



# ARNHOLD HOLDINGS LIMITED

安利控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 102)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board of directors (the “Board”) of Arnhold Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company together with its subsidiaries (collectively the “Group”) for the six months ended 30 June 2008 (the “Period”), together with comparative figures for the corresponding period in 2007 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 30 JUNE 2008

		(Unaudited)	
		Six months ended 30 June 2008	Six months ended 30 June 2007
	Note	HK\$'000	HK\$'000
Turnover	(2)	184,716	159,067
Cost of sales		(140,251)	(123,371)
Gross profit		44,465	35,696
Other revenues		1,884	2,988
Operating expenses		(38,261)	(33,193)
Gain on disposal of an investment property		94	–
Operating profit		8,182	5,491
Finance costs		(67)	(144)
Share of loss of associates		–	(577)
Profit before income tax	(3)	8,115	4,770
Income tax expense	(4)	(748)	(977)
Profit attributable to shareholders		7,367	3,793
Basic earnings per share ( <i>cents</i> )	(5)	3.27	1.69
Diluted earnings per share ( <i>cents</i> )	(5)	3.18	1.65
Dividend		–	–
Dividend per share		–	–

\* For identification purpose only

# CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2008

		(Unaudited) At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
	<i>Note</i>		
<b>Non-current assets</b>			
Investment properties		3,341	9,850
Property, plant and equipment		42,821	43,807
Lease prepayments		48,361	48,886
Available-for-sale financial assets		3,646	3,159
		<u>98,169</u>	<u>105,702</u>
<b>Current assets</b>			
Inventories		32,158	25,514
Trade and other receivables	(6)	108,039	115,177
Derivative financial instruments		2,923	2,597
Deferred income tax assets		1,000	1,000
Cash and cash equivalents		68,652	74,524
		<u>212,772</u>	<u>218,812</u>
<b>Current liabilities</b>			
Trade and other payables	(7)	92,545	104,822
Derivative financial instruments		76	58
Provisions		1,896	1,677
Current income tax liabilities		503	292
		<u>95,020</u>	<u>106,849</u>
Net current assets		<u>117,752</u>	<u>111,963</u>
Total assets less current liabilities		215,921	217,665
<b>Non-current liabilities</b>			
Deferred income tax liabilities		234	214
Net assets		<u>215,687</u>	<u>217,451</u>
<b>Capital and reserves</b>			
Share capital		22,530	22,530
Reserves			
Proposed final dividend		–	9,913
Others		193,157	185,008
Shareholders' funds		<u>215,687</u>	<u>217,451</u>

*Notes:*

**(1) Basis of preparation and accounting policies**

This unaudited condensed consolidated financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- HK(IFRIC) – Int 11, “HKFRS 2 – Group and treasury share transactions”
- HK(IFRIC) – Int 12, “Service concession arrangements”
- HK(IFRIC) – Int 14, “HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction”

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKAS 1 (amendment), “Presentation of financial statements”
- HKAS 23 (amendment), “Borrowing costs”
- HKAS 27, “Consolidated and separate financial statements”
- HKAS 32 and HKAS 1 (amendment), “Puttable financial instruments and obligations arising on liquidation”
- HKFRS 2 (amendment), “Share-based payment”
- HKFRS 3 (amendment), “Business combinations”
- HKFRS 8, “Operating segments”
- HK(IFRIC) – Int 13, “Customer loyalty programmes”

(2) **Turnover**

An analysis of the Group's turnover and contribution to the Group's results by business segment (primary reporting segment) is set out below:

	<b>(Unaudited)</b>			
	<b>Six months ended</b>			
	<b>30 June 2008</b>		<b>30 June 2007</b>	
	<b>Turnover</b>	<b>Operating</b>	<b>Turnover</b>	<b>Operating</b>
	<b>HK\$'000</b>	<b>results</b>	<b>HK\$'000</b>	<b>results</b>
		<b>HK\$'000</b>		<b>HK\$'000</b>
Principal activities:				
Trading	<b>106,970</b>	<b>19,088</b>	103,706	17,990
Manufacturing and export	<b>42,561</b>	<b>13,061</b>	27,891	8,826
Retail and renovation	<b>35,185</b>	<b>12,316</b>	27,470	8,880
	<u><b>184,716</b></u>	<u><b>44,465</b></u>	<u>159,067</u>	<u>35,696</u>
Administrative and other expenses		<u><b>(36,283)</b></u>		<u>(30,205)</u>
Operating profit		<b>8,182</b>		5,491
Finance costs		<b>(67)</b>		(144)
Share of loss of associates		<b>–</b>		(577)
Profit before income tax		<b>8,115</b>		4,770
Income tax expense		<u><b>(748)</b></u>		<u>(977)</u>
Profit attributable to shareholders		<u><b>7,367</b></u>		<u>3,793</u>

**(3) Profit before income tax**

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

	(Unaudited)	
	Six months ended	
	30 June 2008	30 June 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting		
Write back of provision for impairment of receivables	–	463
Interest income	<b>841</b>	690
Rental income from investment properties	<b>277</b>	392
Charging		
Provision for impairment of receivables	<b>(78)</b>	(122)
Depreciation of property, plant and equipment	<b>(1,755)</b>	(1,782)
Amortisation of lease prepayments	<b>(525)</b>	(525)
	<u><b>                    </b></u>	<u><b>                    </b></u>

**(4) Income tax expense**

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the Period. Taxation on overseas profits has been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the countries in which the Group operates.

Income tax expense charged to the condensed consolidated profit and loss account represents:

	(Unaudited)	
	Six months ended	
	30 June 2008	30 June 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	<b>116</b>	327
– Overseas taxation	<b>612</b>	650
Deferred income tax	<b>20</b>	–
	<u><b>                    </b></u>	<u><b>                    </b></u>
	<u><b>748</b></u>	<u><b>977</b></u>

(5) **Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to ordinary shareholders of HK\$7,367,000 (2007: Group's profit attributable to ordinary shareholders of HK\$3,793,000) and the weighted average of 225,296,000 (2007: 224,751,801) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the Group's profit attributable to ordinary shareholders of HK\$7,367,000 (2007: Group's profit attributable to ordinary shareholders of HK\$3,793,000) and the weighted average of 231,421,362 (2007: 230,368,590) 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:

	<b>(Unaudited)</b>	
	<b>At 30 June</b>	At 31 December
	<b>2008</b>	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	<b>40,216</b>	60,105
One to three months overdue	<b>35,520</b>	35,713
Three to twelve months overdue	<b>12,006</b>	8,597
Overdue more than twelve months	<b>3,698</b>	4,087
	<hr/>	<hr/>
Total trade and retention receivables	<b>91,440</b>	108,502
<i>Less: provision for impairment of receivables</i>	<b>(1,446)</b>	(1,368)
	<hr/>	<hr/>
	<b>89,994</b>	107,134
Prepayments and other receivables	<b>18,045</b>	8,043
	<hr/>	<hr/>
	<b>108,039</b>	115,177
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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:

	<b>(Unaudited)</b>	
	<b>At 30 June</b>	At 31 December
	<b>2008</b>	2007
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current	<b>21,737</b>	36,607
One to three months overdue	<b>19,456</b>	22,052
Overdue more than three months	<b>7,963</b>	4,198
	<hr/>	<hr/>
Total trade and bills payables	<b>49,156</b>	62,857
Accruals and other payables	<b>30,446</b>	30,671
Advances received from customers	<b>12,943</b>	11,294
	<hr/>	<hr/>
	<b>92,545</b>	104,822
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## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of Operations**

The Group continued its focus on the trading of building materials and engineering equipment, retail and the manufacture and export of building materials.

During the Period, the Group recorded a turnover of HK\$184.7 million with gross profit of HK\$44.5 million (2007: HK\$159.1 million and HK\$35.7 million respectively). The improvement was mainly attributable to the increase in turnover of marble export and retail operation. Gross profit margin improved from 22.4% to 24.1% due to continued growth in high value added manufacturing and retail activities. Operating expenses increased to HK\$38.3 million (2007: HK\$33.2 million) mainly due to an increase in staff compensation and inflation. The Group's profit attributable to shareholders for the Period improved to HK\$7.4 million (2007: HK\$3.8 million).

Reasonable growth was achieved in manufacturing and export operations. As a result, the Group's outstanding orders on hand at the end of the Period amounted to HK\$201.7 million, representing an increase of 15.8% over the end of last year (At 31 December 2007: HK\$174.3 million).

## **Segmental Information**

Trading operations represent the traditional business of distributing engineering equipment and building products. Manufacturing and export operations 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 slightly by HK\$3.3 million to HK\$107.0 million with the gross profit contribution increasing HK\$1.1 million to HK\$19.1 million (2007: HK\$103.7 million and HK\$18.0 million respectively). During the Period, new residential properties development in Hong Kong remained at low level. This limited the growth opportunity of the trading operations but the Group successfully improved its results by expanding its product range and through better market coverage.

Revenue from manufacturing and export increased from HK\$27.9 million in 2007 to HK\$42.6 million in 2008. This was mainly due to the continued increase in production capacity of our marble processing factory. The Group's share of the world export market remains small which gives us considerable growth opportunity.

During the reporting period, the secondary property market in Hong Kong remained active. This enabled the Group to grow steadily in the renovation market through its retail outlets and dealers. Turnover increased by 28.1% from HK\$27.5 million in 2007 to HK\$35.2 million in 2008. As a result, overall gross profit increased from HK\$8.9 million in 2007 to HK\$12.3 million in 2008.

## **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.

## **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 2007: Nil). The Group remained conservative in working capital management. The reduced cash balance was mainly caused by the dividend payment of HK\$9.9 million in 2008. We will continue to manage our cash flow cautiously and expect to meet our future financial requirements by internal resources and bank credit facilities. Most of the Group's cash balances are placed in time deposits with reputable financial institutions.

## **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 2008, the amount of guarantees outstanding was HK\$3.9 million (At 31 December 2007: HK\$3.0 million).

## **Banking facilities with assets pledged**

A property with net book value of HK\$49.5 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 500 employees in the Mainland and approximately 135 employees in Hong Kong and Macau. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. Under the existing share option scheme of the Group, subject to compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the directors were authorised to grant share options to eligible persons as incentives. Details of share options granted are disclosed in the Directors' Report annexed to the interim report to be sent to the shareholders in due course.

## **Outlook**

We have had a challenging start to the year with slowing economies in both Europe and the United States. The Group has been focusing on the luxury end of the market which has been more insulated and we manage to maintain the growth of our export business. The Group will continue to improve its market coverage by expanding our product ranges to both local and overseas customers. We also plan to open a new retail outlet in Shanghai in September to participate in the opportunities in this growing city. We continue to focus on efficiency improvement to minimize the impact of inflation.

We believe these initiatives will drive our growth and we remain conservatively optimistic about the second half of the year.

## **INTERIM DIVIDEND**

The Board has resolved that no interim dividend be paid for the Period (2007: Nil).

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

The Company has not redeemed any of its shares during the six months ended 30 June 2008. 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 of Hong Kong Limited (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 to be subject to retirement by rotation. The Board also considers it is 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;
- 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 suit 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 arrangements 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 interests of the Company and the minority shareholders; d) will enable the Company to maintain a reasonable balance of cost and benefit.

## **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.

## **REVIEW OF FINANCIAL STATEMENTS**

The Audit Committee of the Company has reviewed the unaudited condensed consolidated interim financial statements of the Company for the Period.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the executive directors are Messrs. Michael John Green, Daniel George Green and Lai Ka Tak, Patrick; the non-executive directors are Messrs. Augustus Ralph Marshall (Mr Lim Ghee Keong being the alternate director of Mr Augustus Ralph Marshall) and Christopher John David Clarke; the independent non-executive directors are Messrs. V-Nee Yeh, Thaddeus Thomas Beczak and Simon Murray.

On behalf of the Board

**Michael John Green**

*Chairman*

Hong Kong, 28 August 2008