



ARNHOLD HOLDINGS LIMITED

安利控股有限公司

Stock Code : 102



Interim Report  
2007

## 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 2007 (the "Period").

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Review of Operations

The Group continued to be engaged principally in its core business of trading of building materials and engineering equipment. The Group also established a processing factory in the PRC to process and export marble products.

During the Period, the Group recorded a turnover of HK\$159.1 million with gross profit of HK\$35.7 million (2006: HK\$140.6 million and HK\$30.5 million respectively). The improvement was mainly attributable to the increase in turnover of tiles trading, marble export and retail operations. Gross profit margin improved from 21.7% to 22.4% as a result of the Group's focus on high value added manufacturing and retail activities. Operating expenses increased slightly to HK\$33.2 million (2006: HK\$32.7 million) mainly because of the increase in staff compensation and depreciation charges of the marble factory. After taking into account the share of loss of HK\$0.6 million (2006: HK\$0.7 million) of an associate, the Group's profit attributable to shareholders for the Period improved to HK\$3.8 million (2006: HK\$0.7 million).

The Group continued to consolidate its market position in Hong Kong and successfully enhanced its coverage in the Mainland and Macau. Growth was also achieved in its manufacturing and export operations. As a result, the Group's outstanding orders on hand at the end of the Period amounted to HK\$191.5 million, representing an increase of 16.3% over the end of last year (At December 2006: HK\$164.6 million).

#### Segmental Information

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and the original two segments (being the trading in and the supply of building products and engineering equipment) have been replaced by (i) trading (ii) manufacturing and export and (iii) retail and renovation operations.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

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

## REPORT OF THE DIRECTORS

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

#### Segmental Information *(continued)*

Revenue from trading operations decreased by HK\$8.1 million to HK\$103.7 million with the gross profit contribution decreased by HK\$2.4 million to HK\$18.0 million (2006: HK\$111.8 million and HK\$20.4 million respectively). During the Period, new residential properties projects in Hong Kong reduced substantially which adversely affected our sales of plumbing fixtures to new projects.

Revenue from manufacturing and export increased significantly from HK\$13.0 million in 2006 to HK\$27.9 million in 2007. This was mainly due to the completion of the marble processing factory in Dongguan at the end of last year. With the increase in capacity, the Group was able to benefit from the increasing demand from overseas clients.

The recent recovery of the secondary property market in Hong Kong also provided the Group with growth opportunities in the renovation market. Strong sales were recorded through the Group's retail outlets and local dealers. Turnover increased by 74% from HK\$15.8 million in 2006 to HK\$27.5 million in 2007. As a result, overall gross profit increased from HK\$5.6 million in 2006 to HK\$8.9 million in 2007.

#### Disposal of an associate

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

The gain derived from the disposal of the Joint Venture before expenses amounted to approximately HK\$1.8 million and the net proceeds will be kept as a reserve for future working capital requirements and investment.

## 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 of the forward exchange contracts is disclosed in the notes to the financial statements.

#### Liquidity and Financial Resources

The Group maintained a healthy balance sheet with no bank borrowing and zero gearing as at Period end (At 31 December 2006: Nil). The Group remained conservative in working capital management. The Group generated a positive cash flow of HK\$3.4 million from operating activities with cash balances amounted at HK\$50.2 million as at Period end (At 31 December 2006: HK\$52.7 million). Most of the Group's cash balances are placed in time deposits with reputable financial institutions. The reduced cash balance was mainly caused by the investment in Bostik HK of HK\$4.4 million. We will continue to manage our cash flow cautiously and expect to meet our future financial requirements by internal resources and bank credit facilities.

#### Contingent Liabilities

Certain subsidiaries have given undertakings to the banks that they will perform certain contractual non-financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of these subsidiaries. As at 30 June 2007, the amount of guarantees outstanding was HK\$3.4 million (At 31 December 2006: HK\$3.1 million).

#### Banking facilities with assets pledged

A property with net book value of HK\$50.6 million at Period end held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

#### Employees

At the end of the Period, the Group had approximately 465 employees in the Mainland and approximately 125 employees in Hong Kong and Macau. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. Under the existing share option scheme of the Group, subject to compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Directors were authorised to grant share options to eligible persons as incentives. Details of share options granted are disclosed in the directors' report annexed to the interim report to be sent to the shareholders.

## REPORT OF THE DIRECTORS

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

#### Outlook

The Group will focus on strengthening its market position in trading operations and expanding its export and retail businesses. The new marble processing factory is now in full operation enabling the Group to take advantage of increasing overseas demand. At the same time, we continue to enhance our business efficiency, working capital management and cost control. All of these initiatives will continue to drive our growth and we are optimistic about the future.

#### 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:**

V-Nee Yeh

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 2007 and the date of this report, 10,549,600 Shares were available for issue under the Scheme representing 4.69% 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 2007 are as follows:

	Date of Options granted	Outstanding Options as at 1 January 2007	Granted during the Period	Exercised/ lapsed/ cancelled during the Period	Outstanding Options as at 30 June 2007	Subscription price per Share HK\$
<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
Lai Ka Tak, Patrick	18 September 2003	1,500,000	-	-	1,500,000	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	1,000,000	-	(400,000)	600,000	0.500
	21 November 2005	500,000	-	-	500,000	0.700
		<u>11,900,000</u>	<u>-</u>	<u>(400,000)</u>	<u>11,500,000</u>	

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME *(continued)*

At the dates before the Options were granted, being 17 September 2003, 18 November 2004 and 20 November 2005, the market value per Share was HK\$0.50, HK\$0.60 and HK\$0.70 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.

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.



## REPORT OF THE DIRECTORS

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

As at 30 June 2007, 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 Trusts and similar interests	Equity derivatives (Note iii)	Total interests	Percentage of issued share capital
<i>Executive directors:</i>							
Michael John Green	1,272,000	–	–	166,093,617 (Note i)	–	167,365,617	74.45%
Daniel George Green	–	–	–	166,093,617 (Note ii)	5,400,000	171,493,617	76.29%
Lai Ka Tak, Patrick	–	–	–	–	5,000,000	5,000,000	2.22%
<i>Non-executive directors:</i>							
Christopher John							
David Clarke	200,000	–	–	–	–	200,000	0.09%
Augustus Ralph Marshall	–	–	–	–	–	–	–
Lim Ghee Keong (alternate director)	–	–	–	–	–	–	–
<i>Independent non-executive directors:</i>							
V-Nee Yeh	74,444	–	–	–	–	74,444	0.03%
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.

Saved as disclosed above, at no time during the Period, the directors and chief executives (including their spouse 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 2007, 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	7.54%

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

Save as disclosed above, as at 30 June 2007, 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 (2006: Nil).

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2007. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

### CORPORATE GOVERNANCE

#### *The Code on Corporate Governance Practices*

The Company is committed to maintaining high standards of corporate governance in fulfilling the responsibilities to shareholders. Our business culture and practices are founded upon a common set of values that govern our relationships with customers, employees, shareholders, suppliers and the communities in which we operate. The Company also acknowledges and appreciates its responsibility towards the society at large and has embarked upon various initiatives to effectuate this.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has promulgated the Code on Corporate Governance Practices (the "CG Code") which came into effect in January 2005. Throughout the Period, the Company has complied itself with the code provisions of the CG Code except in certain circumstances where in the opinion of the directors of the Company ("the Directors") are unsuitable to be adopted by the Company at this stage. Details of such non-compliances are discussed below:

- non-executive directors are not appointed for a specific term and directors are not subject to retirement by rotation at least once every three years. The Bye-laws of the Company (the "Bye-laws") provided that save that the Board shall have the absolute discretion to determine whether or not the Chairman and/or the Managing Director of the Company shall be subject to retirement by rotation, each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest but not less than one-third) shall retire from office by rotation. To ensure the smooth running and continuous adhering to the strategic view of the Company, the Board believes that it is more practical for the Chairman/Managing Director not to be subject to retirement by rotation. The Board also considers it not necessary to appoint non-executive directors for a specific term as the Bye-laws enable all directors, including those non-executives, to retire at least once every three years;

## REPORT OF THE DIRECTORS

### CORPORATE GOVERNANCE *(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 deviates from rules B.1.3(a)-(e) of the CG Code as its scope does not cover the senior management of the Company. However, the Board considers that it is not practical for the Remuneration Committee to adopt the full terms stipulated in the CG Code because the management structure of the Group is relatively simple and its scale of operations is modest. It is also noted that the executive directors have extensive experience in the industry and are fully qualified to determine the remuneration packages of employees of the Company including the senior management. It has always been the Company's practice to provide compensation with reference to the prevailing market conditions. The remuneration details, together with the financial statements of the Company, are also subject to review and approval by the Board annually. As a result, it is considered more practical not to delegate the responsibility to the Remuneration Committee to determine any specific remuneration packages of the senior management. The Board believes that such arrangements a) will maintain a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors; b) will not affect the Company in providing transparent information of the directors' remuneration to the public; c) will give adequate authority to the Remuneration Committee to protect the interests of the Company and the minority shareholders; d) will enable the Company to maintain a reasonable balance of cost and benefit.

### ***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 V-Nee Yeh 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 September 2007

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period ended 30 June 2007

	Note	(Unaudited)	
		Six months ended	
		30 June 2007	30 June 2006
		HK\$'000	HK\$'000
Turnover	4	<b>159,067</b>	140,571
Cost of sales	5	<b>(123,371)</b>	(110,059)
Gross profit		<b>35,696</b>	30,512
Other revenues	4	<b>2,988</b>	3,785
Operating expenses	6	<b>(33,193)</b>	(32,664)
Operating profit		<b>5,491</b>	1,633
Finance costs	7	<b>(144)</b>	(58)
Share of loss of associates		<b>(577)</b>	(688)
Profit before income tax		<b>4,770</b>	887
Income tax expense	8	<b>(977)</b>	(139)
Profit attributable to shareholders		<b>3,793</b>	748
Basic earnings per share (cents)	9	<b>1.69</b>	0.33
Diluted earnings per share (cents)	9	<b>1.65</b>	0.33
Dividend		–	–
Dividend per share		–	–

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	Note	(Unaudited) At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Non-current assets			
Investment properties	11	14,750	14,750
Property, plant and equipment	11	44,860	44,883
Lease prepayments		49,410	49,935
Interest in associates		24	5,102
Available-for-sale financial assets	12	2,542	2,318
Trade and other receivables	14	87	467
		<b>111,673</b>	117,455
Current assets			
Non-current assets held for sale	13	9,184	–
Inventories		20,383	25,798
Construction contracts		–	18
Trade and other receivables	14	63,257	70,831
Derivative financial instruments	15	983	1,063
Current income tax recoverable		–	22
Cash and cash equivalents	16	50,184	52,702
		<b>143,991</b>	150,434
Current liabilities			
Trade and other payables	17	49,454	66,394
Derivative financial instruments	15	474	368
Provisions	18	1,565	1,683
Current income tax liabilities		293	–
		<b>51,786</b>	68,445
Net current assets		<b>92,205</b>	81,989
Total assets less current liabilities		<b>203,878</b>	199,444
Non-current liabilities			
Deferred income tax liabilities		425	425
Net assets		<b>203,453</b>	199,019
Capital and reserves			
Share capital	19	22,490	22,450
Reserves		180,963	176,569
Shareholders' funds		<b>203,453</b>	199,019

Approved by the board of directors on 19 September 2007.

**Michael John Green**  
Chairman

**Lai Ka Tak, Patrick**  
Finance Director

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2007

	Note	(Unaudited) Six months ended	
		30 June 2007 HK\$'000	30 June 2006 HK\$'000
<b>Cash flows from operating activities</b>			
Profit before income tax		4,770	887
Adjustment for:			
Depreciation of property, plant and equipment		1,782	1,387
Amortisation of lease prepayments		525	507
Interest income		(690)	(859)
Interest expenses		144	58
Share of loss of associates		577	688
Loss on disposal of a subsidiary		-	503
Loss on disposal of property, plant and equipment		1	-
Impairment loss on property held for sale		-	1,210
Net unrealised fair value loss/(gain) on derivative financial instruments		186	(2,447)
Employee share-based compensation benefits		217	361
<b>Changes in working capital</b>		7,512	2,295
Increase in amount due from associates		(283)	(1,600)
Decrease/(increase) in inventories		5,415	(1,118)
Decrease/(increase) in construction contracts		18	(5)
Decrease in trade and other receivables		7,954	7,411
Decrease in trade and other payables		(16,940)	(12,180)
Decrease in provisions		(118)	(78)
<b>Cash generated from/(used in) operations</b>		3,558	(5,275)
Interest received		690	859
Interest paid		(144)	(58)
Hong Kong profits tax paid		(12)	(16)
Overseas tax paid		(650)	(87)
<b>Net cash generated from/(used in) operating activities</b>		3,442	(4,577)
<b>Cash flows from investing activities</b>			
Payments for purchase of property, plant and equipment		(1,760)	(8,293)
Loan to an associate		(4,400)	-
Proceeds from disposal of a subsidiary	20	-	1,555
<b>Net cash used in investing activities</b>		(6,160)	(6,738)
<b>Cash flows from financing activity</b>			
Proceeds from issuance of ordinary shares		200	-
<b>Net cash generated from financing activity</b>		200	-
<b>Net decrease in cash and cash equivalents</b>		(2,518)	(11,315)
Cash and cash equivalents at the beginning of the Period		52,702	70,419
Cash and cash equivalents at the end of the Period		50,184	59,104
<b>Analysis of the balances of cash and cash equivalents</b>			
Bank balances and cash		50,184	59,104



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2007

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Available- for-sale investment reserve <i>HK\$'000</i>	Employee share-based compensation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	22,450	92,389	(334)	1,100	79,327	808	195,740
Profit attributable to shareholders	-	-	-	-	748	-	748
Employee share-based compensation benefits	-	-	-	361	-	-	361
Surplus on revaluation	-	-	322	-	-	-	322
<b>At 30 June 2006</b>	<b>22,450</b>	<b>92,389</b>	<b>(12)</b>	<b>1,461</b>	<b>80,075</b>	<b>808</b>	<b>197,171</b>
At 1 January 2007	22,450	92,389	155	1,749	81,468	808	199,019
Profit attributable to shareholders	-	-	-	-	3,793	-	3,793
Employee share option scheme: - Proceeds from ordinary shares issued	40	160	-	-	-	-	200
Employee share-based compensation benefits	-	-	-	217	-	-	217
Surplus on revaluation	-	-	224	-	-	-	224
<b>At 30 June 2007</b>	<b>22,490</b>	<b>92,549</b>	<b>379</b>	<b>1,966</b>	<b>85,261</b>	<b>808</b>	<b>203,453</b>

# NOTES TO THE INTERIM FINANCIAL INFORMATION

## 1 General Information

The principal activities of Arnhold Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) are trading in, and the supply and installation of, building products and engineering equipment.

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 Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated interim financial statements was approved for issue on 19 September 2007.

## 2 Basis of preparation

This unaudited condensed consolidated financial statements for the six months ended 30 June 2007 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 statements should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

## 3 Accounting policies

The accounting policies adopted are consistent with those of 2006 annual financial statements, except that the Group has adopted the following new standards, amendments to standards and interpretations (collectively referred to “new HKFRSs”) issued by the HKICPA which are mandatory for financial year ending 31 December 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has no material impact on the Group other than certain additional disclosure requirements which will be included in the consolidated financial statements for the year ending 31 December 2007.

The Group has not early adopted other new HKFRSs that have been issued but which are not yet effective for the accounting period ending 31 December 2007. The adoption of these new HKFRSs will not result in substantial changes to the Group’s accounting policies.

The Group financial statements include the Company and its subsidiaries up to 30 June 2007. The Group financial statements also include the Group’s share of the post acquisition profits less losses, and reserves, of its associates.

## 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 during the Period are as follows:

	(Unaudited) Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Turnover		
Sales of inventories	159,067	140,571
Other revenues		
Interest income from bank deposits	690	859
Administration fee received from the associates (Note 23a)	631	486
Gross rental income from investment properties	392	334
Sundry income	1,275	2,106
	<u>2,988</u>	<u>3,785</u>
Total revenues	<u>162,055</u>	<u>144,356</u>

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

	(Unaudited) Six months ended 30 June			
	2007		(As restated) 2006	
	Turnover HK\$'000	Operating results HK\$'000	Turnover HK\$'000	Operating results HK\$'000
Principal activities:				
Trading	103,706	17,990	111,816	20,403
Manufacturing and export	27,891	8,826	12,973	4,527
Retail and renovation	27,470	8,880	15,782	5,582
	<u>159,067</u>	<u>35,696</u>	<u>140,571</u>	<u>30,512</u>
Administrative and other expenses		(30,205)		(28,879)
Operating profit		5,491		1,633
Finance costs		(144)		(58)
Share of loss of associates		(577)		(688)
Profit before income tax		4,770		887
Income tax expense		(977)		(139)
Profit attributable to shareholders		<u>3,793</u>		<u>748</u>

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

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 5 Cost of sales

	(Unaudited) Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Cost of inventories sold	121,751	111,751
Cost of consumable stocks	1,434	755
Net unrealized fair value loss/(gain) on derivative financial instruments	186	(2,447)
	<u>123,371</u>	<u>110,059</u>

### 6 Operating expenses

	(Unaudited) Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Administrative expenses:		
Employee benefits expenses	22,066	19,827
Employee share option benefits	217	361
Amortisation of lease prepayments	525	507
Depreciation of property, plant and equipment	1,658	1,387
Operating lease rentals on properties paid to third parties	2,310	2,454
Travelling expenses	766	777
Entertainment expenses	343	300
Stamps, postage and telephone	449	543
Management fee	720	720
Advertising expenses	253	353
Legal and professional fees	328	423
Auditors' remuneration	718	702
	<u>30,353</u>	<u>28,354</u>
Other operating expenses:		
Write back of provision for impairment of receivables	(463)	(60)
Provision for impairment of receivables	122	286
Provision for stock obsolescence	368	33
Provision for employee leave entitlements	88	2
Provision for long service payments	(176)	(24)
Loss on disposal of property, plant and equipment	1	-
Loss on disposal of a subsidiary	-	503
Impairment loss on property held for sale	-	1,210
Sundry expenses	2,900	2,360
	<u>2,840</u>	<u>4,310</u>
	<u>33,193</u>	<u>32,664</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 7 Finance costs

	(Unaudited) Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Interest expenses on short-term bank loans and overdrafts	<b>144</b>	<b>58</b>

### 8 Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2006:17.5%) on the estimated assessable profit for the Period. Taxation on overseas profits has been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the countries in which the Group operates.

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

	(Unaudited) Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
Current income tax		
– Hong Kong profits tax	<b>327</b>	52
– Overseas taxation	<b>650</b>	87
	<b>977</b>	139

### 9 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to ordinary shareholders of HK\$3,793,000 (2006: Group's profit attributable to ordinary shareholders of HK\$748,000) and the weighted average of 224,751,801 (2006: 224,496,000) 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\$3,793,000 (2006: Group's profit attributable to ordinary shareholders of HK\$748,000) and the weighted average of 230,368,590 (2006: 225,147,200) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares.

	2007 <i>Number of shares</i>	2006 <i>Number of shares</i>
Reconciliation		
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>224,751,801</b>	224,496,000
Deemed issue of ordinary shares for no consideration	<b>5,616,789</b>	651,200
Weighted average number of ordinary shares used in calculating diluted earnings per share	<b>230,368,590</b>	225,147,200

### 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\$55,000 (2006: HK\$112,000) were fully utilised during the Period.

Contributions of HK\$267,000 (2006: HK\$244,000) were payable to the Retirement Scheme at the Period-end.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 11 Capital expenditure

	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 2006	17,601	38,340	55,941
Additions	–	8,293	8,293
Disposals	(2,050)	(8)	(2,058)
Depreciation	–	(1,387)	(1,387)
Transfer to property held for sale	–	(415)	(415)
Net book value at 30 June 2006	15,551	44,823	60,374
Additions	–	6,048	6,048
Disposals	–	(35)	(35)
Depreciation	–	(1,608)	(1,608)
Fair value loss on revaluation	(801)	–	(801)
Transfer to lease prepayments	–	(4,345)	(4,345)
Net book value at 31 December 2006	14,750	44,883	59,633
Additions	–	1,760	1,760
Disposals	–	(1)	(1)
Depreciation	–	(1,782)	(1,782)
<b>Net book value at 30 June 2007</b>	<b>14,750</b>	<b>44,860</b>	<b>59,610</b>

Note: A depreciation charge for property, plant and equipment of HK\$124,000 has been charged to cost of sales for the period ended 30 June 2007.

### 12 Available-for-sale financial assets

	<i>HK\$'000</i>
At 1 January 2006	1,954
Net gains transfer to equity	554
Less: Provision for impairment loss	(190)
At 31 December 2006	2,318
Net gains transfer to equity	224
<b>At 30 June 2007</b>	<b>2,542</b>

### 13 Non current assets held for sale

On 23 July 2007, Arnhold & Company Limited ("ACL"), a wholly-owned subsidiary of the Company, entered into a deed with Bostik Australia Pty Ltd. ("Bostik") and Bostik Holding Hong Kong Limited ("Joint Venture") in relation to the termination of the Joint Venture established by ACL and Bostik. It was agreed that ACL should transfer 4,000 ordinary shares of HK\$1 each in the Joint Venture to Bostik, and Bostik should in return pay ACL a sum of HK\$11.4 million, which includes the consideration for the transfer of shares in the Joint Venture and the amount owed by the Joint Venture to ACL. The disposal was completed on 1 August 2007.

	(Unaudited) At 30 June 2007 <i>HK\$'000</i>
Share of net liabilities	(2,340)
Amount due from associate	11,524
Net book value of non-current assets held for sale	<b>9,184</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 Trade and other receivables

	(Unaudited) At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Trade receivables	54,906	61,770
Retention receivables	4,396	9,519
Receivables from related parties	2,307	611
Less: provision for impairment of receivables	(1,087)	(3,039)
	<hr/>	<hr/>
Net trade and retention receivables	60,522	68,861
Prepayments and other receivables	2,822	2,437
	<hr/>	<hr/>
	63,344	71,298
Less: non-current portion	(87)	(467)
	<hr/>	<hr/>
	<b>63,257</b>	<b>70,831</b>
	<hr/>	<hr/>

All non-current receivables are due within two years from the balance sheet date. The aging analysis of trade and other receivables (which include trade and retention receivables) was as follows:

	(Unaudited) At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Current	30,357	35,368
One to three months overdue	19,652	20,362
More than three months overdue but less than twelve months overdue	7,608	3,123
Overdue more than twelve months	3,992	13,047
	<hr/>	<hr/>
Total trade and retention receivables	61,609	71,900
Less: provision for impairment of receivables	(1,087)	(3,039)
	<hr/>	<hr/>
	60,522	68,861
Prepayments and other receivables	2,822	2,437
	<hr/>	<hr/>
	<b>63,344</b>	<b>71,298</b>
	<hr/>	<hr/>

Debts from construction contracts are due when architect certificates are issued. For other debtors, the Group normally allows a credit period ranging from 30 to 60 days. Debtors with long overdue balances are normally requested to settle all outstanding balances before any further credit is granted.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 15 Derivative financial instruments

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2007</b> <b>HK\$'000</b>	At 31 December 2006 <i>HK\$'000</i>
Forward foreign exchange contracts – held for trading		
– Assets	<b>983</b>	1,063
– Liabilities	<b>(474)</b>	(368)

Trading derivatives are classified as a current asset or liability. The net unrealised fair value (loss)/gain on foreign exchange contracts as at 30 June 2007 and 31 December 2006 which are not qualified as hedges has been accounted for in the condensed consolidated profit and loss account.

### 16 Cash and cash equivalents

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2007</b> <b>HK\$'000</b>	At 31 December 2006 <i>HK\$'000</i>
Bank deposits with original maturity of three months or less	<b>36,614</b>	37,668
Cash at bank and in hand	<b>13,570</b>	15,034
	<b>50,184</b>	52,702

The effective interest rate on short-term bank deposits is ranging from 1.8% to 5.2% (31 December 2006: ranging from 1.62% to 5.19%); these deposits have an average maturity of 69 days (31 December 2006: 52 days).

### 17 Trade and other payables

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2007</b> <b>HK\$'000</b>	At 31 December 2006 <i>HK\$'000</i>
Trade and bills payables	<b>30,387</b>	35,600
Accruals and other payables	<b>15,744</b>	26,588
Advances received from customers	<b>3,323</b>	4,206
	<b>49,454</b>	66,394

All of the above trade and other payables are expected to be settled within one year.



## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 17 Trade and other payables (continued)

The aging analysis of trade and other payables (which include trade and bill payables) was as follows:

	(Unaudited) At 30 June 2007 HK\$'000	At 31 December 2006 HK\$'000
Due within one month or on demand	19,738	25,794
Due after one month but within three months	9,617	7,519
Due after three months	1,032	2,287
Total trade and bills payables	<b>30,387</b>	35,600
Accruals and other payables	15,744	26,588
Advances received from customers	3,323	4,206
	<b>49,454</b>	66,394

### 18 Provisions

	Long service payments HK\$'000	Employee leave entitlement HK\$'000	Total HK\$'000
At 1 January 2007	633	1,050	1,683
(Write back)/additional provisions	(176)	1,012	836
Less: Amounts utilised	–	(924)	(924)
(Credit)/charge to condensed consolidated profit and loss account	(176)	88	(88)
Less: Amounts settled	–	(30)	(30)
Net effect on provisions	(176)	58	(118)
<b>At 30 June 2007</b>	<b>457</b>	<b>1,108</b>	<b>1,565</b>

### 19 Share capital

	(Number of shares)		Ordinary shares HK\$'000	Share premium HK\$'000	Total HK\$'000
	Authorised	Issued and fully paid			
At 1 January 2006 and 31 December 2006	800,000,000	224,496,000	22,450	92,389	114,839
Employee share option scheme – proceeds from shares issued	–	400,000	40	160	200
<b>At 30 June 2007</b>	<b>800,000,000</b>	<b>224,896,000</b>	<b>22,490</b>	<b>92,549</b>	<b>115,039</b>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 20 Note to the consolidated cash flow statement

	<b>(Unaudited) At 30 June 2006 HK\$'000</b>
<b>Disposal of a subsidiary</b>	
Investment property	2,050
Leasehold improvement	8
	<hr/>
Aggregate net assets disposed at date of disposal	2,058
Loss on disposal	(503)
	<hr/>
Net cash consideration	1,555
	<hr/>

The loss on disposal of a subsidiary for the six months ended to 30 June 2006 represents loss arising from the disposal of a 100% interest in a property holding company. The investment property was located in Guangzhou.

### 21 Contingent liabilities

At 30 June 2007, there were contingent liabilities in respect of the following:

(a)	<b>The Group</b>		<b>Company</b>	
	<b>(Unaudited) At 30 June 2007 HK\$'000</b>	At 31 December 2006 HK\$'000	<b>(Unaudited) At 30 June 2007 HK\$'000</b>	At 31 December 2006 HK\$'000
Guarantees for credit facilities granted by a bank on behalf of subsidiaries	–	–	<b>279,000</b>	279,000
	<hr/>	<hr/>	<hr/>	<hr/>

(b) Certain subsidiaries have given undertakings to 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 the subsidiaries. As at 30 June 2007, the amount of guarantees outstanding was HK\$3,444,000 (At 31 December 2006: HK\$3,144,000).

### 22 Commitments

	<b>(Unaudited) 30 June 2007 HK\$'000</b>	At 31 December 2006 HK\$'000
Contracted but not provided for in respect of		
– property, plant and equipment	–	182
– investment in an associate	–	5,484
	<hr/>	<hr/>
	–	5,666
	<hr/>	<hr/>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 23 Related party transactions

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

	(Unaudited) Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Sales of goods and services		
Administration fee received from the associates ( <i>note a</i> )	631	486
Gross rental income received from the associates ( <i>note b</i> )	53	128
Sales of goods to related party ( <i>note c</i> )	2,355	64
Purchases of goods and services		
Professional fee paid to related party ( <i>note c</i> )	–	15
Key management compensation	<u>2,441</u>	<u>2,970</u>

Notes:

- (a) A subsidiary of the Group provided management services to the associates for which it charged an administration fee at a fixed monthly amount.
- (b) During the Period, the associates paid rental expenses of HK\$53,000 (2006:HK\$128,000) to the subsidiaries of the Group.
- (c) In addition to transactions with related companies as disclosed above, professional fees of nil (2006: HK\$15,000) were paid to a firm in which a non-executive director of the Company is a partner. Besides, sales of construction materials of HK\$2,355,000 (2006: HK\$64,000) were made to a listed group of companies in which an independent non-executive director of the Company is also a director of the listed group.

It is the intention of the directors of the Company that the Group will continue its business relationships with related parties under similar basis 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.

### 24 Events after balance sheet date

Arnhold and Company, Limited ("ACL"), a wholly owned subsidiary of the Company, entered into a deed on 23 July 2007 with Bostik Australia Pty Ltd. ("Bostik") and Bostik Holding Hong Kong Limited ("Joint Venture" ) in relation to the termination of the Joint Venture established by ACL and Bostik, details of which were disclosed in the circular of the Company dated 14 August 2007.

Besides, a wholly-owned subsidiary of the Company entered into an agreement to dispose a property in Guangzhou on 31 August 2007 at a consideration of approximately HK\$5.2 million and fair value gain of approximately HK\$0.3 million.