from the Land Transport Authority for the installation of lifts in all existing MRT stations, and has also continued to secure lift installation projects for schools, institutions of higher learning, community clubs and libraries.

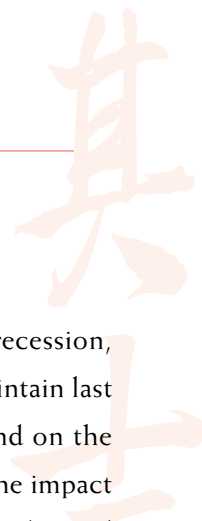
### Prospects

The economies of the Japan and US are showing signs of slowdown — slow consumer spending, stagnant manufacturing and lack of confidence are the signs. The US Government has slashed interest rate 6 times in the first half of this year. With continued reductions in capital spending, it is anticipated that signs of improvement will not emerge until end of this year or early next year.



Dr Chow, two officiating guests and the directors toast to the 30th anniversary of Chevalier

At the recent session of the National People's Congress, China formulated its Tenth Five-Year Plan. It is anticipated that the economy of the Mainland will grow at an average of seven per cent over the next five years. The Mainland's imminent entry to the World Trade Organization and the acceleration of the development of Western China will speed up its economic reforms and will offer tremendous business opportunities to both Hong Kong and overseas enterprises. Being the gateway to China and an international business centre, Hong Kong will undoubtedly be benefited from these opportunities. Chevalier owns network of ten representative offices in the Mainland gives the Group access and advantage.



With the global economy expected to slow and the US in increasing risk of falling into recession, economic growth in Hong Kong will decelerate. It will be impossible for Hong Kong to maintain last year's growth. The performance of the economy in the rest of the year will greatly depend on the validity of the measures taken by the US Government to stimulate its economy. Although the impact of rate cuts may not materialize in the near future, such reduction should help revive domestic demand particularly investment. Therefore, the Group expects that the economy will gradually improve towards the end of this year or early next year.

With stiff market competition and the decrease in the supply of private and public housing, it is envisaged that contribution from the building services and construction will be reduced in the coming year. Nevertheless, the Group's determination to diversify its business will bring stability in revenue and operational flexibility to the Group and enhance its competitive status to the changes of the volatile global marketplace. Looking ahead, the Group is committed to continue to explore opportunities and avenues to grow its business and enhance the value to its shareholders.

### Shareholders and Staff

On behalf of the Board, I would like to take this opportunity to extend our gratitude to our shareholders for their support and to our staff for their dedication and contribution over the past year.

**CHOW Yei Ching**

*Chairman and Managing Director*

Hong Kong, 10th July, 2001