

The Directors have pleasure in presenting to shareholders their annual report together with the audited financial statements of the Company and of the Group for the year ended 31st March, 2001.

Principal Activities

The principal activity of the Company is investment holding while its subsidiaries are engaged in the provision of a wide range of voice and data communication equipment and services, system integrated IT solutions, including one-stop total solution ranging from backbone networking, server and software applications, LAN/WAN solutions, web-page design and e-commerce solutions to in-building facilities such as optical fiber, structured cabling systems, security systems and satellite receiving systems. They are also engaged in the sale and distribution of mobile phones, business machines, computer systems and equipment, telephone systems, relevant after-sales services, trading of household products and securities investment.

The Group's turnover and contribution to profit from operations for the year ended 31st March, 2001 analysed by business segment and geographical area are set out in note 3 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31st March, 2001 are set out in the consolidated income statement on page 23. An interim dividend of HK1 cent was paid in cash on Thursday, 1st February, 2001. The Directors now recommend the payment of a final dividend of HK1 cent per share.

Share Capital

Movements in the Company's share capital during the year are set out in note 23 to the financial statements.

Share Option Scheme

Particulars of the share option scheme to subscribe for shares in the Company are set out in note 23 to the financial statements.

Reserves

Movements in reserves during the year are set out in note 24 to the financial statements.

Investment Properties

Movements in investment properties during the year are set out in note 12 to the financial statements.

Property, Plant and Equipment

Movements in property, plant and equipment during the year are set out in note 13 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 77% of the Group's purchases of the year whereas the five largest customers accounted for the Group were less than 30% of the Group's sales of the year. The largest supplier accounted for 51% of the Group's purchases. None of the Directors, their associates or 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.

Properties

Particulars of the major properties of the Group as at 31st March, 2001 are set out on page 9.

Employee and Remuneration Policy

The Group employed approximately 1,100 full time staff as at 31st March, 2001. The remuneration policy is reviewed periodically according to the nature of their jobs, 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. Total staff costs amounted to HK\$144.81 million for the year ended 31st March, 2001.

Donations

During the year, the Group made donations of HK\$282,000 to charitable bodies and HK\$17,000 to other communities.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions 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 (Chairman)
Mr FUNG Pak Kwan (Managing Director)
Mr KUOK Hoi Sang
Mr FUNG Wo Shun
Mr KAN Ka Hon
Miss Lily CHOW

Non-Executive Directors

Mr YI Zhenqiu
Mr HUANG Shenglan (Appointed on 18th August, 2000)
Mr CHEN Dagang (Resigned on 18th August, 2000)

Independent Non-Executive Directors

Mr YUEN Tin Fan, Francis
Mr Shinichi YONEHARA (Appointed on 15th May, 2001)
Dr CHAO Sze Bang, Frank (Passed away on 17th February, 2001)

In accordance with the Company's Bye-laws, Messrs HUANG Shenglan and Shinichi YONEHARA shall retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Non-Executive Directors and the Independent Non-Executive Directors are subject to the same retirement requirements as the Executive Directors.

Directors' Interests in Contracts

Messrs CHOW Yei Ching, FUNG Pak Kwan, KUOK Hoi Sang, FUNG Wo Shun and KAN Ka Hon are interested in certain contracts in that they are the Directors and/or have beneficial interests in Chevalier International Holdings Limited ("CIHL"). Details of these contracts are more fully disclosed in the section "Connected Transactions" below.

Save as aforementioned, no other contracts of significance to which the Company or any of its holding company, subsidiaries or fellow 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

None of the Directors have an interest in any business constituting a competing business to the Group.

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 granted a waiver on 2nd April, 1997 to the Company from strict compliance with the requirements stipulated in Chapter 14 of the Listing Rules on connected transactions. Pursuant to the waiver, 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 are 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 when they arise:

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 HK\$
Union Pearl Development Limited	Portion of Chevalier Commercial Centre (office)	1,379,000
Winfield Development Limited	Portion of Chevalier Warehouse Building (warehouse)	95,000
Peak Gain Limited	Portion of Chevalier Engineering Service Centre (office/warehouse)	7,943,000
Futex Development Limited	Regent Villa (resort)	160,000
Oriental Sharp Limited	Portion of Charming Garden (shop)	104,000
Union Mark Development Limited	Portion of Yin Hai Commercial Building (office)	118,000
Well Stamp Limited	Portion of Jin Du Mansion (office)	85,000
Well Stamp Limited	Portion of Dongshan Plaza (office)	33,000

During the year, rentals amounting to approximately HK\$9,917,000 was paid to CIHL Group.

The Independent Non-Executive Directors of the Company confirm that the aforesaid connected transactions conducted by the Group during the year ended 31st March, 2001 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 stipulated under the relevant waiver.

Directors' Interests in Shares and Options

As at 31st March, 2001, the interests of the Directors in the share capital and options of the Company and its associated corporations within the meaning of 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 which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein are as follows:

(a) **Interests in the Company**

(i) *Shares*

Directors	Number of ordinary shares		
	Personal interest	Corporate interest	Total
CHOW Yei Ching	34,079,270	431,618,666*	465,697,936
FUNG Pak Kwan	12,900,000	—	12,900,000
KUOK Hoi Sang	12,000,000	—	12,000,000
FUNG Wo Shun	300,000	—	300,000
KAN Ka Hon	2,256,000	—	2,256,000

* Dr CHOW Yei Ching beneficially owned 615,445,993 shares in CIHL, representing in aggregate approximately 50% of the issued share capital of CIHL, which in turn, was interested in 431,618,666 shares of the Company. Dr Chow was deemed to be interested in these shares under the SDI Ordinance and these shares duplicated in the paragraph headed "Substantial Shareholder" below.

Directors' Interests in Shares and Options (continued)

(a) **Interests in the Company** (continued)

(ii) *Share options*

Directors	Date granted	Period during which options are exercisable	Consideration paid for options granted	Price	Number of shares issued upon exercise of options during the year	Number of shares to be issued upon exercise of the remaining options
				per share to be paid upon exercise of options		
			HK\$	HK\$		
CHOW Yei Ching	04/02/1998	03/09/1998 - 02/09/2001	1	0.3376	—	14,000,000
	17/12/1999	30/06/2000 - 29/06/2003	1	0.4640	—	7,000,000
FUNG Pak Kwan	04/02/1998	03/09/1998 - 02/09/2001	1	0.3376	—	3,000,000
	17/12/1999	30/06/2000 - 29/06/2003	1	0.4640	—	6,550,000
KUOK Hoi Sang	04/02/1998	03/09/1998 - 02/09/2001	1	0.3376	—	4,300,000
	17/12/1999	30/06/2000 - 29/06/2003	1	0.4640	—	5,000,000
FUNG Wo Shun	04/02/1998	03/09/1998 - 02/09/2001	1	0.3376	—	2,300,000
KAN Ka Hon	17/12/1999	30/06/2000 - 29/06/2003	1	0.4640	—	5,000,000
Lily CHOW	04/02/1998	04/09/1998 - 03/09/2001	1	0.3376	—	5,000,000
	17/12/1999	30/06/2000 - 29/06/2003	1	0.4640	—	5,000,000

Details of the share options are set out in note 23 to the financial statements.

Directors' Interests in Shares and Options (continued)

(b) Interests in Associated Corporations

(i) Shares

Directors	Associated corporations	Number of ordinary shares		
		Personal interest	Corporate interest	Total
CHOW Yei Ching	CIHL	615,445,993	—	615,445,993
	Chevalier Construction Holdings Limited ("CCHL")	41,036,489	87,165,444*	128,201,933
	Chevalier Singapore Holdings Limited ("CSHL")	4,375,000	80,000,000*	84,375,000
FUNG Pak Kwan	CIHL	456,450	—	456,450
KUOK Hoi Sang	CIHL	491,083	—	491,083
	CCHL	1,326,437	—	1,326,437
FUNG Wo Shun	CCHL	295,600	—	295,600
KAN Ka Hon	CIHL	145,200	—	145,200

* Dr CHOW Yei Ching had notified CCHL and CSHL that he was deemed to be interested in 87,165,444 shares in CCHL and 80,000,000 shares in CSHL under the SDI Ordinance as the said shares were held by CIHL in which Dr Chow beneficially owned 615,445,993 shares, representing in aggregate approximately 50% of the issued share capital of CIHL.

Directors' Interests in Shares and Options (continued)

(b) Interests in Associated Corporations (continued)

(ii) Share options

Directors	Associated corporations	Date granted	Period during which options are exercisable	Con-	Price per	Number of shares issued upon exercise of options during the year	Number of shares to be issued upon exercise of the remaining options
				sideration paid for options granted	share to be paid upon exercise of options		
				HK\$	HK\$		
CHOW Yei Ching	CIHL	04/02/1998	03/09/1998 - 02/09/2001	1	0.5376	—	18,000,000
		17/12/1999	30/06/2000 - 29/06/2003	1	0.4880	—	8,450,000
	CCHL	04/02/1998	03/09/1998 - 02/09/2001	1	0.3248	—	4,400,000
FUNG Pak Kwan	CIHL	04/02/1998	03/09/1998 - 02/09/2001	1	0.5376	—	8,000,000
		17/12/1999	30/06/2000 - 29/06/2003	1	0.4880	—	5,350,000
KUOK Hoi Sang	CIHL	04/02/1998	03/09/1998 - 02/09/2001	1	0.5376	—	10,000,000
		17/12/1999	30/06/2000 - 29/06/2003	1	0.4880	—	5,350,000
	CCHL	04/02/1998	03/09/1998 - 02/09/2001	1	0.3248	—	4,000,000
FUNG Wo Shun	CIHL	04/02/1998	03/09/1998 - 02/09/2001	1	0.5376	—	2,200,000
KAN Ka Hon	CIHL	04/02/1998	04/09/1998 - 03/09/2001	1	0.5376	—	2,200,000
		17/12/1999	30/06/2000 - 29/06/2003	1	0.4880	—	5,000,000

Save as disclosed above, as at 31st March, 2001, none of the Directors of the Company nor their spouses or children or step children under the age of 18 years had or were deemed pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part 1 of the Schedule to the SDI Ordinance to have any interest in the securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

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

No 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 were entered into or subsisted during the year.

Directors' Biographies

Executive Directors

Dr CHOW Yei Ching, Chairman, aged 65, is the founder of the Chevalier Group and the Chairman and Managing Director of CIHL, the Chairman of CCHL, both of which are publicly listed companies in Hong Kong, and the Chairman of CSHL, a publicly listed company in Singapore. He is also a Non-Executive Director of Van Shung Chong Holdings Limited, United Chinese Bank 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 with an Honorary University Fellowship by The University of Hong Kong. In 1996 and 1997, he was appointed 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 on a number of educational advisory committees and gives substantial support in areas of researches and developments to the aforementioned two Universities in Hong Kong and The Hong Kong University of Science and Technology. He is also an Honorary Professor to Zhejiang University and Sichuan Union University of the PRC. Dr Chow's enthusiasm in public services is evidenced in his appointment in 1996 as a Member of The Selection Committee for the First Government of the Hong Kong Special Administrative Region and as a Member of the Board of Directors of The Community Chest in Hong Kong in 1995. He was also appointed early this year as the Honorary Consul of the State of Bahrain in Hong Kong. He also actively participates in various professional bodies and associations on fraternal and Chinese affairs. To name a few, he is a Member of the Chinese People's Political Consultative Conference (Shanghai), the President of The Japan Society of Hong Kong and he is also the Chairman of the National Taiwan University-HK Alumni Association. In recognition of his contributions to local and overseas societies alike, Dr Chow has been awarded with the honorable decorations from Britain, Belgium, France and Japan, namely, Officer of the Most Excellent Order of the British Empire, Officer in the Order of the Crown, Officier de l'Ordre National du Mérite and The Order of the Sacred Treasure, Gold Rays with Rosette respectively.

Mr FUNG Pak Kwan, Managing Director, aged 49, joined the Chevalier Group in 1974 and is a Director of CIHL and CSHL. He was appointed as executive member of the Guangdong Federation of Industry & Commerce and Guangdong Chamber of Commerce. Mr Fung is responsible for the Group's strategic planning and management of operations of subsidiaries which focus on a wide range of voice and data communication equipment and services, system integrated IT solutions as well as the sale and distribution of mobile phones, business machines, computer systems and equipment, telephone systems and relevant after-sales services. He also actively involves in the planning of property investment and development projects, environmental engineering, automobile and hotel business in North America of the Chevalier Group.



Directors' Biographies (continued)

Executive Directors (continued)

Mr KUOK Hoi Sang, Director, aged 51, joined the Chevalier Group in 1972 and is the Deputy Managing Director of CIHL, the Vice Chairman of CCHL and a Director of CSHL. 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 Chevalier Group.

Mr FUNG Wo Shun, Director, aged 53, joined the Chevalier Group in 1970 and is a Director of CIHL. Mr Fung takes an active role in the management of the insurance business, finance and leasing business as well as business development of the Chevalier Group.

Mr KAN Ka Hon, Director and Company Secretary, aged 50, joined the Chevalier Group in 1986 and is a Director and Company Secretary of CIHL and the Company Secretary of CCHL. He is also a Non-Executive Director of Victory City International Holdings Limited. He is responsible for management of the Chevalier Group's accounting and treasury, corporate finance, company secretarial and electronic data processing activities. Mr Kan holds a Bachelor Degree in Science from The University of Hong Kong and is a fellow member of The Association of Chartered Certified Accountants in the U.K. and a member of Hong Kong Society of Accountants.

Miss Lily CHOW, Director, aged 38, joined the Group in 1990. She is responsible for strategic planning and business development of the Group. Miss Chow holds a Bachelor Degree from University of British Columbia, Canada. She is the daughter of Dr CHOW Yei Ching.

Non-Executive Directors

Mr YI Zhenqiu, aged 56, was appointed to the Board in 2000. He is a Director and Chief Investment Officer of China Everbright Holdings Company Limited, the Vice-Chairman of China Everbright Technology Limited, and a Director of China Everbright International Limited, RNA Holdings Limited and Silver Grant International Industrial Limited. Mr Yi was formerly the Supervisor of the State Commission for Restructuring of Economic System of Guangdong Province, the Securities Regulatory Commission of Guangdong Province and the Futures Regulatory Commission of Guangdong Province.

Mr HUANG Shenglan, aged 49, was appointed to the Board in 2000. He is a Director and General Manager of China Everbright Technology Limited. Mr Huang holds a Bachelor degree in Arts from Huazhong Normal University, a certificate in International Economics from Huadong Normal University and a certificate in advanced courses from College of Economics of Harvest University, U.S.A.

Directors' Biographies (continued)

Independent Non-Executive Directors

Mr YUEN Tin Fan, Francis, aged 48, was appointed to the Board in 1994. He is the Deputy Chairman of Pacific Century CyberWorks Limited, Pacific Century Group and Pacific Century Regional Developments Limited and the Chairman of Pacific Century Insurance Holdings Limited. From 1988 to 1991, he was the Chief Executive of the Stock Exchange. Mr Yuen was also a founding director of Hong Kong Securities Clearing Company Limited. He served from 1992 to 1994 as a member of the International Markets Advisory Board of NASDAQ in the U.S. He received a Bachelor of Arts degree in Economics from the University of Chicago and is presently a member of the Board of Trustees of the University. Mr Yuen has extensive experience in investment banking and financial regulatory affairs that spanned Asia.

Mr Shinichi YONEHARA, aged 50, was appointed to the Board in 2001. He is a graduate of Keio University, Japan. Mr Yonehara joined Mitsui & Co., Ltd in 1974 and retired in January 2001. He was appointed General Manager for Machinery Division of Mitsui & Company (Hong Kong) Limited from 1983 to 1992. Mr Yonehara is well-experienced in aircraft, telecommunications and IT businesses.

Dr CHAO Sze Bang, Frank, who had been an Independent Non-Executive Director since 1994, passed away in February 2001.

Retirement Schemes

From 1st April, 2000 to 30th November, 2000, 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 for its eligible employees. 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.

There has been a change in the pension scheme policy for the Group since the introduction of Mandatory Provident Fund Scheme ("the MPF") under the Mandatory Provident Fund Schemes Ordinance by the Government in December 2000. From 1st December, 2000 onwards, existing staff members can opt to stay in the Scheme or join the MPF while all new staff members are only entitled to join the MPF.

The MPF is available to all employees aged between 18 and 65 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\$2,268,000 against which forfeited contributions amounting to HK\$1,903,000 have been deducted. There were no forfeited contributions available at the year end date for the reduction of future employer's contributions.



Substantial Shareholder

As at 31st March, 2001, the only substantial shareholder of the Company was CIHL Group which held 431,618,666 shares representing approximately 50.38% of the issued share capital of the Company as recorded in the registers required to be kept under Section 16(1) of the SDI Ordinance.

Save as disclosed above, there were no parties whom were known to the Directors to be the registered holders or have any interest or right to subscribe for 10% or more of the issued share capital of the Company.

Arrangement for Acquisition of Shares or Debentures

Except for the share option scheme adopted by the Company and the share options granted to certain Directors, at no time during the year was the Company or any of its holding company, subsidiaries or fellow 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 two Independent Non-Executive Directors, met twice in the year. During the meetings, the Committee reviewed the Connected Transactions, interim and annual reports of the Group and discussed with management 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.

Post Balance Sheet Event

Details of the significant post balance sheet event are set out in note 31 to the financial statements.

Auditors

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

On behalf of the Board

CHOW Yei Ching

Chairman

Hong Kong, 10th July, 2001