



CHEVALIER CONSTRUCTION HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2001-2002

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2001.

		Unaudited	
		Six months ended	
		30th September,	
		2001	2000
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	245,687	569,710
Cost of sales		<u>(243,658)</u>	<u>(581,547)</u>
Gross profit (loss)		2,029	(11,837)
Other revenue		4,119	1,733
Administrative expenses		(7,211)	(8,584)
Other operating expenses		<u>(204)</u>	<u>(353)</u>
Loss from operations	3	(1,267)	(19,041)
Finance costs		(611)	(471)
Share of results of associates		963	403
Share of results of jointly controlled entities		<u>(238)</u>	<u>(453)</u>
Loss before taxation		(1,153)	(19,562)
Taxation	4	<u>(228)</u>	<u>(248)</u>
Loss before minority interest		(1,381)	(19,810)
Minority interest		<u>(1)</u>	<u>54</u>
Net loss for the period		<u>(1,382)</u>	<u>(19,756)</u>
Interim dividend		<u>—</u>	<u>—</u>
Loss per share			
Basic	5	<u>(0.55 cent)</u>	<u>(8.63 cents)</u>

There were no recognised gains or losses other than the net loss for the period.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September, 2001.

	<i>Note</i>	Unaudited 30th September, 2001 HK\$'000	Audited 31st March, 2001 HK\$'000
Non-current assets			
Property, plant and equipment		16,619	19,318
Interests in associates		6,524	6,790
Interests in jointly controlled entities		9,451	9,688
		32,594	35,796
Current assets			
Amounts due from customers for contract work		214,887	175,084
Inventories		4,638	5,340
Debtors, deposits and prepayments	6	460,389	606,308
Retention money receivable		193,858	188,575
Tax refundable		75	75
Cash and bank balances		6,065	19,570
		879,912	994,952
Current liabilities			
Amounts due to customers for contract work		184,102	199,584
Creditors, deposits and accruals	7	461,984	557,333
Bills payable		—	114
Retention money payable		176,939	178,674
Obligations under finance leases			
— due within one year	8	240	359
Secured short-term bank loans		28,000	32,000
Bank overdraft		—	2
		851,265	968,066
Net current assets		28,647	26,886
Non-current liability			
Obligations under finance leases			
— due after one year	8	—	60
Minority interest		366	365
		60,875	62,257
Capital and reserves			
Share capital	9	24,900	24,900
Reserves	10	35,975	37,357
		60,875	62,257

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2001

	Unaudited	
	Six months ended	
	30th September,	
	2001	2001
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(10,095)	(91,709)
Returns on investments and servicing of finance		
Interest received	124	1,085
Interest paid	(504)	(406)
Interest on obligations under finance leases	(40)	(40)
Dividends received from an associate	1,000	1,251
Net cash inflow from returns on investments and servicing of finance	580	1,890
Taxation		
Hong Kong profits tax paid	—	(19)
Hong Kong profits tax refunded	—	159
Net cash inflow from taxation	—	140
Investing activities		
Purchase of property, plant and equipment	(157)	(2,203)
Proceeds from disposal of property, plant and equipment	348	285
Net cash inflow (outflow) from investing activities	191	(1,918)
Net cash outflow before financing	(9,324)	(91,597)
Financing		
Repayment of bank loans	(32,000)	—
Repayment of obligations under finance leases	(179)	(179)
New bank loans	28,000	55,000
Net cash (outflow) inflow from financing	(4,179)	54,821
Decrease in cash and cash equivalents	(13,503)	(36,776)
Cash and cash equivalents at beginning of the period	19,568	66,195
Cash and cash equivalents at the end of the period	6,065	29,419
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	6,065	29,419

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2001.

1. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The condensed financial statements have been prepared on a basis consistent with the principal accounting policies as stated in the financial statements for the year ended 31st March, 2001 in accordance with Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“SSAP 25”).

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new/revised accounting policies.

SSAP 14 (Revised) “Leases” prescribes the accounting treatment and disclosures requirements in relation to finance and operating leases. The adoption of SSAP 14 (Revised) by the Group does not have any impact on these interim financial statements except that certain comparative figures and disclosures in Note 8 and 12 have been adjusted and extended to conform with current period’s presentation.

Adoption of SSAP 26 “Segment reporting” has resulted in re-specification of some reportable segments which were presented in accordance with the disclosure requirements of the Listing Rules in the prior year. Segment disclosures for the six months ended 30th September, 2000 have been amended so that they are presented on a consistent basis.

2. SEGMENT INFORMATION

Turnover and segment information for the six months ended 30th September, 2001.

	Building construction & maintenance <i>HK\$'000</i>	Civil engineering <i>HK\$'000</i>	Consolidated Total <i>HK\$'000</i>
TURNOVER			
External sales	198,532	47,155	245,687
Total turnover	<u>198,532</u>	<u>47,155</u>	<u>245,687</u>
RESULT			
Segment result	<u>148</u>	<u>(605)</u>	(457)
Unallocated corporate expenses			(1,277)
Interest income			<u>467</u>
Loss from operations			(1,267)
Interest expenses			(611)
Share of results of associates	963		963
Share of results of jointly controlled entities	(232)	(6)	<u>(238)</u>
Loss before taxation			(1,153)
Taxation			<u>(228)</u>
Loss after taxation			<u>(1,381)</u>

All activities of the group were carried out in Hong Kong.

2. SEGMENT INFORMATION *(Continued)*

Turnover and segment information for the six months ended 30th September, 2000.

	Building construction & maintenance <i>HK\$'000</i>	Civil engineering <i>HK\$'000</i>	Consolidated Total <i>HK\$'000</i>
TURNOVER			
External sales	479,466	90,244	569,710
Total turnover	<u>479,466</u>	<u>90,244</u>	<u>569,710</u>
RESULT			
Segment result	<u>(825)</u>	<u>(18,312)</u>	(19,137)
Unallocated corporate expenses			(985)
Interest income			<u>1,081</u>
Loss from operations			(19,041)
Interest expenses			(471)
Share of results of associates	403		403
Share of results of jointly controlled entities	(311)	(142)	<u>(453)</u>
Loss before taxation			(19,562)
Taxation			<u>(248)</u>
Loss after taxation			<u>(19,810)</u>

All activities of the group were carried out in Hong Kong.

3. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	Six months ended 30th September,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation:		
Owned assets	2,374	3,116
Assets held under finance leases	61	76
Less: Amount capitalised to Contract Work	(1,850)	(2,610)
	585	582
Operating lease charges:		
Premises	1,404	1,825
Plant & machinery	47,499	64,192
Less: Amount capitalised to Contract Work	(47,543)	(64,305)
	1,360	1,712
Staff costs, including directors' emoluments	47,019	71,053
Less: Amount capitalised to Contract Work	(33,000)	(54,162)
	14,019	16,891

4. TAXATION

	Six months ended 30th September,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong Profits tax:		
The Company and subsidiaries	—	—
Associates	229	248
Jointly controlled entities	(1)	—
	228	248

No provision for Hong Kong Profits tax in the current and prior period has been made as the assessable profits of the Company and its subsidiaries are wholly absorbed by tax losses brought forward.

5. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$1,382,000 (2000: HK\$19,756,000) and on 249,000,000 (2000: 229,000,000) shares in issue during the period.

Diluted loss per share is not presented as the exercise price of the outstanding share options is higher than the fair value per share and accordingly the computation of diluted loss per share does not assume their exercise.

6. DEBTORS, DEPOSITS AND PREPAYMENTS

The ageing analysis of trade debtors is as follows:

	Balance at 30th September, 2001 HK\$'000	Balance at 31st March, 2001 HK\$'000
0 — 60 days	44,566	152,321
61 — 90 days	2,187	727
Over 90 days	<u>156,620</u>	<u>163,061</u>
	<u>203,373</u>	<u>316,109</u>

Interim application for progress payments on construction contracts are normally on a monthly basis and settled within one month.

7. CREDITORS, DEPOSITS AND ACCRUALS

The ageing analysis of trade creditors is as follows:

	Balance at 30th September, 2001 HK\$'000	Balance at 31st March, 2001 HK\$'000
0 — 60 days	55,546	109,458
61 — 90 days	246	8,293
Over 90 days	<u>68,262</u>	<u>43,093</u>
	<u>124,054</u>	<u>160,844</u>

8. OBLIGATIONS UNDER FINANCE LEASES

Finance lease liabilities — minimum lease payments:

	30th September, 2001 HK\$'000	31st March, 2001 HK\$'000
Within one year	294	440
In the second year	—	73
	<u>294</u>	<u>513</u>
Future finance charges on finance leases	(54)	(94)
Present value of finance lease liabilities	<u><u>240</u></u>	<u><u>419</u></u>
The present value of finance lease liabilities is as follows:		
Within one year	240	359
In the second year	—	60
	<u>240</u>	<u>419</u>

9. SHARE CAPITAL

There was no movement during the period under review.

10. RESERVES

	Share Premium HK\$'000	Capital reserve HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000
At 1st April, 2001	1,856	56,942	(21,441)	37,357
Net loss for the six months ended 30th September, 2001	<u> </u>	<u> </u>	<u>(1,382)</u>	<u>(1,382)</u>
At 30th September, 2001	<u><u>1,856</u></u>	<u><u>56,942</u></u>	<u><u>(22,823)</u></u>	<u><u>35,975</u></u>

11. PLEDGE OF ASSETS

At 30th September, 2001, the Group's deposit of approximately HK\$6,828,000 (31st March, 2001: HK\$6,828,000) included under debtors, deposits and prepayments and the benefits under three construction contracts have been pledged to an insurance company and financial institutions as securities in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the Group.

12. COMMITMENTS AND CONTINGENT LIABILITIES

As at the balance sheet date:

- (a) The Group has total future aggregate minimum lease payments under non-cancellable operating leases in respect of renting of premises, plant, barges and dredgers as follows:

	Land and buildings		Plant, barges and dredgers	
	30th September, 2001 <i>HK\$'000</i>	Restated 31st March, 2001 <i>HK\$'000</i>	30th September, 2001 <i>HK\$'000</i>	Restated 31st March, 2001 <i>HK\$'000</i>
Within one year	2,746	2,746	2,314	9,074
In the second to fifth year inclusive	<u>1,069</u>	<u>2,431</u>	<u>—</u>	<u>—</u>
	<u>3,815</u>	<u>5,177</u>	<u>2,314</u>	<u>9,074</u>

- (b) Capital commitments authorised but not contracted for in respect of:

	30th September, 2001 <i>HK\$'000</i>	31st March, 2001 <i>HK\$'000</i>
Acquisition of property, plant and equipment	<u><u>—</u></u>	<u><u>43</u></u>

- (c) At 30th September, 2001, guarantees issued by the Company to the extent of approximately HK\$85,500,000 (31st March, 2001: HK\$164,735,000) to insurance companies and financial institutions as securities in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the Group.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th September, 2001 (2000: Nil).

BUSINESS REVIEW

For the six months ended 30th September, 2001, the Group operated under an extremely tough environment in light of the continued downturn in local property and construction sectors. However, the Group continued its efforts in improving operation efficiency and implementing stringent cost control measures. As a result, the Group's unaudited consolidated net loss for the six months ended 30th September, 2001 significantly reduced to HK\$1.38 million compared with a loss of HK\$19.76 million last year. A loss per share also reduced from HK8.63 cents per share in last year to HK0.55 cent for the period.

As at 30th September, 2001, the gross and outstanding value of construction contracts on hand of the Group amounted to approximately HK\$2,100 million and HK\$236 million respectively. Whereas the gross and outstanding value of civil engineering contracts on hand of the Group amounted to HK\$580 million and HK\$273 million respectively.

During the period under review, all construction and civil engineering projects of the Group were progressing on schedule with details as shown below:

Construction Projects

	<i>Target Completion Date</i>
1. Jockey Club School of Chinese Medicine Building at Hong Kong Baptist University	Late 2001
2. Home-Ownership Estate at King Shan Court, Phase II at Hammer Hill Road, Kowloon	Early 2002
3. The Professional Complex Development at The Hong Kong Polytechnic University	Early 2002

Two construction projects, namely, Public Housing Estate at Tin Shui Wai Area 105, Phase 1 and Home-Ownership Estate at Tin Shui Wai Area 110, Phase 2 were completed subsequent to the period end.

Civil Engineering Projects

	<i>Target Completion Date</i>
1. Construction of Seawalls and Reclamation at Tseung Kwan O Port Development at Area 137, Stage 2	Late 2003
2. Remaining Work in Yung Shue Wan Development Engineering Works, Phase I	Early 2002
3. Maintenance and Repairs to Seawalls, Piers and Other Port Works (2000-2001)	Early 2002
4. Jordan Road Reclamation Phase III and Remaining Engineering Works	Late 2002

During the period, Yue Xiu Concrete Company Limited, an associated company of the Group, continued to contribute stable return to the Group.

FINANCIAL REVIEW

As at 30th September, 2001, the total credit facilities available to the Group amounted to HK\$91 million and the undrawn balance stood at HK\$63 million. Loans outstanding as at 30th September, 2001 was HK\$28 million. Cash available to the Group as at 30th September, 2001 amounted to approximately HK\$6 million.

The Group's debt-to-equity ratio as at 30th September, 2001, calculated on the basis of the ratio of the bank loans outstanding to capital and reserves was 0.46.

PROSPECTS

The US technology-driven boom in 2000 followed by the downturn of the consumers confidence in the US have adversely affected the economy of most of the Asian countries as they are all positioned at the other end of the supply chain. The Hong Kong economy, like its Asian neighbours, is heavily dependent on external trade for growth. Hong Kong exports already recorded decline in the first ten months of the year and, as a result, unemployment has been rising steadily. The high unemployment rate is no longer restricted to the workers but is also spreading to professionals and skilled labourers. Against such situation, consumers and investors confidence has not helped very much by the low interest rate. Local property market, therefore, continued to stagnate and consequently dragged down the construction industry.

In an attempt to stabilise the property market, the government has imposed a ten-month moratorium on the sale of subsidised housing in September 2001. The Group believes that those measures taken by the government will have some stabilizing effects on the private sector residential market. However, clouded by the economic uncertainties, the Group anticipates that the construction industry is not likely to rebound in the near term despite recent active trading in the property sales.

During the period, the Group continued to reduce its operating cost and implement prudent policy in selecting sub-contractors and closely monitoring their qualities of works. Looking forward, the Group is well prepared to face the challenges ahead.

DIRECTORS' INTERESTS IN SHARES AND SHARE OPTIONS

As at 30th September, 2001 the interests of the Directors in the share capital and share options of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) which have been notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or required to be recorded in the register of the Company pursuant to Section 29 of the SDI Ordinance were as follows:

(a) Interests in the Company

Shares

Name of Director	Number of ordinary shares			Total
	Personal interests	Corporate interests	Family interests	
CHOW Yei Ching	41,036,489	89,385,444*	—	130,421,933
KUOK Hoi Sang	1,326,437	—	—	1,326,437
TAM Kwok Wing	625,796	—	7,142	632,938
TING Hok Shou, Dennis	672,000	—	—	672,000

* Dr CHOW Yei Ching beneficially owned 615,445,993 shares in Chevalier International Holdings Limited ("CIHL"), representing approximately 50% of the issued share capital of CIHL, which in turn was interested in 89,385,444 shares of the Company. Dr Chow was deemed to be interested in these shares under the SDI Ordinance and these shares were same as those shares described in "Substantial Shareholders" below.

(b) Interests in Associated Corporations*(i) Shares*

Name of Director	Associated corporations	Number of ordinary shares			Total
		Personal interests	Corporate interests	Family interests	
CHOW Yei Ching	CIHL	615,445,993	—	—	615,445,993
	Chevalier iTech Holdings Limited ("CiTL")	34,079,270	432,098,666*	—	466,177,936
	Chevalier Singapore Holdings Limited ("CSHL")	4,375,000	80,000,000*	—	84,375,000
KUOK Hoi Sang	CIHL	491,083	—	—	491,083
	CiTL	12,000,000	—	—	12,000,000
TAM Kwok Wing	CIHL	845,078	—	162,365	1,007,443
	CiTL	2,000,000	—	52,000	2,052,000

* *Dr CHOW Yei Ching had notified CiTL and CSHL that, under the SDI Ordinance, he was deemed to be interested in 432,098,666 shares in CiTL and 80,000,000 shares in CSHL which were all held by CIHL as Dr Chow beneficially owned 615,445,993 shares in CIHL, representing approximately 50% of the issued share capital of CIHL.*

(ii) Share Options

Name of Director	Associated corporations	Date of grant	Period during which options are exercisable	Con-sideration paid for options granted	Number of share options		
					Exercise price per option	Exercised during the period	Outstanding as at 30th September, 2001
				(HK\$)	(HK\$)		
CHOW Yei Ching	CIHL	17/12/1999	30/06/2000 - 29/06/2003	1	0.488	—	8,450,000
	CiTL	17/12/1999	30/06/2000 - 29/06/2003	1	0.464	—	7,000,000
KUOK Hoi Sang	CIHL	17/12/1999	30/06/2000 - 29/06/2003	1	0.488	—	5,350,000
	CiTL	17/12/1999	30/06/2000 - 29/06/2003	1	0.464	—	5,000,000
TAM Kwok Wing	CIHL	17/12/1999	30/06/2000 - 29/06/2003	1	0.488	—	5,000,000
Wong Kie Ngok, Alexander	CIHL	17/12/1999	30/06/2000 - 29/06/2003	1	0.488	—	5,000,000

Save as disclosed above, as at 30th September, 2001, none of the Directors or their spouses or children under the age of 18 years had or were deemed to have any interest in the securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2001, the substantial shareholders of the Company were CIHL Group which held 89,385,444 shares and Dr CHOW Yei Ching who held 41,036,489 shares, representing approximately 35.90% and 16.48% respectively of the issued share capital of the Company as recorded in the register of the Company required to be kept under Section 16(1) of the SDI Ordinance.

Save as disclosed above, none of the Directors is aware of any other person having an interest in shares or right to subscribe for shares, equivalent to 10% or more of the issued share capital of the Company during the period.

EMPLOYEES AND REMUNERATION POLICY

As at 30th September, 2001, the Group employed approximately 310 full time staff. Total staff costs amounted to HK\$47 million for the period. The remuneration policy is reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. Other staff benefits include bonuses awarded on a discretionary basis, medical schemes, retirement schemes and employee share option scheme.

AUDIT COMMITTEE

The Audit Committee, which was established pursuant to the requirements of the Rules Governing the Listing of Securities (“the Listing Rules”) on the Stock Exchange, comprising Messrs TING Hok Shou, Dennis and SUN Kai Dah, George, shall meet at least twice in a year. The Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of unaudited interim financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the six months ended 30th September, 2001.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the guidelines of the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the period from 1st April, 2001 to 30th September, 2001.

APPRECIATION

On behalf of the Board, I would like to express our gratitude to all the shareholders for their support and to our staff for their dedication and contribution during the period.

By Order of the Board
CHOW Yei Ching
Chairman

Hong Kong, 18th December, 2001