

# 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 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, e-commerce solutions and 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 business machines, computer systems and equipment, telephone systems, relevant after-sales services and securities investment.

The Group's turnover and loss from operations for the year ended 31st March, 2003 analysed by business and geographical segments are set out in note 24 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 20. 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.

## Investment Properties

Movements in investment properties during the year are set out in note 11 to the financial statements.

## Property, Plant and Equipment

Movements in property, plant and equipment during the year are set out in note 12 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 83% of the Group's purchases for the year whereas the five largest customers accounted for 23% of the Group's sales for the year. The largest supplier and the largest customer accounted for 73% and 9% of the Group's purchases and sales respectively. 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.

## Major Properties

Particulars of the major properties of the Group as at 31st March, 2003 are set out on page 9.

## Employees and Remuneration Policies

As at 31st March, 2003, the Group employed approximately 700 full time staff globally. Total staff costs amounted to approximately HK\$104 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.

# Report of the Directors

## Donations

During the year, the Group made donations of HK\$655,600 to charitable bodies.

## Principal Subsidiaries and Associates

Particulars regarding the principal subsidiaries and associates of the Group are set out in pages 51 and 52 and note 14 to the financial statements respectively.

## 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 FUNG Pak Kwan	<i>(Managing Director)</i>
Mr KUOK Hoi Sang	
Mr KAN Ka Hon	
Miss Lily CHOW	
Mr FUNG Wo Shun	<i>(Resigned on 1st April, 2002)</i>

### Independent Non-Executive Directors

Mr Shinichi YONEHARA	
Mr WU King Cheong	<i>(Appointed on 7th October, 2002)</i>
Mr YUEN Tin Fan, Francis	<i>(Retired on 20th September, 2002)</i>

In accordance with the Company's Bye-laws, Mr WU King Cheong shall retire from office at the forthcoming Annual General Meeting and, being eligible, offer himself 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, FUNG Pak Kwan, KUOK Hoi Sang 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 contract of significance to which the Company or its holding company or any of its 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

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 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 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 when they arise:

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

<b>Landlord</b>	<b>Renting of property (usage)</b>	<b>Rental for the year</b>
		<i>HK\$'000</i>
Union Pearl Development Limited	Portion of Chevalier Commercial Centre (office)	622
Winfield Development Limited	Portion of Chevalier Warehouse Building (warehouse)	13
Peak Gain Limited	Portion of Chevalier Engineering Service Centre (office/warehouse)	4,181
Union Mark Development Limited	Portion of Yin Hai Commercial Building (office)	39
Well Stamp Limited	Portion of Jin Du Mansion (office)	40
Well Stamp Limited	Portion of Dongshan Plaza (office)	147

During the year, rentals amounting to approximately HK\$5 million 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, 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 waiver.

# 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		
	Personal interests	Corporate interests	Total
CHOW Yei Ching	34,079,270	434,974,666 *	469,053,936
FUNG Pak Kwan	12,900,000	–	12,900,000
KUOK Hoi Sang	12,000,000	–	12,000,000
KAN Ka Hon	2,256,000	–	2,256,000
Shinichi YONEHARA	3,004	–	3,004

\* 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 434,974,666 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 Shareholder" below.

### (b) Interests in Associated Corporations – Shares

Name of Directors	Associated corporations	Number of ordinary shares		
		Personal interests	Corporate interests	Total
CHOW Yei Ching	CIHL	662,561,758	–	662,561,758
	Chevalier Singapore Holdings Limited ("CSHL")	–	101,653,000*	101,653,000
	Chevalier Construction Holdings Limited ("CCHL")	61,036,489	89,385,444*	150,421,933
FUNG Pak Kwan	CIHL	456,450	–	456,450
KUOK Hoi Sang	CIHL	491,083	–	491,083
	CCHL	1,326,437	–	1,326,437
KAN Ka Hon	CIHL	145,200	–	145,200
Shinichi YONEHARA	CIHL	8,160	–	8,160
	CCHL	342	–	342

\* Dr CHOW Yei Ching had notified CSHL and CCHL that under the SDI Ordinance, he was deemed to be interested in 101,653,000 shares in CSHL and 89,385,444 shares in CCHL 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.

# Report of the Directors

## Directors' Interests in Securities (continued)

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

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 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

The Company adopted a share option scheme on 30th September, 1991 ("the Old Scheme"). It has been expired on 29th September, 2001 and no further options may be granted under the Old Scheme. Details of the share options outstanding as at 31st March, 2003 which have been granted under the share option scheme of the Company and its associated corporation were as follows:

### (a) Interests in the Company – Share Options

Name of Directors	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$)	Number of share options				Outstanding as at 31st March, 2003
				Balance as at 1st April, 2002	Exercised during the year	Cancelled during the year	Lapsed during the year	
CHOW Yei Ching	17/12/1999	30/06/2000 – 29/06/2003	0.464	7,000,000	-	-	-	7,000,000
FUNG Pak Kwan	17/12/1999	30/06/2000 – 29/06/2003	0.464	6,550,000	-	-	-	6,550,000
KUOK Hoi Sang	17/12/1999	30/06/2000 – 29/06/2003	0.464	5,000,000	-	-	-	5,000,000
KAN Ka Hon	17/12/1999	30/06/2000 – 29/06/2003	0.464	5,000,000	-	-	-	5,000,000
Lily CHOW	17/12/1999	30/06/2000 – 29/06/2003	0.464	5,000,000	-	-	-	5,000,000

As at 31st March, 2003, the number of shares granted under the Old Scheme was 28,550,000, representing 3.3% of the shares of the Company in issue at that date and would continue to be exercisable in accordance with the terms of grant.

# Report of the Directors

## Share Option Schemes (continued)

### (b) Interests in Associated Corporation – Share Options

Name of Directors	Associated corporation	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
FUNG Pak Kwan	CIHL	17/12/1999	30/06/2000 - 29/06/2003	0.488	5,350,000	-	-	-	5,350,000
KUOK Hoi Sang	CIHL	17/12/1999	30/06/2000 - 29/06/2003	0.488	5,350,000	-	-	-	5,350,000
KAN Ka Hon	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 granted under the share option scheme adopted by the shareholders of CIHL on 30th September, 1991 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.

A new share option scheme ("the New Scheme") was approved by the shareholders of the Company at the 2002 Annual General Meeting of the Company held on 20th September, 2002. 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 Group as set out in note 31(a) to the financial statements, 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 CCHL, 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 FUNG Pak Kwan, Managing Director, aged 51, joined Chevalier Group in 1974 and is a Director of CIHL. He is the Advisor of the executive committee of the Guangdong Federation of Industry & Commerce and Guangdong Chamber of Commerce. Mr Fung is responsible for Chevalier 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 of business machines, computer systems and equipment, telephone systems and relevant after-sales services. He also actively involves in the planning of investment and development projects, environmental engineering, automobile and hotel business in North America of the Group.

Mr KUOK Hoi Sang, Director, aged 53, joined Chevalier Group in 1972 and is the Managing Director of CIHL and the Vice Chairman of CCHL. 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 is a 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 KAN Ka Hon, Director and Company Secretary, aged 52, joined 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 and i100 Limited. He is responsible for management of Chevalier Group's accounting and treasury, corporate finance, investment, pension fund and company secretarial 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 The Hong Kong Society of Accountants.

Miss Lily CHOW, Director, aged 40, joined Chevalier Group in 1990. She is responsible for strategic planning and business development of the Group. She is also a member of Guangdong Provincial Committee of Chinese People's Consultative Conference, Committee of Taiwan, Hong Kong, Macau and Overseas of the Zhejiang Provincial Committee of Chinese People's Political Conference and Shanghai Women's Federation Committee. She holds a Bachelor Degree and is the daughter of Dr CHOW Yei Ching.

## Directors' Biographies (continued)

### Independent Non-Executive Directors

Mr Shinichi YONEHARA, aged 52, 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-experience in aircraft, telecommunications and IT businesses.

Mr WU King Cheong, aged 52, was appointed to the Board in October, 2002. He is an Executive Director of Lee Cheong Gold Dealers Limited. He is also a Councillor of the Legislative Council of the HKSAR (Financial Services Constituency) and the Eastern District Council of the HKSAR, Vice Chairman of the Chinese General Chamber of Commerce, Member of Environmental Campaign Committee and Lord Wilson Heritage Trust – Board of Trustees as well as the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Hong Kong Stockbrokers Association.

### 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. Certain of the Company's overseas subsidiaries contribute to their local government's central pension plans for their employees. Contributions to the Scheme are made by both the employers and the employees at the rate of 3.5% to 16% 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\$5,256,000 against which the forfeited contributions amounting to HK\$1,169,000 have been deducted. There were forfeited contributions amounting to HK\$16,000 available at the year end date for the reduction of future employer's contributions.

### Substantial Shareholder

As at 31st March, 2003, the sole substantial shareholder of the Company was CIHL Group which held 434,974,666 shares, representing approximately 50.77% of the issued share capital of the Company 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 schemes 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 its holding company or any of its 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.



# Report of the Directors

## Audit Committee

The Audit Committee, which was established pursuant to the requirements of the Listing Rules, comprising Messrs Shinichi YONEHARA, YUEN Tin Fan, Francis who retired on 20th September, 2002 and WU King Cheong who was appointed on 7th October, 2002, the Independent Non-Executive Directors of the Company, met twice in the year. During the meetings, 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