

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, 2002.

Principal Activities

The principal activity of the Company is investment holding while 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, web-page design and e-commerce solutions to 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 mobile phones, business machines, computer systems and equipment, telephone systems, relevant after-sales services, trading of general merchandise and securities investment.

The Group's turnover and loss from operations for the year ended 31st March, 2002 analysed by business segments and geographical segments are set out in note 5 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31st March, 2002 are set out in the consolidated income statement on page 22. An interim dividend of HK1 cent per share was paid in cash on Wednesday, 16th January, 2002. The Directors do not recommend the payment of a final dividend.

Share Capital

There was no movement in the Company's share capital during the year. Details of which are set out in note 24 to the financial statements.

Reserves

Movements in reserves during the year are set out in note 25 to the financial statements.

Investment Properties

Movements in investment properties during the year are set out in note 14 to the financial statements.

Property, Plant and Equipment

Movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

Financial Summary

A financial summary of the Group is shown on page 2.

Report of the Directors

Major Customers and Suppliers

The five largest suppliers accounted for 58% of the Group's purchases of the year whereas the five largest customers accounted for the Group were less than 21% of the Group's sales of the year. The largest supplier accounted for 39% of the Group's purchases. 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.

Properties

Particulars of the major properties of the Group as at 31st March, 2002 are set out on page 9.

Employees and Remuneration Policies

The Group employed approximately 900 full time staff in Hong Kong and overseas as at 31st March, 2002. Total staff costs amounted to HK\$134,475,000 for the year ended 31st March, 2002. 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.

Donations

During the year, the Group made donations of HK\$446,500 to charitable bodies.

Principal Subsidiaries and Associates

Particulars regarding the principal subsidiaries and associates of the Group are set out in notes 16 and 17 to the financial statements respectively.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions 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.

Report of the Directors

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>

Non-Executive Directors

Mr YI Zhenqiu	<i>(Resigned on 8th August, 2001)</i>
Mr HUANG Shenglan	<i>(Retired on 21st September, 2001)</i>

Independent Non-Executive Directors

Mr YUEN Tin Fan, Francis
Mr Shinichi YONEHARA

In accordance with the Company's Bye-laws, Mr YUEN Tin Fan, Francis shall retire from office at the forthcoming Annual General Meeting and does not 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, FUNG Wo Shun and KAN Ka Hon are/were interested in certain contracts in that they are/were 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 contracts 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:

<u>Landlord</u>	<u>Renting of property (usage)</u>	<u>Rental for the year</u> <i>HK\$'000</i>
Union Pearl Development Limited	Portion of Chevalier Commercial Centre (office)	1,074
Winfield Development Limited	Portion of Chevalier Warehouse Building (warehouse)	32
Peak Gain Limited	Portion of Chevalier Engineering Service Centre (office/warehouse)	4,328
Futex Development Limited	Regent Villa (resort)	147
Oriental Sharp Limited	Portion of Charming Garden (shop)	98
Union Mark Development Limited	Portion of Yin Hai Commercial Building (office)	118
Well Stamp Limited	Portion of Jin Du Mansion (office)	67
Well Stamp Limited	Portion of Dongshan Plaza (office)	45

During the year, rentals amounting to approximately HK\$5,909,000 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, 2002 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 Shares**

As at 31st March, 2002, 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 Director	Number of ordinary shares		Total
	Personal interests	Corporate interests	
CHOW Yei Ching	34,079,270	432,334,666*	466,413,936
FUNG Pak Kwan	12,900,000	–	12,900,000
KUOK Hoi Sang	12,000,000	–	12,000,000
FUNG Wo Shun	300,000	–	300,000
KAN Ka Hon	2,256,000	–	2,256,000
Shinichi YONEHARA	3,004	–	3,004

* *Dr CHOW Yei Ching beneficially owned 640,527,782 shares in CIHL, representing approximately 50.23% of the issued share capital of CIHL, which in turn, was interested in 432,334,666 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 described in "Substantial Shareholder" below.*

Report of the Directors

Directors' Interests in Shares (continued)

(b) Interests in Associated Corporations – Shares

Name of Director	Associated corporation	Number of ordinary shares		
		Personal interests	Corporate interests	Total
CHOW Yei Ching	CIHL	640,527,782	–	640,527,782
	Chevalier Singapore Holdings Limited (“CSHL”)	4,375,000	80,000,000*	84,375,000
	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
FUNG Wo Shun	CCHL	295,600	–	295,600
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 80,000,000 shares in CSHL and 89,385,444 shares in CCHL which were all held by CIHL as Dr Chow beneficially owned 640,527,782 shares in CIHL, representing approximately 50.23% of the issued share capital of CIHL.

In addition, certain Directors personally hold share options to subscribe for ordinary shares of the Company and its associated corporations as disclosed under the paragraph “Share Option Scheme” below.

Save as disclosed above and in the Share Option Scheme stating below, as at 31st March, 2002, none of the Directors of the Company nor their spouses nor children under the age of 18 had or were deemed to have any interest in the securities of the Company or any of its associated corporations (as defined in the SDI Ordinance) pursuant to Section 28 of the SDI Ordinance or under Section 31 or Part I of the Schedule to the SDI Ordinance.

Report of the Directors

Share Option Scheme

A Share Option Scheme (the "Share Option Scheme") for the benefit of the full-time employees of the Company and its subsidiaries was approved and adopted on 30th September, 1991 under which the Directors of the Company or its subsidiaries are authorised to grant share options to their respective full-time employees, including Executive Directors, to take up options to subscribe for shares for an aggregate of not more than 10% of the total number of shares in issue at a consideration of HK\$1 for each grant. No option may be exercised earlier than six months or later than three and a half years after it has been accepted. No option may be granted after 29th September, 2001 and to any one person when if exercised in full by that person would result in the total number of shares issued to that person exceeding 25% of the aggregate number of the shares in respect of which options are granted. The Share Option Scheme has been expired on 29th September, 2001 but in all other respect the provisions of the Share Option Scheme should remain in full force and effect for those outstanding options previously granted.

At 31st March, 2002, the number of shares in respect of which options had been granted under the Share Option Scheme was 28,550,000, representing 3.3% of the shares of the Company in issue at that date.

As at 31st March, 2002, details of the share options of the Company and its associated corporations are as follows:

(a) Interests in the Company – Share Options

	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$)	Number of Share Options					Outstanding as at 31st March, 2002
				Balance as at 1st April, 2001	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
(i) Name of Director									
CHOW Yei Ching	04/02/1998	03/09/1998–02/09/2001	0.3376	14,000,000	-	-	-	14,000,000	-
	17/12/1999	30/06/2000–29/06/2003	0.4640	7,000,000	-	-	-	-	7,000,000
FUNG Pak Kwan	04/02/1998	03/09/1998–02/09/2001	0.3376	3,000,000	-	-	-	3,000,000	-
	17/12/1999	30/06/2000–29/06/2003	0.4640	6,550,000	-	-	-	-	6,550,000
KUOK Hoi Sang	04/02/1998	03/09/1998–02/09/2001	0.3376	4,300,000	-	-	-	4,300,000	-
	17/12/1999	30/06/2000–29/06/2003	0.4640	5,000,000	-	-	-	-	5,000,000
FUNG Wo Shun	04/02/1998	03/09/1998–02/09/2001	0.3376	2,300,000	-	-	-	2,300,000	-
KAN Ka Hon	17/12/1999	30/06/2000–29/06/2003	0.4640	5,000,000	-	-	-	-	5,000,000
Lily CHOW	04/02/1998	04/09/1998–03/09/2001	0.3376	5,000,000	-	-	-	5,000,000	-
	17/12/1999	30/06/2000–29/06/2003	0.4640	5,000,000	-	-	-	-	5,000,000
(ii) Full-time employees	09/03/1998	07/10/1998–06/10/2001	0.3920	976,000	-	-	240,000	736,000	-

Report of the Directors

Share Option Scheme (continued)

(b) Interests in Associated Corporations – Share Options

Name of Director	Associated corporation	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$)	Number of Share Options					Outstanding as at 31st March, 2002
					Balance as at 1st April, 2001	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
CHOW Yei Ching	CIHL	04/02/1998	03/09/1998–02/09/2001	0.5376	18,000,000	-	-	-	18,000,000	-
		17/12/1999	30/06/2000–29/06/2003	0.4880	8,450,000	-	-	-	-	8,450,000
	CCHL	04/02/1998	03/09/1998–02/09/2001	0.3248	4,400,000	-	-	-	4,400,000	-
FUNG Pak Kwan	CIHL	04/02/1998	03/09/1998–02/09/2001	0.5376	8,000,000	-	-	-	8,000,000	-
		17/12/1999	30/06/2000–29/06/2003	0.4880	5,350,000	-	-	-	-	5,350,000
KUOK Hoi Sang	CIHL	04/02/1998	03/09/1998–02/09/2001	0.5376	10,000,000	-	-	-	10,000,000	-
		17/12/1999	30/06/2000–29/06/2003	0.4880	5,350,000	-	-	-	-	5,350,000
	CCHL	04/02/1998	03/09/1998–02/09/2001	0.3248	4,000,000	-	-	-	4,000,000	-
FUNG Wo Shun	CIHL	04/02/1998	03/09/1998–02/09/2001	0.5376	2,200,000	-	-	-	2,200,000	-
KAN Ka Hon	CIHL	04/02/1998	04/09/1998–03/09/2001	0.5376	2,200,000	-	-	-	2,200,000	-
		17/12/1999	30/06/2000–29/06/2003	0.4880	5,000,000	-	-	-	-	5,000,000

The Stock Exchange has amended the requirements for share option schemes under Chapter 17 of the Listing Rules, which came into effect on 1st September, 2001. These new requirements make some of the provisions of the scheme no longer applicable. As such, no option has been granted since 1st September, 2001. The Directors proposed for the adoption of a new share option scheme at the forthcoming Annual General Meeting of the Company. During the transitional period, the Company must nevertheless comply with the new requirements of the Listing Rules.

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 35(a) to the financial statements, no 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 66, 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, and the Chairman of CSHL, a public listed company in Singapore. 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 Fellowship 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 an Honorary Professor of Zhejiang University and Sichuan Union University in the PRC. Dr Chow's enthusiasm in public services is evidenced in his appointment in 1996 as a Member of both The Selection Committee for the First Government of the Hong Kong Special Administrative Region and the Board of Directors of The Community Chest in Hong Kong in 1995. 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 Member of the Chinese People's Political Consultative Conference, Shanghai, the President of The Japan Society of Hong Kong and the Chairman 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 50, joined Chevalier Group in 1974 and is a Director of CIHL and CSHL. He was appointed as executive member 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 and distribution of mobile phones, business machines, computer systems and equipment, telephone systems and relevant after-sales services. He also actively involves in the planning of property investment and development projects, environmental engineering, automobile and hotel business in North America of the Group.

Mr KUOK Hoi Sang, Director, aged 52, joined Chevalier Group in 1972 and is the Managing Director of CIHL, the Vice Chairman of CCHL and a Director of CSHL. 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 was appointed as 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 Chevalier Group.

Mr KAN Ka Hon, Director and Company Secretary, aged 51, 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. He is responsible for management of Chevalier Group's accounting and treasury, corporate finance, company secretarial and electronic data processing 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 Hong Kong Society of Accountants.

Report of the Directors

Directors' Biographies (continued)

Executive Directors (continued)

Miss Lily CHOW, Director, aged 39, joined the Group in 1990. She is responsible for strategic planning and business development of the Group. She is also a member of both Guangdong Provincial Committee of Chinese People's Consultative Conference and Committee of Taiwan, Hong Kong, Macau and Overseas of the Zhejiang Provincial Committee of Chinese People's Political Conference. She holds a Bachelor Degree and is the daughter of Dr CHOW Yei Ching.

Independent Non-Executive Directors

Mr YUEN Tin Fan, Francis, aged 49, was appointed to the Board in 1994. He is Deputy Chairman of Pacific Century CyberWorks Limited and Pacific Century Group, and Chairman of Pacific Century Insurance Holdings Limited. From 1988 to 1991, he was Chief Executive of the Stock Exchange. Mr Yuen was also a founding director of Hong Kong Securities Clearing Company Limited. He served from 1992 to 1994 as a member of the International Markets Advisory Board of NASDAQ in the U.S.. He received a Bachelor of Arts degree in Economics from the University of Chicago and is presently a member of the Board of Trustees of the University. Mr Yuen has extensive experience in investment banking and financial regulatory affairs that spanned Asia.

Mr Shinichi YONEHARA, aged 51, 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-experienced in aircraft, telecommunications and IT businesses.

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 for its eligible employees. The Scheme was granted exemption from Mandatory Provident Fund regulations by the Mandatory Provident Fund Scheme Authority. Certain of the Company's overseas subsidiaries contribute to their local government's central pension plans for their employees. Contributions to the above schemes 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 do not wish to remain in the Scheme or 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\$6,272,000 against which the forfeited contributions amounting to HK\$1,968,000 have been deducted. There were forfeited contributions amounting to HK\$99,000 available at the year end date for the reduction of future employer's contributions.

Report of the Directors

Substantial Shareholder

As at 31st March, 2002, the sole substantial shareholder of the Company was CIHL Group which held 432,334,666 shares, representing approximately 50.46% of the issued share capital of the Company as recorded in the registers 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 scheme adopted by the Company 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.

Audit Committee

The Audit Committee, which was established pursuant to the requirements of the Listing Rules, comprising Messrs YUEN Tin Fan, Francis and Shinichi YONEHARA, both independent Non-Executive Directors of the Company, met twice in the year. During the meetings, the Committee reviewed the Connected Transactions, interim and annual reports of the Group and discussed with management 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 retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

CHOW Yei Ching

Chairman

Hong Kong, 11th July, 2002