

*Chairman's Statement***OVERVIEW**

The year 2001 was a difficult and challenging year for the Group. The weak global economy and the fierce competition in the IT market imposed significant pressure on the Group's turnover and profitability, resulting in an unsatisfactory result for the year ended 31st March, 2002. The Group has recorded the turnover of approximately HK\$775 million, representing a decrease of 26%. Loss for the year amounted to HK\$9.43 million, compared with a net profit of HK\$7.76 million in previous year. Loss per share was HK1.1 cents.

DIVIDEND

The Board of Directors does not recommend the payment of any final dividend for the year (2001: HK1 cent). The interim dividend of HK1 cent (2001: HK1 cent) per share was paid during the year, representing a dividend distribution of HK1 cent (2001: HK2 cents) per share for the year ended 31st March, 2002.



Dr CHOW Yei Ching

MANAGEMENT DISCUSSION AND ANALYSIS

2002 FIFA World Cup™ Toshiba Lucky Draw organized by Chevalier (OA) Limited



TOSHIBA ultraportable notebook computer - Portege Series

During the year, the total sales of the Computer Division dropped by more than 28% due to the shrinkage in capital spending in the commercial sector. However, condition improved slightly due to the stringent control in overheads and the implementation of effective marketing strategies in promoting products and services excellence.

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Chevalier (Network Solutions) Limited participated in Expo 2002

The performance of the IT & Network Solutions Division is not satisfactory due to keen competition. On the other hand, Chevalier (Network Solutions) Limited ("CNK"), a company set up in 2000 to provide various network services and system integration for corporate users, has secured several major contracts from the private sector. A major contract was awarded by Television Broadcasts Limited in April 2001 to supply, deliver and install fibre network and telecommunication systems for the New TV City

in Tseung Kwan O. Besides, CNK was also granted the broadband infrastructure network and in-building ELV systems contract for International Finance Centre, Phase II in May 2001. During the year, Chevalier (Satellink) Limited has awarded ISO 9001:2000 for the design, supply, installation and maintenance of extra low voltage electrical systems, voice and data networking systems.



Fibre network and telecommunication systems for New TV City in Tseung Kwan O

Both turnover and contribution of the Telecommunication Systems & Services Division deteriorated further during the year as the mobile phone

market in Hong Kong has almost saturated. Competition among local network operators was very keen and, as a result, Chevalier Shops and other mobile phone franchise shops of the Group reported a significant drop in both turnover and loss incurred during the year. In order to improve its performance, the Group has rationalised its telecommunication retail business by discontinuing those unprofitable outlets and relocated some of the shops. Such restructuring plan also gave rise to losses arising from the



Award of ISO 9001:2000 certificate to Chevalier (Satellink) Limited

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Chevalier Shop at Tuen Mun Plaza

efficiency and tight cost control. The Group will continue to offer quality products and after-sales services to satisfy the customers' needs.

During the year, the overall performance of Q-Mart Shops was unsatisfactory mainly due to the high start-up cost and intensive competition. In order to improve the turnover, Q-Mart Shops will focus on strengthening customer services and product varieties. Currently, the Group operates 8 Q-Mart Shops at different locations in Hong Kong.



Showroom in Thailand office

write-off of decoration and fixtures. Currently, the Group operates a total of 14 Chevalier Shops and 26 franchise shops.

The Office Equipment Division also experienced another difficult year but the situation stabilised despite the stagnant market condition. In addition, the turnover of the After-sales Services Division also decreased slightly but the gross margins improved due to the improvement in the operating



Toshiba e-Studio 45 digital copier

Good performance was recorded in the Group's cabling system and telecommunication systems and services in Thailand. However, the turnover of Computer Division was reduced by approximately 40% in Thailand market.

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PROSPECTS

After the burst of the US technology-driven bubble in 2000, the development of the IT and telecommunications market worldwide has been slowing down substantially over the past two years. In Hong Kong and South East Asia, the demand for IT products and office equipment is persistently weak as the uncertain economic conditions caused companies to slash capital spending. Besides, stiff market competition has a spiral adverse effect on the prices and profit margins of the products and services. The outlook of Hong Kong economy will mainly depend on the pace of recovery in the US. Recent economic indicators showed that the US economy is still wobbling along the road to recovery and the pace for the recovery in Hong Kong economy is still uncertain. Demand is unlikely to improve until there is an improvement in labour market conditions. Prospect of a revival in capital investment would remain uncertain due to the persistent deflationary pressures. Therefore, it is expected that the operating environment will remain difficult in the foreseeable future.

The Group believes that the Mainland will be a perk to Hong Kong under the present unfavourable external environment. The Mainland's rapid economic growth and the anticipated strong increase in investment and consumption arising from its accession to the World Trade Organisation will open up numerous business opportunities. With the existing extensive network in the Mainland, the Group is cautiously optimistic in the long-term prospect in the China market.

Looking forward, the Management will continue to prudently develop business especially in the Mainland and resort to stringent cost control measures in order to maintain its competitive edge. The Group considers that the present weak economic conditions actually offer a golden opportunity to re-position and consolidate its business in Hong Kong, the Mainland and South East Asia. With the experienced management team and the expertise in the IT industry, the Group is well positioned to withstand the tough economic climate.

APPRECIATION

2001 has been a bumpy year for Hong Kong, during which the Group has been confronted by many challenges in both economic and political aspects. On behalf of the Board, I would like to take this opportunity to truly thank all staff for their concerted effort which has enabled the Group to move through these rough times safely.

CHOW Yei Ching

Chairman

Hong Kong, 11th July, 2002