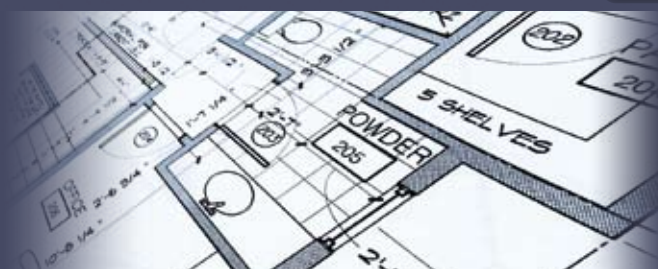


安利

ARNHOLD HOLDINGS LIMITED

安利控股有限公司

Stock Code : 102



## 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 2008 (the "Period").

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Review of Operations

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

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

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

#### Segmental Information

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

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

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

## REPORT OF THE DIRECTORS

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

#### Segmental Information *(continued)*

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

#### Foreign Exchange Exposure and Financial Hedging

The Group adopts hedging policies for managing its risk exposure to foreign currency fluctuations and forward exchange contracts have been arranged with the Group's principal bankers to mitigate exchange risks.

#### Liquidity and Financial Resources

The Group maintained a healthy balance sheet with no bank borrowing and zero gearing as at Period end (At 31 December 2007: Nil). The Group remained conservative in working capital management. The reduced cash balance was mainly caused by the dividend payment of HK\$9.9 million in 2008. We will continue to manage our cash flow cautiously and expect to meet our future financial requirements by internal resources and bank credit facilities. Most of the Group's cash balances are placed in time deposits with reputable financial institutions.

#### Contingent Liabilities

Certain subsidiaries have given undertakings to the banks that they will perform certain contractual non-financial obligations to third parties. In return, the banks have provided performance bonds and letters of guarantee to third parties on behalf of these subsidiaries. As at 30 June 2008, the amount of guarantees outstanding was HK\$3.9 million (At 31 December 2007: HK\$3.0 million).

#### Banking facilities with assets pledged

A property with net book value of HK\$49.5 million at Period end held by a subsidiary of the Group is pledged to a bank to obtain banking facilities.

## REPORT OF THE DIRECTORS

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

#### Employees

At the end of the Period, the Group had approximately 500 employees in the Mainland and approximately 135 employees in Hong Kong and Macau. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. Under the existing share option scheme of the Group, subject to compliance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the directors were authorised to grant share options to eligible persons as incentives. Details of share options granted are disclosed in the "Share Option Scheme" section of this report.

#### Outlook

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

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

#### 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:

Christopher John David Clarke

Augustus Ralph Marshall

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

##### 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 2008 and the date of this report, 8,949,600 Shares were available for issue under the Scheme representing 3.97% of the total issued share capital of the Company.

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

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

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

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

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME *(continued)*

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

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

#### vii) Remaining life of the Scheme

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

Details of Options granted to directors and employees of the Company under the Scheme as at 30 June 2008 are as follows:

	Date of options granted	Outstanding options as at 1 January 2008	Granted during the period	Exercised/ lapsed/ cancelled during the period	Outstanding options as at 30 June 2008	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
	02 January 2008	–	1,600,000	–	1,600,000	1.490
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	200,000	–	–	200,000	0.500
	21 November 2005	500,000	–	–	500,000	0.700
		<u>11,100,000</u>	<u>1,600,000</u>	<u>–</u>	<u>12,700,000</u>	

## REPORT OF THE DIRECTORS

### SHARE OPTION SCHEME *(continued)*

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

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

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

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

The Options granted on 2 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 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 (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 2008, 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		Equity derivatives (Note iii)	Total interests	Percentage of issued share capital
				Trusts and similar interests				
<i>Executive directors:</i>								
Michael John Green	1,272,000	-	-	166,093,617		-	167,365,617	74.29%
				(Note i)				
Daniel George Green	900,000	-	-	166,093,617	7,000,000		173,993,617	77.23%
				(Note ii)				
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 to Augustus Ralph Marshall)	-	-	-	-	-		-	-
<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 2008, 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	7.53%

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

Save as disclosed above, as at 30 June 2008, 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 (the "Board") of the Company has resolved that no interim dividend be paid for the Period (2007: Nil).

### PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2008. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

### CORPORATE GOVERNANCE

#### The Code on Corporate Governance Practices

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

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

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

## REPORT OF THE DIRECTORS

### CORPORATE GOVERNANCE *(continued)*

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

- the Company has not adopted the terms of reference of the Remuneration Committee as prescribed in the CG Code in full but has duly adopted its own terms of reference that better suit the practical situation of the Company. The Board considers that the key responsibilities of the Remuneration Committee shall focus on assessing the reasonableness of the remuneration of the directors and fixing the remuneration packages for all directors. The Board understands that the terms of reference adopted by the Remuneration Committee 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 corporate governance practices adopted by the Company during six months ended 30 June 2008 were in line with those set out in the corporate governance report as contained in the annual financial statements for the year ended 31 December 2007.

#### 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, 28 August 2008

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the period ended 30 June 2008

		(Unaudited)	
		Six months ended 30 June 2008	Six months ended 30 June 2007
	Note	HK\$'000	HK\$'000
Turnover	4	<b>184,716</b>	159,067
Cost of sales	5	<b>(140,251)</b>	(123,371)
Gross profit		<b>44,465</b>	35,696
Other revenues	4	<b>1,884</b>	2,988
Operating expenses	6	<b>(38,261)</b>	(33,193)
Gain on disposal of an investment property	12	<b>94</b>	–
Operating profit		<b>8,182</b>	5,491
Finance costs	7	<b>(67)</b>	(144)
Share of loss of associates		–	(577)
Profit before income tax		<b>8,115</b>	4,770
Income tax expense	8	<b>(748)</b>	(977)
Profit attributable to shareholders		<b>7,367</b>	3,793
Basic earnings per share ( <i>cents</i> )	9	<b>3.27</b>	1.69
Diluted earnings per share ( <i>cents</i> )	9	<b>3.18</b>	1.65
Dividend	11	–	–
Dividend per share		–	–

The notes on pages 12 to 26 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

		(Unaudited) At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
	Note		
Non-current assets			
Investment properties	12	3,341	9,850
Property, plant and equipment	12	42,821	43,807
Lease prepayments		48,361	48,886
Available-for-sale financial assets	13	3,646	3,159
		<b>98,169</b>	105,702
Current assets			
Inventories		32,158	25,514
Trade and other receivables	14	108,039	115,177
Derivative financial instruments	15	2,923	2,597
Deferred income tax assets		1,000	1,000
Cash and cash equivalents	16	68,652	74,524
		<b>212,772</b>	218,812
Current liabilities			
Trade and other payables	17	92,545	104,822
Derivative financial instruments	15	76	58
Provisions	18	1,896	1,677
Current income tax liabilities		503	292
		<b>95,020</b>	106,849
Net current assets			
		<b>117,752</b>	111,963

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

		<b>(Unaudited)</b>	At 31
		<b>At 30 June</b>	December
		<b>2008</b>	2007
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Total assets less current liabilities		<b>215,921</b>	217,665
Non-current liabilities			
Deferred income tax liabilities		<b>234</b>	214
Net assets		<b>215,687</b>	217,451
Capital and reserves			
Share capital	19	<b>22,530</b>	22,530
Reserves			
Proposed final dividend		–	9,913
Others		<b>193,157</b>	185,008
Shareholders' funds		<b>215,687</b>	217,451

Approved by the board of directors on 28 August 2008.

**Michael John Green**  
*Chairman*

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

The notes on pages 12 to 26 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2008

		(Unaudited)	
		Six months ended	
		30 June 2008	30 June 2007
	Note	HK\$'000	HK\$'000
<b>Cash flows from operating activities</b>			
Profit before income tax		8,115	4,770
Adjustment for:			
Depreciation of property, plant and equipment		1,755	1,782
Amortisation of lease prepayments		525	525
Interest income		(841)	(690)
Interest expenses		67	144
Gain on disposal of an investment property	12	(94)	–
Share of loss of associates		–	577
Loss on disposal of property, plant and equipment		–	1
Net unrealized fair value (gain)/loss on derivative financial instruments		(308)	186
Employee share-based compensation benefits		295	217
<b>Changes in working capital</b>		<b>9,514</b>	<b>7,512</b>
Increase in amount due from associates		–	(283)
(Increase)/decrease in inventories		(6,644)	5,415
Decrease in construction contracts		–	18
Decrease in trade and other receivables		7,138	7,954
Decrease in trade and other payables		(12,277)	(16,940)
Increase/(decrease) in provisions		219	(118)
<b>Cash (used in)/generated from operations</b>		<b>(2,050)</b>	<b>3,558</b>
Interest received		841	690
Interest paid		(67)	(144)
Hong Kong profits tax paid		(116)	(12)
Overseas tax paid		(401)	(650)
<b>Net cash (used in)/generated from operating activities</b>		<b>(1,793)</b>	<b>3,442</b>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2008

		(Unaudited)	
		Six months ended	
	Note	30 June 2008	30 June 2007
		HK\$'000	HK\$'000
<b>Cash flows from investing activities</b>			
Payments for purchase of property, plant and equipment		(769)	(1,760)
Proceeds from disposal of an investment property	12	6,603	–
Loan to an associate		–	(4,400)
		<u>5,834</u>	<u>(6,160)</u>
<b>Cash flows from financing activities</b>			
Proceeds received from issuance of ordinary shares		–	200
Dividend paid		(9,913)	–
		<u>(9,913)</u>	<u>200</u>
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		74,524	52,702
Cash and cash equivalents at the end of the period		<u>68,652</u>	<u>50,184</u>
<b>Analysis of the balances of cash and cash equivalents</b>			
Bank balances and cash		<u>68,652</u>	<u>50,184</u>

The notes on pages 12 to 26 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2008

	(Unaudited)						
	Share capital	Share premium	Available-for-sale investment reserve	Employee share-based compensation reserve	Retained earnings	Contributed surplus	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 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:							
Issuance of ordinary shares	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>
At 1 January 2008	22,530	92,709	996	2,135	98,273	808	217,451
Profit attributable to shareholders	-	-	-	-	7,367	-	7,367
Dividend relating to 2007 and paid in May 2008	-	-	-	-	(9,913)	-	(9,913)
Employee share-based compensation benefits	-	-	-	295	-	-	295
Surplus on revaluation	-	-	487	-	-	-	487
<b>At 30 June 2008</b>	<b>22,530</b>	<b>92,709</b>	<b>1,483</b>	<b>2,430</b>	<b>95,727</b>	<b>808</b>	<b>215,687</b>

The notes on pages 12 to 26 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 28 August 2008.

### 2 Basis of preparation

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

### 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 2007, as described in those annual financial statements.

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

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

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

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

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

## 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 profit and loss account are as follows:

	(Unaudited)	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Turnover		
Sales of inventories	184,716	159,067
Other revenues		
Interest income from bank deposits	841	690
Administration fee received from the associates (Note 21a)	–	631
Rental income from investment properties	277	392
Sundry income	766	1,275
	1,884	2,988
Total revenues	186,600	162,055

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

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

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 5 Cost of sales

	(Unaudited)	
	Six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Cost of inventories sold	139,101	121,751
Cost of consumable inventories	1,458	1,434
Net unrealized fair value (gain)/loss on derivative financial instruments	(308)	186
	<u>140,251</u>	<u>123,371</u>

### 6 Operating expenses

	(Unaudited)	
	Six months ended	
	30 June 2008	30 June 2007
	HK\$'000	HK\$'000
Administrative expenses:		
Employee benefits expenses	24,752	22,066
Employee share option benefits	295	217
Amortisation of lease prepayments	525	525
Depreciation of property, plant and equipment	1,619	1,658
Operating lease rentals on properties paid to third parties	2,492	2,310
Travelling expenses	850	766
Entertainment expenses	336	343
Stamps, postage and telephone	500	449
Management fee	720	720
Advertising expenses	91	253
Legal and professional fees	364	328
Auditor's remuneration	814	718
	<u>33,358</u>	<u>30,353</u>
Other operating expenses:		
Write back of provision for impairment of receivables	-	(463)
Provision for impairment of receivables	78	122
Provision for stock obsolescence	349	368
Provision for employee leave entitlements	130	88
Provision/(write back of provision) for long service payments	250	(176)
Loss on disposal of property, plant and equipment	-	1
Sundry expenses	4,096	2,900
	<u>4,903</u>	<u>2,840</u>
	<u>38,261</u>	<u>33,193</u>

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 7 Finance costs

	(Unaudited) Six months ended	
	30 June 2008 HK\$'000	30 June 2007 HK\$'000
Interest expenses on short-term bank loans and overdrafts	<u>67</u>	<u>144</u>

### 8 Income tax expense

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

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

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

### 9 Earnings per share

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

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

	30 June 2008 Number of shares	30 June 2007 Number of shares
Reconciliation		
Weighted average number of ordinary shares used in calculating basic earnings per share	225,296,000	224,751,801
Deemed issue of ordinary shares for no consideration	<u>6,125,362</u>	<u>5,616,789</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>231,421,362</u>	<u>230,368,590</u>

### 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\$130,000 (2007: HK\$55,000) were fully utilized during the Period.

Contributions of HK\$284,000 (2007: HK\$267,000) were payable to the Retirement Scheme at the Period-end.

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 11 Dividend

A dividend that relates to the year to 31 December 2007 and that amounts to HK\$9,913,000 was paid in May 2008 (2007: Nil).

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

	Investment properties <i>HK\$'000</i>	Property, plant and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Net book value at 1 January 2007	14,750	44,883	59,633
Additions	–	1,760	1,760
Disposal	–	(1)	(1)
Depreciation	–	(1,782)	(1,782)
Net book value at 30 June 2007	14,750	44,860	59,610
Additions	–	957	957
Disposal	(4,900)	(22)	(4,922)
Depreciation	–	(1,988)	(1,988)
Net book value at 31 December 2007	9,850	43,807	53,657
Additions	–	769	769
Depreciation	–	(1,755)	(1,755)
Disposal	(6,509)	–	(6,509)
<b>Net book value at 30 June 2008</b>	<b>3,341</b>	<b>42,821</b>	<b>46,162</b>

Note: A depreciation charge for property, plant and equipment of HK\$136,000 (2007: HK\$124,000) has been charged to cost of sales for the period ended 30 June 2008.

During the Period, the Group disposed an investment property in Shanghai and a gain of HK\$94,000 is credited to the condensed consolidated profit and loss account for the period ended 30 June 2008.

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

### 13 Available-for-sale financial assets

	<i>HK\$'000</i>
At 1 January 2007	2,318
Add: Revaluation surplus transfer to reserves	841
At 31 December 2007	3,159
Add: Revaluation surplus transfer to reserves	487
At 30 June 2008	3,646

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 14 Trade and other receivables

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2008</b> <b>HK\$'000</b>	At 31 December 2007 <i>HK\$'000</i>
Trade receivables	<b>85,728</b>	103,779
Retention receivables	<b>5,712</b>	4,626
Receivables from related parties	<b>–</b>	97
	<hr/>	<hr/>
Total trade and retention receivables	<b>91,440</b>	108,502
Less: provision for impairment of receivables	<b>(1,446)</b>	(1,368)
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Net trade and retention receivables	<b>89,994</b>	107,134
Prepayments and other receivables	<b>18,045</b>	8,043
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	<b>108,039</b>	115,177
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The carrying amounts of trade and other receivables approximate their fair values.

The Group normally allows a credit period ranging from 30 to 90 days. Debtors with balances that are long overdue are normally requested to settle all outstanding balances before any further credit is granted.

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

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

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2008</b> <b>HK\$'000</b>	At 31 December 2007 <i>HK\$'000</i>
Current	<b>40,216</b>	60,105
One to three months overdue	<b>35,520</b>	35,713
Three to twelve months overdue	<b>12,006</b>	8,597
Overdue more than twelve months	<b>2,252</b>	2,719
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Net trade and retention receivables	<b>89,994</b>	107,134
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The trade and retention receivables include 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 2008, trade and retention receivables of HK\$1,446,000 (31 December 2007: HK\$1,368,000) 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:

	(Unaudited) At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Opening balance	1,368	3,039
Provision for impairment of receivables	78	484
Receivables written off during the year as uncollectible	–	(1,628)
Written back of provision for impairment of receivables	–	(527)
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Closing balance	<b>1,446</b>	<b>1,368</b>

As at 31 December 2007 and 30 June 2008, 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

	(Unaudited) At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Forward foreign exchange contracts – held for trading		
– Assets	2,923	2,597
– Liabilities	(76)	(58)
	<hr/>	<hr/>

Trading derivatives are classified as a current asset or liability. The net unrealized fair value gain/(loss) on foreign exchange contracts as at 30 June 2008 and 31 December 2007 which are not qualified as hedges has been accounted for in the condensed consolidated profit and loss account.

### 16 Cash and cash equivalents

	(Unaudited) At 30 June 2008 HK\$'000	At 31 December 2007 HK\$'000
Bank deposits with original maturity of three months or less	50,668	54,935
Cash at bank and on hand	17,984	19,589
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	<b>68,652</b>	<b>74,524</b>

The effective interest rate on short-term bank deposits is ranging from 0.33% to 4.13% (31 December 2007: ranging from 0.63% to 5.2%), these deposits have an average maturity of 61 days (31 December 2007: 54 days).

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 17 Trade and other payables

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2008</b> <b>HK\$'000</b>	At 31 December 2007 <i>HK\$'000</i>
Trade and bills payables	<b>49,156</b>	62,857
Accruals and other payables	<b>30,446</b>	30,671
Advances received from customers	<b>12,943</b>	11,294
	<b>92,545</b>	104,822

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

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

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

	<b>(Unaudited)</b> <b>At 30 June</b> <b>2008</b> <b>HK\$'000</b>	At 31 December 2007 <i>HK\$'000</i>
Current	<b>21,737</b>	36,607
One to three months overdue	<b>19,456</b>	22,052
Overdue more than three months	<b>7,963</b>	4,198
Trade and bills payables	<b>49,156</b>	62,857

### 18 Provisions

	<b>Long service</b> <b>payments</b> <i>HK\$'000</i>	<b>Employee leave</b> <b>entitlements</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2008	358	1,319	1,677
Additional provisions	250	1,242	1,492
Less: Amounts utilized	–	(1,112)	(1,112)
Charged to condensed consolidated profit and loss account	250	130	380
Less: Amounts settled	(84)	(77)	(161)
Net effect on provisions	166	53	219
<b>At 30 June 2008</b>	<b>524</b>	<b>1,372</b>	<b>1,896</b>

### 19 Share capital

	<b>Authorised</b> <i>(Number of shares)</i>	<b>Issued and</b> <b>fully paid</b> <i>(Number of shares)</i>	<b>Ordinary</b> <b>shares</b> <i>HK\$'000</i>	<b>Share</b> <b>premium</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2007	800,000,000	224,496,000	22,450	92,389	114,839
Employees share option scheme – proceeds from shares issued	–	800,000	80	320	400
At 31 December 2007 and at 30 June 2008	800,000,000	225,296,000	22,530	92,709	115,239

## NOTES TO THE INTERIM FINANCIAL INFORMATION

### 20 Contingent liabilities

At 30 June 2008, there were contingent liabilities in respect of the following:

(a)	<b>The Group</b>		<b>Company</b>	
	<b>(Unaudited)</b>	At 31	<b>(Unaudited)</b>	At 31
	<b>At 30 June</b>	December	<b>At 30 June</b>	December
	<b>2008</b>	2007	<b>2008</b>	2007
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
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 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 2008, the amount of guarantees outstanding was HK\$3,881,000 (At 31 December 2007: HK\$3,038,000).				

### 21 Related party transactions

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

	<b>(Unaudited)</b>	
	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	<b>HK\$'000</b>
Sales of goods and services		
Administration fee received from the associates ( <i>note a</i> )	–	631
Gross rental income received from the associates ( <i>note b</i> )	–	53
Sales of goods to a related party ( <i>note c</i> )	–	2,355
Purchases of goods and services		
Professional fee paid to a related party ( <i>note c</i> )	<b>15</b>	–
Key management compensation	<b>2,902</b>	2,441

- (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 ended 30 June 2007, the associates paid rental expenses of HK\$53,000 to the subsidiaries of the Group.
- (c) In addition to transactions with related companies as disclosed above, professional fees of HK\$15,000 (2007: Nil) 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 for the period ended 30 June 2007 were made to a listed group of companies in which an independent non-executive director of the Company was also a director of the listed group. Subsequent to the resignation of the independent non-executive director from that listed group in December 2007, transactions in 2008 were no longer related.

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