



**ARNHOLD HOLDINGS LIMITED**

**安利控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 102)**

**RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007**

**HIGHLIGHTS**

- **Turnover up by 30% to HK\$387.9M**
- **Gross profit up by 30% to HK\$85.3M**
- **Outstanding order book up by 5.9% to HK\$174.3M**
- **Significant growth in marble export and retail businesses**
- **Strong cash reserve for future growth opportunities**

**CHAIRMAN'S STATEMENT**

2007 was a year of growth and development for the Group. Turnover was up by 30% to HK\$387.9 million with net profit before tax increasing to HK\$17.0 million. With the support of our experienced management team, we believe we have established a solid foundation for sustainable growth.

Listed below are some highlights of our Operating Divisions:

**Plumbing Fixtures**

1. We have further improved our market position in the dealer market, and expanded our coverage of the refurbishment sector in Hong Kong.

\* *For identification purpose only*

2. We have plans to open a luxury showroom in Shanghai to serve the high-end market in Eastern China. This is an important step for our retail activities and will be a blueprint for future retail expansion in the Mainland.
3. We secured orders for high profile projects including The Vineyard, The Palazzo, The Lake W and The Regency Park in Shanghai.

## **Tiles**

The strong order intake in 2006 enabled us to deliver improved results in 2007. We are maintaining our leading position in the Hong Kong market and secured a number of prestigious projects including the MTR stations at Jordan Road, West Kowloon, East Tsim Sha Tsui, as well as One Island East and Windsor House.

## **Marble Export**

Our new marble processing plant in DongGuan is now in full operation. The additional production capacity enabled us to increase our turnover by more than 100% in 2007. We are continuing to expand our customer base by targeting international customers who require the highest quality products and designs.

## **Engineering**

We focused on our distribution and services of imported filters, air handling units, calorifiers, strainers and Internal Air Quality equipment. We secured a number of landmark projects in 2007 including Science Park (Phase 2), One Island East, The Lisboa Casino and the Sheung Shui Slaughterhouse.

## **Building Materials Export**

We made good progress in 2007 and opened new accounts across Europe and the United States. We expanded our sourcing capabilities to cover a wider range of products and this has opened up new opportunities with new and existing customers.

We believe we have established a firm foundation for the traditional trading business and structured ourselves effectively for growing opportunities in marble processing and building materials export. While recent economic changes in the United States and the Mainland have created additional challenges to our business, we remain confident of maintaining our growth momentum in 2008.

## 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 2007, together with comparative figures for the corresponding period in 2006:

### AUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		<b>FOR THE YEAR ENDED</b>	
		<b>31 DECEMBER</b>	
		<b>2007</b>	2006
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	<b>387,904</b>	297,550
Cost of sales		<b>(302,634)</b>	(231,860)
		<hr/>	<hr/>
Gross profit		<b>85,270</b>	65,690
Other revenues		<b>5,588</b>	6,329
Operating expenses		<b>(75,697)</b>	(65,398)
Gain on disposal of an investment property		<b>439</b>	–
Fair value loss on revaluation of investment properties		–	(801)
Loss on disposal of a subsidiary		–	(503)
Loss on disposal of a property		–	(1,031)
Gain on disposal of an associate		<b>2,667</b>	–
		<hr/>	<hr/>
Operating profit	(2)	<b>18,267</b>	4,286
Finance costs		<b>(146)</b>	(196)
Share of loss of associates		<b>(1,101)</b>	(1,767)
		<hr/>	<hr/>
Profit before income tax	(3)	<b>17,020</b>	2,323
Income tax expense	(4)	<b>(215)</b>	(182)
		<hr/>	<hr/>
Profit attributable to shareholders		<b>16,805</b>	2,141
		<hr/> <hr/>	<hr/> <hr/>
Basic earnings per share	(5)	<b>7.47 cents</b>	0.95 cents
		<hr/> <hr/>	<hr/> <hr/>
Diluted earnings per share	(5)	<b>7.28 cents</b>	0.95 cents
		<hr/> <hr/>	<hr/> <hr/>
Dividend		<b>9,913</b>	–
		<hr/> <hr/>	<hr/> <hr/>
Dividend per share		<b>4.4 cents</b>	–
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## AUDITED CONSOLIDATED BALANCE SHEET

		<b>At 31 December</b>	
		<b>2007</b>	2006
		<b>HK\$'000</b>	<b>HK\$'000</b>
	<i>Note</i>		
<b>Non-current assets</b>			
Investment properties		<b>9,850</b>	14,750
Property, plant and equipment		<b>43,807</b>	44,883
Lease prepayments		<b>48,886</b>	49,935
Interest in associates		–	5,102
Available-for-sale financial assets		<b>3,159</b>	2,318
Trade and other receivables	(6)	–	467
		<b>105,702</b>	117,455
<b>Current assets</b>			
Inventories		<b>25,514</b>	25,798
Construction contracts		–	18
Trade and other receivables	(6)	<b>115,177</b>	70,831
Derivative financial instruments		<b>2,597</b>	1,063
Deferred income tax assets		<b>1,000</b>	–
Current income tax recoverable		–	22
Cash and cash equivalents		<b>74,524</b>	52,702
		<b>218,812</b>	150,434
<b>Current liabilities</b>			
Trade and other payables	(7)	<b>104,822</b>	66,394
Derivative financial instruments		<b>58</b>	368
Provisions		<b>1,677</b>	1,683
Current income tax liabilities		<b>292</b>	–
		<b>106,849</b>	68,445
<b>Net current assets</b>			
		<b>111,963</b>	81,989
<b>Total assets less current liabilities</b>			
		<b>217,665</b>	199,444
<b>Non-current liabilities</b>			
Deferred income tax liabilities		<b>214</b>	425
<b>Net assets</b>			
		<b>217,451</b>	199,019
<b>Capital and reserves</b>			
Share capital		<b>22,530</b>	22,450
Reserves			
Proposed final dividend		<b>9,913</b>	–
Others		<b>185,008</b>	176,569
<b>Shareholders' funds</b>			
		<b>217,451</b>	199,019

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 2006 annual audited consolidated 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 and operating profit**

An analysis of the Group’s turnover and contribution to operating results by principal activities and by principal markets is as follows:

	2007		(As restated) 2006	
	Turnover <i>HK\$’000</i>	Operating results <i>HK\$’000</i>	Turnover <i>HK\$’000</i>	Operating results <i>HK\$’000</i>
<b>Principal activities:</b>				
Trading	241,573	39,768	228,493	42,022
Manufacturing and export	78,323	23,180	32,934	11,044
Retail and renovation	68,008	22,322	36,123	12,624
	<u>387,904</u>	<u>85,270</u>	<u>297,550</u>	<u>65,690</u>
Administrative and other expenses		<u>(67,003)</u>		<u>(61,404)</u>
Operating profit		<u>18,267</u>		<u>4,286</u>

	2007		2006	
	Turnover <i>HK\$'000</i>	Operating results <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Operating results <i>HK\$'000</i>
<b>Principal markets:</b>				
Hong Kong and Macau	282,803	54,914	240,600	49,903
Mainland China	26,778	7,176	24,013	4,750
Overseas	78,323	23,180	32,937	11,037
	<u>387,904</u>	<u>85,270</u>	<u>297,550</u>	<u>65,690</u>
Administrative and other expenses		<u>(67,003)</u>		<u>(61,404)</u>
Operating profit		<u>18,267</u>		<u>4,286</u>

**(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	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
<b>Crediting</b>		
Interest income	1,540	1,750
Rental income from investment properties	883	665
Write back of impairment of receivables	527	356
Write back of provision for stock obsolescence	94	89
Gain on disposal of an associate	2,667	–
Gain on disposal of an investment property	439	–
<b>Charging</b>		
Provision for impairment of receivables	(484)	(1,186)
Provision for stock obsolescence	(1,690)	(470)
Depreciation of property, plant and equipment	(3,625)	(2,995)
Amortisation of lease prepayments	(1,049)	(1,016)
Loss on disposal of a subsidiary	–	(503)
Loss on disposal of a property	–	(1,031)
Fair value loss on revaluation of investment properties	–	(801)
	<u>–</u>	<u>(801)</u>

**(4) Income tax expense**

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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)/credited to the audited consolidated profit and loss account represents:

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Company and subsidiaries		
Current income tax		
Hong Kong profits tax	<b>(468)</b>	(70)
Overseas taxation	<b>(958)</b>	(112)
Deferred income tax	<b>1,211</b>	–
	<hr/>	<hr/>
	<b>(215)</b>	(182)
	<hr/> <hr/>	<hr/> <hr/>

**(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\$16,805,000 (2006: Group's profit attributable to ordinary shareholders of HK\$2,141,000) and the weighted average number of 224,951,000 (2006: 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\$16,805,000 (2006: Group's profit attributable to ordinary shareholders of HK\$2,141,000) and the weighted average number of 230,974,000 (2006: 225,180,000) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

**(6) Trade and other receivables**

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current	60,105	35,368
One to three months overdue	35,713	20,362
More than three months overdue but less than twelve months overdue	8,597	3,123
Overdue more than twelve months	4,087	13,047
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Total trade and retention receivables	108,502	71,900
Provision for impairment of receivables	(1,368)	(3,039)
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Net trade and retention receivables	107,134	68,861
Prepayments and other receivables	8,043	2,437
	<hr/>	<hr/>
	115,177	71,298
<i>Less: non-current portion</i>	–	(467)
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	<b>115,177</b>	<b>70,831</b>
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The Group normally allows a credit period ranging from 30 to 90 days. Debtors with balances that are long overdue 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:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current	36,607	25,794
One to three months overdue	22,052	7,519
Overdue more than three months	4,198	2,287
	<hr/>	<hr/>
Total trade and bills payables	62,857	35,600
Accruals and other payables	30,671	26,588
Advances received from customers	11,294	4,206
	<hr/>	<hr/>
	<b>104,822</b>	<b>66,394</b>
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## **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 processing factory in the PRC to process and export marble products.

During the year, the Group recorded a turnover of HK\$387.9 million with a gross profit of HK\$85.3 million (2006: HK\$297.6 million and HK\$65.7 million respectively). The improvement was mainly attributable to the increase in turnover of tiles trading, marble export and retail operations. Gross profit margin remained at around 22% despite the pressure of rising materials costs. Operating expenses increased to HK\$75.7 million (2006: HK\$65.4 million) mainly because of staff compensation and depreciation charges of the new marble factory. Taking into account the net gain on disposal after share of loss of associate for the year 2007 of HK\$1.6 million (2006: share of loss of associate of HK\$1.8 million) and profit on disposal of an investment property of HK\$0.4 million, the Group's profit attributable to shareholders for the year improved to HK\$16.8 million (2006: HK\$2.1 million).

The Group continued to improve its market coverage with new products and a wider customer base. Growth was also achieved in our manufacturing and export operations, resulting in outstanding orders on hand at the year end amounting to HK\$174.3 million, representing an increase of 5.9% over the end of last year (At December 2006: HK\$164.6 million).

### **Segmental Information**

From 2007 onwards, the Group has re-organised its operations around three business segments. The segmental analysis has therefore been restated and the original two segments (being the trading in and the supply of building products and engineering equipment) have been replaced by (i) trading (ii) manufacturing and export and (iii) retail and renovation operations. Management believes that this analysis better reflects the way in which the business is now managed and its future strategic direction.

Trading operations represent the traditional business of distributing engineering equipment and building products. Manufacturing and export operations mainly include the manufacturing and exporting of natural stone products. Retail and renovation operations consist of the Group's two retail outlets in Hong Kong and the wholesale business to local dealers.

Revenue from trading operations increased by HK\$13.1 million to HK\$241.6 million with the gross profit contribution decreasing by HK\$2.2 million to HK\$39.8 million (2006: HK\$228.5 million and HK\$42.0 million respectively). During the year, new residential property projects in Hong Kong reduced substantially which adversely affected our sales of plumbing fixtures to new projects. Gross margin was also under pressure because of the rising import prices from overseas suppliers.

Revenue from manufacturing and export increased from HK\$32.9 million in 2006 to HK\$78.3 million in 2007. This was mainly due to the completion of the marble processing factory in Dongguan at the end of last year. With the increase in capacity, the Group was able to benefit from the increasing demand from overseas clients.

The recent recovery of the secondary property market in Hong Kong also provided the Group with growth opportunities in the renovation market. Strong sales were recorded through the Group's retail outlets and local dealers. Turnover increased by 88.3% from HK\$36.1 million in 2006 to HK\$68.0 million in 2007. As a result, overall gross profit increased from HK\$12.6 million in 2006 to HK\$22.3 million in 2007.

### **Disposal of associates**

On 23 July 2007, Arnhold & Company, Limited ("ACL"), a wholly-owned subsidiary of the Company, entered into a Deed with Bostik Australia Pty Ltd ("Bostik") and Bostik Holding Hong Kong ("Joint Venture" or Bostik HK") in relation to the termination of the Joint Venture established by ACL and Bostik. It was agreed that ACL would transfer 4,000 ordinary shares of HK\$1 each in the Joint Venture to Bostik, and Bostik would in return pay ACL a sum of HK\$11.4 million, which includes the consideration for the transfer of shares in the Joint Venture and the amount owed by the Joint Venture to ACL. The disposal was completed on 1 August 2007, whereupon Bostik HK became wholly owned by Bostik and ceased to be an associate of the Group. Details of the disposal were disclosed in a circular of the Company dated 14 August 2007.

On 11 January 2008, the Group completed a share disposal transaction in the capital of Kingspan China Limited ("KCL"), an associate company in which the Group had a 20% equity interest, whereby the Group transferred its entire interest represented by 2,000 ordinary shares in KCL to Kingspan Holdings (Insulation) Limited (formerly as Kootherm Holdings Limited). Upon completion of the disposal, KCL is no longer an associate of the Group.

## **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 2006: Nil). The Group remained conservative in working capital management, and generated a positive cash flow of HK\$12.0 million from operating activities with cash balances of HK\$74.5 million as at year end (At 31 December 2006: HK\$52.7 million). Most of the Group's cash balances are placed in time deposits with reputable financial institutions. We will continue to manage our cash flow cautiously and expect to meet our future financial requirements by 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 2007, the amount of guarantees outstanding was HK\$3.0 million (At 31 December 2006: HK\$3.1 million).

## **Banking facilities with assets pledged**

A property with net book value of HK\$50.1 million at year end held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

## **Employees**

At the end of 2007, the Group had approximately 452 employees in the Mainland and approximately 132 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 Report of the Directors annexed to the annual report to be sent to the shareholders in due course.

## **Outlook**

The Group has achieved encouraging growth in 2007 and will continue to focus on improving its market position in Hong Kong, Macau and the Mainland. The credit crunch in the USA and the inflation pressures in Hong Kong and the Mainland will make the coming year an extremely challenging one, but with the support of our well experienced management team, we have confidence in our growth strategy and remain optimistic about the future.

## **ANNUAL GENERAL MEETING**

The 2008 annual general meeting of the Company (“2008 AGM”) will be held at Meeting Room 605, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Friday, 9 May 2008 at 12:00 nn. Notice of the 2008 AGM will be published and sent to the shareholders of the Company in due course.

## **FINAL DIVIDEND**

The Board has resolved to recommend the payment of a final dividend of HK4.4 cents per ordinary share, totalling HK\$9,913,000 for the year ended 31 December 2007 (2006: Nil) subject to the approval of the Company’s shareholders at the 2008 AGM. If approved, the final dividend will be paid on or about 19 May 2008.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 6 May 2008 to 9 May 2008 (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the final dividend and to determine the entitlement to attend and vote at the 2008 AGM, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Unit 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 pm on 5 May 2008.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the year ended 31 December 2007. 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](http://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 2007 with the directors.

## **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 (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, 20 March 2008