

## Chairman's Statement

### MANAGEMENT DISCUSSION AND ANALYSIS

The overall performance of the Group during the year under review paled when compared with the previous year. A net profit of HK\$3.8 million was recorded compared with HK\$22.9 million last year. The major setback was the write-down of certain direct investment due to the impairment in value and the unrealized loss arising from marking to market the value of fixed income investment.

Turnover of the Computer and Business Machines Division grew 12.2% to HK\$432 million and segment operating profit increased 123% to HK\$1.6 million. Although the sales of computer equipment grew 25%, it was lower than expected as a result of the business machine market shrinking. The general economic recovery did not appear to have produced a strong enough drive for the traditional business machine sector.

The demand for computer equipment, however, kept on growing prompted by the introduction of new notebook computers at attractive prices.



Dr Chow Yei Ching  
Chairman



Toshiba AV Notebook Computer



E-studio 4511 Digital Colour Copier



OKI Colour Laser Printer

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The results of the Network Solutions and Telecommunication Systems Division greatly improved during the year under review. Although turnover recorded a mild decrease from HK\$119 million to HK\$107 million, the Division turned in profit of HK\$0.5 million compared with the HK\$1.7 million loss last year. During the year, the division was awarded several major contracts which included:

1. a 2-year contract for ELV Maintenance Service of One IFC and the Southern Podium of IFC Mall and Two IFC Podium Shopping Mall;
2. a contract for the design, supply and installation of CCTV Video Storage Solution for MTRC at Two IFC;
3. a 2-year contract for the supply, installation, commissioning and maintenance of the Toshiba Business Telephone System and adjunct products for various HKSAR government departments;
4. the provision of NEC PABX and Peripheral Products to Television Broadcasts Limited's New TV City in Tseung Kwan O; and
5. the provision of residential wireless LAN systems to TownGas Telecom.



PABX System Solution for six-star hotel — Four Seasons Hotel

After experiencing continued downturn during past years, the performance of the Technical and Maintenance Services Division has stabilized with the economy on general recovery. The Division will continue to strive to deliver high quality service to the customers and tightly control its operating expenses.



Mr Mark Leigh, President of AVAYA Asia Pacific, visited Chevalier's Thailand Office



Installation over 1,000 IP endpoints in PTTEP Building — the largest IP Telephony project in Asia Pacific in 2004

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The investment market was volatile during the year, which led to a decline in both turnover and profit of the Group's investment segment. To minimize risk and maximize return, the Group's investment portfolio is weighed more heavily on high-rate structured deposits and debentures. The Group will continue to handle its cash on hand with prudence.



### SUBSEQUENT EVENT

Subsequent to the balance sheet date, the Group acquired the entire issued share capital of Pacific Coffee (Holdings) Limited ("Pacific Coffee") at a total consideration of HK\$205 million of which HK\$60 million was financed by bank borrowings. Pacific Coffee is engaged in the business of trading and retailing of coffee products and operation of coffee shops. The acquisition was completed on 20th May, 2005 and a circular dated 30th June, 2005 was sent to the shareholders of the Company. Pacific Coffee now operates 39 retail outlets in Hong Kong and 6 in Singapore, all of which sell premium roasted whole bean coffees, speciality coffees and coffee-related hardware and supplies. Pacific Coffee also sells its branded products to wholesale accounts and provides coffee services to corporate customers. Besides enabling the Group to capture the fast growing and lucrative specialty coffee business in Hong Kong, the PRC and neighbouring countries, the Board sees the acquisition as another critical move of the Group to diversify its businesses and broaden its income stream.

### PROSPECTS

Global economic growth is expected to moderate in 2005 after the strong surge in 2004. In the US, rising interest rates are expected to slow down economic growth. The recent rises in oil price may also have negative impact on global economic growth. In the Mainland, the macroeconomic control measures implemented by the government to curb excessive investment are expected to cap economic growth rate. While the Hong Kong economy clearly saw an upturn in 2004, the economy remains extremely sensitive to outside factors. In view of the above, the Group will continue to focus on boosting its profitability. It will work on the top line as well as continue to improve its cost and expense structure and overall business efficiency.

The Group is at a turning point in 2005 after years of internal efforts to streamline its businesses and the recent entry into the lifestyle food and beverage market. While the IT business is improving, the latest acquisition of Pacific Coffee has opened the Group to lucrative new business opportunities. The fast growing specialty coffee business is expected to fuel the Group's recurrent income as it starts to generate turnover and profit contribution to the Group in the coming financial year.

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Going forward, the Group sees abundant opportunities for its existing core businesses and its new food and beverage business in Hong Kong, the PRC and other neighbouring countries. Staffed by well-experienced professionals and armed with top-notch expertise, the Group is well positioned to seize those opportunities. We will continue to do our best in meeting our customers' needs, drive profitability growth and create shareholders' value. Our goal is to evolve into a more customer- and market-driven company.



Pacific Coffee shop at Festival Walk

### APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the management and all staff for their concerted effort, commitment and professionalism.

**CHOW Yei Ching**

*Chairman*

Hong Kong, 13th July, 2005

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