安利

ARNHOLD HOLDINGS LIMITED
安利控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 102)

2006 RESULTS ANNOUNCEMENT

- **Turnover up 1.7% to HK$297.6M.**
- **Gross margin up by 2% to 22.1%.**
- **Outstanding order book up by 23% to HK$164.6M.**
- **New marble factory completed on a 30,000 sq.m site in DongGuan at cost of HK$23M.**
- **Commenced construction of a 40% JV factory with Bostik in ZhuHai for completion end 2007.**

CHAIRMAN'S STATEMENT

Despite another challenging year in Hong Kong's Construction Industry the Group made good progress in 2006. Turnover and gross profit increased by 1.7% to HK$297.6 million and 12.0% to HK$65.7 million respectively and the outstanding order book on hand rose by 23% to HK$164.6 million. We now have a strong foundation for sustainable growth and profitability and continue to diversify into new markets. The Group has experienced managers in place and we feel confident we can deliver on our strategic objectives.

Details of significant achievements in our Operating Divisions are as follows:

Plumbing Fixtures:

We have had a strong year in Plumbing Fixtures and benefited from three main growth drivers.

1) The Macau operations made good progress and we have established ourselves as a major supplier. Our team secured a number of high profile projects including The Wynn Macau, the Venetian Resort Macau and Nova City.

2) We have strengthened our presence in the Shanghai area and recruited management. We recently confirmed the Hutchison Gubei project and the Wharf Wellington Garden project, which are amongst the largest luxury residential projects in Shanghai.

* *For identification purpose only*

3) We have increased our presence in the refurbishment market through our sales to dealers and through our own retail outlets. We also opened the Arnhold Design Boutique, which is focused on the luxury sector and has set new standards in the market.

Tiles:

The Tiles Division has continued to deliver solid results in difficult market conditions. We are a market leader in Hong Kong and secured a number of landmark projects in 2006 including Union Square, Telford Gardens and Ho Tung Lau. Our success is driven by the professionalism of our team under experienced management. We are now major tile suppliers to the MTRC, KCRC and the Hong Kong Jockey Club.

Marble Export:

The Marble Export Division opened a new processing plant in DongGuan in 2006. The new facility has doubled our production capacity and we are growing strongly. We have established ourselves as a premier manufacturer of decorative stone products and have a strong customer base in the United States, United Kingdom, Australia, New Zealand, and the European Union.

Engineering:

The Engineering Division changed a number of key suppliers in 2006 to focus on Internationally branded China-made products. We have completed the transition of our portfolio to these products, greatly increasing our opportunities in Hong Kong and the Mainland where we have secured a number of large-scale industrial projects including Equipment for Bayer and Johnson & Johnson.

Building Materials Export:

Our Export Division is opening new accounts and establishing a base for future growth. Orders have already been booked or shipments made to the United Kingdom, Ireland, Australia, South Africa, Belgium and the United States.

Bostik Joint Venture:

The Group has concluded a 40% JV with Bostik and we have commenced construction of an Adhesives Mixing Plant in ZhuHai. This will be the most advanced Powder Plant in China with completion targeted for end 2007. In the meantime we are establishing our sales and distribution network using imported products from other Bostik facilities in Asia.

We have been through some challenging times in the Hong Kong Construction Sector but we feel the market has bottomed and we are in a strong position to take advantage of any improvements, whilst continuing to develop our Manufacturing and Export business. It has taken several years to refocus the Company and we are now positioned for growth as shown in our increased Order Book.

RESULTS

The board of directors (the "Board") of Arnhold Holdings Limited (the "Company") is pleased to present the audited consolidated financial statements of the Company together with its subsidiaries (collectively the "Group") for the year ended 31 December 2006, together with comparative figures for the corresponding period in 2005:

AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the year ended 31 December	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Turnover	*(2)*	**297,550**	292,438
Cost of sales		**(231,860)**	(233,769)
Gross profit		**65,690**	58,669
Other revenues		**6,329**	3,799
Operating expenses		**(65,398)**	(60,520)
Loss on disposal of a subsidiary		**(503)**	–
Loss on disposal of a property		**(1,031)**	–
Fair value loss on revaluation of investment properties		**(801)**	–
Operating profit		**4,286**	1,948
Finance costs		**(196)**	(23)
Share of loss of associates		**(1,767)**	–
Profit before income tax	*(3)*	**2,323**	1,925
Income tax expense	*(4)*	**(182)**	(301)
Profit attributable to shareholders		**2,141**	1,624
Dividend		**–**	–
Dividend per share		**–**	–
Earnings per share	*(5)*		
– Basic		**0.95 cents**	0.72 cents
– Diluted		**0.95 cents**	0.72 cents

AUDITED CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2006	2005
	Note	***HK$'000***	*HK$'000*
Non-current assets			
Investment properties		**14,750**	17,601
Property, plant and equipment		**44,883**	38,340
Lease prepayments		**49,935**	49,456
Interest in associates		**5,102**	64
Available-for-sale financial assets		**2,318**	1,954
Trade and other receivables	*(6)*	**467**	–
		117,455	107,415
Current assets			
Inventories		**25,798**	19,130
Construction contracts		**18**	13
Trade and other receivables	*(6)*	**70,831**	71,188
Derivative financial instruments		**1,063**	51
Current income tax recoverable		**22**	–
Cash and cash equivalents		**52,702**	70,419
		150,434	160,801
Current liabilities			
Trade and other payables	*(7)*	**66,394**	68,388
Derivative financial instruments		**368**	1,283
Provisions		**1,683**	1,730
Current income tax liabilities		**–**	212
		68,445	71,613
Net current assets		**81,989**	89,188
Total assets less current liabilities		**199,444**	196,603
Non-current liabilities			
Deferred income tax liabilities		**425**	425
Trade and other payables		**–**	438
Net assets		**199,019**	195,740
Capital and reserves			
Share capital		**22,450**	22,450
Reserves		**176,569**	173,290
Shareholders' funds		**199,019**	195,740

Notes:

(1) Basis of preparation and adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs")

The audited consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The accounting policies and methods of computation used in the preparation of these audited consolidated financial statements are consistent with those used in the 2005 annual financial statements except that the Group has changed certain of its accounting policies following its adoption of the new or revised standards and interpretations to the published standards which are relevant to its operations. The adoption of these new or revised standards and interpretations did not result in any substantial change to the Group's accounting policies.

(2) Turnover

An analysis of the Group's turnover and contribution to operating results by principal activity and by principal market is as follows:

	2006		2005	
	Turnover	**Operating results**	Turnover	Operating results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Principal activities:				
Building products	**263,787**	**26,080**	257,885	22,467
Engineering equipment	**33,763**	**342**	34,553	626
Other operations	**–**	**(6,056)**	–	(5,670)
	297,550	**20,366**	292,438	17,423
Unallocated costs		**(16,080)**		(15,475)
Operating profit		**4,286**		1,948

	2006 Turnover	2006 Operating results	2005 Turnover	2005 Operating results
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Principal markets:				
Hong Kong and Macau	**240,600**	**49,903**	246,061	43,983
Mainland China	**24,013**	**4,750**	19,105	3,274
Overseas	**32,937**	**11,037**	27,272	10,090
	297,550	**65,690**	292,438	57,347
Administrative and other expenses		**(61,404)**		(55,399)
Operating profit		**4,286**		1,948

(3) Profit before income tax

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

	For the year ended 31 December 2006	2005
	HK$'000	*HK$'000*
Crediting		
Interest income	**1,750**	1,364
Rental income from investment properties	**665**	717
Write back of impairment of receivables	**356**	2,941
Write back of provision for stock obsolescence	**89**	444
Charging		
Provision for impairment of receivables	**(1,186)**	(1,382)
Provision for stock obsolescence	**(470)**	(57)
Depreciation of property, plant and equipment	**(2,995)**	(2,251)
Amortisation of lease prepayments	**(1,016)**	(1,012)
Loss on disposal of a subsidiary	**(503)**	–
Loss on disposal of a property	**(1,031)**	–
Fair value loss on revaluation of investment properties	**(801)**	–

(4) Income tax expense

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

The amount of taxation charged to the audited consolidated profit and loss account represents:

	For the year ended 31 December	
	2006	2005
	HK$'000	*HK$'000*
Company and subsidiaries		
Hong Kong profits tax	**(70)**	(47)
Overseas taxation	**(112)**	(254)
	(182)	(301)

(5) Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to ordinary shareholders of HK$2,141,000 (2005: Group's profit attributable to shareholders of HK$1,624,000) and the weighted average number of 224,496,000 (2005: 224,496,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the Group's profit attributable to ordinary shareholders of HK$2,141,000 (2005: Group's profit attributable to shareholders of HK$1,624,000) and the weighted average number of 225,180,000 (2005: 225,396,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

(6) Trade and other receivables

The ageing analysis of trade and other receivables is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current	**35,368**	30,953
One to three months overdue	**20,362**	22,651
More than three months overdue but less than twelve months overdue	**3,123**	3,139
Overdue more than twelve months	**13,047**	15,261
Total trade and retention receivables	**71,900**	72,004
Provision for impairment of receivables	**(3,039)**	(3,730)
Net trade and retention receivables	**68,861**	68,274
Prepayments and other receivables	**2,437**	2,914
	71,298	71,188
Less: non-current portion	**(467)**	–
	70,831	71,188

Debts from construction contracts are due when architect certificates are issued. For other debtors, the Group normally allows a credit period ranging from 30 to 60 days. Debtors with long overdue balances are normally requested to settle all outstanding balances before any further credit is granted.

(7) Trade and other payables

The aging analysis of trade and other payables is as follows:

	2006	2005
	HK$'000	*HK$'000*
Due within one month or on demand	**25,794**	31,230
Due after one month but within three months	**7,519**	7,299
Due after three months	**2,287**	944
Total trade and bills payables	**35,600**	39,473
Accruals and other payables	**26,588**	26,514
Advances received from customers	**4,206**	2,839
	66,394	68,826
Less: non-current portion	**–**	(438)
	66,394	68,388

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

The Group continued to be engaged principally in its core business of trading of building materials and engineering equipment. The Group also established a new marble processing factory in the PRC to process and distribute marble products.

For the year 2006, the Group recorded a turnover of HK$297.6 million with gross profit of HK$65.7 million (2005: HK$292.4 million and HK$58.7 million respectively). The improvement was mainly attributable to the increase in turnover of plumbing fixtures. Gross profit margin improved from 20.1% to 22.1% as a result of the Group's focus on high value added trading and manufacturing activities. Other income increased because of the recovery of bad debts previously written off (HK$0.9 million) and administration fees collected from an associate (HK$0.8 million). Operating expenses increased slightly to HK$65.4 million (2005: HK$60.5 million) largely because of the increase in salary, depreciation charges of the new factory and lease expenses of the new showroom. The Group also recorded losses of HK$1.5 million (2005: Nil) on disposal of a subsidiary and a residential property in Shanghai. After taking into account the fair value loss on revaluation of investment properties of HK$0.8 million (2005: Nil) and the share of loss of HK$1.8 million (2005: Nil) of an associate, the Group's profit attributable to shareholders for the year was improved to HK$2.1 million (2005: HK$1.6 million).

The Group continued to consolidate its market position in Hong Kong and successfully enhanced its coverage in the Mainland and Macau. As a result, the Group's outstanding orders on hand at the year end amounted to HK$164.6 million, representing an increase of 23% over the end of last year (At December 2005: HK$133.8 million).

Segmental Information

Revenues from the building products business increased 2.3% to HK$263.8 million (2005: HK$257.9 million) largely attributable to the higher turnover of plumbing fixtures. This was partly offset by the decrease in construction chemical sales of HK$10.2 million (the operation was transferred to a new joint venture with Bostik Australia Pty Ltd ("Bostik") in March 2006. The joint venture is reported in the financial statements as an associate of the Group). In line with the increased turnover and improved margin on the trading activities, gross profit improved from HK$52.0 million to HK$59.4 million.

The engineering division's turnover of HK$33.8 million was comparable with the last corresponding period. Gross profit decreased slightly from HK$6.6 million to HK$6.3 million. The Group has added to its portfolio certain air distribution products that will enhance air quality and energy efficiency. We expect that these products will enable us to meet the increasing demand for environmental protection equipment.

Capital Commitment

The construction work on the Group's new marble processing factory in DongGuan was completed in August 2006 and the plant was in full operation at the end of the year. There was no material outstanding commitment for the factory as at end of the year.

On 8 March 2006, Arnhold & Company Limited, a wholly owned subsidiary of the Company, Bostik and Bostik Holding Hong Kong Limited (the "Joint Venture") entered into a shareholders agreement in relation to the formation of the Joint Venture. Details of which were disclosed in a circular dated 4 April 2006. We estimate that the Group's obligations to provide a shareholders' loan to the Joint Venture will be approximately HK$12.5 million of which HK$7.0 million had been paid or was payable as at the end of the year. The Group expects to finance the funding requirements of this Joint Venture from internal resources and bank credit 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 year end (At 31 December 2005: Nil). The Group remained conservative in working capital management. As at the end of 2006, cash balances amounted to HK$52.7 million (At 31 December 2005: HK$70.4 million). The decline in cash balances was largely caused by the capital expenditure of the marble processing factory in the PRC and the shareholder's loan to the Joint Venture used to build the 40% owned new Bostik Factory.

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 bank credit 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 31 December 2006, the amount of guarantees outstanding was HK$3.1 million (At 31 December 2005: HK$2.4 million).

Banking facilities with assets pledged

A property with net book value of HK$51.0 million at year ended 31 December 2006 held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

Employees

At the end of the year, the Group had approximately 395 employees in the Mainland and approximately 116 employees in Hong Kong and Macau. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. Under the existing share option scheme of the Group, subject to compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Directors were authorised to grant share options to eligible persons as incentives. Details of share options granted are disclosed in the Directors' Report annexed to the annual report to be sent to the shareholders in due course.

Outlook

The Group has made encouraging strategic progress and invested for future growth opportunities by allocating more resources to Macau, Manufacturing Operations and the Joint Venture. At the same time, we continue to focus on business efficiency enhancement, working capital control and expenses management. All of these initiatives will continue to drive our growth in 2007 and we are optimistic about the future.

FINAL DIVIDEND

The board has resolved that no final dividend be paid for the year ended 31 December 2006 (2005: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year ended 31 December 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in fulfilling its responsibilities to shareholders.

The Stock Exchange has promulgated the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules which came into effect in January 2005. Throughout the year, the Group has complied with all the code provisions of the Code except that:

- non-executive directors are not appointed for a specific term and no specific provisions are available under the bye-laws of the Company (the "Bye-laws") where directors are obliged to retire by rotation at least once every three years. To ensure the smooth running of the Company and the continuous adhering to the strategic view of the Company, the Board believes that it is more practical for the Chairman/Managing Director not to be subject to retirement by rotation. Though the Bye-laws deviate from the Code, the Board considers it appropriate as all directors including those non-executives, at present are effectively subject to retirement by rotation at least once every three years. A retiring director is eligible for re-election;

- the Company has not adopted the terms of reference of the Remuneration Committee as prescribed in the Code in full but has duly adopted its own terms of reference that better suits the practical situation of the Company. Based on the recommendations of the Audit Committee, the Board considers that the key responsibilities of the Remuneration Committee shall be focused on assessing the reasonableness of the remuneration of the directors, in particular those who are connected or associated with substantial shareholders of the Company. The Board believes that such arrangement a) will maintain a formal and transparent procedure for existing 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.

Further details of the Company's compliance with the Code are published in the Corporate Governance Report annexed to the annual report to be sent to the shareholders in due course.

PUBLICATION ON WEBSITES

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements for the year ended 31 December 2006 with the directors.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors 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
Michael John Green
Chairman

Hong Kong, 23 March 2007

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