



CHEVALIER INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 025)

INTERIM REPORT 2006-2007

INTERIM RESULTS

The Directors of Chevalier International Holdings Limited (the “Company”) are pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2006, together with the comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2006

	<i>Notes</i>	Unaudited	
		Six months ended	
		30th September,	
		2006	2005
		HK\$'000	HK\$'000
Turnover	3	2,508,446	2,744,598
Cost of sales		(2,094,513)	(2,277,155)
Gross profit		413,933	467,443
Other income	4	84,745	83,048
Distribution costs		(161,996)	(137,631)
Administrative expenses		(55,693)	(49,119)
Other expenses		(21,303)	(19,751)
Operating profit		259,686	343,990
Share of results of associates		(1,703)	(2,235)
Share of results of jointly controlled entities		(1,017)	(74)
Finance costs		(57,197)	(34,229)
Profit before taxation	5	199,769	307,452
Income tax expenses	6	(26,751)	(83,414)
Profit for the period		173,018	224,038
Attributable to:			
Equity holders of the Company		160,192	196,341
Minority interests		12,826	27,697
		173,018	224,038
Dividend	7	55,716	105,861
Earnings per share	8		
Basic		57.5 cents	70.5 cents
Diluted		56.0 cents	70.5 cents
Dividend per share			
Interim		20 cents	20 cents
Special		N/A	18 cents

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30th September, 2006*

		Unaudited	Audited
		30th September,	31st March,
		2006	2006
<i>Notes</i>		HK\$'000	HK\$'000
Non-current assets			
Investment properties	9	473,804	469,693
Property, plant and equipment	9	714,458	688,640
Prepaid lease payments		457,111	461,708
Goodwill		212,540	212,540
Other intangible asset		152,675	151,958
Interests in associates		41,901	31,011
Interests in jointly controlled entities		234,810	231,316
Available-for-sale investments		138,285	114,010
Investments at fair value through profit or loss		347,625	325,903
Deferred tax assets		4,351	10,394
		<hr/>	<hr/>
		2,777,560	2,697,173
Current assets			
Inventories		284,549	262,084
Properties for sale		488,285	505,506
Debtors, deposits and prepayments	10	1,271,298	1,085,006
Amounts due from associates		26,411	38,050
Amounts due from jointly controlled entities		220,021	184,510
Amounts due from customers for contract work		395,646	365,761
Investments at fair value through profit or loss		1,241,100	1,123,915
Derivative financial instruments		42,208	38,303
Bank balances and cash equivalents		610,232	635,412
		<hr/>	<hr/>
		4,579,750	4,238,547

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)*As at 30th September, 2006*

	Unaudited	Audited
	30th September,	31st March,
	2006	2006
<i>Notes</i>	HK\$'000	HK\$'000
Current liabilities		
Creditors, bills payables, deposits and accruals	11 1,205,435	1,240,872
Unearned insurance premiums-due within one year	33,088	39,634
Outstanding insurance claims	269,366	285,051
Amounts due to associates	2,509	2,423
Amounts due to customers for contract work	140,399	136,952
Derivative financial instruments	9,574	10,430
Obligations under finance leases-due within one year	421	611
Deferred service income	21,919	23,330
Provision for taxation	79,005	73,721
Bank borrowings	998,386	595,211
Other loans	–	226
Dividend payable	83,575	–
Other payable	7,412	7,412
	2,851,089	2,415,873
Net current assets	1,728,661	1,822,674
Total assets less current liabilities	4,506,221	4,519,847
Capital and reserves		
Share capital	12 348,228	348,228
Reserves	2,490,129	2,372,566
Equity attributable to equity holders of the Company	2,838,357	2,720,794
Minority interests	323,646	266,897
Total Equity	3,162,003	2,987,691
Non-current liabilities		
Other payable	13,840	13,840
Unearned insurance premiums-due over one year	14,180	14,764
Obligations under finance leases-due over one year	198	343
Deferred taxation	103,207	102,750
Bank borrowings	779,025	1,399,066
Other loans	–	1,393
Convertible bonds	13 433,768	–
	1,344,218	1,532,156
Total equity and non-current liabilities	4,506,221	4,519,847

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th September, 2006 (unaudited)*

	Equity attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	Capital redemption reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2006	348,228	417,860	327,875	7,526	849	37,911	1,580,545	2,720,794	266,897	2,987,691
Exchange gain on translation of financial statements of overseas subsidiaries, associates and jointly controlled entities	-	-	-	-	-	31,425	-	31,425	2,613	34,038
Change in fair value of available-for-sale investments	-	-	-	-	9,754	-	-	9,754	-	9,754
Profit for the period	-	-	-	-	-	-	160,192	160,192	12,826	173,018
Total recognised income and expenses for the period	-	-	-	-	9,754	31,425	160,192	201,371	15,439	216,810
Final dividend for 2006 paid	-	-	-	-	-	-	(83,575)	(83,575)	-	(83,575)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(3,569)	(3,569)
Dilution of interest in a subsidiary	-	-	4,727	-	-	-	(4,960)	(233)	233	-
Placement of new share of a subsidiary to minority shareholders	-	-	-	-	-	-	-	-	44,646	44,646
At 30th September, 2006	<u>348,228</u>	<u>417,860</u>	<u>332,602</u>	<u>7,526</u>	<u>10,603</u>	<u>69,336</u>	<u>1,652,202</u>	<u>2,838,357</u>	<u>323,646</u>	<u>3,162,003</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*
For the six months ended 30th September, 2005 (unaudited)

	Equity attributable to equity holders of the Company									
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April, 2005	348,228	417,860	327,875	7,526	(79)	22,547	1,425,079	2,549,036	290,755	2,839,791
Exchange loss on translation of financial statements of overseas subsidiaries, associates and jointly controlled entities	-	-	-	-	-	(3,663)	-	(3,663)	880	(2,783)
Profit for the period	-	-	-	-	-	-	196,341	196,341	27,697	224,038
Total recognised income and expenses for the period	-	-	-	-	-	(3,663)	196,341	192,678	28,577	221,255
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(924)	(924)
Final dividend for 2005 paid	-	-	-	-	-	-	(69,646)	(69,646)	-	(69,646)
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	(42,042)	(42,042)
Capital contribution from minority shareholders	-	-	-	-	-	-	-	-	1,999	1,999
At 30th September, 2005	<u>348,228</u>	<u>417,860</u>	<u>327,875</u>	<u>7,526</u>	<u>(79)</u>	<u>18,884</u>	<u>1,551,774</u>	<u>2,672,068</u>	<u>278,365</u>	<u>2,950,433</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September, 2006*

	Unaudited	
	Six months ended	
	30th September,	
		(restated)
	2006	2005
	HK\$'000	HK\$'000
Net cash (used in)/from operating activities	(210,733)	103,343
Net cash used in investing activities	(77,163)	(151,359)
Net cash used in financing activities	(180,993)	(114,587)
Net cash from issuing convertible bonds	434,250	—
Decrease in cash and cash equivalents and bank overdraft	(34,639)	(162,603)
Cash and cash equivalents and bank overdraft at beginning of period	634,250	1,015,852
Effect of foreign exchange rate changes	10,621	(1,547)
Cash and cash equivalents and bank overdraft at end of period	610,232	851,702
Bank overdraft	—	7,039
Cash and cash equivalents	610,232	858,741

NOTES

1. Basis of preparation and accounting policies

The condensed financial statements have been prepared in accordance with applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. Principal accounting policies

The condensed financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st March, 2006 except as described below.

In prior years, fixed assets of machinery, tools, equipment, furniture, fixtures, office equipment and motor vehicles were depreciated on reducing balance basis at annual charge rate of 10% to 40% with initial charge of 10% or 20%. The directors of the Group have reviewed the usage of these assets and considered it appropriate to depreciate them on a straight line basis over their useful lives of 5 to 10 years. This change in accounting estimate has no significant impact to the Group’s depreciation charged to the income statement for the current period.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs, Amendments and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that have become effective.

The adoption of new HKFRSs has resulted in changes to the Group’s accounting policies in the following area that had no material effect on how the results for the current or prior accounting periods have been prepared and presented:

Financial guarantee contracts

In the current period, the Group has applied HKAS 39 and HKFRS 4 (Amendments) “Financial Guarantee Contracts” which is effective for annual period beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 “Financial instruments: Recognition and Measurement” as a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Group acts as the issuer of the financial guarantee contracts

Prior to 1st April, 2006, financial guarantee contracts were not accounted for in accordance with HKAS 39 and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 “Provision, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”. The adoption of new HKFRS had no material effect on how the results for the current or prior periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

NOTES (Continued)**2. Principal accounting policies (Continued)*****The Group acts as the issuer of the financial guarantee contracts (Continued)***

The Group has also considered the new standards, amendments and interpretations that may be applicable to the Group. The Group has not yet early adopted the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendment and interpretations will have no material impact on the results and financial positions of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC)–INT 8	Scope of HKFRS 2 ²
HK(IFRIC)–INT 9	Reassessment of embedded derivatives ³
HK(IFRIC)–INT 10	Interim financial reporting and impairment ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007.

² Effective for annual periods beginning on or after 1st May, 2006.

³ Effective for annual periods beginning on or after 1st June, 2006.

⁴ Effective for annual periods beginning on or after 1st November, 2006.

3. Turnover

An analysis of the Group's turnover and contribution to operating profit by business segment and turnover by geographical segment is as follows:

(a) By business segment

For the six months ended 30th September, 2006

	Construction and engineering <i>HKS'000</i>	Insurance and investment <i>HKS'000</i>	Property and hotel <i>HKS'000</i>	Computer and information and communication technology <i>HKS'000</i>	Others <i>HKS'000</i>	Consolidated <i>HKS'000</i>
TURNOVER						
Turnover	1,454,089	270,734	180,575	259,798	389,311	2,554,507
Inter-segment sales	(143)	(11,322)	(23,531)	(8,054)	(3,011)	(46,061)
External sales	<u>1,453,946</u>	<u>259,412</u>	<u>157,044</u>	<u>251,744</u>	<u>386,300</u>	<u>2,508,446</u>
RESULTS						
Segment results	<u>103,723</u>	<u>68,160</u>	<u>55,981</u>	<u>5,999</u>	<u>23,039</u>	256,902
Unallocated corporate expenses						(4,296)
Interest income						7,080
Operating profit						259,686
Share of results of associates	663	–	–	–	(2,366)	(1,703)
Share of results of jointly controlled entities	590	–	(1,607)	–	–	(1,017)
Finance costs						(57,197)
Profit before taxation						199,769
Income tax expenses						(26,751)
Profit for the period						<u>173,018</u>

NOTES (Continued)**3. Segment information (Continued)****(a) By business segment (Continued)**

For the six months ended 30th September, 2005

	Construction and engineering HK\$'000	Insurance and investment HK\$'000	Property and hotel HK\$'000	Computer and information communication technology HK\$'000	Others HK\$'000	Consolidated HK\$'000
TURNOVER						
Turnover	1,222,057	548,530	419,359	296,408	304,231	2,790,585
Inter-segment sales	(137)	(15,646)	(22,809)	(4,563)	(2,832)	(45,987)
	<u>1,221,920</u>	<u>532,884</u>	<u>396,550</u>	<u>291,845</u>	<u>301,399</u>	<u>2,744,598</u>
RESULTS						
Segment results	<u>93,969</u>	<u>68,696</u>	<u>144,469</u>	<u>10,927</u>	<u>22,217</u>	340,278
Unallocated corporate expenses						(5,451)
Interest income						<u>9,163</u>
Operating profit						343,990
Share of results of associates	810	-	-	(45)	(3,000)	(2,235)
Share of results of jointly controlled entities	394	-	(468)	-	-	(74)
Finance costs						<u>(34,229)</u>
Profit before taxation						307,452
Income tax expenses						<u>(83,414)</u>
Profit for the period						<u>224,038</u>

Note: Inter-segment sales are charged at prices determined by management with reference to market prices.

NOTES (Continued)**3. Segment information** (Continued)*(b) By geographical segment*

	Turnover	
	Six months ended	
	30th September,	
	2006	2005
	<i>HK\$'Million</i>	<i>HK\$'Million</i>
Hong Kong	1,518	1,721
Mainland China	65	326
Singapore	71	83
Thailand	37	34
Canada	225	186
U.S.A.	54	52
Europe	272	189
Macau	206	67
Australia	58	77
Others	2	10
	<u>2,508</u>	<u>2,745</u>

4. Other income

	Six months ended	
	30th September,	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Included in other income are:		
Interest income	24,344	33,990
Interest income from associates and jointly controlled entities	1,359	910
Exchange gain	4,162	12,789
Unrealised fair value gain of investments at fair value through profit or loss	24,026	17,139
License and royalties income	7,408	7,396
	<u>7,408</u>	<u>7,396</u>

NOTES (Continued)**5. Profit before taxation**

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Profit before taxation is arrived at after charging/(crediting):		
Cost of inventories recognised as expenses	567,763	583,281
Depreciation on property, plant and equipment	43,302	53,090
Staff costs, including directors' emoluments	440,487	354,058
Less: Amount capitalised to contract work	<u>(64,925)</u>	<u>(29,264)</u>
	375,562	324,794
Operating lease payment in respect of leasing of:		
Premises	43,658	20,030
Others	<u>8,042</u>	<u>3,507</u>

6. Income tax expenses

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Current tax		
Hong Kong	14,151	20,948
Overseas	11,318	32,944
Deferred taxation	<u>1,282</u>	<u>29,522</u>
	<u>26,751</u>	<u>83,414</u>

Provision for Hong Kong profits tax is calculated at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits less available tax relief for losses brought forward of each individual company.

Provision for overseas taxation is calculated based on the rates applicable to the relevant local legislation on the estimated assessable profits.

7. Dividend

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Interim dividend of HK20 cents (2005: HK20 cents) per share	55,716	55,716
Special dividend of HK\$ Nil (2005: HK18 cents) per share	—	50,145
	<u>55,716</u>	<u>105,861</u>

NOTES (Continued)**7. Dividend (Continued)**

On 8th December, 2006, the Board of Directors declared an interim dividend of HK20 cents per ordinary share. The interim dividend is not reflected as a dividend payable in this condensed consolidated balance sheet, but will be reflected as an appropriation of retained earnings for the year ending 31st March, 2007.

A 2006 final dividend of HK30 cents (2005: HK25 cents) per ordinary share, totally HK\$83,575,000 (2005: HK\$69,646,000), was approved at the annual general meeting held on 28th September, 2006 and paid in October 2006. It has been reflected as an appropriation of retained earnings for the six months ended 30th September, 2006.

8. Earnings per share

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

	Six months ended 30th September,	
	2006 HK\$'000	2005 HK\$'000
Earnings for the purposes of basic earnings per share	160,192	196,341
Finance cost on convertible bonds	4,147	—
	<hr/> 164,339	<hr/> 196,341
Earnings for the purposes of diluted earnings per share	164,339	196,341
	<hr/> 164,339	<hr/> 196,341
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	278,582,000	278,582,000
Effect of dilutive potential ordinary shares: convertible bonds	14,710,000	—
	<hr/> 293,292,000	<hr/> 278,582,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	293,292,000	278,582,000
	<hr/> 293,292,000	<hr/> 278,582,000

9. Investment properties and property, plant and equipment

For the six months ended 30th September, 2006, the Group acquired property, plant and equipment of HK\$60,262,000 (HK\$34,760,000 for the six months ended 30th September, 2005) and disposed of property, plant and equipment with a carrying amount of HK\$5,217,000 (HK\$7,512,000 for the six months ended 30th September, 2005).

The directors have considered the carrying amounts of the Group's investment properties carried at fair values at 30th September, 2006 and have estimated that the carrying amounts did not differ significantly from the fair values at 31st March, 2006. Consequently, no changes in the fair value of investment properties has been recognised in the current period.

NOTES (Continued)**10. Debtors, deposits and prepayments**

Included in debtors, deposits and prepayment are trade debtors of HK\$747,868,000 (31st March, 2006: HK\$525,342,000).

The Group has established different credit policies for customers in each of its core businesses. The average credit period granted to trade debtors was 60 days. The ageing analysis of trade debtors is as follows:

	As at 30th September, 2006 HK\$'000	As at 31st March, 2006 HK\$'000
0-60 days	591,672	436,092
61-90 days	54,189	33,989
Over 90 days	102,007	55,261
Total	<u>747,868</u>	<u>525,342</u>

The carrying amounts of the Group's trade and other debtors at 30th September, 2006 approximate to their fair values.

11. Creditors, bills payables, deposits and accruals

Included in creditors, bill payables, deposits and accruals are trade creditors and bills payables of HK\$313,128,000 (31st March, 2006: HK\$368,267,000).

The ageing analysis of trade creditors and bills payables is as follows:

	As at 30th September, 2006 HK\$'000	As at 31st March, 2006 HK\$'000
0-60 days	244,556	281,300
61-90 days	19,749	7,834
Over 90 days	48,823	79,133
Total	<u>313,128</u>	<u>368,267</u>

The carrying amounts of the Group's trade creditors, bills payables and other creditors at 30th September, 2006 approximate to their fair values.

12. Share capital

	Number of Ordinary Shares of HK\$1.25 each	Nominal Value HK\$'000
Authorised :		
At 31st March, 2006 and 30th September, 2006	<u>540,000,000</u>	<u>675,000</u>
Issued and fully paid :		
At 31st March, 2006 and 30th September, 2006	<u>278,582,090</u>	<u>348,228</u>

There was no change in the authorised and issued share capital during the period under review.

NOTES (Continued)**13. Convertible bonds**

On 26th July, 2006, the Company issued 2.125 per cent. convertible bonds with an aggregate amount of HK\$450 million (the “Convertible Bonds”). Each bondholder has the option to convert the Convertible Bonds into shares of the Company of HK\$1.25 each at a conversion price of HK\$11.20, which is adjusted to HK\$10.8369 as a result of the approval for the payment of the final dividend of an amount of HK\$0.30 per share for the year ended 31st March, 2006. The adjustment became effective from 25th August, 2006.

Unless previously converted or purchased or redeemed, each Convertible Bond shall be redeemed by the Company at 121.3 per cent. of its principal amount together with accrued interest on 28th July, 2011 (the maturity date of the Convertible Bonds).

On 28th July, 2009 (the “Put Option Date”), the holder of each Convertible Bond will have the right at such holder’s option, to require the Company to redeem all or some only of the Convertible Bonds of such holder on the Put Option Date at 113.1 per cent. of their principal amount together with accrued interest to but excluding the redemption date.

The proceeds from the issuance of the Convertible Bonds have to be split into loan and derivative components. On issuance of the Convertible Bonds, the fair value of the derivative component is determined using an option price model; and this amount is carried as a liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the loan component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value on the issuance date and any subsequent changes in fair value of the derivative component as at the balance sheet date are recognised in the income statement.

The loan and derivative components are shown together as convertible bonds in the consolidated balance sheet of the Company as at the interim balance sheet date.

14. Contingent liabilities

At the balance sheet date, the Group had contingent liabilities in respect of guarantees issued for:

	As at 30th September, 2006 HK\$'000	As at 31st March, 2006 HK\$'000
Banking facilities granted to associates	<u>102,734</u>	<u>110,468</u>

15. Capital commitment

	As at 30th September, 2006 HK\$'000	As at 31st March, 2006 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
– investment in jointly controlled entities	15,674	15,674
– acquisition of property, plant and equipment	1,288	8,642
	<u>16,962</u>	<u>24,316</u>

NOTES (Continued)**15. Capital commitment (Continued)**

In addition to the above, the Group's share of the capital commitment of its jointly controlled entities is as follows:

	As at 30th September, 2006 HK\$'000	As at 31st March, 2006 HK\$'000
Contracted for but not provided	96,729	51,306
Authorised but not contracted for	316,023	451,290
	<u>412,752</u>	<u>502,596</u>

16. Operating lease**(a) The Group as lessee**

The Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows :

	As at 30th September, 2006 HK\$'000	As at 31st March, 2006 HK\$'000
Within one year	67,806	56,378
In the second to fifth year inclusive	78,624	76,995
Over five years	7,565	8,581
	<u>153,995</u>	<u>141,954</u>

Other leases are negotiated and rentals are fixed for an average term of three years.

The operating lease rentals of certain coffee shops of the Group are determined based on the turnover of the coffee shops should such amounts be higher than the minimum guaranteed rental. The above amount of commitment has only included the minimum guaranteed rental.

(b) The Group as lessor

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

	As at 30th September, 2006 HK\$'000	As at 31st March, 2006 HK\$'000
Within one year	32,179	27,378
In the second to fifth year inclusive	20,646	19,809
	<u>52,825</u>	<u>47,187</u>

The lease terms ranged from one year to five years.

NOTES (Continued)

17. Significant related party transactions

- (a) The Group made advances to its associates during the period. The advances to these companies are unsecured. Certain advances were subject to interest rate at around 6% per annum. Interest income in respect of those advances received by the Group for the period amounted to HK\$608,000. The outstanding balances at 30th September, 2006 are disclosed in the consolidated balance sheet. These advances are repayable on demand except for the loans of RMB5,000,000 (equivalent to HK\$4,950,000) to the associates which will mature in May 2007.
- (b) During the period, the Group made advances to its jointly controlled entities. The advances are unsecured. As certain advances were subject to interest rate at approximately 6% per annum, the Group received interest income of HK\$751,000 in respect of them. The outstanding balances at 30th September, 2006 are disclosed in the consolidated balance sheet. These advances are repayable on demand except for the loans of:
- (i) RMB30,000,000 (equivalent to HK\$29,700,000), which matured and was settled in November 2006.
- (ii) RMB5,000,000 (equivalent to HK\$4,950,000), which will mature in February 2007.

18. Subsequent events

On 4th October, 2006, the Group entered into a sale and purchase agreement with independent third party to dispose of the interests in Fairwide Limited (“Fairwide”) and Berville Investment Limited (“Berville”) and the loans due from Fairwide and Berville to the Group and its jointly controlled partner at an aggregate consideration of HK\$91,412,000. Fairwide and Berville are owned as to 50% by the Group, established in Hong Kong with limited liabilities and principally engaged in investment holding.

On 25th November, 2006, the Group entered into an agreement with Sinochina Pacific Limited to acquire, in two tranches, a total of 100 shares in Sinochina Enterprises Limited (“SEL”), representing the entire issued share capital of SEL. The two tranches involve the acquisition of 49 and 51 ordinary shares in SEL constituting respective 49% and 51% of the entire issued share capital of SEL. The total consideration of the two tranches shall in any event not exceed HK\$200 million in aggregate. The consideration shall be satisfied in cash and financed by the internal resources of the Group. SEL is engaging in the business of operation of restaurants and other food and beverage outlets in Hong Kong. Further details of the event were contained in the Group’s announcement dated 1st December, 2006.

19. 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 HK\$0.20 (2005: HK\$0.20 and a special dividend of HK\$0.18) per share for the six months ended 30th September, 2006 payable on Tuesday, 9th January, 2007 to shareholders whose names appear on the Register of Members of the Company on Friday, 5th January, 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 3rd January, 2007 to Friday, 5th January, 2007, 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 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 2nd January, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended 30th September, 2006, the Group's turnover and profit dropped slightly when compared with the corresponding period last year. Increased finance cost, additional development costs incurred in exploring new markets and products in the pipe technology business, and the absence of profits like that derived from a property sales transaction in the same period last year were the reasons for the setback in overall performance. The Group's turnover decreased by 9% to HK\$2,508 million from HK\$2,745 million in the last corresponding period and profit attributable to equity holders of the Company decreased by 18% to HK\$160 million from HK\$196 million. Excluding the Shanghai property sales recorded in the first half of last year which had a net profit after tax of HK\$40 million, the Group's performance of the current period is slightly better than that of the same period last year and the second half of last year.

Construction and Engineering

During the period under review, turnover of this sector increased by 19% to HK\$1,454 million from last year's HK\$1,222 million, mainly due to the increase in business volume in the environmental engineering division and the Macau project undertakings by the electrical and mechanical ("E&M") engineering division. Major projects on hand in Macau included supply and installation of lifts and escalators and E&M works for the Galaxy Resort and Casino in Cotai City. Air conditioning works for Wynn Resorts Phase I in Macau were completed in September this year.

The segment's overall profit however increased by only 10% as a result of keen competition in the lifts and escalators market and the aluminium windows and curtain wall business. The overall performance of pipe technology business was less than satisfactory. The overall results in Europe improved, but the growth in Asian countries was slower-than-expected. The performance of the division was also affected by the additional costs incurred in developing new products and exploring new market such as the US.

Insurance and Investment

During the period under review, turnover of the segment decreased from HK\$533 million to HK\$259 million while profit remained at the same level as the last corresponding period at approximately HK\$68 million. The segmental profit came entirely from investment return with the insurance underwriting business adversely affected by keen market competition. The Group has a well-balanced investment portfolio spreading across equity, fixed income and structured deposits. The management will continue to maintain such a balanced approach so as to generate stable income and capture reasonable medium to long-term returns.

Property and Hotel

Turnover and profit of this segment declined to HK\$157 million and HK\$56 million. The 60% decrease was, as mentioned, against the inclusion of HK\$254 million in turnover and HK\$40 million in profit from the disposal of part of the units in Chevalier Place Shanghai in the same period last year. If the disposal of property last year was excluded, the results of this division derived from sales and rental of investment properties, property management and hotel operations remained steady.

Capacity of the Group's 18-storey cold storage warehouse in Kwai Chung was continuously taken up satisfactorily during the period. As the Hong Kong economy improves, consumption demand has also increased and that benefited our cold storage business during the review period. Anticipating continuous growth in demand for cold storage space, it expects to see increase in net profit contribution from this line of business in the second half year.

After the acquisition of 44% interest in a residential property project in the Beijing Feng Rui Residential area last year, the Group continued smoothly the real estate projects it has in Shenzhen and Chengdu during the period under review. On the other hand, the Group also disposed of its development project in Dongguan. The total proceeds of HK\$45 million and the gain so realised will be booked in the second half of the financial year.

IT, Food & Beverage and Others

During the period under review, profit of the IT business decreased from HK\$11 million to HK\$6 million. Keen market competition, delay in the introduction of new operating system for notebook computers and the recall of defective notebook computer batteries were what squeezed profit.

During the period, Pacific Coffee achieved steady turnover and operating profit in line with expectation and the improvement in segment results was restricted by a loss generated from the operations in China, an inevitable upfront investment cost for entering into the new market. For Hong Kong and Singapore, the segment results actually improved by over 50%, which was in line with the turnover growth. Pacific Coffee continues to develop in Hong Kong, Singapore, Shanghai, Beijing and Chengdu, bringing the total store number to 61 compared to 49 last September.

Subsequent to the period end, the Group entered into an agreement to acquire the entire issued share capital of SEL. SEL is the holding company of Igor's, one of Hong Kong's fastest growing

food and beverage management companies. Total consideration will not exceed HK\$200 million. Igor's established its first restaurant in 1998 and now operates 20 outlets. Its restaurants including "Wildfire", "The Boathouse", "Stormies Crabshack" and "Café de Paris", at various prime dining destinations such as Lan Kwai Fong, Soho, Knutsford Terrace and Stanley in Hong Kong, offer a wide variety of international cuisines, ranging from traditional French to casual fast food. Igor's also operates popular bars and restaurants—"Stormies", "The Cavern", "Swindlers" and "Typhoon"—in the premier entertainment districts of Lan Kwai Fong and Wanchai, where their resident bands offer live music entertainment.

PROSPECTS

The Chinese economy continues to boom with real GDP growing at 10.4% year-on-year in the third quarter of 2006. However, with the PRC government continuing to introduce measures to curb new investments and cool the economy, growth of the economy may turn moderate. In the US, economic activities also slowed down to a moderate rate after the US government appeared to tighten its monetary policy. In Hong Kong, the economy continues on the up trend in 2006/07 for the fourth year, but there have been signs of growth slowing down at the impact of declining net export, high oil price and rising global interest rates hindering external demand.

The Group's overall performance also appears to be going into the cyclical slowdown after years of consecutive strong recovery. However, the management believes that with the Group's strong cash base coupled with the fund raised by the issuance of convertible bond and prudent investment strategy, the Group is well positioned to seize opportunities at the right time. Encouragingly, domestic demand in Hong Kong remains robust as reflected in the strong growth of our food and beverage business in Hong Kong and Singapore. Riding on and combining Igor's creative food and beverage concepts with Pacific Coffee's strong retail and brand presence, the Group will continue to capture the fast growing and Western lifestyle-based food and beverage market in Hong Kong, the PRC and other parts of Asia.

Although the pipe technology business experienced setback in the period under review, with production facilities in Belgium, Germany, China and Australia, the segment is able to service customers in all parts of the world. Having secured the first NSF approvals for NordiTube rehabilitation products in the drinking water market of the US is a big step achieved by the Group, opening for it the possibility of appealing to different markets in Europe and the US. The Group will seek to the improvement in operational efficiency of the work platform of the business with the aim of generating the long-term growth.

Provided that its several property development projects in various PRC cities progress smoothly and sentiment in the China real estate market continues to be favourable, the Group expects to record recurring sizeable revenues from property sales giving it a stable source of income in the next few years.

FINANCIAL REVIEW

As at 30th September, 2006, the Group's total net assets attributable to equity holders of the Company amounted to approximately HK\$2,838 million (HK\$2,721 million as at 31st March, 2006), an increase of HK\$117 million or 4.3% when compared with 2006. Such increase was

mainly attributable to the HK\$160 million net profit for the period plus HK\$31 million exchange gain on translation of overseas companies' financial statements after deducting the HK\$84 million final dividends paid for last year.

As at 30th September, 2006, total debt to equity ratio was 78% (73% as at 31st March, 2006) and net debt to equity ratio was 44% (38% as at 31st March, 2006), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net assets of HK\$2,838 million (HK\$2,721 million as at 31st March, 2006). The increases of these ratios were mainly attributable to increases in both total and net borrowings to finance the Group's property development projects in the PRC and investment in securities.

As at 30th September, 2006, the Group's bank and other borrowings amounted to HK\$2,211 million (HK\$1,997 million as at 31st March, 2006). Cash and deposits at bank, including fixed and structured deposits, amounted to HK\$958 million (HK\$961 million as at 31st March, 2006) and net borrowings amounted to HK\$1,253 million (HK\$1,036 million as at 31st March, 2006). Most of the borrowings are carrying floating interest rates based on Hong Kong Interbank Offering Rates, with small portions based on Prime Rate. Included in the borrowings are 2.125% convertible bonds of HK\$450 million issued on July 2006, which helped the Company to enjoy a lower interest coupon before maturity or redemption.

With the increase in borrowing and the rise of interest rates during the period, finance costs for the period amounted to HK\$57 million, (HK\$34 million for the corresponding period last year), an increase of HK\$23 million as compared with the previous 6-month period in 2005.

The Group has provided guarantees in respect of banking facilities granted to associates, amounting to HK\$102 million. (HK\$110 million as at 31st March, 2006).

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, 2006, 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 of Hong Kong Limited (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 S352 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 Issuers (the "Model Code") were as follows:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES*(Continued)***(a) Interests in the Company – Shares**

Name of Directors	Capacity	Number of ordinary shares			Approximate percentage of interest (%)
		Personal interests	Family interests	Total	
CHOW Yei Ching	Beneficial owner	147,738,359*	–	147,738,359	53.03
KUOK Hoi Sang	Beneficial owner	98,216	–	98,216	0.04
FUNG Pak Kwan	Beneficial owner	93,479	–	93,479	0.03
TAM Kwok Wing	Beneficial owner	169,015	32,473	201,488	0.07
KAN Ka Hon	Beneficial owner	29,040	–	29,040	0.01
HO Chung Leung	Beneficial owner	40,000	–	40,000	0.01

* Dr CHOW Yei Ching beneficially owned 147,738,359 shares of the Company, representing approximately 53.03% of the issued share capital of the Company. These shares were same as those shares disclosed in the section “Substantial Shareholders’ Interests in Securities” below.

(b) Interests in Associated Corporation – Shares

Name of Directors	Associated corporation	Capacity	Number of ordinary shares			Approximate percentage of interest (%)	
			Personal interests	Corporate interests	Family interests		
CHOW Yei Ching	Chevalier iTech Holdings Limited (“CiTL”)	Beneficial owner and interest of controlled corporation	6,815,854	104,198,933 *	–	111,014,787	58.38
KUOK Hoi Sang	CiTL	Beneficial owner	2,400,000	–	–	2,400,000	1.26
FUNG Pak Kwan	CiTL	Beneficial owner	2,580,000	–	–	2,580,000	1.36
TAM Kwok Wing	CiTL	Beneficial owner	400,000	–	10,400	410,400	0.22
KAN Ka Hon	CiTL	Beneficial owner	451,200	–	–	451,200	0.24

* Dr CHOW Yei Ching had notified CiTL that under the SFO, he was deemed to be interested in 104,198,933 shares in CiTL which were all held by the Company as Dr Chow beneficially owned 147,738,359 shares, representing approximately 53.03% of the issued share capital of the Company.

Save as disclosed above and in “Share Option Schemes” below, as at 30th September, 2006, 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 and debentures of the Company and 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 S352 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

A share option scheme of the Company (the “CIHL Scheme”) was approved by the shareholders of the Company on 20th September, 2002. Another share option scheme of CiTL, the subsidiary of the Company (the “CiTL Scheme”) was also approved by the shareholders of CiTL and the shareholders of the Company 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, 2006, no share option was granted, exercised, cancelled or lapsed under the CIHL Scheme and the CiTL Scheme. There was no outstanding option under the CIHL Scheme and the CiTL Scheme at the beginning and at the end of the period.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SECURITIES

As at 30th September, 2006, 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 S336 of the SFO were as follows:

Substantial Shareholder	Capacity	Number of shares held	Number of underlying Shares held (under equity derivatives of the Company)	Approximate percentage of interest (%)
CHOW Yei Ching	Beneficial owner	147,738,359	–	53.03
MIYAKAWA Michiko	Beneficial owner	147,738,359 (Note 1)	–	53.03
The Goldman Sachs Group, Inc.	Interest of controlled corporation	–	23,984,034 (Note 2)	8.61
Goldman Sachs (UK) L.L.C.	Interest of controlled corporation	–	20,982,146 (Note 3)	7.53
Goldman Sachs Group Holdings (U.K.)	Interest of controlled corporation	–	20,982,146 (Note 3)	7.53
Goldman Sachs Holdings (U.K.)	Interest of controlled corporation	–	20,982,146 (Note 3)	7.53
Goldman Sachs International	Beneficial owner	–	20,982,146 (Note 3)	7.53
The Goldman, Sachs & Co. L.L.C.	Interest of controlled corporation	3,001,888 (Note 4)	–	1.08
Goldman Sachs & Co	Beneficial owner	3,001,888 (Note 4)	–	1.08

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES *(Continued)*

Note:

- (1) Under Part XV of the SFO, Ms. Miyakawa Michiko, the spouse of Dr. Chow, is deemed to be interested in the same parcel of 147,738,359 shares held by Dr. Chow.
- (2) The Goldman Sachs Group, Inc. is taken to have an interest in the 3,001,888 shares held by Goldman Sachs & Co and the 20,982,146 shares that would be held by Goldman Sachs International upon full conversion of the Convertible Bonds held by Goldman Sachs International. The Convertible Bonds are issued by the Company to Goldman Sachs International on 26th July, 2006. Goldman Sachs & Co and Goldman Sachs International are both wholly-owned subsidiaries of The Goldman Sachs Group, Inc.
- (3) Goldman Sachs (UK) L.L.C., Goldman Sachs Group Holdings (U.K.) and Goldman Sachs Holdings (U.K.) are taken to be interested in the 20,982,146 shares that would be held by Goldman Sachs International upon full conversion of the Convertible Bonds. Goldman Sachs International is 99% owned by Goldman Sachs Holdings (U.K.) and 100% held by Goldman Sachs Group Holdings (U.K.) and Goldman Sachs (UK) L.L.C..
- (4) The Goldman, Sachs & Co. L.L.C. is taken to be interested in the 3,001,888 shares held by Goldman Sachs & Co. Goldman Sachs & Co is owned as to 99.8% by The Goldman Sachs Group, Inc. and the remaining 0.2% by The Goldman, Sachs & Co. L.L.C. (which is a wholly-owned subsidiary of The Goldman Sachs Group, Inc.).

Save as disclosed above, as at 30th September, 2006, 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 and 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 S336 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, 2006, the Group employed approximately 4,500 full time staff globally. Total staff costs amounted to approximately HK\$440 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

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 the unaudited interim financial statements for the six months ended 30th September, 2006.

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, 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All directors of the Company confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 30th September, 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th September, 2006 with the exception of the following deviation:

Under the code provision A.4.1, non-executive directors should be appointed for a specific term. Currently, non-executive directors are not appointed for a specific term. However, they are subject to retirement by rotation at least once every three years under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

APPRECIATION

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

By Order of the Board
CHOW Yei Ching
Chairman and Managing Director

Hong Kong, 8th December, 2006

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