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CHEVALIER INTERNATIONAL HOLDINGS LIMITED

其士國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 025)

CONTINUING CONNECTED TRANSACTIONS

Financial adviser to Chevalier International Holdings Limited


Optima Capital Limited

**Independent financial adviser to
the Independent Board Committee and the independent Shareholders**

Hercules
Hercules Capital Limited

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Agreements”	together, the Elevator Distribution Agreement and the Office Equipment Distribution Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CHKL”	Chevalier (HK) Limited, a wholly-owned subsidiary of the Company as at the date of the Sale and Purchase Agreement
“CHKL Group”	CHKL together with its subsidiaries and its associated company, Shiba Tech Corporation Limited, as at the First Closing
“CHKL Sale Shares”	a total of 51% of the issued share capital of CHKL as at the Second Closing
“Circular”	the circular of the Company dated 23 January 2009 in relation to, among other things, the Disposal
“Company”	Chevalier International Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 25)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Convertible Bonds”	the 2.125% convertible bonds due 2011 of the Company
“Corporate Guarantee”	the irrevocable and unlimited corporate guarantee to be given by the Company in respect of the borrowings or finance of the CHKL Group pursuant to the Shareholders’ Agreement
“CPHL”	Chevalier Pacific Holdings Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code : 508) and a subsidiary of the Company
“Directors”	the directors of the Company
“Disposal”	the disposal of the CHKL Sale Shares pursuant to the Sale and Purchase Agreement
“Dr. Chow”	Dr. Chow Yei Ching, the Chairman and Managing Director of the Company and the controlling Shareholder
“Elevator Business”	the business of research and development, design, assembly, sale, marketing, distribution, installation, maintenance, repair and/or servicing of elevators, escalators, autowalks, moving ramp products and/or their derivative products and/or their components, and manufacturing of components of elevators, escalators, autowalks, moving ramp products and/or their derivative products
“Elevator Distribution Agreement”	the master agreement dated 12 February 2009 between the Company and TELC in relation to the distribution of the Elevator Products
“Elevator Products”	the elevators and escalators and their parts manufactured by or for the TELC Group
“First Closing”	closing of the sale and purchase of 49% of the issued share capital of CHKL and the transfer of the beneficial interest in 20% of the registered capital of Toshiba Elevator (Shenyang) Co., Ltd. and 20% of the registered capital of Toshiba Elevator (China) Co., Ltd., on or before 31 March 2009 unless agreed to be postponed by both the Company and TELC
“First Closing Date”	the date on which First Closing takes place
“Group”	the Company and its subsidiaries
“Hercules”	Hercules Capital Limited, being a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee and the independent Shareholders in connection with the terms of the Agreements and the provision of the Corporate Guarantee during the Relevant Period
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Board (comprising all the three independent non-executive Directors) constituted to give recommendations to the independent Shareholders as regards the Agreements and the provision of the Corporate Guarantee during the Relevant Period
“Latest Practicable Date”	11 March 2009, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Maintenance Commission”	the commission payable by the Group to the TELC Group in respect of the maintenance fees to be received by the Group for maintenance services for the Elevator Products to be provided by the Group to its customers pursuant to the Elevator Distribution Agreement
“Marketing Fee”	the payment by the Toshiba Group to the Group to contribute part of the marketing, advertisement and sales promotion costs incurred by the Group in respect of the Office Equipment Products pursuant to the Office Equipment Distribution Agreement
“Office Equipment Distribution Agreement”	the master agreement dated 12 February 2009 between the Company and Toshiba in relation to the distribution of the Office Equipment Products
“Office Equipment Products”	the office automation and communication equipment and products bearing the trademarks of “TOSHIBA” and “東芝” including, without limitation, copiers, facsimiles, note-book computers, key telephone systems, point of sale systems, bar-code printers and their respective spare parts, options, accessories, consumables and related products
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purpose of this circular
“Relevant Period”	the period following the First Closing and prior to the Second Closing
“Sale and Purchase Agreement”	the agreement dated 28 November 2008 entered into between the Company and TELC in relation to, among other things, the Disposal
“Second Closing”	closing of the sale and purchase of 2% of the issued share capital of CHKL on or before 31 March 2010 or any other dates as agreed by both the Company and TELC
“Second Closing Date”	the date on which the Second Closing takes place
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders’ Agreement”	the shareholders’ agreement to be executed by the Company and TELC on the First Closing Date to regulate their respective rights and obligations in CHKL, Toshiba Elevator (Shenyang) Co., Ltd. and Toshiba Elevator (China) Co., Ltd. as shareholders
“Share(s)”	ordinary share(s) of HK\$1.25 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TELC”	Toshiba Elevator and Building Systems Corporation
“TELC Group”	TELC and its subsidiaries
“Toshiba”	Toshiba Corporation, a corporation organised and existing under the laws of Japan
“Toshiba Group”	Toshiba and its subsidiaries, including the TELC Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

LETTER FROM THE BOARD



CHEVALIER INTERNATIONAL HOLDINGS LIMITED

其士國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 025)

Executive Directors:

Chow Yei Ching (Chairman and Managing Director)
Kuok Hoi Sang (Vice Chairman and Managing Director)
Tam Kwok Wing (Deputy Managing Director)
Chow Vee Tsung, Oscar
Ho Chung Leung
Ho Sai Hou

Independent non-executive Directors:

Chow Ming Kuen, Joseph O.B.E., J.P.
Sun Kai Dah, George
Yang Chuen Liang, Charles J.P.

Registered office:

Canon's Court
22 Victoria Street
Hamilton, HM 12
Bermuda

Head office and principal place of business:

22nd Floor
Chevalier Commercial Centre
8 Wang Hoi Road
Kowloon Bay
Hong Kong

13 March 2009

*To the Shareholders and, for information only,
holders of the Convertible Bonds*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

On 20 February 2009, the Company announced that the Company entered into the Elevator Distribution Agreement with TELC and the Office Equipment Distribution Agreement with Toshiba on 12 February 2009 in relation to, among other things, the distribution of the Elevator Products and the sale and purchase of the Office Equipment Products respectively. The transactions contemplated under the Agreements will constitute continuing connected transactions for the Company under the Listing Rules. As each of the annual caps for the purchases of Elevator Products and Office Equipment Products by the Group from the TELC Group and the Toshiba Group respectively and the payment of the Maintenance Commission by the Group to the TELC Group for the year ending 31 March 2010 exceeds 2.5% of each of the applicable percentage ratios (other than the profits ratio) of the Company under the Listing Rules, these transactions are subject to the reporting, announcement and independent Shareholders' approval requirements set out in Rule 14A.35 of the Listing Rules.

Besides, on the First Closing Date, the Company and TELC shall enter into the Shareholders' Agreement. Among other things, it would be one of the terms of the Shareholders' Agreement that the Company shall continue to provide the Corporate Guarantee in respect of the borrowings or finance of the CHKL Group during the Relevant Period and, in the case of non-Toshiba business in Singapore, a period of two years after the First Closing, provided that TELC will provide a counter indemnity in favour of the Company for such guarantee to the extent of TELC's shareholdings in CHKL save and except for non-Toshiba business in Singapore. Each of the Company and TELC also undertakes that it shall, after the Relevant Period and, in the case of non-Toshiba business in Singapore, a period of two years after the First Closing, provide irrevocable and unlimited guarantee in respect of the borrowings or finance of the CHKL Group proportionate to its then shareholding in CHKL. The provision of the Corporate Guarantee during the Relevant Period constitutes a continuing connected transaction for the Company and is subject to independent Shareholders' approval.

* For identification purpose only

LETTER FROM THE BOARD

Neither Toshiba nor any of its associates hold any Shares as at the date hereof. Accordingly, no existing Shareholder has a material interest in the Agreements or the provision of the Corporate Guarantee which is different from the other Shareholders, and therefore all Shareholders are considered independent and no Shareholder is required to abstain from voting on the transactions contemplated under the Agreements and the provision of the Corporate Guarantee. Dr. Chow, the controlling Shareholder holding 154,682,359 Shares, representing approximately 55.73% of the total issued Shares as at the date hereof, has given his written consent to the transactions contemplated under the Agreements and the provision of the Corporate Guarantee during and after the Relevant Period. The Company has submitted an application to the Stock Exchange, and the Stock Exchange has granted, a waiver from holding a Shareholders' meeting pursuant to Rule 14A.43 of the Listing Rules and that a written independent Shareholders' approval be accepted in lieu of holding a general meeting.

The purpose of this circular is to provide you with, among other things, information on the Agreements and the Corporate Guarantee, the letters from the independent committee of the Board and the independent financial adviser containing their respective opinions on the Agreements and the provision of the Corporate Guarantee during the Relevant Period.

BACKGROUND

Reference is made to the announcement of the Company dated 4 December 2008 and the Circular of the Company dated 23 January 2009 in relation to, among other things, the disposal of the CHKL Sale Shares.

As mentioned in the Circular, following the First Closing, the Company will hold a 51% interest in CHKL and CHKL will be accounted for as a subsidiary of the Company. After the Second Closing, the Company will continue to hold a 49% interest in CHKL and CHKL will be accounted for as an associated company of the Company. During the Relevant Period, as TELC will become a substantial shareholder of CHKL, Toshiba and its associates including TELC will become connected persons of the Company under the Listing Rules.

Members of the Group have been the distributor of the Elevator Products manufactured by the TELC Group since 1970, with responsibility for sales, engineering and maintenance in Hong Kong and Singapore. As part of the distribution arrangement, the Group has been paying maintenance commission to the TELC Group. Members of the Group have also been purchasing the Office Equipment Products manufactured by the Toshiba Group for re-sale in Hong Kong and Macau since 1983. Certain affiliates of the Toshiba Group in Hong Kong are also customers of the Group for such Office Equipment Products. Furthermore, the Group has been undertaking marketing and promotional activities in connection with the Office Equipment Products. Subject to the entering into of separate agreements between the Group and the Toshiba Group, the Toshiba Group shall make payment to the Group to contribute part of the marketing expenses incurred by the Group if written agreement can be reached between them on the detailed arrangements and the amounts of the contribution. The purchase of the Elevator Products from the TELC Group, the payment of the Maintenance Commission by the Group to the TELC Group, the purchase and sale of the Office Equipment Products from/to the Toshiba Group, and the payment of the Marketing Fee by the Toshiba Group to the Group will constitute continuing connected transactions for the Company under the Listing Rules during the Relevant Period.

In anticipation of the First Closing and in compliance with the applicable requirements of the Listing Rules, on 12 February 2009, the parties entered into the Elevator Distribution Agreement and the Office Equipment Distribution Agreement, which serve as framework agreements between the parties for the sale and purchase of the Elevator Products and Office Equipment Products respectively. Details of the Elevator Distribution Agreement and the Office Equipment Distribution Agreement are set out below.

THE ELEVATOR DISTRIBUTION AGREEMENT

Date

12 February 2009

Parties

- (i) TELC (as supplier); and
- (ii) the Company (as distributor).

LETTER FROM THE BOARD

Subject matter

Pursuant to the Elevator Distribution Agreement, TELC shall appoint the Group and the Company agrees to act and procure its subsidiaries to act as distributor of the Elevator Products for the TELC Group in Hong Kong, Macau, Singapore, the PRC and such other territories as agreed between the parties from time to time on terms set out therein. As the distributor, the Group purchases Elevator Products from the TELC Group for re-sale. The Group will also provide maintenance services for the Elevator Products by entering into separate maintenance agreements with its customers.

Term

Subject to the Shareholders' approval of the Company, the Elevator Distribution Agreement shall come into effect on the First Closing Date and shall, unless sooner terminated in accordance with the terms of the Elevator Distribution Agreement, continue until the Second Closing Date or 31 March 2010, whichever is the earlier.

Price and payment terms

The price of the Elevator Products and the terms of each order for the Elevator Products shall be arrived at after arm's length negotiations, be comparable to those offered to independent third parties and be on terms comparable to the prevailing market rate and practice. Furthermore, the Maintenance Commission is payable by the Group to the TELC Group in respect of the maintenance income generated by the Group relating to the Elevator Products. It is agreed among the parties that the Maintenance Commission shall be based on individual maintenance agreements between the Group and its customers, at rates comparable to those offered to independent third parties and on terms comparable to the prevailing market rate and practice.

THE OFFICE EQUIPMENT DISTRIBUTION AGREEMENT

Date

12 February 2009

Parties

- (i) Toshiba; and
- (ii) the Company.

Subject matter

Pursuant to the Office Equipment Distribution Agreement, Toshiba shall sell to the Group the Office Equipment Products and the Company agrees to purchase and procure its subsidiaries to purchase the Office Equipment Products for re-sale in Hong Kong, Macau or such other territories as agreed between the parties from time to time. The Company also agrees to sell and procure its subsidiaries to sell the Office Equipment Products to members of the Toshiba Group at their request for their own use. Furthermore, the Company shall procure the Group to undertake marketing, advertisement and sales promotions of the Office Equipment Products.

Term

Subject to the Shareholders' approval of the Company, the Office Equipment Distribution Agreement shall come into effect on the First Closing Date and shall, unless sooner terminated in accordance with the terms of the Office Equipment Distribution Agreement, continue until the Second Closing Date or 31 March 2010, whichever is the earlier.

Price and payment terms

The price of the Office Equipment Products and the terms of each order for the Office Equipment Products shall be arrived at after arm's length negotiations, be comparable to those offered to independent third parties and be on terms comparable to the prevailing market rate and practice.

LETTER FROM THE BOARD

ANNUAL CAPS

The purchase by the Group of the Elevator Products and the payment of Maintenance Commission under the Elevator Distribution Agreement, and the purchase of Office Equipment Products by the Group under the Office Equipment Distribution Agreement shall be subject to maximum amounts not exceeding the respective annual caps. Set out below are the historical transaction amounts and the annual caps for the respective transactions:

	<i>Historical amounts</i>			<i>Annual caps</i>
	<i>Year ended 31 March</i>			<i>Year ending</i>
	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>31 March</i>
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
<i>Transactions related to Elevator Products:-</i>				
Purchases of Elevator Products by the Group	55.7	63.9	114.2	155
Maintenance Commission paid / payable by the Group	48.2	47.1	48.4	60
<i>Transactions related to Office Equipment Products:-</i>				
Purchases of Office Equipment Products by the Group	318.7	266.3	243.6	280

The annual caps proposed above are determined with reference to the historical amounts of transactions for each of the years ended 31 March 2006, 2007 and 2008 and the estimated projection of purchases of the Elevator Products and Office Equipment Products. In particular, the annual caps relating to the Elevator Products have been determined after taking into account the business growth opportunity brought by the cross holding relationship as a result of the Disposal as mentioned in the Circular. As most of the transactions with the Toshiba Group in relation to Office Equipment Products are denominated in Japanese Yen, the anticipated strong position of Yen will lead to a larger transaction amounts during the year ending 31 March 2010 as compared to previous years.

PROVISION OF CORPORATE GUARANTEE DURING THE RELEVANT PERIOD

As mentioned in the Circular, the Company has been giving corporate guarantee in respect of the borrowings or finance of the members of the CHKL Group (which are direct or indirect wholly-owned subsidiaries of the Company prior to the First Closing). On the First Closing Date, the Company and TELC shall enter into the Shareholders' Agreement. Among other things, it would be one of the terms of the Shareholders' Agreement that the Company shall continue to provide the Corporate Guarantee in respect of the borrowings or finance of the CHKL Group during the Relevant Period and, in the case of non-Toshiba business in Singapore, a period of two years after the First Closing, provided that TELC will provide a counter indemnity in favour of the Company for such guarantee to the extent of TELC's shareholdings in CHKL save and except for non-Toshiba business in Singapore.

Annual cap amount of the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period

The provision of the Corporate Guarantee during the Relevant Period constitutes a continuing connected transaction for the Company under the Listing Rules. It is proposed that the maximum amount of the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period would be HK\$365 million. The aforesaid maximum amount of the Corporate Guarantee during the Relevant Period has been determined with reference to the business scope, the financial position and the projected capital needs of the CHKL Group after the First Closing. Under the terms of the Shareholders' Agreement, the Company is entitled to appoint five (including the chairman) out of nine members to the board of directors of CHKL during the Relevant Period and is able to control 51% of the voting power in CHKL. Therefore, the Directors consider that the Company can effectively monitor and manage the borrowing activities of the CHKL Group to ensure that the utilisation of the Corporate Guarantee by the CHKL Group during the Relevant Period would be within the proposed cap.

Financial position of the CHKL Group

The CHKL Group is the business unit of the Group principally engaged in the Elevator Business. As at 31 March 2008, the total banking facilities available to the CHKL Group amounted to HK\$730.3 million and the maximum amount of banking facilities utilised by the CHKL Group during the year ended 31 March 2008 amounted to approximately HK\$152 million. No borrowing attributable to the Elevator Business of the CHKL Group was outstanding as at 31 March 2008. The unaudited profit before taxation and after taxation attributable to the Elevator Business of the CHKL Group for the year ended 31 March 2007 were approximately HK\$174.6 million and approximately HK\$143.2 million respectively. The unaudited profit before taxation and after taxation attributable to the Elevator Business of the CHKL Group for the year ended 31 March 2008 were approximately HK\$175.9 million and approximately HK\$143.1 million respectively.

LETTER FROM THE BOARD

REASONS FOR THE AGREEMENTS AND THE PROVISION OF CORPORATE GUARANTEE DURING THE RELEVANT PERIOD

The Group is principally engaged in the business of construction and engineering, insurance and investment, property (including property development and investment, hotel operations), food and beverages, computer and information communication technology and others. The Group currently has operations in China, South East Asia, Europe, North America, Australia and the Middle East. In particular, the Group has strong presence in the PRC property market, including cities such as Beijing, Changchun, Chengdu, Hefei, Shanghai and Shenzhen.

Toshiba, one of the world's leaders in high technology, is a diversified manufacturing and marketer of advanced electronic and electrical products, spanning information and communications equipment and systems, Internet-based solutions and services, electronic components and materials, power systems, industrial and social infrastructure systems, and household appliances. TELC was established in 2001 when Toshiba spun off its elevator and escalator business as a subsidiary. TELC is one of the world's leading companies in elevators and moving walks, with a network of six affiliates in three countries.

TELC and the Company have enjoyed a positive relationship since 1970 when the Company became an overseas distributor of Toshiba elevators, with responsibility for sales and engineering in Hong Kong and Singapore. The Group has also been a distributor of the Office Equipment Products for the Toshiba Group since 1983.

After completion of the Disposal, the TELC Group will continue with its existing business and other members of the Group will continue their business relationship with the Toshiba Group in the ordinary and usual course of business of the Group. The Agreements serve as framework to regulate the conduct of business between the Group and the Toshiba Group during the Relevant Period. The Directors are of the view that the transactions contemplated under the Agreements are in the ordinary course of business of the Group, the terms of the Agreements and the respective annual caps are on normal commercial terms and fair and reasonable, and the entering into of the Agreements is in the interests of the Company and the Shareholders as a whole.

Having considered that the Group will remain to hold a substantial shareholding in the CHKL Group after the Disposal, the Directors consider it fair and reasonable to provide continuous support to the CHKL Group for its business expansion by means of the Corporate Guarantee. Given that the Relevant Period would only last for one year and a counter-indemnity will be provided by TELC in favour of the Company in respect of such guarantees to the extent of TELC's shareholdings in CHKL, the net exposure to the Company in respect of such guarantees is proportional to the Company's shareholding in CHKL. After the Relevant Period and, in the case of non-Toshiba business in Singapore, a period of two years after the First Closing, the guarantee will be provided by the Company and TELC pro rata to their respective shareholding in the CHKL Group. In addition, the non-Toshiba business in Singapore of the CHKL Group has been conducted by the CHKL Group for many years and is related to the distribution, installation and maintenance of elevators which are not under the brand name of Toshiba and not manufactured by the Toshiba Group. Given the much longer history thus more knowledge possessed by the Group than TELC in such non-Toshiba business in Singapore, the Directors consider that it is fair and reasonable to extend the Corporate Guarantee in respect of the non-Toshiba business in Singapore of the CHKL Group to two years after the First Closing (which is expected to be on or around 31 March 2011 or about one year after the Second Closing).

Pursuant to the Shareholders' Agreement, both the Company and TELC agree and undertake that they will not, without the prior approval in writing of both of them, permit CHKL and/or any members of the CHKL Group to borrow any single borrowing of any moneys, and/or accept any financial facilities or credit obtained from banks and other financial institutions for more than 30% of the total asset value as recorded in the immediate preceding audited consolidated accounts of the CHKL Group. Accordingly, although the Corporate Guarantee is an unlimited guarantee, the Company is able to monitor the gearing level of the CHKL Group and therefore control its risk exposure. Having considered the above, the Directors consider that the terms of the Corporate Guarantee are on normal commercial terms, fair and reasonable and the provision of the Corporate Guarantee is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

By virtue of TELC being a substantial shareholder of CHKL (being a non-wholly owned subsidiary of the Company) during the Relevant Period, TELC, Toshiba and their associates would become connected persons of the Company under the Listing Rules during the Relevant Period. The transactions contemplated under the Agreements will constitute continuing connected transactions for the Company under the Listing Rules. Subsequent to the Relevant Period, CHKL will be a 49% owned associated company of the Company. Save for their respective interests in CHKL, CHKL and its ultimate beneficial owner (Toshiba) are independent from the Company and its connected persons.

LETTER FROM THE BOARD

As each of the annual caps for the purchases of Elevator Products and Office Equipment Products by the Group from the TELC Group and the Toshiba Group respectively and the payment of the Maintenance Commission by the Group to the TELC Group for the year ending 31 March 2010 exceeds 2.5% of each of the applicable percentage ratios (other than the profits ratio) of the Company under the Listing Rules, these transactions are subject to the reporting, announcement and independent Shareholders' approval requirements set out in Rule 14A.35 of the Listing Rules.

The provision of the Corporate Guarantee during the Relevant Period constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As the relevant cap amount of the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period of HK\$365 million exceeds 2.5% of each of the applicable percentage ratios (other than the profits ratio) of the Company under the Listing Rules, the provision of the Corporate Guarantee and the relevant cap amount is subject to reporting, announcement and independent Shareholders' approval requirements under Rule 14A.63 of the Listing Rules. The Company will comply with the Listing Rules to make announcement and, if required, seek independent Shareholders' approval again as and when appropriate if any of aforesaid annual caps are to be increased.

Neither Toshiba nor any of its associates hold any Shares as at the date hereof. Accordingly, no existing Shareholder has a material interest in the Agreements or the provision of the Corporate Guarantee which is different from the other Shareholders, and therefore no Shareholder is required to abstain from voting on the transactions contemplated under the Agreements and the provision of the Corporate Guarantee. Dr. Chow, the controlling Shareholder holding 154,682,359 Shares, representing approximately 55.73% of the total issued Shares as at the date hereof, has given his written consent to the transactions contemplated under the Agreements and the provision of the Corporate Guarantee during and after the Relevant Period. The Company has submitted an application to the Stock Exchange, and the Stock Exchange has granted, pursuant to Rule 14A.43 of the Listing Rules, a waiver from holding a Shareholders' meeting and that a written independent Shareholders' approval be accepted in lieu of holding a general meeting.

The provision of the Corporate Guarantee after the Relevant Period constitutes a major transaction for the Company under the Listing Rules. The Company will issue a circular containing details of the Corporate Guarantee and financial information of the Group in accordance with the requirements of the Listing Rules as soon as practicable.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Messrs. Chow Ming Kuen, Joseph *O.B.E., J.P.*, Sun Kai Dah, George, Yang Chuen Liang, Charles *J.P.* has been appointed to give recommendation to the independent Shareholders in respect of the Agreements and the provision of the Corporate Guarantee during the Relevant Period. Your attention is drawn to the recommendation of the Independent Board Committee set out in its letter on page 9 of this circular.

INDEPENDENT FINANCIAL ADVISER

Hercules has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in respect of the Agreements and the provision of the Corporate Guarantee during the Relevant Period. Your attention is drawn to the recommendation of Hercules set out in its letter on pages 10 to 18 of this circular.

GENERAL

Your attention is drawn to the general information set out in the appendix to this circular.

Yours faithfully,
By order of the Board
Chevalier International Holdings Limited
Chow Yei Ching
Chairman and Managing Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHEVALIER INTERNATIONAL HOLDINGS LIMITED

其士國際集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 025)

13 March 2009

To the independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular (“CCT Circular”) issued by the Company to its shareholders dated 13 March 2009 of which this letter forms part. Capitalised terms defined in the CCT Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the Agreements and the provision of the Corporate Guarantee during the Relevant Period. Hercules has been appointed as independent financial adviser to advise us and the independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Hercules set out in the CCT Circular. Having considered the principal factors and reasons considered by, and the advice of, Hercules set out in its letter of advice contained in the CCT Circular, we consider that the transactions contemplated under the Agreements and the provision of the Corporate Guarantee during the Relevant Period are in the ordinary course of business of the Company, the terms of the Agreements, the Corporate Guarantee and the respective annual caps stated in the CCT Circular are on normal commercial terms and fair and reasonable, and the entering into of the Agreements and the provision of the Corporate Guarantee during the Relevant Period are in the interests of the Company and its Shareholders as a whole. We therefore recommend the independent Shareholders to approve the Agreements, the provision of the Corporate Guarantee and the respective annual caps.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Chow Ming Kuen, Joseph O.B.E., J.P.

Sun Kai Dah, George

Yang Chuen Liang, Charles J.P.

Independent Non-executive Directors

* For identification purpose only

LETTER FROM HERCULES

The following is the text of the letter of advice from Hercules to the Independent Board Committee and the independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Hercules **Hercules Capital Limited**

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

13 March 2009

*To the Independent Board Committee and
the independent Shareholders*

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders in respect of the transactions contemplated under the Agreements, the provision of the Corporate Guarantee during the Relevant Period (collectively, the “Continuing Connected Transactions”) and their respective annual caps (the “Annual Cap(s)”), details of which are set out in the Letter from the Board contained in the circular dated 13 March 2009 to the Shareholders (the “CCT Circular”), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the CCT Circular unless the context otherwise requires.

On 12 February 2009, the Company entered into the Elevator Distribution Agreement with TELC and the Office Equipment Distribution Agreement with Toshiba in relation to, among other things, the distribution of the Elevator Products and the sale and purchase of the Office Equipment Products respectively by the Group. The transactions contemplated under the Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 14A of the Listing Rules in respect of each of the Annual Caps for the purchases of Elevator Products and Office Equipment Products by the Group from the TELC Group and the Toshiba Group respectively and the payment of the Maintenance Commission by the Group to the TELC Group for the year ending 31 March 2010 exceeds 2.5%, these transactions and their respective Annual Caps are subject to reporting, announcement and independent shareholders’ approval requirements set out in Rule 14A.35 of the Listing Rules.

Furthermore, on the First Closing Date, the Company and TELC shall enter into the Shareholders’ Agreement, pursuant to which, the Company shall continue to provide the Corporate Guarantee in respect of the borrowings or finance of the CHKL Group during the Relevant Period, provided that TELC will provide a counter indemnity in favour of the Company for such guarantee to the extent of TELC’s shareholdings in CHKL, save and except for the non-Toshiba business in Singapore. The provision of the Corporate Guarantee during the Relevant Period constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) calculated in accordance with Chapter 14A of the Listing Rules in respect of the Annual Cap of the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period exceeds 2.5%, the provision of the Corporate Guarantee during the Relevant Period and its Annual Cap are subject to reporting, announcement and independent shareholders’ approval requirements under Rule 14A.63 of the Listing Rules.

As stated in the Letter from the Board, the Company has applied for, and the Stock Exchange has granted, a waiver from compliance with the requirement to hold a shareholders’ meeting for approving the Continuing Connected Transactions and their respective Annual Caps pursuant to Rule 14A.43 of the Listing Rules on the basis that (i) neither Toshiba nor any of its associates held any Share as at the Latest Practicable Date and therefore no Shareholders are required to abstain from voting on the Continuing Connected Transactions and their respective Annual Caps; and (ii) the Continuing Connected Transactions and their respective Annual Caps have been approved by Dr. Chow, the controlling Shareholder holding 154,682,359 Shares, representing approximately 55.73% of the total issued Shares as at the Latest Practicable Date.

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The Independent Board Committee, comprising all independent non-executive Directors, namely Dr. Chow Ming Kuen, Joseph *O.B.E., J.P.*, Mr. Sun Kai Dah, George and Mr. Yang Chuen Liang, Charles *J.P.*, has been established to advise the independent Shareholders on the fairness and reasonableness of the Continuing Connected Transactions. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the independent Shareholders regarding the Continuing Connected Transactions, in particular as to whether (i) they are conducted in the ordinary and usual course of business of the Group, fair and reasonable and on normal commercial terms so far as the independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) the independent Shareholders should vote in favor of the resolution(s) to approve the Continuing Connected Transactions and their respective Annual Caps if a shareholders' meeting were held to consider the transactions.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the CCT Circular are true, accurate and complete in all material respects as of the date hereof. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the CCT Circular. We have no reasons to suspect that any material information has been withheld by the Directors or the management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. The Directors confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, opinions expressed in the CCT Circular have been arrived at after due and careful consideration and there are no material facts not contained in the CCT Circular, the omission of which would make any statement in the CCT Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the CCT Circular and to provide a reasonable basis for our recommendation. We have not, however, for the purpose of this exercise, conducted any independent investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of and parties to the agreements of the Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

THE AGREEMENTS

Principal factors and reasons considered

The principal factors and reasons that we have taken into consideration in assessing the Agreements and the Annual Caps are set out as follows:

(I) Background and reasons for entering into of the Agreements

The Group is principally engaged in the business of construction and engineering, insurance and investment, property (including property development and investment, hotel operations), food and beverages, computer and information communication technology and others. The Group currently has operations in China, South East Asia, Europe, North America, Australia and the Middle East. In particular, the Group has strong presence in the PRC market, including cities such as Beijing, Changchun, Chengdu, Hefei, Shanghai and Shenzhen.

Toshiba, one of the world's leaders in high technology, is a diversified manufacturer and marketer of advanced electronic and electrical products, spanning information and communications equipment and systems, Internet-based solutions and services, electronic components and materials, power systems, industrial and social infrastructure systems, and household appliances. TELC was established in 2001 when Toshiba spun off its elevator and escalator business as a subsidiary. TELC is one of the world's leading companies in elevators and moving walks, with a network of six affiliates in three countries.

As stated in the Letter from the Board, the Company has become an overseas distributor of Elevator Products manufactured by the TELC Group since 1970. It is responsible for the sale and provision of engineering and maintenance services of Elevator Products in Hong Kong and Singapore. As part of the distribution arrangement, the Group has been paying maintenance commission to the TELC Group. The Group has also been a distributor of the Office Equipment Products for the Toshiba Group since 1983 and purchased the Office Equipment Products manufactured by the Toshiba Group for resale in Hong Kong and Macau.

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To further enhance the business cooperation and coordination with TELC and to maximize its full potential through business synergies with TELC, the Company entered into the Sale and Purchase Agreement on 28 November 2008 to form strategic partnership with TELC by selling 51% equity interest in CHKL to TELC in two phases. Upon the First Closing and the Second Closing, 49% and 2% of the equity interest in CHKL held by the Company will be sold to TELC respectively. After completion of the Disposal, the TELC Group will continue with its existing business and other members of the Group will continue their business relationship with the Toshiba Group in the ordinary and usual course of business of the Group. The Agreements serve as a framework to regulate the conduct of business between the Group and the Toshiba Group during the Relevant Period.

Having considered that (i) the Group has been engaged in the distribution of the Elevator Products and Office Equipment Products manufactured by the Toshiba Group for approximately 39 years and 26 years respectively and such businesses have contributed a stable and reliable income to the Group, ; (ii) the Agreements are master agreements which set out the principles upon which detailed terms are to be determined between the Group and the Toshiba Group and such agreements can serve as a framework to regulate the conduct of business between the Group and the Toshiba Group during the Relevant Period; (iii) the terms of the Agreements are in effect comparable to those of the existing agreements in relation to the distribution of the Elevator Products and the sale and purchase of the Office Equipment Products which were entered into between the Group and the Toshiba Group in a capacity of an independent third party; and (iv) the Group and the Toshiba Group have maintained a long-term positive business relationship, we consider that it is reasonable and in the interests of the Company and its Shareholders as a whole to enter into the Agreements and to continue the transactions contemplated thereunder and such transactions are commercial transactions conducted in the ordinary and usual course of business of the Group.

(II) Principal Terms of the Agreements

a. The Elevator Distribution Agreement

Pursuant to the Elevator Distribution Agreement, TELC agreed to appoint the Group, and the Company agreed to act and procure its subsidiaries, to act as a distributor of the Elevator Products for the TELC Group in Hong Kong, Macau, Singapore, the PRC and such other territories as agreed between the parties from time to time on terms set out therein with effect from the First Closing Date and shall, unless sooner terminated in accordance with the terms of the Elevator Distribution Agreement, continue until the Second Closing Date or 31 March 2010, whichever is earlier. Being the distributor, the Group purchases Elevator Products from the TELC Group for re-sale and provides maintenance services for the Elevator Products by entering into separate maintenance agreements with its customers.

The Elevator Distribution Agreement is a framework agreement which sets out the principles upon which detailed terms in relation to the purchases of Elevator Products and payments of Maintenance Commission between the Group and the TELC Group are determined. Under the Elevator Distribution Agreement, the Company and TELC agreed that (i) the terms and price of each individual order of the Elevator Products would be arrived at after arm's length negotiations, be comparable to those offered to independent third parties and on terms comparable to the prevailing market rate and practice; and (ii) the Maintenance Commission payable by the Group to the TELC Group in respect of the maintenance income generated by the Group in relation to the provision of maintenance services for the Elevator Products would be at rates comparable to those offered to independent third parties and on terms comparable to the prevailing market rate and practice.

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We were confirmed by the management of the Company that the same principles as set out in the Elevator Distribution Agreement have been consistently applied for all past transactions between the Group and the TELC Group and the price and terms of such orders were arrived at after arm's length negotiations between the parties by reference to the prevailing market conditions. Since the Group purchased the Toshiba Elevator Products directly from the TELC Group and there were no alternative sources of supply of the same products in the market, we are unable to compare the terms of purchases of the Elevator Products by the Group from the TELC Group with those of the independent suppliers. We also concur with the view of the management of the Company that the prices of Toshiba Elevator Products and similar products of other brands vary significantly and it is meaningless to directly compare the prices between Toshiba and non-Toshiba products. Therefore, a direct comparison on the prices and terms of the Group's purchases of Toshiba Elevator Products and non-Toshiba Elevators Products has not been carried out. However, we have reviewed the samples of confirmation letter from the TELC Group regarding the calculations of maintenance commission payable to the TELC Group for past transactions between the Group and the TELC Group and noted that fixed commission rates on the maintenance income received/receivable by the Group have been consistently applied for the calculation of the Maintenance Commission payable to the TELC Group. We were also advised by the management of the Company that such commission rates would also be applied for future transactions between the Group and the TELC Group unless there was a substantial change in the market conditions and the change in commission rate was agreed by both the Company and TELC Group.

Having considered that (i) both the Group and the TELC Group have agreed that the terms of the transactions contemplated under the Elevator Distribution Agreement would be on normal commercial terms and comparable to those offered to independent third parties and the prevailing market rate and practice; and (ii) the principles and practices for contract term determination that have long been adopted by the Group and the TELC Group even when the TELC Group was an independent third party of the Group would continue to be applied consistently for future transactions under the Elevator Distribution Agreement, we consider that the terms of the Elevator Distribution Agreement are on normal commercial terms and fair and reasonable so far as the independent Shareholders are concerned.

b. The Office Equipment Distribution Agreement

Pursuant to the Office Equipment Distribution Agreement, Toshiba agreed to sell, and the Company agreed to purchase and procure its subsidiaries to purchase, the Office Equipment Products for re-sale in Hong Kong, Macau or such other territories as agreed between the parties from time to time with effect from the First Closing Date and shall, unless sooner terminated in accordance with the terms of the Office Equipment Distribution Agreement, continue until the Second Closing Date or 31 March 2010, whichever is earlier.

The Office Equipment Distribution Agreement is a framework agreement which sets out the principles upon which detailed terms in relation to the purchases of the Office Equipment Products by the Group from the Toshiba Group are determined. Under the Office Equipment Distribution Agreement, the Company and Toshiba agreed that the terms and price of each order of the Office Equipment Products would be arrived at after arm's length negotiations, be comparable to those offered to independent third parties and on terms comparable to the prevailing market rate and practice.

We were confirmed by the management of the Company that the same principles as set out in the Office Equipment Distribution Agreement have been consistently applied for all past transactions between the Group and the Toshiba Group and the price and terms of such orders were arrived at after arm's length negotiations between the parties by reference to the prevailing market conditions. Since the Group purchased the Toshiba Office Equipment Products directly from the Toshiba Group and there were no alternative sources of supply of the same products in the market, we are unable to compare the terms of purchases of the Office Equipment Products by the Group from the Toshiba Group with those of the independent suppliers. We also concur with the view of the management of the Company that the prices of Toshiba Office Equipment Products and similar products of other brands vary significantly and it is meaningless to directly compare the prices between Toshiba and non-Toshiba products.

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Therefore, a direct comparison on the prices and terms of the Group's purchases of Toshiba Office Equipment Products and non-Toshiba Office Equipment Products has not been carried out. However, having considered that both the Group and Toshiba have agreed that the terms of the transactions contemplated under the Office Equipment Distribution Agreement would be on normal commercial terms and comparable to those offered to independent third parties and the prevailing market rate and practice and the past practices for contract term determination that have long been adopted by the Group and the Toshiba Group even when the Toshiba Group was an independent third party of the Group would continue to be followed consistently for future transactions under the Office Equipment Distribution Agreement, we consider that the terms of the Office Equipment Distribution Agreement are on normal commercial terms and fair and reasonable so far as the independent Shareholders are concerned.

(III) Annual Caps for the transactions contemplated under the Agreements

The historical transaction amounts and proposed Annual Caps for transactions contemplated under the Agreements are set out as follows:

	Historical Transaction Amounts For the year ended 31 March			Annual Caps For the year ending 31 March 2010
	2006	2007	2008	2010
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
Transactions related to Elevator Products:				
Purchases of Elevator Products	55.7	63.9	114.2	155.0
Maintenance Commission	48.2	47.1	48.4	60.0
Transactions related to Office Equipment Products:				
Purchases of Office Equipment Products	318.7	266.3	243.6	280.0

a. Purchases of Elevator Products

As stated in the Letter from the Board, the proposed Annual Cap for the purchases of Elevator Products was determined by the Company with reference to the historical transaction amounts for the three years ended 31 March 2008 and the projection on estimated purchases of Elevator Products by the Group, taking into account the business growth opportunity brought by the cross holding relationship as a result of the Disposal.

We have reviewed and discussed with the management of the Company in relation to the basis and assumptions made in determining the Annual Cap for the purchases of Elevator Products and noted that the compound annual growth rate of the Annual Cap for the three years ending 31 March 2010 was approximately 16.5%, which was lower than the historical compound annual growth rate for the three years ended 31 March 2008 of approximately 43.2%.

The management of the Company anticipated that the business synergies arising from the cross holding relationship with TELC would further strengthen its competitiveness and marketability in Hong Kong and Singapore and reinforce its ability to meet demand for elevator renewal projects in the regions. In addition, after the acquisition of 20% equity interest in two PRC companies from TELC, the Group intends to put more emphases on the buoyant market of the PRC and expects to benefit from the business opportunities brought by the rapid urbanization in the PRC. On the other hand, the management of the Company also expected that the market conditions of elevator industry in the ensuing years would become arduous as a result of the slowing down in growth of the property development market in the PRC triggered by the recent financial crisis.

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According to the article released by Institute of Building Mechanization of China Academy of Building Research in 2008, the number of new elevator installation was approximately 137,000 in 2007, representing an increase of approximately 24% as compared to the last corresponding year, and the PRC elevator equipment market remained as the largest in the world. However, owing to the international financial crisis in 2009, it is expected that the growth in demand of new elevator installation in the PRC would be lowered as a result of the slowing down in growth of the property development market in the PRC. The “2008 PRC Elevator Market Analysis Report” published in September 2008 also indicated that there would be a slight decrease in the compound annual growth rate of the number of elevator produced in the PRC for the three years ending 2010. It was estimated that the number of elevators produced in the PRC would only increase from approximately 243,000 in 2008 to 334,000 in 2010, representing a compound annual growth rate of approximately 17.2%.

Having considering the above factors, we consider that the compound annual growth rate of the Annual Cap for the three years ending 31 March 2010 of approximately 16.5% is reasonable.

b. Maintenance Commission

As stated in the Letter from the Board, the proposed Annual Cap for the Maintenance Commission paid/payable by the Group was determined by the Company with reference to the historical transaction amounts for the three years ended 31 March 2008 and the projection of estimated purchases of the Elevator Products.

We noted that the actual transaction amounts of Maintenance Commission paid/payable to the TELC Group for the three years ended 31 March 2008 remained stable in the range of approximately HK\$47.1 million and HK\$48.4 million while it was proposed by the Company to have a compound annual growth rate of approximately 11.3% in the Annual Cap for the three years ending 31 March 2010. We have discussed with the management of the Company in relation to the basis and assumptions made in determining the Annual Cap for the Maintenance Commission and were advised that the number of customers demanding lift and escalator maintenance services was expected to increase in line with the increase in sales of Elevator Products resulted from the synergy effect of the cross holding relationship with Toshiba. The increasing awareness of the importance of lift and escalator maintenance in Hong Kong after the recent occurrence of lift accidents is also expected to have a stimulating effect on demand of lift and escalator maintenance services.

c. Purchases of Office Equipment Products

As stated in the Letter from the Board, the proposed Annual Cap for the purchase of Office Equipment Products was determined by the Company with reference to the historical transaction amounts for the three years ended 31 March 2008 and the projection of estimated purchases of the Office Equipment Products.

We have reviewed and discussed with the management of the Company in relation to the basis and assumptions made in determining the Annual Cap for the purchases of Office Equipment Products and noted that the compound annual growth rate of the Annual Cap for the three years ending 31 March 2010 was approximately 7.2%, while the historical transaction amounts have shown a decreasing trend. We were advised by the management of the Company that the reduction in actual transaction amounts for the two years ended 31 March 2008 was mainly attributable to the postponement of sales orders of computer systems resulted from delay in the launching of a new operating system for notebook computers. The Group expects that the purchase of Office Equipment Products will increase for the year ending 31 March 2010 as a new operating system will be launched in 2009 and the Group intends to boost the sales of the Office Equipment Products by carrying out more advertising and marketing activities in 2009. Moreover, as most of the transactions with the Toshiba Group are denominated in Japanese Yen, the fluctuation in exchange rate may have a significant impact on the transaction amount. Therefore, we concur with the management of the Company that a buffer should be added to the Annual Cap for the unforeseen exchange rate fluctuations.

In view of the above, we consider that the Annual Caps proposed by the Directors are fair and reasonable so far as the independent Shareholders are concerned and in the interests of the Company and its Shareholders as a whole.

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PROVISION OF THE CORPORATE GUARANTEE DURING THE RELEVANT PERIOD

Principal factors and reasons considered

The principal factors and reasons that we have taken into consideration in assessing the provision of the Corporate Guarantee during the Relevant Period and the Annual Cap are set out as follows:

(I) Background and reasons for the provision of Corporate Guarantee during the Relevant Period

The CHKL Group is the business unit of the Group principally engaged in the Elevator Business. As stated in the CCT Circular, the Company has been providing corporate guarantee in respect of borrowings and finance of the members of the CHKL Group, which are direct or indirect wholly-owned subsidiaries of the Company, prior to the First Closing. On the First Closing Date, the Company and TELC shall enter into the Shareholders' Agreement to regulate their respective rights and obligations in CHKL as shareholders. Among other things, it would be one of the terms of the Shareholders' Agreement that the Company would continue to provide the Corporate Guarantee in respect of the borrowings or finance of the CHKL Group during the Relevant Period, provided that TELC would provide a counter indemnity in favour of the Company for such guarantee to the extent of TELC's shareholdings in CHKL, save and except for the non-Toshiba business in Singapore.

The Directors consider that it is fair and reasonable to provide continuous support to the CHKL Group for its business expansion by means of the Corporate Guarantee as the Group will remain holding a controlling shareholding in the CHKL Group during the Relevant Period.

Given that (i) the Company has been providing irrevocable and unlimited corporate guarantee in respect of the borrowings or finance of the CHKL Group prior to the First Closing; (ii) there were no records of default on the repayment of facilities utilised by the CHKL Group and the Company is confident that the CHKL Group will be able to fulfill its maximum repayment obligation of HK\$365 million, which is the Annual Cap of the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period, based on the background and financial position of the CHKL Group; (iii) the facilities (if any) will be utilised by the CHKL Group for its business development; (iv) the Company will remain as a controlling shareholder of CHKL during the Relevant Period; and (v) TELC will provide a counter indemnity in favour of the Company for such guarantee to the extent of TELC's shareholdings in CHKL, save and except for the non-Toshiba business in Singapore, we consider that it is commercially justifiable for the Company to continue to provide Corporate Guarantee to the CHKL Group and the provision of the Corporate Guarantee is conducted in the ordinary and usual course of business.

(II) Terms of the Corporate Guarantee

According to the Shareholders' Agreement to be entered into by the Company and TELC on the First Closing Date, the Company shall continue to provide the Corporate Guarantee in respect of the borrowings or finance of the CHKL Group during the Relevant Period, provided that TELC will provide a counter indemnity in favour of the Company for such guarantee to the extent of TELC's shareholdings in CHKL save and except for non-Toshiba business in Singapore.

In addition, both the Company and TELC have undertaken that they would not, without the prior approval in writing of both of them, permit CHKL and/or any members of the CHKL Group to borrow any single borrowing of any moneys, and/or accept any financial facilities or credit obtained from banks and other financial institutions for more than 30% of the total asset value as recorded in the immediately preceding audited consolidated accounts of the CHKL Group.

We understand from the management of the Company that apart from the elevator business conducted under the brand name of Toshiba, the CHKL Group also distributes, installs and maintains elevators of other brands which are not manufactured by the Toshiba Group in Singapore. Such non-Toshiba business in Singapore has been conducted by the CHKL Group for many years and it is the intention of the CHKL Group to continue to complete all committed contracts on hand of such business even after the Disposal. Since it takes time for TELC to fully understand the CHKL Group's non-Toshiba business in Singapore while the Group has a thorough understanding and knowledge in respect of such business, we concur with the view of the Directors that it is fair and reasonable for the Group to provide the Corporate Guarantee in relation to the non-Toshiba business in Singapore of the CHKL Group during the Relevant Period even in the absence of a counter indemnity from TELC in favour of the Company.

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Given that (i) save and except for non-Toshiba business in Singapore, a counter indemnity in favour of the Company will be provided by TELC during the Relevant Period in respect of the Corporate Guarantee to the extent of TELC's shareholdings in CHKL so that the Corporate Guarantee provided by the Company during the Relevant Period is limited to the extent that is in proportion to the Company's then shareholdings in CHKL; (ii) the Group can closely monitor the gearing level of the CHKL Group and control its risk exposure as it shall remain as the controlling shareholder of CHKL during the Relevant Period and a written approval by the Company is required if the borrowings or facilities accepted or credit obtained for the CHKL Group is more than 30% of the total asset value of the CHKL Group; and (iii) TELC has not been involved in, and does not have a thorough understanding on, CHKL Group's non-Toshiba business in Singapore while the Group has possessed in-depth knowledge on such business, we consider that the terms of the Corporate Guarantee are on normal commercial terms and are fair and reasonable so far as the independent Shareholders are concerned.

(III) Annual Cap of the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period

As stated in the Letter from the Board, it is proposed that the maximum amount of the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period would be HK\$365 million, which was determined with reference to the business scope, the financial position and the projected capital needs of the CHKL Group after the First Closing. As at 31 March 2008, the total banking facilities available to the CHKL Group amounted to HK\$730.3 million, while the maximum amount of the banking facilities utilised by the CHKL Group during the year ended 31 March 2008 was approximately HK\$152 million. No borrowings attributable to the Elevator Business of the CHKL Group were outstanding as at 31 March 2008.

We noted that the Annual Cap for the Corporate Guarantee to be utilised by the CHKL Group during the Relevant Period is 2.4 times of the maximum amount of the banking facilities utilised by the CHKL Group during the year ended 31 March 2008. We were advised by the management of the Company that the banking facilities utilised by the Group during the year ended 31 March 2008 was relatively low as the CHKL Group has been provided with financings of approximately HK\$125 million for the year ended 31 March 2008 including inter-company borrowings and corporate guarantees against performance bonds, from other members of the Group. The management of the Company expected that no significant amounts of new financings would be provided to the CHKL Group by the Group after the Disposal. Therefore, the CHKL Group will more rely on banking finance after the Disposal. Furthermore, there might be a possible increase in utilisation of the banking facilities as a result of the expected business growth of the CHKL Group brought by the cross holding relationship between the Group and Toshiba Group.

Pursuant to the terms of the Shareholders' Agreement, the Company is entitled to nominate five (including the chairman) out of nine members to the board of directors of CHKL during the Relevant Period and is able to control 51% of the voting power in CHKL. Therefore, the Directors consider that the Company can effectively monitor and manage the borrowing activities of the CHKL Group to ensure that the utilisation of the Corporate Guarantee by the CHKL Group during the Relevant Period would be kept at a reasonable and healthy level.

In view of the above, we consider that the Annual Cap proposed by the Directors are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

(IV) Financial effects for the Group

Based on our discussion with the management of the Company, we understand that the provision of the Corporate Guarantee during the Relevant Period by the Company will not have any impact on the profitability, net assets, gearing and cashflow of the Company unless such time that the Corporate Guarantee happens to be called upon. However, the Company is expected to be exposed to a contingent liability of HK\$365 million (before considering the counter indemnity provided by TELC in favour of the Company) as a result of the provision of the Corporate Guarantee during the Relevant Period, which represents approximately 23.3% of the audited net assets of the Company as at 31 March 2008.

The Company expects that there will not be any significant adverse impact on the Group's consolidated accounts even in the event that the CHKL Group defaults the payment of banking facilities utilised during the Relevant Period as CHKL will be accounted for as a subsidiary of the Company during the Relevant Period. In view of the background and financial position of the CHKL Group, the Company is confident that the CHKL Group will be able to fulfill its repayment obligations should it falls due.

Based on the above, we concur with the view of the Directors that the provision of the Corporate Guarantee during the Relevant Period is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Company and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

i. Directors' and chief executives' interests in securities

As at the Latest Practicable Date, 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 or its associated corporations (within the meaning of Part XV of the SFO) which were 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 have 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") contained in the Listing Rules were as follows:

(a) Interests in the Company – Shares (long position)

Name of Directors	Capacity	Number of Shares			Approximate percentage of interest (%)
		Personal interests	Family interests	Total	
CHOW Yei Ching	Beneficial owner	154,682,359 [#]	–	154,682,359	55.73
KUOK Hoi Sang	Beneficial owner	98,216	–	98,216	0.04
TAM Kwok Wing	Beneficial owner	169,015	32,473	201,488	0.07
HO Chung Leung	Beneficial owner	40,000	–	40,000	0.01

[#] Dr. Chow beneficially owned 154,682,359 Shares, representing approximately 55.73% of the Shares. These Shares were the same as those Shares disclosed in the section "Substantial Shareholders' interests in securities" below.

(b) Interests in associated corporation – shares (long position)

Name of Directors	Associated corporation	Capacity	Number of ordinary shares			Total	Approximate percentage of interest (%)
			Personal interests	Corporate interests	Family interests		
CHOW Yei Ching	CPHL	Interest of controlled corporation	–	128,582,933 [#]	–	128,582,933	59.66
CHOW Vee Tsung, Oscar	CPHL	Beneficial owner	17,412,000	–	–	17,412,000	8.08
KUOK Hoi Sang	CPHL	Beneficial owner	2,400,000	–	–	2,400,000	1.11
TAM Kwok Wing	CPHL	Beneficial owner	400,000	–	10,400	410,400	0.19

[#] Dr. Chow had notified CPHL that under the SFO, he was deemed to be interested in 128,582,933 shares in CPHL which were all held by the Company as Dr. Chow beneficially owned 154,682,359 Shares, representing approximately 55.73% of the Shares.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were 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 they have taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to S352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

ii. Substantial Shareholders' interests in securities

As at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, the interests and short positions of the persons or corporations in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had 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	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	154,682,359 (L)	–	55.73 (L)
Miyakawa Michiko	Beneficial owner	154,682,359 (L) (Note 1)	–	55.73 (L)
The Goldman Sachs Group, Inc.	Interest of controlled corporation	–	26,993,989 (L) 2,306,933 (S) (Note 2)	9.73 (L) 0.83 (S)
Goldman Sachs (UK) L.L.C.	Interest of controlled corporation	–	23,992,101 (L) 2,306,933 (S) (Note 3)	8.64 (L) 0.83 (S)
Goldman Sachs Group Holdings (U.K.)	Interest of controlled corporation	–	23,992,101 (L) 2,306,933 (S) (Note 3)	8.64 (L) 0.83 (S)
Goldman Sachs Holdings (U.K.)	Interest of controlled corporation	–	23,992,101 (L) 2,306,933 (S) (Note 3)	8.64 (L) 0.83 (S)
Goldman Sachs International	Beneficial owner	–	23,992,101 (L) 2,306,933 (S) (Note 3)	8.64 (L) 0.83 (S)
Goldman Sachs & Co	Beneficial owner	3,001,888 (L)	–	1.08 (L)

Notes:

- (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 154,682,359 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 21,685,168 Shares that would be held by Goldman Sachs International upon full conversion of the Convertible Bonds held by Goldman Sachs International. The Convertible Bonds were issued by the Company to Goldman Sachs International on 26 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 21,685,168 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.

The letter "L" denotes a long position and the letter "S" denotes a short position.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors and the chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such capital.

3. MATERIAL ADVERSE CHANGE

During the six months ended 30 September 2008, the Group recorded profit attributable to equity holders of the Company of HK\$15.4 million, representing a substantial decrease of approximately 86.4% as compared to the corresponding period last year. The decrease was mainly brought by the realised and unrealised losses from investments in securities as well as losses incurred by various pipe rehabilitation, construction and environmental engineering projects. As at the Latest Practicable Date, save for the aforesaid which have also been disclosed in the 2008/09 interim report of the Company published on 23 December 2008, the Directors are not aware of any material adverse changes in the financial or trading position of the Company since 31 March 2008, being the date to which the latest audited financial statements of the Company were made up.

Shareholders and investors should however note that as stated in the Circular, the Group is expected to record a gain from the Disposal of approximately HK\$648 million (calculated based on the estimated proceeds from the Disposal (net of expenses) of approximately HK\$688 million and the estimated consolidated net asset value of the CHKL Group as of the First Closing Date of approximately HK\$78.5 million). It is expected that the First Closing will take place on or before 31 March 2009 while the Second Closing will take place on or before 31 March 2010 unless agreed to be postponed or changed by both the Company and TELC. The actual gain from the Disposal would depend on the actual audited consolidated net asset value of the CHKL Group as of the First Closing Date. Accordingly, Shareholders and investors are advised to refer to the forthcoming annual reports of the Company for a more comprehensive picture of the financial position of the Group.

4. CONTRACTS OR ARRANGEMENT AND COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective associates had an interest in any business constituting a competing business to the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 March 2008 (the date to which the latest published audited financial statements of the Company were made up).

As at the Latest Practicable Date, there was no contract or arrangement in which any Director was materially interested and which was significant in relation to the business of the Group.

5. EXPERTS AND CONSENTS

Hercules is licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO. Its letter of advice to the Independent Board Committee and the independent Shareholders dated as of the date of this circular was given for the purpose of incorporation herein.

Hercules has given and has not withdrawn its written consent to the issue of this circular with copy of its letter and the reference to its name and its advice included in this circular in the form and context in which they respectively appear.

As at the Latest Practicable Date, Hercules did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it have any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, the Company or any of its subsidiaries since 31 March 2008 (the date to which the latest published audited financial statements of the Company were made up).

6. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had entered, or were proposing to enter, into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business of the Company at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong, from the date of this circular up to and including 27 March 2009:

- (a) the Company's memorandum and bye-laws;
- (b) the annual reports of the Company for each of the two financial years ended 31 March 2007 and 2008;
- (c) the interim report of the Company for the six months ended 30 September 2008;
- (d) the Agreements; and
- (e) the final draft of the Shareholders' Agreement.

8. MISCELLANEOUS

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.