

Overview

The Group's turnover for the year ended 31st March, 2001 was HK\$1,055 million, representing a drop of 10.74% compared to HK\$1,182 million last year. Even though Hong Kong recorded a sharp rebound in 2000, such rapid pace of expansion was mainly underpinned by the export sector. The domestic situation, however, was relatively less buoyant and new business opportunities have become less. The Group's results during the year were affected by the continued reductions in capital spending of the small and medium enterprises and the sluggish local economy. Profit attributable to shareholders for the year reduced significantly by 70% from HK\$25.6 million to HK\$7.76 million. Earnings per share decreased to HK0.91 cent.

Dividend

The Board of Directors recommends the payment of a final dividend of HK1 cent (2000: HK3 cents) per share payable to shareholders whose names appear on the Register of Members of the Company on Friday, 21st September, 2001. This, together with the interim dividend of HK1 cent (2000: HK1 cent) per share paid during the year, represents a dividend distribution of HK2 cents (2000: HK4 cents) per share for the year ended 31st March, 2001. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the dividend warrants will be despatched on or about Friday, 5th October, 2001.

Review of Operations

During the year, the computer market was adversely affected by rapid changes in technology and global production capacity. The market, as a result, has been flooded with new products and keen competition arises. The burst of the technology bubble in the second quarter of last year has further put a damper on the market demand. With both the external and domestic demand showing signs of slowdown in 2001, such situation will not be improved in the near future. The Group's business in the sale of office equipment also plunged in both turnover and contribution during the year.



Dr CHOW Yei Ching LL.D. (Hon)
Honorary Consul of the State of Bahrain in Hong Kong
Officer of the Order of the British Empire
Officer in the Order of the Crown (Belgium)
Officier de l'Ordre National du Mérite (France)
Order of Sacred Treasure (Japan)



Chevalier Shop at Plaza Hollywood

The development of information technology and the improved quality of telecommunication products and services further stimulate the telecommunication market. Performance of the Telecommunication Service Division was encouraging during the year under review and revenue generated from the mobile phone retail business and related valued-added services continued to grow. Currently, the Group operates a total of 19 Chevalier Shops and 28 franchise shops. However, the market will become more difficult because of the slowdown in domestic demand and delay in the introduction of new technology.

The overall performance of Q-Mart Shops was satisfactory despite losses still incurred due to the write-offs of the initial setup costs and depreciation charges. With the implementation of stringent cost control and the provision of wide range of high quality household products, it is anticipated that results will be improved in the coming year. Currently, the Group operates a total of 14 Q-Mart Shops in various locations.



Q-Mart Shop at Tin Shui Wai

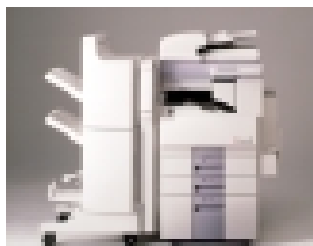


Chevalier (Network Solutions) Limited exhibited as e-frastructure solution provider in IT Expo 2000

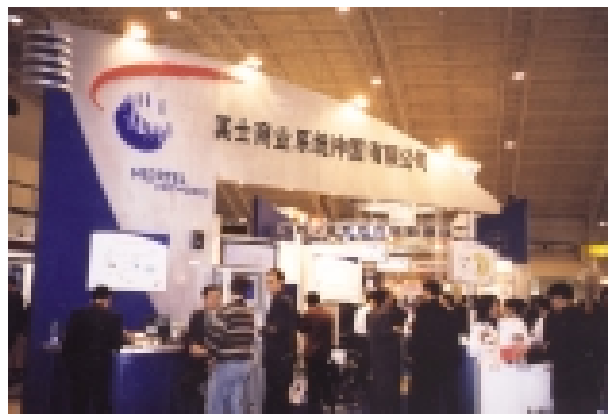
In order to provide one-stop IT solutions and services to our customers, a new company named Chevalier (Network Solutions) Limited was established in mid-2000. The company will provide total network solutions and services including backbone networking, server/software applications, LAN/WAN solutions, PABX, peripheral equipment and security management. During the year, a major contract includes the fibre network and telephone system installation and maintenance was awarded by Television Broadcasts Limited with a contract value of approximately HK\$20 million.

During the year, the Internet Division has discontinued the Internet dial-up services and has shifted its focus to broadband services, VPN connectivity and IP security to corporate users.

Contribution from the after-sales services division has been affected by the slowdown of economy. Although the contribution of this division has contracted, it remains to be one of the major sources of income of the Group. In order to broaden our customer base, the Group is committed to strengthen the technical and maintenance teams in every respect so as to provide quality and efficient service to the customers.



Chevalier (OA) Limited announced the launch of Toshiba e-Studio digital copiers and promotion of other Toshiba products



Participation of Chevalier OA (China) Limited in a focal event of the communications industry held in Beijing — PT/EXPO Comm China 2000

namely the "Outstanding Solution Sales" and "Best Report Award (Outstanding Analysis)" in marketing of office equipment in Thailand. Recently, the Thailand operation has undergone corporate restructuring so as to streamline the Group's financial resources in Thailand and strengthen its capital base.

In the financial year under review, excluding the provision of exchange loss on the fluctuation of Thai currency of HK\$9 million, the Group's business in Thailand continued to maintain a stable growth. In September last year, Chevalier iTech Thai Limited (formerly known as Chevalier OA (Thailand) Limited) received two awards



Showroom in Thailand office

Subsequent Event

Subsequent to the year ended 31st March, 2001, the Group disposed of all interest in the paging services. The net proceeds were used to finance the general working capital.

Prospects

Despite the aggressive easing move by the US Federal Reserve, by cutting interest rates of 275 basis points since the beginning of 2001, the economy of Hong Kong remains slow due to the deterioration in export growth and weak consumer spending. The outlook for 2001 shows little signs of improvement as the economic growth in those industrial countries is weakening. The market situation of the Group's business for the current year remains difficult.



Dr Chow, two officiating guests and the directors toast to the 30th anniversary of Chevalier

However, the negative impact may gradually be offset by the long-term benefit to Hong Kong when the volume of trade between the Mainland and other industrial countries is likely to grow at a faster pace as trade barriers will gradually be dismantled on the forthcoming entry to World Trade Organisation. Therefore, the Group has strategically expanded its network in the Mainland and strengthened its linkage with both suppliers and customers. In addition, the Group has rationalised the existing business by reducing the losses incurred by those loss-making divisions and investment. With solid financial position, the Group will maintain a prudent approach in capturing potential investments and business opportunities in East Asia markets.

Shareholders and Staff

On behalf of the Board, I would like to take this opportunity to extend our gratitude to our shareholders for their support and to our staff for their dedication and contribution over the past year.

CHOW Yei Ching

Chairman

Hong Kong, 10th July, 2001