



*Interim Report*  
**2006/2007**

The Board of Directors of Graneagle Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (the “Group”) for the six month period ended 30 September, 2006. The interim results for the six months ended 30 September, 2006 have been reviewed by the Company’s audit committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Unaudited</b>	
		<b>six months ended</b>	
		<b>30 September</b>	
		<b>2006</b>	2005
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>	2	<b>78,101</b>	95,562
Cost of sales		<u><b>(67,450)</b></u>	<u>(80,277)</u>
Gross profit		<b>10,651</b>	15,285
Other operating income		<b>1,056</b>	412
Distribution costs		<b>(529)</b>	(640)
Administration expenses		<u><b>(4,386)</b></u>	<u>(5,893)</u>
<b>Profit before taxation</b>	3	<b>6,792</b>	9,164
<b>Taxation charge</b>	4	<u><b>(540)</b></u>	<u>(864)</u>
<b>Profit for the period</b>		<u><b>6,252</b></u>	<u>8,300</u>
<b>Earnings per share – basic</b>	5	<u><b>3.74 cents</b></u>	<u>4.97 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited at 30 September 2006 HK\$'000</b>	Audited at 31 March 2006 HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	6	3,336	3,477
<b>Current assets</b>			
Inventories		19,154	22,696
Trade and other receivables	7	13,842	11,619
Pledged bank deposit	9	8,822	8,579
Bank balances and cash		49,850	42,831
		<b>91,668</b>	85,725
<b>Current liabilities</b>			
Trade and other payables	8	16,492	12,326
Taxation payable		582	341
		<b>17,074</b>	12,667
<b>Net current assets</b>		<b>74,594</b>	73,058
<b>Total assets less current liabilities</b>		<b>77,930</b>	76,535
<b>Non-current liability</b>			
Deferred taxation		105	127
		<b>77,825</b>	76,408
<b>Capital and reserves</b>			
Share capital		1,670	1,670
Reserves		76,155	74,738
Equity attributable to equity holder of the Company		<b>77,825</b>	76,408

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Accumulated (losses) profit HK\$'000	Total HK\$'000
Balance at 31 March 2005	1,670	60,737	3,781	7,903	-	(5,602)	68,489
Effect of change in accounting policy – derecognition of negative goodwill	-	-	-	(7,903)	-	7,903	-
At 1 April 2005, as restated	1,670	60,737	3,781	-	-	2,301	68,489
Exchange difference arising on translation of foreign operations	-	-	-	-	208	-	208
Dividend paid	-	(3,341)	-	-	-	-	(3,341)
Profit for the period	-	-	-	-	-	8,300	8,300
Balance at 30 September, 2005	1,670	57,396	3,781	-	208	10,601	73,656
Balance at 1 April 2006	<b>1,670</b>	<b>57,396</b>	<b>3,781</b>	-	<b>208</b>	<b>13,353</b>	<b>76,408</b>
Exchange difference arising on translation of foreign operations	-	-	-	-	176	-	176
Dividend paid	-	(5,011)	-	-	-	-	(5,011)
Profit for the period	-	-	-	-	-	6,252	6,252
Balance at 30 September 2006	<b>1,670</b>	<b>52,385</b>	<b>3,781</b>	-	<b>384</b>	<b>19,605</b>	<b>77,825</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited six months ended 30 September 2006 HK\$'000</b>	Unaudited six months ended 30 September 2005 HK\$'000
Net cash generated from operating activities	11,711	18,467
Net cash generated from investing activities	143	74
Net cash used in financing activities	<u>(5,011)</u>	<u>(3,341)</u>
Net increase in cash and cash equivalents	6,843	15,200
Cash and cash equivalents at beginning of period	42,831	32,072
Effect on foreign exchange rate changes	<u>176</u>	<u>204</u>
Cash and cash equivalents at end of period	<u>49,850</u>	<u>47,476</u>
<b>Analysis of the balances of cash and cash equivalents:</b>		
Bank balances and cash	<u>49,850</u>	<u>47,476</u>

## NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

### 1. Accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31 March, 2006.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006 respectively. The adoption of the new HKFRSs has had no material effect on how the Group’s results for the current and/ or prior accounting periods are prepared and presented. Accordingly, no prior adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the condensed consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>3</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2007

<sup>2</sup> Effective for accounting periods beginning on or after 1 May 2006

<sup>3</sup> Effective for accounting periods beginning on or after 1 June 2006

### 2. Turnover and Segment information

#### (A) Business segment

The Group’s turnover and operating profit were solely contributed by garment business during the periods ended 30 September, 2006 and 2005.

#### (B) Geographical segment

Sales revenue from the Group’s operations was solely from the United States of America, irrespective of the origin of the goods/services.

### 3. Profit before taxation

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Directors' emoluments	300	180
Other staff costs	1,658	2,423
Other staff's retirement benefit scheme contributions	70	84
	<u>2,028</u>	<u>2,687</u>
Allowance for inventories	1,565	1,616
Depreciation	777	926
Operating lease rentals in respect of:		
– rented premises	487	460
– motor vehicle	78	120
Textile quota expenses	1,512	–
Cost of inventories recognised as expense	64,373	78,661
and after crediting:		
Bank interest income	<u>1,021</u>	<u>408</u>

#### 4. Taxation (charge)/credit

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax	(562)	(1,059)
Deferred taxation	22	195
	<u>(540)</u>	<u>(864)</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

At the balance sheet date, the Group has unused tax losses of approximately HK\$12,734,000 (31 March, 2006: HK\$12,343,000) available for offset against future profits. No deferred tax asset has been recognized due to the unpredictability of future profit streams.

#### 5. Earnings per share

The calculation of basic earnings per share is based on the Group's unaudited consolidated profit attributable to shareholders for the period of HK\$6,252,000 (2005: HK\$8,300,000) and on the weighted average number of 167,031,016 (2005: 167,031,016) ordinary shares in issue during the period.

No diluted earnings per share figures have been shown as there were no dilutive potential ordinary shares outstanding for both of the periods.

#### 6. Addition to property, plant and equipment

During the period, the Group spent approximately HK\$636,000 (2005: HK\$188,000) on property, plant and equipment to expand its operation.



## 7. Trade and other receivables

Included in trade and other receivables are trade receivables of approximately HK\$12,887,000 (31 March, 2006: HK\$11,195,000)

The aged analysis for trade receivables is as follows:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
Within 30 days	<b>12,887</b>	10,956
Over 30 days but less than 60 days	–	239
	<b>12,887</b>	11,195

*Note:*

### Credit policy

Apart from payment by letter of credit, settlement is generally on an open account basis with credit terms ranging from 30 days to 60 days following the month of sale.

It is the policy of the Group to allow settlement on an open account basis only by customers who have good repayment records and well-established relationships with the Group. The credit period for such customers is reviewed periodically in response to the financial conditions, orders on hand and other credit information.

## 8. Trade and other payables

Included in trade and other payables are trade payables of approximately HK\$13,399,000 (31 March, 2006: HK\$9,322,000).

The aged analysis for trade payables is as follows:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
Within 90 days	<b>13,377</b>	9,281
Over 90 days	<b>22</b>	41
	<b>13,399</b>	9,322

## 9. Pledge of assets

At 30 September 2006, the Company pledged its bank deposit of HK\$8,822,000 (31 March, 2006: HK\$8,579,000) to secure the credit facilities granted to the Company.

## 10. Contingent liabilities

At 30 September 2006, the Company had given corporate guarantee of HK\$20,000,000 (31 March 2006: HK\$20,000,000) to secure general banking facilities granted to a subsidiary.

## 11. Related party transactions

(A) During the period, the Group had the following transactions with related parties:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Rental charges paid to related companies ( <i>note a</i> )	<b>448</b>	412
Consultancy fees paid to related companies ( <i>note b</i> )	<b>110</b>	240

Notes:

- (a) A director of the Company, Mr. Ling Tai Yuk, John, controls and has beneficial interests in these related companies.
- (b) The spouse of a director controls and has beneficial interests in one of these two related companies. For another related company, one director of the Company controls and has beneficial interest in the company.

### (B) Key management compensation

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Salaries	<b>300</b>	180

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend in respect of the six month period ended 30 September, 2006.

## SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 17 September 2004. Under the scheme, the directors of the Company may grant options as incentives to any directors or full-time employees of the Company or any of its subsidiaries for the shares in the Company within a period of ten years commencing from 17 September 2004. No options have been granted under the Scheme since its adoption.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September, 2006, the interests of the directors and their associates in the shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### Long position

#### 1. Ordinary shares of HK\$0.01 each of the Company

Director	Holding capacity	Number of ordinary shares held	% of the issued share capital of the Company
Ling Tai Yuk, John	Beneficial owner	29,893,336	17.9%
	Held by a controlled corporation (Note)	44,705,322	26.8%
		<hr/> 74,598,658 <hr/>	<hr/> 44.7% <hr/>
Kong Ho Pak	Beneficial owner	6,647,530	4.0%
Pang Hon Chung	Beneficial owner	2,890,000	1.7%
Ng Tze Kin, David*	Beneficial owner	507,000	0.3%
Chau Wai Yin, Jonathan*	Beneficial owner	10,000	0.01%

Note: The shares are held by Accura Overseas Limited, a company incorporated in the British Virgin Islands, wholly and beneficially owned by Mr. Ling Tai Yuk, John.

\* Non-executive Director

## 2. *Interests in associated corporations*

*Koniko Company Limited – an indirectly wholly owned subsidiary of the Company*

<b>Director</b>	<b>Holding capacity</b>	<b>Number of issued shares held</b>
Ling Tai Yuk, John	Beneficial owner	1,550,010 non-voting deferred shares
Kong Ho Pak	Beneficial owner	664,290 non-voting deferred shares

The deferred non-voting shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting or to participate in any distribution on winding up.

Save as disclosed above, as at 30 September, 2006, none of the directors, chief executives nor their associates had or was deemed to have any interest or short position in the shares or underlying shares of the Company or its associated corporations as recorded in the register maintained under Section 352 of the SFO.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS**

As at 30 September 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that Mr. Ling Tai Yuk, John and his controlled corporation stated under paragraph headed "Directors' interests in shares and underlying shares" are the substantial shareholders of the Company.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as recorded in the register maintained under Section 336 of the SFO as at 30 September, 2006.

## **CORPORATE GOVERNANCE**

Throughout the interim period, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Listing Rules except for the deviations from code provision A.4.1.

Under the code provision A.4.1, the non-executive directors should be appointed for specific terms, subject to re-election. All of the Company's non-executive directors are not appointed for specific terms. However, under the Bye-laws of the Company, at each annual general meeting, one third of the Directors shall retire from office by rotation and every Director shall be subject to retirement at least once every three years. In the opinion of the Board, this meets the same objectives and is no less exacting than those in the CG Code.

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the model Code as set out in Appendix 10 of the Listing Rules. Having made specific enquiries of all Directors, they have confirmed their compliance with the required standard as set out in the Model Code throughout the six month period ended 30 September 2006.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed with the management the auditing practices, the internal controls and the financial reporting. In addition, the Audit Committee has reviewed the unaudited interim financial statements for the six month period ended 30 September 2006.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES**

The Company had not redeemed any of its shares during the six month period ended 30 September, 2006. Neither the Company nor any of its subsidiaries had purchased or sold any of its listed securities during the six month period ended 30 September, 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

Although there was a decrease in the sales volume and selling price of the garment products to our U.S. customers, the Group has, for the 2006 interim period, secured 82% of the Group's sales turnover for the corresponding period in 2005. Despite the Group's gross profit margin has decreased from 16% for the 2005 interim period to 13.6% for the 2006 interim period, the Group has, for the current interim period, still maintained 70% of its total gross profit for the corresponding period in 2005. In the absence of unforeseeable circumstances, the Group anticipates its sales turnover and gross profit for the second half year would improve and the Group's results for the whole year would be similar to those in the previous year.

In spite of the decrease in the Group's sales turnover and gross profit, the Group succeeded in lowering its administration expenses as a result of the management's efforts on cost rationalization. As a result, the administration expenses have decreased 26% as compared with the corresponding period in 2005. In addition, the demand for the Group's garment products from its US customers remains stable and the Group is presently maintaining 5 months' worth of back orders.

The Group's net profit for the period decreased 25% from HK\$8.3 million in 2005 to HK\$6.3 million in 2006 while the basic earnings per share decreased from 4.97 cents in 2005 to 3.74 cents in 2006.

### Financial position and liquidity

The Group's financial position remained strong during the period, allowing the Group to rely principally on its internal resources to fund its operation and investment activities. The gearing ratio of the Group, which is expressed as a percentage of total borrowings to shareholder's funds, remains at 0% for the last six months. As at September 30, 2006, the Company pledged HK\$8.8 million in bank deposit to secure a banking facility granted to the Company. The Company has contingent liabilities of HK\$20 million in the form of a corporate guarantee provided to secure general banking facilities for a subsidiary. The Group's exposure to foreign currency risk is insignificant because the majority of its income and expenses are U.S. Dollar based.

## Employees

The Group maintains 16 employees, whose salaries are reviewed and adjusted annually based on performance and experience. Other employee benefits include mandatory provident fund and educational subsidies which are offered to promote staff development. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. There was no share option granted to any employee during the period.

## Future plan and prospects

The Group remains optimistic about the prospect of its core business. The bilateral agreement on imports of Chinese clothing and textiles between the PRC and US has strengthened the confidence of US importers to place orders. Therefore, we expect our garment business will go up steadily in future. In order to meet the potential growth of sales, we are planning to expand our production capacities in the coming years.

Due to many uncertainties, we decided to suspend our health supplement product, Zidane Inulin Tablet, indefinitely. However, we are still interested in health supplement products for Mainland China market. We are now in discussion with a Canadian supplier for multivitamins products to be manufactured in Beijing, China.

The Group is also looking forward to other suitable investment opportunities in healthcare-related businesses in the PRC. As people nowadays are becoming more and more concerned about their health and well being, the Group is considering and evaluating an investment in a privately owned hospital in the PRC.

By Order of the Board  
**Kong Ho Pak**  
*Chairman*

Hong Kong, December 6, 2006