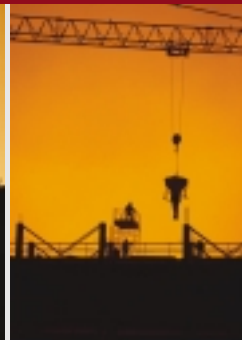




ARNHOLD HOLDINGS LIMITED

安利控股有限公司

Stock Code : 102



Interim Report
2006

REPORT OF THE DIRECTORS

The directors of Arnhold Holdings Limited (the “Company”) have pleasure to announce the interim report together with the unaudited condensed consolidated financial statements of the Company together with its group of companies (collectively the “Group”) for the six months ended 30 June 2006 (the “Period”).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The Group continued to develop its traditional business of trading of building materials and engineering equipment whilst expanding its manufacturing and export business. Despite the low level of construction activity in Hong Kong, this diversification enabled the Group to show some growth. During the Period, the Group’s turnover increased 21.8% to HK\$140.6 million with gross profit of HK\$30.5 million (2005: HK\$115.4 million and HK\$24.4 million respectively). The improvement was mainly attributable to the higher turnover of plumbing fixtures and increased export of stone products. Gross profit margin improved from 21.1% to 21.7% as a result of the Group’s focus on higher value-added activities. Other revenues also increased to HK\$3.8 million (2005: HK\$1.6 million) due to the recovery of HK\$0.9 million contracting revenue.

The Group recorded losses of HK\$0.5 million and HK\$1.2 million in its disposal of a subsidiary and a property in Shanghai, respectively. Reflecting the improved employment market in Hong Kong and the increase in headcount, staff payroll increased modestly by HK\$1.0 million. Moreover, the write back of provision for impairment of receivables decreased by HK\$2.6 million as compare with the last corresponding period. As a result, operating expenses increased 21.7% to HK\$32.7 million (2005: HK\$26.8 million) while the Group’s profit attributable to shareholders for the Period improved to HK\$0.8 million (2005: Group’s loss attributable to shareholders of HK\$1.5 million).

Despite the low level of activity in the Hong Kong construction industry, by expanding market coverage in Macau and the Mainland China and focusing on exports, the Group was able to show growth. This diversification and growth is expected to continue.

The Group’s outstanding orders on hand at Period end amounted to HK\$136 million, representing an increase of 1.8% over the end of last year (At 31 December 2005: HK\$134 million).

REPORT OF THE DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Segmental Information

Revenues from the building products business increased by 20.7% to HK\$119.6 million (2005: HK\$99.1 million) largely attributable to the higher turnover of plumbing fixtures projects. This was partly offset by the decrease in construction chemical operation of HK\$5.5 million (the business was transferred to a new joint venture in March 2006 and subsequently recognized as an associate company). In line with the increased turnover, overall gross profit improved from HK\$21.7 million to HK\$26.7 million.

Turnover of the engineering business increased by 29% to HK\$21.0 million as a result of our repositioning strategy. Consequently, operating results increased from HK\$2.7 million to HK\$3.8 million.

Capital Commitment

The construction work of the Group's new marble processing factory in Dongguan, PRC was completed in August 2006. We estimate that the total capital expenditure for the new plant will be around HK\$21.0 million, of which HK\$18.0 million was capitalised as at end of the Period. We expect to commit the balance capital expenditure by end of the year to purchase certain stone processing machines.

On 8 March 2006, Arnhold & Company, Limited (a wholly owned subsidiary of the Company), Bostik Australia Pty Ltd and Bostik Holding Hong Kong Limited entered into a shareholders' agreement in relation to the formation of a joint venture (the "Joint Venture"), details of which were disclosed in a circular dated 4 April 2006 duly despatched to the shareholders of the Company. We estimate that the Group's obligations to provide shareholders' loan to the Joint Venture will be around HK\$12.5 million. The financing requirements for this Joint Venture is expected to be met by internal resources and banking facilities.

Foreign Exchange Exposure and Financial Hedging

The Group adopts hedging policies for managing its risk exposure to foreign currency fluctuations and forward exchange contracts have been arranged with the Group's principal bankers to mitigate exchange risks. Further information of the forward exchange contracts is disclosed in the notes to the financial statements.

REPORT OF THE DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Financial Resources

The Group maintained a healthy balance sheet with no bank borrowing and zero gearing as at Period end (At 31 December 2005: Nil). The Group remained conservative in working capital management. As at Period end, cash balances amounted to HK\$59.1 million (At 31 December 2005: HK\$70.4 million). The decline in cash balances was largely caused by the payment for the construction works of the new factory in the PRC.

Most of the Group's cash balances are placed in time deposits with reputable financial institutions. The Group will continue its conservative cash flow management policy and expects to meet its future financial requirements through internal resources and banking facilities.

Contingent Liabilities

Certain subsidiaries have given undertakings to the banks that they will perform certain contractual non-financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of these subsidiaries. As at 30 June 2006, the amount of guarantees outstanding was HK\$3.9 million (At 31 December 2005: HK\$2.4 million).

Banking facilities with assets pledged

A property with net book value of HK\$52.0 million at Period end held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

Employees

At the end of the Period, the Group had approximately 360 employees in the Mainland China and 120 employees in Hong Kong and Macau. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. The Group adopted a new share option scheme on 11 July 2002 under which the directors of the Company, subject to the compliance of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), were authorised to grant share options to eligible persons as incentives. Details of share options granted were disclosed in the "Share Option Scheme" section of this report.

REPORT OF THE DIRECTORS

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Outlook

The Group has positioned itself to take full advantage of any improvement in the Hong Kong construction industry. The new marble processing factory will enable the Group to take advantage of growth opportunities resulting from increased demand for its products which have been well received by overseas clients.

The manufacturing joint venture with Bostik (a subsidiary of Total) is in line with the Group's objectives of participating in the manufacturing and distribution of products in the Mainland China. It is anticipated that this joint-venture factory will be completed by the third quarter of 2007.

We have completed our product transition in the engineering business thereby positioning the Group for future growth. Much effort and expense has gone into the development of the above opportunities, the benefits of which are expected to be seen in the years of 2007 and beyond.

DIRECTORS

The directors of the Company during the Period and up to the date of this report are:

Executive directors:

Michael John Green *(also appointed as the alternate director to Mr Simon Murray)*

Daniel George Green

Lai Ka Tak, Patrick

Non-executive directors:

Augustus Ralph Marshall

Lim Ghee Keong, being the alternate director to Mr Augustus Ralph Marshall

Christopher John David Clarke

Independent non-executive directors:

V-Nee Yeh

Thaddeus Thomas Beczak

Simon Murray

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

A Share Option Scheme (“the Scheme”) was approved and adopted by the shareholders at a special general meeting of the Company on 11 July 2002. The following information relating to the Scheme is made pursuant to the requirements as contained in Chapter 17 of the Listing Rules (reference is made to the circular of the Company dated 24 June 2002 (the “Circular”). Terms defined in the Circular have the same meanings when used in the following summary unless the context requires otherwise):

i) Purpose of the Scheme

The purpose of the Scheme is to recognise and acknowledge the contribution that Eligible Persons have made or may make to the Company and to attract and retain and motivate talented staff.

ii) Participants of the Scheme

The participants of the Scheme shall be such Eligible Persons as the Board in its absolute discretion determines.

iii) Maximum number of Shares available for issue under the Scheme

The maximum number of Shares which may be issued upon exercise of all outstanding Options to subscribe for Shares granted and yet to be exercised under the Scheme and any other share option scheme shall not exceed 10% of the total number of Shares in issue of the Company as at the date of approval of the Scheme. As at 30 June 2006 and the date of this report, 10,549,600 Shares were available for issue under the Scheme representing 4.7% of the total issued share capital of the Company.

iv) Maximum entitlement to any one participant

Under the Scheme, the maximum entitlement to Options of each Eligible Person shall be such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to him/her in any 12-month period up to each Commencement Date must not exceed 1% of the issued share capital of the Company at the relevant Commencement Date.

v) Period and payment on acceptance of options

Under the Scheme, an Offer may be accepted by an Eligible Person in whole or in part in respect of all Shares for which it is offered to such Eligible Person when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Person together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within forty days from the Offer Date.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(continued)*

vi) The basis of determining the exercise price

The Subscription Price in respect of any Option shall be not less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the relevant Commencement Date in respect of such Option, which must be a Business Day; (ii) an amount equivalent to the mean closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the relevant Commencement Date in respect of such Option, which must be a Business Day, and (iii) the nominal value of a Share.

vii) Remaining life of the Scheme

The Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless otherwise terminated under the terms of the Scheme.

Details of Options granted to directors and employees of the Company under the Scheme as at 30 June 2006 are as follows:

	Date of Options granted	Outstanding Options as at 1 January 2006	Granted during the Period	Exercised/ lapsed/ cancelled during the Period	Outstanding Options as at 30 June 2006	Subscription price per Share <i>HK\$</i>
Directors						
Daniel George	18 September 2003	1,200,000	–	–	1,200,000	0.500
Green	19 November 2004	2,000,000	–	–	2,000,000	0.602
	21 November 2005	2,200,000	–	–	2,200,000	0.700
Lai Ka Tak, Patrick	18 September 2003	1,500,000	–	–	1,500,000	0.500
	19 November 2004	1,700,000	–	–	1,700,000	0.602
	21 November 2005	1,800,000	–	–	1,800,000	0.700
Employees						
	18 September 2003	1,000,000	–	–	1,000,000	0.500
	21 November 2005	500,000	–	–	500,000	0.700
		<u>11,900,000</u>	<u>–</u>	<u>–</u>	<u>11,900,000</u>	

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME *(continued)*

At the dates before the Options were granted, being 17 September 2003, 18 November 2004 and 20 November 2005, the market value per Share was HK\$0.50, HK\$0.60 and HK\$0.70 respectively.

The Options granted on 18 September 2003 can be exercised in two instalments, 50% of which at any time between 1 September 2005 and 30 August 2010 and the remaining 50% at any time between 1 September 2006 and 30 August 2010.

The Options granted on 19 November 2004 can be exercised in two instalments, 50% of which at any time between 1 November 2006 and 30 August 2010 and the remaining 50% at any time between 1 November 2007 and 30 August 2010.

The Options granted on 21 November 2005 can be exercised in two instalments, 50% of which at any time between 1 November 2007 and 30 August 2010 and the remaining 50% at any time between 1 November 2008 and 30 August 2010.

Apart from the Scheme mentioned above, at no time during the Period was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors (including their spouse and children under 18 years of age) have been granted, or have exercised, any rights to subscribe for shares of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) set out in Appendix 10 of the Listing Rules as adopted by the Company were as follows:

Ordinary shares of HK\$0.10 each

	Personal interests	Family interests	Corporate interests	Number of shares held Trusts and similar interests	Equity derivatives (Note iii)	Total interests	Percentage of shareholding
<i>Executive directors:</i>							
Michael John Green	1,272,000	–	–	166,093,617 (Note i)	–	167,365,617	74.55%
Daniel George Green	–	–	–	166,093,617 (Note ii)	5,400,000	171,493,617	76.39%
Lai Ka Tak, Patrick	–	–	–	–	5,000,000	5,000,000	2.23%
<i>Non-executive directors:</i>							
Christopher John David Clarke	200,000	–	–	–	–	200,000	0.09%
Augustus Ralph Marshall	–	–	–	–	–	–	–
<i>Independent non-executive directors:</i>							
V-Nee Yeh	74,444	–	–	–	–	74,444	0.03%
Thaddeus Thomas Beczak	–	–	–	–	–	–	–
Simon Murray	343,487	–	–	–	–	343,487	0.15%

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Notes:

- (i) Such shares were held through corporations on behalf of the Michael Green Family Trust.
- (ii) Such shares were held through corporations on behalf of the Michael Green Family Trust in which Mr Daniel George Green has a beneficial interest.
- (iii) These represented interests of options granted to directors under a share option scheme to subscribe for shares of the Company, further details of which are set out in the section "Share Option Scheme" of this report.

All interests in the shares and underlying shares of equity derivatives of the Company are long positions. None of the directors held any short position in the shares, underlying shares of equity derivatives or debentures of the Company.

Save as disclosed above, as at 30 June 2006, none of the directors and chief executives of the Company had any interests and short position 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of shareholders (other than directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company representing 5% or more of the voting power at any general meeting which were recorded in the register required to be kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of shareholder	Ordinary shares held	Percentage of shareholding
Pacific Investments (BVI) Limited	16,957,431	7.55%

Pacific Investments (BVI) Limited is a wholly-owned subsidiary of Usaha Tegas Sdn. Bhd.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Save as disclosed above, as at 30 June 2006, the Company had not been notified of any interests and short positions in the shares or underlying shares of the Company which had been recorded in the register required to be kept by the Company under section 336 of the SFO.

INTERIM DIVIDEND

The Board has resolved that no interim dividend be paid for the Period (2005: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

CORPORATE GOVERNANCE

The Code on Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance in fulfilling the responsibilities to shareholders. Our business culture and practices are founded upon a common set of values that govern our relationships with customers, employees, shareholders, suppliers and the communities in which we operate. The Company also acknowledges and appreciates its responsibility towards the society at large and has embarked upon various initiatives to effectuate this.

The Stock Exchange has promulgated the Code on Corporate Governance Practices (the "CG Code") which came into effect in January 2005. Throughout the Period, the Company has complied itself with the code provisions of the CG Code except in certain circumstances where in the opinion of the directors of the Company are unsuitable to be adopted by the Company at this stage. Details of such non-compliances are discussed below:

- non-executive directors are not appointed for a specific term and directors are not subject to retirement by rotation at least once every three years. The bye-laws of the Company (the "Bye-laws") provided that save that the Board shall have the absolute discretion to determine whether or not the Chairman and/or the Managing Director of the Company shall be subject to retirement by rotation, each annual general meeting one-third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest but not less than one-third) shall retire from office by rotation. To ensure the smooth running and continuous adhering to the strategic view of the Company, the Board believes that it is more practical for the Chairman/Managing Director not subject to retirement by rotation. The Board also considers it not necessary to appoint non-executive directors for a specific term as the Bye-laws enable all directors, including those non-executives, to retire at least once every three years;

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE *(continued)*

- the Company has not adopted the terms of reference of the Remuneration Committee as prescribed in the CG Code in full but has duly adopted its own terms of reference that better suits the practical situation of the Company. The Board considers that the key responsibilities of the Remuneration Committee shall focus on assessing the reasonableness of the remuneration of the directors and fixing the remuneration packages for all directors. The Board understands that the terms of reference adopted by the Remuneration Committee deviates from rules B.1.3(a)-(e) of the CG Code as its scope does not cover the senior management of the Company. However, the Board considers that it is not practical for the Remuneration Committee to adopt the full terms stipulated in the CG Code because the management structure of the Group is relatively simple and its scale of operations is modest. It is also noted that the executive directors have extensive experience in the industry and are fully qualified to determine the remuneration packages of employees of the Company including the senior management. It has always been the Company's practice to provide compensation with reference to the prevailing market conditions. The remuneration details, together with the financial statements of the Company, are also subject to review and approval by the Board annually. As a result, it is considered more practical not to delegate the responsibility to the Remuneration Committee to determine any specific remuneration packages of the senior management. The Board believes that such arrangement a) will maintain a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors; b) will not affect the Company in providing transparent information of the directors' remuneration to the public; c) will give adequate authority to the Remuneration Committee to protect the interest of the Company and the minority shareholders; d) will enable the Company to maintain a reasonable balance of cost and benefit.

The Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in the Listing Rules. The Company, having made specific enquiry, confirms that all directors of the Company complied throughout the Period with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Audit Committee is accountable to the Board. It provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Messrs V-Nee Yeh and Thaddeus Thomas Beczak and a non-executive director, Mr Christopher John David Clarke.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Company for the Period.

On behalf of the Board
Michael John Green
Chairman

Hong Kong, 15 September 2006

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

(Unaudited)
For the six months ended
30 June

	<i>Note</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Turnover	4	140,571	115,376
Cost of sales	5	(110,059)	(91,025)
Gross profit		30,512	24,351
Other revenues	4	3,785	1,643
Operating expenses	6	(32,664)	(26,834)
Operating profit/(loss)		1,633	(840)
Finance costs	7	(58)	(11)
Share of loss of associates		(688)	(277)
Profit/(loss) before income tax		887	(1,128)
Income tax expense	8	(139)	(322)
Profit/(loss) attributable to shareholders		748	(1,450)
Basic earnings/(loss) per share (cents)	9	0.33	(0.65)
Diluted earnings/(loss) per share (cents)	9	0.33	(0.65)
Dividend		–	–
Dividend per share		–	–

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited)	
		At 30 June	At 31 December
		2006	2005
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Non-current assets			
Investment properties	11	15,551	17,601
Property, plant and equipment	11	44,823	38,340
Lease prepayment		46,090	49,456
Interest in associates		976	64
Available-for-sale financial assets	12	2,276	1,954
		109,716	107,415
Current assets			
Property held for sale	13	2,064	–
Inventories		20,248	19,130
Construction contracts		18	13
Trade and other receivables	14	63,777	71,188
Derivative financial instruments	15	1,412	51
Cash and cash equivalents	16	59,104	70,419
		146,623	160,801
Current liabilities			
Trade and other payables	17	56,040	68,388
Derivative financial instruments	15	197	1,283
Provisions	18	1,652	1,730
Current income tax (recoverable)/liabilities		(22)	212
		57,867	71,613
Net current assets			
		88,756	89,188
Total assets less current liabilities			
		198,472	196,603
Non-current liabilities			
Deferred income tax liabilities		425	425
Trade and other payables	17	876	438
Net assets			
		197,171	195,740
Capital and reserves			
Share capital	19	22,450	22,450
Reserves		174,721	173,290
Shareholders' funds			
		197,171	195,740

Approved by the board of directors on 15 September 2006

Michael John Green
Chairman

Lai Ka Tak, Patrick
Finance Director

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	(Unaudited)	
		For the six months ended	
		2006	2005
		30 June	
		HK\$'000	HK\$'000
Cash flows from operating activities			
Profit/(loss) before income tax		887	(1,128)
Adjustment for:			
Depreciation of property, plant and equipment		1,387	958
Amortisation of lease prepayment		507	515
Interest income		(859)	(460)
Interest expenses		58	11
Share of loss of associates		688	277
Loss on disposal of a subsidiary		503	–
Loss on disposal of property, plant and equipment		–	39
Impairment loss on property held for sale		1,210	–
Net unrealised fair value (gain)/loss on derivative financial instruments		(2,447)	3,451
Employee share-based compensation benefits		361	305
		2,295	3,968
Changes in working capital			
(Increase)/decrease in amount due from associates		(1,600)	711
Increase in inventories		(1,118)	(2,764)
(Increase)/decrease in construction contracts		(5)	739
Decrease in trade and other receivables		7,411	21,296
Decrease in trade and other payables		(12,180)	(23,871)
(Decrease)/increase in provisions		(78)	127
		(5,275)	206
Cash generated from operations			
Interest received		859	460
Interest paid		(58)	(11)
Hong Kong profits tax paid		(16)	–
Overseas tax paid		(87)	(317)
		(4,577)	338
Cash flows from investing activities			
Payments for purchase of property, plant and equipment		(8,293)	(1,243)
Proceeds from sale of property, plant and equipment		–	260
Proceeds from disposal of a subsidiary	20	1,555	–
		(6,738)	(983)
Cash flows from financing activities			
Dividend paid		–	(9,878)
		–	(9,878)
Net decrease in cash and cash equivalents		(11,315)	(10,523)
Cash and cash equivalents at the beginning of the period		70,419	84,373
Cash and cash equivalents at the end of the period		59,104	73,850
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		59,104	73,850

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Share capital	Share premium	Other properties revaluation reserve	Investment properties revaluation reserve	Available-for-sale investment reserve	Employee share-based compensation reserve	Retained earnings	Contributed surplus	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	22,450	92,389	-	-	(334)	1,100	79,327	808	195,740
Profit attributable to shareholders	-	-	-	-	-	-	748	-	748
Employee share-based compensation benefits	-	-	-	-	-	361	-	-	361
Surplus on revaluation	-	-	-	-	322	-	-	-	322
At 30 June 2006	22,450	92,389	-	-	(12)	1,461	80,075	808	197,171
At 1 January 2005, as previously reported	22,450	92,389	1,348	44	-	-	74,483	808	191,522
- effect of adopting									
- HKAS 17	-	-	(1,348)	-	-	-	2,318	-	970
- HKAS 40	-	-	-	(44)	-	-	44	-	-
- HKFRS 2	-	-	-	-	-	530	(530)	-	-
- opening adjustment of HKAS 39	-	-	-	-	-	-	1,388	-	1,388
At 1 January 2005, as restated	22,450	92,389	-	-	-	530	77,703	808	193,880
Loss attributable to shareholders	-	-	-	-	-	-	(1,450)	-	(1,450)
Employee share-based compensation benefits	-	-	-	-	-	305	-	-	305
At 30 June 2005, as restated	22,450	92,389	-	-	-	835	76,253	808	192,735

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 General Information

The principal activities of the Group are trading in, and the supply and installation of, building products and engineering equipment.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on the main board of the Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated financial statements was approved for issue on 15 September 2006.

2 Basis of preparation

This unaudited condensed consolidated financial statements for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 Accounting policies

The accounting policies and methods of computation used in the preparation of this unaudited consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, ‘Actuarial gains and losses, group plans and disclosures’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment to ‘The fair value option’, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment ‘Net investment in a foreign operation’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment ‘Cash flow hedge accounting of forecast intragroup transactions’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39 and HKFRS 4, Amendment ‘Financial guarantee contracts’, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- HKFRS 6, ‘Exploration for and evaluation of mineral resources’, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, ‘Determining whether an arrangement contains a lease’, effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with HKAS 17, ‘Leases’. However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them;
- HK(IFRIC)-Int 5, ‘Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds’, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, ‘Liabilities arising from participating in a specific market – waste electrical and electronic equipment’, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

3 Accounting policies (continued)

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKFRS 29', effective for annual periods beginning on or after 1 March 2006.
- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006.
- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006; and
- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. HKAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007.

The Group is in the process of making an assessment of what the impact of new standards, amendments to standards and interpretations would be in the period of initial application, but is not yet in a position to state whether these new standards, amendments to standards and interpretations should have a significant impact on the Group's results of operations and financial position.

4 Turnover, other revenues and segment information

The principal activities of the Group are trading in, and the supply and installation of, building products and engineering equipment. Revenues recognised during the Period are as follows:

	(Unaudited)	
	Six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Sales of inventories	140,571	115,285
Commission income	–	91
	140,571	115,376
Other revenues		
Interest income from bank deposits	859	460
Administration fee received from the associates (Note 23a)	486	210
Gross rental income from investment properties	334	351
Sundry income	2,106	622
	3,785	1,643
Total revenues	144,356	117,019

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4 Turnover, other revenues and segment information *(continued)*

An analysis of the Group's turnover and contribution to the Group's results by business segments (primary reporting segment) is set out below:

	(Unaudited) Six months ended		30 June 2005	
	30 June 2006	Operating results	Turnover	Operating results
	Turnover <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal activities:				
Building products	119,585	26,729	99,111	21,667
Engineering equipment	20,986	3,783	16,265	2,684
	<u>140,571</u>	<u>30,512</u>	<u>115,376</u>	<u>24,351</u>
Administrative and other expenses		<u>(28,879)</u>		<u>(25,191)</u>
Operating profit/(loss)		1,633		(840)
Finance costs		(58)		(11)
Share of loss of associates		(688)		(277)
Profit/(loss) before income tax		887		(1,128)
Income tax expense		(139)		(322)
Profit/(loss) attributable to shareholders		<u>748</u>		<u>(1,450)</u>

5 Cost of sales

	(Unaudited) Six months ended	
	30 June 2006	2005
	HK\$'000	HK\$'000
Cost of inventories sold	111,751	88,811
Cost of construction contracts	–	(1,949)
Cost of consumable stocks	755	712
Fair value (gain)/loss on derivative financial instruments	(2,447)	3,451
	<u>110,059</u>	<u>91,025</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

6 Operating expenses

	(Unaudited) Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Administrative expenses:		
Employee benefits expenses	19,827	18,881
Employee share option benefits	361	305
Amortisation of lease prepayment	507	515
Depreciation of property, plant and equipment	1,387	958
Operating lease rentals on properties paid to third parties	2,454	1,958
Travelling expenses	777	656
Entertainment expenses	300	392
Stamps, postage and telephone	543	493
Management fee	720	640
Advertising expenses	353	298
Legal and professional fees	423	627
Auditors' remuneration	702	615
	<u>28,354</u>	<u>26,338</u>
Other operating expenses:		
Write back provision for impairment of receivables	(60)	(2,701)
Provision for impairment of receivables	286	536
Provision for stock obsolescence	33	22
Provision for employee leave entitlements	2	181
Provision for long service payments	(24)	10
Loss on disposal of property, plant and equipment	–	39
Loss on disposal of a subsidiary (note 20)	503	–
Impairment loss on property held for sale (note 13)	1,210	–
Sundry expenses	2,360	2,409
	<u>4,310</u>	<u>496</u>
	<u>32,664</u>	<u>26,834</u>

7 Finance costs

	(Unaudited) Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest expenses		
Short-term bank loans and overdrafts	<u>58</u>	<u>11</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

8 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% on estimated assessable profit for the Period (2005: Nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the countries in which the Group operates.

Taxation charged in the condensed consolidated profit and loss account represents:

	(Unaudited)	
	Six months ended	
	30 June	
	2006	2005
	HK\$'000	HK\$'000
Current income tax		
Hong Kong profits tax	52	–
Overseas taxation	87	322
	139	322

9 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to ordinary shareholders of HK\$748,000 (2005: Group's loss attributable to ordinary shareholders of HK\$1,450,000) and the weighted average of 224,496,000 (2005: 224,496,000) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the Group's profit attributable to ordinary shareholders of HK\$748,000 and the weighted average of 225,147,200 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares. The diluted loss per share for the period ended 30 June 2005 is the same as the basic loss per share.

	(Unaudited)	
	Six months ended	
	30 June	
	2006	2005
	Number of shares	Number of shares
Reconciliation		
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share	224,496,000	224,496,000
Deemed issue of ordinary share for no consideration	651,200	–
Weighted average number of ordinary shares used in calculating diluted earnings/(loss) per share	225,147,200	224,496,000

10 Retirement benefit costs

The Group's contributions to the ORSO scheme are reduced by contributions forfeited by those employees who leave the ORSO scheme prior to vesting fully in the contributions. Forfeited contributions totaling HK\$112,000 (2005: HK\$301,000) were fully utilised during the Period.

Contributions of HK\$244,000 (2005: HK\$243,000) were payable to the Retirement Scheme at the Period-end.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

11 Capital expenditure

	Investment properties <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value at 1 January 2005			
– as previously reported	17,601	75,537	93,138
– effect of adopting HKAS 17		(49,827)	(49,827)
– as restated	17,601	25,710	43,311
Addition	–	1,243	1,243
Write off	–	(299)	(299)
Depreciation	–	(958)	(958)
Net book value at 30 June 2005	17,601	25,696	43,297
Addition	–	13,937	13,937
Depreciation	–	(1,293)	(1,293)
Net book value at 31 December 2005	17,601	38,340	55,941
Addition	–	8,293	8,293
Disposal	(2,050)	(8)	(2,058)
Depreciation	–	(1,387)	(1,387)
Transfer to property held for sale	–	(415)	(415)
Net book value at 30 June 2006	15,551	44,823	60,374

12 Available-for-sale financial assets

	<i>HK\$'000</i>
At 1 January 2005	10,088
Less: Revaluation deficit transfer to reserves	(334)
Less: Provision for impairment loss	(7,800)
At 31 December 2005	1,954
Add: Revaluation surplus transfer to reserves	322
At 30 June 2006	2,276

13 Property held for sale

During the Period, the Group entered into an agreement to dispose a property in Shanghai in August 2006 and impairment loss of HK\$1,210,000 is recognised in the consolidated financial statements to reflect its fair value.

	<i>HK\$'000</i>
Lease prepayment	2,859
Leasehold building	415
Net book value of property held for sale	3,274
Less: Impairment loss on property held for sale	(1,210)
Fair value of property held for sale	2,064

NOTES TO THE INTERIM FINANCIAL STATEMENTS

14 Trade and other receivables

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Trade receivables	55,109	63,252
Retention receivables	8,982	8,232
Receivables from related parties	271	520
Less: provision for impairment of receivables	(3,886)	(3,730)
Net trade and retention receivables	60,476	68,274
Prepayments and other receivables	3,301	2,914
	63,777	71,188

Trade and other receivables (which include trade and retention receivables) had the following aging analysis:

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Current	29,873	30,953
One to three months overdue	17,029	22,651
More than three months overdue but less than twelve months overdue	2,626	3,139
Overdue more than twelve months	14,834	15,261
Total trade and retention receivables	64,362	72,004
Less: provision for impairment of receivables	(3,886)	(3,730)
Net trade and retention receivables	60,476	68,274
Prepayments and other receivables	3,301	2,914
	63,777	71,188

Debts from construction contracts are due when architect certificates are issued and other debts are due normally from the date of billing. Debtors with balances that are long overdue are normally requested to settle all outstanding balances before any further credit is granted.

15 Derivative financial instruments

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Forward foreign exchange contracts – not qualified as hedges		
– Assets	1,412	51
– Liabilities	(197)	(1,283)

The net unrealised fair value gain/(loss) on forward foreign exchange contracts as at 30 June 2006 and 31 December 2005 which are not qualified as hedges has been accounted for in the consolidated profit and loss account.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

16 Cash and cash equivalents

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Bank deposits with original maturity of three months or less	36,810	46,567
Cash at bank and in hand	22,294	23,852
	<u>59,104</u>	<u>70,419</u>

17 Trade and other payables

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Trade and bills payables	29,499	39,473
Accruals and other payables	24,224	26,514
Advances received from customers	3,193	2,839
	<u>56,916</u>	<u>68,826</u>
Less: non-current portion Accrual and other payables	<u>(876)</u>	<u>(438)</u>
	<u>56,040</u>	<u>68,388</u>

Included in the trade and other payables are trade and bills payables with the following aging analysis:

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Due within one month or on demand	21,029	31,230
Due after one month but within three months	7,529	7,299
Due after three months	941	944
	<u>29,499</u>	<u>39,473</u>
Trade and bills payables	29,499	39,473
Accruals and other payables	24,224	26,514
Advances received from customers	3,193	2,839
	<u>56,916</u>	<u>68,826</u>
Less: non-current portion Accrual and other payables	<u>(876)</u>	<u>(438)</u>
	<u>56,040</u>	<u>68,388</u>

NOTES TO THE INTERIM FINANCIAL STATEMENTS

18 Provisions

	Long service payments <i>HK\$'000</i>	Employee leave entitlement <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	674	1,056	1,730
(Write back)/additional provisions	(24)	834	810
Less: Amounts utilised	–	(832)	(832)
(Credit)/charge to profit and loss account	(24)	2	(22)
Less: Amounts settled	–	(56)	(56)
Net effect on provisions	(24)	(54)	(78)
At 30 June 2006	650	1,002	1,652

19 Share capital

	(Unaudited) At 30 June 2006 Authorised		At 31 December 2005 Authorised	
	Number of shares	<i>HK\$'000</i>	Number of shares	<i>HK\$'000</i>
Ordinary shares of HK\$0.10 each	800,000,000	80,000	800,000,000	80,000
	Issued and fully paid		Issued and fully paid	
	Number of shares	<i>HK\$'000</i>	Number of shares	<i>HK\$'000</i>
Ordinary shares of HK\$0.10 each	224,496,000	22,450	224,496,000	22,450

20 Notes to the consolidated cash flow statement

	(Unaudited) At 30 June 2006 <i>HK\$'000</i>
Disposal of a subsidiary	
Investment property Leasehold improvement	2,050 8
Aggregate net assets disposed at date of disposal Loss on disposal	2,058 (503)
Net cash consideration	1,555

Loss on disposal of a subsidiary for the Period represents loss arising from the disposal of a 100% interest in a property holding subsidiary. The investment property is located in Guangzhou.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

21 Contingent liabilities

At 30 June 2006, there were contingent liabilities in respect of the following:

(a)	The Group (Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000	The Company (Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	–	–	229,000	229,000
(b) Certain subsidiaries have given undertakings to banks that they will perform certain contractual non-financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of the subsidiaries. As at 30 June 2006, the amount of guarantees outstanding was HK\$3,944,000 (At 31 December 2005: HK\$2,400,000).				

22 Commitments

Capital commitments for land and buildings

	(Unaudited) At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Contracted but not provided for	1,268	4,412

23 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	(Unaudited) Six months ended 30 June 2006 HK\$'000	2005 HK\$'000
Sales of goods and services		
Administration fee received from an associate (note a)	486	210
Gross rental income received from an associate (note b)	128	132
Sales of goods to related party (note c)	64	89
Purchases of goods and services		
Professional fee paid to related party (note c)	15	128
Key management compensation	2,970	2,831

- (a) A subsidiary of the Group provided management services to the associate for which it charged an administration fee at a fixed monthly amount.
- (b) During the Period, the associate paid rental expenses of HK\$128,000 (2005: HK\$132,000) to the subsidiaries of the Group.
- (c) In addition to transactions with related companies as disclosed above, professional fees of HK\$15,000 (2005: HK\$128,000) were paid to a firm in which a non-executive director of the Company is a partner. Besides, sales of construction materials of HK\$64,000 (2005: HK\$89,000) were made to a listed group of companies in which an independent non-executive director of the Company is also a director of the listed group.

It is the intention of the directors of the Company that the Group will continue its business relationships with related parties under similar bases as adopted in previous years. In the opinion of the directors of the Company, the transactions with the related companies were carried out in the ordinary course of business on normal commercial terms.