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
						HK$
Directors						
Daniel George Green	18 September 2003	1,200,000	–	–	1,200,000	0.500
	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
		11,900,000	–	–	11,900,000	

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

	Number of shares held						
	Personal interests	Family interests	Corporate interests	Trusts and similar interests	Equity derivates *(Note iii)*	Total interests	Percentage of shareholding
Executive directors:							
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%
Non-executive directors:							
Christopher John David Clarke	200,000	–	–	–	–	200,000	0.09%
Augustus Ralph Marshall	–	–	–	–	–	–	–
Independent non-executive directors:							
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 derivates 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