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## 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 2009

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 2009 (the “Period”), together with comparative figures for the corresponding period in 2008 as follows:

#### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE PERIOD ENDED 30 JUNE 2009*

		(Unaudited)	
		Six months ended	
	Note	30 June 2009	30 June 2008
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	172,150	184,716
Cost of sales		<u>(127,870)</u>	<u>(140,251)</u>
Gross profit		44,280	44,465
Other revenues		629	1,043
Operating expenses		(40,566)	(38,261)
Gain on disposal of an investment property		<u>–</u>	<u>94</u>
Operating profit		4,343	7,341
Finance income		171	841
Finance costs		<u>(3)</u>	<u>(67)</u>
Profit before income tax	(3)	4,511	8,115
Income tax expense	(4)	<u>(1,301)</u>	<u>(748)</u>
Profit for the period		3,210	7,367

\* For identification purpose only

		<b>(Unaudited)</b>	
		<b>Six months ended</b>	
		<b>30 June 2009</b>	30 June 2008
	<i>Note</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Other comprehensive (expenses)/income (Deficit)/surplus on revaluation of available-for-sale financial assets		<u><u>(333)</u></u>	<u><u>487</u></u>
Total comprehensive income for the period		<u><u>2,877</u></u>	<u><u>7,854</u></u>
Profit attributable to shareholders		<u><u>3,210</u></u>	<u><u>7,367</u></u>
Total comprehensive income attributable to shareholders		<u><u>2,877</u></u>	<u><u>7,854</u></u>
Basic earnings per share ( <i>HK cents</i> )	(5)	<u><u>1.42</u></u>	<u><u>3.27</u></u>
Diluted earnings per share ( <i>HK cents</i> )	(5)	<u><u>1.39</u></u>	<u><u>3.18</u></u>
Dividend		<u><u>-</u></u>	<u><u>-</u></u>

## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2009

		(Unaudited) At 30 June 2009 <i>HK\$'000</i>	(Audited) At 31 December 2008 <i>HK\$'000</i>
Non-current assets			
Investment property		3,341	3,341
Property, plant and equipment		48,215	49,769
Lease prepayments		47,312	47,837
Available-for-sale financial assets		2,454	2,787
		<u>101,322</u>	<u>103,734</u>
Current assets			
Inventories		27,989	27,385
Trade and other receivables	(6)	94,086	107,008
Derivative financial instruments		1,733	371
Current income tax recoverable		341	1
Cash and cash equivalents		61,660	77,108
		<u>185,809</u>	<u>211,873</u>
Current liabilities			
Trade and other payables	(7)	64,293	78,946
Derivative financial instruments		34	4,413
Provisions		2,129	2,375
		<u>66,456</u>	<u>85,734</u>
Net current assets		<u>119,353</u>	<u>126,139</u>
Total assets less current liabilities		<u>220,675</u>	<u>229,873</u>
Non-current liabilities			
Deferred income tax liabilities		226	226
Net assets		<u>220,449</u>	<u>229,647</u>
Capital and reserves			
Share capital		22,550	22,530
Reserves			
Proposed final dividend		–	12,391
Others		197,899	194,726
Shareholders' funds		<u>220,449</u>	<u>229,647</u>

Notes:

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

This unaudited condensed consolidated financial information for the six months ended 30 June 2009 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 2008, 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 2008, 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 standard and revised/amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), ‘Presentation of financial statements’
- HKAS 16 (amendment), ‘Property, plant and equipment’
- HKAS 32 (amendment), ‘Financial instrument: Presentation’
- HKAS 36 (amendment), ‘Impairment of assets’
- HKAS 39 (amendment), ‘Financial instrument: Recognition and measurement’
- HKAS 40 (amendment), ‘Investment property’
- HKFRS 2 (amendment), ‘Share-based payment’
- HKFRS 7 (amendment), ‘Financial instruments : disclosures’
- HKFRS 8, ‘Operating segments’

Except as described below, the adoption of the above new standard and revised/amendments to standards have no significant impact on the Group for the period ended 30 June 2009.

HKAS 1 (revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All ‘non-owner changes in equity’ are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present one statement: a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

HKFRS 8, 'Operating segments'. HKFRS 8 replaces HKAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Executive Committee that makes strategic decisions.

**(2) Turnover, other revenues and segment information**

The principal activities of the Group are (i) trading (ii) manufacturing and export and (iii) retail and renovation operations. Revenues recognised in the condensed consolidated statement of comprehensive income are as follows:

	<b>Six months ended</b>	
	<b>30 June 2009</b>	30 June 2008
	<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover		
Sales of inventories	172,150	184,716
	-----	-----
Other revenues		
Rental income from investment property	11	277
Sundry income	618	766
	-----	-----
	629	1,043
	-----	-----
Total revenues	<b>172,779</b>	<b>185,759</b>
	=====	=====

The analysis of the Group's performance for the Period is from both a business and geographical perspective. From a business perspective, management assesses the performance of (i) trading, (ii) manufacturing and export and (iii) retail and renovation operations. Trading is further evaluated on a geographic basis (Hong Kong and Macau, and Mainland China).

The Group assesses the performance of the operating segments based on a measure of gross profit. Finance income, finance costs and income tax expenses are not allocated to segments, as these types of activities are managed on a central basis.

Total assets mainly excluded current income tax recoverable, available-for-sale financial assets and cash and cash equivalents that are managed on a central basis. These are part of the reconciliation to total balance sheet assets.

Turnover consists of sales from (i) trading, (ii) manufacturing and export and (iii) retail and renovation operations, which are HK\$114,992,000, HK\$32,680,000 and HK\$24,478,000 for the six months ended 30 June 2009 and HK\$106,970,000, HK\$42,561,000 and HK\$35,185,000 for the six months ended 30 June 2008 respectively.

	Trading		Manufacturing and export	Retail and renovation	All other segments	Total
	Hong Kong and Macau <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Six months ended</b>						
<b>30 June 2009</b>						
Total revenue	104,851	10,180	51,542	24,478	–	191,051
Inter-segment revenue	(39)	–	(18,862)	–	–	(18,901)
Revenue (from external customers)	<u>104,812</u>	<u>10,180</u>	<u>32,680</u>	<u>24,478</u>	<u>–</u>	<u>172,150</u>
Gross profit	<u>21,999</u>	<u>2,074</u>	<u>11,200</u>	<u>9,007</u>	<u>–</u>	<u>44,280</u>
Depreciation of property, plant and equipment	(84)	(27)	(831)	(989)	(508)	(2,439)
Amortisation of lease prepayments	–	–	–	–	(525)	(525)

	Trading		Manufacturing and export	Retail and renovation	All other segments	Total
	Hong Kong and Macau <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30 June 2008						
Total revenue	93,573	13,404	63,580	35,185	–	205,742
Inter-segment revenue	(7)	–	(21,019)	–	–	(21,026)
Revenue (from external customers)	93,566	13,404	42,561	35,185	–	184,716
Gross profit	14,889	4,199	13,061	12,316	–	44,465
Depreciation of property, plant and equipment	(90)	(47)	(735)	(286)	(597)	(1,755)
Amortisation of lease prepayments	–	–	–	–	(525)	(525)
	Trading		Manufacturing and export	Retail and renovation	All other segments	Total
	Hong Kong and Macau <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>As at 30 June 2009</b>						
Total assets	61,366	18,643	52,584	21,709	67,264	221,566
Additions to non-current assets (other than available-for-sale financial assets)	10	15	282	455	147	909

	Trading		Manufacturing and export	Retail and renovation	All other segments	Total
	Hong Kong and Macau <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2008						
Total assets	61,524	21,528	56,890	26,483	68,603	235,028
Additions to non-current assets (other than available-for-sale financial assets)	221	57	1,201	7,636	656	9,771

A reconciliation of gross profit to total profit before income tax is provided as follows:

	<b>30 June 2009</b> <i>HK\$'000</i>	30 June 2008 <i>HK\$'000</i>
<b>Gross profit</b>	<b>44,280</b>	44,465
Depreciation of property, plant and equipment	<b>(2,439)</b>	(1,755)
Amortisation of lease prepayments	<b>(525)</b>	(525)
Other expenses	<b>(36,973)</b>	(34,844)
<b>Operating profit</b>	<b>4,343</b>	7,341
Finance income	<b>171</b>	841
Finance costs	<b>(3)</b>	(67)
<b>Profit before income tax</b>	<b>4,511</b>	8,115

Reportable segments' assets are reconciled to total assets as follows:

	<b>30 June 2009 HK\$'000</b>	31 December 2008 HK\$'000
Total segment assets	<b>221,566</b>	235,028
Unallocated:		
Current income tax recoverable	<b>341</b>	1
Available-for-sale financial assets	<b>2,454</b>	2,787
Cash and cash equivalents	<b>61,660</b>	77,108
Others	<b>1,110</b>	683
	<hr/>	<hr/>
Total assets per balance sheet	<b><u>287,131</u></b>	<b><u>315,607</u></b>

**(3) Profit before income tax**

Profit before income tax in the condensed consolidated statement of comprehensive income is stated after crediting/(charging) the following items:

	<b>Six months ended</b>	
	<b>30 June 2009 HK\$'000</b>	30 June 2008 HK\$'000
Crediting		
Write back of provision for impairment of receivables	<b>169</b>	–
Interest income	<b>171</b>	841
Rental income from investment properties	<b>11</b>	277
Charging		
Provision for impairment of receivables	–	(78)
Depreciation of property, plant and equipment	<b>(2,439)</b>	(1,755)
Amortisation of lease prepayments	<b>(525)</b>	(525)
	<hr/>	<hr/>

**(4) Income tax expense**

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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 statement of comprehensive income represents:

	<b>Six months ended</b>	
	<b>30 June 2009</b>	30 June 2008
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	–	116
– Overseas taxation	<b>553</b>	612
– Under-provision in prior years	<b>748</b>	–
Deferred income tax	–	20
	<hr/>	<hr/>
	<b>1,301</b>	748
	<hr/> <hr/>	<hr/> <hr/>

**(5) Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to ordinary shareholders of HK\$3,210,000 (2008: Group's profit attributable to ordinary shareholders of HK\$7,367,000) and the weighted average of 225,355,669 (2008: 225,296,000) 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\$3,210,000 (2008: Group's profit attributable to ordinary shareholders of HK\$7,367,000) and the weighted average of 231,090,679 (2008: 231,421,362) 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>At 30 June</b>	At 31 December
	<b>2009</b>	2008
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current	<b>48,650</b>	58,955
One to three months overdue	<b>33,411</b>	33,947
Three to twelve months overdue	<b>6,378</b>	3,022
Overdue more than twelve months	<b>280</b>	3,383
	<hr/>	<hr/>
Total trade and retention receivables	<b>88,719</b>	99,307
<i>Less: provision for impairment of receivables</i>	<b>(991)</b>	(1,368)
	<hr/>	<hr/>
	<b>87,728</b>	97,939
Prepayments and other receivables	<b>6,358</b>	9,069
	<hr/>	<hr/>
	<b>94,086</b>	107,008
	<hr/> <hr/>	<hr/> <hr/>

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>At 30 June</b>	At 31 December
	<b>2009</b>	2008
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Current	<b>22,824</b>	30,300
One to three months overdue	<b>9,688</b>	11,857
Overdue more than three months	<b>1,628</b>	2,102
	<hr/>	<hr/>
Total trade and bills payables	<b>34,140</b>	44,259
Accruals and other payables	<b>17,044</b>	27,044
Advances received from customers	<b>13,109</b>	7,643
	<hr/>	<hr/>
	<b>64,293</b>	78,946
	<hr/> <hr/>	<hr/> <hr/>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of Operations**

The Group continued its focus on the higher added value opportunities within the building materials and engineering equipment fields and especially the retail of plumbing fixtures and the manufacture and export of building materials.

The Group's turnover for the period six months ended 30 June 2009 was HK\$172.2 million with gross profit of HK\$44.3 million (2008: HK\$184.7 million and HK\$44.5 million respectively). The slight decrease was mainly due to the decline in marble export and retail operation as a result of the economic downturn. Gross profit margin improved from 24.1% to 25.7%. Operating expenses increased to HK\$40.6 million (2008: HK\$38.3 million), reflecting the additional rental expenses and depreciation charges of our new showroom in Shanghai. As a result, the Group's profit attributable to shareholders for the Period reduced to HK\$3.2 million (2008: HK\$7.4 million).

Reasonable growth was achieved in the trading operations which partly offset the weakness in demand from overseas customers and the local retail market. The Group's outstanding orders on hand amounted to HK\$167.1 million, representing a decrease of 4.2% over the end of last year (At December 2008: HK\$174.4 million).

### **Segmental Information**

Revenue from trading operations increased by HK\$8.0 million to HK\$115.0 million (2008: HK\$107.0 million) with the gross profit contribution increasing by HK\$5.0 million to HK\$24.1 million (2008: HK\$19.1 million). While there are limited growth opportunities in the domestic market, the Group partly offset this by introducing new programs and enhancing market penetration in Hong Kong.

Revenue from manufacturing and export decreased from HK\$42.6 million in 2008 to HK\$32.7 million in 2009, as our overseas customers complete their de-stocking process in the economic downturn.

During the reporting period, the renovation and retail market in Hong Kong slowed down dramatically. Turnover decreased by 30.4% from HK\$35.2 million in 2008 to HK\$24.5 million in 2009.

## **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 on the forward exchange contracts is disclosed in the notes to the interim financial information.

## **Liquidity and Financial Resources**

The Group maintained a healthy balance sheet with no bank borrowing as at Period end (At 31 December 2008: Nil). The Group remained conservative in working capital management. Cash balances were HK\$61.7 million compared to HK\$77.1 million at year end of December 2008. The net cash outflow was mainly caused by the dividend payment of HK\$12.4 million and investment in new activities. We will continue to manage our cash flow cautiously and expect to meet our future financial requirements from 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 2009, the amount of guarantees outstanding was HK\$5.7 million (At 31 December 2008: HK\$4.5 million).

## **Banking facilities with assets pledged**

A property with net book value of HK\$48.4 million at Period end held by a subsidiary of the Group is pledged to a bank to secure banking facilities.

## **Employees**

At the end of the Period, the Group had approximately 453 employees in the Mainland China and approximately 136 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 authorized 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**

Though the recent economic data indicate that the rate of decline has slowed, the second half of the year remains challenging. The Group will continue to focus on improving product ranges, customer service and market coverage. We are confident these initiatives will help us outperform in the current environment.

## **INTERIM DIVIDEND**

The Board of directors of the Company has resolved that no interim dividend be paid for the Period (2008: Nil).

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

The Company has not redeemed any of its shares during the six months ended 30 June 2009. 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 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 and was further updated in February 2009. Throughout the Period, the Company has complied with the code provisions of the CG Code except in certain circumstances where in the opinion of the directors of the Company the code provisions are unsuitable for adoption 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 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. The Bye-laws provide 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, at each annual general meeting one third of the other 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 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 CG Code, the Board considers it appropriate as all other 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 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 deviate 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.

The corporate governance practices adopted by the Company during six months ended 30 June 2009 were in line with those set out in the corporate governance report as contained in the Company's 2008 annual report.

## **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 Owen Mark Lewellin Rhys, Thaddeus Thomas Beczak and Simon Murray.

On behalf of the Board  
**Michael John Green**  
*Chairman*

Hong Kong, 21 August 2009