

Chairman's Statement



Dr CHOW Yei Ching
Chairman and Managing Director

This, together with the interim dividend of HK10 cents (2003: HK7.5 cents (restated)) per share paid during the year, represents a dividend distribution of HK30 cents (2003: HK17.5 cents (restated)) per share for the year ended 31st March, 2004. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the dividend warrants will be distributed and paid on or about Wednesday, 8th September, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Construction and Engineering

During the year, the turnover of this segment was HK\$1,636 million compared with HK\$1,647 million last year.

Lifts and Escalators

Boasting reliable and quality services, a hallmark of the Group, the division performed well in the challenging and competitive market. Although the construction market was weak during the year, it still saw an increase in the revenue from new installation. Service income also maintained a stable growth despite intense price pressure. Major projects for the year included the supply and installation of lifts and escalators for the hotel and office buildings in Nina Tower, the Hong Kong Four Seasons Hotel and also the School Improvement Programme of Architectural Services Department.

Despite being challenged by an extremely difficult operating environment during the year, the Group achieved outstanding results and was back on the growth track. The Group's turnover only declined slightly by 4% from last year's HK\$3,332 million to HK\$3,199 million this year, while profit attributable to shareholders increased substantially by 123% to HK\$186 million. Such encouraging performance reflected the commitment of our team to achieving our targets and our strength in developing advanced engineering works, which contributed to the enhancement of our profit margin and our balanced accent on business and investment.

DIVIDEND

The Board of Directors recommends the payment of a final dividend of HK20 cents (2003: HK10 cents) per share payable to shareholders whose names appear on the Register of Members of the Company on Friday, 27th August, 2004.

Aluminium Windows and Curtain Walls

Comprising professional staff including an expert team in Australia who always stay abreast of market needs, the Aluminium Windows and Curtain Walls Division recorded growth both in revenue and earnings during the year.

Recent contracts won include the curtain wall contracts for Cyberport Development C3 and C4 commercial development and the Beacon Hill Road, Kowloon Tong, residential development.



Installation of aluminium engineering works at Cyberport Development

Pipe Rehabilitation

The Group has made progress in achieving its vision of becoming the leading pipe rehabilitation company in the world. As of today, it increased its shareholdings in Norditube Technologies AB ("Norditube") and Rib Loc Group Limited ("RibLoc") to 57% and 74% respectively. In December last year, with a partner in Austria, it also acquired equity of KMG, the second largest pipe rehabilitation contractor in Germany. Subsequent to re-organization, all the subsidiaries and associates were grouped under the holding company Chevalier Pipe Technologies Limited.

Norditube is a specialist in CIPP (Cured in Place Process) technologies with extensive expertise in the areas of fabrics/textiles, resins and applications. Norditube's technology for pressure pipe is well accepted in Europe and the USA and is employed also in projects in Hong Kong. With a new production plant established in Dongguan this year, Norditube has further improved its production costs and



Signing ceremony for a pipe rehabilitation contract awarded by Water Supplies Department

capacity to meet the increasing demand from Asia, Europe and the USA. RibLoc is the pioneer in spirally wound plastic lining and pipe technologies. Their technologies bring about significant savings in material, transportation and installation costs for non-pressure rehabilitation and new pipe installation. With them joining the family bringing with them their extensive experience and networks, the Group will be able to expand quickly into European and US markets.

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Installation of 600mm diameter Phoenix Pipe Liner at Repulse Bay

In the past few years, the Group's subsidiary in Singapore completed a total of almost 100 km of rehabilitation pipes. Their valuable experience will be shared with crews in other countries. During the year, besides contracts from non-government institutions, the Hong Kong subsidiary also successfully secured, directly and indirectly, a number of government contracts from the Water Services Department, Drainage Services Department, Highways Department, Housing Authority and Airport Authority. The total value of the contracts in hand is more than HK\$200 million. We expect a continuous increase in customer preference of pipe rehabilitation over traditional open-dig methods, which will be one of the main contributors of the Group's engineering business.



Construction of Seawalls and Reclamation at Tseung Kwan O Port Development

Building Construction and Civil Engineering

As of 31st March, 2004, the total outstanding value of building construction and civil engineering works on hand amounted to approximately HK\$530 million. Major contracts included those with the International Wetland Park in Tin Shui Wai, the New Territories, the construction of a primary school and a secondary school in Area 16, Kau Hui, Yuen Long and similar ones in Area 104, Tin Shui Wai, the New Territories. The construction works of the schools have been progressing smoothly and will be completed in 2005. Major civil engineering contracts completed during the year included the Stage 2 Construction of Seawalls and Reclamation at Tseung Kwan O Port Development Area 137 and Jordan Road Reclamation Phase III and Remaining Engineering Works.



Construction works at International Wetland Park in Tin Shui Wai, New Territories

Environmental, Electrical and Mechanical Engineering

The project at Tai Po Water Treatment Plant was completed in June 2003 and the installation of Irrigation Pumping Station at Penny Bay Development is expected to be completed by the end of 2004. Another contract for the replacement of Mechanical and Electrical Equipment in the Tsuen Wan Raw Water Pumping Station progressed smoothly and is scheduled for completion in January 2007.

With its project control system strengthened, the overall performance of the Electrical and Mechanical Engineering Division improved. The new contract of re-provisioning of existing Mechanical & Electrical facilities and pumping stations for Central Reclamation Phase III started in February this year and is expected to be completed in 2008. Other projects included the electrical installation of hotel development in Hunghom Bay and the E & M improvement works for the infectious disease unit at Tseung Kwan O Hospital.

Insurance and Investment

This line of business has become one of the major income streams of the Group in recent years. Although the turnover decreased slightly from HK\$328 million last year to HK\$283 million this year, its contribution continued to grow from HK\$48 million to HK\$103 million representing an increase of 114%.

The Insurance Division was able to achieve a satisfactory growth despite keen market competition. Apart from serving the domestic market, a representative office was set up to undertake market research, corporate promotion and to enlarge the presence in Mainland China. As margin narrows, the business is facing an increasing demanding market environment. However, compared with the majority of its competitors, the Group became one of the leading players in the Construction Employee Compensation insurance business. We expect the division to continue to grow in the future.

Adopting a prudent and conservative investment strategy, investment in fixed interest instrument, bank deposit and other fixed income instruments of the Group stands at around 55%, with the rest invested mainly in equity and funds. The Group will continue its prudent investment strategy in the future and maintain a balance portfolio to ensure a stable income for the Group.

Property and Hotel

Turnover of this business increased substantially from HK\$264 million last year to HK\$340 million this year and the contribution also increased from HK\$36 million to HK\$44 million. The significant improvement was mainly due to the continuous growth of the warehousing business, the recovery in the rental market in Hong Kong and also the burgeoning PRC property market.

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Deluxe residential project in PRC - City Oasis Phase II

Property Investment and Development

Income from rental of properties continued to grow last year. The luxury residential property in Shanghai, Chevalier Place, maintained an occupancy rate of over 80% while the 18-storey 427,500 sq ft

cold storage warehouse in Kwai Chung was 100% occupied. Other commercial and industrial properties in Hong Kong and overseas were also almost fully occupied. This sector continues to provide steady revenue and earnings to the Group.

Another deluxe residential project in the PRC - City Oasis Phase II in Chengdu, Sichuan province, will be completed very soon. Gross construction area for this development exceeds 80,000 sq.m. and the total investment was around RMB200 million.

Property Management

Chevalier Property Management Limited ("CPM") was awarded and maintained a number of management contracts for private residential estates and industrial buildings in Hong Kong and PRC. With a strong financial position, ample experience in property management and quality services, CPM was included into the Supplier List of the Leisure and Cultural Services Department of HKSAR.

Hotel Investment

The operating results of the Group's hotels in the Mainland improved gradually after the Severe Acute Respiratory Syndrome (SARS) scare subsided. Occupancy rates of Chevalier Hotels in Xinyang, Dongguan and Jiujiang sustained satisfactory levels especially during the Golden Week in May 1 in the Mainland this year. The Rosedale on Robson Suite Hotel, which is located at the centre of Vancouver's business district also maintained a stable performance in the financial year under review.

IT & Other Business

Information Technology and Network Solutions

In spite of the harsh operating environment, the overall performance of this division improved substantially with contribution increased from HK\$1.9 million to HK\$4.3 million. The good performance was the result of the unwavering efforts of our team to provide quality products and services to our customers and to keep tight control on operating expenses.

Motor Vehicles and Trading

During the year, Action Honda won the Honda Quality Dealer Award for the fourth consecutive year. The award presented by Honda Canada recognizes dealers with performance of exceptionally high standards. However, due to keen competition, the operating profit of the car dealership decreased last year. As for trading, import, distribution and wholesale business of oriental food in the West Coast of the US, satisfactory performance was maintained during the year. The Group has gained exclusive distributorship of several renowned food products, all of which were well accepted in the US market.



Car dealership of Action Honda in Canada

Printing Business

To diversify its business, the Group started its printing business via K2 Printing Company Limited. The production plant located in Tsuen Wan has a total area of 160,000 sq.ft. and is capable of providing a comprehensive range of high quality and one-stop printing services including offset sheet-fed printing, offset web-fed printing and digital printing. The Group has 49% interest in this Company.

Privatisation of Chevalier Singapore Holdings Limited ("CSHL")

On 25th April, 2003, CSHL underwent privatisation by offering S\$0.38 in cash for every CSHL share held publicly. On 5th June, 2003, the right of compulsory acquisition was exercised pursuant to the Companies Act of Singapore and thereafter CSHL officially became a wholly-owned subsidiary of the Company. CSHL was delisted from the Singapore Stock Exchange in June 2003 and thereafter changed its name to "Chevalier Singapore Holdings Pte. Ltd.". The company's business and operations remain unchanged.

Privatisation of Chevalier Construction Holdings Limited ("CCHL")

On 31st October, 2003, CCHL was proposed to be privatised by way of a scheme of arrangement under section 99 of the Bermuda Companies Act at the cancellation price of HK\$0.25 per scheme share (the "Scheme Share(s)"). The privatisation was duly approved by the independent shareholders at the company's special general meeting on 5th December, 2003. After the privatisation was completed on 20th February, 2004, all the Scheme Shares were cancelled and CCHL was delisted from Hong Kong Stock Exchange. CCHL became a wholly-owned subsidiary of the Company.

Consolidation of Shares

On 5th June, 2003, at a special general meeting of the Company, shareholders approved the consolidation of every five existing issued and un-issued shares at HK\$0.25 each into one new share of HK\$1.25 each in the share capital of the Company.

PROSPECTS

Last year posed many challenges to the Group's business. Nevertheless, the Group reported robust earnings, and its different business streams emerged with stronger competitive positions, solid balance sheet and improved profitability. The outstanding performances testified to the firm commitment of our teams, and the viability of our balanced business portfolio. It also reflected the ability of the management to weather the crises arising from the global business cycle and the changing role of Hong Kong in the region. More importantly, by focusing on improving income and cash flow from our assets, we have actually expanded our portfolio during the difficult period. Our robust financial position and solid earnings will allow us to seize the right acquisition opportunities and bring maximum benefit to the Group and its shareholders.

In the past few years, the Group has adhered to the above growth strategies and returned very encouraging results. The acquisition of cold storage warehouse and the offering of insurance underwriting business have proven to be successful. The pipe rehabilitation operation will be another growth driver for the construction and engineering division in the near future. After its launch in Hong Kong, orders have been flowing in and other markets, such as the US and Japan, with enormous potential for development have surfaced. Following a series of acquisitions in the past few years, the pipe technology group has reached a level of critical mass to support its international infrastructure. Its further growth in coming years will translate into both revenue and earning growth for the Group.

Looking forward, the Group is optimistic about the recovery of the Hong Kong economy. In the first quarter of 2004, Hong Kong recorded a 6.8% y-o-y rate of growth, the fastest in more than three years. Apart from the significant growth in consumer spending and exports, investment has also seen a welcomed pick-up, growing by 5.9% in the first quarter of 2004, after two years of negative growth and growth of just 0.2% in 2003. The improving economic outlook which is giving businesses confidence is the main factor behind the recent revival of investment. The livening up of the property market and development in relation to several gigantic infrastructure construction projects is expected to further boost investment sentiment. The upswing in capital investment will definitely increase the Group's opportunities in securing more business.

The Group continues to focus on expanding its business in Mainland China. Although the Chinese government has recently implemented stringent measures to curb overheated economic activities, the Chinese economy is still growing at robust pace. Apart from the investment in the property project in Chengdu, the Group will continue to look for other valuable investment opportunities in the Mainland property market. However, when doing so, the Group will follow its carefully devised acquisition strategy underlined with very tight risk and cost discipline. Total investment in Mainland China property market is targeted at HK\$800 million to HK\$1 billion in the foreseeable future.



*Front row from left: Kuok Hoi Sang, Chow Yei Ching, Fung Pak Kwan
Rear row from left: Tam Kwok Wing, Ho Chung Leung, Chow Vee Tsung, Oscar, Kan Ka Hon*

The world economy is still vulnerable to major imbalances and uncertainties. The Group, however, has already established over the years a strong financial position, immense technical know-how, an extensive network and impeccable business integrity. To rise above the persistently unsettled economic environment, the Group will remain vigilant and pledge to stay at the forefront of market and technology developments.

APPRECIATION

The Group has successfully overcome the unprecedented crises and is back on the growth track. On behalf of the Board, I would like to take this opportunity to thank the management and staff for their concerted effort, commitment and professionalism.

CHOW Yei Ching

Chairman and Managing Director

Hong Kong, 15th July, 2004