

EAGLE BRAND HOLDINGS LIMITED

Second Quarter Financial Statement And Dividend Announcement

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

The Directors of Eagle Brand Holdings Limited (the "Company") and its subsidiaries (hereinafter as the "Group") are pleased to announce the unaudited results of the Group and of the Company for the Second Quarter and First Half ended 31 July 2005.

These figures have not been audited.

	Second Quarter FY 2006			First Half FY 2006		
	Group	Group	Change	Group	Group	Change
	3 months	3 months		6 months	6 months	
	ended	ended	ended	ended		
31.07.2005	31.07.2004		31.07.2005	31.07.2004		
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Turnover	143,614	147,752	(3)	252,944	255,441	(1)
Cost of sales	(117,808)	(116,385)	1	(216,056)	(190,956)	13
Gross profit	<u>25,806</u>	<u>31,367</u>	(18)	<u>36,888</u>	<u>64,485</u>	(43)
Other income, net (item 1(a)(i))	307	1,269	(76)	1,093	2,616	(58)
Distribution costs	(20,287)	(22,988)	(12)	(41,224)	(41,785)	(1)
General and administrative expenses	(23,616)	(18,714)	26	(47,599)	(44,065)	8
Loss on disposal of property, plant & equipment, net	(1)	(234)	(100)	(1)	(5,147)	(100)
Reversal of provision for impairment on property, plant & equipment	-	2,208	NM	-	28,113	NM
Operating (loss)/profit	<u>(17,791)</u>	<u>(7,092)</u>	151	<u>(50,843)</u>	<u>4,217</u>	NM
Finance costs	-	-	-	-	-	-
(Loss)/profit before income tax (item 1(a)(ii))	<u>(17,791)</u>	<u>(7,092)</u>	151	<u>(50,843)</u>	<u>4,217</u>	NM
Income tax expenses	-	-	-	-	-	-
(Loss)/profit after income tax	<u><u>(17,791)</u></u>	<u><u>(7,092)</u></u>	151	<u><u>(50,843)</u></u>	<u><u>4,217</u></u>	NM
Attributable to:						
Minority interest	312	397	(21)	654	397	65
Shareholders of the Company	<u>(18,103)</u>	<u>(7,489)</u>	142	<u>(51,497)</u>	<u>3,820</u>	NM

NM - Not meaningful

1(a)(i) -Other income consists of the following items:

	Note	Second Quarter FY 2006			First Half FY 2006		
		Group	Group	Change	Group	Group	Change
		3 months ended	3 months ended		6 months ended	6 months ended	
31.07.2005	31.07.2004	%	31.07.2005	31.07.2004	%		
		RMB'000	RMB'000		RMB'000	RMB'000	
Interest income on bank deposits	(i)	235	897	(74)	656	1,769	(63)
Waived obligations		-	911	NM	-	911	NM
Government grant		29	-	NM	121	50	142
Exchange difference	(ii)	(94)	(549)	(83)	(89)	(230)	(61)
Others		137	10	1,270	405	116	249
Total		307	1,269	(76)	1,093	2,616	(58)

1(a)(ii)- (Loss)/profit before income tax was determined after charging/(crediting) the following items:

	Note	Second Quarter FY 2006			First Half FY 2006		
		Group	Group	Change	Group	Group	Change
		3 months ended	3 months ended		6 months ended	6 months ended	
31.07.2005	31.07.2004	%	31.07.2005	31.07.2004	%		
		RMB'000	RMB'000		RMB'000	RMB'000	
Depreciation on property, plant & equipment	(iii)	15,794	16,372	(4)	34,102	42,035	(19)
Amortization of prepaid leases		683	645	6	1,353	1,289	5
Goodwill impairment charge		26	25	4	51	25	104
Loss on disposal of property, plant & equipment, net	(iv)	1	234	(100)	1	5,147	(100)
Reversal of provision for impairment on property, plant & equipment	(v)	-	(2,208)	(100)	-	(28,113)	(100)
Reversal of provision for inventory obsolescence	(vi)	(3,665)	(4,642)	(21)	(4,108)	(28,922)	(86)
(Reversal of provision for doubtful debts)/Allowance for doubtful debts and bad debt write off	(vii)	(512)	(1,694)	(70)	(647)	5,352	NM

Notes:

- (i) For the Second Quarter and First Half FY 2006, the decrease in interest income on bank deposits resulted mainly from the decrease in bank balances after the payment of special dividend of approximately RMB 117 million in the First Quarter FY 2006.
- (ii) Due to the appreciation of RMB, exchange losses were reduced in the Second Quarter and First Half FY 2006.

- (iii) Depreciation charge decreased in the Second Quarter and First Half FY 2006 as more fixed assets have previously been fully depreciated.
- (iv) There was no major disposal of property, plant or equipment in the Second Quarter and First Half FY 2006.
- (v) Reversal of provision for impairment on property, plant & equipment in the previous corresponding periods was attributable to the restoration of one production line to its working condition after technology modification but there was none in the Second Quarter and First Half FY 2006.
- (vi) In the previous corresponding periods, some slow-moving inventories were disposed of and their corresponding provisions for inventory obsolescence provided in the prior years were reversed and credited to cost of sales. However, in the Second Quarter and First Half FY 2006, a much smaller quantum of slow-moving inventories was disposed of.
- (vii) After the adoption of the accounts receivable provisioning policy, a provision of RMB 5.4 million was charged in the First Half FY 2005. In the current year, as a result of the tightening of the credit control policy and more efforts made in debt collection, some debts were recovered and their corresponding provisions were reversed in the First Half FY 2006.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	Note	<u>Group</u>		<u>Company</u>	
		<u>31.07.2005</u>	<u>31.01.2005</u>	<u>31.07.2005</u>	<u>31.01.2005</u>
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment		436,350	453,228	-	-
Prepaid leases		99,788	101,141	-	-
Goodwill		1,907	1,958	-	-
Investments in subsidiaries		-	-	951,648	1,069,447
Total non-current assets		538,045	556,327	951,648	1,069,447
CURRENT ASSETS					
Inventories, net	(i)	422,694	404,813	-	-
Trade receivables, net	(ii)	37,198	48,130	-	-
Prepayments and other assets	(iii)	26,738	23,460	-	-
Due from minority shareholder (non-trade)		495	1,149	-	-
Cash and bank balances	(iv)	43,297	180,373	-	-
Total current assets		530,422	657,925	-	-
Total assets		1,068,467	1,214,252	951,648	1,069,447
EQUITY					
Shareholders' equity					
Share capital		618,953	618,953	618,953	618,953
Reserves		330,082	381,818	332,695	333,492
Total equity		949,035	1,000,771	951,648	952,445
LIABILITIES					
Current Liabilities					
Trade payables	(v)	67,235	56,956	-	-
Advance payments from customers	(vi)	13,375	10,670	-	-
Dividend payable	(iv)	-	117,002	-	117,002
Other liabilities and accruals	(vii)	38,822	28,853	-	-
Total current liabilities		119,432	213,481	-	117,002
Total equity and liabilities		1,068,467	1,214,252	951,648	1,069,447

Inventories, net comprise:

	Group 31.07.2005 RMB'000	Group 31.01.2005 RMB'000	Change %
Raw materials	67,252	68,441	(2)
Work in progress	15,495	14,869	4
Finished goods	401,375	387,081	4
	<u>484,122</u>	<u>470,391</u>	<u>3</u>
Less: Provision for inventory obsolescence	(61,428)	(65,578)	(6)
	<u>422,694</u>	<u>404,813</u>	<u>4</u>

Notes:

- (i) In preparation for the coming peak season, more finished goods were produced in the First Half FY 2006.
- (ii) Some of the trade receivables matured and settled in July 2005.
- (iii) Increase in prepayments and other assets was mainly due to the increase in advanced payments to suppliers.
- (iv) The reduction in cash and bank balances in the First Half FY 2006 was due to the payment of special dividend of approximately RMB 117 million on 10 March 2005.
- (v) Increase in trade payables was due to the efforts by management to better utilize the credit terms granted by suppliers.
- (vi) Increase in advance payments from customers was mainly due to the increase in the number of PRC and overseas sole distributors.
- (vii) "Other liabilities and accruals" increased due mainly to the timing difference of VAT tax payable.

1(b)(ii) Aggregate amount of group's borrowings and debt securities**Amount repayable in one year or less, or on demand**

As at 31/07/2005		As at 31/01/2005	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	-	-	-

Amount repayable after one year

As at 31/07/2005		As at 31/01/2005	
Secured	Unsecured	Secured	Unsecured
RMB'000	RMB'000	RMB'000	RMB'000
-	-	-	-

Details of any collateral

Nil

1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	Second Quarter FY 2006		First Half FY 2006	
	Group	Group	Group	Group
	3 months ended	3 months ended	6 months ended	6 months ended
	31.07.2005	31.07.2004	31.07.2005	31.07.2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash (used in)/generated from operating activities	(2,511)	19,401	(3,387)	30,910
Net cash (used in)/generated from operating activities	(2,511)	19,401	(3,387)	30,910
Cash flows from investing activities				
Acquisitions of property, plant & equipment	(4,424)	(744)	(5,741)	(3,646)
Addition of construction in progress	(10,173)	(1,836)	(11,484)	(1,836)
Sale proceeds from disposals of property, plant & equipment	-	242	-	351
Interest received	235	897	656	1,769
Acquisition of a subsidiary, net of cash acquired	-	4,588	-	4,588
Net cash used in investing activities	(14,362)	3,147	(16,569)	1,226
Cash flows from financing activities				
Payment of special dividend	-	-	(117,002)	-
Government grant	29	-	121	50
Net cash (used in)/generated from financing activities	29	-	(116,881)	50
Net (decrease)/increase in cash and bank balances	(16,844)	22,548	(136,837)	32,186
Cash and bank balances, beginning of period	60,365	315,513	180,373	305,863
Effect of foreign exchange rate changes	(224)	(205)	(239)	(193)
Cash and bank balances, end of period	43,297	337,856	43,297	337,856

Reconciliation of (loss)/profit before income tax to net cash (used in)/generated from operating activities

	Second Quarter FY 2006		First Half FY 2006	
	Group	Group	Group	Group
	3 months ended	3 months ended	6 months ended	6 months ended
	31.07.2005	31.07.2004	31.07.2005	31.07.2004
	RMB'000	RMB'000	RMB'000	RMB'000
(Loss)/profit before income tax	(17,791)	(7,092)	(50,843)	4,217
Interest income on bank deposits	(235)	(897)	(656)	(1,769)
Reversal of provision for inventory obsolescence	(3,665)	(4,642)	(4,108)	(28,922)
(Reversal of provision for doubtful debts)/Allowance for doubtful debts and bad debt write off	(512)	(1,694)	(647)	5,352
Written off of obsolete inventories	(8)	-	(42)	-
Government grant	(29)	-	(121)	(50)
Depreciation on property, plant & equipment	15,794	16,372	34,102	42,035
Amortization of prepaid leases	683	645	1,353	1,289
Impairment charge of goodwill	26	25	51	25
Reversal of provision for impairment on property, plant & equipment	-	(2,208)	-	(28,113)
Loss on disposal of property, plant & equipment, net	1	234	1	5,147
Change in inventories	(24,220)	28,098	(13,731)	55,337
Change in trade receivable	7,285	(4,131)	11,579	(11,038)
Change in prepayments and other assets	873	(5,879)	(3,278)	(7,832)
Change in amounts due from related companies	-	18,137	-	32,379
Change in trade payables	19,348	(3,092)	10,279	(5,650)
Change in advance payments from customers	2,019	(11,100)	2,705	(6,930)
Change in other liabilities and accruals	(2,080)	(3,375)	9,969	(24,567)
Net cash (used in)/generated from operating activities	(2,511)	19,401	(3,387)	30,910

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

GROUP	Share capital	Share premium	Contributed Surplus	Statutory reserve fund	Exchange translation reserve	Retained earnings/ (accumulated deficits)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 May 2004	928,430	138,303	-	226,747	(696)	(164,418)	1,128,366
Loss for the period	-	-	-	-	-	(7,489)	(7,489)
Translation adjustment	-	-	-	-	(205)	-	(205)
At 31 July 2004	928,430	138,303	-	226,747	(901)	(171,907)	1,120,672
At 1 May 2005	618,953	-	330,778	88,448	(923)	(69,894)	967,362
Loss for the period	-	-	-	-	-	(18,103)	(18,103)
Translation adjustment	-	-	-	-	(224)	-	(224)
At 31 July 2005	618,953	-	330,778	88,448	(1,147)	(87,997)	949,035
GROUP	Share capital	Share premium	Contributed Surplus	Statutory reserve fund	Exchange translation reserve	Retained earnings/ (accumulated deficits)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 February 2004	928,430	138,303	-	226,747	(708)	(175,727)	1,117,045
Profit for the period	-	-	-	-	-	3,820	3,820
Translation adjustment	-	-	-	-	(193)	-	(193)
At 31 July 2004	928,430	138,303	-	226,747	(901)	(171,907)	1,120,672
At 1 February 2005	618,953	-	330,778	88,448	(908)	(36,500)	1,000,771
Loss for the period	-	-	-	-	-	(51,497)	(51,497)
Translation adjustment	-	-	-	-	(239)	-	(239)
At 31 July 2005	618,953	-	330,778	88,448	(1,147)	(87,997)	949,035

Company	Share capital	Share premium	Contributed Surplus	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 May 2004	928,430	138,303	-	2,696	1,069,429
Profit for the period	-	-	-	18	18
At 31 July 2004	928,430	138,303	-	2,714	1,069,447
At 1 May 2005	618,953	-	330,778	2,714	952,445
Loss for the period	-	-	-	(797)	(797)
At 31 July 2005	618,953	-	330,778	1,917	951,648

Company	Share capital	Share premium	Contributed Surplus	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 February 2004	928,430	138,303	-	2,696	1,069,429
Profit for the period	-	-	-	18	18
At 31 July 2004	928,430	138,303	-	2,714	1,069,447
At 1 February 2005	618,953	-	330,778	2,714	952,445
Loss for the period	-	-	-	(797)	(797)
At 31 July 2005	618,953	-	330,778	1,917	951,648

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares or cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year

There are no changes in the Company's share capital arising from right issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on.

2. Whether the figures have been audited, or reviewed and in accordance with which standard (e.g. the Singapore Standard on Auditing 910 (Engagements to Review Financial Statements), or an equivalent standard)

These figures have not been audited or reviewed.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of matter)

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

The same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

There are no changes in the accounting policies and methods of computation adopted in the financial statements for the current reporting period as compared to the most recent audited financial statements for the year ended 31 January 2005.

6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	Group			
	3 months ended	3 months ended	6 months ended	6 months ended
	31.07.2005	31.07.2004	31.07.2005	31.07.2004
	RMB	RMB	RMB	RMB
(Loss)/earnings per ordinary share for the period after deducting any provision for preference dividends:				
(i) Based on weighted average number of ordinary shares in issue (in cents)	(1.56)	(0.65)	(4.45)	0.33
(ii) On a fully diluted basis (in cents)	(1.56)	(0.65)	(4.45)	0.33

The calculations of basic and diluted loss per share for 3 months ended 31 July 2005 are based on the Group's loss attributable to shareholders of approximately RMB 18,103,000 (Second Quarter FY2005: loss of approximately RMB7,489,000).

The calculations of basic and diluted (loss)/earnings per share for 6 months ended 31 July 2005 are based on the Group's (loss)/profit attributable to shareholders of approximately RMB 51,497,000 (First Half FY2005: profit of approximately RMB3,820,000).

The basic (loss)/earnings per share is based on the weighted average of 1,158,460,754 (Second Quarter and First Half FY2005: 1,158,460,754) ordinary shares in issue during the period. The diluted earnings per share is based on 1,158,460,754 (Second Quarter and First Half FY2005: 1,158,460,754) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average balances of ordinary shares deemed to be issued at no consideration if all outstanding warrants and options had been exercised.

Since the dilutive potential ordinary share were anti-dilutive, the weighted average number of ordinary shares used to compute dilutive (loss)/earnings per share was 1,158,460,754 shares (Second Quarter and First Half FY2005: 1,158,460,754 shares).

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year

	Group		Company	
	31.07.2005	31.01.2005	31.07.2005	31.01.2005
	RMB	RMB	RMB	RMB
Net asset value per ordinary share based on existing issued share capital (in cents)	81.92	86.39	82.15	82.22

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on

Turnover

For the First Half FY 2006, the Group's turnover was approximately RMB253 million, which was relatively unchanged as compared to the previous corresponding period.

However, the increase in turnover in the First Quarter FY 2006 was largely offset by the drop in turnover in the Second Quarter FY 2006 attributable to the delay of a number of construction projects because of the bad weather in Southern China.

Cost of sales and gross profit

Decrease in gross profit in the Second Quarter and First Half FY 2006 was mainly due to the following:

1. The reversals of provision for inventory obsolescence to cost of sales were reduced by RMB 0.98 million and RMB 24.8 million respectively as compared to the previous corresponding periods;
2. Increase in crude oil price led to higher production and related transportation costs. This was partially compensated by improvement in economy of scale of production in Heyuan factory and decrease in depreciation charge as more fixed assets have previously been fully depreciated.

Operating income and expenses

Details of other income were disclosed in item 1(a)(i).

For the Second Quarter and First Half FY 2006, decrease in distribution expenses was mainly due to the decrease in incentives to distributors as a result of the optimization of distribution network in PRC and better cost control measures adopted. This was partially offset by the increase in advertising expenses after the launch of CCTV and airport roads advertisements in Beijing for the purpose of promoting sales in the coming peak season.

The increase in general and administrative expenses for the Second Quarter and First Half FY 2006 was due to the increase in staff costs attributable to the increase in statutory required insurance and welfare expenses. This was partially compensated by the decrease in provision for doubtful debts after the commencement of a better credit control policy.

There were no major disposal of property, plant & equipment in the Second Quarter and First Half FY 2006. The reversal of provision for impairment on property, plant & equipment of approximately RMB 2.2 million and RMB 28.1 million in the Second Quarter and First Half FY2005 respectively were related to the restoration of one production line to its working condition after technology modification but there were no such modification in the periods under review.

Loss after income tax

The Second Quarter FY 2006 recorded a loss of RMB 17.8 million as compared to RMB 7.1 million in the corresponding period. This increase of loss was mainly due to the following:-

1. reduction of reversal of provision for inventory obsolescence by approximately RMB 1 million;
2. drop in gross profit margin from 21% to 18% or an amount of RMB 4.5 million as a result of the surge of crude oil price; and
3. increase in general and administrative expenses by RMB 4.9 million attributable to the increase in statutory required insurance and welfare expenses.

The accumulated loss for the First Half FY 2006 was RMB 50.8 million as compared to a gain of RMB 4.2 million in the First Half FY2005. This was mainly attributable to:-

1. reversal of provision for inventory obsolescence of RMB 4.1 million in the First Half FY 2006 as compared to RMB 28.9 million in the previous corresponding periods;
2. no reversal of provision for impairment on property, plant and equipment as compared to the reversal of such provision of RMB 28.1 million in the First Half FY 2005;
3. decrease in gross profit margin;
4. increase in general and administrative expenses by RMB 4.9 million in the Second Quarter FY2006; partially offset by:-
 - a) a reversal of provision of accounts receivable of RMB 0.1 million as compared to a provision charge of RMB 5.4 million in the First Half FY2005; and
 - b) no major disposal of plant and equipment as compared to a loss on disposal of plant and equipment of RMB 5.1 million in the First Half FY2005.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

No forecast was made previously.

10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

In July 2005, Heyuan factory achieved operating breakeven since the expected economy of scale of production was reached. In view of the increase in demand from the medium-end market, the Group plans to open the fourth production line in Heyuan factory in the Third Quarter FY2006. Steps are being taken to reduce capital expenditure and several idle and spare production capacity in Foshan will be relocated to Heyuan in order to achieve lower unit cost of production.

In order to better prepare for the increase in demand for ceramic products for the 2008 Olympics in Beijing, the Group plans to open four retail shops and one showroom in Beijing. Turnover is expected to further improve in the coming peak season.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

None

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect

No dividend has been declared in the period under review.

PART II - ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

(This part is not applicable to Q1, Q2, Q3 or Half Year Results)

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year

Not applicable.

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments

Not applicable.

15. A breakdown of sales

Not applicable.

16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year

Total Annual Dividend (*Refer to Para 16 of Appendix 7.2 for the required details*)

	Latest Full Year ()	Previous Full Year ()
Ordinary	0	0
Preference	0	0
Total:	0	0

BY ORDER OF THE BOARD

Wong Siu Ki
Company Secretary
6 September 2005