

Report of the Directors

The Directors present to shareholders their annual report together with the audited financial statements of the Company and of the Group for the year ended 31st March, 2003.

Principal Activities

The principal activity of the Company is investment holding while the principal activities of its subsidiaries are engaged in building construction, building maintenance and civil engineering.

The Group's turnover and results for the year ended 31st March, 2003 analysed by principal activities are set out in note 4 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31st March, 2003 are set out in the consolidated income statement on page 18. No interim dividend was paid during the year. The Directors do not recommend the payment of a final dividend.

Share Capital

Movements in the Company's share capital during the year are set out in note 20 to the financial statements.

Reserves

Movements in reserves during the year are set out in note 21 to the financial statements.

Property, Plant and Equipment

Movements in property, plant and equipment during the year are set out in note 10 to the financial statements.

Financial Summary

A financial summary of the Group is shown on page 2.

Major Customers and Suppliers

The five largest suppliers accounted for 18.5% of the Group's purchases for the year whereas the five largest customers accounted for 88% of the Group's sales for the year. The largest supplier and the largest customer accounted for 4.7% and 35.5% of the Group's purchases and sales respectively. Except for the contracts with Chevalier International Holdings Limited ("CIHL") Group as disclosed more fully in the section "Connected Transactions" below, none of the Directors, their associates nor any shareholder (whom to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or five largest customers.

Employees and Remuneration Policies

As at 31st March, 2003, the Group employed approximately 120 full time staff in Hong Kong. Total staff costs amounted to approximately HK\$48 million for the year ended 31st March, 2003. The remuneration policies are 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 employees' share option scheme.

Donations

During the year, the Group made donations of HK\$615,000 to charitable bodies and HK\$43,000 to other communities.

Subsidiaries, Associate and Jointly Controlled Entities

Particulars regarding the subsidiaries, associate and jointly controlled entities of the Group are set out in notes 11, 12 and 13 to the financial statements respectively.

Report of the Directors

Pre-emptive Rights

There are no provision for pre-emptive rights under the Company's Bye-laws although there are no restriction against such rights under the laws in Bermuda where the Company is incorporated.

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 year.

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Dr CHOW Yei Ching	<i>(Chairman)</i>
Mr KUOK Hoi Sang	<i>(Vice Chairman)</i>
Mr WONG Kie Ngok, Alexander	
Mr TAM Kwok Wing	

Independent Non-Executive Directors

Mr SUN Kai Dah, George	
Dr DU Shue Chu	<i>(Appointed on 28th November, 2002)</i>
Mr TING Hok Shou, Dennis	<i>(Retired on 20th September, 2002)</i>
Dr CHOW Ming Kuen, Joseph	<i>(Appointed on 1st October, 2002 and resigned on 28th November, 2002)</i>

In accordance with the Company's Bye-laws, Mr SUN Kai Dah, George and Dr DU Shue Chu shall retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Independent Non-Executive Directors are subject to the same retirement requirements as the Executive Directors.

Directors' Interests in Contracts

Messrs CHOW Yei Ching, KUOK Hoi Sang, WONG Kie Ngok, Alexander and TAM Kwok Wing are interested in certain contracts in that they are the Directors and/or have beneficial interests in CIHL. Details of these contracts are more fully disclosed in the section "Connected Transactions" below.

Save as aforementioned, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

During the year, none of the Directors have an interest in any business constituting a competing business to the Group.

Report of the Directors

Connected Transactions

The Group has from time to time conducted transactions with CIHL which is a “connected person” for the purposes of the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”). The Stock Exchange had granted waivers on 31st January, 1996 and 29th December, 1997 to the Company from strict compliance with the requirements as stipulated in Chapter 14 of the Listing Rules on connected transactions. Pursuant to the waivers, details of the following connected transactions which have been entered into between certain subsidiaries of CIHL and the Group in the ordinary and usual course of business were not required to be disclosed by press notice and/or circular nor is the Company required to obtain prior independent shareholders’ approval on each occasion:

1. Chevalier Construction (Hong Kong) Limited (“CCHK”), a wholly-owned subsidiary of the Company, had entered into drainage works contract with Goldyork Investment Limited, a wholly-owned subsidiary of CIHL on 1st November, 2002 at an estimated contract value of HK\$1,426,000.
2. An agreement was made between the Company and CIHL whereby the Group as main contractor may source from time to time supply of lifts and escalators, air-conditioning systems, electrical and mechanical systems, building materials and equipment and the related installation services from the various subsidiaries of CIHL. The Group had entered into the following connected transactions as within the meaning of the Listing Rules:

Main contractor	Nature of transaction	Sub-contractor	Estimated contract value	Interest attributable to the Group
			HK\$'000	%
CCHK	Supply and installation of building materials	Chevalier (Building Supplies & Engineering) Limited (“CBS”)	2,388	100
CCHK	Supply and installation of electrical equipment	Chevalier (HK) Limited (“CHK”)	702	100
Chevalier (Construction) Company Limited (“CCCL”)	Supply and installation of building materials	CBS	9,082	99.67
CCCL	Supply and installation of electrical and mechanical equipment	CHK	38,962	99.67
Chevalier (Civil Engineering) Limited	Rental of equipment	CBS	268	100

Purchases and progress payments made during the year ended 31st March, 2003 in respect of the above contracts amounted to approximately HK\$9 million.

3. The Company had entered into an administrative service agreement with CIHL under which CIHL Group provided accounting, treasury, electronic data processing, company secretarial and personnel management services to the Group at a management fee calculated based on 0.3% of the Group’s annual turnover. The management fee paid to CIHL during the year ended 31st March, 2003 amounted to HK\$676,000.

Report of the Directors

Connected Transactions (continued)

4. The following properties were leased to the Group by the wholly-owned subsidiaries of CIHL at commercial rates:

Landlord	Renting of Property (usage)	Rental for the year
		<i>HK\$'000</i>
Union Pearl Development Limited	Portion of Chevalier Commercial Centre (office)	1,442
Winfield Development Limited	Portion of Chevalier Warehouse Building (warehouse)	195
Peak Gain Limited	Portion of Chevalier Engineering Service Centre (office/warehouse)	258

During the year, rentals amounting to approximately HK\$1.9 million were paid to CIHL Group.

5. The Group has maintained insurance policies with Chevalier Insurance Company Limited ("CIS"), a wholly-owned subsidiary of CIHL, including public liability insurance, employees compensation insurance and contractors all risk insurance. The insurance premium charged by CIS to the Group during the year ended 31st March, 2003 amounted to approximately HK\$1,057,000. Dr CHOW Yei Ching, the Chairman, an Executive Director and a substantial shareholder of the Company, is interested in approximately 50.61% interests in CIHL. The transactions constituted connected transactions which were subject to disclosure requirement under Rule 14.25(1) of the Listing Rules. The Stock Exchange had granted a waiver on 30th July, 2002 to the Company from the continue disclosure requirements in respect of such transactions for so long as the aggregate amount of the transactions do not exceed 3% of the latest published audited consolidated net tangible assets of the Company or HK\$10,000,000, whichever is higher.

The Independent Non-Executive Directors of the Company confirm that the aforesaid connected transactions conducted by the Group during the year ended 31st March, 2003 were:

- (i) in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties;
- (iii) fair and reasonable so far as the shareholders of the Company are concerned; and
- (iv) within the relevant amounts as stipulated under the relevant waivers.

Report of the Directors

Directors' Interests in Securities

As at 31st March, 2003, the interests of the Directors in the share capital of the Company and its associated corporations (as defined in the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance")) which have been notified to the Company and 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 Directors	Number of ordinary shares			Total
	Personal interests	Corporate interests	Family interests	
CHOW Yei Ching	61,036,489	89,385,444*	–	150,421,933
KUOK Hoi Sang	1,326,437	–	–	1,326,437
TAM Kwok Wing	625,796	–	7,142	632,938

* Dr CHOW Yei Ching beneficially owned 662,561,758 shares in CIHL, representing approximately 50.61% 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 disclosed in the section "Substantial Shareholders" below.

(b) Interests in Associated Corporations – Shares

Name of Directors	Associated corporations	Number of ordinary shares			Total
		Personal interests	Corporate interests	Family interests	
CHOW Yei Ching	CIHL	662,561,758	–	–	662,561,758
	Chevalier iTech Holdings Limited ("CiTL")	34,079,270	434,974,666*	–	469,053,936
	Chevalier Singapore Holdings Limited ("CSHL")	–	101,653,000*	–	101,653,000
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 434,974,666 shares in CiTL and 101,653,000 shares in CSHL which were all held by CIHL as Dr Chow beneficially owned 662,561,758 shares in CIHL, representing approximately 50.61% of the issued share capital of CIHL.

As at 31st March, 2003, certain Directors personally had interests in share options to subscribe for ordinary shares of the associated corporations of the Company as separately disclosed in the section "Share Option Schemes" below.

Report of the Directors

Save as disclosed above and in "Share Option Schemes" below, as at 31st March, 2003, none of the Directors of the Company nor their spouses and children under the age of 18 had or were deemed to have any interest in the securities of the Company and any of its associated corporations (as defined in the SDI Ordinance) or were granted any right to subscribe for the securities of the Company or any of its associated corporations or exercised such right during the year pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part 1 of the Schedule to the SDI Ordinance.

Share Option Schemes

Details of the share options outstanding as at 31st March, 2003 which have been granted under the share option schemes of the associated corporations of the Company were as follows:

Name of Directors	Associated corporations	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$)	Number of share options				
					Balance as at 1st April, 2002	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31st March, 2003
CHOW Yei Ching	CIHL	17/12/1999	30/06/2000 – 29/06/2003	0.488	8,450,000	-	-	-	8,450,000
	CiTL	17/12/1999	30/06/2000 – 29/06/2003	0.464	7,000,000	-	-	-	7,000,000
KUOK Hoi Sang	CIHL	17/12/1999	30/06/2000 – 29/06/2003	0.488	5,350,000	-	-	-	5,350,000
	CiTL	17/12/1999	30/06/2000 – 29/06/2003	0.464	5,000,000	-	-	-	5,000,000
WONG Kie Ngok, Alexander	CIHL	17/12/1999	30/06/2000 – 29/06/2003	0.488	5,000,000	-	-	-	5,000,000
TAM Kwok Wing	CIHL	17/12/1999	30/06/2000 – 29/06/2003	0.488	5,000,000	-	-	-	5,000,000

As at 31st March, 2003, the number of shares in respect of which options had been granted under the share option scheme of CIHL was 34,150,000, representing 2.7% of the shares of CIHL in issue at that date and would continue to be exercisable in accordance with the terms of grant. As at 31st March, 2003, the number of shares in respect of which options had been granted under the share option scheme of CiTL was 28,550,000, representing 3.3% of the shares of CiTL in issue at that date and would continue to be exercisable in accordance with the terms of grant.

The Company adopted a share option scheme on 28th December, 1995 ("the Old Scheme"). It has been terminated by the shareholders of the Company at the 2002 Annual General Meeting of the Company held on 20th September, 2002 and no further options may be granted under the Old Scheme. A new share option scheme ("the New Scheme") was approved by the shareholders of the Company at the 2002 Annual General Meeting. The New Scheme fully complies with Chapter 17 of the Listing Rules. A summary of the terms of the New Scheme was contained in the Company's circular dated 30th July, 2002. During the year, no share option was granted, exercised, cancelled or lapsed under the New Scheme. There was no outstanding option under the New Scheme at the beginning and at the end of the year.

Directors' Service Contracts

No Director offering for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Management Contracts

Apart from the management agreement entered into with CIHL as mentioned above, no other contract of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries was entered into or subsisted during the year.

Report of the Directors

Directors' Biographies

Executive Directors

Dr CHOW Yei Ching, Chairman, aged 67, is the founder of Chevalier Group and the Chairman and Managing Director of CIHL and the Chairman of CiTL, both of which are public listed companies in Hong Kong. He is also a Non-Executive Director of Van Shung Chong Holdings Limited, Television Broadcasts Limited and Shaw Brothers (Hong Kong) Limited. In 1995, Dr Chow was awarded with an Honorary Doctor Degree in Business Administration by The Hong Kong Polytechnic University and an Honorary University Fellow by The University of Hong Kong. In 1996 and 1997, he was appointed as an Honorary Member of the Board of Directors by Nanjing University and was conferred an Honorary Degree of Doctor of Laws by The University of Hong Kong respectively. Dr Chow also serves actively in a number of educational advisory committees and gives substantial support to the aforementioned two Universities in Hong Kong and The Hong Kong University of Science & Technology in areas of researches and developments. He is also a Consultative Professor of Zhejiang University and a Lecture Professor of Sichuan Union University in the PRC. Dr Chow's enthusiasm in public services is evidenced in his appointment in 2001 as the Vice Patron of The Community Chest in Hong Kong. He was also appointed as the Honorary Consul of The Kingdom of Bahrain in Hong Kong in 2001. He also actively participates in various professional bodies and associations on fraternal and Chinese affairs. To name a few, he is a Standing Committee Member of the Chinese People's Political Consultative Conference, Shanghai, the President of The Japan Society of Hong Kong and the Permanent Honorary President of the National Taiwan University-HK Alumni Association, etc. In recognition of his contributions to local and overseas societies alike, Dr Chow was awarded honorable decorations from Britain, Belgium, France and Japan.

Mr KUOK Hoi Sang, Vice Chairman, aged 53, joined Chevalier Group in 1972 and is the Managing Director of CIHL and a Director of CiTL. He is also the President of The Lift and Escalator Contractors Association in Hong Kong, the Vice-Chairman of the Hong Kong – China Branch of The International Association of Elevator Engineers and a Registered Lift and Escalator Engineer in Hong Kong. He was appointed as member of Chinese People's Political Consultative Conference, Guangzhou. Mr Kuok has extensive experience in business development and is responsible for the strategic planning and management of the operations of lifts and escalators, building construction, building materials and supplies, aluminium works, electrical and mechanical services, civil engineering, property development as well as investment projects of the Group.

Mr WONG Kie Ngok, Alexander, Director, aged 74, joined Chevalier Group in 1989 and is a Director of CIHL. He is responsible for the internal audit and project development of Chevalier Group. Mr Wong is a member of The Australian Society of Certified Public Accountants, a fellow member of The Hong Kong Society of Accountants and a fellow member of The Taxation Institute of Hong Kong.

Mr TAM Kwok Wing, Director, aged 42, joined Chevalier Group in 1986 and is a Director of CIHL. Apart from his participation in running the insurance underwriting business together with property development, property management and cold storage warehousing divisions, he is also responsible for legal affairs, general administration, human resources management, public relations and travel agency business of Chevalier Group. Mr Tam holds a Bachelor Degree in Laws from the Beijing University of the PRC, a Master of Arts Degree from City University of Hong Kong and a Postgraduate Diploma in Corporate Administration from The Hong Kong Polytechnic University. He is also fellow members of the Chartered Institute of Arbitrators, the Institute of Chartered Secretaries and Administrators in the U.K. and the Hong Kong Institute of Company Secretaries. Presently, he also serves as an Honorary Secretary of the Insurance Claims Complaints Bureau.

Independent Non-Executive Directors

Mr SUN Kai Dah, George, aged 63, was appointed to the Board in 1999. He has extensive experience in business management. Mr Sun is the founder of Zindart Limited, a company incorporated in 1977 and subsequently listed in the United States NASDAQ. He has retired from the position of Chief Executive Officer since 1998.

Dr DU Shue Chu, aged 67, was appointed to the Board in 2002. He was awarded a license of the Medical Council of Hong Kong and is an ordinary/association member of The Society of Anaesthetists of Hong Kong, The Hong Kong Society of Gastroenterology, Hong Kong Society of Cardiology, The Hong Kong Society of Endocrinology Metabolism Reproduction, The Hong Kong Society of Rheumatology and The Hong Kong Society of Dermatology & Venereology.

Report of the Directors

Retirement Schemes

The Company and its Hong Kong subsidiaries were participating companies in the Chevalier Group Staff Provident Fund Scheme ("the Scheme") as defined in the Occupational Retirement Schemes Ordinance which is a defined contribution retirement scheme. The Scheme was granted exemption from Mandatory Provident Fund regulations by the Mandatory Provident Fund Scheme Authority and shall not open to new members starting from 1st December, 2000. Contributions to the Scheme are made by both the employers and the employees at the rate of 5% to 7.5% on the employees' salaries.

Pursuant to Government legislation, Bank Consortium Trust Company Limited was selected by the Group as an alternative Mandatory Provident Fund ("MPF") service provider for employees of the Group who join the Group from 1st December, 2000. The MPF is available to the employees aged 18 to 65 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income at a maximum of HK\$20,000 per month. The benefits are required by law to be preserved until the retirement age of 65.

The Group's total contributions to these schemes charged to the consolidated income statement during the year amounted to HK\$1,406,000 against which the forfeited contributions amounting to HK\$1,247,000 have been deducted. There were forfeited contributions amounting to HK\$14,000 available at the year end date for the reduction of future employer's contributions.

Substantial Shareholders

As at 31st March, 2003, the substantial shareholders of the Company were CIHL Group which held 89,385,444 shares and Dr CHOW Yei Ching who held 61,036,489 shares, representing approximately 35.9% and 24.51% of the issued share capital of the Company respectively 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 year.

Arrangement for Acquisition of Shares or Debentures

Except for the share option scheme adopted by the Company and its associated corporation and the share options granted to certain Directors, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Audit Committee

The Audit Committee, which was established pursuant to the requirements of the Listing Rules, comprising Mr SUN Kai Dah, George, Mr TING Hok Shou, Dennis who retired on 20th September, 2002 and Dr DU Shue Chu who was appointed on 28th November, 2002, the Independent Non-Executive Directors of the Company, met twice in the year. During the year, the Audit Committee has reviewed with the Management the Connected Transactions, interim and annual reports of the Group, the accounting principles and practices adopted by the Group, the auditing, internal controls and financial reporting matters.

Code of Best Practice

In the opinion of the Directors, the Company has complied throughout the year with the guidelines for the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Auditors

The financial statements for the year have been audited by Messrs Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

CHOW Yei Ching

Chairman

Hong Kong, 16th July, 2003