

# Chairman's Statement

## MANAGEMENT DISCUSSION AND ANALYSIS

Following an exciting turnaround in 2003/2004, the Board of Directors is pleased to report to shareholders that the Group achieved a significant growth in net profit during the year. The excellent result was attributable to the gradual general recovery of the economy especially of Hong Kong and also the growth of the Group's solid income base during the last few years. The growth strategy of the Group rests on diversification which importance was especially evident in the 2004/2005 results, when the slowdown in the Insurance Division was more than offset by the impressive profitability growth in other segments such as the Property and Hotel Division. Turnover amounted to HK\$4,290 million, up 34% from the previous financial year (2003/2004: HK\$3,199 million). Profit attributable to shareholders was HK\$282 million, up 52% from last year (2003/2004: HK\$186 million), representing earnings per share of HK\$1.011 (2003/2004: HK\$0.687). The directors recommend the payment of a final dividend of HK\$0.25 per share to shareholders, together with the interim dividend of HK\$0.20 paid in January 2005, the total dividend amounted to HK\$0.45 for the year, a 50% growth over that of last year.

### Construction and Engineering

Although the Hong Kong economy recovered after the severe acute respiratory syndrome (SARS) outbreak in 2003, the construction and building services industry did not revive quickly. The Government was cautious in public spending due to the enormous budget deficit of 2004/2005 leaving the construction industry still in a difficult business environment. The decline in contracts available for tender, particularly government contracts, continued to affect the market squeezing both the turnover and margin of the Group. The Group's strategic move into other sectors provided it with the impetus to grow even when the construction industry was in the slump. Expanding into the pipe business was a major step in the Group's diversification plan. During the year, turnover of



Dr Chow Yei Ching  
Chairman and Managing Director

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this segment increased by 40% to HK\$2,287 million with profit at HK\$160 million, up 11% over last year. The overall percentage of profit to turnover decreased from 8.8% to 7%. Assuming Building Construction and Civil Engineering Division was excluded from the results of this division as it was not consolidated in the Group accounts in 2003/2004 before the privatization, the overall margin for the year in this segment would be similar to that of last year.

For the Lifts and Escalators Division, competition remained very keen affecting its overall results. However, there are signs that the situation is stabilizing with the property market starting to pick up



Installation of lifts and escalators and curtain walls at Nina Tower



Installation of lifts and escalators and curtain walls for Four Seasons Hotel at Hong Kong Station Development

again in 2004. The Aluminium Windows and Curtain Walls Division also faced similar difficult situation. However, orders started to build up in the second half of 2004/2005 and major contracts in progress included Tower 21 in Union Square of Kowloon Station, Nina Tower I & II in Tsuen Wan, the Citygate Hotel in Tung Chung, the Kowloon Bus Depots in Mei Fu, and Noble Hill in Tin Ping Shan, Sheung Shui. The performance of the Environmental, Electrical and Mechanical Engineering Division improved. New contracts

included Enhancement

of Hypochlorite Dosing Plant and Blower Replacement for CLPP Power Stations, the supply and installation of Combined Heat and Power Generating Set System at Shek Wu Hui Sewage Treatment Works, the supply and installation of electrical and mechanical equipment for Tai Po Sewage Treatment Works Stage V Phase I, the electrical installation for a hotel development in



Mechanical installation at Wynn Resorts in Macau

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Construction of Hong Kong Jockey Club Enterprise Center at the HKUST

Hung Hom Bay and mechanical installation for a 20-storey tower at Wynn Resorts in Macau. The Building Construction and Civil Engineering Division continued to downsize to maintain efficiency. The strategy bore fruit as the division turned profitable during the year though the margin was still fairly low. Major contracts secured included the Hong Kong Jockey Club Enterprise Center at the Hong Kong University of Science and Technology, the international school in Ma On Shan

for the English Schools Foundations, and a primary school in Area 12, Yuen Long, the New Territories. The construction of a primary school and a secondary school in Area 16, Kau Hui, Yuen Long is in progress and will be completed in mid-2005.

The Pipe Technologies Division performed well with both turnover and profit reaching targets. The assembly of all rehabilitation activities under the new brand – Chevalier Pipe Technologies Limited



Relining of DN750 Storm Water Drain by Process Phoenix at Ching Cheung Road

(“CPT”) – was completed in late 2004. We succeeded in reorganizing and turning CPT into a leading global player in the pipe rehabilitation industry. We further strengthened our presence in both NordiTube Technologies AB and Rib Loc Group Limited (“Rib Loc”) by increasing our shareholding in them to 92% and 74% respectively. The two technology companies own patented pipe rehabilitation technologies and provide related technical know-how to CPT. Having direct management access to these technologies underscored the rapid growth of the business segment. In 2004, we also established a new entity in the US thus strengthened our base in North America.

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We also acquired the remaining interests in associated rehabilitation construction companies in Hong Kong, Europe and the Middle East, guaranteeing our presence in these areas. At present, CPT is represented in Hong Kong, China, Singapore, the Emirates, Belgium, Sweden, Australia, the US and Germany. With access to Rib Loc's patented new "Plastream" technology, the door to the pipe manufacturing market is wide open for us. CPT is ready to exploit this field embedded with international growth potential.

### Insurance and Investment

Although the turnover of the Division increased from HK\$283 million last year to HK\$516 million this year, its contribution declined from HK\$103 million to HK\$56 million as the construction employee compensation underwriting business was very competitive in 2004/2005. The primary goal of the Group's general insurance business is to achieve an underwriting profit. To reach this target, we have been very disciplined in risk management. As the estimated margin was squeezed to a critical level during the year, the Division had to scale down its underwriting business and patiently look for business opportunities. Therefore, both its turnover and profit decreased substantially in 2004/2005, explaining the major setback in the division's performance.

The investment market was volatile and uncertain during the year, which led to a decline in profit of the investment segment. However, the drop in return was not significant as the Group adheres to a prudent and conservative investment strategy with the majority, around 60%, of its investment in fixed interest instrument, high yield note, bank deposit and other fixed income instruments, and the balance in equity and funds. The Group will continue its prudent investment strategy and maintain a balance portfolio to ensure it has a stable source of income.



Rehabilitation of a DN600 Fresh Water Main at Castle Peak

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Deluxe residential project in Chengdu PRC – Cui Yong Tian Di City Oasis II

### Property and Hotel

This segment performed well during the year with turnover increased by 57% from HK\$340 million to HK\$535 million. Profit of this segment also increased substantially from HK\$44 million last year to HK\$172 million. The Division benefited mainly from the timely realization of approximately two-third of the units at Chevalier Place in Shanghai, strong growth in the cold-storage rental revenue and the increase in rental income from investment properties.

With economic conditions improving, income from rental properties continued to grow last year. All investment properties were almost fully occupied and provided steady revenue and earnings to the Group. Chevalier Place, the luxury residential property located at a prime location in Shanghai, was launched for sale in February, 2005 and well received by the market. About two-third of the units were sold with total sales proceeds exceeding RMB500 million.

The Group has stepped up investment in development projects in Mainland China. We undertook projects in the Mainland leveraging our solid experience in managing projects, especially public housing and the government's Private Sector Participation Scheme projects, in Hong Kong. The Group expects the austerity measures imposed by the Chinese government to curb over-investment to help eliminate inefficient and speculative players in the market, thus pave the way for healthy long-term growth of the property market. The Group entered into contracts with various Mainland partners to develop real estates in Chengdu, Hefei and Shenzhen with gross floor area of 1.1 million sq.m..

The Property Management Division maintained its portfolio during the year. However, the Group sees room for expansion for this segment. The occupancy rates of the Chevalier Hotels in Xinyang, Dongguan and Jiujiang and the Rosedale on Robson Suite Hotel in Vancouver were at the same levels as last year's. The Group will continue to implement measures to contain costs and realign manpower resources so as to improve the profitability and efficiency of this business.

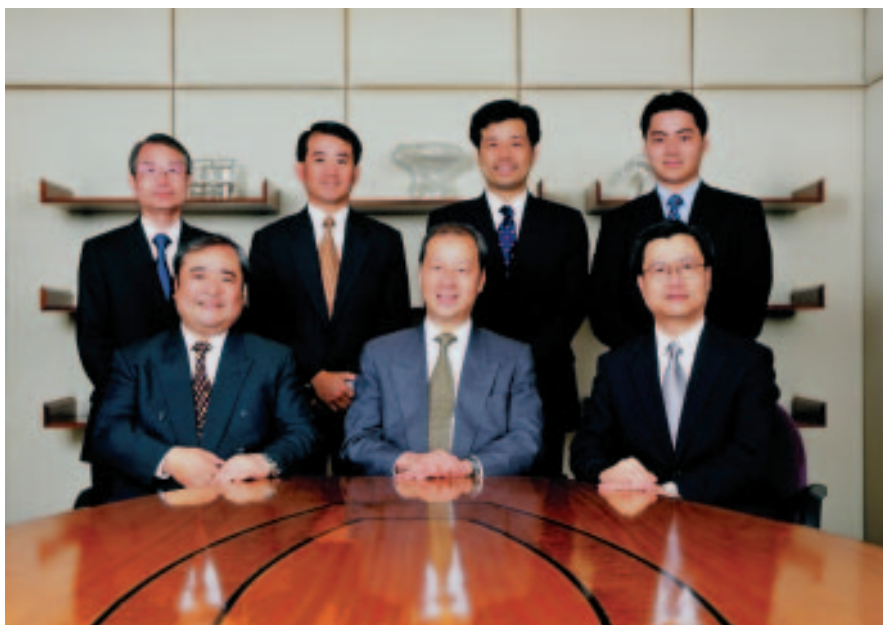
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### IT & Other Business

Turnover of the Information Technology and Network Solutions Division increased to HK\$570 million with contribution reaching HK\$3.3 million. The overall performance of this segment improved. The Motor Vehicles and Trading Division also achieved its targets. During the year, Action Honda won the Honda Quality Dealer Award for the fifth consecutive year in Canada. In spite of the keen competition, the operating profit of the car dealership improved this year. Trading, import, distribution and wholesale business of oriental food in the West Coast of the US also recorded satisfactory performance. During the year, the Group gained exclusive distributorship of several renowned food products all of which were well accepted in the US market.

### PROSPECTS

In 2004, Hong Kong recovered fully from the impact of the Asian financial crisis (1997-98) and the outbreak of SARS in 2003. The Hong Kong economy grew an impressive 8.1% in 2004, the fastest since 2000. However, Hong Kong, like any small open economy, is vulnerable to changes in the external environment. While its domestic economy appears solid, Hong Kong faces threats from the simultaneous slowdown of the global and Chinese economy, rising interest rates in the US and the sharp and enduring rise in oil price. All situations considered, we believe as long as the Mainland continues to sustain stable growth and the integration of Hong Kong with the Pearl River Delta progresses smoothly, and with also help from the Disneyland opening later this year, the Hong Kong economy will see satisfactory growth in 2005.



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

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2004/2005 was a memorable year for Chevalier. We marked our 35th anniversary with significant growth in net profit. We continued to command all our resources to establish a stable and profitable framework for sustainable development. During the past few years, we have followed our growth strategy and added the pipe and insurance businesses to our platform. We have taken on more property development projects especially in Mainland China. We also expanded into the lifestyle food and beverage business recently. The latest acquisition of Pacific Coffee by our listed subsidiary, Chevalier iTech Holdings Limited, has opened yet another a new and promising playfield for the Group. The Group expects the coffee business will enhance its recurrent income.



As we know well, the Group stands out in its ability to deliver notable results while coping with unforeseen circumstances and setbacks. We will continue to strengthen and expand our core business operations and at the same time explore different business opportunities. We will invest in high quality projects with clear potential of generating stable and recurrent incomes to the Group. Staffed by well-experienced professionals and owning top-notch industry expertise, the Group is well positioned to capture new opportunities and bring maximum returns to our shareholders.

### APPRECIATION

The Group has made another good turnaround after the improving economic environment. On behalf of the Board, I would like to take this opportunity to thank the management and all staff for their concerted effort, commitment and professionalism.

**CHOW Yei Ching**

*Chairman and Managing Director*

Hong Kong, 13th July, 2005

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