



CHEVALIER INTERNATIONAL 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	
		Six months ended	
		30th September,	
		(Restated)	
		2003	2002
		HK\$'000	HK\$'000
Turnover	2	1,543,430	1,630,444
Cost of sales		(1,273,066)	(1,367,882)
Gross profit		270,364	262,562
Other revenue		47,080	23,424
Distribution costs		(67,072)	(95,893)
Administrative expenses		(42,918)	(49,632)
Other operating expenses		(12,306)	(12,010)
Deficit on revaluation of properties		(42,164)	(6,996)
Profit from operations	3	152,984	121,455
Finance costs		(33,613)	(21,250)
Share of results of associates		(3,273)	(2,430)
Share of results of jointly controlled entities		(18)	(7,433)
Profit before taxation		116,080	90,342
Taxation	4	(28,693)	(23,429)
Profit before minority interests		87,387	66,913
Minority interests		(12,202)	(4,465)
Profit for the period		75,185	62,448
Interim dividend	5	27,571	19,591
Earnings per share	6		
Basic		28.3 cents	24.5 cents
Diluted		N.A.	24.4 cents
Interim dividend per share		10 cents	7.5 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September, 2003

	<i>Notes</i>	Unaudited 30th September, 2003 HK\$'000	Audited 31st March, 2003 HK\$'000 (Restated)
Non-current assets			
Investment properties		334,529	361,359
Property, plant and equipment	7	1,109,947	1,122,874
Properties under development		7,830	7,153
Goodwill		—	3,620
Negative goodwill		(1,044)	—
Intangible assets		8,567	4,136
Deferred tax assets		25,716	25,028
Interests in associates		43,263	67,038
Interests in jointly controlled entities		15,465	15,465
Investments in securities		26,538	28,979
Club debenture		2,169	1,619
		1,572,980	1,637,271
Current assets			
Inventories		225,819	191,492
Properties for sale		961,045	993,089
Debtors, deposits and prepayments	8	1,009,387	991,672
Amounts due from associates		80,645	4,125
Amounts due from customers for contract work		262,130	280,719
Investments in securities		542,507	441,455
Pledged deposits		85,518	85,484
Cash and bank balances		883,535	786,660
		4,050,586	3,774,696
Current liabilities			
Creditors, deposits and accruals	9	951,924	824,454
Unearned insurance premiums — within one year		56,812	135,386
Outstanding insurance claims		270,963	226,302
Construction costs payable		16,256	21,567
Amounts due to associates		—	78
Amounts due to customers for contract work		155,565	120,640
Bills payable		7,372	43,781
Obligations under finance leases		2,106	1,891
Deferred service income		20,018	21,209
Provision for taxation		53,240	35,299
Bank loans and overdrafts		530,315	891,454
		2,064,571	2,322,061

CONSOLIDATED BALANCE SHEET *(Continued)*

As at 30th September, 2003

	Unaudited	Audited
	30th September,	31st March,
	2003	2003
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Net current assets	1,986,015	1,452,635
Total assets less current liabilities	3,558,995	3,089,906
Non-current liabilities		
Bank loans	771,713	434,664
Unearned insurance premiums — over one year	132,562	91,166
Obligations under finance leases	2,081	2,281
Deferred tax liabilities	35,132	34,864
	941,488	562,975
Minority interests	283,388	282,658
NET ASSETS	2,334,119	2,244,273
Capital and reserves		
Share capital	10 335,845	327,308
Reserves	1,998,274	1,916,965
SHAREHOLDERS' FUNDS	2,334,119	2,244,273

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Property revaluation reserve		Exchange fluctuation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
				Capital redemption reserve HK\$'000	Properties for own use HK\$'000				
At 1st April, 2003 as previously reported	327,308	387,677	269,293	7,526	60,711	(9,736)	26,185	1,183,658	2,252,622
Adjustment on adoption of SSAP 12 (revised)	—	—	—	—	(9,319)	205	—	765	(8,349)
	<u>327,308</u>	<u>387,677</u>	<u>269,293</u>	<u>7,526</u>	<u>51,392</u>	<u>(9,531)</u>	<u>26,185</u>	<u>1,184,423</u>	<u>2,244,273</u>
Issue of new share	8,537	8,129	—	—	—	—	—	—	16,666
Share issue expenses	—	(10)	—	—	—	—	—	—	(10)
Release from capital reserve upon disposal of a subsidiary	—	—	(7)	—	—	—	—	—	(7)
Deficit on revaluation of properties	—	—	—	—	(1,553)	—	—	—	(1,553)
Exchange gain on translation of financial statements of foreign subsidiaries	—	—	—	—	—	249	—	—	249
Net profits for the period	—	—	—	—	—	—	—	75,185	75,185
Dividend	—	—	—	—	—	—	27,571	(28,255)	(684)
At 30th September, 2003	<u>335,845</u>	<u>395,796</u>	<u>269,286</u>	<u>7,526</u>	<u>49,839</u>	<u>(9,282)</u>	<u>53,756</u>	<u>1,231,353</u>	<u>2,334,119</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

	Share capital	Share premium	Capital reserve	Property revaluation reserve	Investment properties	Properties for own use	Exchange fluctuation reserve	Dividend reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2002 as previously reported	318,778	381,285	269,293	7,526	15,669	113,259	(24,805)	19,127	1,127,523	2,227,655
Adjustment on adoption of SSAP 12 (revised)	—	—	—	—	(12,702)	(12,928)	—	—	6,774	(18,856)
	318,778	381,285	269,293	7,526	2,967	100,331	(24,805)	19,127	1,134,297	2,208,799
Deficit on revaluation of properties	—	—	—	—	(2,967)	(1,464)	—	—	—	(4,431)
Exchange loss arising from acquisition of a foreign subsidiary	—	—	—	—	—	—	(37)	—	—	(37)
Exchange gain on translation of financial statements of foreign subsidiaries	—	—	—	—	—	—	12,628	—	—	12,628
Net profits for the period	—	—	—	—	—	—	—	—	62,448	62,448
Dividend	—	—	—	—	—	—	—	19,591	(19,591)	—
At 30th September, 2002	<u>318,778</u>	<u>381,285</u>	<u>269,293</u>	<u>7,526</u>	<u>—</u>	<u>98,867</u>	<u>(12,214)</u>	<u>38,718</u>	<u>1,177,154</u>	<u>2,279,407</u>

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	200,431	51,524
Net cash outflow from investing activities	(64,401)	(28,505)
Net cash (outflow) inflow from financing activities	(25,501)	85,256
Increase in cash and cash equivalent	110,529	108,275
Cash and cash equivalents at beginning of period	764,486	680,447
Effect of foreign exchange rate changes	3,004	6,205
Cash and cash equivalents at end of period	<u>878,019</u>	<u>794,927</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	883,535	801,897
Bank overdrafts	(5,516)	(6,970)
	<u>878,019</u>	<u>794,927</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September, 2001

1. Significant accounting policies

The condensed consolidated 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 consolidated 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 previous periods have been restated accordingly.

2. Turnover

An analysis of the Group's turnover and contribution to operating profit/(loss) by business segments and turnover by geographical segments are as follows:

(a) By business segment

For the six months ended 30th September, 2003

	Continuing				Discontinued		Group Total by segment HK\$'000
	Building services and engineering HK\$'000	Motor vehicle and other trading HK\$'000	Property and hotel HK\$'000	IT and business machines trading and servicing HK\$'000	Insurance business and others HK\$'000	Telecom- munication services and general merchandise HK\$'000	
Turnover							
Total Turnover	760,428	210,000	142,069	262,473	206,490	917	1,582,377
Inter-segment sales	(106)	(10)	(19,392)	(558)	(18,850)	(31)	(38,947)
External Sales	<u>760,322</u>	<u>209,990</u>	<u>122,677</u>	<u>261,915</u>	<u>187,640</u>	<u>886</u>	<u>1,543,430</u>
Results							
Segment Results	<u>88,854</u>	<u>2,415</u>	<u>37,618</u>	<u>3,290</u>	<u>43,081</u>	<u>577</u>	175,835
Unallocated corporate expenses							(1,053)
Interest income							19,920
Dividend income							446
Deficit on revaluation of properties	—	—	(42,164)	—	—	—	(42,164)
Profit from operations							152,984
Interest expenses							(33,613)
Share of results of associates	(1,126)	—	—	(235)	(1,912)	—	(3,273)
Share of results of jointly controlled entities	2	—	(20)	—	—	—	(18)
Profit before taxation							116,080
Taxation							(28,693)
Profit before minority interests							87,387
Minority Interests							(12,202)
Net profit for the period							<u>75,185</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**2. Turnover (Continued)****(a) By business segment (Continued)**

For the six months ended 30th September, 2002

	Continuing				Discontinued		Group Total by segment HK\$'000
	Building services and engineering HK\$'000	Motor vehicle and other trading HK\$'000	Property and hotel HK\$'000	IT and business machines trading and servicing HK\$'000	Insurance business and others HK\$'000	Telecom- munication services and general merchandise HK\$'000	
Turnover							
Total Turnover	752,822	222,806	139,134	282,171	222,816	59,928	1,679,677
Inter-segment sales	(120)	—	(23,067)	(1,950)	(23,868)	(228)	(49,233)
External Sales	<u>752,702</u>	<u>222,806</u>	<u>116,067</u>	<u>280,221</u>	<u>198,948</u>	<u>59,700</u>	<u>1,630,444</u>
Results							
Segment Results	<u>55,702</u>	<u>6,003</u>	<u>39,122</u>	<u>6,999</u>	<u>20,181</u>	<u>(10,673)</u>	117,334
Unallocated Corporate expenses							(1,719)
Interest income							12,742
Dividend income							94
Deficit on revaluation of properties	—	—	(6,996)	—	—	—	(6,996)
Profit from operations							121,455
Interest expenses							(21,250)
Share of results of associates	(1,522)	—	45	1,862	(2,815)	—	(2,430)
Share of results of jointly controlled entities	(7,409)	—	(24)	—	—	—	(7,433)
Profit before taxation							90,342
Taxation							(23,429)
Profit before minority interests							66,913
Minority Interests							(4,465)
Net profit for the period							<u>62,448</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**2. Turnover** (Continued)*(b) By geographical segment*

	Six months ended 30th September, HK\$'Million Turnover	
	2003	2002
Hong Kong	1,039	1,131
Mainland China	83	117
Singapore	92	86
Thailand	59	57
Canada	171	188
U.S.A.	50	45
Europe	29	—
United Arab Emirates	14	—
Others	6	6
	<u>1,543</u>	<u>1,630</u>

3. Profit from Operations

	Six months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000
Profit from operations before finance costs is arrived at after charging:		
Cost of inventories recognised as expenses	430,132	480,616
Depreciation on property, plant and equipment	29,316	29,171
Staff costs including directors' emoluments	262,399	258,226
Less: Amount capitalised to contract work	<u>(15,167)</u>	<u>(11,436)</u>
	247,232	246,790
Operating lease payments in respect of leasing of:		
Premises	6,859	17,248
Others	<u>502</u>	<u>328</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**4. Taxation**

	Six months ended 30th September,	
	2003	(Restated) 2002
	HK\$'000	HK\$'000
The Company and subsidiaries		
Hong Kong	24,849	14,407
Overseas	4,624	10,346
Deferred Taxation	(1,292)	(1,674)
Associates		
Hong Kong	520	350
Overseas	(8)	—
	<u>28,693</u>	<u>23,429</u>

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the period. Provision for overseas taxation is calculated based on the applicable local legislation on the estimated assessable profits of the individual company concerned.

The charge in accounting policy in accordance with SSAP12 (revised) "Income taxes" has been applied retrospectively and comparative have been restated.

5. Interim dividend

	Six months ended 30th September,	
	2003	2002
	HK\$'000	HK\$'000
Interim dividend		
HK\$10 cents per share on 275,708,398		
(2002: HK\$7.5 cents per share on 261,215,792 shares)	<u>27,571</u>	<u>19,591</u>

6. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30th September,	
	2003	(Restated) 2002
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share	<u>75,185</u>	<u>62,448</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**6. Earnings Per Share** (Continued)

	Number of shares	
	'000	'000 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	265,392	255,022
Effect of dilutive potential ordinary shares:		
Share options (Note)	—	703
	<u> </u>	<u> </u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>265,392</u>	<u>255,725</u>

Basic earnings per share is calculated based on the profit for the period of HK\$75,185,000 (2002: HK\$62,448,000) and on the weighted average number of 265,392,000 (2002: 255,022,000) ordinary shares issued, which have been adjusted for the consolidation of the Company's ordinary shares during the period.

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.

Note: Diluted earnings per share did not assume the exercise of certain outstanding share options as the exercise price was higher than the fair value per share in last period.

7. Property, plant and equipment

For the six months ended 30th September, 2003, the Group acquired property, plant and equipment of HK\$11,771,000 and disposal of property, plant and equipment of HK\$12,205,000.

8. Debtors, deposits and prepayments

The ageing analysis of trade debtors is as follows:

	Balance at 30th September, 2003 HK\$'000	Balance at 31st March, 2003 HK\$'000
0 — 60 days	604,165	628,833
61 — 90 days	26,310	28,492
Over 90 days	42,587	31,474
	<u> </u>	<u> </u>
Total	<u>673,062</u>	<u>688,799</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**9. Creditors, deposits and accruals**

The ageing analysis of trade creditors is as follows:

	Balance at 30th September, 2003 HK\$'000	Balance at 31st March, 2003 HK\$'000
0— 60 days	108,636	134,560
61— 90 days	6,898	8,825
Over 90 days	67,783	73,272
Total	183,317	216,657

10. Share Capital

	Number of ordinary shares in issue	Nominal Value HK\$'000
Authorised		
At 1st April 2003	1,700,000,000	425,000
Consolidation of shares	<i>Note</i> (1,360,000,000)	—
Increase	200,000,000	250,000
As at 30th September 2003	540,000,000	675,000
Issued and fully paid		
At 1st April 2003	1,309,231,865	327,308
Consolidation of shares	<i>Note</i> (1,047,385,492)	—
Share issue on exercise of share options	6,830,000	8,537
As at 30th September 2003	268,676,373	335,845

Note: Pursuant to a special resolution passed at a special general meeting of the shareholder of the Company on 5th June, 2003, every five issued and unissued shares of HK\$0.25 each are consolidated into one ordinary share of HK\$1.25 each.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (Continued)**11. Contingent liabilities**

As at 30th September, 2003, the Group had the following contingent liabilities and commitments:

- (a) The Company had contingent liabilities in respect of counter-indemnities given to bankers and insurance institutions for their guarantees amounting to approximately HK\$257,200,000 (31st March, 2003: HK\$303,700,000) issued in respect of the Group's performance for maintenance and remedial work for Private Sector Participation Scheme projects completed by the Group.
- (b) The Company issued guarantees for banking facilities utilised and performance bonds extended to its subsidiaries, associates and jointly controlled entity amounting to HK\$874,852,000 (31st March, 2003: HK\$878,615,000) and HK\$384,641,000 (31st March, 2003: HK\$419,835,000).
- (c) The Company had contingent liabilities of HK\$2,542,000 (31st March, 2003: HK\$3,349,000 in respect of guarantees given to its subsidiary and jointly controlled entity for hire-purchase of equipment.

12. Operating lease

The Group as lessee

The Group had future minimum lease payments under non-cancellable operating leases as follows:

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK'000</i>
Leases which expire:		
Within one year	2,659	4,993
In the second to fifth years inclusive	819	438
	3,478	5,431

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

The Group as lessor

The Group had future minimum lease payments receivable under non-cancellable operating leases as follows:

	30th September, 2003	31st March, 2003
	<i>HK\$'000</i>	<i>HK'000</i>
Leases which expire:		
Within one year	39,836	48,869
In the second to fifth years inclusive	13,633	21,438
	53,469	70,307

The lease terms ranged from one year to six years.

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 HK10 cents (2002 (restated): HK7.5 cents) per share for the six months ended 30th September, 2003 payable to shareholders whose names appear on the Register of Members of the Company on Friday, 16th January, 2004.

The Directors have also resolved that the interim dividend should be paid on Tuesday, 24th February, 2004 in cash, with shareholders being given an option to receive shares of HK\$1.25 each (“New Shares”) in the Company in lieu of cash in respect of part or all of such dividend (“Scrip Dividend Scheme”). The number of New Shares will be calculated on the basis of the average closing prices per share of the Company on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) for the five consecutive trading days from Monday, 12th January, 2004 to Friday, 16th January, 2004, less a discount of 5%. A circular giving full details of the Scrip Dividend Scheme and a form of election will be sent to shareholders on or around Monday, 2nd February, 2004. The Scrip Dividend Scheme is conditional upon the Stock Exchange granting the listing of and permission to deal in the New Shares to be issued.

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 Group recorded a prominent improvement in profit attributable to shareholders despite a mild decrease in turnover from HK\$1.6 billion to HK\$1.5 billion. Profit for the period advanced from HK\$62.5 million in 2002 to HK\$75.2 million, representing 20% growth. The improvement in performance of the Group witnessed the success of the management and the employees’ dedicated effort to weather the economic crisis during the past few years and enhance value to shareholders. Most of the divisions had demonstrated significant progress especially building services and engineering, insurance and cold storage. The contribution from Chevalier iTech Holdings Limited (“CiTL”), the 50.8% subsidiary company, also improved after undergoing series of restructuring.

Building Services and Engineering

In spite of the difficult business environment, the lifts and escalators division maintained a steady growth in terms of both turnover and profit. After the establishment of the technical support in Australia and the completion of several major contracts, the curtain wall division, in particular, has been successfully established itself in the industry as a leading engineering company providing advanced technical solution to those infrastructure and building contracts. The performance of the electrical and mechanical engineering division improved after strengthening its management team and control system.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Building Services and Engineering (Continued)

In 2003, Preussag Pipe Rehabilitation Hong Kong Limited (“PPRHK”) was awarded various contracts from public and private sectors, for instance, slope drain project by Hong Kong Housing Authority, sewage main rehabilitation project by Hong Kong Airport Authority and water main project by Drainage Services Department. Chevalier-PRS (Asia) Holdings Limited (“CPA”) successfully finished a trial job in Nanjing, China in October 2003. In addition, 40 km projects in Singapore and 4.3 km projects in United Arab Emirates, Middle East were completed. To further strengthen the strong foothold in the Trenchless Pipe Rehabilitation Technology, the Group increased its equity interest in NordiTube Technologies AB to 53% and that in Rib Loc Group Limited to 30.8%. In order to establish a stronger presence in European market, CPA acquired interests in KMG Kanal-Müller-Gruppe GmbH, a major contractor in Europe for trenchless pipe rehabilitation business. Although the Company need some time to introduce the trenchless pipe relining technology in the Mainland market, the market potential is very promising. With the launch of the tenders from the HKSAR Government in the near future, PPRHK may substantially increase its business volume in the coming years. The management is confident with the “No-Dig” pipe rehabilitation business not only in Hong Kong market, but also in those mature market such as Europe and Australia in the future.

Regarding the business in the environmental engineering division, the project at Tai Po Water Treatment Plant was completed in this year but will be finalised in 2005. During the period, the Division was awarded a contract for replacement of mechanical and electrical equipment in Tsuen Wan Raw Water Pumping Station and a contract for supply of equipment and material for Recycling Water Plant of Baotou, Mongolia, PRC.

Insurance and others

The growth in insurance business was held up in the period under review due to keen competition. However, the overall result was much better than that of same period last year. Turnover reached HK\$85 million while the underwriting profit and investment income recorded HK\$15.6 million and HK\$14.6 million respectively during the period under review.

The logistics and warehousing business continued its steady trend in contributing income and generating cash to the Group. The Group has diversified its business through investment in printing business under the name of K2 Printing Company Limited, a 49% associated company. It provides a wide range of printing and digital printing of magazines, books, catalogues, posters and other commercial printed matters.

Property and Hotel Investment

The Group’s luxury residential property in Shanghai, Chevalier Place, maintained an occupancy rate of over 80%. On the other hand, the property investments in Hong Kong and Singapore generated a steady rental of about HK\$27 million during the period under review. However, the Group continues its conservative policy and has provided a sum of HK\$42 million for the diminution in value of those properties.

The property division has been maintaining sizable management contracts from both the public and private residential, commercial and industrial buildings. The number of contracts continues to grow and the Group has already established an excellent reputation in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Property and Hotel Investment *(Continued)*

Although the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the first half of 2003 affected the hotel business in the Mainland, the overall results improved in the third quarter. The occupancy rates of Chevalier Hotels in Xinyang and Dongguan have shown a slight decrease whilst the four-star hotel in Jiujiang maintained at 70%, especially during the Golden Week of October, this year. The overall performance of the Rosedale on Robson Suite Hotel located at the centre of Vancouver’s business district was stable during the period under review.

Motor Vehicles and other tradings

During the period, operating profit of the automobile business in Canada declined substantially because of the keen competition and the slow down in the auto industry. The turnover, however, maintained as compared with the same period last year.

The trading and distribution of food and grocery business in the West Coast of the US maintained after strong growth in the last two years. The Group is seeking to expand its existing business to other areas in North America.

IT business machines trading and servicing

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 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.

Privatisation of Chevalier Singapore Holdings Limited (“CSHL”)

On 25th April, 2003, the Company had privatised CSHL by offering S\$0.38 in cash for every share of CSHL. On 5th June, 2003, the right of compulsory acquisition was exercised pursuant to the Companies Act of Singapore and thereafter CSHL officially became a wholly-owned subsidiary of the Company. CSHL was delisted from the Official List of Singapore Exchange Securities Trading Limited with effect from 11th June, 2003 and its name has changed to “Chevalier Singapore Holdings Pte. Ltd.” with effect from 20th June, 2003. The existing business and operation of CSHL remain unchanged.

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\$0.25 each into one new share of HK\$1.25 each in the share capital of the Company.

PROSPECTS

After years of sluggishness, the economic environment in the US has shown some signs of improvement with the third quarter GDP growth reached a record of 8.2%, the fastest pace in nearly 20 years. Business investment is beginning to show signs of life, corporate earnings are better than expected and consumers have continued to spend. In general, the upward momentum of the economy should be able to sustain in 2004.

In Hong Kong, the economy was hard hit by the outbreak of the SARS and has slumped into a recession with seasonally adjusted real GDP shrinking 3.7% in the second quarter of 2003. After the PRC government implemented a series of measures to bolster Hong Kong's economy, confidence has improved dramatically. The liquidity being brought into Hong Kong by an influx of Mainland tourists and other measures is believed to be substantial. The continued inflow of liquidity has definitely brought about the growth in money supply and expansion in direct investment. Latest data shows that the economy recovery in third quarter has gradually filtered into the labour market with unemployment edged down to 8% in October this year. In addition, the local consumer spending also recorded an increase of 2% and the investment spending has also improved. The overall business environment in Hong Kong has turned positive and such strong recovery is expected to follow through in 2004.

We believe that the worst is over for Hong Kong's economy. However, the Group remains cautious in adjusting its business strategy even though the first half year result is much better than that of last year. The management will continue its policy to oversee its resources, control its operating expenses and strengthen the existing business. With the commitment from both the management and the employees, the Board is optimistic on the Group's performance in the financial year 2003/04.

SUBSEQUENT EVENT

Proposed Privatisation of Chevalier Construction Holdings Limited ("CCHL")

On 31st October, 2003, the Company proposed to privatise CCHL, an associated company of the Company, by way of a scheme of arrangement under section 99 of the Bermuda Companies Act (the "Proposal") at the cancellation price of HK\$0.25 per scheme share (the "Scheme Share(s)"). The making of the Proposal was duly approved by the Company's independent shareholders at the special general meeting of the Company on 5th December, 2003. Subject to the approval of the scheme shareholders in the Court Meeting and the special general meeting of CCHL which is expected to be held in January, 2004, all the Scheme Shares will be cancelled and CCHL will become a wholly-owned subsidiary of the Company. CCHL will then apply to the Stock Exchange for the withdrawal of the listing of its shares.

FINANCIAL REVIEW

As at 30th September, 2003, the Group's total net assets amounted to approximately HK\$2,334 million (HK\$2,244 million as at 31st March, 2003).

As at 30th September, 2003, total debt to equity ratio was 56% (59.3% as at 31st March, 2003) and net debt to equity ratio was 14.5% (20% 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\$2,334 million (HK\$2,244 million as at 31st March, 2003).

FINANCIAL REVIEW (Continued)

As at 30th September, 2003, the Group's bank and other borrowings amounted to HK\$1,306 million (HK\$1,330 million as at 31st March, 2003) while cash and deposit at bank including pledged deposits amounted to approximately HK\$969.1 million (HK\$872.1 million as at 31st March, 2003) and net borrowings amounted to HK\$333 million (HK\$454 million as at 31st March, 2003). Most of the borrowings are carrying floating interest rates based on Hong Kong Interbank Offering Rates, with small portions based on Prime Rate. Among those floating rate loans, HK\$650 million are hedged to fixed rates through Interest Rate Swap Agreements (HK\$400 million as at 31st March, 2003).

Finance costs for the period amounted to HK\$33.6 million (HK\$21.3 million for the same period last year).

The Company has provided guarantees in respect of loan facilities granted to subsidiaries, associate and jointly controlled entities amounting to HK\$875 million (HK\$879 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 Securities and Futures Ordinance ("the SFO"), which have been 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 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	Number of ordinary shares			Total	Approximate percentage of interest (%)
	Personal interests	Corporate interests	Family interests		
CHOW Yei Ching	132,512,351*	—	—	132,512,351*	49.32
KUOK Hoi Sang	98,216	—	—	98,216	0.04
FUNG Pak Kwan	91,290	—	—	91,290	0.03
KAN Ka Hon	29,040	—	—	29,040	0.01
TAM Kwok Wing	169,015	—	32,473	201,488	0.07

* Dr. Chow Yei Ching beneficiary owned 132,512,351 shares in the Company, representing approximately 49.32% of shares in the Company. These shares were same as those shares described in "Substantial Shareholders' Interests in Securities" below.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES*(Continued)***(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	CiTL	6,815,854	86,994,933*	—	93,810,787	54.75
	CCHL	61,036,489	89,385,444*	—	150,421,933	60.41
KUOK Hoi Sang	CiTL	2,400,000	—	—	2,400,000	1.40
	CCHL	1,326,437	—	—	1,326,437	0.53
FUNG Pak Kwan	CiTL	2,580,000	—	—	2,580,000	1.50
KAN Ka Hon	CiTL	451,200	—	—	451,200	0.26
TAM Kwok Wing	CiTL	400,000	—	10,400	410,400	0.24
	CCHL	625,796	—	7,142	632,938	0.26

* *Dr. Chow had notified CiTL and CCHL that under the SFO, he was deemed to be interested in 86,994,933 shares in CiTL and 89,385,444 shares in CCHL, which were all held by the Company as Dr. Chow beneficially owned 132,512,351 shares in the Company, representing approximately 49.32% of shares in the Company.*

Save as disclosed above, so far as is known to the Directors and the chief executives of the Company, as at 30th September, 2003, 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 CiTL adopted share option schemes on 30th September, 1991 (“the Old CIHL Scheme and Old CiTL Scheme respectively”). These schemes have been expired on 29th September, 2001 and no further options may be granted under the Old CIHL Scheme and Old CiTL 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)	Exercised during the period	Number of share options			Outstanding as at 30th September, 2003
						Cancelled during the period	Lapsed during the period	Disposed of during the period	
CHOW Yei Ching	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,690,000	—	—	—	1,690,000	—
KUOK Hoi Sang	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,070,000	—	—	—	1,070,000	—
FUNG Pak Kwan	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,070,000	—	—	—	1,070,000	—
KAN Ka Hon	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,000,000	—	—	—	1,000,000	—
WONG Kie Ngok, Alexander	17/12/1999	30/06/2000 — 29/06/2003	2.44	1,000,000	—	—	—	1,000,000	—
TAM Kwok Wing	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.

(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	
CHOW Yei Ching	CiTL	17/12/1999	30/06/2000 — 29/06/2003	2.32	1,400,000	—	—	1,400,000	—
KUOK Hoi Sang	CiTL	17/12/1999	30/06/2000 — 29/06/2003	2.32	1,000,000	—	—	1,000,000	—
FUNG Pak Kwan	CiTL	17/12/1999	30/06/2000 — 29/06/2003	2.32	1,310,000	—	—	1,310,000	—
KAN Ka Hon	CiTL	17/12/1999	30/06/2000 — 29/06/2003	2.32	1,000,000	—	—	1,000,000	—

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

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

Note: The exercise price per option and the numbers of share options of the Company and CiTL subject to the Old CIHL Scheme and the Old CiTL 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 CIHL Scheme”) was approved by the shareholders of the Company at the 2002 Annual General Meeting of the Company held on 20th September, 2002. Another share option scheme of CiTL (“the CiTL Scheme”) was also approved by the shareholders of CiTL and the shareholders of the Company at their respective 2002 Annual General Meetings held on 20th September, 2002. The CIHL Scheme and the CiTL 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 CIHL Scheme and the CiTL 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	132,512,351	49.32
MIYAKAWA Michiko (Note)	132,512,351	49.32

Note: 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.

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 schemes adopted by the Company and CiTL at no time during the period was the Company or any of its 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 4,200 full time staff globally. Total staff costs amounted to HK\$262 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 WONG Wang Fat, Andrew and CHOW Ming Kuen, Joseph, 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 bumpy 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 and Managing Director

Hong Kong, 18th December, 2003

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