Hing Lee (HK) Holdings Limited
興利(香港)控股有限公司

(Incorporated in the British Virgin Islands and re-domiciled and continued in Bermuda with limited liability)

Stock code : 396

興利

Interim Report 2011

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Sung Kai Hing
(Chairman and Chief Executive Officer)
Mr. Cheung Kong Cheung

Non-executive Director
Mr. Fang Yan Zau, Alexander

Independent non-executive Directors
Mr. Sun Jian
Ms. Shao Hanqing
Mr. Kong Hing Ki

AUDIT COMMITTEE

Mr. Kong Hing Ki *(Chairman)*
Mr. Sun Jian
Ms. Shao Hanqing

REMUNERATION COMMITTEE

Mr. Sun Jian *(Chairman)*
Ms. Shao Hanqing
Mr. Kong Hing Ki

NOMINATION COMMITTEE

Ms. Shao Hanqing *(Chairman)*
Mr. Sung Kai Hing
Mr. Cheung Kong Cheung
Mr. Sun Jian
Mr. Kong Hing Ki

COMPANY SECRETARIES

Mr. Wong Kit Wai, FHKICPA, ACIS
Ms. Kim Ling Cheung
(Assistant Secretary)

AUTHORISED REPRESENTATIVES

Mr. Sung Kai Hing
Mr. Wong Kit Wai

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1101, 11th Floor, Delta House
3 On Yiu Street, Shatin, New Territories
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

LEGAL ADVISERS

Sit, Fung, Kwong & Shum
JingTian & GongCheng
Conyers Dill & Pearman

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group
(Bermuda) Limited

STOCK CODE

396

COMPANY WEBSITE

www.hingleehk.com.hk

INTERIM RESULTS

The board of directors (the "Board") of Hing Lee (HK) Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 with comparative figures for the corresponding period in 2010.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		(Unaudited) Six months ended 30 June	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
Turnover	3	**231,939**	212,873
Cost of sales		**(171,972)**	(165,124)
Gross profit		**59,967**	47,749
Other revenue		**7,488**	803
Selling and distribution expenses		**(25,052)**	(18,211)
Administrative expenses		**(17,655)**	(13,524)
Profit from operations		**24,748**	16,817
Finance costs		**(1,172)**	(279)
Profit before taxation	5	**23,576**	16,538
Taxation	6	**(224)**	(3,138)
Profit for the period		**23,352**	13,400
Attributable to:			
Equity shareholders of the Company		**22,713**	13,016
Non-controlling interests		**639**	384
		23,352	13,400
Earnings per share for the profit attributable to the equity holders of the Company (HK cents)	7		
– basic		**9.83**	6.51
– diluted		**9.66**	6.39
		HK$'000	*HK$'000*
Dividend	8	**5,575**	3,400

The notes on pages 8 to 25 form an integral part of this condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM FINANCIAL POSITION

	Note	As at 30 June 2011 HK$'000 (Unaudited)	As at 31 December 2010 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**214,693**	163,214
Prepaid lease payments	9	**49,084**	48,503
Goodwill	10	**52,119**	–
Available-for-sale investments	11	**6,846**	7,280
		322,742	218,997
Current assets			
Prepaid lease payments	9	**1,091**	1,066
Inventories		**102,593**	80,715
Trade receivables and bills receivable	12	**55,920**	31,044
Prepayments, deposits and other receivables		**51,274**	37,252
Restricted bank deposits		**17,435**	17,040
Cash and cash equivalents		**83,431**	131,662
		311,744	298,779
Current liabilities			
Trade payables	13	**106,404**	77,800
Other payables and accrued charges		**47,527**	53,427
Current portion of secured bank loans	14	**95,131**	75,424
Current taxation		**70**	1,531
		249,132	208,182
Net current assets		**62,612**	90,597
Total assets less current liabilities		**385,354**	309,594
Non-current liabilities			
Non-current portion of secured bank loans	14	**–**	8,532
Net assets		**385,354**	301,062
Capital and reserves			
Share capital	15	**2,424**	2,060
Reserves		**378,207**	299,002
Total equity attributable to equity shareholders of the Company		**380,631**	301,062
Non-controlling interests		**4,723**	–
Total equity		**385,354**	301,062

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Profit for the period	**23,352**	13,400
Other comprehensive income		
Fair value gains/(loss) on available-for-sale investment, net of tax	**(436)**	(1,520)
Currency translation differences	**5,314**	1,867
Total comprehensive income for the period	**28,230**	13,747
Total comprehensive income attributable to		
– equity shareholders of the Company	**27,591**	13,316
– non-controlling interests	**639**	431
	28,230	13,747

The notes on pages 8 to 25 form an integral part of this condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

		(Unaudited) Attributable to equity holders of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Statutory reserve fund HK$'000	Merger reserve HK$'000	Fair value reserve HK$'000	Share option reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interest HK$'000	Total equity HK$'000
At 1 January 2010		2,000	75,134	20,817	7,074	25,430	3,604	5,576	–	118,765	258,400	5,217	263,617
Profit for the period		–	–	–	–	–	–	–	–	13,016	13,016	384	13,400
Fair value change on available for sale investment recognised directly in equity		–	–	–	–	–	(1,520)	–	–	–	(1,520)	–	(1,520)
Currency transaction differences		–	–	1,820	–	–	–	–	–	–	1,820	47	1,867
Total comprehensive income for the period ended 30 June 2010		–	–	1,820	–	–	(1,520)	–	–	13,016	13,316	431	13,747
Equity-settled share option arrangements		–	–	–	–	–	–	527	–	–	527	–	527
Dividends relating to 2009 paid in June 2010	8	–	–	–	–	–	–	–	–	(2,800)	(2,800)	–	(2,800)
		–	–	–	–	–	–	527	–	(2,800)	(2,273)	–	(2,273)
At 30 June 2010		2,000	75,134	22,637	7,074	25,430	2,084	6,103	–	128,928	269,443	5,648	275,091
At 1 January 2011		2,060	83,623	28,345	8,765	25,430	2,573	5,875	(6,486)	150,877	301,062	–	301,062
Profit for the period		–	–	–	–	–	–	–	–	22,713	22,713	639	23,352
Fair value change on available for sale investment recognised directly in equity		–	–	–	–	–	(436)	–	–	–	(436)	–	(436)
Currency transaction differences		–	–	5,314	–	–	–	–	–	–	5,314	–	5,314
Total comprehensive income for the period ended 30 June 2011		–	–	5,314	–	–	(436)	–	–	22,713	27,591	639	28,230
Acquisition of a subsidiary		364	57,882	–	–	–	–	–	–	–	58,246	4,084	62,330
Transfer of reserve		–	–	–	1	–	–	–	–	(1)	–	–	–
Equity settled share option arrangements		–	–	–	–	–	–	1,489	–	–	1,489	–	1,489
Dividends relating to 2010 paid in June 2011	8	–	–	–	–	–	–	–	–	(7,757)	(7,757)	–	(7,757)
At 30 June 2011		2,424	141,505	33,659	8,766	25,430	2,137	7,364	(6,486)	165,832	380,631	4,723	385,354

The notes on pages 8 to 25 form an integral part of this condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Net cash used in operating activities	**(2,689)**	(2,104)
Net cash used in investing activities	**(44,486)**	(4,149)
Net cash generated from/(used in) financing activities	**4,509**	(5,878)
Net increase (decrease) in cash and cash equivalents	**(42,666)**	(12,131)
Effect of foreign exchange rate changes	**(5,565)**	333
Cash and cash equivalents at the beginning of the period	**131,662**	86,773
Cash and cash equivalents at the end of the period	**83,431**	74,975
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**83,431**	74,975

The notes on pages 8 to 25 form an integral part of this condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 General Information

Hing Lee (HK) Holdings Limited (the "Company"), was incorporated in the British Virgin Islands ("BVI") on 20 April 2004 and was re-domiciled and continued in Bermuda with limited liability on 30 March 2007. The registered office address is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Unit 1101, 11th Floor, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

The principal business activities of the Group are the design, manufacture, sale and marketing of home furniture products including mainly wood-based furniture, sofa, mattresses and licensing of its own brands and product designs.

These condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. The condensed consolidated interim financial statements were approved by the board of directors of the Company (the "Board") for issue on 15 August 2011.

The condensed consolidated interim financial statements have not been audited.

2 Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2011 of the Group has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The accounting policies and basis of preparation adopted in these Interim Accounts are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2010.

During the period under review, the principal effects of the application of HKFRS 3 (Revised) *Business Combinations* are as follows:-

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred to the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

In the current period, the Group has adopted all the new or revised Hong Kong Financial Reporting Standards ("HKFRSs"): that are relevant to its operations and effective for the current accounting period of the Group. The adoption of these new or revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods.

3 **Segment Reporting**

During the period under review, the Group's production in the PRC was enhanced to include sofa products after acquisition of Astromax Investment Limited. Accordingly, the Group's internal financial reporting and monitoring has been reinforced and the Group has identified operating segments based on similar economic characteristics, products and services. The operating segments are identified by a member of the senior management who is designated as the "Chief Operating Decision Maker" to make decisions about resource allocation to the segments and assess their performance. Summary of the operating segments is as follows:

Panel furniture:	Design, manufacture, sale and marketing of wood panel furniture and licensing of own brand names
Upholstered furniture:	Design, manufacture, sale and marketing of sofa and bed mattresses

For comparison purposes, the 2010 figure in segment reporting have been reclassified to reflect the changes. These reclassifications have no impact on the Group's previously reported consolidated income statement, consolidated statement of financial position, statement of cash flows and statement of shareholders' equity.

However, Group financing (including interest revenue and expenses) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

(a) **Operating segments**

The following tables presents revenue and profit information regarding the Group's operating segments for the unaudited six months ended 30 June 2011 and 30 June 2010, respectively:

	2011				2010 (restated)			
	Panel-Furniture	**Upholstered Furniture**	**Unallocated**	**Consolidated**	Panel-Furniture	Upholstered Furniture	Unallocated	Consolidated
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers	**194,463**	**37,476**	**–**	**231,939**	185,054	27,819	–	212,873
Interest income	**–**	**–**	**135**	**135**	–	–	214	214
Interest expenses	**–**	**–**	**1,172**	**1,172**	–	–	279	279
Depreciation and amortisation	**2,064**	**696**	**–**	**2,760**	4,733	499	–	5,232
Reportable segment profit	**16,949**	**2,059**	**–**	**19,008**	16,047	1,972	–	18,019

The following table presents segment assets of the Group's operating segments as at 30 June 2011 and 31 December 2010.

	2011				2010 (restated)			
	Panel-Furniture	**Upholstered Furniture**	**Unallocated**	**Consolidated**	Panel-Furniture	Upholstered Furniture	Unallocated	Consolidated
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets	**495,072**	**61,057**	**78,357**	**634,486**	451,467	30,356	35,953	517,776

(b) Reconciliations of reportable segment revenue, profit or loss and assets

	(Unaudited) Six months ended 30 June 2011	(Unaudited) Six months ended 30 June 2010 (restated)
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**232,807**	212,873
Elimination of intersegment revenue	**(868)**	–
Consolidated revenue	**231,939**	212,873
Profit or loss		
Reportable segment profit	**19,008**	18,019
Other income	**7,488**	803
Unallocated amounts:		
Interest expense	**(1,172)**	(279)
Other head office and corporate expenses	**(1,748)**	(2,005)
Consolidated profit before taxation	**23,576**	16,538

	As of 30 June 2011	As at 31 December 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Assets		
Total assets for reportable segments	**556,130**	481,823
Available-for sales investments*	**6,846**	7,280
Unallocated head office and corporate assets	**71,510**	28,673
Consolidated total assets	**634,486**	517,776

* Segment assets do not include available-for-sales investments as these assets are managed on a group basis.

(c) **Geographic information**

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets and prepaid lease payments ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets.

Revenue from external customers

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Asia (excluding the People's Republic of China ("PRC"))*	**75,072**	64,567
Europe	**6,454**	9,426
PRC	**142,614**	133,623
Others	**7,799**	5,257
	231,939	212,873

Specified non-current assets

	As at 30 June 2011	As at 31 December 2010
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Asia (excluding the People's Republic of China ("PRC"))*	**2,074**	2,385
PRC	**320,668**	209,332
	322,742	211,717

* Asia mainly covers Japan, Taiwan, Middle East and Southeast Asia; Europe mainly covers Sweden, Italy, Spain and Germany; and others mainly cover the United States and Canada.

4 **Equity settled share-based payment expense for share options granted**

(a) The terms and conditions of the options granted that existed during the period are as follows, whereby all options are settled by physical delivery of shares:

	Number of options	Exercise price *HK$*	Exercise period
Options granted to Directors of the Company:	2,997,340	1.0647	23/12/2009 to 30/12/2016
	374,667	1.0647	23/12/2009 to 19/06/2017
	187,334	1.0647	20/06/2010 to 19/06/2017
	187,334	1.0647	20/06/2011 to 19/06/2017
	450,000#	1.4220	23/04/2011 to 22/04/2013
	450,000#	1.4220	01/01/2012 to 22/04/2013
	1,500,000*	1.8000	05/05/2012 to 04/05/2014
	1,500,000*	1.8000	01/01/2013 to 04/05/2014
Options granted to employees of the Group:	3,746,675	1.0647	23/12/2009 to 30/12/2016
	374,667	1.0647	23/12/2009 to 19/06/2017
	374,668	1.0647	31/12/2009 to 30/12/2016
	374,667	1.0647	31/12/2010 to 30/12/2016
	187,334	1.0647	20/06/2010 to 19/06/2017
	187,334	1.0647	20/06/2011 to 19/06/2017
	5,550,000#	1.4220	23/04/2011 to 22/04/2013
	5,550,000#	1.4220	01/01/2012 to 22/04/2013
	500,000*	1.8000	05/05/2012 to 04/05/2014
	500,000*	1.8000	01/01/2013 to 04/05/2014
Total number of shares subject to the share options	24,992,020		

On 23 April 2010, the Company granted share options to grantees to subscribe for a total of 12,000,000 ordinary shares of HK$0.01 each of the Company.

* *On 5 May 2011, the Company granted share options to grantees to subscribe for a total of 4,000,000 ordinary shares of HK$0.01 each of the Company*

(b) Fair value of share options

For the six months ended 30 June 2011, the fair value of share options granted of HK$1,489,576 (six months ended 30 June 2010: HK$525,753) is recognised as staff cost with a corresponding increase in employee share-based capital reserve.

5 Profit before taxation

Profit before taxation is arrived at after charging and crediting the following items:

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
After charging		
Auditor's remuneration	**400**	400
Cost of inventories sold	**173,698**	165,124
Staff costs (including Directors' emoluments)		
– Directors' emoluments	**2,016**	1,319
– others	**36,988**	33,118
Depreciation	**2,760**	4,712
Amortisation of prepaid land lease payments	**545**	520
Loss on disposal of fixed assets	**–**	341
Net exchange loss (gain)	**(1,073)**	(104)
After crediting		
Interest income	**135**	214

6 Taxation

(a) Taxation in the condensed consolidated interim income statements represents:

Current income tax

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Current income tax		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**224**	3,138
	224	3,138

(i) The provision for Hong Kong profits tax for the six months ended 30 June 2011 is calculated at 16.5% (six months ended 30 June 2010: 16.5%) of the estimated assessable profits for each respective period.

(ii) Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

(iii) With the New Enterprise Income Tax Law (the "New EIT Law") becoming effective on 1 January 2008, all enterprises in the PRC are subject to a standard enterprise income tax rate of 25%.

However, there is a transitional period for enterprises which are currently entitled to preferential tax treatments granted by relevant tax authorities. In accordance with「國務院關於實施企業所得稅過渡優惠政策的通知」(the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) issued on 26 December 2007:

(a) from 1 January 2008, for enterprises that enjoy a preferential tax rate of 15%, the tax rate will be transitioned to 25% over five years at rates of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012; and

(b) from 1 January 2008, the enterprises that originally enjoyed the preference of regular tax reduction and exemption, will continue to enjoy the original preference in accordance with the preferential measures and terms stipulated by the original tax law, administrative regulations and relevant documents until the expiration of the preference.

Dongguan Super Furniture Company Limited was subject to the PRC Enterprise Income Tax ("EIT") rate of 25% in 2011 (2010: 12.5%)

Shenzhen Xingli Furniture Company Limited was subject to the PRC EIT rate of 24% in 2011 (2010: 22%).

Shenzhen Xingli Zundian Furniture Company Limited, ("Shenzhen Xingli Zundian") was subject to the PRC EIT rate of 24% in 2011 (2010: 22%).

The tax rate for Shenzhen Oulo Furniture Company Limited was 12% in 2011 as it was in its third profit-making year (2010: 11%).

(b) Deferred taxation

The potential unaudited deferred tax asset of HK$2,715,000 (As at 30 June 2010: HK$144,000) relating to tax losses available for carry forward and other timing differences as at 30 June 2011 has not been recognized due to the unpredictability of the future profit streams. The tax losses do not expire under current tax legislation.

At 30 June 2011, the Group has unrecognised deferred tax liabilities of HK$3,794,000 (30 June 2010: HK$3,751,000) in relation to withholding tax on undistributed earnings of HK$63,104,000 (30 June 2010: HK$75,019,000) due to the retention of undistributed earnings by the Group's subsidiaries in the PRC determined by the directors of the Company.

The Company does not have any material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (30 June 2010: Nil), and therefore, no provision for deferred tax has been made.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2011 is based on the profit attributable to equity shareholders of the Company of HK$22,713,000 (six months ended 30 June 2010: profit of HK$13,016,000) and the weighted average number of ordinary shares of the Company in issue during the six months ended 30 June 2011 of 231,135,559 (six months ended 30 June 2010: 200,000,000 ordinary shares).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$22,713,000 (six months ended 30 June 2010: HK$13,016,000) and the weighted average number of ordinary shares (diluted) of 235,033,436 shares, calculated as follows:

	(Unaudited) Six months ended 30 June	
	2011	2010
	No. of shares	*No. of shares*
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**231,135,559**	200,000,000
Effect of dilutive potential ordinary shares arising from share options	**3,897,877**	3,641,985
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**235,033,436**	203,641,985

8 Dividend

In June 2011, the final dividend in respect of the financial year ended 31 December 2010 of HK3.20 cents (31 December 2009: 1.40 cents) per share totaling HK$7,757,000 (31 December 2009: HK$2,800,000) was paid to shareholders.

A dividend in respect of the six months ended 30 June 2011 of HK2.3 cents (six months ended 30 June 2010: HK1.70 cents) per share, amounting to a total dividend of HK$5,575,000 (six months ended 30 June 2010: HK$3,400,000) was declared by the Board on 15 August 2011. These condensed consolidated interim financial statements have not reflected this dividend payable.

9 Property, plant and equipment and prepaid lease payments

	Property, plant and equipment	**Prepaid lease payments**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Six month ended 30 June 2011		
Net book value as at 1 January 2011	**163,214**	**49,569**
Exchange realignment	**3,798**	**1,151**
Acquisition of a subsidiary (Note 17)	**3,811**	**–**
Additions	**46,630**	**–**
Depreciation and amortization	**(2,760)**	**(545)**
Net book value as at 30 June 2011	**214,693**	**50,175**
Six month ended 30 June 2010		
Net book value as at 1 January 2010	132,012	48,936
Exchange realignment	1,238	453
Additions	14,017	–
Disposals	(410)	–
Depreciation and amortization	(4,712)	(520)
Net book value as at 30 June 2010	142,145	48,869

10. Goodwill

	30 June 2011 HK$'000 (Unaudited)	31 December 2010 HK$'000 (Audited)
Cost		
Balance at beginning of period	–	–
Acquisition through business combinations *(note 17)*	52,119	–
Balance at end of period	**52,119**	–
Impairment losses		
Balance at beginning of period	–	–
Impairment loss	–	–
Balance at end of period	–	–
Carrying amounts		
Balance at beginning of period	–	–
Balance at end of period	**52,119**	–

11 Available-for-sale investments

	As at 30 June 2011 HK$'000 (Unaudited)	As at 31 December 2010 HK$'000 (Audited)
Listed equity-investments, at market value		
– Hong Kong	6,846	7,280

12 Trade receivables and bills receivable

The ageing analysis of trade debtors and bills receivable (net of allowance for doubtful debts) as of the reporting date is as follows:

	As at 30 June 2011 ***HK$'000*** **(Unaudited)**	As at 31 December 2010 *HK$'000* (Audited)
Current	**36,659**	23,490
Less than 3 months past due	**7,100**	5,735
3 to 6 months	**7,018**	818
6 to 12 months	**5,059**	806
More than 12 months	**84**	195
	55,920	31,044

Trade debtors and bills receivable are non-interest bearing and are generally, due within 30 to 90 days from the date of billing.

13 Trade payables

The ageing analysis of trade payables as of the reporting date is as follow:

	As at 30 June 2011 ***HK$'000*** **(Unaudited)**	As at 31 December 2010 *HK$'000* (Audited)
Within 3 months	**92,974**	59,862
3 months to 1 year	**6,509**	14,891
Over 1 year	**6,921**	3,047
	106,404	77,800

14 Secured bank loans

At 30 June 2011, secured bank loans are repayable as follows:

	As at 30 June 2011 *HK$'000* **(Unaudited)**	As at 31 December 2010 *HK$'000* (Audited)
Within one year	**95,131**	75,424
After 1 year but within 2 years	**–**	8,532
After 2 year but within 5 years	**–**	–
	–	8,532
	95,131	83,956

All of the Group's banking facilities are subject to the fulfillment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. At 30 June 2011, none of the covenants relating to drawn down facilities had been breached (31 December 2010: Nil).

15 Share capital

	Note	(Unaudited) 30 June 2011 Number of ordinary shares of *HK$0.01 each*	Amount *HK$'000*	(Audited) 31 December 2010 Number of ordinary shares of *HK$0.01 each*	Amount *HK$'000*
Authorized:					
Ordinary shares of HK$0.01 each		**1,000,000,000**	**10,000**	1,000,000,000	10,000
Issued and fully paid:					
Beginning of period/year		**205,994,675**	**2,060**	200,000,000	2,000
Issued under share option scheme (i)		**–**	**–**	5,994,675	60
Acquisition of a subsidiary (ii)	17	**36,404,000**	**364**	–	–
At the end of the period/year		**242,398,675**	**2,424**	205,994,675	2,060

Notes:

(i) Shares issued under pre-IPO share option scheme

On 26 October 2010, options were exercised to subscribe for 5,994,675 ordinary shares in the Company at a consideration of HK$6,382,530 of which HK$59,947 was credited to share capital and a total of HK$8,488,962 was credited to the share premium account. HK$2,166,379 has been transferred from share option reserve to the share premium account upon the exercise of the share options.

(ii) Pursuant to the sales and purchase agreement dated 31 March 2011 entered into between the Group and an independent vendor, 36,404,000 shares of HK$0.01 each were issued by the Company as consideration for the acquisition of Astromax Investment Limited. The 36,404,000 shares were issued upon completion of the acquisition at the closing price of HK$1.60 at the date of acquisition. (Note 17).

The holders of the Shares are entitled to receive dividends as declared from time to time and are entitled to one vote per Share at the meetings of the Company. All Shares rank equally with regard to the Company's residual assets.

16 Capital commitments

	As at 30 June 2011 *HK$'000* **(Unaudited)**	As at 31 December 2010 *HK$'000* (Audited)
Contracted but not provided for:		
– Construction of factory building	**32,151**	72,718
– Acquisition of property, plant and equipment	**308**	1,451
	32,459	74,169
Authorised but not contracted for:		
– Construction of factory building	**7,306**	8,906
– Acquisition of property, plant and equipment	**23,689**	23,151
	30,995	32,057

17 Business Combinations

On 5 May 2011, the Group acquired 60% of the equity interest of 深圳歐羅家具有限公司 (Shenzhen Oulo Furniture Company Limited) ("Oulo"), through acquisition of 60% of the issued share capital of its ultimate holding company Astromax Investment Limited ("Astromax"), which indirectly holds 100% equity interest in Oulo through its immediate holding company, City Leading Limited (the "Target Group").

Astromax is a company incorporated in the British Virgin Islands on 2 July 2009 with limited liability. The principal business is investment holding and its principal asset as at the date hereof is its 100% shareholding in City Leading Limited ("City Leading"), which is an investment holding company holding 100% equity interest in Oulo. Both of Astromax and City Leading have not commenced any business activity save for the investment holding activity for forming the structure of the Target Group and therefore had not recorded any turnover.

Oulo is a wholly foreign-owned enterprise established in the PRC on 12 October 2005. It is principally engaged in the manufacture and sale of sofas to overseas and in the PRC.

The Acquisition will be beneficial to the Group. The established sales network and customer base of Oulo can strengthen the sales network and introduce a new source of income, and will enable the Group to secure the supply and better control quality of the sofa products which complement its wooden furniture products.

The Group has elected to measure the non-controlling interest in the Target Group at the non-controlling interest's proportionate share of the Target Group's identifiable net assets.

The fair values of the Identifiable assets acquired and liabilities of the Target Group as at the date of acquisition were as follows:

	Fair value recognized on acquisition (Unaudited) *HK$'000*
Property, plant and equipment	3,811
Inventories	8,616
Trade and other receivables	13,881
Cash and cash equivalents	2,122
Tax refundable	135
Trade and other payables	(18,354)
Total identifiable net assets at fair value	10,211
Non-controlling interest	(4,084)
Goodwill	52,119
Satisfied by issuance of shares *(note 15)*	58,246

The goodwill of HK$52,119,000 arises from a number of factors such as its sales network and industry know how, other important elements including expected synergies through combining a highly skilled workforce, product complementary and obtaining economies of scale.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of trade and other receivables in the Target Group is HK$13,881,000 and includes trade receivable with a fair value of HK$10,974,000. The gross contractual amount for trade receivables due is HK$11,166,000, of which HK$192,000 is expected to be uncollectible.

Subject to the contingent consideration as set out below, the total consideration payable for the Acquisition shall be HK$58,246,400 ('the Consideration"), which was satisfied by the issue and allotment of 36,404,000 ordinary shares of HK$0.01 each of the Company. The 36,404,000 shares were issued upon completion of the acquisition at the closing price of HK$1.60 at the date of acquisition.

The vendor has undertaken with the purchaser, being a member of the Group, that for the financial year ending 31 December 2011, the audited net profit after tax and exceptional item of Oulo as prepared in accordance with the PRC Generally Accepted Accounting Principles (the "Net Profit") shall not be less than HK$12,000,000. If there is any shortfall in relation to the Net Profit for the financial year ending 31 December 2011, the Consideration shall be adjusted downwards by an amount equivalent to 1.5 times of the amount of the shortfall. In the event that the Net Profit is a negative figure, the Consideration shall be adjusted downwards by an amount equivalent to the sum of HK$18,000,000 and the absolute value of such negative figure. The amount of adjustment shall be paid by the vendor to the purchaser within 7 business days after the provision of a certificate from the auditors of Oulo as designated by the purchaser certifying the Net Profit to the vendor by way of a cashier order. As at the date of these financial statements, no further significant changes to the Consideration are expected.

No acquisition-related costs is charged to the income statement for the period ended 30 June 2011 as all acquisition related costs is borne by the vendor.

An analysis of the cash flows in respect of the acquisition of the Target Group is as follow:

	HK$'000
Cash considerations	–
Cash and cash equivalents acquired	2,122
Net inflow of cash and cash equivalents included in cash flows from investing activities	2,122

Since its acquisition, the Target Group contributed turnover of HK$14,597,000 and net profit of HK$1,596,000 to the Group. If the acquisition had occurred on 1 January 2011, consolidated revenue and consolidated loss for the half-year ended 30 June 2011 would have been HK$39,435,000 and HK$3,245,000 respectively.

18 Contingent liabilities

As at 30 June 2011, the Group and the Company had no significant contingent liabilities.

19 Material Related Party Transactions

Key management personnel compensation:

	(Unaudited) Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Salaries and other short-term benefits	**2,779**	2,737
Post-employment benefits	**34**	34
Share-based payments	**917**	390
	3,730	3,161

20 Events after the reporting period

There are no significant events subsequent to 30 June 2011 which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Group employs the PRC domestic market development as its core strategy and has extended its PRC domestic sales network to third and fourth tier cities. As a result, the Group managed to enjoy business growth despite the unfavourable environments brought by the Chinese Government's macroeconomic austerity measures and the inflation in China.

During the period under review, the Group acquired a 60% equity stake in Astromax Investment Limited and hence its indirect wholly owned subsidiary 深圳歐羅家具有限公司 (Shenzhen Oulo Furniture Company Limited) ("Oulo"), a sofa manufacturer. The established sales network and customer base of Oulo strengthen the sales network and introduce a new source of income to the Group, and enable the Group to secure the supply and better control quality of the sofa products which complement its wooden furniture products.

DEVELOPMENT OF 2ND PHASE OF NEW SHENZHEN PRODUCTION PLANT

The first phase of the Group's new production plant in Shenzhen which produces modern furniture commenced its full scale of operation in year 2010. To prepare for the huge market potential in high-price point classical furniture, the Group laid the foundation for its second phase of new production plant in Shenzhen in 2010. The new production plant will be equipped with advanced machines and equipment for the production of high-price point classical furniture. It will increase the maximum annual production capacity of the Group to meet the demand in coming years.

FINANCIAL REVIEW

Turnover

The Group's turnover increased by approximately 8.9% from about HK$212.9 million for the six months ended 30 June 2010 to HK$231.9 million for the six months ended 30 June 2011. The increase in turnover during the period was due to the increases in both domestic sales and export sales of approximately HK$9 million and HK$10 million respectively. The increase in the domestic sales during the period was a result of the Group's expansion in sales network in 3rd and 4th tier cities, and the increase in export sales was primarily due to the contribution from the Group's newly acquire sofa business.

Gross Profit

During the period under review, the Group's gross profit margin increased by 3.5 percentage point to 25.9% (six months ended 30 June 2010: 22.4%). The prices of major raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation generally increased when compared with the corresponding period of 2010.

The Group continues its effort in product design and development. The improved product mix continued to play an important role in increasing our profit, allowing us to minimize the negative impact on our gross profit margin due to the rising cost of direct materials and labor.

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to about HK$25.1 million for the six months ended 30 June 2011, against about HK$18.2 million for the six months ended 30 June 2010. The increase in selling and distribution expenses was a result of the increase in promotional costs and the general increase of expenses which were in line with the increase in turnover.

Administrative Expenses

For the six months ended 30 June 2011, the Group's administrative expenses were approximately HK$17.7 million against about HK$13.5 million for the six months ended 30 June 2010, representing an increase of about 31.1%. Such increase was mainly attributable to the increase the staff costs and the general increase in other costs.

Net Profit

The Group's net profit attributable to equity shareholders of the Company surged by approximately 74.6% from approximately HK$13.0 million for the six months ended 30 June 2010 to approximately HK$22.7 million for the six months ended 30 June 2011, and the net profit ratio increased from 6.3% to 10.1%.

PROSPECT

Looking forward to the second half of the financial year, the global economy is expected to be challenging with many uncertainties. There are lots of challenges in China where the Group operates, including the implementation of various macroeconomic austerity measures by the Chinese Central Government to cool down the property market, the increase of material costs and labour costs and Renminbi appreciation, etc. The operating environment will be burdened with these factors.

The Group will continue to strengthen its position in the medium to high-end home furniture markets with its plan to explore opportunities on distribution network expansion. To enhance its competitive strength, the Group will continue to actively participate in various international furniture exhibitions and marketing promotions and strengthen its design capacity.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's funding and treasury activities are managed and controlled by the senior management. The Group maintained cash and bank balances of HK$83.4 million as at 30 June 2011 (31 December 2010: HK$131.7 million).

As at 30 June 2011, the Group's bank borrowings amounted to HK$95.1 million (31 December 2010: HK$84.0 million). As at the same date, the gearing ratio (total debt/total equity) was 0.65 (31 December 2010: 0.72).

As at 30 June 2011, the current ratio (current assets/current liabilities) was 1.3 times (31 December 2010:1.4) and the net current assets amounted to HK$62.6 million (31 December 2010: HK$90.6 million).

FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The Group does not hold or issue any derivative financial instruments for trading purposes or for hedging against fluctuations in foreign exchange rates, but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CHARGE OF ASSETS

As at 30 June 2011, the Group's banking facilities were secured by (i) a legal charge over a piece of land located in Longgang, Shenzhen; (ii) a mortgage over a factory plant located in Longgang, Shenzhen; and (iii) corporate guarantees provided by the Company and subsidiaries of the Company.

EMPLOYEES

As at 30 June 2011, the Group employed approximately 1,790 employees (30 June 2010: approximately 1,650). Total staff cost, including Directors' emoluments, amounted to HK$39.0 million (30 June 2010: HK$34.4 million). Salaries are reviewed annually and discretionary bonuses are paid on annual basis with reference to individual performance appraisals, inflation and prevailing market conditions. Other benefits available to eligible employees include employee share option, retirement benefits and medical insurance schemes.

Apart from regular on-the-job training, the Group also engaged professional parties to provide training to its staff to ensure they can obtain updated job related knowledge and enhance the quality of work.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK2.30 cents (30 June 2010: HK1.70 cents) per share for the six months ended 30 June 2011. The interim dividend will be distributed on or about 7 September 2011 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 1 September 2011.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 30 August 2011 to 1 September 2011, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 29 August 2011.

CORPORATE GOVERNANCE AND OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED ECURITIES

During the 6-month period ended 30 June 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2011, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which were required to be entered into the register required to be kept under section 352 of the SFO or otherwise were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) and/or the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

Long positions in shares of HK$0.01 each of the Company ("Shares")

Name of Director/ chief executive	Nature of interests	Number of Shares	Approximate percentage of the issued share capital of the Company
Mr. Sung Kai Hing *(note 1)*	Corporate interests	18,280,155	7.54%
Mr. Cheung Kong Cheung *(note 2)*	Corporate interests	18,280,155	7.54%

Notes:

1. The Shares were held by King Right Holdings Limited ("**King Right**"), a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. By virtue of the SFO, Mr. Sung Kai Hing is deemed to be interested in the same parcel of Shares in which King Right is interested.

2. The Shares were held by United Sino Limited ("**United Sino**"), a company beneficially wholly-owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. By virtue of the SFO, Mr. Cheung Kong Cheung is deemed to be interested in the same parcel of Shares in which United Sino is interested.

Long positions in the underlying Shares

Details are set out in the section headed "Share Option Schemes" below.

Save as disclosed above and in the section headed "Share Option Scheme" below, as at 30 June 2011, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares and debentures of the Company and its associate corporations (within the meaning of Part XV of the SFO), which were required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the persons (not being a Director or chief executive of the Company) who have interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Long positions in Shares of HK$0.01 each

Name	**Capacity**	**Number of Shares**	**Approximate percentage of shareholding %**	*Note*
Triple Express Enterprises Limited ("Triple Express")	Beneficial owner	67,964,104	28.04	1
Mr. Fang Shin	Interest of a controlled corporation	67,964,104	28.04	1
Mrs. Fang Chang Rose Jean	Family interests	67,964,104	28.04	1
Top Prospect International Limited ("Top Prospect")	Beneficial owner	36,404,000	15.02	2
Mr. Yuan Han Xiang	Interest of a controlled corporation	36,404,000	15.02	2
King Right Holdings Limited ("King Right")	Beneficial owner	18,280,155	7.54	3
Ms. Wong Wai King	Family interests	18,280,155	7.54	3
United Sino Limited ("United Sino")	Beneficial owner	18,280,155	7.54	4
Ms. Li Xin	Family interests	18,280,155	7.54	4
Golden Sunday Limited ("Golden Sunday")	Beneficial owner	18,280,155	7.54	5
Mr. Chan Kwok Kin	Interest of a controlled corporation	18,280,155	7.54	5
Ms. Ho Fung Ying	Family interests	18,280,155	7.54	5
Top Right Trading Limited ("Top Right")	Beneficial owner	17,195,431	7.09	6
Mr. Huang Wei Ye	Interest of a controlled corporation	17,195,431	7.09	6
Ms. Ye Jian Qun	Family interests	17,195,431	7.09	6

Notes:

1. Triple Express is a company beneficially wholly-owned by Mr. Fang Shin. By virtue of the SFO, Mr. Fang Shin is deemed to be interested in the same parcel of Shares in which Triple Express is interested. Mrs. Fang Chang Rose Jean is the spouse of Mr. Fang Shin and is deemed to be interested in the same parcel of Shares in which Mr. Fang Shin is interested by virtue of the SFO.

2. Top Prospect is a company beneficially wholly-owned by Mr. Yuan Han Xiang. By virtue of the SFO, Mr. Yuan Han Xiang is deemed to be interested in the same parcel of Shares in which Top Prospect is interested.

3. King Right is a company beneficially wholly-owned by Mr. Sung Kai Hing, who is also the sole director of King Right. Ms. Wong Wai King is the spouse of Mr. Sung Kai Hing and is deemed to be interested in the same parcel of Shares in which Mr. Sung Kai Hing is interested by virtue of the SFO.

4. United Sino is a company beneficially wholly-owned by Mr. Cheung Kong Cheung, who is also the sole director of United Sino. Ms. Li Xin is the spouse of Mr. Cheung Kong Cheung and is deemed to be interested in the same parcel of Shares in which Mr. Cheung is interested by virtue of the SFO.

5. Golden Sunday is a company beneficially wholly-owned by Mr. Chan Kwok Kin. By virtue of the SFO, Mr. Chan is deemed to be interested in the same parcel of Shares in which Golden Sunday is interested. Ms. Ho Fung Ying is the spouse of Mr. Chan and is deemed to be interested in the same parcel of Shares in which Mr. Chan is interested by virtue of the SFO.

6. Top Right is a company beneficially wholly-owned by Mr. Huang Wei Ye. By virtue of the SFO, Mr. Huang Wei Ye is deemed to be interested in the same parcel of Shares in which Top Right is interested. Ms. Ye Jian Qun is the spouse of Mr. Huang Wei Ye and is deemed to be interested in the same parcel of Shares in which Mr. Huang is interested by virtue of the SFO.

Save as disclosed above, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company by the written resolutions of the shareholders on 29 May 2009, certain Directors and employees of the Company were granted share options to subscribe for the Shares at the exercise price of HK$1.0647 per Share. Details of the share options movements during the six months ended 30 June 2011 under the Pre-IPO Share Option Scheme were as follows:

Name	Date of grant	Outstanding share options granted under the Pre-IPO Share Option Scheme as at 1 January 2011	Number of share options: Granted during the period	Number of share options: Exercised during the period	Number of share options: Lapsed during the period	Outstanding share options granted under the Pre-IPO Share Option Scheme as at 30 June 2011	Exercise period
Directors of the Company							
Mr. Sung Kai Hing	29 May 2009	1,498,670	–	–	–	1,498,670	23/12/2009 – 30/12/2016
Mr. Cheung Kong Cheung	29 May 2009	1,498,670	–	–	–	1,498,670	23/12/2009 – 30/12/2016
Mr. Sun Jian	29 May 2009	374,667	–	–	–	374,667	23/12/2009 – 19/6/2017
		187,334	–	–	–	187,334	20/6/2010 – 19/6/2017
		187,334	–	–	–	187,334	20/6/2011 – 19/6/2017
Other employees							
In aggregate	29 May 2009	3,746,675	–	–	–	3,746,675	23/12/2009 – 30/12/2016
		374,667	–	–	–	374,667	23/12/2009 – 19/6/2017
		374,668	–	–	–	374,668	31/12/2009 – 30/12/2016
		374,667	–	–	–	374,667	31/12/2010 – 30/12/2016
		187,334	–	–	–	187,334	20/6/2010 – 19/6/2017
		187,334	–	–	–	187,334	20/6/2011 – 19/6/2017
Total		8,992,020	–	–	–	8,992,020	

Note: The closing price before the date of grant is not available as the Shares were first listed on the Stock Exchange on 22 June 2009.

Share Option Scheme

The Company also adopted the Share Option Scheme by the written resolutions of the shareholders on 29 May 2009. The purpose of the Share Option Scheme is to enable the Company to grant options to full-time or part-time employees, directors, consultants, advisers, distributor, contractor, supplier, service provider, agent, customer and business partner of the Company and/or any of its subsidiaries (the "**Eligible Participants**") as incentives or rewards for their contribution to the growth of the Group and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Participants. Details of the share options movements during the six months ended 30 June 2010 under the Share Option Scheme were as follows:

Name	Outstanding share options granted under the Share Option Scheme as at 1 January 2011	Date of grant	Number of share options: Granted during the period	Number of share options: Exercised during the period	Number of share options: Lapsed during the period	Outstanding share options granted under the Share Option scheme as at 30 June 2011	Exercise period
Directors of the Company							
Mr. Sung Kai Hing	–	5 May 2011#	750,000	–	–	750,000	5/5/2012 – 4/5/2014
	–	5 May 2011#	750,000	–	–	750,000	1/1/2013 – 4/5/2014
Mr. Cheung Kong Cheung	–	5 May 2011#	750,000	–	–	750,000	5/5/2012 – 4/5/2014
	–	5 May 2011#	750,000	–	–	750,000	1/1/2013 – 4/5/2014
Mr. Sun Jian	150,000	23 April 2010*	–	–	–	150,000	23/4/2011 – 22/4/2013
	150,000	23 April 2010*	–	–	–	150,000	1/1/2012 – 22/4/2013
Ms. Shao Hanqing	150,000	23 April 2010*	–	–	–	150,000	23/4/2011 – 22/4/2013
	150,000	23 April 2010*	–	–	–	150,000	1/1/2012 – 22/4/2013
Mr. Kong Hing Ki	150,000	23 April 2010*	–	–	–	150,000	23/4/2011 – 22/4/2013
	150,000	23 April 2010*	–	–	–	150,000	1/1/2012 – 22/4/2013
Other employees							
In aggregate	5,550,000	23 April 2010*	–	–	–	5,550,000	23/4/2011 – 22/4/2013
	5,550,000	23 April 2010*	–	–	–	5,550,000	1/1/2012 – 22/4/2013
	–	5 May 2011#	500,000	–	–	500,000	5/5/2012 – 4/5/2014
	–	5 May 2011#	500,000	–	–	500,000	5/5/2013 – 4/5/2014
Total	12,000,000		4,000,000	–	–	16,000,000	

Notes:

* The exercise price of the options granted on 22 April 2010 under the Share Option Scheme as set out above is HK$1.422 per Share. The closing price of the Shares immediately before the date of grant of such options was HK$1.39 per Share.

The exercise price of the options granted on 5 May 2011 under the Share Option Scheme as set out above is HK$1.80 per Share. The closing price of the Shares immediately before the date of grant of such options was HK$1.60 per share.

CORPORATE GOVERNANCE

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Directors continuously observe the principles of good corporate governance in the interests of shareholders and devote considerable effort to identifying and formalizing best practice.

During the six months ended 30 June 2011, the Company has complied with most of the code provisions set out in the Appendix 14 Code on Corporate Governance Practices (the "Code") to the Listing Rules, except for the deviation from the code provision A.2.1 of the Code as described below.

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Sung Kai Hing is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same individual provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules ("Model Code") as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions for the 6-month period ended 30 June 2011.

AUDIT COMMITTEE

The Company established an audit committee on 29 May 2009 with written terms of reference which are in compliance with the code provisions of the Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee currently has three members comprising Mr. Kong Hing Ki (Chairman), Mr. Sun Jian, and Ms. Shao Hanqing, all being independent non-executive Directors. The Audit Committee has reviewed the unaudited interim financial statements and the interim report for the six months ended 30 June 2011.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 29 May 2009 with written terms of reference which are in compliance with the code provisions of the Code. The remuneration committee makes recommendations to the Board on, among other matters, the Company's policy and structure for the remuneration of all Directors and the senior management of the Group and are delegated by the Board the responsibility to determine on behalf of the Board the specific remuneration packages for all Directors and the senior management of the Group. The remuneration committee consists of three members namely, Mr. Sun Jian (Chairman), Ms. Shao Hanqing and Mr. Kong Hing Ki, all being independent non-executive Directors.

NOMINATION COMMITTEE

The Company established a nomination committee on 29 May 2009 with written terms of reference which are in compliance with paragraph A.4.5 of the Code. The nomination committee shall make recommendations to the Board on appointment of Directors and succession planning for Directors. The nomination committee consists of five members namely Ms. Shao Hanqing (Chairman), Mr. Sung Kai Hing, Mr. Cheung Kong Cheung, Mr. Sun Jian and Mr. Kong Hing Ki.

AUDIT COMMITTEE REVIEW

The accounting information given in this interim report has not been audited but has been reviewed by the Audit Committee of the Company.

PUBLICATION OF UNAUDITED INTERIM RESULTS

The Company's 2011 interim report is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.hingleehk.com.hk.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and business partners for their continuous supports. My thanks also go to all staff members of the Group for their contributions and commitment to the continuous success of the Group.

By Order of the Board of
Hing Lee (HK) Holdings Limited
Sung Kai Hing
Chairman and Chief Executive Officer
Hong Kong, 15 August 2011