



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

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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

COMPLIANCE ADVISER

Shenyin Wanguo Capital (H.K.) Limited

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 2010 with comparative figures for the corresponding period in 2009.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

| | | (Unaudited) | |
|---|-------|------------------|------------------|
| | | Six months ended | |
| | | 30 June | |
| | Notes | 2010 HK\$'000 | 2009 HK\$'000 |
| Turnover | 3 | 212,873 | 186,666 |
| Cost of sales | | (165,124) | (151,473) |
| Gross profit | | 47,749 | 35,193 |
| Other revenue | | 803 | 444 |
| Selling and distribution expenses | | (18,211) | (14,290) |
| Administrative expenses | | (13,524) | (11,775) |
| Profit from operations | | 16,817 | 9,572 |
| Finance costs | | (279) | – |
| Profit before taxation | 5 | 16,538 | 9,572 |
| Taxation | 6 | (3,138) | (1,019) |
| Profit for the period | | 13,400 | 8,553 |
| Attributable to: | | | |
| Equity holders of the Company | | 13,016 | 8,335 |
| Minority interests | | 384 | 218 |
| | | 13,400 | 8,553 |
| Earnings per share for the profit attributable to the equity holders of the Company (HK cents) | 7 | | |
| – basic | | 6.51 | 5.47 |
| – diluted | | 6.39 | 5.47 |
| | | HK\$'000 | HK\$'000 |
| Dividend | 8 | 3,400 | 2,100 |

The notes on pages 8 to 23 form an integral part of this condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL POSITION**

| | | As at 30 June 2010 <i>HK\$'000</i> (Unaudited) | As at 31 December 2009 <i>HK\$'000</i> (Audited) |
|--|-------------|--|--|
| | <i>Note</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 142,145 | 132,012 |
| Prepaid lease payments | 9 | 47,829 | 47,906 |
| Available-for-sale investments | 10 | 6,742 | 8,262 |
| | | <u>196,716</u> | <u>188,180</u> |
| Current assets | | | |
| Prepaid lease payments | 9 | 1,040 | 1,030 |
| Inventories | | 102,432 | 68,662 |
| Trade receivables and bills receivable | 11 | 37,606 | 27,661 |
| Prepayments, deposits and other receivables | | 29,279 | 27,207 |
| Restricted bank deposits | | 4,585 | 14,188 |
| Cash and cash equivalents | | 74,975 | 86,773 |
| | | <u>249,917</u> | <u>225,521</u> |
| Current liabilities | | | |
| Trade payables | 12 | 85,298 | 48,052 |
| Other payables and accrued charges | | 28,545 | 41,715 |
| Current portion of secured bank loans | 13 | 21,687 | 16,850 |
| Current taxation | | 860 | 949 |
| | | <u>136,390</u> | <u>107,566</u> |
| Net current assets | | <u>113,527</u> | <u>117,955</u> |
| Total assets less current liabilities | | <u>310,243</u> | <u>306,135</u> |
| Non-current liabilities | | | |
| Non-current portion of secured bank loans | 13 | 35,152 | 42,518 |
| Net assets | | <u>275,091</u> | <u>263,617</u> |
| Equity | | | |
| Share capital | 14 | 2,000 | 2,000 |
| Reserves | | 267,443 | 256,400 |
| Total equity attributable to equity shareholders of the Company | | <u>269,443</u> | <u>258,400</u> |
| Minority interests | | 5,648 | 5,217 |
| Total equity | | <u>275,091</u> | <u>263,617</u> |



CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

| | (Unaudited) | |
|--|------------------|-----------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Profit for the period | 13,400 | 8,553 |
| Other comprehensive income | | |
| Fair value gains/(loss) on available-for-sale investment, net of tax | (1,520) | 2,422 |
| Currency translation differences | 1,867 | – |
| | <hr/> | <hr/> |
| Total comprehensive income for the period | 13,747 | 10,975 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Total comprehensive income attributable to | | |
| – equity holders of the Company | 13,316 | 10,757 |
| – minority interest | 431 | 218 |
| | <hr/> | <hr/> |
| | 13,747 | 10,975 |
| | <hr/> <hr/> | <hr/> <hr/> |

The notes on pages 8 to 23 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 | | | | | | | | | | |
| | Share capital | Share premium | Exchange reserve | Statutory reserve fund | Merger reserve | Fair value reserve | Share option reserve | Retained profits | Total | Minority interests | Total equity |
| Note | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK'000 |
| At 1 January 2009 | 387 | 44,350 | 20,553 | 5,750 | 25,430 | - | 5,110 | 103,429 | 205,009 | 4,345 | 209,354 |
| Profit for the period | - | - | - | - | - | - | - | 8,335 | 8,335 | 218 | 8,553 |
| Fair value change on available for sale investment recognised directly in equity | - | - | - | - | - | 2,422 | - | - | 2,422 | - | 2,422 |
| Total comprehensive income for the period ended 30 June 2009 | - | - | - | - | - | 2,422 | - | 8,335 | 10,757 | 218 | 10,975 |
| Equity-settled shares option arrangements | - | - | - | - | - | - | 233 | - | 233 | - | 233 |
| Capitalization issue | 1,113 | (1,113) | - | - | - | - | - | - | - | - | - |
| Shares issued under placing and public offer | 500 | 31,897 | - | - | - | - | - | - | 32,397 | - | 32,397 |
| Transfer of reserve | - | - | - | 120 | - | - | - | (120) | - | - | - |
| Dividends paid | - | - | - | - | - | - | - | - | - | - | - |
| | 1,613 | 30,784 | - | 120 | - | - | 233 | (120) | 32,630 | - | 32,630 |
| At 30 June 2009 | 2,000 | 75,134 | 20,553 | 5,870 | 25,430 | 2,422 | 5,343 | 111,644 | 248,396 | 4,563 | 252,959 |
| 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 shares option arrangements | - | - | - | - | - | - | 527 | - | 527 | - | 527 |
| Transfer of reserve | - | - | - | - | - | - | - | - | - | - | - |
| Dividends relating to 2009 paid in June 2010 | - | - | - | - | - | - | - | (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 |

The notes on pages 8 to 23 form an integral part of this condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

| | (Unaudited) | |
|--|------------------|-----------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash used in operating activities | (2,104) | (21,102) |
| Net cash used in investing activities | (4,149) | (30,184) |
| Net cash generated from/(used in) financing activities | (5,878) | 55,766 |
| Net increase (decrease) in cash and cash equivalents | (12,131) | 4,480 |
| Effect of foreign exchange rate changes | 333 | – |
| Cash and cash equivalents at the beginning of the period | 86,773 | 88,208 |
| Cash and cash equivalents at the end of the period | <u>74,975</u> | <u>92,688</u> |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and bank balances | <u>74,975</u> | <u>92,688</u> |

The notes on pages 8 to 23 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 and 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 2 August 2010.

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 2010 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 2009.

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.

The following new or revised HKFRSs, potentially relevant to the Group, have been issued but are not yet effective and have not been early adopted by the Group.

| | |
|-------------------|--|
| HK(IFRIC) | Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments ¹ |
| HKAS 24 (Revised) | Related Party Disclosures ² |
| HKFRS 9 | Financial Instruments ³ |

¹ Effective for annual periods beginning on or after 1 July 2010

² Effective for annual periods beginning on or after 1 January 2011

³ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the potential impact of these new or revised HKFRSs in the period of their initial application

3 Segment Reporting

For management purposes, the Group is organised into business units based on their products and services offered. Two reportable operating segments were identified as follows:

| | |
|-----------------------|--|
| Home furniture: | Design, manufacture, sale and marketing of home furniture and bed mattresses |
| Branded distribution: | Licensing of own brand names |

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

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 2010 and 30 June 2009, respectively:

| | 2010 | | | | 2009 | | | |
|---------------------------------|-----------|--------------|-------------|--------------|-----------|--------------|-------------|--------------|
| | Home | Branded | Unallocated | Consolidated | Home | Branded | Unallocated | Consolidated |
| | furniture | distribution | | | furniture | distribution | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue from external customers | 208,334 | 4,539 | - | 212,873 | 179,972 | 6,694 | - | 186,666 |
| Interest income | - | - | 214 | 214 | - | - | 61 | 61 |
| Interest expense | - | - | 279 | 279 | - | - | - | - |
| Depreciation and amortization | 5,232 | - | - | 5,232 | 3,082 | - | - | 3,082 |
| Reportable segment profit | 14,415 | 4,534 | - | 18,949 | 3,371 | 6,688 | - | 10,059 |

The following table presents segment assets of the Group's operating segments as at 30 June 2010 and 31 December 2009.

| | 2010 | | | | 2009 | | | |
|---------------------------|-----------|--------------|-------------|--------------|-----------|--------------|-------------|--------------|
| | Home | Branded | Unallocated | Consolidated | Home | Branded | Unallocated | Consolidated |
| | furniture | distribution | | | furniture | distribution | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Reportable segment assets | 411,914 | 8,740 | 25,979 | 446,633 | 377,421 | 5,369 | 30,911 | 413,701 |

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

| | (Unaudited) | |
|--|------------------|-----------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenues | | |
| Reportable segment revenue – Consolidated turnover | <u>212,873</u> | <u>186,666</u> |
| Profit or loss | | |
| Reportable segment profit | 18,949 | 10,059 |
| Other income | 803 | 444 |
| Unallocated amounts: | | |
| Interest expense | (279) | – |
| Other head office and corporate expenses | <u>(2,935)</u> | <u>(931)</u> |
| Consolidated profit before taxation | <u>16,538</u> | <u>9,572</u> |
| | | As at |
| | 30 June | 31 December |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Assets | | |
| Total assets for reportable segments | 420,654 | 382,790 |
| Available-for sales investments * | 6,742 | 8,262 |
| Unallocated head office and corporate assets | <u>19,237</u> | <u>22,649</u> |
| Consolidated total assets | <u>446,633</u> | <u>413,701</u> |

* 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 noncurrent assets is based on the physical location of the assets.

Revenue from external customers

| | (Unaudited) | |
|--|-----------------------|-----------------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Asia (excluding the People's Republic of China ("PRC"))* | 64,567 | 49,749 |
| Europe | 9,426 | 14,231 |
| PRC | 133,623 | 108,027 |
| Others | 5,257 | 14,659 |
| | <u>212,873</u> | <u>186,666</u> |

Specified non-current assets

| | As at | As at |
|--|-----------------------|-----------------------|
| | 30 June | 31 December |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Asia (excluding the People's Republic of China ("PRC"))* | 1,626 | 1,143 |
| Europe | - | - |
| PRC | 188,348 | 178,775 |
| Others | - | - |
| | <u>189,974</u> | <u>179,918</u> |

* 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 | 2,997,340 | 1.0647 | 23/12/2009 to 30/12/2016 |
| Directors of | 374,667 | 1.0647 | 23/12/2009 to 19/06/2017 |
| the Company: | 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 |
| Options granted to | 9,741,350* | 1.0647 | 23/12/2009 to 30/12/2016 |
| employees of | 374,667 | 1.0647 | 23/12/2009 to 19/06/2017 |
| the Group: | 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 |
| Total number of shares subject to the share options | 26,986,695 | | |

* Included share options to subscribe for a total of 2,997,340 ordinary shares of HK\$0.01 each of the Company granted to Mr. Chan Kwok Kin and Mr. Huang Wei Ye, entitling each of them to subscribe for 1,498,670 shares respectively. Both of them resigned as Directors of the Company on 29 May 2009. However, they remain as members of the senior management of the Group.

[‡] 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.

(b) Fair value of share options

For the six months ended 30 June 2010, the fair value of share options granted of HK\$525,753 (six months ended 30 June 2009: HK\$233,227) 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 | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| After charging | | |
| Auditor's remuneration | 400 | 400 |
| Cost of inventories sold | 165,124 | 151,473 |
| Staff costs (including Directors' emoluments) | | |
| – Directors' emoluments | 1,319 | 2,036 |
| – others | 33,118 | 16,781 |
| Depreciation | 4,712 | 2,569 |
| Amortisation of prepaid land lease payments | 520 | 514 |
| Impairment for inventories | – | 2,329 |
| Loss on disposal of fixed assets | 341 | – |
| Net exchange loss (gain) | (104) | 205 |
| | <u> </u> | <u> </u> |
| After crediting | | |
| Interest income | 214 | 61 |
| Reversal of impairment for doubtful debts | – | 149 |
| | <u> </u> | <u> </u> |

6 Taxation

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

| | (Unaudited) | |
|-----------------------------|-------------------|-------------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current income tax | | |
| – Hong Kong profits tax | – | – |
| – PRC enterprise income tax | 3,138 | 1,019 |
| | <u> </u> | <u> </u> |
| | <u>3,138</u> | <u>1,019</u> |

- (i) Pursuant to the income tax rules and regulations, the Group is not subject to income tax in Bermuda and the British Virgin Islands.
- (ii) The provision for Hong Kong profits tax for the six months ended 30 June 2010 is calculated at 16.5% (six months ended 30 June 2009: 16.5%) of the estimated assessable profits for each respective period.
- (iii) Hing Lee Ideas Limited is subject to Company Income Tax in Malaysia. No provision is made during the six months ended 30 June 2010 and 2009 as it has been dormant since its incorporation.
- (iv) 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 entitled to full exemption from the PRC EIT in 2006 and 2007, being its first two profitable years, and a 50% tax reduction of the PRC Enterprise Income Tax (“EIT”) rate of 25% in 2008 under the New EIT Law till 2010.

Shenzhen Xingli Furniture Company Limited was subject to the PRC EIT rate of 22% in 2010 (2009: 20%).

Shenzhen Xingli Zundian Furniture Company Limited, (“Shenzhen Xingli Zundian”) was exempted from the PRC EIT for its first two profitable years, commencing from 1 January 2005, and thereafter was entitled to a 50% tax reduction in the PRC EIT for the subsequent three consecutive years from 1 January 2007 onwards. Shenzhen Xingli Zundian was subject to the PRC EIT rate of 22% in 2010 (2009: 10% as it was entitled to 50% reduction of 20%).

(b) Deferred taxation

The potential unaudited deferred tax asset of HK\$144,000 (As at 30 June 2009: HK\$328,000) relating to tax losses available for carry forward and other timing differences as at 30 June 2010 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 2010, the Group has unrecognised deferred tax liabilities of HK\$3,751,000 (30 June 2009: HK\$3,038,000) in relation to withholding tax on undistributed earnings of HK\$75,019,000 (30 June 2009: HK\$60,762,000) 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 2009: 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 2010 is based on the profit attributable to equity holders of the Company of HK\$13,016,000 (six months ended 30 June 2009: profit of HK\$8,335,000) and the weighted average number of ordinary shares of the Company in issue during the six months ended 30 June 2010 of 200,000,000 (six months ended 30 June 2009: 152,486,190 ordinary shares).

| | (Unaudited) | |
|--|----------------------|----------------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>No. of shares</i> | <i>No. of shares</i> |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | 200,000,000 | 152,486,190 |

(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\$13,016,000 (six months ended 30 June 2009: HK\$8,335,000) and the weighted average number of ordinary shares (diluted) of 203,641,985 shares, calculated as follows:

| | (Unaudited) | |
|--|-----------------------------|---------------------------|
| | Six months ended 30 June | |
| | 2010 | 2009 |
| | <i>No. of shares</i> | <i>No. of shares</i> |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | 200,000,000 | 152,486,190 |
| Effect of dilutive potential ordinary shares arising from share options | <u>3,641,985</u> | — |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | <u><u>203,641,985</u></u> | <u><u>152,486,190</u></u> |

8 Dividend

In June 2010, the final dividend in respect of the financial year ended 31 December 2009 of HK1.40 cents (31 December 2008: Nil) per share totaling HK\$2,800,000 (31 December 2008: Nil) was paid to shareholders.

A dividend in respect of the six months ended 30 June 2010 of HK1.70 cents (six months ended 30 June 2009: HK1.05 cents) per share, amounting to a total dividend of HK\$3,400,000 (six months ended 30 June 2009: HK\$2,100,000) was proposed by the Board on 2 August 2010. 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 <i>HK\$'000</i> (Unaudited) | Prepaid lease payments <i>HK\$'000</i> (Unaudited) |
|--|--|---|
| 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) |
| | <hr/> | <hr/> |
| Net book value as at 30 June 2010 | <u>142,145</u> | <u>48,869</u> |
| | | |
| Six month ended 30 June 2009 | | |
| Net book value as at 1 January 2009 | 74,438 | 49,886 |
| Additions | 30,183 | – |
| Disposals | – | – |
| Depreciation and amortization | (2,569) | (514) |
| | <hr/> | <hr/> |
| Net book value as at 30 June 2009 | <u>102,052</u> | <u>49,372</u> |
| | | |
| 10 Available-for-sale investments | | |
| | As at | As at |
| | 30 June | 31 December |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (Unaudited) | (Audited) |
| Listed equity-investments, at market value | | |
| – Hong Kong | <u>6,742</u> | <u>8,262</u> |

11 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 2010 <i>HK\$'000</i> (Unaudited) | As at 31 December 2009 <i>HK\$'000</i> (Audited) |
|---------------------|---|--|
| Within 3 months | 29,392 | 23,923 |
| 3 to 6 months | 3,804 | 3,525 |
| 6 to 12 months | 2,917 | 213 |
| More than 12 months | 1,493 | – |
| | <u>37,606</u> | <u>27,661</u> |

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

12 Trade payables

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

| | As at 30 June 2010 <i>HK\$'000</i> (Unaudited) | As at 31 December 2009 <i>HK\$'000</i> (Audited) |
|--------------------|---|--|
| Within 3 months | 78,322 | 45,021 |
| 3 months to 1 year | 6,797 | 2,457 |
| Over 1 year | 179 | 574 |
| | <u>85,298</u> | <u>48,052</u> |

13 Secured bank loans

All bank loans of the Group are denominated in Renminbi. They are wholly repayable as follows:

| | As at 30 June 2010 <i>HK\$'000</i> (Unaudited) | As at 31 December 2009 <i>HK\$'000</i> (Audited) |
|---------------------------------|---|--|
| Within one year | 21,687 | 16,850 |
| After 1 year but within 2 years | 11,463 | 28,585 |
| After 2 year but within 5 years | 23,689 | 13,933 |
| | 35,152 | 42,518 |
| | 56,839 | 59,368 |

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 2010, none of the covenants relating to drawn down facilities had been breached (31 December 2009: Nil).

14 Share capital

| | (Unaudited) 30 June 2010 | | (Audited) 31 December 2009 | |
|-------------------------------------|---|--------------------|---|--------------------|
| | Number of Ordinary shares of HK\$0.01 each | Amount HK\$'000 | 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: | | <i>HK\$'000</i> | | <i>HK\$'000</i> |
| Beginning of period/year | 200,000,000 | 2,000 | 49,644 | 387 |
| Arising from sub-division of shares | - | - | 38,672,676 | - |
| Issued upon Capitalization Issue | - | - | 111,277,680 | 1,113 |
| Issued under the Share Offer | - | - | 50,000,000 | 500 |
| At the end of the period/year | 200,000,000 | 2,000 | 200,000,000 | 2,000 |

Notes:

- (i) On 5 May 2009, the currency denomination of the issued and unissued share capital of the Company was changed from United States Dollars to Hong Kong Dollars by adopting the exchange rate of US\$1.00 to HK\$7.80 such that the Company's authorized share capital has become HK\$390,000 divided into 50,000 shares of HK\$7.80 each and the issued share capital has become HK\$387,223.20 divided into 49,644 shares of HK\$7.80 each and immediately thereafter, each of the issued and unissued shares of HK\$7.80 each in the share capital of the Company was subdivided into 780 shares of HK\$0.01 each so that the share capital of the Company comprised 38,722,320 issued shares and 277,680 unissued shares of HK\$0.01 each.
- (ii) Pursuant to the written resolutions of the shareholders of the Company passed on 29 May 2009, the authorized share capital of the Company was increased from HK\$390,000 to HK\$10,000,000 by the creation of an additional of 961,000,000 shares of HK\$0.01 each ("Shares").

- (iii) Conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorized to capitalize an amount of HK\$1,112,776.80 from the amount standing to the credit of the share premium account of the Company and that the said sum be capitalized and applied to pay up in full at par a total of 111,277,680 Shares for allotment and issue, credited as fully paid at par, to the holders of Shares whose names appear on the register of members of the Company at the close of business on 29 May 2009 or as each of them may direct in writing, in proportion (or as nearly as possible without involving the issue of fractions of Shares) to their respective shareholdings in the Company.
- (iv) On 22 June 2009, a total number of 50,000,000 new shares were issued to the public at HK\$1.02 per Share for cash totaling HK\$51,000,000. The excess of the issue price over the par value of the Shares, net of Share issuing expenses was debited to the share premium account of the Company.

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.

15 Capital commitments

| | As at 30 June 2010 HK\$'000 (Unaudited) | As at 31 December 2009 HK\$'000 (Audited) |
|--|--|--|
| Contracted but not provided for: | | |
| – Construction of factory building | 5,868 | 9,365 |
| – Acquisition of property, plant and equipment | 729 | 609 |
| | <u>6,597</u> | <u>9,974</u> |
| Authorised but not contracted for: | | |
| – Acquisition of property, plant and equipment | <u>8,279</u> | <u>12,157</u> |

16 Contingent liabilities

As at 30 June 2010, the Group and the Company had no significant contingent liabilities.

17 Material Related Party Transactions

Key management personnel compensation:

| | (Unaudited) | |
|--|------------------|-----------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries and other short-term benefits | 2,737 | 2,505 |
| Post-employment benefits | 34 | 29 |
| Share-based payments | 390 | 233 |
| | <u>3,161</u> | <u>2,767</u> |

18 Merger and acquisition

During the period under review, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

19 Events after the reporting period

There are no significant events subsequent to 30 June 2010 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

In 2008, the Group laid the foundation for its new production plant in Shenzhen. The construction of the new factory was completed and was equipped with advanced equipments. The operations of the new production plant commenced in the period under review, and the new plant increased the maximum annual production capacity of the Group, and laid a foundation for future development of the Group.

FINANCIAL REVIEW

Turnover

The Group's turnover increased by approximately 14.0% from about HK\$186.7 million for the six months ended 30 June 2009 to HK\$212.9 million for the six months ended 30 June 2010. The increase in turnover during the period was primarily due to the increases in domestic sales of approximately HK\$25.6 million or 23.7%. The increase in the domestic sales during the period was a result of the increase in demand of middle to high-end furniture products and the co-operation with our distributors.

Gross Profit

During the period under review, the Group's gross profit margin increased by 3.5 percentage point to 22.4% (six months ended 30 June 2009: 18.9%). The prices of major raw materials (such as MDF board, ironware, paint and sponge) and the costs of transportation are generally increased when compared with the corresponding period of 2009.

With the operation of the new plant in Shenzhen, the Group is taking steps to consolidate and restructure some of its operating units to fortify its foundation for future development, and as a result, cost effectiveness and production efficiency are enhanced; these not only offsets the impact of the increase in material costs; but also further increase the profitability of the Group.

Selling and Distribution Expenses

The Group's selling and distribution expenses amounted to about HK\$18.2 million for the six months ended 30 June 2010, against about HK\$14.3 million for the six months ended 30 June 2009. The increase in selling and distribution expenses is a result of the increase in staff costs and the general increase of expenses which are in line with the increase in turnover.

Administrative Expenses

For the six months ended 30 June 2010, the Group's administrative expenses were approximately HK\$13.5 million against about HK\$11.8 million for the six months ended 30 June 2009, representing an increase of about 14.4%. Such increase was mainly attributable to the addition of the new production plant in Shenzhen and the staff costs associated with it.

Net Profit

The Group's net profit attributable to equity holders of the Company surged by approximately 56.2% from approximately HK\$8.3 million for the six months ended 30 June 2009 to approximately HK\$13.0 million for the six months ended 30 June 2010, and the net profit ratio increased from 4.6% to 6.3%.

PROSPECT

With PRC's growing domestic consumption and sound economic fundamentals, the Group believes the furniture business in PRC would continue to be a blooming and prosperous market. 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. With its successful marketing strategies and optimized product mix, the Group is optimistic that it would be able to further expand its market share in the domestic markets, and to increase recognition worldwide particularly in the international market when the global market recovered.

The Group will also explore potential mergers and acquisition opportunities at appropriate time.

LIQUIDITY AND FINANCIAL RESOURCES

All of the Group's funding and treasury activities are managed and controlled by the senior management.

The Group maintained cash and bank balances of HK\$75.0 million as at 30 June 2010 (31 December 2009: HK\$86.8 million).

As at 30 June 2010, the Group's bank borrowings amounted to HK\$56.8 million (31 December 2009: HK\$59.4 million). As at the same date, the gearing ratio (total debt/total equity) was 0.62 (31 December 2009: 0.57).

As at 30 June 2010, the current ratio (current assets/current liabilities) was 1.8 times (31 December 2009: 2.1) and the net current assets amounted to HK\$113.5 million (31 December 2009: HK\$118.0 million).

Use of Proceeds from the Initial Public Offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 22 June 2009. The Company utilized the proceeds from the initial public offering as set out in the Prospectus as follows:

| Use of proceeds | Utilized <i>HK\$ million</i> |
|--|--|
| Marketing and promotion | 5 |
| Strengthening design and development capabilities and expanding product range | 5 |
| Acquiring new production equipments | 10 |
| Partial repayment of the banking facilities | 13 |

The Group had fully utilized the proceeds from the initial public offering as at 30 June 2010.

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 currency giving rise to this risk is primarily Renminbi and United States dollars. As most of the transaction denominated and settled in the same currency, hence, the Group's foreign currency risk is considered to be minimal by the Directors at the reporting date. 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 2010, the Group's banking facilities were secured by (i) a legal charge over a piece of land located in Longgang, Shenzhen; (ii) a letter of undertaking provided by the Group to mortgage a factory plant located in Longgang, Shenzhen upon the availability of ownership certificate on or before 31 December 2010; and (iii) corporate guarantees provided by the Company and a subsidiary of the Company.

EMPLOYEES

As at 30 June 2010, the Group employed approximately 1,650 employees (30 June 2009: approximately 1,150). Total staff cost, including Directors' emoluments, amounted to HK\$34.4 million (30 June 2009: HK\$18.8 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.

The relationship between the management and staff has been good. There have not been any labour disputes or work stoppages which have disrupted the operations of the Group.

INTERIM DIVIDEND

The Board recommends the payment of an interim dividend of HK1.70 cents (30 June 2009: HK1.05 cents) per share for the six months ended 30 June 2010. The interim dividend will be distributed on or about 27 August 2010 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 20 August 2010.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 August 2010 to 20 August 2010, 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 17 August 2010.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

During the period ended 30 June 2010, 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 2010, 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 (<i>note 1</i>) | Corporate interests | 18,280,155 | 9.14% |
| Mr. Cheung Kong Cheung (<i>note 2</i>) | Corporate interests | 18,280,155 | 9.14% |

Notes:

- 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.
- 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 2010, 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 2010, 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 | 33.98 | 1 |
| Mr. Fang Shin | Interest of a controlled corporation | 67,964,104 | 33.98 | 1 |
| Mrs. Fang Chang Rose Jean | Family interests | 67,964,104 | 33.98 | 1 |
| King Right Holdings Limited (“King Right”) | Beneficial owner | 18,280,155 | 9.14 | 2 |
| Ms. Wong Wai King | Family interests | 18,280,155 | 9.14 | 2 |
| United Sino Limited (“United Sino”) | Beneficial owner | 18,280,155 | 9.14 | 3 |
| Ms. Li Xin | Family interests | 18,280,155 | 9.14 | 3 |
| Golden Sunday Limited | Beneficial owner | 18,280,155 | 9.14 | 4 |
| Mr. Chan Kwok Kin | Interest of a controlled corporation | 18,280,155 | 9.14 | 4 |
| Ms. Ho Fung Ying | Family interests | 18,280,155 | 9.14 | 4 |
| Top Right Trading Limited | Beneficial owner | 17,195,431 | 8.60 | 5 |
| Mr. Huang Wei Ye | Interest of a controlled corporation | 17,195,431 | 8.60 | 5 |
| Ms. Ye Jian Qun | Family interests | 17,195,431 | 8.60 | 5 |



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. 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.
3. 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.
4. Golden Sunday Limited (“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.
5. Top Right Trading Limited (“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 2010 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 2010 | Number of share options | | | Outstanding share options granted under the Pre-IPO Share Option Scheme as at 30 June 2010 | Exercise period |
|---------------------------------|---------------|--|---------------------------|-----------------------------|--------------------------|--|-------------------------|
| | | | Granted during the period | Exercised during the period | Lapsed during the 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 | 9,741,350 | - | - | - | 9,741,350 | 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 | | 14,986,695 | - | - | - | 14,986,695 | |

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 2010 | | Number of share options | | | Outstanding share options granted under the Share Option scheme as at 30 June 2010 | | Exercise period |
|---------------------------------|--|---------------|---------------------------|-----------------------------|--------------------------|--|--|-----------------------|
| | Date of grant | | Granted during the period | Exercised during the period | Lapsed during the period | | | |
| Directors of the Company | | | | | | | | |
| Mr. Sun Jian | - | 23 April 2010 | 150,000 | - | - | 150,000 | | 23/4/2011 – 22/4/2013 |
| | | | 150,000 | - | - | 150,000 | | 1/1/2012 – 22/4/2013 |
| Ms. Shao Hanqing | - | 23 April 2010 | 150,000 | - | - | 150,000 | | 23/4/2011 – 22/4/2013 |
| | | | 150,000 | - | - | 150,000 | | 1/1/2012 – 22/4/2013 |
| Mr. Kong Hing Ki | - | 23 April 2010 | 150,000 | - | - | 150,000 | | 23/4/2011 – 22/4/2013 |
| | | | 150,000 | - | - | 150,000 | | 1/1/2012 – 22/4/2013 |
| Other employees | | | | | | | | |
| In aggregate | - | 23 April 2010 | 5,550,000 | - | - | 5,550,000 | | 23/4/2011 – 22/4/2013 |
| | | | 5,550,000 | - | - | 5,550,000 | | 1/1/2012 – 22/4/2013 |
| Total | - | | 12,000,000 | - | - | 12,000,000 | | |

Note: The exercise price of the options granted 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\$1.410 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 2010, 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 2010.

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 2010.

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 2010 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, 2 August 2010