

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, 2006.

Principal Activities

The principal activity of the Company is investment holding while the principal activities of its principal subsidiaries and associate are shown on pages 71 and 72 and note 19 to the financial statements respectively.

The Group's turnover and results for the year ended 31st March, 2006 analysed by business and geographical segments are set out in note 35 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31st March, 2006 are set out in the consolidated income statement on page 27. An interim dividend of HK3 cents per share was paid on Thursday, 12th January, 2006. The Directors now recommend the payment of a final dividend of HK5 cents per share.

Share Capital

Movements in the Company's share capital during the year are set out in note 32 to the financial statements.

Share Option Scheme

Particulars of the share option scheme to subscribe for shares in the Company during the year are set out in note 40 to the financial statements.

Reserves

Movements in reserves during the year are set out in page 30 to the financial statements.

Investment Properties

Movements in investment properties during the year are set out in note 14 to the financial statements.

Property, Plant and Equipment

Movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

Financial Summary

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

Major Customers and Suppliers

The five largest suppliers accounted for 82% of the Group's purchases for the year whereas the five largest customers accounted for 22% of the Group's sales for the year. The largest supplier and the largest customer accounted for 73% and 3% of the Group's purchases and sales respectively. None of the Directors, their associates nor 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.

Major Properties

Particulars of the major properties of the Group as at 31st March, 2006 are set out in page 13.

Employees and Remuneration Policies

As at 31st March, 2006, the Group employed approximately 846 full time staff globally. Total staff costs amounted to approximately HK\$112 million for the year ended 31st March, 2006. 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\$145,000 to charitable bodies.

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.

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)</i>
Mr FUNG Pak Kwan	<i>(Managing Director)</i>
Mr KUOK Hoi Sang	
Mr CHOW Vee Tsung, Oscar	<i>(Appointed on 18th April, 2005)</i>
Mr KAN Ka Hon	
Miss Lily CHOW	

Independent Non-Executive Directors

Mr Shinichi YONEHARA
Mr WU King Cheong
Mr KWONG Man Sing

In accordance with the Company's Bye-laws, Messrs CHOW Yei Ching, FUNG Pak Kwan, KUOK Hoi Sang, KAN Ka Hon, Shinichi YONEHARA and WU King Cheong shall retire from office at the forthcoming Annual General Meeting and, being eligible, 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, FUNG Pak Kwan, KUOK Hoi Sang, CHOW Vee Tsung, Oscar, KAN Ka Hon and Shinichi YONEHARA are interested in certain contracts in that they are the Directors and/or have beneficial interests in Chevalier International Holdings Limited ("CIHL"). Details of these contracts are more fully disclosed in the section "Connected Transactions" below.

Save as aforementioned, no other contract of significance to which the Company or its holding company or any of its subsidiaries or fellow 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.

Continuing Connected Transactions

The Group has from time to time conducted transactions with CIHL and its subsidiaries (the "CIHL Group") which are "connected persons" for the purposes of the Listing Rules.

During the year ended 31st March, 2006, the Company has in effect the continuing connected transactions set out below which are non-exempt continuing connected transactions under the Listing Rules. The following tenancy agreements (the "Tenancy Agreements") were entered into by Chevalier (OA) Holdings Limited, a wholly-owned subsidiary of the Company as tenant with the following subsidiaries of CIHL as landlord(s). Details of the transactions are set out as follows:-

Landlord	Date of Agreement	Terms	Premises	Rental for the year (HK\$)
Winfield Development Limited	30th September, 2004	2 years commencing from 1st October, 2004	Portion of 3rd Floor of Chevalier Warehouse Building, 1 On Fuk Street, On Lok Tsuen, Fanling, New Territories, Hong Kong	601,704
Peak Gain Limited	30th September, 2004	2 years commencing from 1st October, 2004	Portion of 6th, 7th, 8th, 9th and 10th Floors of Chevalier Engineering Service Centre, 21 Sheung Yuet Road, Kowloon Bay, Hong Kong	3,568,212
Oriental Sharp Limited	30th September, 2004	2 years commencing from 1st October, 2004	Portion of 19th and 22nd Floors of Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong	135,480

During the year, rentals for the Tenancy Agreements amounting to approximately HK\$4.3 million were paid to the CIHL Group.

Announcement was published on 3rd November, 2004 regarding the Tenancy Agreements in accordance with the Listing Rules. The Transactions were subject to the reporting and announcement requirements under Rule 14A.34 of the Listing Rules and were exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The Company had complied with the reporting and announcement requirements set out in Rules 14A.37 to 14A.40 and Rules 14A.45 to 14A.47 of the Listing Rules.

All the continuing connected transactions under the Tenancy Agreements (the "Transactions") were entered in the ordinary and usual course of business of the respective companies after due negotiations on an arm's length basis with reference to the prevailing market conditions.

The Transactions have been reviewed by the Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors of the Company have confirmed that the continuing connected transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to/from independent third parties;
- (iii) in accordance with the relevant agreements governing such transactions; and
- (iv) on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Continuing Connected Transactions – continued

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the connected transactions of the Group to assist the Directors to evaluate whether the Transactions:

1. have received the approval from the Board of Directors;
2. have been entered into in accordance with the terms of the relevant agreement governing such transactions; and
3. have not exceeded the relevant cap amount for the financial year ended 31st March, 2006 as set out in the Announcement.

The auditors have reported their factual findings on these procedures to the Board of Directors. All Independent Non-Executive Directors of the Company have reviewed the Transactions and the report of the auditors and confirmed that the Transactions:

1. have received the approval from the Board of Directors;
2. have been entered into in accordance with the terms of the relevant agreement governing such transactions; and
3. have not exceeded the relevant cap amount for the financial year ended 31st March, 2006 as set out in the Announcement.

Directors' and Chief Executives' Interests in Securities

As at 31st March, 2006, the interests and short positions of the Directors and the chief executives of the Company in the share, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register to be kept 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 were as follows:

(a) Interests in the Company – Shares

Name of Directors	Capacity	Number of ordinary shares			Approximate percentage of interest (%)
		Personal interests	Corporate interests	Total	
CHOW Yei Ching	Beneficial owner and interest of controlled corporation	6,815,854	104,198,933*	111,014,787	64.79
FUNG Pak Kwan	Beneficial owner	2,580,000	–	2,580,000	1.5
KUOK Hoi Sang	Beneficial owner	2,400,000	–	2,400,000	1.4
KAN Ka Hon	Beneficial owner	451,200	–	451,200	0.26
Shinichi YONEHARA	Beneficial owner	600	–	600	0.00035

* Dr CHOW Yei Ching has notified the Company that under the SFO, he was deemed to be interested in 104,198,933 shares of the Company which were held by CIHL as Dr Chow beneficially owned 147,738,359 shares in CIHL, representing approximately 53.03% of the issued share capital of CIHL. Dr Chow was deemed to be interested in these shares under the SFO and these shares were same as those shares disclosed in the section "Substantial Shareholders' Interests in Securities" below.

Directors' and Chief Executives' Interests in Securities – continued**(b) Interests in Associated Corporation – Shares**

Name of Directors	Associated corporation	Capacity	Number of ordinary shares		Approximate percentage of interest (%)
			Personal interests	Total	
CHOW Yei Ching	CIHL	Beneficial owner	147,738,359	147,738,359	53.03
FUNG Pak Kwan	CIHL	Beneficial owner	93,479	93,479	0.03
KUOK Hoi Sang	CIHL	Beneficial owner	98,216	98,216	0.04
KAN Ka Hon	CIHL	Beneficial owner	29,040	29,040	0.01
Shinichi YONEHARA	CIHL	Beneficial owner	1,671	1,671	0.0006

Save as disclosed above and in "Share Option Schemes" below, as at 31st March, 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 "CiTL Scheme") was approved by the shareholders of CIHL and shareholders of the Company on 20th September, 2002. Another share option scheme of CIHL (the "CIHL Scheme") was also approved by the shareholders of CIHL on 20th September, 2002. The CiTL Scheme and the CIHL Scheme fully comply with Chapter 17 of the Listing Rules. During the year, no share option was granted, exercised, cancelled or lapsed under the CiTL Scheme and the CIHL Scheme. There was no outstanding option under the CiTL Scheme and the CIHL 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).

Management Contracts

Apart from the management agreement entered into with CIHL Group as set out in note 42(a) to the financial statements, no other 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, aged 70, is the founder of Chevalier Group since 1970. He is the Chairman and Managing Director of CIHL, a public company listed on the Stock Exchange and a substantial shareholder of the Company. 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 and Miss Lily Chow, Executive Directors of the Company. Dr Chow is a director of Chevalier (HK) Limited ("CHK") and Firstland Company Limited ("Firstland") which are the wholly-owned subsidiaries of CIHL and the substantial shareholders of the Company. CHK, Firstland and CIHL have a discloseable interest in the capital of the Company under the SFO.

Mr FUNG Pak Kwan, Managing Director, aged 54, joined Chevalier Group in 1974 and is a Director of CIHL, a public company listed on the Stock Exchange and a substantial shareholder of the Company. 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, hotel business in North America and food & beverage business of the Chevalier Group. Mr Fung is a director of CHK and Firstland which are the wholly-owned subsidiaries of CIHL and the substantial shareholders of the Company. CHK, Firstland and CIHL have a discloseable interest in the capital of the Company under the SFO.

Mr KUOK Hoi Sang, Director, aged 56, joined Chevalier Group in 1972 and is the Managing Director of CIHL, a public company listed on the Stock Exchange and a substantial shareholder of the Company. 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 Kuok is a director of CHK and Firstland which are the wholly-owned subsidiaries of CIHL and the substantial shareholders of the Company. CHK, Firstland and CIHL have a discloseable interest in the capital of the Company under the SFO.

Mr CHOW Vee Tsung, Oscar, Director, aged 32, joined Chevalier Group in 2000 and is a Director of CIHL, a public company listed on the Stock Exchange and a substantial shareholder of the Company. 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 of the Company and is also a brother of Ms Lily Chow, an Executive Director of the Company. Mr Chow is a director of CHK and Firstland which are the wholly-owned subsidiaries of CIHL and the substantial shareholders of the Company. CHK, Firstland and CIHL have a discloseable interest in the capital of the Company under the SFO.

Directors' Biographies – continued

Executive Directors – continued

Mr KAN Ka Hon, Director and Company Secretary, aged 55, joined Chevalier Group in 1986 and is a Director and Company Secretary of CIHL, a public company listed on the Stock Exchange and a substantial shareholder of the Company. He is an Independent Non-Executive Director of Victory City International Holdings Limited and Easyknit Enterprises 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 Kan is a director of CHK and Firstland which are the wholly-owned subsidiaries of CIHL and the substantial shareholders of the Company. CHK, Firstland and CIHL have a discloseable interest in the capital of the Company under the SFO.

Miss Lily CHOW, Director, aged 43, joined Chevalier Group in 1990. She is responsible for strategic planning and business development of the Group. She is also a member of Guangdong Provincial Committee of Chinese People's Consultative Conference, Committee of Taiwan, Hong Kong, Macau and Overseas of the Zhejiang Provincial Committee of Chinese People's Political Conference and Shanghai Women's Federation Committee. She holds a Bachelor Degree and is the daughter of Dr CHOW Yei Ching, the Chairman of the Company and is also a sister of Mr Chow Vee Tsung, Oscar, an Executive Director of the Company.

Independent Non-Executive Directors

Mr Shinichi YONEHARA, aged 55, was appointed as an Independent Non-Executive Director in 2001 and a member of the Audit Committee and Remuneration Committee of the Company. He is a graduate of Keio University, Japan. Mr Yonehara joined Mitsui & Co., Ltd in 1974 and retired in January 2001. He was appointed General Manager for Machinery Division of Mitsui & Company (Hong Kong) Limited from 1983 to 1992. Mr Yonehara is well-experienced in aircraft, telecommunications and IT businesses.

Mr WU King Cheong, aged 55, was appointed as an Independent Non-Executive Director in October, 2002 and a member of the Audit Committee and Remuneration Committee of the Company. He is an Executive Director of Lee Cheong Gold Dealers Limited. He is also a Councillor of the Eastern District Council of the HKSAR, Assistant Treasurer of the Chinese General Chamber of Commerce and Member of Hong Kong Housing Authority, as well as the Honorary Permanent President of the Chinese Gold and Silver Exchange Society and the Hong Kong Stockbrokers Association. He is also an Independent Non-Executive Director of Yau Lee Holdings Limited, Henderson Land Development Company Limited, Henderson Investment Limited, Miramar Hotel and Investment Co., Ltd. and Hong Kong Ferry (Holdings) Company Limited, all of which are companies listed on the Stock Exchange.

Mr KWONG Man Sing, aged 60, was appointed as an Independent Non-Executive Director in 2004 and a member of the Audit Committee and Remuneration Committee of the Company. He is a professional accountant and also holds a Bachelor degree of Applied Science in Electrical Engineering of University of Toronto. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Canadian Institute of Chartered Accountants. Mr Kwong was with PricewaterhouseCoopers, Certified Public Accountants for more than 32 years, of which he was an audit partner since 1980 until he retired from the firm on 30th June 2002.

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.

Retirement Schemes – continued

Pursuant to Government legislation, Bank Consortium Trust Company Limited was selected by the Group as an alternative Mandatory Provident Fund (“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\$20,000 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\$5,093,000 against which the forfeited contributions amounting to HK\$201,000 have been deducted. There were forfeited contributions amounting to HK\$57,000 available at the year end date for the reduction of future employer’s contributions.

Substantial Shareholders’ Interests in Securities

As at 31st March, 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 Shareholders	Number of shares held	Approximate percentage of interest (%)
CHOW Yei Ching	111,014,787 (Notes 1 and 3)	64.79
MIYAKAWA Michiko	111,014,787 (Notes 2 and 3)	64.79
CIHL	104,198,933 (Note 3)	60.81
CHK	13,471,200 (Note 3)	7.86
Firstland	13,471,200 (Note 3)	7.86

Notes:

- Under the SFO, these shares were held by Dr Chow as (i) personal interests of 6,815,854, (ii) corporate interests of 104,198,933 in which Dr Chow was deemed to be interested.
- Under Part XV of the SFO, Ms Miyakawa Michiko, the spouse of Dr Chow, was deemed to be interested in the same parcel of 111,014,787 shares held by Dr Chow.
- These shares were held as interest of controlled corporation through Firstland, a company incorporated in Hong Kong and a wholly-owned subsidiary of CHK. CHK is a company incorporated in Hong Kong and a wholly-owned subsidiary of CIHL. CIHL is a company incorporated in Bermuda. Under Part XV of the SFO, CHK, CIHL, Dr Chow and his spouse were deemed to be interested in 13,471,200 shares.

Save as disclosed above, as at 31st March, 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 its associated corporations, at no time during the year was the Company or its holding company or any of its subsidiaries or fellow 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.

Corporate Governance

The Board of the Company is committed to maintain high standards of corporate governance. The Company has complied throughout the year ended 31st March, 2006 with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules with exception of deviation. Detailed information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in pages 14 to 16 of the Annual Report.

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 24th July, 2006, 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 at the forthcoming Annual General Meeting.

On behalf of the Board

CHOW Yei Ching
Chairman

Hong Kong, 24th July, 2006