

安利

ARNHOLD HOLDINGS LIMITED

安利控股有限公司

Stock Code : 102

Interim Report 2010



## 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 2010 (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 manufacturing and export of building materials.

The Group's turnover for the Period was HK\$168.1 million with gross profit of HK\$38.7 million (2009: HK\$172.2 million and HK\$44.3 million respectively). The improvement in the retail and export market was offset by the decrease in trading turnover. Gross profit margin decreased from 25.7% to 23.0% mainly because of the fair value loss on derivative financial instruments held to fix the Group's exposure to EURO on future purchases. Through our continued cost reduction initiatives, operating expenses decreased to HK\$37.9 million (2009: HK\$40.6 million). The net result was a reduction in the Groups' profit attributable to shareholders for the Period to HK\$0.9 million (2009: HK\$3.2 million).

The Group continued to improve its services and product quality with reasonable progress achieved in new market development. The Group's outstanding orders on hand amounted to HK\$196.5 million, representing an increase of 13% over the end of last year (At 31 December 2009: HK\$173.9 million).

#### Segmental Information

Revenue from trading operations decreased by HK\$34.9 million to HK\$80.1 million (2009: HK\$115.0 million) with the gross profit contribution decreasing by HK\$10.2 million to HK\$13.9 million (2009: HK\$24.1 million). While new projects development in the domestic market was limited, the Group expects growth in the Mainland.

Revenue from manufacturing and export increased from HK\$32.7 million in 2009 to HK\$43.3 million in 2010, as our overseas customers completed their de-stocking process. We also developed new product programmes to improve our market coverage.

During the reporting period, the renovation and retail market in Hong Kong recovered strongly while our Shanghai retail outlet gained further momentum. Turnover increased by 82.9% from HK\$24.5 million in 2009 to HK\$44.8 million in 2010.

## REPORT OF THE DIRECTORS

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

#### Foreign Exchange Exposure and Financial Hedging

The Group manages its risk exposure to foreign currency fluctuations and forward exchange contracts have been arranged with the Group's principal bankers to mitigate exchange risks. Further information of the forward exchange contracts is disclosed in the notes to the interim financial information.

#### Liquidity and Financial Resources

The Group maintained a healthy financial position with no bank borrowing and no gearing as at 30 June 2010 (At 31 December 2009: Nil). The Group remained conservative in working capital management. Cash balances were HK\$70.5 million compared to HK\$97.6 million at 31 December 2009. The net cash outflow was mainly caused by the dividend payment of HK\$12.7 million and short-term working capital requirements. 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 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 2010, the amount of guarantees outstanding was HK\$7.3 million (At 31 December 2009: HK\$4.7 million).

#### Banking facilities with assets pledged

A leasehold property with net book value of HK\$47.3 million at 30 June 2010 held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

## REPORT OF THE DIRECTORS

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

#### Employees

At the end of the Period, the Group had approximately 425 employees in the Mainland and approximately 138 employees in Hong Kong. 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, and in compliance with the Rules Governing the Listing of Securities (the "Listing Rules") of 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 the Directors' Report.

#### Outlook

Though recent order book data indicates future growth, the second half of the year remains challenging. The Group will continue to focus on improving our competitive position particularly in retailing and manufacturing. We are confident that we are well positioned to benefit as the markets improve further.

### 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 *(retired as director effective from the conclusion of  
the annual general meeting of the Company held on 13 May 2010)*  
Lim Ghee Keong *(appointed on 13 May 2010)*  
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 2010 and the date of this report, 8,949,600 Shares were available for issue under the Scheme representing 3.86% 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 2010 are as follows:

	Date of options granted	Outstanding options as at 1 January 2010	Granted during the period	Exercised/ lapsed/ cancelled during the period	Outstanding options as at 30 June 2010	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	–	(1,500,000)	500,000	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	900,000	–	(900,000)	–	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>12,100,000</u>	<u>–</u>	<u>(6,000,000)</u>	<u>6,100,000</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\$0.500, HK\$0.602, HK\$0.700 and HK\$1.490 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 spouse 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 2010, 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 <i>(Note iii)</i>		
<i>Executive directors:</i>							
Michael John Green	1,272,000	-	-	166,093,617 <i>(Note i)</i>	-	167,365,617	72.17%
Daniel George Green	4,302,000	-	-	166,093,617 <i>(Note ii)</i>	4,300,000	174,695,617	75.33%
Lai Ka Tak, Patrick	370,000	-	-	-	1,800,000	2,170,000	0.94%
<i>Non-executive directors:</i>							
Christopher John David Clarke	200,000	-	-	-	-	200,000	0.09%
Lim Ghee Keong	-	-	-	-	-	-	-
<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.
- (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 2010, 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:

Name of shareholder	Ordinary shares held	Percentage of total issued shares
Pacific Investments (BVI) Limited	16,957,431	7.31%

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

Save as disclosed above, as at 30 June 2010, 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 (2009: Nil).

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2010. 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 has promulgated the Code on Corporate Governance Practices (the "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 Code except for one deviation which, with the remedial steps taken, 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. To ensure the compliance of the Code, a service agreement with a specific term has been executed between the Company and each non-executive director.

The corporate governance practices adopted by the Company during six months ended 30 June 2010 were in line with those set out in the corporate governance report as contained in the Company's 2009 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, 19 August 2010

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June 2010

	Note	(Unaudited)	
		30 June 2010	30 June 2009
		HK\$'000	HK\$'000
Turnover	4	<b>168,117</b>	172,150
Cost of sales	5	<b>(129,433)</b>	(127,870)
Gross profit		<b>38,684</b>	44,280
Other revenues	4	<b>630</b>	629
Operating expenses	6	<b>(37,909)</b>	(40,566)
Operating profit		<b>1,405</b>	4,343
Finance income	7	<b>151</b>	171
Finance costs	7	<b>–</b>	(3)
Profit before income tax		<b>1,556</b>	4,511
Income tax expense	8	<b>(614)</b>	(1,301)
Profit for the period, attributable to shareholders		<b>942</b>	3,210
Other comprehensive income/(expenses)			
Surplus/(deficit) on revaluation of available-for-sale financial assets		<b>234</b>	(333)
Total comprehensive income for the period, attributable to shareholders		<b>1,176</b>	2,877
Basic earnings per share (HK cents)	9	<b>0.41</b>	1.42
Diluted earnings per share (HK cents)	9	<b>0.41</b>	1.39
Dividend	11	<b>–</b>	–

The notes on pages 17 to 28 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		(Unaudited) At 30 June 2010 HK\$'000	As restated (Audited) At 31 December 2009 HK\$'000
Non-current assets			
Property, plant and equipment	12	89,853	89,792
Lease prepayments		4,021	4,064
Available-for-sale financial assets	13	<u>3,109</u>	<u>2,875</u>
		<u>96,983</u>	<u>96,731</u>
Current assets			
Investment property held for sale	12	–	2,681
Inventories		29,018	20,968
Trade and other receivables	14	92,596	90,693
Derivative financial instruments	15	79	285
Cash and cash equivalents	16	<u>70,476</u>	<u>97,575</u>
		<u>192,169</u>	<u>212,202</u>
Current liabilities			
Trade and other payables	17	73,619	86,041
Derivative financial instruments	15	1,359	856
Provisions	18	2,132	2,155
Current income tax liabilities		<u>488</u>	<u>340</u>
		<u>77,598</u>	<u>89,392</u>
Net current assets		<u>114,571</u>	<u>122,810</u>
Total assets less current liabilities		<u>211,554</u>	<u>219,541</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

		<b>(Unaudited)</b>	As restated (Audited)
		<b>At 30</b>	At 31
		<b>June</b>	December
	<i>Note</i>	<b>2010</b>	2009
		<b>HK\$'000</b>	HK\$'000
Non-current liabilities			
Deferred income tax liabilities		<u>263</u>	<u>263</u>
Net assets		<u>211,291</u>	<u>219,278</u>
Capital and reserves			
Share capital	19	23,190	22,590
Reserves			
Proposed final dividend		–	12,424
Others		<u>188,101</u>	<u>184,264</u>
Shareholders' funds		<u>211,291</u>	<u>219,278</u>

Approved by the board of directors on 19 August 2010

**Michael John Green**  
*Chairman*

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

The notes on pages 17 to 28 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the period ended 30 June 2010

	(Unaudited)	
	Six months ended	
	30 June 2010	As restated 30 June 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from operating activities</b>		
Profit before income tax	1,556	4,511
Adjustment for:		
Depreciation of property, plant and equipment	2,917	2,920
Amortisation of lease prepayments	44	44
Interest income	(151)	(171)
Interest expenses	–	3
(Gain)/loss on disposal of property, plant and equipment	(107)	19
Net fair value loss on derivative financial instruments	6,188	564
Employee share-based compensation benefits	91	227
	<u>10,538</u>	8,117
<b>Changes in working capital</b>		
Increase in inventories	(8,050)	(604)
(Increase)/decrease in trade and other receivables	(1,903)	12,922
Decrease in trade and other payables	(11,090)	(14,653)
Decrease in provisions	(23)	(246)
	<u>(10,528)</u>	5,536
<b>Cash (used in)/generated from operations</b>		
Interest received	151	171
Interest paid	–	(3)
Net settlement on derivative financial instruments	(5,479)	(6,305)
Hong Kong profits tax paid	(46)	–
Overseas tax paid	(420)	(1,641)
	<u>(16,322)</u>	(2,242)
<b>Net cash used in operating activities</b>	<u>(16,322)</u>	(2,242)

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the period ended 30 June 2010

	(Unaudited)	
	Six months ended	
	30 June 2010	As restated 30 June 2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cash flows from investing activities</b>		
Payments for purchase of property, plant and equipment	(3,001)	(909)
Proceeds from disposal of property, plant and equipment	130	5
Proceeds from disposal of investment property	1,348	–
	<u>(1,523)</u>	<u>(904)</u>
<b>Net cash used in investing activities</b>	<u>(1,523)</u>	<u>(904)</u>
<b>Cash flows from financing activities</b>		
Dividend paid	(12,680)	(12,402)
Proceeds from issuance of ordinary shares	3,426	100
	<u>(9,254)</u>	<u>(12,302)</u>
<b>Net cash used in financing activities</b>	<u>(9,254)</u>	<u>(12,302)</u>
<b>Net decrease in cash and cash equivalents</b>	(27,099)	(15,448)
Cash and cash equivalents at the beginning of the period	97,575	77,108
	<u>70,476</u>	<u>61,660</u>
Cash and cash equivalents at the end of the period	<u>70,476</u>	<u>61,660</u>
<b>Analysis of the balances of cash and cash equivalents</b>		
Bank balances and cash	<u>70,476</u>	<u>61,660</u>

The notes on pages 17 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 2010

	(Unaudited)						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Available- for-sale investment reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Retained earnings HK\$'000	Contributed surplus HK\$'000	
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
	20	80	-	227	(12,402)	-	(12,075)
At 30 June 2009	22,550	92,789	291	2,930	101,081	808	220,449
At 1 January 2010	22,590	92,949	712	3,007	99,212	808	219,278
Profit attributable to shareholders	-	-	-	-	942	-	942
Other comprehensive income:							
Surplus on revaluation of available-for-sale financial assets	-	-	234	-	-	-	234
Total comprehensive income for the period ended 30 June 2010	-	-	234	-	942	-	1,176
Employee share option scheme							
Issuance of ordinary shares	600	2,826	-	-	-	-	3,426
Transfer among reserves	-	-	-	(1,112)	1,112	-	-
Dividend relating to 2009 and paid in May 2010	-	-	-	-	(12,680)	-	(12,680)
Employee share-based compensation benefits	-	-	-	91	-	-	91
	600	2,826	-	(1,021)	(11,568)	-	(9,163)
At 30 June 2010	23,190	95,775	946	1,986	88,586	808	211,291

The notes on pages 17 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 19 August 2010.

### 2 Basis of preparation

This unaudited condensed consolidated financial information for the six months ended 30 June 2010 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 2009, 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 2009, 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 Group has adopted all of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2010. The adoption of these new and revised standards, amendments and interpretations has no material impact on the Group's results and financial position for the current or prior periods except for the adoption of HKAS 17 (Amendment), "Leases".

The amendments to HKAS 17 "Leases" are effective for the Group from 1 January 2010. Amendments to HKAS 17 require that the classification of leases is based on the extent to which the risks and rewards incidental to ownership of an asset lie with the lessor or the lessee. In particular, the amendments deleted the specific guidance in the standard which previously required that the land element in a lease is normally classified as an operating lease unless title to the land is expected to be passed to the lessee by the end of the lease term. Under the amended HKAS 17, a lease of land is classified as property, plant and equipment if the lease transfers substantially all the risks and rewards incidental to ownership of the leasehold land to the lessee. The amendments to HKAS 17 are required to be applied retrospectively. Comparative information has been restated to reflect this change in accounting policy. The effect of the adoption of this change in accounting policy is a reclassification of certain lease prepayments to property, plant and equipment in the condensed consolidated statement of financial position, as follow:

	<b>30 June 2010</b> <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>	1 January 2009 <i>HK\$'000</i>
Increase/(decrease) in:			
Property, plant and equipment	<b>42,245</b>	42,725	43,687
Lease prepayments	<b>(42,245)</b>	(42,725)	(43,687)
		<b>30 June 2010</b> <i>HK\$'000</i>	30 June 2009 <i>HK\$'000</i>
Depreciation of property, plant and equipment		<b>480</b>	481
Amortisation of lease prepayments		<b>(480)</b>	(481)

## 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:

	<b>Six months ended</b>	
	<b>30 June 2010</b>	30 June 2009
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sales of inventories	<b>168,117</b>	172,150
Other revenues		
Rental income from investment property	<b>15</b>	11
Sundry income	<b>615</b>	618
	<b>630</b>	629
Total revenues	<b>168,747</b>	172,779

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 mainly based on a measure of gross profit. Finance income, finance costs and income tax expense are not allocated to segments, as these types of activities are managed on a central basis.

Total assets mainly exclude 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.

Corporate total assets mainly include leasehold land and buildings (as of 31 December 2009) and investment property held for sale, that are not allocated to any operating segments.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

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

For the period ended 30 June 2010	Trading		Trading Total HK\$'000	Manufacturing and export	Retail and renovation	Corporate	Total
	Hong Kong and Macau HK\$'000	Mainland China HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total turnover	61,742	18,512	80,254	65,342	44,756	-	190,352
Inter-segment turnover	(177)	-	(177)	(22,058)	-	-	(22,235)
Turnover (from external customers)	61,565	18,512	80,077	43,284	44,756	-	168,117
Gross profit	11,288	2,644	13,932	11,577	13,175	-	38,684
Depreciation of property, plant and equipment	(59)	(39)	(98)	(668)	(1,193)	(958)	(2,917)
Amortisation of lease prepayments	-	-	-	-	-	(44)	(44)
Additions to non-current assets (other than available-for sale financial assets)	6	8	14	717	1,646	624	3,001
Total assets	47,203	16,712	63,915	49,573	38,426	62,515	214,429

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

	Six months ended	
	30 June 2010 HK\$'000	As restated 30 June 2009 HK\$'000
Gross profit	38,684	44,280
Depreciation of property, plant and equipment	(2,917)	(2,920)
Amortisation of lease prepayments	(44)	(44)
Other expenses	(34,318)	(36,973)
Operating profit	1,405	4,343
Finance income	151	171
Finance costs	-	(3)
Profit before income tax	1,556	4,511

## NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Trading			Manufacturing and export	Retail and renovation	Corporate	Total
For the period ended 30 June 2009	Hong Kong and Macau HK\$'000	Mainland China HK\$'000	Trading Total HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total turnover	104,851	10,180	115,031	51,542	24,478	–	191,051
Inter-segment turnover	(39)	–	(39)	(18,862)	–	–	(18,901)
Turnover (from external customers)	104,812	10,180	114,992	32,680	24,478	–	172,150
Gross profit	21,999	2,074	24,073	11,200	9,007	–	44,280
Depreciation of property, plant and equipment – as restated	(84)	(27)	(111)	(831)	(989)	(989)	(2,920)
Amortisation of lease prepayments – as restated	–	–	–	–	–	(44)	(44)
Additions to non-current assets (other than available-for sale financial assets)	10	15	25	282	455	147	909
As at 31 December 2009							
Total assets	47,479	15,110	62,589	47,585	31,208	65,628	207,010

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

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) At 31 December 2009 HK\$'000
Total segment assets	<b>214,429</b>	207,010
Unallocated:		
Available-for-sale financial assets	<b>3,109</b>	2,875
Cash and cash equivalents	<b>70,476</b>	97,575
Others	<b>1,138</b>	1,473
Total assets	<b>289,152</b>	308,933

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 5 Cost of sales

	Six months ended	
	30 June 2010 <i>HK\$'000</i>	30 June 2009 <i>HK\$'000</i>
Cost of inventories sold	121,679	125,926
Cost of consumable inventories	1,566	1,380
Net fair value loss on derivative financial instruments	6,188	564
	<u>129,433</u>	<u>127,870</u>

### 6 Operating expenses

	Six months ended	
	30 June 2010 <i>HK\$'000</i>	30 June 2009 <i>HK\$'000</i>
Administrative expenses:		
Employee benefits expenses	23,684	26,359
Employee share option benefits	91	227
Amortisation of lease prepayments	44	44
Depreciation of property, plant and equipment	2,917	2,920
Operating lease rentals on properties paid to third parties	3,456	3,403
Travelling expenses	1,046	842
Entertainment expenses	211	275
Stamps, postage and telephone	355	486
Management fee	720	720
Advertising expenses	94	79
Legal and professional fees	313	501
Auditor's remuneration	832	848
	<u>33,763</u>	<u>36,704</u>
Other operating expenses:		
Write back of provision for impairment of trade receivables	–	(169)
Provision for stock obsolescence	277	184
(Write back of)/provision for employee leave entitlements	(34)	80
Provision/(write back of provision) for long service payments	226	(280)
(Gain)/loss on disposal of property, plant and equipment	(107)	19
Sundry expenses	3,784	4,028
	<u>4,146</u>	<u>3,862</u>
	<u>37,909</u>	<u>40,566</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 7 Finance income and finance costs

	Six months ended	
	30 June 2010 <i>HK\$'000</i>	30 June 2009 <i>HK\$'000</i>
Finance income		
Interest income from bank deposits	<u>151</u>	<u>171</u>
Finance cost		
Interest expenses on bank overdrafts	<u>-</u>	<u>3</u>

### 8 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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:

	Six months ended	
	30 June 2010 <i>HK\$'000</i>	30 June 2009 <i>HK\$'000</i>
Current income tax		
– Hong Kong profits tax	12	–
– Overseas taxation	602	553
– Under-provision in prior years	–	748
	<u>614</u>	<u>1,301</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 9 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to ordinary shareholders of HK\$942,000 (2009: HK\$3,210,000) and the weighted average of 228,069,481 (2009: 225,355,669) 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\$942,000 (2009: HK\$3,210,000) and the weighted average of 230,597,882 (2009: 231,090,679) ordinary shares after adjusting for the effects of all potential dilutive ordinary shares.

	Six months ended	
	30 June 2010 <i>Number of shares</i>	30 June 2009 <i>Number of shares</i>
Reconciliation		
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>228,069,481</b>	225,355,669
Deemed issue of ordinary shares for no consideration	<b>2,528,401</b>	5,735,010
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>230,597,882</b>	231,090,679

### 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\$187,000 (2009: HK\$86,000) were fully utilised during the Period.

Contributions of HK\$283,000 (2009: HK\$309,000) were payable to the Retirement Scheme at the Period-end.

### 11 Dividend

A final dividend relating to the year ended 31 December 2009 in the amount of HK\$12,680,000 was paid in May 2010 (2009: HK\$12,402,000).



## NOTES TO THE INTERIM FINANCIAL INFORMATION

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

	Investment property <i>HK\$'000</i>	As restated Property, plant and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value at 1 January 2009	3,341	49,769	53,110
Additions	–	909	909
Disposal	–	(24)	(24)
Depreciation – as restated	–	(2,920)	(2,920)
Reclassification from lease prepayments	–	43,687	43,687
	<hr/>	<hr/>	<hr/>
Net book value at 30 June 2009	3,341	91,421	94,762
Additions	–	1,262	1,262
Disposal	–	(2)	(2)
Depreciation – as restated	–	(2,889)	(2,889)
Transfer to investment property held for sale ( <i>note a</i> )	(3,341)	–	(3,341)
	<hr/>	<hr/>	<hr/>
Net book value at 31 December 2009	–	89,792	89,792
Additions	–	3,001	3,001
Disposal	–	(23)	(23)
Depreciation	–	(2,917)	(2,917)
	<hr/>	<hr/>	<hr/>
<b>Net book value at 30 June 2010</b>	<b>–</b>	<b>89,853</b>	<b>89,853</b>
	<hr/>	<hr/>	<hr/>

- (a) During the year ended 31 December 2009, the Group entered into an agreement to dispose of its investment property in Shanghai, the People's Republic of China, for a consideration of HK\$2,681,000. At 31 December 2009, the investment property was revalued based on this consideration giving rise to a fair value loss of HK\$660,000 which was charged to the consolidated statement of comprehensive income. The transaction was completed in March 2010.

### 13 Available-for-sale financial assets

	<i>HK\$'000</i>
At 1 January 2009	2,787
Revaluation surplus transfer to reserves	88
	<hr/>
At 31 December 2009	2,875
Revaluation surplus transfer to reserves	234
	<hr/>
<b>At 30 June 2010</b>	<b>3,109</b>
	<hr/>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 Trade and other receivables

	(Unaudited) At 30 June 2010 HK\$'000	(Audited) At 31 December 2009 HK\$'000
Trade receivables	79,125	78,586
Retention receivables	<u>6,785</u>	<u>6,353</u>
Total trade and retention receivables	85,910	84,939
Less: provision for impairment of receivables	<u>(991)</u>	<u>(991)</u>
Net trade and retention receivables	84,919	83,948
Prepayments and other receivables	<u>7,677</u>	<u>6,745</u>
	<u>92,596</u>	<u>90,693</u>

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 other receivables is as follows:

	(Unaudited) At 30 June 2010 HK\$'000	(Audited) At 31 December 2009 HK\$'000
Current	42,812	53,287
One to three months overdue	29,671	25,213
Three to twelve months overdue	10,287	3,404
Overdue more than twelve months	<u>3,140</u>	<u>3,035</u>
Total trade and retention receivables	85,910	84,939
Less: provision for impairment of receivables	<u>(991)</u>	<u>(991)</u>
Net trade and retention receivables	84,919	83,948
Prepayments and other receivables	<u>7,677</u>	<u>6,745</u>
	<u>92,596</u>	<u>90,693</u>

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 2010, trade and retention receivables of HK\$991,000 (At 31 December 2009: HK\$991,000) were impaired and provided for.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 Trade and other receivables (continued)

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

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) At 31 December 2009 <i>HK\$'000</i>
Opening balance	991	1,368
Receivables written off during the period as uncollectible	–	(208)
Write back of provision for impairment of receivables	–	(169)
	<u>991</u>	<u>991</u>
Closing balance	<u>991</u>	991

As at 31 December 2009 and 30 June 2010, other than the trade and retention receivables as disclosed above, all other classes within trade and other receivables do not contain impaired assets.

### 15 Derivative financial instruments

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) At 31 December 2009 <i>HK\$'000</i>
Forward foreign exchange contracts – held for trading		
– Assets	79	285
– Liabilities	<u>(1,359)</u>	<u>(856)</u>

Trading derivatives are classified as current assets or liabilities. The net unrealised fair value gains/(losses) on foreign exchange contracts as at 30 June 2010 and 31 December 2009 which are not qualified as accounting hedges have been accounted for in the cost of sales in the condensed consolidated statement of comprehensive income.

### 16 Cash and cash equivalents

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2010</b> <b>HK\$'000</b>	(Audited) At 31 December 2009 <i>HK\$'000</i>
Bank deposits with original maturity of three months or less	42,458	69,299
Cash at bank and on hand	<u>28,018</u>	<u>28,276</u>
	<u>70,476</u>	97,575

The effective interest rate on short-term bank deposits is ranging from 0.10% to 1.71% (31 December 2009: ranging from 0.01% to 1.71%). These deposits have an average maturity of 46 days (31 December 2009: 43 days).

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 17 Trade and other payables

	(Unaudited) At 30 June 2010 HK\$'000	(Audited) At 31 December 2009 HK\$'000
Trade and bills payables	31,397	45,330
Accruals and other payables	25,209	29,357
Advances received from customers	17,013	11,354
	<u>73,619</u>	<u>86,041</u>

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 other payables is as follows:

	(Unaudited) At 30 June 2010 HK\$'000	(Audited) At 31 December 2009 HK\$'000
Current	23,817	37,281
One to three months overdue	6,075	5,871
Overdue more than three months	1,505	2,178
	<u>31,397</u>	<u>45,330</u>
Total trade and bills payables	31,397	45,330
Accruals and other payables	25,209	29,357
Advances received from customers	17,013	11,354
	<u>73,619</u>	<u>86,041</u>

### 18 Provisions

	Long service payments HK\$'000	Employee leave entitlements HK\$'000	Total HK\$'000
At 1 January 2010	670	1,485	2,155
Additional provisions	342	1,151	1,493
Less: Amounts utilised	(116)	(1,185)	(1,301)
Charged/(credited) to condensed consolidated statement of comprehensive income	226	(34)	192
Less: Amounts settled	(110)	(105)	(215)
Net effect on provisions	116	(139)	(23)
<b>At 30 June 2010</b>	<u>786</u>	<u>1,346</u>	<u>2,132</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 19 Share capital

	<b>Authorised</b> <i>(Number of shares)</i>	<b>Issued and fully paid</b>	<b>Ordinary shares</b> <i>HK\$'000</i>	<b>Share premium</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2009	800,000,000	225,296,000	22,530	92,709	115,239
Employee share option scheme – proceeds from shares issued	–	200,000	20	80	100
At 30 June 2009	800,000,000	225,496,000	22,550	92,789	115,339
Employee share option scheme – proceeds from shares issued	–	400,000	40	160	200
At 31 December 2009	800,000,000	225,896,000	22,590	92,949	115,539
Employee share option scheme – proceeds from shares issued	–	6,000,000	600	2,826	3,426
<b>At 30 June 2010</b>	<b>800,000,000</b>	<b>231,896,000</b>	<b>23,190</b>	<b>95,775</b>	<b>118,965</b>

Employee share option scheme: options exercised during the Period resulted in 6,000,000 shares being issued (30 June 2009: 200,000 shares), with exercise proceeds of HK\$3,426,400 (30 June 2009: HK\$100,000). The related price at the time of exercise ranged from HK\$1.35 to HK\$1.60 (30 June 2009: HK\$1.30) per share.

### 20 Contingent liabilities

(a) At 30 June 2010, there were contingent liabilities in respect of the following:

	<b>The Group</b>		<b>The Company</b>	
	<b>At 30 June 2010</b> <i>HK\$'000</i>	At 31 December 2009 <i>HK\$'000</i>	<b>At 30 June 2010</b> <i>HK\$'000</i>	At 31 December 2009 <i>HK\$'000</i>
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	–	–	<b>279,000</b>	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 2010, the amount of guarantees outstanding was HK\$7,309,000 (At 31 December 2009: HK\$4,743,000).

### 21 Related party transactions

There were no transactions with related parties during the Period (30 June 2009: Nil).

Key management compensation amounted to HK\$2,974,000 for the six months ended 30 June 2010 (30 June 2009: HK\$3,078,000).