

安利

ARNHOLD HOLDINGS LIMITED

安利控股有限公司

Stock Code : 102



Interim Report 2009

## REPORT OF THE DIRECTORS

The directors have pleasure in submitting the interim report and the unaudited condensed consolidated financial statements of Arnhold Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009 (the "Period").

### 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.



## REPORT OF THE DIRECTORS

### MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

#### 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.

## REPORT OF THE DIRECTORS

### MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

#### 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 "Share Option Scheme" section of this report to the directors.

#### 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.

### DIRECTORS

The directors of the Company during the Period and up to the date of this report are:

#### Executive directors:

Michael John Green *(also appointed as alternate director to Simon Murray)*

Daniel George Green

Lai Ka Tak, Patrick

#### Non-executive directors:

Augustus Ralph Marshall

Lim Ghee Keong *(alternate director to Augustus Ralph Marshall)*

Christopher John David Clarke

#### Independent non-executive directors:

Owen Mark Lewellin Rhys

Thaddeus Thomas Beczak

Simon Murray

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME

A Share Option Scheme (“the Scheme”) was approved and adopted by the shareholders at a special general meeting of the Company on 11 July 2002. The following information relating to the Scheme is made pursuant to the requirements as contained in Chapter 17 of the Listing Rules (reference is made to the circular of the Company dated 24 June 2002 (the “Circular”). Terms defined in the Circular have the same meanings when used in the following summary unless the context requires otherwise):

#### i) Purpose of the Scheme

The purpose of the Scheme is to recognise and acknowledge the contribution that Eligible Persons have made or may make to the Company and to attract and retain and motivate talented staff.

#### ii) Participants of the Scheme

The participants of the Scheme shall be such Eligible Persons as the Board in its absolute discretion determines.

#### iii) Maximum number of Shares available for issue under the Scheme

The maximum number of the Shares which may be issued upon exercise of all outstanding Options to subscribe for Shares granted and yet to be exercised under the Scheme and any other share option scheme shall not exceed 10% of the total number of Shares in issue of the Company as at the date of approval of the Scheme. As at 30 June 2009 and the date of this report, 8,949,600 Shares were available for issue under the Scheme representing 3.97% of the total issued share capital of the Company.

#### iv) Maximum entitlement to any one participant

Under the Scheme, the maximum entitlement to Options of each Eligible Person shall be such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to him/her in any 12-month period up to each Commencement Date must not exceed 1% of the issued share capital of the Company at the relevant Commencement Date.

#### v) Period and payment on acceptance of options

Under the Scheme, an Offer may be accepted by an Eligible Person in whole or in part in respect of all Shares for which it is offered to such Eligible Person when the duplicate letter comprising acceptance of the Offer duly signed by the Eligible Person together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof is received by the Company within forty days from the Offer Date.

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME *(continued)*

#### vi) The basis of determining the exercise price

The Subscription Price in respect of any Option shall be not less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the relevant Commencement Date in respect of such Option, which must be a Business Day; (ii) an amount equivalent to the mean closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the relevant Commencement Date in respect of such Option, which must be a Business Day, and (iii) the nominal value of a Share.

#### vii) Remaining life of the Scheme

The Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless otherwise terminated under the terms of the Scheme.

Details of Options granted to directors and employees of the Company under the Scheme as at 30 June 2009 are as follows:

	Date of options granted	Outstanding options as at 1 January 2009	Granted during the period	Exercised/ lapsed/ cancelled during the period	Outstanding options as at 30 June 2009	Subscription price per share <i>HK\$</i>
<b>Directors</b>						
Daniel George Green	18 September 2003	1,200,000	–	–	1,200,000	0.500
	19 November 2004	2,000,000	–	–	2,000,000	0.602
	21 November 2005	2,200,000	–	–	2,200,000	0.700
	02 January 2008	1,600,000	–	–	1,600,000	1.490
Lai Ka Tak, Patrick	18 September 2003	1,500,000	–	(200,000)	1,300,000	0.500
	19 November 2004	1,700,000	–	–	1,700,000	0.602
	21 November 2005	1,800,000	–	–	1,800,000	0.700
<b>Employees</b>						
	18 September 2003	200,000	–	–	200,000	0.500
	21 November 2005	500,000	–	–	500,000	0.700
		<u>12,700,000</u>	<u>–</u>	<u>(200,000)</u>	<u>12,500,000</u>	

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME *(continued)*

At the dates before the Options were granted, 17 September 2003, 18 November 2004, 20 November 2005 and 31 December 2007, the market value per share was HK\$0.50, HK\$0.60, HK\$0.70 and HK\$1.49 respectively.

The Options granted on 18 September 2003 can be exercised in two instalments, 50% of which at any time between 1 September 2005 and 30 August 2010 and the remaining 50% at any time between 1 September 2006 and 30 August 2010.

The Options granted on 19 November 2004 can be exercised in two instalments, 50% of which at any time between 1 November 2006 and 30 August 2010 and the remaining 50% at any time between 1 November 2007 and 30 August 2010.

The Options granted on 21 November 2005 can be exercised in two instalments, 50% of which at any time between 1 November 2007 and 30 August 2010 and the remaining 50% at any time between 1 November 2008 and 30 August 2010.

The Options granted on 02 January 2008 can be exercised in two instalments, 50% of which at any time between 2 January 2010 and 10 July 2012 and the remaining 50% at any time between 2 January 2011 and 10 July 2012.

Apart from the Scheme mentioned above, at no time during the Period was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors (including their spouses and children under 18 years of age) have been granted, or have exercised, any rights to subscribe for shares of the Company.

Based on the binomial option pricing model, the fair value of the Options granted on 18 September 2003, 19 November 2004, 21 November 2005 and 2 January 2008 are HK\$0.248, HK\$0.141, HK\$0.180 and HK\$0.680 respectively. However, since the valuation relies on subjective assumptions such as the estimated volatility of the Share price, the binomial option pricing model does not necessarily provide a reliable measure of the fair value of the Options. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years.

The weighted average assumptions used are as follows:

	Options granted on			
	2 January 2008	21 November 2005	19 November 2004	18 September 2003
Risk free interest rate (in %)	2.7	4.4	2.8	3.8
Expected life (in years)	4.5	5.0	6.0	6.9
Volatility (in %)	65.4	51.2	49.2	77.5
Expected dividend per share (HK cents)	4.4	4.4	4.4	4.4

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2009, the interests and short positions of each of the directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

#### Ordinary shares of HK\$0.10 each

	Personal interests	Family interests	Corporate interests	Number of shares held		Total interests	Percentage of issued share capital
				Trusts and similar interests	Equity derivatives (Note iii)		
<i>Executive directors:</i>							
Michael John Green	1,272,000	-	-	166,093,617 (Note i)	-	167,365,617	74.22%
Daniel George Green	900,000	-	-	166,093,617 (Note ii)	7,000,000	173,993,617	77.16%
Lai Ka Tak, Patrick	-	-	-	-	4,800,000	4,800,000	2.13%
<i>Non-executive directors:</i>							
Christopher John David Clarke	200,000	-	-	-	-	200,000	0.09%
Augustus Ralph Marshall	-	-	-	-	-	-	-
Lim Ghee Keong (alternate director to Augustus Ralph Marshall)	-	-	-	-	-	-	-
<i>Independent non-executive directors:</i>							
Owen Mark Lewellin Rhys	-	-	-	-	-	-	-
Thaddeus Thomas Beczak	-	-	-	-	-	-	-
Simon Murray	343,487	-	-	-	-	343,487	0.15%



## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

*Notes:*

- (i) Such shares were held through corporations on behalf of the Michael Green Family Trust in which Mr Michael John Green has a beneficial interest.
- (ii) Such shares were held through corporations on behalf of the Michael Green Family Trust in which Mr Daniel George Green has a beneficial interest.
- (iii) These represented interests of options granted to directors under a share option scheme to subscribe for shares of the Company, further details of which are set out in the section "Share Option Scheme" of this report.

All interests in the shares and underlying shares of equity derivatives of the Company are long positions. None of the directors held any short position in the shares, underlying shares of equity derivatives or debentures of the Company.

Save as disclosed above, at no time during the Period, the directors and chief executives (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and its associated corporations required to be disclosed pursuant to the SFO.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2009, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued ordinary share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives:

<b>Name of shareholder</b>	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
Pacific Investments (BVI) Limited	16,957,431	7.52%

Pacific Investments (BVI) Limited is a wholly-owned subsidiary of Usaha Tegas Sdn. Bhd.

Save as disclosed above, as at 30 June 2009, the directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to disclose to the Company pursuant to Part XV of the SFO.

## REPORT OF THE DIRECTORS

### 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;

## REPORT OF THE DIRECTORS

### CORPORATE GOVERNANCE *(continued)*

#### The Code on Corporate Governance Practices *(continued)*

- 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.

#### The Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in the Listing Rules. The Company, having made specific enquiry, confirms that all directors of the Company complied throughout the Period with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.



## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

The Audit Committee is accountable to the Board. It provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Messrs. Owen Mark Lewellin Rhys and Thaddeus Thomas Beczak and a non-executive director, Mr. Christopher John David Clarke.

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

On behalf of the Board

**Michael John Green**

*Chairman*

Hong Kong, 21 August 2009

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2009

		(Unaudited)	
		Six months ended	
	Note	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Turnover	4	172,150	184,716
Cost of sales	5	<u>(127,870)</u>	<u>(140,251)</u>
Gross profit		44,280	44,465
Other revenues	4	629	1,043
Operating expenses	6	(40,566)	(38,261)
Gain on disposal of an investment property	12	–	94
Operating profit		4,343	7,341
Finance income	7	171	841
Finance costs	7	(3)	(67)
Profit before income tax		4,511	8,115
Income tax expense	8	(1,301)	(748)
Profit for the period		<u>3,210</u>	<u>7,367</u>
Other comprehensive (expenses)/income (Deficit)/surplus on revaluation of available-for-sale financial assets		<u>(333)</u>	<u>487</u>
Total comprehensive income for the period		<u>2,877</u>	<u>7,854</u>
Profit attributable to shareholders		<u>3,210</u>	<u>7,367</u>
Total comprehensive income attributable to shareholders		<u>2,877</u>	<u>7,854</u>
Basic earnings per share (HK cents)	9	<u>1.42</u>	<u>3.27</u>
Diluted earnings per share (HK cents)	9	<u>1.39</u>	<u>3.18</u>
Dividend	11	<u>–</u>	<u>–</u>

The notes on pages 12 to 28 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2009

		(Unaudited) At 30 June 2009 HK\$'000	(Audited) At 31 December 2008 HK\$'000
Non-current assets			
Investment property	12	3,341	3,341
Property, plant and equipment	12	48,215	49,769
Lease prepayments		47,312	47,837
Available-for-sale financial assets	13	2,454	2,787
		<u>101,322</u>	<u>103,734</u>
Current assets			
Inventories		27,989	27,385
Trade and other receivables	14	94,086	107,008
Derivative financial instruments	15	1,733	371
Current income tax recoverable		341	1
Cash and cash equivalents	16	61,660	77,108
		<u>185,809</u>	<u>211,873</u>
Current liabilities			
Trade and other payables	17	64,293	78,946
Derivative financial instruments	15	34	4,413
Provisions	18	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>

## 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 liabilities			
Deferred income tax liabilities		<u>226</u>	<u>226</u>
Net assets		<u>220,449</u>	<u>229,647</u>
Capital and reserves			
Share capital	19	22,550	22,530
Reserves			
Proposed final dividend		–	12,391
Others		<u>197,899</u>	<u>194,726</u>
Shareholders' funds		<u>220,449</u>	<u>229,647</u>

Approved by the board of directors on 21 August 2009

**Michael John Green**  
*Chairman*

**Lai Ka Tak, Patrick**  
*Finance Director*

The notes on pages 12 to 28 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2009

	Note	(Unaudited)	
		Six months ended	
		30 June 2009	30 June 2008
		HK\$'000	HK\$'000
<b>Cash flows from operating activities</b>			
Profit before income tax		4,511	8,115
Adjustment for:			
Depreciation of property, plant and equipment		2,439	1,755
Amortisation of lease prepayments		525	525
Interest income		(171)	(841)
Interest expenses		3	67
Gain on disposal of an investment property	12	–	(94)
Loss on disposal of property, plant and equipment		19	–
Net fair value loss/(gain) on derivative financial instruments		564	(4,603)
Employee share-based compensation benefits		227	295
		<u>8,117</u>	<u>5,219</u>
<b>Changes in working capital</b>			
Increase in inventories		(604)	(6,644)
Decrease in trade and other receivables		12,922	7,138
Decrease in trade and other payables		(14,653)	(12,277)
(Decrease)/increase in provisions		(246)	219
		<u>5,536</u>	<u>(6,345)</u>
<b>Cash generated from/(used in) operations</b>			
Interest received		171	841
Interest paid		(3)	(67)
Net settlement on derivative financial instruments		(6,305)	4,295
Hong Kong profits tax paid		–	(116)
Overseas tax paid		(1,641)	(401)
		<u>(2,242)</u>	<u>(1,793)</u>
<b>Net cash used in operating activities</b>		<u>-----</u>	<u>-----</u>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2009

		(Unaudited)	
		Six months ended	
	Note	30 June 2009	30 June 2008
		HK\$'000	HK\$'000
<b>Cash flows from investing activities</b>			
Payments for purchase of property, plant and equipment		(909)	(769)
Proceeds from disposal of an investment property	12	–	6,603
Proceeds from sale of property, plant and equipment		5	–
<b>Net cash (used in)/generated from investing activities</b>		<b>(904)</b>	5,834
<b>Cash flows from financing activities</b>			
Dividend paid		(12,402)	(9,913)
Proceeds from issuance of ordinary shares		100	–
<b>Net cash used in financing activities</b>		<b>(12,302)</b>	(9,913)
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		77,108	74,524
Cash and cash equivalents at the end of the period		61,660	68,652
<b>Analysis of the balances of cash and cash equivalents</b>			
Bank balances and cash		61,660	68,652

The notes on pages 12 to 28 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2009

	(Unaudited)						
	Share capital	Share premium	Available-for-sale investment reserve	Employee share-based compensation reserve	Retained earnings	Contributed surplus	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	22,530	92,709	996	2,135	98,273	808	217,451
Profit attributable to shareholders	-	-	-	-	7,367	-	7,367
Other comprehensive income:							
Surplus on revaluation of available-for-sale financial assets	-	-	487	-	-	-	487
Total comprehensive income for the period ended 30 June 2008	-	-	487	-	7,367	-	7,854
Dividend relating to 2007 and paid in May 2008	-	-	-	-	(9,913)	-	(9,913)
Employee share-based compensation benefits	-	-	-	295	-	-	295
At 30 June 2008	22,530	92,709	1,483	2,430	95,727	808	215,687
At 1 January 2009	22,530	92,709	624	2,703	110,273	808	229,647
Profit attributable to shareholders	-	-	-	-	3,210	-	3,210
Other comprehensive expenses:							
Deficit on revaluation of available-for-sale financial assets	-	-	(333)	-	-	-	(333)
Total comprehensive (expenses)/ income for the period ended 30 June 2009	-	-	(333)	-	3,210	-	2,877
Employee share option scheme:							
Issuance of ordinary shares	20	80	-	-	-	-	100
Dividend relating to 2008 and paid in May 2009	-	-	-	-	(12,402)	-	(12,402)
Employee share-based compensation benefits	-	-	-	227	-	-	227
<b>At 30 June 2009</b>	<b>22,550</b>	<b>92,789</b>	<b>291</b>	<b>2,930</b>	<b>101,081</b>	<b>808</b>	<b>220,449</b>

The notes on pages 12 to 28 form an integral part of this condensed interim financial information.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 1 General Information

The principal activities of Arnhold Holdings Limited (the "Company") and its subsidiaries (together the "Group") are (i) trading, (ii) manufacturing and export and (iii) retail and renovation operations.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, Church Street, Hamilton HM 11, Bermuda.

The Company has its primary listing on the main board of The Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated interim financial information was approved for issue on 21 August 2009.

### 2 Basis of preparation

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.

### 3 Accounting policies

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.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4 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:

	Six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
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	172,779	185,759

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

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4 Turnover, other revenues and segment information (continued)

	Trading		Manufacturing and export	Retail and renovation	All other segments	Total
	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2008						
Total turnover	93,573	13,404	63,580	35,185	–	205,742
Inter-segment turnover	(7)	–	(21,019)	–	–	(21,026)
Turnover (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 HK\$'000	Mainland China HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>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 HK\$'000	Mainland China HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 4 Turnover, other revenues and segment information *(continued)*

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

	Six months ended	
	30 June 2009 <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)
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<b>Operating profit</b>	<b>4,343</b>	7,341
Finance income	<b>171</b>	841
Finance costs	<b>(3)</b>	(67)
	<hr/>	<hr/>
<b>Profit before income tax</b>	<b>4,511</b>	8,115

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

	At 30 June 2009 <i>HK\$'000</i>	At 31 December 2008 <i>HK\$'000</i>
	Total segment assets	<b>221,566</b>
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	<b>287,131</b>	315,607

### 5 Cost of sales

	Six months ended	
	30 June 2009 <i>HK\$'000</i>	30 June 2008 <i>HK\$'000</i>
Cost of inventories sold	<b>125,926</b>	143,396
Cost of consumable inventories	<b>1,380</b>	1,458
Net fair value loss/(gain) on derivative financial instruments	<b>564</b>	(4,603)
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	<b>127,870</b>	140,251

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 6 Operating expenses

	Six months ended	
	30 June 2009	30 June 2008
	HK\$'000	HK\$'000
Administrative expenses:		
Employee benefits expenses	26,359	24,752
Employee share option benefits	227	295
Amortisation of lease prepayments	525	525
Depreciation of property, plant and equipment	2,439	1,755
Operating lease rentals on properties paid to third parties	3,403	2,492
Travelling expenses	842	850
Entertainment expenses	275	336
Stamps, postage and telephone	486	500
Management fee	720	720
Advertising expenses	79	91
Legal and professional fees	501	364
Auditor's remuneration	848	814
	<u>36,704</u>	<u>33,494</u>
Other operating expenses:		
(Write back of)/provision for impairment of trade receivables	(169)	78
Provision for stock obsolescence	184	349
Provision for employee leave entitlements	80	130
(Write back of)/provision for long service payments	(280)	250
Loss on disposal of property, plant and equipment	19	-
Sundry expenses	4,028	3,960
	<u>3,862</u>	<u>4,767</u>
	<u>40,566</u>	<u>38,261</u>

### 7 Finance income and finance costs

	Six months ended	
	30 June 2009	30 June 2008
	HK\$'000	HK\$'000
Finance income:		
Interest income from bank deposit	171	841
Finance cost:		
Interest expenses on short-term bank loans and overdrafts	3	67

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 8 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>HK\$'000</b>	HK\$'000
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
	<b>1,301</b>	748

### 9 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.

	<b>30 June 2009</b>	30 June 2008
	<b>Number of shares</b>	Number of shares
Reconciliation		
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>225,355,669</b>	225,296,000
Deemed issue of ordinary shares for no consideration	<b>5,735,010</b>	6,125,362
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>231,090,679</b>	231,421,362

### 10 Retirement benefit costs

The Group's contributions to the ORSO scheme are reduced by contributions forfeited by those employees who leave the ORSO scheme prior to vesting fully in the contributions. Forfeited contributions totaling HK\$86,000 (2008: HK\$130,000) were fully utilised during the Period.

Contributions of HK\$309,000 (2008: HK\$284,000) were payable to the Retirement Scheme at the Period-end.

### 11 Dividend

A final dividend relating to the year ended 31 December 2008 in the amount of HK\$12,402,000 was paid in May 2009 (2008: HK\$9,913,000).



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 12 Investment properties and property, plant and equipment

	Investment properties <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value at 1 January 2008	9,850	43,807	53,657
Additions	–	769	769
Disposal	(6,509)	–	(6,509)
Depreciation	–	(1,755)	(1,755)
	<hr/>	<hr/>	<hr/>
Net book value at 30 June 2008	3,341	42,821	46,162
Additions	–	9,002	9,002
Disposal	–	(3)	(3)
Depreciation	–	(2,051)	(2,051)
	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2008	3,341	49,769	53,110
Additions	–	909	909
Disposal	–	(24)	(24)
Depreciation	–	(2,439)	(2,439)
	<hr/>	<hr/>	<hr/>
<b>Net book value at 30 June 2009</b>	<b>3,341</b>	<b>48,215</b>	<b>51,556</b>

The Group disposed of an investment property in Shanghai and a gain of HK\$94,000 was credited to the condensed consolidated statement of comprehensive income for the period ended 30 June 2008.

	<i>HK\$'000</i>
Net book value of investment property held for sale	6,509
Add: Gain on disposal of an investment property	94
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Net cash consideration	<b>6,603</b>

### 13 Available-for-sale financial assets

	<i>HK\$'000</i>
At 1 January 2008	3,159
Less: Revaluation deficit transfer to reserves	(372)
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At 31 December 2008	2,787
Less: Revaluation deficit transfer to reserves	(333)
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<b>At 30 June 2009</b>	<b>2,454</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 Trade and other receivables

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Trade receivables	80,043	93,454
Retention receivables	8,676	5,853
	<hr/>	<hr/>
Total trade and retention receivables	88,719	99,307
Less: provision for impairment of receivables	(991)	(1,368)
	<hr/>	<hr/>
Net trade and retention receivables	87,728	97,939
Prepayments and other receivables	6,358	9,069
	<hr/>	<hr/>
	<b>94,086</b>	<b>107,008</b>

The carrying amounts of trade and other receivables approximate their fair values.

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.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The aging analysis of trade and retention receivables, net of provisions, is as follows:

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Current	48,650	58,955
One to three months overdue	33,411	33,947
Three to twelve months overdue	5,447	2,646
Overdue more than twelve months	220	2,391
	<hr/>	<hr/>
Net trade and retention receivables	87,728	97,939

The trade and retention receivables included in the above aging are considered not impaired as these relate to a number of independent customers for whom there is no recent history of default. All the impaired overdue trade and retention receivables have been provided for. As at 30 June 2009, trade and retention receivables of HK\$991,000 (31 December 2008: HK\$1,368,000) were impaired and provided for.

Movements on the provision for impairment of receivables are as follows:

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Opening balance	1,368	1,368
Provision for impairment of receivables	-	376
Receivables written off during the period as uncollectible	(208)	-
Write back of provision for impairment of receivables	(169)	(376)
	<hr/>	<hr/>
Closing balance	991	1,368

As at 31 December 2008 and 30 June 2009, other than the trade and retention receivables as disclosed above, all other classes within trade and other receivables do not contain impaired assets.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 15 Derivative financial instruments

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Forward foreign exchange contracts – held for trading		
– Assets	1,733	371
– Liabilities	(34)	(4,413)

Trading derivatives are classified as a current asset or liability. The net unrealised fair value gain/(loss) on foreign exchange contracts as at 30 June 2009 and 31 December 2008 which are not qualified as hedges has been accounted for in the condensed consolidated statement of comprehensive income.

### 16 Cash and cash equivalents

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Bank deposits with original maturity of three months or less	33,950	35,969
Cash at bank and on hand	27,710	41,139
	<b>61,660</b>	<b>77,108</b>

The effective interest rate on short-term bank deposits is ranging from 0.10% to 0.78% (31 December 2008: ranging from 0.15% to 2.88%); these deposits have an average maturity of 59 days (31 December 2008: 49 days).

### 17 Trade and other payables

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Trade and bills payables	34,140	44,259
Accruals and other payables	17,044	27,044
Advances received from customers	13,109	7,643
	<b>64,293</b>	<b>78,946</b>

All of the above trade and other payables are expected to be settled within one year. The carrying amounts of trade and other payables approximate their fair values.

The aging analysis of trade and bills payables is as follows:

	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Current	22,824	30,300
One to three months overdue	9,688	11,857
Overdue more than three months	1,628	2,102
	<b>34,140</b>	<b>44,259</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 18 Provisions

	Long service payments <i>HK\$'000</i>	Employee leave entitlements <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2009	1,028	1,347	2,375
(Write back)/additional provisions	(280)	1,355	1,075
Less: Amounts utilised	–	(1,275)	(1,275)
(Credited)/charged to condensed consolidated statement of comprehensive income	(280)	80	(200)
Less: Amounts settled	(9)	(37)	(46)
Net effect on provisions	(289)	43	(246)
<b>At 30 June 2009</b>	<b>739</b>	<b>1,390</b>	<b>2,129</b>

### 19 Share capital and share premium

	Authorised <i>(Number of shares)</i>	Issued and fully paid	Ordinary shares <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2008 and at 31 December 2008	800,000,000	225,296,000	22,530	92,709	115,239
Employee share option scheme – proceeds from share issued	–	200,000	20	80	100
<b>At 30 June 2009</b>	<b>800,000,000</b>	<b>225,496,000</b>	<b>22,550</b>	<b>92,789</b>	<b>115,339</b>

Employee share option scheme: options exercised during the period to 30 June 2009 resulted in 200,000 shares being issued (30 June 2008: Nil), with exercise proceeds of HK\$100,000 (30 June 2008: Nil). The related weighted average price at the time of exercise was HK\$1.30 (30 June 2008: Nil) per share.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 20 Contingent liabilities

At 30 June 2009, there were contingent liabilities in respect of the following:

(a)	The Group		Company	
	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000	At 30 June 2009 HK\$'000	At 31 December 2008 HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	–	–	279,000	279,000
(b)	Certain subsidiaries have given undertakings to banks that they will perform certain contractual financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of the subsidiaries. As at 30 June 2009, the amount of guarantees outstanding was HK\$5,699,000 (At 31 December 2008 HK\$4,458,000).			

### 21 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, are as follows:

	Six months ended	
	30 June 2009 HK\$'000	30 June 2008 HK\$'000
Purchases of goods and services		
Professional fee paid to a related party (note a)	–	15
Key management compensation	3,078	2,902

- (a) There were no professional fees (2008: HK\$15,000) paid to a firm in which a non-executive director of the Company is a partner for the Period.

It is the intention of the directors of the Company that the Group will continue its business relationships with related parties under similar bases as adopted in previous years. In the opinion of the directors of the Company, the transactions with the related companies were carried out in the ordinary course of business on normal commercial terms.