

*Chairman's Statement***OVERVIEW**

For the year ended 31st March, 2002, the Group's turnover was HK\$3,339 million, representing a decrease of 11.5% over the same period last year. Profit attributable to shareholders was HK\$111 million, representing a decrease of 35.1% over the same period last year. This disappointing performance was caused by a further deterioration in the markets in which the Group operates. Despite the downturn in business, the Group has made headway in a number of areas.

**DIVIDEND**

The Board of Directors recommends the payment of a final dividend of HK1.5 cents (2001: HK3.5 cents) per share payable to shareholders whose names appear on the Register of Members of the Company on Friday, 20th September, 2002. This, together with the interim dividend of HK2 cents (2001: HK2.5 cents) per share paid during the year, represents a dividend distribution of HK3.5 cents (2001: HK6 cents) per share for the year ended 31st March, 2002.

Subject to the approval of shareholders at the forthcoming Annual General Meeting to be held on Friday, 20th September, 2002, the dividend warrants will be paid on or about Tuesday, 19th November, 2002

in cash, with shareholders being given an 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 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, 16th September, 2002 to Friday, 20th September, 2002, 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 Thursday, 10th October, 2002. 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.

**MANAGEMENT DISCUSSION AND ANALYSIS****THE COMPANY***Building Services*

The significant drop in interest rates had very little impact on either consumption or domestic demand in Hong Kong. The uncertain economic conditions forced companies to reduce costs especially staff costs, leading to a surge in unemployment and negative income growth. Deterioration in labour market led to further erosion in consumer confidence and weakness in the property market. As a result, the overall performance of the Building Services Division was adversely affected with both the turnover and profits substantially reduced.



Dr. CHOW Yei Ching

## Chairman's Statement



Certificate of Merit of 2001 Quality Award to Lifts and Escalators Division by Hong Kong Management Association

Nevertheless, during the year, the Lifts and Escalators Division ("LED") was awarded numerous contracts from both private and public sectors. In recognition of its quality services, LED won the Certificate of Merit of 2001 Quality

Award organised by the Hong Kong Management Association. This award is widely recognised by the public and is strong proof of LED's long-term commitment of pursuing excellence.



In August last year, Chevalier Australia Holdings Pty Limited was set up in Sydney, Australia. This office provides design, engineering management and installation services of curtain walls and aluminium windows.

### Pipe Rehabilitation

This division was set up in 1998 when the Group established a joint venture called Preussag Pipe Rehabilitation Hong Kong Limited ("PPRHK") with a German pipe relining expert PRS Rohrsanierung GmbH ("PRS"). PPRHK has brought the advanced "No-Dig" pipe rehabilitation technology to Hong Kong and has completed a number of pipe-relining projects successfully for various government departments such as Water Supplies Department, Drainage Services



Repair of Underground Air Conditioning Cooling Intake Pipes by Process Phoenix for Wing On House, Central

Department, Housing Department and Highways Department. During last year, the Group increased its tie with the partner by investing 44% in PRS and forming a 55/45 partnership with PRS holding the operating units in Hong Kong, Singapore, China and other Asian countries. Currently, the Division has secured several major pipe rehabilitation contracts in Singapore and various trial projects in Hong Kong. It is envisaged that the investment in this business will generate long-term benefit to the Group.

*Chairman's Statement**Environmental Engineering*

During the year, the performance of the Environmental Engineering Division was satisfactory with the improved operating results compared with last year. Major contracts awarded during the year included the environmental related installation at Irrigation Pumping Station for Penny's Bay Development. In addition to the medical waste treatment operation in Manila, the Group has negotiated with Bangkok Metropolitan Administration for the design, supply, testing and commissioning for the Sludge Treatment System. Several sewage treatment plant and wastewater treatment system contracts were also under tendering process in the Mainland. With its expertise in the environmental industry, the Group believes that it is well positioned to capture additional business opportunities in the region.



Qi Shi Hotel at Dongguan

*Hotel Investment*

The performance of the Group's two hotels, Qi Shi Hotel in Xinyang and Jiujiang of Mainland China improved with the occupancy rates for both hotels increased to 70%. Due to the high service standard, the hotel in Jiujiang was classified as "four-star" hotel by the Tourist Board of Jiangxi Province in May, 2001. The Qi Shi Hotel in Dongguan was opened in August 2001. This three-star hotel is adjacent to foreign enterprises and major tourist spots. It comprises 96 rooms and provides a wide range of dining, recreation and business facilities to business guests and tourists in Dongguan.

After its opening, it recorded a steady growth in occupancy and revenue, although the break-even point has not been reached.

Contribution from the hotel in Canada declined in line with weak economic situation after September 11 last year.

*Insurance*

The performance of the Insurance Division improved substantially during the year. Turnover and net profit recorded encouraging growth to over HK\$300 million and HK\$18 million respectively as compared with last year. In order to establish its presence in the Mainland, the division set up a representative office in Beijing in July last year.



Quality insurance services provided by Chevalier Insurance Company Limited

## Chairman's Statement



Provision of building management services for Glorious Garden

property management services for commercial and industrial buildings, residential units, shopping arcades and car parking spaces for both private and public sectors. It has been registered with Hong Kong Housing Authority ("HKHA") since 2000 and was also admitted to the Approved List of Carpark Operators by HKHA in November, 2001. Currently, it manages 16 estates and buildings in Hong Kong with a portfolio of over 17 million square feet.

### Logistics and Warehousing

In February, 2002, the Group entered into the cold storage business via Chevalier Cold Storage and Warehousing Limited by acquiring a well-established eighteen-storey warehouse located at Kwai Chung at a consideration of HK\$230 million. The warehouse comprises 428,000 square feet of total floor area and 60,000 square feet of carpark space, offering various facilities such as freezer, chiller, air-conditioned warehouse and bonded warehouse. The Group is confident that, with Hong Kong being a transportation hub in the region, the warehousing business will contribute stable income to the

Group in the years to come.



Dealership of automobile business in Canada

### Overseas Business

During the year, operating profit of the automobile business in Canada increased by more than 30% despite a decrease in turnover. Moreover, in recognition of its excellence in both sales and customer services, Action Honda has won Quality Dealer Award for the third consecutive year.

### Property Investment and Property Management

During the year, the occupancy rate of the luxury residential property in Shanghai, Chevalier Place, remained high whilst the investment properties in Hong Kong maintained a steady income generating about HK\$15 million during the year. However, due to the persisted slowdown in the property market in Hong Kong, the value of certain investment properties had to be reduced and the Group's operating results were also affected.

The Property Management Division achieved steady growth in both turnover and contribution. It provides



An eighteen-storey warehouse located at Kwai Chung

*Chairman's Statement**Subsequent Event*

On 6th March, 2002, the Board proposed a voluntary unconditional cash offer through its wholly-owned subsidiary, Success Vantage Limited ("the Offeror"), to acquire all the ordinary shares of S\$0.20 each in the capital of Chevalier Singapore Holdings Limited ("CSHL") at an offer price of S\$0.45.

CSHL is a subsidiary of the Company and listed on The Singapore Exchange Securities Trading Limited ("SGX-ST"). The offer period has been closed on 25th April, 2002 and extended to 23rd May, 2002. Currently, the Offeror has acquired 99,658,000 shares in CSHL, representing approximately 88.59% of the issued share capital of CSHL. As the Offeror had received acceptances of the Offer less than 90% of the issued share capital of CSHL, the Offeror was not entitled under the Singapore Companies Act to privatise CSHL. CSHL remains listed on SGX-ST with a public float of approximately 11.41%.



TOSHIBA ultraportable notebook computer -  
Portege Series

**CHEVALIER ITECH HOLDINGS LIMITED ("CiTL")**

The year 2001 was a difficult and challenging year for CiTL Group. The weak global economy and the fierce competition in the IT market imposed significant pressure on CiTL Group's turnover and profitability, resulting in an unsatisfactory result for the year ended 31st March, 2002. CiTL Group has recorded a turnover of approximately HK\$775 million, representing a decrease of 26%. Loss for the year amounted to HK\$9.43 million, compared with a net profit of HK\$7.76 million in previous year. Loss per share was HK1.1 cents.

During the year, the total sales of the Computer Division dropped by more than 28% due to the shrinkage in capital spending in the commercial sector. The performance of the IT & Network Solutions Division is not satisfactory due to keen competition. Major contracts secured by Chevalier (Network Solutions) Limited included a contract from Television Broadcasts Limited for the New TV City in Tseung Kwan O and the broadband infrastructure network and in-building ELV systems contract for International Finance Centre, Phase II in May, 2001.



Chevalier (Network Solutions) Limited participated in  
Expo 2002

Both turnover and contribution of the Telecommunication Systems & Services Division deteriorated further during the year as the mobile phone market in Hong Kong has almost saturated. Competition among local network operators was very keen and, as a result, Chevalier Shops and other mobile phone franchise shops reported a significant drop in both turnover and loss incurred during the year. Currently, CiTL Group operates a total of 14 Chevalier Shops and 26 franchise shops. The Office Equipment Division also experienced another difficult year but the situation stabilised despite the stagnant market condition. In addition, the turnover of the After-sales Services Division also decreased slightly but the profit margins

## *Chairman's Statement*

improved due to the improvement in the operating efficiency and tight cost control. During the year, the overall performance of Q-Mart Shops was unsatisfactory mainly due to intensive competition.

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

For the year ended 31st March, 2002, CCHL Group continued to operate under an extremely tough environment due to the slowdown in the local property market. The change in the government policy of Home Ownership Scheme also affected its business. With stringent cost control, effective project management and in spite of a significant decrease in turnover, CCHL Group recorded an operating profit of HK\$6.5 million compared with a loss of HK\$29.8 million last year. Profit attributable to shareholders was HK\$6.7 million (loss of HK\$27.6 million in last year) and earnings per share increased to HK2.7 cents (loss of HK11.66 cents per share in last year).



*Jordan Road Reclamation Phase III and Remaining Engineering Works will be completed at the end of 2002*

For the year ended 31st March, 2002, the outstanding value of construction contracts and civil engineering contracts of CCHL Group on hand amounted to approximately HK\$79 million and HK\$182 million respectively.

During the year, building construction continued to be dampened by a sluggish property market. In order to maintain its competitiveness, CCHL Group reduced its work force substantially and controlled its expenses effectively by streamlining the organisation and internal control procedures. CCHL Group was awarded a construction contract of Lam Tin Primary School in Lam Tin Estate Redevelopment, Kwun Tong. This project commenced in February, 2002 and is targeted for completion in July, 2003.

### **CHEVALIER SINGAPORE HOLDINGS LIMITED**

The turnover of CSHL declined by 15.5% to S\$30.4 million mainly due to the decrease in both number and value of the lifts and escalators installation projects completed during the year. The operating profit before income tax of CSHL increased by 7.9% to S\$8.4 million as compared to previous year. The increase in profitability was primarily attributable to the increase in gross profit contributed by the increase in revenue from upgrading, retrofitting, testing and commissioning, servicing and maintenance of lifts and escalators. CSHL's investment properties maintained a stable rental income.



## *Chairman's Statement*

### **PROSPECTS**

The global economic slowdown, aggravated by the September 11 terrorist attacks on the US, had seriously affected world trade and global financial markets, plunging Hong Kong into a second economic downturn after the Asian financial crisis in 1997. The uncertain economic conditions caused companies to reduce costs and action redundancies, leading to a surge in unemployment and negative income growth. Local unemployment rate soared to a record 7.4% for the three months ended 31st May, 2002 whilst consumer spending continued to reduce due to persistent deflation and the weakness in asset markets.

The outlook of Hong Kong economy will mainly depend on the pace of recovery in the US. Recent data indicates that the Hong Kong economy may have passed the trough of the economic downturn but any rebound is likely to be gradual. To solve the structural problems of rising unemployment and deteriorating budget account, the territory has to reinforce its intermediary role between Mainland China and the outside world.

The Group believes that Hong Kong has considerable scope to improve its traditional job as an entrepot to China especially the southern part. The Group's strategic plan addresses this opportunity and new work has already commenced. With its experience in building services, the Group has brought the pipe rehabilitation technology to China and other Asian countries.

Another area of partnership with the Mainland is to strengthen Hong Kong's role as the logistics hub of southern China. Investing in warehousing is the first step of establishing this new line of business in the Group. Being an international city, Hong Kong can expand its support and business to the Mainland.

Insurance is the third major line of business for the Group aiming at the partnership business with the Mainland. The Group has already established a strong base in Hong Kong and is optimistic at developing such business in the Mainland. Backed by the Group's expertise and experience, as well as its well-established network in the Mainland, the Group is in an advantageous position to seize more business opportunities arising from the Mainland in the coming years.

The Group considers that the current weak economic environment offers a golden opportunity to reposition and consolidate its business in Hong Kong and overseas markets. With the implementation of various stringent cost control measures during the financial year, the Group is now in a strong position to ride out the current economic downturn.

### **APPRECIATION**

2001 has been a bumpy year for Hong Kong, during which the Group has been confronted by many challenges in both economic and political aspects. On behalf of the Board, I would like to take this opportunity to truly thank all staff for their concerted effort which has enabled the Group to move through these rough times safely.

#### **CHOW Yei Ching**

*Chairman and Managing Director*

Hong Kong, 11th July, 2002