



CHEVALIER CONSTRUCTION HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM REPORT 2003-2004

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2003

		Unaudited	
		Six months ended	
		30th September	
		2003	2002
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	151,002	87,235
Cost of sales		(142,567)	(79,568)
Gross profit		8,435	7,667
Other revenue		1,568	718
Administrative expenses		(3,352)	(4,332)
Other operating expenses		(1,270)	(327)
Profit from operations	3	5,381	3,726
Finance costs		—	(14)
Share of results of an associate		588	1,028
Share of results of jointly controlled entities		(2,062)	(363)
Profit before taxation		3,907	4,377
Taxation	4	(1,450)	(165)
Profit before minority interest		2,457	4,212
Minority interest		(23)	25
Net profit for the period		2,434	4,237
Interim dividends		—	—
Earnings per share			
Basic	5	0.98 cents	1.70 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th September, 2003

	Unaudited 30th September 2003 HK\$'000	Audited 31st March 2003 HK\$'000
Non-current assets		
Property, plant and equipment	11,286	11,675
Interests in an associate	7,422	6,937
Interests in jointly controlled entities	11,969	8,531
	30,677	27,143
Current assets		
Amounts due from customers for contract work	135,101	160,594
Trade and other debtors, deposits and prepayments	154,896	272,755
Retention money receivable	39,412	57,651
Investments in securities	31,086	47,241
Bank balances and cash	133,226	58,235
	493,721	596,476
Current liabilities		
Amounts due to customers for contract work	7,421	3,619
Creditors, deposits and accruals	360,111	446,429
Retention money payable	69,413	88,751
Tax provision	7,393	7,217
	444,338	546,016
Net current assets	49,383	50,460
Total assets less current liabilities	80,060	77,603
Non-current liability		
Deferred taxation	527	527
Minority interest	701	678
	78,832	76,398
Capital and reserves		
Share capital	24,900	24,900
Reserves	53,932	51,498
	78,832	76,398

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2003

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Capital Reserve <i>HK\$'000</i>	Retained Profits (Deficit) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 1st April 2003	24,900	1,856	56,942	(7,300)	76,398
Net profit for the six months ended 30th September, 2003	—	—	—	2,434	2,434
Balance at 30th September 2003	<u>24,900</u>	<u>1,856</u>	<u>56,942</u>	<u>(4,866)</u>	<u>78,832</u>
Balance at 1st April 2002	24,900	1,856	56,942	(14,718)	68,980
Net profit for the six months ended 30th September, 2002	—	—	—	4,237	4,237
Balance at 30th September 2002	<u>24,900</u>	<u>1,856</u>	<u>56,942</u>	<u>(10,481)</u>	<u>73,217</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2003

	Unaudited Six months ended 30th September 2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash from operating activities	64,364	56,489
Net cash from investing activities	13,627	949
Net cash used in financing activities	(3,000)	(60)
Net increase in Cash and Cash equivalents	74,991	57,378
Cash and Cash Equivalents at beginning of period	58,235	55,872
Cash and Cash Equivalents at end of period	<u>133,226</u>	<u>113,250</u>
Analysis of the balances of Cash and Cash Equivalents		
Cash and bank balances	133,226	113,252
Bank overdrafts	—	(2)
	<u>133,226</u>	<u>113,250</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2003

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. The adoption of this standard has had no material effect on the results for the current or prior accounting periods of the Group and accordingly, no prior period adjustment is required.

NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)***2. Segment Information**

Turnover and segment information for the six months ended 30th September, 2003

	Building construction & maintenance <i>HK\$'000</i>	Civil engineering <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
TURNOVER			
External sales	<u>56,803</u>	<u>94,199</u>	<u>151,002</u>
RESULT			
Segment results	<u>8,712</u>	<u>(2,817)</u>	5,895
Unallocated corporate expenses			(1,551)
Interest income			1,519
Net unrealised loss on other investment			<u>(482)</u>
Profit from operations			5,381
Share of result of an associate			588
Share of results of jointly controlled entities	14	(2,076)	<u>(2,062)</u>
Profit before taxation			3,907
Taxation			<u>(1,450)</u>
Profit before minority interest			<u>2,457</u>

All activities of the Group were carried out in Hong Kong.

NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)***2. Segment Information** *(Continued)*

Turnover and segment information for the six months ended 30th September, 2002

	Building construction & maintenance <i>HK\$'000</i>	Civil engineering <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
TURNOVER			
External sales	<u>34,095</u>	<u>53,140</u>	<u>87,235</u>
RESULT			
Segment results	<u>5,325</u>	<u>(1,043)</u>	4,282
Unallocated corporate expenses			(1,274)
Interest income			<u>718</u>
Profit from operations			3,726
Interest expenses			(14)
Share of result of an associate			1,028
Share of results of jointly controlled entities	(228)	(135)	<u>(363)</u>
Profit before taxation			4,377
Taxation			<u>(165)</u>
Profit before minority interest			<u>4,212</u>

All activities of the Group were carried out in Hong Kong.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**3. Profit From Operations**

	Six months ended	
	30th September	
	2003	2002
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation on property, plant and equipment	993	1,002
<i>Less:</i> Amount capitalised to contract work	(737)	(593)
	256	409
Operating lease charges:		
Premises	856	1,231
Plant and machinery	35,269	17,365
<i>Less:</i> Amount capitalised to contract work	(35,269)	(17,365)
	856	1,231
Staff costs, including directors' emoluments	17,913	24,713
<i>Less:</i> Amount capitalised to contract work	(11,186)	(13,592)
	6,727	11,121

4. Taxation

	Six months ended	
	30th September	
	2003	2002
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax:		
The Company and subsidiaries	1,347	—
Associate	103	165
Jointly controlled entities	—	—
	1,450	165

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits of each individual company comprising the Group. No provision for Hong Kong Profits Tax in the prior period had been made as the assessable profit of the Company and its subsidiaries were wholly absorbed by tax losses brought forward.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**5. Earnings Per Share**

The calculation of the basic earnings per share is based on the net profit for the period of HK\$2,434,000 (2002: HK\$4,237,000) and on 249,000,000 (2002: 249,000,000) shares in issue during the period.

Diluted earnings per share is not presented as there is no outstanding options during the period and the same period of last year.

6. Trade and Other Debtors, Deposits and Prepayments

Interim application for progress payments on construction contracts are normally on a monthly basis and settled according to contract terms.

Included in trade and other debtors, deposits and prepayments are trade receivables of HK\$102,539,000 (31st March, 2003: HK\$165,213,000) with an aged analysis as follows:

	Balance at 30th September 2003 HK\$'000	Balance at 31st March 2003 HK\$'000
0 — 60 days	38,417	40,264
61 — 90 days	—	4
>90 days	<u>64,122</u>	<u>124,945</u>
	<u>102,539</u>	<u>165,213</u>

7. Investments in Securities

	Balance at 30th September 2003 HK\$'000	Balance at 31st March 2003 HK\$'000
Other investments		
Unlisted investments in mutual fund and bonds, at fair value	<u>31,086</u>	<u>47,241</u>

8. Creditors, Deposits and Accruals

Included in creditors, deposits and accruals are trade payables of HK\$93,393,000 (31st March, 2003: HK\$101,443,000) with an aged analysis as follows:

	Balance at 30th September 2003 HK\$'000	Balance at 31st March 2003 HK\$'000
0 — 60 days	32,959	48,363
61 — 90 days	10,860	10,650
>90 days	<u>49,574</u>	<u>42,430</u>
	<u>93,393</u>	<u>101,443</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS *(Continued)***9. Commitments and Contingent Liabilities**

As at the balance sheet date, there were:

- (a) Rentals payable by the Group for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Premises		Plant, barges and dredgers	
	30th September 2003 HK\$'000	31st March 2003 HK\$'000	30th September 2003 HK\$'000	31st March 2003 HK\$'000
Within one year	1,569	1,761	3,967	4,216
In the second to fifth year inclusive	376	1,128	—	—
	1,945	2,889	3,967	4,216

Leases on premises are negotiated for an average term of one to two years with fixed monthly rentals over the terms of the leases.

- (b) Guarantees issued by the Company to the extent of approximately HK\$14,975,000 (31st March, 2003: HK\$14,975,000) and HK\$2,500,000 (31st March, 2003: HK\$2,500,000) to insurance companies and financial institutions as security in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the subsidiaries and a jointly controlled entity, respectively.
- (c) The Group and certain contractors had undertaken to provide guarantees for rectification of defects in favour of an employer in connection with the work performed for a project.

INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th September, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September, 2003, the Group has maintained a substantial growth in turnover to HK\$151 million representing 73% increase compared with same period last year (2002: HK\$87 million). Operating profit increased to HK\$5.4 million (2002: HK\$3.7 million). However, after sharing results of jointly controlled entities, profit attributable to shareholders was HK\$2.4 million (2002: HK\$4.2 million) and earnings per share was HK0.98 cent (2002: HK1.7 cents).

Despite the difficult market condition especially in the private sector due to the excessive supply in the property market, the Group has successfully bid for several contracts from the HKSAR Government. As of 30th September, 2003, value of building construction and civil engineering contracts on hand for the Group amounted to approximately HK\$385 million and HK\$110 million respectively.

Construction Projects

During the period under review, the Group was awarded the contract by Architectural Services Department to build the International Wetland Park in Tin Shui Wai, New Territories. The project included all the associated building service installations, drainage works, utility connection and pavement works of the Park. It is expected that the project will be completed in late 2004. Upon completion, it will be an important ecological tourist attraction spot in Hong Kong embodying conservation, education and recreation in one place.

A new contract for the construction of a Primary School and a Secondary School in Area 16, Kau Hui, Yuen Long, New Territories was awarded during the period under review. It included the construction of a 8-storey V-shaped primary school building and a L-shaped secondary school building with 30 classrooms and associated facilities respectively. The work was commenced in September, 2003 and is expected to be completed in 2005.

Subsequent to the period under review, another new contract for the construction of a Primary School and a Secondary School in Area 104, Tin Shui Wai, New Territories was added to the order book of the Group. It included the construction of a 8-storey L-shaped primary school building and a U-shaped secondary school building with 30 classrooms and associated facilities respectively. Construction work was commenced in October, 2003 and is also expected to be completed in 2005.

Construction of Lam Tin Primary School at Kwun Tong was completed in June, 2003.

Civil Engineering Projects

During the period under review, contracts on hand were the Construction of Seawalls and Reclamation at Tseung Kwan O Port Development at Area 137, Stage 2 and Jordan Road Reclamation Phase III and Remaining Engineering Works.

Other Business

The performance of the joint-venture concrete business slowed down when compared with the same period last year due to competition from suppliers.

PROSPECTS

With the outbreak of Severe Acute Respiratory Syndrome, Hong Kong economy has slumped into a recession in the second quarter of 2003. Although there was signs of recovery in the third quarter of 2003, the property market in Hong Kong still remained sluggish especially with ample supply of new flats. Furthermore, the HKSAR government has committed to reduce the fiscal deficit, albeit at a slower pace. These continue to pose a drag on investment spending on building and construction and the rebound in the construction industry is not likely to come about in the near term.

Looking ahead, the Group will continue to adopt its prudent cost control measures to enhance cost-effectiveness and competitiveness and well manage the projects on hand. In addition, the Group will also manage its cash resources cautiously and effectively in order to enhance its return. We certainly believe that with sound professional management and dedicated work force, the Company will be able to meet the turnaround of the construction industry in the future.

SUBSEQUENT EVENT

Proposed Privatisation of the Company

On 31st October, 2003, Chevalier International Holdings Limited (“CIHL”) proposed to privatise 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 CIHL independent shareholders at the special general meeting of CIHL on 5th December, 2003. Subject to the approval of the scheme shareholders in the Court Meeting and the special general meeting of the Company which is expected to be held in January, 2004, all the Scheme Shares will be cancelled and the Company will become a wholly-owned subsidiary of CIHL. The Company will then apply to The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) for the withdrawal of the listing of its shares.

FINANCIAL REVIEW

As at 30th September, 2003, the Group’s total net asset amounted to approximately HK\$79 million (HK\$76 million as at 31st March, 2003).

As at 30th September, 2003, total debt to equity ratio was nil (Nil as at 31st March, 2003) and net debt to equity ratio was nil (Nil as at 31st March, 2003), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net asset of HK\$79 million (HK\$76 million as at 31st March, 2003).

As at 30th September, 2003, the Group’s bank and other borrowings was nil (Nil as at 31st March, 2003) while cash and deposit at bank amounted to approximately HK\$133 million (HK\$58 million as at 31st March, 2003).

Finance costs for the period was nil (HK\$14,000 for the same period last year), a decrease of HK\$14,000 as compared with the same period last year resulting from the repayment of finance lease.

The Company has provided guarantees in respect of loan facilities granted to subsidiary companies amounting to HK\$6 million (HK\$6 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. 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 the 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 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	61,036,489	89,385,444 *	—	150,421,933	60.41
KUOK Hoi Sang	1,326,437	—	—	1,326,437	0.53
TAM Kwok Wing	625,796	—	7,142	632,938	0.26

* *Dr. Chow Yei Ching has notified the Company that under the SFO, he was deemed to be interested in 89,385,444 shares of the Company which were all held by CIHL as Dr. Chow beneficiary owned 132,512,351 shares in CIHL, representing approximately 49.32% of shares in CIHL. Dr. Chow was deemed to be interested in these shares under the SFO and 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	CIHL	132,512,351	—	—	132,512,351	49.32
	Chevalier iTech Holdings Limited ("CiTL")	6,815,854	86,994,933*	—	93,810,787	54.75
KUOK Hoi Sang	CIHL	98,216	—	—	98,216	0.04
	CiTL	2,400,000	—	—	2,400,000	1.4
TAM Kwok Wing	CIHL	169,015	—	32,473	201,488	0.07
	CiTL	400,000	—	10,400	410,400	0.24

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

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

CIHL 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’s associated corporations were as follows:

Name of Director	Associated corporations	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$) (note)	Number of share options					
					Balance as at 1st April, 2003 (note)	Exercised during the period	Cancelled during the period	Lapsed during the period (note)	Disposed of during the period (note)	Outstanding as at 30th September, 2003
CHOW Yei Ching	CIHL	17/12/1999	30/06/2000— 29/06/2003	2.44	1,690,000	—	—	—	1,690,000	—
	CiTL	17/12/1999	30/06/2000— 29/06/2003	2.32	1,400,000	—	—	1,400,000	—	—
KUOK Hoi Sang	CIHL	17/12/1999	30/06/2000— 29/06/2003	2.44	1,070,000	—	—	—	1,070,000	—
	CiTL	17/12/1999	30/06/2000— 29/06/2003	2.32	1,000,000	—	—	1,000,000	—	—
WONG Kie Ngok, Alexander	CIHL	17/12/1999	30/06/2000— 29/06/2003	2.44	1,000,000	—	—	—	1,000,000	—
TAM Kwok Wing	CIHL	17/12/1999	30/06/2000— 29/06/2003	2.44	1,000,000	—	—	—	1,000,000	—

Note: The exercise price per option and the numbers of share options in CIHL and CiTL subject to the Old CIHL Scheme and Old CiTL Scheme respectively have been adjusted for the five into one share consolidation which became effective on 6th June, 2003.

As at 30th September, 2003, the Directors disposed of their entire interests in the options granted to them under the Old CIHL Scheme.

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

A share option scheme of CIHL (“the CIHL Scheme”) was approved by the shareholders of CIHL at the 2002 Annual General Meeting of CIHL held on 20th September, 2002. Another share option scheme of CiTL (“the CiTL Scheme”) was also approved by the shareholders of CIHL and CiTL at their respective 2002 Annual General Meeting 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 (<i>Notes 1 and 3</i>)	150,421,933	60.41
MIYAKAWA Michiko (<i>Notes 2 and 3</i>)	150,421,933	60.41
CIHL (<i>Note 3</i>)	89,385,444	35.90
Chevalier (HK) Limited ("CHK") (<i>Note 3</i>)	16,736,674	6.72
Firstland Company Limited ("Firstland") (<i>Note 3</i>)	16,736,674	6.72

Notes:

- These shares were held by Dr. Chow as (i) personal interests of 61,036,489, (ii) corporate interests of 89,385,444 in which Dr. Chow is deemed to be interested in (ii) under the SFO.*
- 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.*
- These shares of 16,736,674 were held by Firstland, a company incorporated in Hong Kong and a wholly-owned subsidiary of CHK. CHK is a company incorporated in Hong Kong and a wholly-owned subsidiary of CIHL. CIHL is a company incorporated in Bermuda. CHK, CIHL, Dr. Chow and his spouse were deemed to be interested in 16,736,674 shares under Part XV of the SFO.*

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 or debentures of the Company 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 scheme adopted by the Company, 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 120 full time staff in Hong Kong. Total staff costs amounted to approximately HK\$18 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 SUN Kai Dah, George and Du Shue Chu, 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 difficult 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

Hong Kong, 18th December, 2003

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