Chairman's Statement

The Board of Directors is pleased to report to shareholders that the Group continued its strong performance and delivered another year of good results. Benefited from the general recovery of the Hong Kong economy and the robust property market in the PRC in the first half of 2005, all the Group's different segments, namely Construction and Engineering, Insurance and Investment, Property and Hotel as well as IT and Food and Beverage boasted impressive turnover contribution. Total turnover of the Group increased to HK$5,237 million, up 22% when compared with the previous financial year (2005: HK$4,290 million). Profit attributable to equity holders of the Company was HK$331 million, up 12% from last year's (2005: HK$295 million), and basic earnings per share were HK$1.19 (2005: HK$1.06). Excluding the HK$30.7 million (2005: HK$44.2 million) surplus from revaluation of property, operating profit increased from HK$250.8 million to HK$300.3 million, representing an increase of 19%.

Dr Chow Yei Ching
Chairman and Managing Director

DIVIDEND

The Board of Directors recommend the payment of a final dividend of HK$0.30 (2005:HK$0.25) per share payable to shareholders whose names appear on the Register of Members of the Company on Friday, 25th August, 2006. Together with the interim dividend of HK$0.20 (2005: HK$0.20) and special dividend of HK$0.18 (2005: Nil) per share paid in January 2006, the total dividends for the year amounted to HK$0.68 (2005: HK$0.45) per share, 51% more than last year and representing a dividend payout of 57%. Subject to the approval of shareholders at the forthcoming Annual General Meeting, the dividend warrants will be distributed and paid on or about Thursday, 5th October, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Construction and Engineering

During the year, turnover of this segment increased by 10% to HK$2,524 million with operating profit at HK$182 million, up 13% from last year's. The overall percentage of operating profit to turnover remained at around 7%.

Keen competition in both the Hong Kong and Singapore markets adversely affected the performance of the Lifts and Escalators Division. However, with the property market in Hong Kong and Singapore showing signs of recovery, and the division having been recently awarded contracts to install lifts and escalators for renowned projects in Mainland China such as the Chengdu Shangri-La Hotel and office development and the Dalian Commodity Tower, the division expects to remain its profit contribution in the coming year.

Installation of curtain wall for Citygate Hotel Tower

The Aluminium Windows and Curtain Walls Division performed well during the year due to cyclical improvement in construction market. Supported by an advanced manufacturing plant in Mainland China, a strong design engineering team in Australia and teams of seasoned project management professionals, the division is able to complete any job smoothly, on time and within budget. It has also recently secured foothold in Japan and Shanghai, marking the extension of its geographical reach. Major contracts in progress during the year included:

- Tower 21, Union Square of Kowloon Station
- Citygate Hotel in Tung Chung
- Kowloon Bus Depots in Mei Fu
- Hongkong Sanatorium Hospital Phase 3
- MGM Grand Hotel in Macau

Contribution from projects in Macau boosted the performance of the Environmental, Electrical and Mechanical Engineering Division. Major contracts in progress included:

Installation of HVAC system for Grand Lisboa Hotel in Macau, which is under construction

- Supply and installation of electrical and mechanical equipment for Tai Po Sewage Treatment Works Stage V Phase I
- Enhancement of Hypochlorite Dosing Plant for CLPP Power Station
- Supply and installation of Combined Heat and Power Generating Set System at Shek Wu Hui Sewage Treatment Works
- Electrical installation for a hotel development in Hung Hom Bay
- Mechanical installation for Wynn Resorts and its extension in Macau
- HVAC System installation for Grand Lisboa Hotel and Casino in Macau

Chevalier was awarded the contract to build the Hong Kong Community College by the Hong Kong Polytechnic University

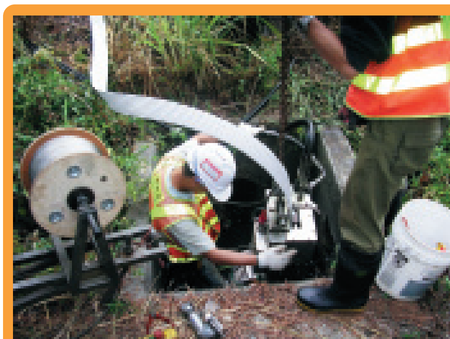
The Building Construction Division performed within expectation with results affected by market competition. The total value of contracts the division has on hand amounted to approximately HK$605 million. Major contracts in progress during the year included:

- Hong Kong Jockey Club Enterprise Centre at the Hong Kong University of Science and Technology
- Hong Kong Community College Development at Hong Kong Polytechnic University
- International school in Ma On Shan for the English Schools Foundations
- Primary school in Area 12, Yuen Long, the New Territories

The Chevalier Pipe Technologies Group ("CPT") pools together all pipe rehabilitation expertise of Chevalier companies in sales and technical solution, technology support and construction. It will continue to restructure operation to improve efficiency. All CPT companies, like NordiTube Belgium, RibLoc Australia and Chevalier Pipe Rehabilitation Hongkong reported increased turnover for the reporting year.

Pipe rehabilitation projects of Chevalier exist all over the world. Picture shows the project at Hamburg, Germany

In addition to the already established businesses of CPT, Chevalier's latest acquisition of Kanal-Muller-Gruppe GmbH ("KMG") is expected to give CPT a major impetus for growth in Europe. With 50 years of success and leadership in pipe maintenance and rehabilitation in Europe, KMG has been one of the region's leading companies in the field of trenchless sewer rehabilitation. A pioneer in Cured in Place technologies, KMG played an instrumental role in developing the German market for the patented technologies in the early nineties and has championed related technological and environmental standards.



Ribloc installation at Hung Shui Kiu

With KMG on board since 2004, the Pipe Technologies Division has evolved from a local specialist into a major player in Europe and the Middle East with an enlarged portfolio of applications in pipe rehabilitation and construction, waste disposal and industrial pipe infrastructure.

Insurance and Investment

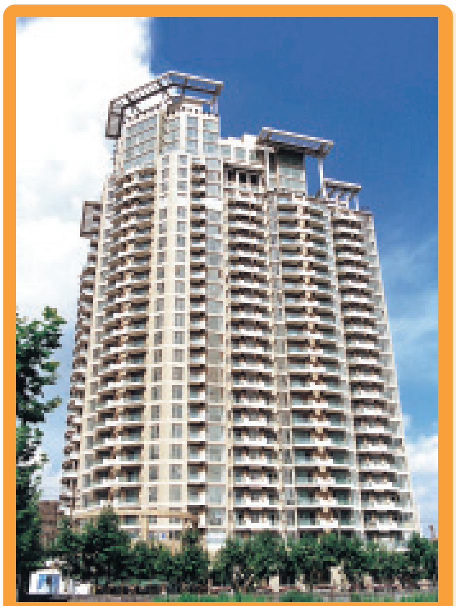
Turnover of the segment increased from HK$516 million last year to HK$1,015 million this year, and its profit contribution increased substantially from HK$56 million to HK$97 million. The tremendous increase was made up mainly of investment income, which grew in line with the worldwide financial market upturn during the year under review.

Our investment objective is to achieve good financial returns at calculated risks while maintaining adequate liquidity for meeting insurance claim commitments and protection of capital. Our investment committee comprising several executive directors and aided by investment professionals and fund houses is responsible for managing closely our investment portfolio to achieve set targets. Investment decisions are made prudently after taking into account risks in relation to capital gain potential, and also the need to diversify investment across different risk types, businesses and geographies. The Group will continue to adopt a prudent and conservative approach in managing its HK$1.4 billion investment portfolio, around 60% of which is in principal-protected fixed interest instruments, high yield notes, bank deposits and other fixed income instruments, and the balance in equity and funds. The proven investment strategy coupled with a favourable investment market explained the segment's significant profit growth for the year.

The primary goal of our underwriting business is to achieve an underwriting profit, while providing capital for achieving moderate financial returns from asset management. The Group has been very disciplined in selecting insurance products and demands policies underwritten to have adequate premium as well as appropriate terms and conditions to cover associated risks. In the past two years, we strategically reduced our underwriting business in combat of cut-throat competition in labour compensation insurance for the construction industry where premium rates were lowered to levels not justifying the risk of compensating the claims. However, the Group expects this market situation to change and the business to recover gradually in the coming years.

Property and Hotel

This segment performed well during the year with turnover slightly decreased by 2% from HK$535 million to HK$523 million. Operating profit including surplus from revaluation of property of this segment increased from HK$196 million last year to HK$204 million. Excluding the revaluation surplus, operating profit rose from HK$151.7 million to HK$172.4 million. The segment benefited mainly from the timely launch of units at Chevalier Place in Shanghai, steady contribution in cold-storage rental revenue and rental income from investment properties.



Chevalier Place, Shanghai

With economic conditions improving, income from rental properties in Hong Kong continued to grow last year. All the Group's investment properties were almost fully occupied, thus provided steady revenue and earnings. Chevalier Place, the luxury residential property at a prime location in the city center of Shanghai, which was launched for sale in 2005, was well received by the market. Two-third of the units have been sold since the launch, generating total sales proceeds of approximately HK$490 million, of which HK$254 million was booked for this financial year.

The Group increased investment in property development projects in Mainland China, riding on its solid experience in managing property projects in Hong Kong. The Group expects the economic austerity measures imposed by the Chinese Government recently to regulate the property market and control luxury units would help stabilise property prices in the short-term and calm the overheated market. In the longer term, taking into account the country's easing monetary policies, the under-valued RMB, strong growth in household income and restrictions on land supply, continual healthy development is expected for the mainland property market. As the Group will be mainly pursuing cooperation with various partners to develop affordable middle- to high-end real estates in second-tier cities such as Chengdu, Hefei, Dongguan and Shenzhen, it is not expected the said austerity measures would significantly impact on the Group in the long run. Currently, the Group is engaged in residential and commercial property projects in the PRC of an estimated total gross floor area of about 1.3 million sq.m. in which the Group has about one half of the interest. Certain projects are expected to start contributing revenue in 2007.

The Property Management Division provides management services for commercial and industrial buildings, residential units, shopping arcades, car parks and other communal facilities, serving a total floor area of over 2 million sq. m. in Hong Kong. The division recently received the Bronze Award of the 2006 Quality Award from the Hong Kong Management Association in recognition of its quality property management service. In addition to the business in Hong Kong, the division is licensed in various cities in Mainland China and has been awarded management contracts for luxurious high-rise residential buildings, villas and commercial buildings in Shanghai and Chengdu, involving a total floor area of over 220,000 sq.m. Supported by the Group's expanding property development portfolio in Mainland China, the division is poised to secure more property management business in the foreseeable future.


The Property Management Division has won the Bronze Award of the 2006 Quality Award

Performance of the Group's 18-storey and 428,000 sq.ft. cold storage facility in Kwai Chung was satisfactory. The services it provides include freezer compartments for storing meat, seafood and frozen foodstuffs, air-conditioned rooms for confectioneries, film, glue and medicine, and bonded warehouse for storing dutiable goods including tobacco and liquors. Since operation, the warehouse has maintained a highly satisfactory occupancy rate and stable profit contribution. The Group expects steady rental income from the logistics and warehousing business and in turn satisfactory return to the Group.

The occupancy rates of the Chevalier Hotels in Xinyang, Dongguan and Jiujiang and the Rosedale on Robson Suite Hotel in Vancouver were similar to last year. The Group will continue to implement measures to contain costs and realign manpower resources with the aim of improving the profitability and efficiency of its hotel business.

IT, Food & Beverage and Others

Although turnover contributed by the Computer and Information Communication Technology segment decreased a slight 5% to HK$539 million, the segment's operating profit increased substantially from HK$1.5 million to HK$18.4 million. Such strong increment was mainly attributable to the strong growth in profit of the notebook computer distribution business in Hong Kong. The restructuring of Thailand operation and streamlining of operations of the Business Machines Division in Singapore and the PRC also contributed to the remarkable improvement in the segment's profitability.

Pacific Coffee opened up the China market in the year 2005/06

Pacific Coffee, acquired by the Group in May 2005, contributed a 10-month turnover of HK$180 million to the new Food and Beverage Division for the year, with profit amounting to HK$18.8 million. Pacific Coffee continued its growth plan in Hong Kong and Singapore and expanded into the PRC market. Before the acquisition in May 2005, Pacific Coffee had a total of 44 outlets. Currently, it operates a total of 57 outlets, including 44 in Hong Kong, 8 in Singapore, 3 in Shanghai and 2 in Beijing . It also plans to expand business to Macau before the end of this year. Seeing tremendous growth potential for its food and beverage businesses in the region, the Group will further develop the business to obtain economy of scale and broaden the income stream by adding new stores to the Pacific Coffee chain.

Toyota Dealership invested by Chevalier in Chengdu, China

As for the Motor Vehicles and Food Trading Division, both Action Honda and Chevalier Chrysler in Canada sell a variety of the latest automobile models and provide professional after-sales and maintenance services to customers. Action Honda competed with another 211 Honda dealers for the 2006 Honda Quality Dealer Award in Canada, and was among the 65 dealers who won the prestigious title. In its bid to tap potential business resulting from the improving living standard and income of mainlanders, the Group invested in a car dealership venture in Chengdu in January 2006 to run two full-service dealership outlets for Toyota and Nissan respectively.

PROSPECTS

The Hong Kong economy has been recovering since 2003 and 2005 was another year of robust growth. However, Hong Kong is susceptible to changes in the external environment and moderate real growth is expected for it in 2006, heeding the slow down of growth in both exports and domestic demand. The slacking economy of import countries, especially the US, will affect export growth and rising interest rates are expected to dampen consumer demand.

Nevertheless, 2005/06 marked a fruitful year of Chevalier Group in terms of turnover and profit. Following our strategy of expansion and diversification, apart from the steady performance record in our existing lines of businesses, the Group will continue to capitalise on its organic growth and will explore and expand our existing operations. CPT will strive to continue to strengthen its presence in North America with the aim of achieving sustainable success. The increase in turnover, continuous internal restructuring and further penetration of the Europe market have brought the Group another step closer to achieving its goal – to be a key player in the underground infrastructure sector.

In Mainland China, the economy grew by 10.9% in the first half of 2006. However, with its two key drivers – exports and investment – both flattening, the economy is expected to slow down in 2006. The country tightening its monetary policy will also threaten growth. Mainland China's growth figures for the first and second quarters have sparked concerns about an overheating economy and that prompted the People's Bank of China to raise the one-year lending rate by 0.27% point to 5.85% in April. In May this year, the central government unveiled a package of policies and measures to cool property prices and stimulate construction of homes for the low-to middle-income group. Although these measures will have greater impact on short-term speculators, there will be a mild impact on our development projects in the short term as most of our projects are still under construction and are not in the luxurious property category. The Group's strategy is looking for long-term capital growth and our target customers are mid-income level in the second tier cities. Leveraging on the expertise and experience of our local partners, we will closely monitor the latest development of the property market in the PRC and adjust our pace of property development in a prudent manner.

For Pacific Coffee, the Group sees bright prospects in Mainland China. Aided by government efforts to encourage private consumption and boost the retail sector, growth of the services sector in the Mainland will accelerate, a trend favourable for Pacific Coffee looking to expand in the country.

In the fourth quarter of 2005, the Macau economy grew 8.9% in real terms while 6.7% was recorded for the entire 2005. The city can expect investment in gaming industry and tourism facilities to remain strong and its government to continue to spend significantly on public works. To tap the opportunities in the steady growth of Macau economy, the Group has established strong presence in the city and will continue to develop its businesses such as construction and engineering in the market.

Board of Directors
Front row from left: Kuok Hoi Sang; Chow Yei Ching; Fung Pak Kwan
Back row from left: Tam Kwok Wing; Ho Chung Leung; Chow Vee Tsung, Oscar; Kan Ka Hon

With potential interest rate hikes and inflation still causing concern, the Group will seek to strengthen and expand its core business operations and explore with caution different business opportunities so as to bring maximum returns to its shareholders.

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, which had seen the Group achieved a fruitful year.

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

Hong Kong, 24th July, 2006