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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chevalier International Holdings Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agents through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**DISCLOSEABLE TRANSACTION –
JOINT DEVELOPMENT PROJECT**

Financial adviser to Chevalier International Holdings Limited



SOMERLEY LIMITED

* For identification purpose only

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DEFINITIONS

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

“Board”	board of Directors;
“Chevalier Chengdu”	其士(成都)投資管理有限公司 (Chevalier (Chengdu) Investment Management Limited), a wholly-owned subsidiary of the Company established as a wholly foreign-owned enterprise in the PRC with limited liability;
“Company”	Chevalier International Holdings Limited, a company incorporated in Bermuda with limited liability, shares of which are listed on the Stock Exchange;
“Development Agreement”	the joint development project agreement dated 27th June, 2006 entered into between Chevalier Chengdu and the JV Partners to undertake the Joint Development Project;
“Development Site”	the site for the development of the Joint Development Project;
“Directors”	directors of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Joint Development Project”	the commercial complex situated at Chang Jiang Road Central in Hefei, Anhui Province, the PRC to be developed by the JV Partners and Chevalier Chengdu;
“Joint Venture Company”	a company to be established in the PRC with limited liability;
“JV Partners”	安徽省華僑飯店 (Anhui Province Hua Qiao Hotel), a state-owned company established in the PRC and 安徽安興聯合總公司 (Anhui Anxing Lianhe Corporation), a state-owned company established in the PRC;
“JV Partners’ Land”	a parcel of land situated at Chang Jiang Road Central in Hefei, Anhui Province, the PRC and is owned by 安徽省華僑飯店 (Anhui Province Hua Qiao Hotel) and to be contributed to the Joint Development Project by the JV Partners;
“Latest Practicable Date”	31st July, 2006, being the latest practicable date for ascertaining certain information contained herein prior to the printing of this circular;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Companies;
“PRC”	The People’s Republic of China which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	share(s) of HK\$1.25 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“RMB”	Renminbi yuan, the lawful currency of the PRC.
“%”	per cent.

In this circular, the exchange rate of HK\$1.00 to RMB1.04 has been used for reference only.

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 (*Managing Director*)

Fung Pak Kwan

Tam Kwok Wing

Kan Ka Hon

Chow Vee Tsung, Oscar

Ho Chung Leung

Independent non-executive Directors:

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

Li Kwok Heem, John

Sun Kai Dah, George

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

2nd August, 2006

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION – JOINT DEVELOPMENT PROJECT

INTRODUCTION

The Board is pleased to announce that Chevalier Chengdu, a wholly-owned subsidiary of the Company, has entered into an agreement with 安徽省華僑飯店 (Anhui Province Hua Qiao Hotel) and 安徽安興聯合總公司 (Anhui Anxing Lianhe Corporation) on 27th June, 2006 whereby the parties to the agreement agreed to undertake the Joint Development Project.

THE DEVELOPMENT AGREEMENT DATED 27TH JUNE, 2006

Parties:

- (1) Chevalier Chengdu, a wholly-owned subsidiary of the Company established as a wholly foreign-owned enterprise in the PRC with limited liability. Chevalier Chengdu is principally engaged in property investment as well as provision of business consulting services;

* For identification purpose only

LETTER FROM THE BOARD

- (2) 安徽省華僑飯店 (Anhui Province Hua Qiao Hotel), a state-owned company established in the PRC and is principally engaged in the provision of tourism services and property development;
- (3) 安徽安興聯合總公司 (Anhui Anxing Lianhe Corporation), a state-owned company established in the PRC and is principally engaged in trading of building materials, property development, property management and provision of business consulting services.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, as at the date of this circular, the JV Partners and their ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Major Terms

The Joint Development Project involves development of a commercial complex on a site situated at Chang Jiang Road Central in Hefei, Anhui Province, the PRC. Majority portion of the Development Site is owned by 安徽省華僑飯店 (Anhui Province Hua Qiao Hotel) which has agreed to transfer it to the Joint Development Project for development as described below in further details. The remaining area of the Development Site would be acquired from independent third parties.

Pursuant to the Development Agreement, Chevalier Chengdu and the JV Partners will bear the cost and share the economic interests in the Joint Development Project on a 51:49 basis. The total investment for the Joint Development Project is RMB750,000,000 (equivalent to approximately HK\$721,153,846), of which RMB108,440,000 (equivalent to approximately HK\$104,269,231) and RMB112,870,000 (equivalent to approximately HK\$108,528,846) will be contributed by the JV Partners and Chevalier Chengdu respectively, and the remaining is expected to be financed by external borrowings or be borne by Chevalier Chengdu and the JV Partners on a 51:49 basis. The JV Partners will make their initial contribution of RMB108,440,000 (equivalent to approximately HK\$104,269,231) in the form of the JV Partners' Land. The JV Partners' Land shall be transferred to the Joint Development Project with good titles and free of lien, encumbrances or other third parties' rights. Accordingly, the JV Partners shall bear all land premium for, and the cost for demolition and resettlement of occupants in the existing buildings over, the JV Partners' Land, if required, at their own cost. The agreed value of the JV Partners' Land of RMB108,440,000 (equivalent to approximately HK\$104,269,231) is arrived at after arms-length negotiations between Chevalier Chengdu and the JV Partners and with reference to the Directors' knowledge of recent market prices of comparable development sites. Chevalier Chengdu has on 11th July 2006 paid RMB5 million (equivalent to approximately HK\$4.8 million) cash into a segregated account ("Segregated Account") established for the Joint Development Project and operated jointly by Chevalier Chengdu and the JV Partners, and the remaining RMB107,870,000 (equivalent to approximately HK\$103,721,154) will be contributed in stages to the Joint Development Project's Segregated Account according to the terms of the Development Agreement. Further announcement on the detailed payment terms will be made once the expected timetable for payment of the remaining portion of the initial cash contribution can be ascertained.

The Company shall also make announcement to the shareholders if there is any changes to the major terms of the Development Agreement.

LETTER FROM THE BOARD

The Group has financed the above RMB5 million contribution and will finance the remaining part of its initial cash contribution of RMB107,870,000 to the Joint Development Project from internal resources.

Pursuant to the Development Agreement, any further fundings required for the Joint Development Project in addition to the initial cash contribution of RMB112,870,000 to be made by Chevalier Chengdu will be raised from external borrowings, failing which Chevalier Chengdu and the JV Partners shall extend further fundings to the Joint Development Project in the ratio of 51:49 which is the same as their respective interests in the Joint Development Project. The further fundings to be provided by Chevalier Chengdu may be satisfied by external borrowings and/or internal resources of the Group, and the proportion of fundings sources is yet to be decided.

It is intended that in due course the Joint Development Project will be undertaken by a Joint Venture Company to be established in the PRC among Chevalier Chengdu and the JV Partners. The formation of the Joint Venture Company and the transfer of the JV Partners' Land under the Joint Development Project to the Joint Venture Company are subject to the PRC relevant government approvals. Once the Joint Venture Company is set up, the contributions made by Chevalier Chengdu and the JV Partners to the Joint Development Project will be transferred to the Joint Venture Company as their respective capital contributions. The results and assets and liabilities of the Joint Venture Company would be consolidated into the accounts of the Group.

Management committee of the Joint Development Project

A management committee will be set up and it shall be responsible for decision making and monitoring of the Joint Development Project. It shall comprise nine committee members, of which five will be appointed by Chevalier Chengdu, three by 安徽安興聯合總公司 (Anhui Anxing Lianhe Corporation) and the remaining one by 安徽省華僑飯店 (Anhui Province Hua Qiao Hotel). After the Joint Venture Company is set up, the management committee members will be appointed to the board of directors of the Joint Venture Company.

THE JOINT DEVELOPMENT PROJECT

The Joint Development Project will be named 華僑廣場 (Hua Qiao Plaza) and constructed on a site situated at Chang Jiang Road Central in Hefei, Anhui Province, the PRC. Hefei is the capital city and an important industrial centre of the Anhui Province, with a total area of approximately 7,266 square kilometers and a population of approximately 4.6 million as of 31st December, 2005. The Development Site is situated at a prime location of Hefei, which gives the Joint Development Project a competitive advantage in terms of location.

Like other PRC urban cities, Hefei has attained fast economic growth in recent years. Hefei's GDP reached approximately RMB85.4 billion in 2005, representing an approximately 16.9% growth over 2004. Its GDP per capita increased by approximately 14.5% over 2004 to RMB18,960 in 2005. Urban consumer expenditure in Hefei reached RMB32.4 billion in 2005, representing an increase of approximately 35.3% over 2004. This fast economic growth has created increasing demand for commercial complex. With its prime location in Hefei, the Directors believe that the Joint Development Project, when launched, would be well received by the market.

LETTER FROM THE BOARD

It is currently planned that the Joint Development Project would comprise office building, shopping mall, hotel and service apartment. Nevertheless, the exact development plan of the Joint Development Project is yet to be finalized.

REASONS FOR ENTERING INTO THE DEVELOPMENT AGREEMENT

The Group is principally engaged in construction, engineering, insurance, property investment, hotel investment, information technology and food and beverage. The Development Agreement will create a good opportunity for the Group to benefit from the growing property market in the PRC. As mentioned in the Company's annual report for the year ended 31st March, 2005, the Group has confidence in the long-term growth of the PRC property market and expects the austerity measures imposed by the PRC government will help to eliminate speculative players, thus paving the way for healthy long-term growth of the market. As mentioned above, the Development Site occupies a prime location in Hefei which in turn is the capital city and an important industrial centre of the Anhui Province. Given this, the Directors have confidence in the prospect of the Joint Development Project which caters for the expected increasing demand from business travelers and retailers in Hefei brought about by the continued economic growth in the city.

The Directors (including the independent non-executive Directors) consider that the Development Agreement is on normal commercial terms, which is fair and reasonable to the Company and its shareholders and the undertaking of the Joint Development Project is in the interests of the Company.

GENERAL

Your attention is drawn to the additional information contained in the Appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Chevalier International Holdings Limited
Chow Yei Ching
Chairman and Managing Director

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 and confirm, having made all reasonable enquiries, and 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 and its associated corporations, within the meaning of Part XV of 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 section 352 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 Shares			Approximate percentage of interest (%) (Note 2)
		Personal interests	Family interests	Total	
CHOW Yei Ching ("Dr. Chow")	Beneficial owner	147,738,359 (Note 1)	–	147,738,359	53.03
KUOK Hoi Sang	Beneficial owner	98,216	–	98,216	0.04
FUNG Pak Kwan	Beneficial owner	93,479	–	93,479	0.03
TAM Kwok Wing	Beneficial owner	169,015	32,473	201,488	0.07
KAN Ka Hon	Beneficial owner	29,040	–	29,040	0.01
HO Chung Leung	Beneficial owner	40,000	–	40,000	0.01

Note:

- (1) Dr. Chow beneficially owned 147,738,359 Shares, representing approximately 53.03% of the issued share capital of the Company. These Shares were same as those Shares disclosed in the section "Substantial shareholders' interests in securities" below.
- (2) The above percentage is calculated on the basis of the issued share capital of the Company as at the Latest Practicable Date.

(b) Interests in associated corporation – shares

Name of Directors	Associated corporation	Capacity	Personal interests	Number of ordinary shares		Total	Approximate percentage of interest (%) (Note 2)
				Corporate interests	Family interests		
Dr. Chow	Chevalier iTech Holdings Limited ("CiTL")	Beneficial owner and interest of controlled corporation	6,815,854	104,198,933 (Note 1)	-	111,014,787	64.79
KUOK Hoi Sang	CiTL	Beneficial owner	2,400,000	-	-	2,400,000	1.40
FUNG Pak Kwan	CiTL	Beneficial owner	2,580,000	-	-	2,580,000	1.51
TAM Kwok Wing	CiTL	Beneficial owner	400,000	-	10,400	410,400	0.24
KAN Ka Hon	CiTL	Beneficial owner	451,200	-	-	451,200	0.26

Note:

- (1) Dr. Chow had notified CiTL that under the SFO, he was deemed to be interested in 104,198,933 shares in CiTL which were all held by the Company as Dr. Chow beneficially owned 147,738,359 Shares, representing approximately 53.03% of the issued share capital of the Company.
- (2) The above percentage is calculated on the basis of the issued share capital of the Company as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, 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 they are taken or deemed to have taken under such provisions of the SFO); or are required, pursuant to section 352 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.

ii. Substantial Shareholders' interests in securities

As at the Latest Practicable Date, 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 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 section 336 of the SFO were as follows:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares held (under equity derivatives of the Company)	Approximate percentage of interest (%) (Note 2)
Dr. Chow	Beneficial owner	147,738,359	–	53.03
MIYAKAWA Michiko	Beneficial owner	147,738,359 (Note 1)	–	53.03
The Goldman Sachs Group, Inc.	Interest of controlled corporation	–	43,180,459 (Note 3)	15.50
Goldman Sachs (UK) L.L.C.	Interest of controlled corporation	–	40,178,571 (Note 4)	14.42
Goldman Sachs Group Holdings (U.K.)	Interest of controlled corporation	–	40,178,571 (Note 4)	14.42
Goldman Sachs Holdings (U.K.)	Interest of controlled corporation	–	40,178,571 (Note 4)	14.42
Goldman Sachs International	Beneficial owner	–	40,178,571 (Note 4)	14.42
The Goldman, Sachs & Co. L.L.C.	Interest of controlled corporation	3,001,888 (Note 5)	–	1.08
Goldman Sachs & Co	Beneficial owner	3,001,888 (Note 5)	–	1.08

Note:

- (1) Under Part XV of the SFO, Ms. Miyakawa Michiko, the spouse of Dr. Chow, is deemed to be interested in the same parcel of 147,738,359 Shares held by Dr. Chow.
- (2) The above percentage is calculated on the basis of the issued share capital of the Company as at the Latest Practicable Date.
- (3) The Goldman Sachs Group, Inc. is taken to have an interest in the 3,001,888 Shares held by Goldman Sachs & Co and the 40,178,571 Shares that would be held by Goldman Sachs International upon full conversion of the HK\$450,000,000 2.125 per cent. convertible bonds due 2011 (the "Bonds") held by Goldman Sachs International at the initial conversion price of HK\$11.20 per Share. The Bonds are 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.
- (4) 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 40,178,571 Shares that would be held by Goldman Sachs International upon full conversion of the Bonds at the initial conversion price of HK\$11.20 per Share. 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..
- (5) The Goldman, Sachs & Co. L.L.C. is taken to be interested in the 3,001,888 Shares held by Goldman Sachs & Co. Goldman Sachs & Co is owned as to 99.8% by The Goldman Sachs Group, Inc. and the remaining 0.2% by The Goldman, Sachs & Co. L.L.C. (which is a wholly-owned subsidiary of The Goldman Sachs Group, Inc.).

Save as disclosed above, as at the Latest Practicable Date, so far as is 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 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 member of the Group or in any options in respect of such capital.

3. LITIGATION

As at the Latest Practicable Date, so far as is known to the Directors, none of the members of the Group are engaged in any litigation, arbitration of material importance or claim of material importance pending or threatened against any member of the Group.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors have an interest in any business constituting a competing business to the Group.

5. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors have entered, or are proposing to enter, into any service contract with the Company or its subsidiaries which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

6. MISCELLANEOUS

- (a) The qualified accountant of the Company is Mr. Ho Chung Leung, FCCA. He 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.
- (b) The secretary of the Company is Mr. Kan Ka Hon, FCCA. He 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.
- (c) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda and its head office and principal place of business are situated at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.
- (d) The Hong Kong branch share registrars and transfer office of the Company is Standard Registrars Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.