



ARNHOLD HOLDINGS LIMITED

安利控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 102)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

The board of directors (the “Board”) of Arnhold Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company together with its subsidiaries (collectively the “Group”) for the six months ended 30 June 2006 (the “Period”), together with comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 30 JUNE 2006

		(Unaudited)	
		Six months ended 30 June 2006	Six months ended 30 June 2005
	Note	HK\$'000	HK\$'000
Turnover	(1)	140,571	115,376
Cost of sales		<u>(110,059)</u>	<u>(91,025)</u>
Gross profit		30,512	24,351
Other revenues		3,785	1,643
Operating expenses		<u>(32,664)</u>	<u>(26,834)</u>
Operating profit/(loss)		1,633	(840)
Finance costs		(58)	(11)
Share of loss of associates		<u>(688)</u>	<u>(277)</u>
Profit/(loss) before income tax	(2)	887	(1,128)
Income tax expense	(3)	<u>(139)</u>	<u>(322)</u>
Profit/(loss) attributable to shareholders		<u><u>748</u></u>	<u><u>(1,450)</u></u>

Basic earnings/(loss) per share (cents)	(4)	<u><u>0.33</u></u>	<u><u>(0.65)</u></u>
Diluted earnings/(loss) per share (cents)	(4)	<u><u>0.33</u></u>	<u><u>(0.65)</u></u>
Dividend		<u><u>–</u></u>	<u><u>–</u></u>
Dividend per share		<u><u>–</u></u>	<u><u>–</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2006

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

Notes:

(1) Turnover

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 2006		30 June 2005	
	Turnover	Operating	Turnover	Operating
	HK\$'000	results	HK\$'000	results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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>	24,351
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		<u>(688)</u>		<u>(277)</u>
Profit/(loss) before income tax		887		(1,128)
Income tax expense		<u>(139)</u>		<u>(322)</u>
Profit/(loss) attributable to shareholders		<u>748</u>		<u>(1,450)</u>

(2) **Profit/(loss) before income tax**

Profit/(loss) before income tax in the condensed consolidated profit and loss account is stated after crediting/(charging) the following items:

	(Unaudited)	
	Six months ended	
	30 June 2006	30 June 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting		
Write back provision for impairment of receivables	60	2,701
Interest income	859	460
Rental income from investment properties	334	351
Charging		
Depreciation of property, plant and equipment	(1,387)	(958)
Amortisation of lease prepayment	(507)	(515)
Impairment loss on property held for sale	(1,210)	–
Loss on disposal of a subsidiary	(503)	–
	<u> </u>	<u> </u>

(3) **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	30 June 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
Hong Kong profits tax	52	–
Overseas taxation	87	322
	<u> </u>	<u> </u>
	<u>139</u>	<u>322</u>

(4) 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.

(5) Basis of presentation and consolidation

The Group financial statements include the Company and its subsidiaries up to 30 June 2006. The Group financial statements also include the Group's share of the post acquisition profits less losses, and reserves, of its associates.

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 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).

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.

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 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 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 Report of the Directors annexed to the 2006 Interim Report to be despatched to the shareholders of the Company in due course.

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.

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 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;
- 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.

REVIEW OF FINANCIAL STATEMENTS

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

PUBLICATION ON WEBSITES

This announcement is also published on the website of the Company (www.arnhold.com.hk) and the Stock Exchange.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Messrs Michael John Green, Daniel George Green and Lai Ka Tak, Patrick; the non-executive directors are Messrs Augustus Ralph Marshall (Mr Lim Ghee Keong being the alternate director of Mr Augustus Ralph Marshall) and Christopher John David Clarke; the independent non-executive directors are Messrs V-Nee Yeh, Thaddeus Thomas Beczak and Simon Murray.

On behalf of the Board
Arnhold Holdings Limited
Michael John Green
Chairman

Hong Kong, 15 September 2006

* *for identification purpose only*

Please also refer to the published version of this announcement in China Daily.