

Report of the Directors

The Directors present to shareholders their annual report together with the audited financial statements of the Company and of the Group for the year ended 31st March, 2005.

Principal Activities

The principal activity of the Company is investment holding while the principal activities of its principal subsidiaries, associates and jointly controlled entities are shown on pages 79 to 86.

The Group's turnover and results for the year ended 31st March, 2005 analysed by business and geographical segments are set out in note 34 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31st March, 2005 are set out in the consolidated income statement on page 31. An interim dividend of HK20 cents per share was paid on Friday, 14th January, 2005. The Directors now recommend the payment of a final dividend of HK25 cents per share.

Share Capital

Movements in the Company's share capital during the year are set out in note 31 to the financial statements.

Share Option Scheme

Particulars of the share option scheme to subscribe for shares in the Company are set out in note 41 to the financial statements.

Reserves

Movements in reserves during the year are set out in note 32 to the financial statements.

Investment Properties

Movements in investment properties during the year are set out in note 12 to the financial statements.

Property, Plant and Equipment

Movements in property, plant and equipment during the year are set out in note 13 to the financial statements.

Borrowings

Details of bank loans and other borrowings of the Group as at 31st March, 2005 are set out in notes 28 and 29 to the financial statements.

Report of the Directors

Financial Summary

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

Major Customers and Suppliers

The Group's turnover and purchases of the year attributable to the Group's five largest customers and suppliers respectively were less than 30%. None of the Directors, their associates or any shareholder (whom to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or five largest customers.

Properties

Particulars of the major properties of the Group as at 31st March, 2005 are set out on pages 17 to 19.

Employees and Remuneration Policies

As at 31st March, 2005, the Group employed approximately 4,260 full time staff globally. Total staff costs amounted to approximately HK\$634 million for the year ended 31st March, 2005. The remuneration policies are reviewed periodically on the basis of the nature of job, market trend, company performance and individual performance. Other staff benefits include bonuses awarded on a discretionary basis, medical schemes, retirement schemes and employees' share option scheme.

Donations

During the year, the Group made donations of HK\$926,500 to charitable bodies and HK\$711,000 to other communities respectively.

Principal Subsidiaries, Associates and Jointly Controlled Entities

Particulars regarding the principal subsidiaries, associates and jointly controlled entities of the Group are shown on pages 79 to 86.

Pre-emptive Rights

There are no provision for pre-emptive rights under the Company's Bye-laws although there are no restriction against such rights under the laws in Bermuda where the Company is incorporated.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the year.



Report of the Directors

Directors

The Directors who held office during the year and up to the date of this report were:

Executive Directors

Dr CHOW Yei Ching	<i>(Chairman and Managing Director)</i>
Mr KUOK Hoi Sang	<i>(Managing Director)</i>
Mr FUNG Pak Kwan	
Mr TAM Kwok Wing	
Mr KAN Ka Hon	
Mr CHOW Vee Tsung, Oscar	
Mr HO Chung Leung	

Independent Non-Executive Directors

Mr WONG Wang Fat, Andrew	
Dr CHOW Ming Kuen, Joseph	
Mr LI Kwok Heem, John	<i>(Appointed on 30th September, 2004)</i>

In accordance with the Company's Bye-laws, Messrs Li Kwok Heem, John and Wong Wang Fat, Andrew shall retire from office at the forthcoming Annual General Meeting and they, being eligible, will offer themselves for re-election. The Independent Non-Executive Directors are subject to the same retirement requirements as the Executive Directors.

Directors' Interests in Contracts

Messrs CHOW Yei Ching, KUOK Hoi Sang, FUNG Pak Kwan, TAM Kwok Wing, KAN Ka Hon and CHOW Vee Tsung, Oscar are interested in certain contracts in that they are the Directors and/or have beneficial interests in Chevalier iTech Holdings Limited ("CiTL").

Save as aforementioned, no other contract of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest subsisted at the end of the year or at any time during the year.

Directors' Interests in Competing Business

During the year, none of the Directors have an interest in any business constituting a competing business to the Group.

Connected Transactions

On 11th March, 2005, a sale and purchase agreement ("the PPR Agreement") was entered into among Chevalier Pipe Technologies Limited ("CPT"), a wholly-owned subsidiary of the Company, as the Purchaser and Prosper Well Developments Limited ("Prosper Well") and Kao Gordon Kan ("Kao") as the Vendors and Chevalier Pipe Rehabilitation Hong Kong Limited ("CPRHK") (formerly known as Preussag Pipe Rehabilitation Hong Kong Limited) to acquire 11,935,000 shares of HK\$1 each in the issued share capital of CPRHK and a shareholders' loan of HK\$1 million due by CPRHK to the Vendors for an aggregate cash consideration of HK\$19.3 million. After the completion of the PPR Agreement, CPRHK became an indirect wholly-owned subsidiary of the Company.

Report of the Directors

Connected Transactions – continued

On 11th March, 2005, a share sale and purchase agreement (“the NordiTube Agreement”) was entered into between CPT as the Purchaser and rabmer as the Vendor to acquire 16,603,320 shares of nominal value of SEK0.5 each in the issued share capital of NordiTube Technologies AB (“NordiTube”) for a cash consideration of approximately SEK15.8 million (equivalent to approximately HK\$17.8 million). After the completion of the NordiTube Agreement, CPT was interested in 92.4% of the issued share capital of NordiTube.

As CPRHK and NordiTube are both non wholly-owned subsidiaries of the Company, Prosper Well together with Kao and rabmer are substantial shareholders of CPRHK and NordiTube respectively, the PPR Agreement and the NordiTube Agreement therefore constituted connected transactions of the Company under the revised Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) which came into effect on 31st March, 2004 (“the New Listing Rules”). Given the relevant percentage ratios for each of the PPR Agreement and the NordiTube Agreement are below 2.5%, both the PPR Agreement and the NordiTube Agreement are only subject to announcement and reporting requirements under Rule 14A.32 of the New Listing Rules.

Directors’ and Chief Executives’ Interests in Securities

As at 31st March, 2005, 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 corporation, 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 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 Companies (“the Model Code”) were as follows:

(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	144,146,359*	–	144,146,359	51.74
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 144,146,359 shares of the Company, representing approximately 51.74% 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.

Report of the Directors

Directors' and Chief Executives' Interests in Securities – continued

(b) Interests in Associated Corporation – Shares

Name of Directors	Associated corporation	Capacity	Number of ordinary shares			Total	Approximate percentage of interest (%)
			Personal interests	Corporate interests	Family interests		
CHOW Yei Ching	CiTL	Beneficial owner and Interest of controlled corporation	6,815,854	86,994,933*	–	93,810,787	54.75
KUOK Hoi Sang	CiTL	Beneficial owner	2,400,000	–	–	2,400,000	1.40
FUNG Pak Kwan	CiTL	Beneficial owner	2,580,000	–	–	2,580,000	1.50
TAM Kwok Wing	CiTL	Beneficial owner	400,000	–	10,400	410,400	0.24
KAN Ka Hon	CiTL	Beneficial owner	451,200	–	–	451,200	0.26

* Dr CHOW Yei Ching 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 the Company as Dr Chow beneficially owned 144,146,359 shares, representing approximately 51.74% of the issued share capital of the Company.

Save as disclosed above and in “Share Option Schemes” below, as at 31st March, 2005, 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 Listing Rules. During the year, 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 year.

Directors' Service Contracts

No Director offering for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Management Contracts

No contract of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries was entered into or subsisted during the year.

Directors' Biographies

Executive Directors

Dr CHOW Yei Ching, Chairman and Managing Director, aged 69, is the founder of Chevalier Group. He is the Chairman of CiTL, a public listed company in Hong Kong. He is also an Independent Non-Executive Director of Van Shung Chong Holdings Limited and Shaw Brothers (Hong Kong) Limited and a Non-Executive Director of Television Broadcasts Limited. In 1995, Dr Chow was awarded with an Honorary Doctor Degree in Business Administration by The Hong Kong Polytechnic University and an Honorary University Fellow by The University of Hong Kong. In 1996 and 1997, he was appointed as an Honorary Member of the Board of Directors by Nanjing University and was conferred an Honorary Degree of Doctor of Laws by The University of Hong Kong respectively. Dr Chow also serves actively in a number of educational advisory committees and gives substantial support to the aforementioned two Universities in Hong Kong and The Hong Kong University of Science & Technology in areas of researches and developments. He is also a Consultative Professor of Zhejiang University and a Lecture Professor of Sichuan Union University in the PRC. Dr Chow's enthusiasm in public services is evidenced in his appointment in 2001 as the Vice Patron of The Community Chest in Hong Kong. He was also appointed as the Honorary Consul of The Kingdom of Bahrain in Hong Kong in 2001. He also actively participates in various professional bodies and associations on fraternal and Chinese affairs. To name a few, he is a Standing Committee Member of the Chinese People's Political Consultative Conference, Shanghai, the President of The Japan Society of Hong Kong and the Chairman of the National Taiwan University-HK Alumni Association, etc. In recognition of his contributions to local and overseas societies alike, Dr Chow was awarded honorable decorations from Britain, Belgium, France and Japan. Furthermore, Dr Chow was also awarded the Gold Bauhinia Star from the Government of the HKSAR in 2004. He is the father of Mr Chow Vee Tsung, Oscar, an Executive Director of the Company.

Mr KUOK Hoi Sang, Managing Director, aged 55, joined Chevalier Group in 1972 and is a Director of CiTL, a public listed company in Hong Kong. He is the President of The Lift and Escalator Contractors Association in Hong Kong, the Vice-Chairman of the Hong Kong - China Branch of The International Association of Elevator Engineers and a Registered Lift and Escalator Engineer in Hong Kong. He is a member of Chinese People's Political Consultative Conference, Guangzhou. Mr Kuok has extensive experience in business development and is responsible for the strategic planning and management of the operations of lifts and escalators, building construction, building materials and supplies, aluminium works, electrical and mechanical services, civil engineering, property development as well as investment projects of the Chevalier Group.

Mr FUNG Pak Kwan, Director, aged 53, joined Chevalier Group in 1974 and is the Managing Director of CiTL, a public listed company in Hong Kong. He is the Advisor of the executive committee of the Guangdong Federation of Industry & Commerce and Guangdong Chamber of Commerce. Mr Fung is responsible for Chevalier Group's strategic planning and management of operations of subsidiaries which focus on a wide range of voice and data communication equipment and services, system integrated IT solutions as well as the sale of business machines, computer systems and equipment, telephone systems and relevant after-sales services. He also actively involves in the planning of investment and development projects, environmental engineering, automobile and hotel business in North America of the Chevalier Group.

Report of the Directors

Directors' Biographies – continued

Executive Directors – continued

Mr TAM Kwok Wing, Director, aged 44, joined Chevalier Group in 1986. Apart from his participation in running the insurance underwriting business together with property development, property management and cold storage warehousing divisions, he is also responsible for legal affairs, general administration, human resources management, public relations and travel agency business of Chevalier Group. Mr Tam holds a Bachelor Degree in Laws from the Beijing University of the PRC, a Master of Arts Degree from City University of Hong Kong and a Postgraduate Diploma in Corporate Administration from The Hong Kong Polytechnic University. He is also fellow members of the Chartered Institute of Arbitrators, the Institute of Chartered Secretaries and Administrators in the U.K. and the Hong Kong Institute of Company Secretaries. Presently, he also serves as an Honorary Secretary of the Insurance Claims Complaints Bureau.

Mr KAN Ka Hon, Director and Company Secretary, aged 54, joined Chevalier Group in 1986 and is a Director and Company Secretary of CiTL, a public listed company in Hong Kong. He is an Independent Non-Executive Director of Victory City International Holdings Limited and Asia Alliance Holdings Limited. He is responsible for management of the Chevalier Group's accounting and treasury, corporate finance, investment, pension fund and company secretarial activities. Mr Kan holds a Bachelor Degree in Science from The University of Hong Kong and is a fellow member of The Association of Chartered Certified Accountants in the U.K. and a member of the Hong Kong Institute of Certified Public Accountants.

Mr CHOW Vee Tsung, Oscar, Director, aged 31, joined Chevalier Group in 2000 and is a Director of CiTL, a public listed company in Hong Kong. He is responsible for the pipe technologies business, building services business and investments of the Chevalier Group. Mr Chow holds a degree in Master of Engineering from the University of Oxford, U.K.. He is currently the Chairman of the Industry and Technology Committee of the Hong Kong General Chamber of Commerce, a council member of the Hong Kong Productivity Council and the Internet Professionals Association, an Advisory council of The Better Hong Kong Foundation, a registered manager of Yan Chai Hospital No.2 Secondary School and an Honorary Chairman of the Taiwan Business Association (HK) Ltd.. He is the son of Dr Chow Yei Ching, the Chairman and Managing Director of the Company.

Mr HO Chung Leung, Director, aged 55, joined Chevalier Group in 1985 and is also the Financial Controller of Chevalier Group. He is responsible for management of Chevalier Group's accounting and treasury activities. Mr Ho is a fellow member of The Association of Chartered Certified Accountants in the U.K. and a member of the Hong Kong Institute of Certified Public Accountants.

Independent Non-Executive Directors

Mr WONG Wang Fat, Andrew, aged 61, was appointed to the Board in 1999. Mr Wong was an elected member of the Legislative Council from 1985 to 2004 and was the President of the Legislative Council from 1995 to 1997. He had been lecturing at The Chinese University of Hong Kong since 1970 and is now retired. He is also an Independent Non-Executive Director of New Island Printing Holdings Limited and the Honorary President of the Hong Kong Corrugated Paper Manufacturers Association. Mr Wong holds a Bachelor of Arts (Honours) degree in literature from The University of Hong Kong and a Master of Public Administration degree from the Syracuse University, U.S.A..

Report of the Directors

Directors' Biographies – continued

Independent Non-Executive Directors – continued

Dr CHOW Ming Kuen, Joseph, aged 63, was appointed to the Board in 2002. He is the Chairman of Joseph Chow & Partners Ltd.. He has over 40 years of experience in the planning, design and construction of many major engineering projects in the U.K., Middle East, the PRC and Hong Kong. He is currently the Chairman of the Construction Workers Registration Authority, a Member of Chinese People's Political Consultative Conference of Shanghai as well as Hon. Senior Superintendent of the Hong Kong Auxiliary Police Force. He was previously the President of The Hong Kong Institution of Engineers, Chairman of Hong Kong Engineers' Registration Board, Hong Kong Examinations and Assessment Authority and Pamela Youde Nethersole Eastern Hospital Governing Committee as well as a Member of the Hong Kong Housing Authority and Hospital Authority.

Mr LI Kwok Heem, John, aged 50, was appointed to the Board in 2004. He is an Independent Non-Executive Director of China National Aviation Company Limited and China Merchants Holdings (International) Company Limited which are listed on the Stock Exchange. Previously, he was a partner at PricewaterhouseCoopers, Certified Public Accountants. He graduated from the Imperial College of the University of London with a Bachelor of Science degree and is a Fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He also obtained a Master of Business Administration degree from the Wharton School of Business of the University of Pennsylvania. Mr Li is the Vice-Chairman of the United Christian Medical Service and United Christian Hospital and is also a member of the Board of Trustees of Chung Chi College, The Chinese University of Hong Kong.

Retirement Schemes

The Company and its Hong Kong subsidiaries were participating companies in the Chevalier Group Staff Provident Fund Scheme ("the Scheme") as defined in the Occupational Retirement Schemes Ordinance which is a defined contribution retirement scheme. The Scheme was granted exemption from Mandatory Provident Fund regulations by the Mandatory Provident Fund Scheme Authority and shall not open to new members starting from 1st December, 2000. Certain of the Company's overseas subsidiaries contribute to their local government's central pension plans for their employees. Contributions to the Scheme are made by both the employers and the employees at the rate of 3.5% to 16% on the employees' salaries.

Pursuant to Government legislation, Bank Consortium Trust Company Limited was selected by the Group as an alternative Mandatory Provident Fund ("the MPF") service provider for employees of the Group who join the Group from 1st December, 2000. The MPF is available to the employees aged 18 to 65 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income at a maximum of HK\$1,000 per month. The benefits are required by law to be preserved until the retirement age of 65.

The Group's total contributions to these schemes charged to the consolidated income statement during the year amounted to HK\$27,856,000 against which the forfeited contributions amounting to HK\$1,231,000 have been deducted. There were forfeited contributions amounting to HK\$131,000 available at the year end date for the reduction of future employer's contributions.

Report of the Directors

Substantial Shareholders' Interests in Securities

As at 31st March, 2005, 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 Shareholders	Number of shares held	Approximate percentage of interest (%)
CHOW Yei Ching	144,146,359	51.74
MIYAKAWA Michiko	144,146,359 (Note 1)	51.74
Value Partners Limited	16,248,000	5.83
CHEAH Cheng Hye	16,248,000 (Note 2)	5.83

Notes:

1. Under Part XV of the SFO, Ms Miyakawa Michiko, the spouse of Dr Chow, was deemed to be interested in the same parcel of 144,146,359 shares held by Dr Chow.
2. Such interests arose through the interests in the relevant shares owned by Value Partners Limited, a funds management company, in which Mr Cheah Cheng Hye held approximately 31.82% shareholding interests.

Save as disclosed above, as at 31st March, 2005, 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 year 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.

Report of the Directors

Audit Committee

The Audit Committee, which was established pursuant to the requirements of Rule 3.21 of the Listing Rules, comprises Messrs WONG Wang Fat, Andrew, CHOW Ming Kuen, Joseph and LI Kwok Heem, John (who was appointed on 30th September, 2004), all the Independent Non-Executive Directors of the Company, met twice in the year. During the meetings, the Audit Committee has reviewed with the management the connected transactions, interim and annual reports of the Group, the accounting principles and practices adopted by the Group, the auditing, internal controls and financial reporting matters including the review of the audited financial statements for the year ended 31st March, 2005.

Corporate Governance

In the opinion of the Directors, the Company has complied throughout the year ended 31st March, 2005 with the guidelines for the Code of Best Practice as set out in Appendix 14 of the Listing Rules, which was still in force prior to 1st January, 2005 and remains applicable to the year under review, save and except that all the Independent Non-Executive Directors of the Company are not appointed for any specific terms but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

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 for the year ended 31st March, 2005.

The Company has received from each of the Independent Non-Executive Directors, a written confirmation of their respective independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company considers all the Independent Non-Executive Directors are independent.

Sufficiency of Public Float

According to the information that is publicly available to the Company and within the knowledge of the Board, the percentage of the Company's share which are in the hands of the public exceeds 25% of the Company's total number of issued shares as at 25th July, 2005, the latest practicable date to ascertain such information prior to the issue of this annual report.

Auditors

The financial statements for the year have been audited by Messrs Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

CHOW Yei Ching

Chairman and Managing Director

Hong Kong, 13th July, 2005

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