



CHEVALIER iTECH HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2003-2004

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2003

	<i>Notes</i>	Unaudited	
		2003	Six months ended 30th September, (Restated) 2002
		HK\$'000	HK\$'000
Turnover	2	341,747	351,317
Cost of sales		(312,851)	(302,542)
Gross profit		28,896	48,775
Other operating income		5,852	4,546
Distribution costs		(24,244)	(55,345)
Administrative expenses		(2,062)	(2,998)
Other net operating expenses		392	1,518
Profit (loss) from operations	3	8,834	(3,504)
Finance costs		(7)	(30)
Share of results of associates		(235)	1,862
Gain on discontinued operations		577	—
Profit (loss) before taxation		9,169	(1,672)
Taxation	4	(768)	(3,424)
Net profit (loss) for the period		8,401	(5,096)
Interim dividend	5	3,427	—
Earnings (loss) per share	6		
Basic		4.90 cents	(2.97) cents
Diluted		N/A	N/A
Interim dividend per share		2 cents	—

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September, 2003

		Unaudited 30th September, 2003	(Restated) Audited 31st March, 2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Investment properties		5,160	5,160
Property, plant and equipment	7	27,796	26,255
Interests in associates		2,412	9,618
Investments in securities		—	17,800
Deferred tax assets		2,927	2,703
		38,295	61,536
Current assets			
Inventories		62,583	56,946
Properties for sale, at cost		1,135	1,135
Debtors, deposits and prepayments	8	98,110	111,864
Amount due from customers for contract work		1,448	1,244
Tax recoverable		183	472
Investments in securities		101,251	86,058
Bank balances and cash equivalents		177,108	149,033
		441,818	406,752
Current liabilities			
Creditors, deposits and accruals	9	77,444	66,384
Amount due to ultimate holding company		2,318	6,290
Amounts due to customers for contract work		7,754	4,530
Bills payable		347	2,086
Deferred service income		17,957	19,525
Provision for taxation		590	2,277
Unsecured bank overdrafts		—	73
		106,410	101,165
Net current assets		335,408	305,587
Total assets less current liabilities		373,703	367,123
Non current liabilities			
Deferred tax liabilities		739	445
Minority interests		170	186
NET ASSETS		372,794	366,492
Capital and reserves			
Share capital	10	85,678	85,678
Reserves		287,116	280,814
SHAREHOLDERS' EQUITY		372,794	366,492

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Properties for own use revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2003									
as previously reported	85,678	223,434	18,231	14	1,526	2,358	—	32,993	364,234
Adjustment on adoption of SSAP 12 (revised)	—	—	—	—	—	—	—	2,258	2,258
At 1st April, 2003 as restated	85,678	223,434	18,231	14	1,526	2,358	—	35,251	366,492
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	—	(2,099)	—	—	(2,099)
Net profit for the period	—	—	—	—	—	—	—	8,401	8,401
Dividends	—	—	—	—	—	—	3,427	(3,427)	—
At 30th September, 2003	85,678	223,434	18,231	14	1,526	259	3,427	40,225	372,794
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Properties for own use revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2002									
as previously reported	85,678	223,434	18,231	14	1,134	587	—	55,790	384,868
Adjustment on adoption of SSAP 12 (revised)	—	—	—	—	—	—	—	2,395	2,395
At 1st April, 2002 as restated	85,678	223,434	18,231	14	1,134	587	—	58,185	387,263
Exchange difference on translation of financial statements of overseas subsidiaries	—	—	—	—	—	(2,448)	—	—	(2,448)
Net loss for the period	—	—	—	—	—	—	—	(5,096)	(5,096)
At 30th September, 2002	85,678	223,434	18,231	14	1,134	(1,861)	—	53,089	379,719

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2003

	Unaudited	
	Six months ended	
	30th September,	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	23,432	35,653
Net cash inflow from investing activities	7,627	5,970
Net cash (outflow) inflow from financing activities	(3,972)	4,705
Increase in cash and cash equivalents	27,087	46,328
Cash and cash equivalents at beginning of period	148,960	170,240
Effect of foreign exchange rate changes	1,061	55
Cash and cash equivalents at end of period	<u>177,108</u>	<u>216,623</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash equivalents	177,108	216,749
Bank overdrafts	—	(126)
	<u>177,108</u>	<u>216,623</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2003

1. Significant accounting policies

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

The accounting policies adopted in these condensed interim financial statements have been prepared on a basis consistent with the principal accounting policies as stated in the audited financial statements of the Group for the year ended 31st March, 2003, except that the Group has adopted the SSAP 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants, which is effective for accounting periods commencing on or after 1st January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for periods ended 30th September 2002 and 31st March 2003 have been restated accordingly. Retained profits at 31st March 2003 have been increased by HK\$2.3 million, which is the cumulative effect on the change in policy on the results for period prior to 31st March, 2003. The effect of the change is an increased charge to income statement in the current period of HK\$0.07 million (2002 : decrease of HK\$0.17 million)

2. Segment information

Turnover and segment information for the six months ended 30th September, 2003.

(a) By business segments

	Continuing operations				Discontinued operations		Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	
Six months ended 30th September, 2003							
TURNOVER							
Total sales	200,243	68,298	22,431	78,261	11	906	370,150
Inter-segment sales	(21,872)	(3,665)	(2,835)	—	(1)	(30)	(28,403)
External sales	<u>178,371</u>	<u>64,633</u>	<u>19,596</u>	<u>78,261</u>	<u>10</u>	<u>876</u>	<u>341,747</u>
RESULT							
Segment result	<u>4,144</u>	<u>(1,788)</u>	<u>1,143</u>	<u>1,709</u>	<u>—</u>	<u>—</u>	<u>5,208</u>
Interest income							3,836
Unallocated corporate Expenses							(210)
Profit from operations							8,834
Finance costs							(7)
Share of result of an associate	(235)	—	—	—	—	—	(235)
Gain on discontinued operations	—	—	—	—	86	491	577
Profit before taxation							9,169
Taxation							(768)
Net profit for the period							<u>8,401</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**2. Segment information** (Continued)**(a) By business segments** (Continued)

	Continuing operations				Discontinued operations		Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	
Six months ended 30th September, 2002							
TURNOVER							
Total sales	231,777	53,559	33,199	9,246	10,565	49,363	387,709
Inter-segment sales	(29,193)	(3,009)	(3,962)	—	(193)	(35)	(36,392)
External sales	<u>202,584</u>	<u>50,550</u>	<u>29,237</u>	<u>9,246</u>	<u>10,372</u>	<u>49,328</u>	<u>351,317</u>
RESULT							
Segment result	<u>5,064</u>	<u>(1,806)</u>	<u>4,040</u>	<u>(2,987)</u>	<u>(3,018)</u>	<u>(7,655)</u>	(6,362)
Interest income							3,157
Unallocated corporate Expenses							(299)
Loss from operations							(3,504)
Finance costs							(30)
Share of results of associates	1,862	—	—	—	—	—	1,862
Loss before taxation							(1,672)
Taxation							(3,424)
Net loss for the period							<u>(5,096)</u>

(b) By geographical segments

	Turnover	
	Six months ended 2003 HK\$'000	2002 HK\$'000
Hong Kong	271,077	264,995
The Mainland	7,537	27,785
Thailand	59,069	54,452
Others	4,064	4,085
	<u>341,747</u>	<u>351,317</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**3. Profit (loss) from operations**

	Six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Profit (loss) from operations is arrived at after charging		
Cost of stock sold	180,811	244,525
Depreciation on property, plant and equipment	2,323	3,266
Operating lease payments in respect of renting of premises	6,053	16,674
Staff costs, including directors' emoluments	41,934	53,057
	<u> </u>	<u> </u>

4. Taxation

	Six months ended 30th September,	
	2003	(Restated) 2002
	HK\$'000	HK\$'000
Current tax		
Company and subsidiaries		
Hong Kong	665	1,791
Overseas	34	1,513
Associates		
Hong Kong	—	291
Deferred tax		
Current period	64	(171)
Attributable to change in tax rate	5	—
	<u> </u>	<u> </u>
	768	3,424
	<u> </u>	<u> </u>

Provision for Hong Kong profits tax is calculated at the rate of 17.5% (2002: 16%) on the estimated assessable profits less available tax relief for losses brought forward of each individual company comprising the Group.

Provision for overseas taxation is calculated based on the rates applicable to the relevant local legislation on the estimated assessable profits.

The change in accounting policy in accordance with SSAP 12 (revised) "Income taxes" has been applied retrospectively and comparatives have been restated.

5. Interim dividend

	Six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Interim dividend		
2003: HK\$0.02 per share on 171,355,871 shares	3,427	—
	<u> </u>	<u> </u>

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**6. Earnings (loss) per share**

Basic earnings (loss) per share is calculated based on the profit for the period of HK\$8,401,000 (2002: loss of HK\$5,096,000) and on the weighted average number of 171,355,871 (2002: 171,355,870) ordinary shares issued, which have been adjusted for the consolidation of the Company's ordinary shares during the period.

No diluted loss per share is presented for the period ended 30th September, 2002 as the exercise of the Company's outstanding share options would result in a decrease in net loss per share.

No diluted earnings per share is presented for the period ended 30th September 2003 as the Company's outstanding share options have been lapsed in June 2003.

7. Property, plant and equipment

For the six months period ended 30 September, 2003, the Group acquired property, plant and equipment of HK\$3,530,000 and disposed of property, plant and equipment of HK\$2,831,000.

8. Debtors, deposits and prepayments

The ageing analysis of trade debtors is as follows :

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
0-60 days	65,248	63,469
61-90 days	2,352	3,389
Over 90 days	1,187	5,343
Total	<u>68,787</u>	<u>72,201</u>

The Group has established different credit policies for customers in each of its core businesses. The average credit period granted for trade debtors was 60 days.

9. Creditors, deposits and accruals

The ageing analysis of trade creditors is as follows :

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
0-60 days	28,490	15,289
61-90 days	609	969
Over 90 days	3,297	4,795
Total	<u>32,396</u>	<u>21,053</u>

10. Share Capital

	Number of ordinary shares of HK\$0.5 each	Nominal value HK\$'000
Authorised:	<u>1,200,000,000</u>	<u>120,000</u>
Issued and fully paid:	<u>856,779,352</u>	<u>85,678</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**10. Share Capital** (Continued)

There was no change in the authorised and issued share capital during the period under review.

Pursuant to a special resolution passed at a special general meeting of the shareholders of the Company on 5th June, 2003, every five issued and unissued ordinary shares of HK\$0.10 each are consolidated into one ordinary share of HK\$0.50 each.

11. Contingent liabilities

At the balance sheet date:

The Company has contingent liabilities in respect of:

- (i) guarantees issued for banking facilities extended to its subsidiaries amounting to HK\$3,752,000 (31st March 2003: HK\$5,421,000).
- (ii) guarantees issued for performance under contracts and rendering of services of certain subsidiaries amounting to HK\$0 (31st March 2003: HK\$1,405,000).

12. Operating lease**(a) The Group as lessee**

The Group has total future aggregate minimum lease payments under non-cancellable operating leases in respect of renting of premises as follows :

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Within one year	4,744	6,287
In the second to fifth year inclusive	1,012	3,231
	<u>5,756</u>	<u>9,518</u>

Leases are negotiated and rentals are fixed for an average term of 2 years.

(b) The Group as lessor

All the investment properties were leased out for a period of 2 years and the leases did not have any renewal options given to the leasees. The future minimum lease payments receivable by the Group under non-cancellable operating leases for each of the following periods are :

	As at 30th September, 2003 HK\$'000	As at 31st March, 2003 HK\$'000
Within one year	321	406
In the second to fifth year inclusive	58	—
	<u>379</u>	<u>406</u>

13. Comparative figures

Certain comparative figures have been reclassified in order to conform with the presentation of current period.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK2 cents (2002: Nil) per share for the six months ended 30th September, 2003 payable on Tuesday, 20th January, 2004 to shareholders whose names appear on the Register of Members of the Company on Friday, 16th January, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 12th January, 2004 to Friday, 16th January, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the above interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Standard Registrars Limited of G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 9th January, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30th September, 2003, the performance of the Group improved substantially despite the impact of the outbreak of the Severe Acute Respiratory Syndrome ("SARS"). This was mainly due to the close down of the loss making operations in last year and cost cutting exercise. In general, Hong Kong's deflationary woes worsened during the period. Businesses were forced to cut prices as the economy reeled from the economic fallout from SARS. As a result, turnover decreased and the profit margin squeezed especially in the first half of the period under review. The confidence, however, recovered in the second half of the period so that the turnover for the period reached HK\$341 million, only 3% lower than that of same period last year. Profit for the period also improved to HK\$8.4 million compared with the loss of HK\$5 million in the same period last year.

During the period under review, the Computer and Business Machine Division has recorded a drop in the profit by 18% due to intense competition in PC products and the decline of consumption in both commercial sector and individual customers.

The first Chevalier Shop Digital Gallery in Causeway Bay was operating well. It is a brand new service concept for providing an outlet of digital solutions and IT products to the corporate and individual customers.

The large-scale contracts of IT & Network Solutions Division for providing various network services and system integration to New TV City, International Finance Centre — Phase II and KCRC West Rail were progressed on schedule.

The performance of the Technical and Maintenance Service Division was badly affected by the fierce competition and the shrinkage in capital expenditure of commercial sector in the first half of the year. The situation will persist for the foreseeable future.

During the period under review, interest income improved despite the enduring low interest rate. The company has diversified its investment portfolio into high yield structured notes and corporate debentures in order to enhance their returns.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Prospects

The growth in Hong Kong's economy depends very much on the export to the US and trade with the Mainland. Although the growth of the US economy is not convincing during the first half of 2003, recent statistics shows that the pace has become more solid with the GDP growth at 8.2% in the third quarter. Such upward momentum of the economy in the US is expected to sustain till 2004 and this will definitely improve the economic expansion of the economy of Hong Kong next year.

Similarly, after riding through years of economic contraction, Hong Kong's economy began to emerge from recession in the third quarter of 2003. GDP rose by 4% in the third quarter this year and the unemployment rate has recently edged to 8%. Confidence has recovered, following a series of economic measures unveiled by the central government since August to help Hong Kong. While continuing to face tough times, we expect Hong Kong's economy will move back onto a steady growth path in 2004 and beyond.

However, deflation in Hong Kong will persist next year, though at a much slower pace. Growth in consumption remains low despite the turnaround in confidence. The Group, therefore, remains cautious in adjusting its business strategy in order to cope with the market conditions and continues to adopt stringent cost control measures. The Group believes that the worst is over for Hong Kong's economy and looks forward to a better performance in the financial year 2003/04.

CONSOLIDATION OF SHARES

On 5th June, 2003, the shareholders at the special general meeting of the Company have approved the consolidation of every five existing issued and unissued shares of HK\$0.10 each into one new share of HK\$0.50 each in the share capital of the Company.

FINANCIAL REVIEW

As at 30th September, 2003, the Group's total net asset amounted to approximately HK\$373 million (HK\$366 million as at 31st March, 2003).

As at 30th September, 2003, total debt to equity ratio was nil (0.02% as at 31st March, 2003) and net debt to equity ratio was nil (Nil as at 31st March, 2003), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net assets of HK\$373 million (HK\$366 million as at 31st March, 2003).

As at 30th September, 2003, the Group's bank and other borrowings was nil (HK\$73,000 as at 31st March, 2003) while cash and deposit at bank amounted to HK\$177 million (HK\$149 million as at 31st March, 2003) and there are no net borrowings for the two years.

Finance costs for the period amounted to HK\$7,000 (HK\$30,000 for the same period last year).

The Company has provided guarantees in respect of loan facilities granted to subsidiary companies amounting to HK\$3.7 million (HK\$5.4 million as at 31st March, 2003).

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise cost of funds, the Group's treasury activities are centralised. Cash is generally placed in short-term deposits mostly denominated in Hong Kong or US dollars. The Group's liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of bank loans, the Group will consider new financing while maintaining an appropriate level of gearing.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th September, 2003, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("the SFO"), which have been notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") were as follows:

(a) Interests in the Company — Shares

Name of Director	Personal interests	Number of ordinary shares			Total	Approximate percentage of interest (%)
		Corporate interests	Family interests			
CHOW Yei Ching	6,815,854	86,994,933*	—	93,810,787	54.75	
FUNG Pak Kwan	2,580,000	—	—	2,580,000	1.5	
KUOK Hoi Sang	2,400,000	—	—	2,400,000	1.4	
KAN Ka Hon	451,200	—	—	451,200	0.26	
Shinichi YONEHARA	600	—	—	600	0.00035	

* Dr. Chow Yei Ching has notified the Company that under the SFO, he was deemed to be interested in 86,994,933 shares of the Company which were all held by Chevalier International Holdings Limited ("CIHL") as Dr. Chow beneficially owned 132,512,351 shares in CIHL, representing approximately 49.32% of shares in CIHL. Dr. Chow was deemed to be interested in these shares under the SFO and these shares were same as those shares described in "Substantial Shareholders' Interests in Securities" below.

(b) Interests in Associated Corporations — Shares

Name of Director	Associated corporations	Number of ordinary shares			Total	Approximate percentage of interest (%)
		Personal interests	Corporate interests	Family interests		
CHOW Yei Ching	CIHL	132,512,351	—	—	132,512,351	49.32
	Chevalier Construction Holdings Limited ("CCHL")	61,036,489	89,385,444*	—	150,421,933	60.41
FUNG Pak Kwan	CIHL	91,290	—	—	91,290	0.03
KUOK Hoi Sang	CIHL	98,216	—	—	98,216	0.04
	CCHL	1,326,437	—	—	1,326,437	0.53
KAN Ka Hon	CIHL	29,040	—	—	29,040	0.01
Shinichi YONEHARA	CIHL	1,632	—	—	1,632	0.0006
	CCHL	342	—	—	342	0.0001

* Dr. Chow had notified CCHL that under the SFO, he was deemed to be interested in 89,385,444 shares in CCHL, which were all held by CIHL as Dr. Chow beneficially owned 132,512,351 shares in CIHL, representing approximately 49.32% of shares in CIHL.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES*(Continued)*

Save as disclosed above, so far as is known to the Directors and the chief executives of the Company, no other person has interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO); or are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

The Company and CIHL adopted share option schemes on 30th September, 1991 (“the Old CiTL Scheme and Old CIHL Scheme respectively”). These schemes have been expired on 29th September, 2001 and no further options may be granted under the Old CiTL Scheme and Old CIHL Scheme thereafter. Details of the outstanding options as at 30th September, 2003 which have been granted under the share option schemes of the Company and its associated corporation were as follows:

(a) Interests in the Company — Share Options

Name of Director	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$) (note)	Balance as at 1st April, 2003 (note)	Number of share options			Outstanding as at 30th September, 2003
					Exercised during the period	Cancelled during the period	Lapsed during the period	
CHOW Yei Ching	17/12/1999	30/06/2000— 29/06/2003	2.32	1,400,000	—	—	1,400,000	—
FUNG Pak Kwan	17/12/1999	30/06/2000— 29/06/2003	2.32	1,310,000	—	—	1,310,000	—
KUOK Hoi Sang	17/12/1999	30/06/2000— 29/06/2003	2.32	1,000,000	—	—	1,000,000	—
KAN Ka Hon	17/12/1999	30/06/2000— 29/06/2003	2.32	1,000,000	—	—	1,000,000	—
Lily CHOW	17/12/1999	30/06/2000— 29/06/2003	2.32	1,000,000	—	—	1,000,000	—

As at 30th September, 2003, all the options under the Old CiTL Scheme had been lapsed on 29th June, 2003.

SHARE OPTION SCHEMES (Continued)**(b) Interests in Associated Corporation — Share Options**

Name of Director	Associated corporation	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$) (note)	Balance as at 1st April, 2003 (note)	Number of share options					Outstanding as at 30th September, 2003
						Exercised during the period	Cancelled during the period	Lapsed during the period	Disposed of during the period (note)		
CHOW Yei Ching	CIHL	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,690,000	—	—	—	1,690,000	—	
FUNG Pak Kwan	CIHL	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,070,000	—	—	—	1,070,000	—	
KUOK Hoi Sang	CIHL	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,070,000	—	—	—	1,070,000	—	
KAN Ka Hon	CIHL	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,000,000	—	—	—	1,000,000	—	

As at 30th September, 2003, the Directors disposed of their entire interests in the options granted to them under the Old CIHL Scheme.

Note: The exercise price per option and the numbers of share options of the Company and CIHL subject to the Old CiTL Scheme and the Old CIHL Scheme respectively have been adjusted for the five into one share consolidation which became effective on 6th June, 2003.

A share option scheme of the Company (“the CiTL Scheme”) was approved by the shareholders of CIHL and shareholders of the Company at their respective 2002 Annual General Meetings held on 20th September, 2002. Another share option scheme of CIHL (“the CIHL Scheme”) was also approved by the shareholders of CIHL at the 2002 Annual General Meeting of CIHL held on 20th September, 2002. The CiTL Scheme and the CIHL Scheme fully comply with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”). As at 30th September, 2003, no share option was granted, exercised, cancelled or lapsed under the CiTL Scheme and the CIHL Scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30th September, 2003, so far as is known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Substantial Shareholder	Number of shares held	Approximate percentage of issued share capital (%)
CHOW Yei Ching <i>(Notes 1 and 3)</i>	93,810,787	54.75
MIYAKAWA Michiko <i>(Notes 2 and 3)</i>	93,810,787	54.75
CIHL <i>(Note 3)</i>	86,994,933	50.77
Chevalier (HK) Limited <i>("CHK") (Note 3)</i>	13,471,200	7.86
Firstland Company Limited <i>("Firstland") (Note 3)</i>	13,471,200	7.86

Notes:

- These shares were held by Dr. Chow as (i) personal interests of 6,815,854, (ii) corporate interests of 86,994,933 in which Dr. Chow was deemed to be interested in (ii) under the SFO.*
- These shares were held by Dr. Chow. Ms. Miyakawa Michiko, the spouse of Dr. Chow, is deemed to be interested under Part XV of the SFO.*
- These shares of 13,471,200 were held by Firstland, a company incorporated in Hong Kong and a wholly-owned subsidiary of CHK. CHK is a company incorporated in Hong Kong and a wholly-owned subsidiary of CIHL. CIHL is a company incorporated in Bermuda. CHK, CIHL, Dr. Chow and his spouse were deemed to be interested in 13,471,200 shares under Part XV of the SFO.*

Save as disclosed above, as at 30th September, 2003, so far as is known to the Directors and the chief executives of the Company, no other person has interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

ARRANGEMENT FOR ACQUISITION OF SHARES OR DEBENTURES

Except for the share option scheme adopted by the Company, at no time during the period 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.

EMPLOYEES AND REMUNERATION POLICIES

As at 30th September, 2003, the Group employed approximately 600 full time staff globally. Total staff costs amounted to approximately HK\$42 million for the period under review. 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.

AUDIT COMMITTEE

The Audit Committee, which was established pursuant to the requirements of the Listing Rules, comprising Messrs Shinichi YONEHARA and WU King Cheong, both the Independent Non-Executive Directors of the Company, met twice in the year. During the period, the Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of unaudited interim financial statements.

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 six months ended 30th September, 2003.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the guidelines for the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period from 1st April, 2003 to 30th September, 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.

By Order of the Board
CHOW Yei Ching
Chairman

Hong Kong, 18th December, 2003

website: <http://www.chevalier-itech.com>