HONGGUO INTERNATIONAL

Hongguo International Holdings Limited
鴻國國際控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1028)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Hongguo International Holdings Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2011, together with the comparative figures for the corresponding period in 2010, are as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Revenue	**928,000**	715,111
Gross profit	**578,137**	393,061
Operating profit	**180,533**	79,963
Income tax expenses	**(49,886)**	(20,715)
Net profit attributable to equity holders of the Company	**130,647**	58,529
	%	*%*
Gross profit margin	**62.3**	55.0
Operating profit margin	**19.5**	11.2
Net profit margin	**14.1**	8.2
	RMB cents	*RMB cents*
Earnings per share		
– Basic	**7.69**	3.44

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Continuing operations			
Revenue	*3*	**928,000**	715,111
Cost of sales		**(349,863)**	(322,050)
Gross profit		**578,137**	393,061
Other income and expenses, other gains and losses		**(943)**	3,352
Distribution and selling expenses		**(359,673)**	(271,124)
Administrative and general expenses		**(35,108)**	(42,866)
Finance costs		**(980)**	(903)
Share of losses of joint ventures		**(900)**	(1,557)
Profit before tax	*4*	**180,533**	79,963
Income tax expense	*5*	**(49,886)**	(20,715)
Net profit for the period from continuing operations		**130,647**	59,248
Discontinued operations			
Loss for the period from discontinued operations		**–**	(719)
Net profit and total comprehensive income for the period attributable to owners of the Company		**130,647**	58,529
Earnings per share			
From continuing and discontinued operations			
– Basic (RMB cents)	*7*	**7.69**	3.44
From continuing operations			
– Basic (RMB cents)	*7*	**7.69**	3.48

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		**100,149**	86,277
Prepaid lease payments		**15,495**	15,686
Investment properties		**46,069**	46,069
Intangible assets		**1,960**	1,814
Interest in joint ventures		**4,473**	5,804
Deferred tax assets		**11,880**	10,200
Long-term deposit		**8,113**	7,197
		188,139	173,047
Current assets			
Inventories		**383,888**	410,263
Trade receivables	*8*	**191,650**	179,930
Other receivables and prepayments		**41,395**	38,360
Pledged bank deposits		**18,498**	33,784
Bank balances and cash		**222,923**	161,409
		858,354	823,746
Current liabilities			
Trade payables	*9*	**129,711**	197,161
Other payables		**89,032**	95,471
Income tax liabilities		**32,771**	46,435
Deferred revenue		**13,872**	8,581
Short-term bank loans	*10*	**64,716**	–
		330,102	347,648
Net current assets		**528,252**	476,098
Total assets less current liabilities		**716,391**	649,145
Non-current liability			
Deferred tax liabilities		**8,099**	7,059
		708,292	642,086
Capital and reserves			
Share capital	*11*	**49,271**	49,271
Reserves		**659,021**	592,815
Total equity attributable to owners of the Company		**708,292**	642,086

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Equity attributable to owners of the Company					
	Share capital	**Share premium**	**PRC Statutory reserve**	**Share option reserve**	**Accumulated profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010 (audited)	49,271	98,093	68,690	3,074	437,176	656,304
Net profit and total comprehensive income for the period	–	–	–	–	58,529	58,529
Recognition of equity-settled share based payments	–	–	–	7,502	–	7,502
Transfer on cancellation of equity-settled share based payments	–	–	–	(10,576)	10,576	–
Dividend paid	–	–	–	–	(95,180)	(95,180)
At 30 June 2010 (unaudited)	49,271	98,093	68,690	–	411,101	627,155
At 1 January 2011 (audited)	49,271	98,093	83,639	–	411,083	642,086
Net profit and total comprehensive income for the period	–	–	–	–	130,647	130,647
Dividend paid	–	–	–	–	(64,441)	(64,441)
At 30 June 2011 (unaudited)	49,271	98,093	83,639	–	477,289	708,292

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Company was incorporated in Bermuda under the Companies Act as an exempted company with limited liability on 26 April 2002 and was listed on the Singapore Exchange Security Trading Limited ("SGX-ST") in June 2003. The Company was later delisted from the SGX-ST on 6 May 2010 (the "Delisting"). The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 23 September 2011. The parent and ultimate parent of the Company is High Score Holdings Limited.

The condensed consolidated financial statements have 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 and International Accounting Standard 34, *Interim Financial Reporting*.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at fair value.

The accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's financial information for each of the three years ended 31 December 2010 and three months ended 31 March 2011 as contained in the accountants' report (the "Accountants' Report") under Appendix I of the Company's prospectus dated 12 September 2011 (the "Prospectus").

The Group has not early applied new or revised International Financial Reporting Standards, International Accounting Standards and amendments (hereafter collectively referred to as "IFRSs") that have been issued but are not yet effective as set out in Note 2 to Section A of the Accountants' Report.

The directors of the Company anticipate that the application of these new or revised IFRSs will have no material impact on the results and the financial position of the Group in the future.

There are no new or revised IFRSs have been issued but are not effective subsequent to the date of the Prospectus.

3. REVENUE AND SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results from continuing operations by reportable and operating segments, i.e. retail and wholesale of branded fashion footwear ("Retail and wholesale") and contract manufacturing of footwear ("Contract manufacturing"), for the period under review:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Segment revenue		
Retail and wholesale		
– external sales	**817,656**	613,774
Contract manufacturing		
– external sales	**110,344**	101,337
– inter-segment sales	**2,948**	–
Eliminations	**(2,948)**	–
	928,000	715,111
Segment results		
Retail and wholesale	**172,114**	76,855
Contract manufacturing	**10,299**	5,568
	182,413	82,423
Unallocated finance costs	**(980)**	(903)
Share of losses of joint ventures	**(900)**	(1,557)
Profit before tax	**180,533**	79,963
Income tax expense	**(49,886)**	(20,715)
Net profit for the period from continuing operations	**130,647**	59,248

Inter-segment sales are charged at prevailing market prices.

The following is an analysis of the Group's assets by reportable and operating segments:

	30 June 2011 *RMB'000* (unaudited)	31 December 2010 *RMB'000* (audited)
Continuing operations		
Retail and wholesale	**938,285**	908,226
Contract manufacturing	**221,822**	236,980
Eliminations	**(118,087)**	(154,217)
Total segment assets	**1,042,020**	990,989
Unallocated	**4,473**	5,804
Consolidated assets	**1,046,493**	996,793

4. PROFIT BEFORE TAX FOR THE PERIOD FROM CONTINUING OPERATIONS

Profit for the period from continuing operations has been arrived at after crediting (charging) the following items:

	Six months ended 30 June 2011 *RMB'000* (unaudited)	2010 *RMB'000* (unaudited)
Depreciation of property, plant and equipment	**7,331**	6,537
Amortisation of prepaid lease payments (included under administrative and general expenses)	**191**	191
Amortisation of intangible assets (included under administrative and general expenses)	**200**	151
Total depreciation and amortisation	**7,722**	6,879
Cost of inventories recognised as an expense (including allowance for inventories obsolescence)	**313,912**	286,707
Expense recognised in respect of equity-settled share-based payments	**–**	7,502

5. INCOME TAX EXPENSE (RELATING TO CONTINUING OPERATIONS)

	Six months ended 30 June 2011 *RMB'000* (unaudited)	2010 *RMB'000* (unaudited)
Current tax:		
Enterprise income tax	**50,526**	20,579
Deferred tax (credit) charge:		
Current period	**(640)**	136
	49,886	20,715

The Company incorporated in Bermuda and subsidiaries of the Group incorporated in the British Virgin Islands and Hong Kong are not subject to local income tax in their respective jurisdiction.

In accordance with the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax promulgated on 16 March 2007 (the "New Tax Law"), subsidiaries of the Group located in the PRC are subject to PRC Enterprise Income Tax rate of 25% (six months ended 30 June 2010: 25%, except for Nanjing Soft Garment & Footwear Co., Ltd. which was subject to a tax rate at 12.5% pursuant to certain tax concessions applicable under the New Tax Law).

Upon the New Tax Law, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities in Hong Kong shall be subject to the withholding tax at 5%. At 30 June 2011, deferred tax in relation to withholding income tax for the undistributed profits of PRC entities, amounting to RMB377,218,000 (31 December 2010: RMB258,486,000) have not been provided, as the directors of the Company did not anticipate to distribute for such profits from its PRC subsidiaries in the foreseeable future.

6. DIVIDENDS

During the current interim period, a dividend of USD 0.0247 per share amounting to USD 9,801,000 (equivalent to RMB 64,441,000) was proposed and paid to shareholders. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011.

During the prior interim period, total dividends of USD 0.0353 per share amounting to USD 14,000,000 (equivalent to RMB 95,180,000) was proposed and paid to shareholders.

7. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of basic earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
Earnings (RMB'000)		
Earnings for the purposes of basic earnings per share	**130,647**	58,529
Number of shares ('000)		
Number of ordinary shares for the purpose of basic earnings per share	**1,700,000**	1,700,000
Earnings per share (RMB cents)		
– Basic	**7.69**	3.44

The number of ordinary shares for the purpose of calculating basic earnings per share for the periods has been retrospectively adjusted for the capitalization issue disclosed in Appendix VII to the Prospectus as if the shares had been in issue throughout the periods.

No diluted earnings per share had been presented for the period ended 30 June 2010 because the exercise price of the Company's outstanding share options, after adjustment for future services to be rendered according to IFRS 2 "Share-based Payment", was higher than the average market price of the Company's shares throughout the period before cancellation upon the Delisting in May 2010.

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earning figures are calculated as follows:		
Profit for the period attributable to owners of the Company	**130,647**	58,529
Less:Loss for the period from discontinued operations	**–**	(719)
Earnings for the purpose of basic earnings per share from continuing operations	**130,647**	59,248

The denominators used are the same as those detailed above for calculation of basic earnings per share from continuing and discontinued operations.

From discontinued operations

Basic loss per share for the discontinued operations is nil (six months ended 30 June 2010: RMB 0.04 cents per share) based on the loss for the period from the discontinued operations of nil (six months ended 30 June 2010: RMB 719,000) and the denominators used are the same as those detailed above for calculation of basic earnings per share from continuing operations.

8. TRADE RECEIVABLES

The Group allows an average credit period of 60 days for collection of the trade receivables. The following is an aged analysis of trade receivables, presented based on the invoice date at the end of the reporting period.

	30 June	31 December
	2011	2010
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 60 days	**185,346**	177,688
61 to 180 days	**6,253**	1,191
181 days to 1 year	**51**	464
Over 1 year	**–**	587
	191,650	179,930

9. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
0 to 90 days	**124,636**	181,846
91 to 180 days	**4,998**	15,040
181 to 1 year	**43**	105
Over 1 year	**34**	170
	129,711	197,161

10. SHORT-TERM BANK LOANS

	30 June 2011 RMB'000 (unaudited)	31 December 2010 RMB'000 (audited)
Secured	**64,716**	–

At 30 June 2011, bank loans amounting to RMB 64,716,000 are secured by way of fixed charge, assignments and floating charge on the assets of the Group and bear variable interest at 4.259% per annum. Also these bank loans are guaranteed by certain directors of the Company. The guarantees provided by certain directors of the Company on the bank loans have been released upon the listing of the Company's shares on the Hong Kong Stock Exchange on 23 September 2011.

11. SHARE CAPITAL

	Number of shares	Amount RMB'000
Ordinary shares of USD0.015 each		
Authorised:		
At 1 January 2010, 30 June 2010, 1 January 2011 and 30 June 2011	800,000,000	99,000
Issued and fully paid:		
At 1 January 2010, 30 June 2010, 1 January 2011 and 30 June 2011	396,868,200	49,271

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group primarily focuses on the design, production and sales of mid-to-premium women shoes in China. According to the report by Euromonitor, based on the estimated retail sales for the year ended 31 December 2010, the Group was the second largest retailer of mid-to-premium formal and casual women shoes in China. The Group's self-developed brands and licensed brands products are mainly distributed through the department stores and independent retail stores in different cities, ranging from first-tier to third-tier cities, in China. The Group also wholesales its self-developed brand products to authorised distributors. Furthermore, the Group also acts as the OEM or ODM manufacturer for international shoe companies dealing in export markets. The Group has established vertically integrated business model which includes design and development, sourcing, manufacturing, marketing, and wholesaling and retailing of shoes.

The Group's self-developed brands are C.banner and EBLAN. In the first half of 2011, the Group introduced another brand Fabiola, which is distributed in the Group's C.banner retail outlets. The Group also sells women shoes through a licensed brand, Naturalizer. In August 2011, the Group launched another new brand called Sundance.

As of 30 June 2011, the Group's retail and wholesale networks spread over 31 provinces, autonomous regions and municipalities in China. In total, 1,071 retail stores were the Group's proprietary outlets and 373 were third-party retail outlets. The following table shows the geographic distribution of the Group's proprietary outlets and third-party outlets:

	C.banner		EBLAN		Naturalizer	
Distribution Regions	**Proprietary outlets**	**Third-party outlets**	**Proprietary outlets**	**Third-party outlets**	**Proprietary outlets**	**Total**
Northeast	79	37	52	21	5	194
Beijing	39	10	14	5	2	70
Tianjin	63	56	36	15	8	178
Northwest	54	59	30	25	1	169
Central China	37	19	12	7	–	75
Eastern China	114	42	82	22	14	274
Zhejiang	70	15	41	1	12	139
Shanghai	52	–	18	–	4	74
Southwest	83	20	21	2	1	127
Southern China	86	15	37	2	4	144
Total	677	273	343	100	51	1444

Note:

(1) Northeast region includes Jilin province, Liaoning province and Heilongjiang province;

(2) Beijing region includes Beijing, Inner Mongolia Autonomous Region, Zhangjiakou city and Qinhuangdao city in Hebei province;

(3) Tianjin region includes Tianjin, Shandong province and Hebei province (except Zhangjiakou city and Qinhuangdao city);

(4) Northwest region includes Shanxi province, Shaanxi province, Qinghai province, Gansu province, Henan province, Xinjiang Autonomous Region and Ningxia Autonomous Region;

(5) Central China region includes Hunan province and Hubei province;

(6) Eastern China region includes Jiangsu province (except Wuxi city and Suzhou city), Anhui province and Jiangxi province;

(7) Zhejiang region includes Zhejiang province and Wuxi city and Suzhou city in Jiangsu province;

(8) Shanghai region includes Shanghai;

(9) Southwest region includes Sichuan province, Guizhou province, Yunnan province, Chongqing city and Tibet Autonomous Region;

(10) Southern China region includes Guangdong province, Hainan province, Guangxi Autonomous Region and Fujian province.

For the six months ended 30 June 2011, the Group had a net addition of 155 new stores, among which, 99 were the Group's proprietary outlets, and 56 were third-party retail outlets. The expansion progress in the first half of the year was in pace with the Group's network expansion plan. Sales volume was in line with the growth expectation, with a 12.6% same-store sales growth during the corresponding period.

In the first half of 2011, the consumer price index in Mainland China continued hitting record highs. The Chinese government has been adjusting constantly in order to control inflation. However, the middle to-high-end consumer market of shoe products, where the Group is positioned at, was not directly affected by the adjustment polices by the government. The Group attained satisfactory performance in sales, gross profit margin, operating profits and profit attributable to owners of the company in the first half of the year.

Financial Review

For the six months ended 30 June 2011, the Group's total revenue from continuing operations rose 29.8% to RMB928.0 million compared to the same period of last year. Operating profit rose 125.8% to RMB180.5 million in the period under review. Profit attributable to owners of the company from continuing operations increased 120.5% to RMB130.6 million compared to the same period of last year.

Revenue

For the six months ended 30 June 2011, the Group's total revenue from continuing operations rose 29.8% to RMB928.0 million, compared to RMB715.1 million in the first half of last year. The Group's revenue mix includes the retail, wholesale and contract manufacturing. Revenue distribution is as follows:

	For the six months ended 30 June				
	2011		2010		
		% on Total		% on Total	
	RMB('000)	**Revenue**	RMB('000)	Revenue	**Growth**
Retail and Wholesaling	**817,656**	**88.1**	613,774	85.8	33.2
Contract Manufacturing	**110,344**	**11.9**	101,337	14.2	8.9
Total	**928,000**	**100.0**	715,111	100.0	29.8

Profitability

For the six months ended 30 June 2011, the Group's gross profit from continuing operations rose 47.1% to RMB578.1 million, increased RMB185.1 million from RMB393.1 million in the first half of last year. As of 30 June 2011, the gross profit margin from continuing operations was 62.3%, increased 7.3 percentage points from 55.0% in the corresponding period of last year. The growth in gross profit was attributable to the increase in selling price and effective cost control. Since 2011, Mainland China has entered the inflation cycle and general price level has risen. Retail prices of shoe product have increased due to the rise in raw material prices and labour costs. The Group was well ahead in cost control with the lift in productivity, which contributed to the growth in gross profit margin. Lowering the percentage of contract manufacturing revenue contribution to the Group's total revenue also facilitated the rise in overall gross profit margin.

For the six months ended 30 June 2011, distribution and selling expenses for continuing operations reached RMB359.7 million, increased RMB88.5 million with a growth rate of 32.7% from the corresponding period of last year. Distribution and selling expenses mainly consisted of concessionaire fees, rental expenses, salaries and commission of salespersons, renovation expenses of the Group's retail stores, advertising and marketing expenses. As of 30 June 2011, distribution and selling expenses for continuing operations accounted for 38.8% of the total revenue, compared to 37.9% in the corresponding period of last year.

For the six months ended 30 June 2011, administrative and general expenses for continuing operations reached RMB35.1 million, a decrease of RMB7.8 million compared to the same period of last year. Administrative and general expenses mainly included the salaries and benefits of management and executives, rental payment of office premises, depreciation of office equipment and other related administrative expenses. As of 30 June 2011, administrative and general expenses for continuing operations accounted for 3.8% of the total revenue, compared to 6.0% in the same period of last year, which included a one-off payment of RMB7.5 million for option fee.

For the six months ended 30 June 2011, other income and expense, other gains and losses from continuing operations were RMB-943,000, a decline of RMB4.3 million compared to same period of last year. This was mainly attributed to listing fees of RMB10 million only being partially offset by a RMB7.8 million increase in government subsidies.

For the six months ended 30 June 2011, finance costs for continuing operations were RMB980,000, which was the interest expenses of a USD9.8 million loan made on 9 March 2011. In the corresponding period in 2010, finance costs were RMB903,000, which included RMB400,000 interest of USD6.0 million loans repaid on 23 April 2010, and RMB500,000 expenses for setting up Renminbi credit facilities.

For the six months ended 30 June 2011, income tax expense for continuing operations increased RMB29.2 million to RMB49.9 million, with a growth rate of 140.8% compared to RMB20.7 million in the corresponding period of last year. The effective income tax rate of continuing operations for the first half of 2011 was 27.6%, increased 1.7 percentage points from 25.9% in the same period of last year. The increase in effective tax rate was due to the increased in non-deductible expenses incurred overseas before tax.

As of 30 June 2011, profit attributable to owners of the company from continuing operations rose 120.5% to RMB130.6 million increased RMB71.4 million from RMB59.2 million in the same period of last year. Excluding the one-off option expense payment of RMB7.5 million in the administrative and general expenses during the first half of 2010, the actual growth rate was 97.9%.

Liquid Assets and Financial Resources

As of 30 June 2011, the Group had bank balances and cash of RMB222.9 million (31 December 2010: RMB161.4 million). Excluding short-term bank loans totaled RMB64.7 million (31 December 2010: nil), net cash was RMB158.2 million (31 December 2010: RMB161.4 million).

For the six months ended 30 June 2011, net cash generated from operating activities was RMB78.9 million, decrease of RMB2.4 million compared to RMB81.3 million in the same period of last year. This was mainly due to the increased in inventory caused by establishing new stores.

For the six months ended 30 June 2011, net cash outflow from investing activities was RMB5.0 million, compared to a net inflow of RMB5.3 million for the same period of last year. The outflow primarily consisted of purchasing premises, factories and equipment of RMB21.5 million, which was offset by the interest income of RMB1.2 million and the net decrease of pledged bank deposits of RMB15.3 million.

For the six months ended 30 June 2011, net cash outflow from financing activities was RMB12.4 million, which was mainly due to payment for the global listing and other related fees of RMB12.7 million. The net cash outflow from financing activities in 2010 was RMB136.1 million, which consisted of a repayment for short-term bank loans of RMB40.9 million and dividend payments of RMB95.2 million.

As of 30 June 2011, the net current assets of the Group were RMB528.3 million, compared to RMB476.1 million as of 31 December 2010. The net increase was RMB52.2 million, with a growth rate of 11%.

Pledge of Asset

As of 30 June 2011, the Group has short-term bank loans of RMB64.7 million (USD10 million). The loans were guaranteed with assets of the Group, including fixed charge, transfer and floating charge collateral, as well as guaranteed by several directors of the Company. The guarantees provided by certain directors of the Company were released upon the listing of the Company on 23 September 2011. The Group's bank deposit was fully pledged for 100% margin on bank's acceptance bill facilities. As of 30 June 2011, pledged bank deposit was RMB18.5 million, compared to RMB33.8 million as of 31 December 2010.

Contingent Liabilities

The Group did not have any substantial or contingent liabilities as of 30 June 2011.

Foreign Exchange Risk Management

The Group's sales were mainly denominated in RMB, while contract manufacturing business was denominated in USD. As the contract manufacturing business accounted for only 11.9% of the total sales, the Board of Directors did not foresee a substantial influence of exchange rate fluctuation in the Group's business. The Board will closely monitor the effects of exchange rate on the contract manufacturing business and mitigate the impact. For the six month ended 30 June 2011, the Group recorded a RMB78,000 gain from currency exchange, compared to a RMB40,000 gain in the corresponding period of last year. The Group did not have any derivative instrument for hedging against foreign exchange risk.

Human Resources

As of 30 June 2011, the Group had 9,436 employees (31 December 2010: 8,886 employees). The Group provides its employees with competitive remuneration package including mandatory pension fund, insurance and medical benefits. In addition, the Group would pay discretionary bonus to qualified employees according to the business performance and their individual work performance.

Interim dividend

The Board of directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2011.

Outlook

With the listing of the Company on the Main Board of the Hong Kong Stock Exchange on 23 September 2011 and global offering, the Group will utilize the fund raised according to the usage specified in the prospectus of the Company dated 12 September 2011, which includes, inter alia, expanding the retail network, increasing production capacities, developing sales channels and selecting suitable targets for acquiring footwear businesses.

The Group will sustain same-store growth for its proprietary outlets by enhancing the quality of the outlets, raising standards of its products, and creating values for customers.

The Group will continuously expand the wholesale and retail network by opening more proprietary outlets and third party retail outlets. By the end of each year through 2011 to 2013, the Group's targeted net increase of proprietary outlets is approximately 220 to 320; besides, the Group targets an increase of approximately 80 to 125 third-party retail outlets through the distributors in 2011. The Group also plans to sell its products through third-party online platform. The Group will also develop its own online platform for selling products when the time is ripe.

The Group will continue to focus on the women shoes market, especially middle to high-end shoes market in China, with a vision of complementing the Group's brand mix through establishing more middle to high-end brands. In August 2011, the Group's new brand Sundance was introduced as scheduled. The Group will also continuously enhance its research, design and development capabilities to facilitate brand expansion. The Directors believe that a variety of brand combination can enhance product mix, expand the Group's customer base and increase market shares.

There will be an expansion of the Group's production base, particularly in the Suining county of Jiangsu province, to boost up the Group's production capacities while controlling the costs of production. Through improving internal management system, personnel training, and supply chain management, the Group will raise its operation capability and efficiency.

In the future, the Group will seize growth opportunities by selective acquisitions of footwear retailers in China. The Group's acquisition targets are footwear companies which have well-established distribution channels or footwear companies which own regional footwear brands. The Group will also consider other potential companies which can complement its existing operation. To ensure the acquisition will create synergies, acquisition decision is based on the stability of the management team, financial status, and bidding price of the acquisition targets. The Directors are confident that leveraging on its experienced and dedicated management team, the Group can expand its business through selective acquisitions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") as its own code of conduct regarding directors' securities transactions.

The Company confirms that, having made specific enquiry of all the Directors, the Directors have complied with the required standards as set out in the Model Code since the Company's listing on 23 September 2011 up to the date of this announcement.

CORPORATE GOVERNANCE

Since the Company was only listed on the Main Board of the Hong Kong Stock Exchange on 23 September 2011, the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules was not applicable to the Company for the period under review.

However, none of the Directors is aware of any information that would reasonably indicate that the Company or any of its Directors was not in compliance with the CG Code during the period from 23 September 2011 up to the date of this announcement.

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

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 23 September 2011. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities during the period under review.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors. None of the committee members were former or external auditors employed by the Group. One of the Audit Committee members possesses recognized accounting qualifications and has rich experience in auditing, accounting and financial management.

Duties of the Audit Committee include monitoring the relationship of external auditors with the Group, reviewing the Group's financial information, overseeing the financial reporting process, internal control and risk management systems, as well as giving relevant recommendation to the Board.

The unaudited condensed consolidated interim financial information has not been audited, but has been reviewed by the auditor, Messrs. Deloitte Touche Tohmatsu, and the audit committee of the Company.

By order of the Board
Hongguo International Holdings Limited
CHEN Yixi
Chairman

Hong Kong, 26 September 2011

As of the date of this announcement, the executive directors of the Company are CHEN Yixi, LI Wei, ZHAO Wei, HUO Li and XU Tingyu; the non-executive director of the Company is MIAO Bingwen; and the independent non-executive directors of the Company are XU Chengming, LI Xindan and KWONG Wai Sun Wilson.