

Chairman's Statement



Dr CHOW Yei Ching

For the year ended 31st March, 2003, the Group's turnover was HK\$3.3 billion and profit attributable to shareholders HK\$102 million, representing a slight decrease as compared with last year. The continued disappointing performance was mainly caused by a further deterioration in the local property market. Even though the government has implemented measures to stabilise the downward trend, the supply of property to the market and the stock on hand are still very high and will have to be digested by the market gradually in the next few years. 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 HK10 cents (2002 (restated): HK7.5 cents) per share payable to shareholders whose names appear on the Register of Members of the Company on Friday, 29th August, 2003. This, together with the interim dividend of HK7.5 cents (restated) (2002 (restated): HK10 cents) per share paid during the year, represents a dividend distribution of HK17.5 cents (restated) (2002 (restated): HK17.5 cents) per share for the year ended 31st March, 2003.

Subject to the approval of shareholders at the forthcoming Annual General Meeting, the dividend warrants will be distributed and paid on or about Friday, 10th October, 2003 in cash, with shareholders being given the option to receive shares of HK\$1.25 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, 25th August, 2003 to Friday, 29th August, 2003, 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 about Tuesday, 16th September, 2003. 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

Lifts and Escalators

In spite of the difficult business environment, the Lifts and Escalators Division ("LED") was able to maintain the turnover and continued to contribute significantly to the operating profit of the Group. LED and the Curtain Walls and Aluminium Windows Division ("CAE") jointly secured a large-scale contract for the Hong Kong Four Seasons Hotel, the largest six-star hotel in Hong Kong scheduled to open in 2004. Another major contract awarded to LED is to supply and install lifts for the Kwai Chung Estate Phase 5 managed by the Hong Kong Housing Authority.

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Installation of lifts and aluminium engineering works at Hong Kong Station Development Four Seasons Hotel

Electrical installation at Metropolis, Hung Hom



Curtain Walls and Aluminium Windows

Apart from the aforesaid contract, CAE was also awarded the curtain wall contracts for Cyberport Development and part of the Two International Finance Centre. The division still maintained a sound growth despite the weak construction market.

Electrical and Mechanical Engineering

The performance of the Electrical and Mechanical Engineering Division was below expectation. The division has been re-organised in order to strengthen its project management control system. Contracts on hand include Metropolis, Hung Hom; redevelopment of Craigengower Cricket Club; hotel development at No. 18 King's Road, North Point and the residential development for Tung Chung Station.

Pipe Rehabilitation

During the year, Preussag Pipe Rehabilitation Hong Kong Limited was awarded various contracts from both public and private sectors. However, its business volume was below budget due to the delay in the launch of government projects.

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Installation of Rib Loc Pipe Lining Technology at Hong Kong International Airport

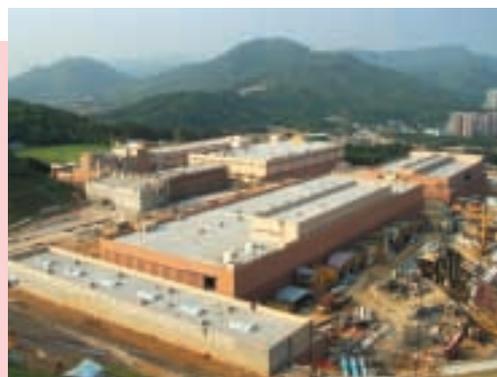
In line with the Group's strategy of establishing strong foothold in the "No-Dig" pipe rehabilitation technology, the Group has continued to increase its equity interest in NordiTube Technologies AB ("Norditube") in Sweden and Rib Loc Group Limited ("RibLoc"), an Australian listed company. Both companies specialise in the development of such technology and

manufacturing of related materials. As at the date of this report, the Group holds 54.21% Norditube and 21.54% RibLoc. In addition, the joint-venture arrangement with PRS Rohrzanierung GmbH ("PRS") has been diluted to such an extent that the Group has, on top of the equity holding in Norditube and RibLoc, a direct control over the business in Asia. Accordingly, the Group's interest in PRS has been substantially reduced. However, the Group's involvement in the European market is maintained through Norditube.

Environmental Engineering

The project at Tai Po Water Treatment Plant was completed in June, 2003 whilst the contract on the environmental installation for Irrigation Pumping Station at Penny Bay progressed on schedule. The medical waste treatment facility in Manila using microwave disinfection technology performed well. The Group aims at expanding this business into the Mainland and other countries in the region.

Tai Po Water Treatment Plant and Pumping Station



The food and restaurant environmental business launched by the Group last year via a 55% joint venture known as Chevalier Acron Limited was below expectation mainly due to the weak economic environment. The Group will continue to strengthen the development of Nano-Confined Catalytic Oxidation Technology (NCCO) to tackle the pollution of odor encountered by the local food and restaurant industry.

Hotel Investment

The Group's hotel business in the Mainland was inevitably affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003. However, the overall business in 2002 has shown improvement especially in the occupancy rates. The occupancy rates of Chevalier Hotels in Xinyang and Dongguan maintained at a satisfactory level whilst the four-star hotel in Jiujiang increased to 75%, especially during the Golden Week in the Mainland last year.

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The Rosedale on Robson Suite Hotel, which is located at the centre of Vancouver's business district with 275 guests rooms, maintained stable performance in the financial year under review.

Insurance

The Insurance Division was able to achieve a satisfactory growth despite keen market competition. Turnover increased to over HK\$313 million as compared with last year.

Property Investment and Property Management

During the year, the Group's luxury residential property in Shanghai, Chevalier Place, maintained an occupancy rate of over 80% whilst the investment properties in Hong Kong maintained a steady income of about HK\$21 million during the year.

Chevalier Property Management Limited ("CPM") was awarded and maintained a number of management contracts during the year from both private and public sectors comprising residential estates, commercial and industrial buildings, shopping arcades, carparks and communal facilities. With a strong financial position, ample experience in property management and quality services, CPM was admitted onto the Approved List of various categories of the Hong Kong Housing Authority.

Logistics and Warehousing

Despite the sluggish economy and keen market competition, the logistics and warehousing business last year was able to contribute steadily to the Group. The warehouse in Kwai Chung delivers various efficient and reliable cold storage services to customers. With its quality warehousing services, Chevalier Cold Storage and Warehousing Limited was accredited with the ISO9002 certification by the Hong Kong Quality Assurance Agency in January, 2003.



The loading area of our cold storage warehouse in Kwai Chung

Overseas Business

During the year, operating profit of the automobile business in Canada increased by 40%. Moreover, Action Honda has won the Quality Dealer Award for the third consecutive year. The award is a significant achievement since it aims at recognising those dealers with performance exceeding the high standards set by Honda Canada.

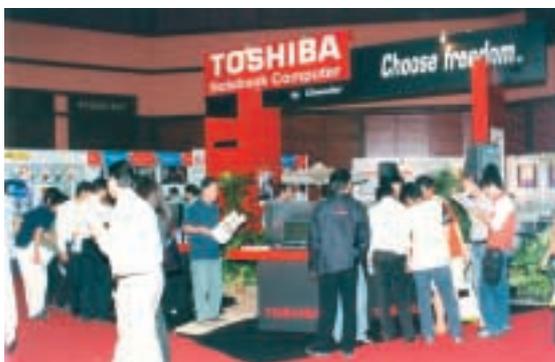
Dealership of automobile business in Canada



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The performance of trading and distribution business in the West Coast of the US improved significantly during the year. This business mainly involves in the import, distribution, wholesale and marketing of oriental food. The Group has gained exclusive distributorship of several renowned food products, all of which were well accepted by the market.

Chevalier iTech Holdings Limited ("CiTL")



Demonstration of Toshiba Notebook Computer in Commart Thailand 2003 Fair

The performance of the CiTL Group for the year ended 31st March, 2003 was disappointing mainly due to the loss incurred in the closure of its retail operations. The CiTL Group has recorded the turnover of approximately HK\$688 million, representing a decrease of 11% as compared with last year. Loss for the year amounted to HK\$23 million and loss per share was HK13.3 cents.

Intense competition in PC products continued to affect the performance of the Computer Division. The CiTL Group will strive to introduce products with attractive price packages in order to increase competitiveness.

In anticipation of the continued economic uncertainties and unfavourable business environment, the CiTL Group took a difficult but necessary decision to discontinue most of the retail shops and mobile phone franchise shops. Loss was incurred as a result. In addition, the first Chevalier Shop Digital Gallery with a brand new service concept was opened in Causeway Bay in December, 2002. The Gallery comprises "Toshiba Customer Care Service Centre" with professional customer service staff offering tailor-made and efficient after-sales services for Toshiba notebook computers.

All the large-scale contracts of the IT & Network Solutions Division on hand including New TV City, Two International Finance Centre and KCRC West Rail were progressed well. The Business Machine Division and the After-sales Services Division were able to maintain a stable performance. However, the overall contribution from these divisions deteriorated due to fierce competition and sluggish market condition.

The CiTL Group's operation in Thailand continues to out-perform other divisions in the CiTL Group as the economic growth in Thailand remains strong in recent years.

Chevalier Construction Holdings Limited ("CCHL")

For the year ended 31st March, 2003, the CCHL Group continued to operate under an extremely tough environment due to the continued slowdown in the local property market. In spite of a significant decrease in turnover, the CCHL Group recorded an operating profit of HK\$18 million (2002: HK\$6.5 million). Profit attributable to shareholders was HK\$7.4 million (2002: HK\$6.7 million) and earnings per share was HK2.98 cents (2002: HK 2.7 cents).

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As of 31st March, 2003, the outstanding value of contracts of the CCHL Group on hand continued to decline as activities in the local property market further depressed regardless of HKSAR Government's contingent measures to stabilise the situation. Value of building construction and civil engineering contracts on hand for the CCHL Group amounted to approximately HK\$38 million and HK\$202 million respectively.

Subsequent to the year end, the CCHL Group was awarded the contract to build the International Wetland Park in Tin Shui Wai, New Territories. The project included all the associated building service installations, drainage works, utility connection and pavement works of the Park. The Park will offer facility for Hong Kong citizens to observe the wetlands and natural scenery around Mai Po Marshes Nature Reserve and Hau Hoi Wan. The contract for the construction of Lam Tin Primary School at Kwun Tong was progressed on schedule during the year.

International
Wetland Park
in Tin Shui
Wai, New
Territories



During the year, the civil engineering contracts on hand for the CCHL Group was the construction of Seawalls and Reclamation at Tseung Kwan O Port Development at Area 137, Stage 2 and Jordan Road Reclamation Phase III and Remaining Engineering Works.

Prospects

During the year, the global economy remained sluggish as the lackluster demand and excess capacity continued to weigh on the labour market. In the US, factory capacity in use stayed at a two-decade low of 74.3% in May, 2003. Business spending and consumer confidence continues to shrink despite a robust housing market. Even though the leading indicators released recently are positive due to rising stock market and an increased supply of money flowing through the economy, companies remain cautious on capital expenditure. Consumers continue to hold their propensity to spend and this would make the pace of the global economic recovery more difficult to speed up.

In Hong Kong, the persistent high unemployment rate and deflation, compounded by impact of SARS, have affected domestic economic growth and the government has cut its 2003 growth forecast to 1.5% from 3%. The government is under increasing pressure to find ways to solve the economic problems and has already unveiled a HK\$11.8 billion package of emergency relief measures which are expected to offer only marginal relief to the local economy. Apart from creating a business-friendly environment, the government has also been working on greater integration within the Pearl River Delta aiming at creating more business and employment opportunities. The Closer Economic Partnership Arrangement (CEPA) was announced by the Government in June, 2003 and will become effective on 1st January, 2004. Such free-trade pact signifies the closer economic ties between Hong Kong and the Mainland. Besides, the Mainland agreed to allow

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residents of four cities in the southern Guangdong province – Dongguan, Zhongshan, Jiangmen and Foshan – to visit Hong Kong in an individual capacity starting from July, 2003. The move is likely to widen the floodgate of Mainland tourists to Hong Kong. Although the impact of CEPA to the local economy has yet to be seen, the Group remains cautiously optimistic about the business opportunities in the Mainland and will continue to prudently expand its operations.

In spite of the uncertain operating conditions, the Group's diversified business strategy in Hong Kong and overseas enables it to withstand the impact of global economic volatility and maintain a stable performance. Looking forward, the Group will adhere to its stringent cost control measures and look for new opportunities to develop business especially in the Mainland.

SUBSEQUENT EVENTS

Privatisation of Chevalier Singapore Holdings Limited ("CSHL")

On 6th February, 2003, the Company proposed to privatise CSHL, a subsidiary listed on Singapore Exchange Securities Trading Limited ("the SGX-ST") through the Group's wholly-owned subsidiary, Smart Expand Limited ("SEL"). SEL sought the voluntary delisting of CSHL ("Offer") from the SGX-ST by offering S\$0.38 in cash for every share of S\$0.1 each in the share capital of CSHL. The total cost of the Offer was approximately HK\$24 million and was funded by internal resources of the Company. The Offer was completed on 25th April, 2003 and valid acceptances of 108,667,000 CSHL shares, representing 96.6% of the issued share capital of CSHL were received. On 5th June, 2003, SEL exercised its right of compulsory acquisition pursuant to the Companies Act of Singapore. After the compulsory acquisition, CSHL officially became a wholly-owned subsidiary of the Company. CSHL was delisted from the Official List of the SGX-ST with effect from 11th June, 2003 and its name has changed to "Chevalier Singapore Holdings Pte. Ltd." with effect from 20th June, 2003. The existing business and operation of CSHL remain unchanged.

Consolidation of Shares

On 30th April, 2003, the Board of the Company proposed to consolidate every five existing issued and unissued shares of HK\$0.25 each into one new share ("New Shares") of HK\$1.25 each in the share capital of the Company ("the Shares Consolidation"). The Shares Consolidation was approved by the shareholders at the Special General Meeting of the Company held on 5th June, 2003. After the consolidation, the number of authorised shares of the Company was reduced from 1,700,000,000 to 340,000,000 and the number of issued shares was reduced from 1,309,231,865 to 261,846,373. Details of which were contained in a circular of the Company dated 20th May, 2003.

Appreciation

2003 has been a difficult year for Hong Kong, during which the Group has been confronted with many challenges in both economic and social aspects. On behalf of the Board, I would like to take this opportunity to truly thank all staff for their concerted effort which enabled the Group to move through these rough and difficult times smoothly.

CHOW Yei Ching

Chairman and Managing Director

Hong Kong, 16th July, 2003