# ARNHOLD HOLDINGS LIMITED
# 安利控股有限公司*

*(Incorporated in Bermuda with limited liability)*
(Stock Code: 102)

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

The board of directors (the "Board") of Arnhold Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statement of the Company together with its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 (the "Period"), together with comparative figures for the corresponding period in 2004 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30 JUNE 2005

| | Note | (Unaudited) Six months ended 30 June 2005 HK$'000 | (Unaudited) (As restated) Six months ended 30 June 2004 HK$'000 |
|---|---|---|---|
| Turnover | (2) | **115,376** | 153,707 |
| Cost of sales | | **(91,025)** | (126,415) |
| Gross profit | | **24,351** | 27,292 |
| Other revenues | | **1,643** | 1,562 |
| Operating expenses | | **(26,834)** | (30,028) |
| Operating loss | | **(840)** | (1,174) |
| Finance costs | | **(11)** | (38) |
| Share of loss of an associate | | **(277)** | (471) |
| Loss from ordinary activities before taxation | (3) | **(1,128)** | (1,683) |
| Taxation | (4) | | |
| Company and subsidiaries | | **(322)** | (446) |
| The associate | | **–** | – |
| Loss attributable to shareholders | | **(1,450)** | (2,129) |
| Basic loss per share (cents) | (5) | **(0.65)** | (0.95) |
| Diluted loss per share (cents) | (5) | **(0.65)** | (0.95) |
| Dividend | | **–** | – |
| Dividend per share | | **–** | – |

### CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2005

| | (Unaudited) At 30 June 2005 HK$'000 | (As restated) At 31 December 2004 HK$'000 |
|---|---|---|
| Non-current assets | | |
| Investment properties | **17,601** | 17,601 |
| Leasehold buildings and other fixed assets | **25,696** | 25,710 |
| Leasehold land and land use rights | **50,886** | 51,401 |
| Interest in an associate | **(723)** | 265 |
| Non-trading securities | **–** | – |
| Other investments | **2,288** | 2,288 |
| | **95,748** | 97,265 |
| Current assets | | |
| Inventories | **15,175** | 12,411 |
| Construction contracts | **14** | 753 |
| Trade and other receivables | **63,828** | 85,124 |
| Derivative financial instruments | **142** | – |
| Cash and cash equivalents | **73,850** | 84,373 |
| | **153,009** | 182,661 |
| Current liabilities | | |
| Trade and other payables | **50,441** | 74,312 |
| Derivative financial instruments | **2,205** | – |
| Provisions | **1,815** | 1,688 |
| Proposed dividend | **–** | 9,878 |
| Taxation payable | **203** | 198 |
| | **54,664** | 86,076 |
| Net current assets | **98,345** | 96,585 |
| Total assets less current liabilities | **194,093** | 193,850 |
| Non-current liabilities | | |
| Deferred taxation | **425** | 425 |
| Net assets | **193,668** | 193,425 |
| Capital and reserves | | |
| Share capital | **22,450** | 22,450 |
| Reserves | **171,218** | 170,975 |
| Shareholders' funds | **193,668** | 193,425 |

*Notes:*

**(1) ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS**

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred as "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investment in Associates |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings Per Share |
| HKAS 34 | Interim Financial Reporting |
| HKAS 36 | Impairment of Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 40 | Investment Property |
| HKAS-Int 12 | Consolidation – Special Purpose Entities |
| HKAS-Int 15 | Operating Lease – Incentives |
| HKAS-Int 21 | Income Taxes- Recovery of Revalued Non-Depreciable Assets |
| HKFRS 2 | Share-based Payment |

**1.1 The adoption of the above new HKFRSs has the following impact on the Group's accounting policies:**

The adoption of HKASs 1, 2, 7, 8, 12, 14, 16, 18, 19, 21, 24, 27, 28, 33, 34, 36 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation and disclosure of the accounts.
- HKASs 2, 7, 8, 12, 14, 16, 18, 19, 21, 27, 28, 33, 34, 36 and HKAS-Ints 12 and 15 have no material effect on the Group's accounting policies.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The effects of the adoption of certain new HKFRSs, which result in substantial changes to the Group's accounting policies, are set out below.

*HKAS 17*

In prior years, the leasehold land and buildings were accounted for at fair value less accumulated depreciation and accumulated impairment.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. This new accounting policy has been adopted retrospectively and comparative amounts have been restated accordingly. The building portion of leasehold properties was previously stated at fair value. Following the adoption of HKAS 17 where leasehold land is subject to amortization, the accounting policy on buildings has been changed and buildings are now stated at cost less accumulated depreciation and impairment. This change in accounting policy has been applied retrospectively. The resulting effect on the financial statements of the Group is set out in notes 1.2 and 1.3 below.

*HKASs 32 and 39*

In prior years, derivative financial instruments, including foreign exchange forward contracts, entered into by the Group were not reflected in the balance sheet.

Following the adoption of HKASs 32 and 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in their fair values are recognized in the profit and loss account. The above changes in accounting policies were adopted by way of an adjustment to the opening balances of retained earnings as at 1 January 2005. Comparative amounts have not been restated nor has the opening balance of the fair value reserve been restated as this is prohibited by the transitional arrangements in HKAS 39. The resulting effect on the financial statements of the Group is set out in notes 1.2 and 1.3 below.

*HKAS 40 and HKAS-Int 21*

In prior years, changes arising on the revaluation of the Group's investment properties were recognized directly in the property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, in which case the excess was charged to the profit and loss account. When a deficit previously recognized in the profit and loss account reversed, the reversal was recognized as a credit in the profit and loss account. The Group was required to apply the tax rate that would be applied for the recovery of carrying amount of the investment properties through sale to determine whether any amounts of deferred tax liabilities arising from the revaluation of investment properties.

Following the adoption of HKAS 40, changes in the fair values of investment properties are recorded in the profit and loss account in accordance with the fair value model in HKAS 40. There is no requirement for the Group to restate the comparative information and accordingly, any adjustment relating to the treatment of the property revaluation surplus has made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in the property revaluation reserve.

As from 1 January 2005, in accordance with HKAS-Int 21, the Group recognizes deferred tax liabilities on movements in the value of an investment property using tax rates that are applied for recovery of the carrying value of the investment properties through use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. The resulting effect on the financial statements of the Group is set out in notes 1.2 and 1.3 below.

*HKFRS 2*

In prior years, no amounts were recognized for equity-settled share-based payment transactions in the Group, including the share options granted to employees or directors of the Group to acquire shares of the Company at specified exercise prices under the share option scheme operated by the Group.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognizes the fair value of such share options as an expense in the profit and loss account. A corresponding increase is recognized in the employee share-based compensation reserve under equity. As a transition provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the profit and loss account of the respective periods. The resulting effect on the financial statements of the Group is set out in notes 1.2 and 1.3 below.

**1.2 Effects of changes in the accounting policies on condensed consolidated profit and loss account**

| | **Effects of adopting** | | | |
|---|---|---|---|---|
| | **HKAS 32 & HKAS 39** *HK$'000* | **HKAS 17** *HK$'000* | **HKFRS 2** *HK$'000* | **Total** *HK$'000* |
| Effects for the six months ended 30 June 2005 | | | | |
| Increase in net unrealized fair value loss on derivative financial instruments | (3,451) | – | – | (3,451) |
| Increase in staff costs | – | – | (305) | (305) |
| Increase in amortisation of lease hold land and land use rights | – | (515) | – | (515) |
| Decrease in depreciation of leasehold buildings | – | 460 | – | 460 |
| Increase in loss attributable to shareholders | (3,451) | (55) | (305) | (3,811) |
| Increase in basic loss per share (cents) | (1.54) | (0.02) | (0.14) | (1.70) |
| Increase in diluted loss per share (cents) | (1.54) | (0.02) | (0.14) | (1.70) |
| Effects for the six months ended 30 June 2004 | | | | |
| Increase in staff costs | – | – | (194) | (194) |
| Increase in amortisation of lease hold land and land use rights | – | (514) | – | (514) |
| Decrease in depreciation of leasehold buildings | – | 442 | – | 442 |
| Increase in loss attributable to shareholders | – | (72) | (194) | (266) |
| Increase in basic loss per share (cents) | – | (0.03) | (0.09) | (0.12) |
| Increase in diluted loss per share (cents) | – | (0.03) | (0.09) | (0.12) |

**1.3 Effects of changes in the accounting policies on condensed consolidated balance sheet**

| | **Effects of adopting** | | | | |
|---|---|---|---|---|---|
| | **HKAS 32 & HKAS 39** *HK$'000* | **HKAS 40** *HK$'000* | **HKAS 17** *HK$'000* | **HKFRS 2** *HK$'000* | **Total** *HK$'000* |
| As at 30 June 2005 | | | | | |
| Increase/(decrease) in assets | | | | | |
| Leasehold land and land use rights | – | – | 50,886 | – | 50,886 |
| Leasehold buildings and other fixed assets | – | – | (49,367) | – | (49,367) |
| Derivative financial instruments | 142 | – | – | – | 142 |
| | 142 | – | 1,519 | – | 1,661 |
| Increase/(decrease) in liabilities/equity | | | | | |
| Deferred tax liabilities | – | – | (329) | – | (329) |
| Employee share–based compensation reserve | – | – | – | 835 | 835 |
| Revaluation reserve | – | (44) | (1,348) | – | (1,392) |
| Loss attributable to shareholders | (3,451) | – | (55) | (305) | (3,811) |
| Derivative financial instruments | 2,205 | – | – | – | 2,205 |
| Retained earnings | 1,388 | 44 | 3,251 | (530) | 4,153 |
| | 142 | – | 1,519 | – | 1,661 |
| As at 31 December 2004 | | | | | |
| Increase/(decrease) in assets | | | | | |
| Leasehold land and land use rights | – | – | 51,401 | – | 51,401 |
| Leasehold buildings and other fixed assets | – | – | (49,827) | – | (49,827) |
| | – | – | 1,574 | – | 1,574 |
| Increase/(decrease) in liabilities/equity | | | | | |
| Deferred tax liabilities | – | – | (329) | – | (329) |
| Employee share-based compensation reserve | – | – | – | 530 | 530 |
| Revaluation reserve | – | – | (1,348) | – | (1,348) |
| Retained earnings | – | – | 3,251 | (530) | 2,721 |
| | – | – | 1,574 | – | 1,574 |

## (2) TURNOVER

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 2005** | | (As restated) 30 June 2004 | |
| | **Turnover** *HK$'000* | **Operating results** *HK$'000* | Turnover *HK$'000* | Operating results *HK$'000* |
| **Principal activities:** | | | | |
| Building products | **99,111** | **21,667** | 121,923 | 23,098 |
| Engineering equipment | **16,265** | **2,684** | 31,784 | 4,194 |
| | **115,376** | **24,351** | 153,707 | 27,292 |
| Administrative and other expenses | | **(25,191)** | | (28,466) |
| Operating loss | | **(840)** | | (1,174) |
| Finance costs | | **(11)** | | (38) |
| Share of loss of an associate | | **(277)** | | (471) |
| Loss from ordinary activities before taxation | | **(1,128)** | | (1,683) |
| Taxation | | **(322)** | | (446) |
| Loss attributable to shareholders | | **(1,450)** | | (2,129) |

## (3) LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation in the unaudited condensed consolidated profit and loss account is stated after crediting/(charging) the following items:

| | **(Unaudited) Six months ended** | |
|---|---|---|
| | **30 June 2005** *HK$'000* | (As restated) 30 June 2004 *HK$'000* |
| Crediting | | |
| Write back provision for doubtful debts | **2,701** | 2,859 |
| Interest income | **460** | 180 |
| Rental income from investment properties | **351** | 295 |
| Charging | | |
| Depreciation of leasehold buildings and other fixed assets | **(958)** | (2,121) |
| Amortisation of leasehold land and land use rights | **(515)** | (514) |

## (4) TAXATION

Hong Kong profits tax has not been provided as there is no estimated assessable profit for the Period (2004: Nil). 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.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

| | **(Unaudited) Six months ended 30 June** | |
|---|---|---|
| | **2005** *HK$'000* | 2004 *HK$'000* |
| Company and subsidiaries | | |
| Hong Kong profits tax | **–** | (1) |
| Overseas taxation | **322** | 447 |
| | **322** | 446 |
| The associate | | |
| Hong Kong profits tax | **–** | – |
| | **322** | 446 |

## (5) LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK$1,450,000 (2004: Group's loss attributable to ordinary shareholders of HK$2,129,000, as restated) and the weighted average number of 224,496,000 (2004: 224,496,000) ordinary shares in issue during the Period. The diluted loss per Share for the period ended 30 June 2005 and 2004 are the same as the basic loss per share since all potential ordinary shares are anti-dilutive.

## (6) BASIS OF PRESENTATION AND CONSOLIDATION

The Group accounts include the Company and its subsidiaries up to 30 June 2005. The Group accounts also include the Group's share of the post acquisition profits less losses, and reserves, of its associate.

## 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 and its financial performance remained correlated to the level of construction activities in Hong Kong. During the Period, the Group recorded a turnover of HK$115 million with gross profit of HK$24.4 million (2004: HK$154 million and HK$27.3 million respectively). The decline in turnover was mainly caused by our decision to cancel certain low margin engineering equipment orders at the end of last year. Demand for building products was also relatively weak because most sizable projects commence construction in the second half of the year. However, gross profit margin improved from 17.8% to 21.1% as a result of the Group's focus on higher value-added trading activities. The Group's continued efforts in cost control and process flow improvement also resulted in a reduction of 10.6% in operating costs. Accordingly, Group's loss attributable to shareholders for the Period was reduced to HK$1.5 million (2004: HK$2.1 million, as restated).

The Group continued to consolidate its market position in Hong Kong and successfully improved its coverage of the Mainland and Macau. As a result, the Group's outstanding orders on hand at Period end amounted to HK$149 million, representing an increase of 46.8% over the end of last year (At December 2004: HK$101 million).

### Segmental Information

Revenues from the building products business were HK$99.1 million, representing a decrease of 18.7% compared with HK$121.9 million in the last corresponding period. Turnover of plumbing fixtures and tiles was HK$27.1 million lower. The decrease in sales revenue was partially offset by the HK$4.1 million improvement in marble export operations. Despite the substantial decrease in turnover, operating results were reduced by only 6.2% to HK$21.7 million because of the improved margin in nearly all areas.

Turnover of the engineering business was decreased by 48.8% to HK$16.3 million because of our decision to cancel certain low margin orders at the end of last year. Consequently, operating results were decreased from HK$4.2 million to HK$2.7 million. In order to capture future growth opportunities, the Group has located several new air handling products from Europe and North Asia for launching towards the end of the year.

### Capital Commitment

The Group commenced the construction work of its new marble processing factory in Dongguan, PRC. Upon completion of the new factory by end of the year, we expect to triple our production capacity and shall be able to meet the increasing overseas demand for marble mosaic. We estimate that the total capital expenditure for the new plant will be around HK$20.0 million, of which HK$4.7 million was paid as at end of the Period. The Group expects to finance this project from internal resources and bank credit facilities.

### 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 accounts.

### 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 2004: Nil). The Group remained conservative in working capital management and maintained a breakeven position in terms of operating cashflow. As at Period end, cash balances amounted to HK$73.9 million (At 31 December 2004: HK$84.4 million). The decline in cash balances was largely caused by the payment of HK$9.9 million final dividend declared in 2004.

Most of the Group's cash balances are placed in time deposits with reputable financial institutions. The Group will continue its conservative cash flow management policy and expects to meet its future financial requirements through 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 2005, the amount of guarantees outstanding was HK$1.0 million (At 31 December 2004: HK$2.5 million).

### Banking facilities with assets pledged

A property with net book value of HK$53 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 340 and 110 employees in the Mainland and Hong Kong respectively. The Group continues to provide remuneration packages and training programmes to employees with reference to prevailing market practices. The Group adopted a new share option scheme on 11 July 2002 under which the directors of the Company, subject to the compliance of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), were authorised to grant share options to eligible persons as incentives. Details of share options granted were disclosed in the directors' report annexed to the 2005 Interim Report to be dispatched to the shareholders of the Company in due course.

### Outlook

Hong Kong is still in the initial stages of recovery following years of economic restructuring. Market conditions remain competitive and the Group will allocate more resources to explore growth opportunities in Macau, the Mainland and mosaic exports. Our aim is to strengthen our leading position in Hong Kong and gradually expand our customer base overseas. With a healthy financial foundation and a dedicated, professional team, the Group remains cautiously optimistic it can take full advantage of the economic recovery.

## INTERIM DIVIDEND

The Board has resolved that no interim dividend be paid for the Period (2004: Nil).

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the Period.

## CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in fulfilling its responsibilities to shareholders.

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 Group has complied itself with all the code provisions of the CG Code except that:

- 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 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;

- 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 suits 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 arrangement 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 interest of the Company and the minority shareholders; d) will enable the Company to maintain a reasonable balance of cost and benefit.

## REVIEW OF ACCOUNTS

The Audit Committee of the Company has reviewed the unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2005.

## BOARD OF DIRECTORS

As at the date of this announcement, the executive directors of the Company are Messrs. Michael John Green, Daniel George Green and Lai Ka Tak, Patrick; the non-executive directors are Messrs Augustus Ralph Marshall and Christopher John David Clarke and the independent non-executive directors are Messrs V-Nee Yeh, Thaddeus Thomas Beczak and Simon Murray.

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

Hong Kong, 8 September 2005

* *For identification purpose only*