



CHITALY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1198



2007

Interim Report

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Tse Kam Pang (*Chairman*)
Mr. Lam Toi
Mr. Ma Gary Ming Fai

Independent Non-Executive Directors

Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis
Mr. Yau Chung Hong

AUDIT COMMITTEE

Mr. Yau Chung Hong (*Chairman*)
Dr. Donald H. Straszheim
Mr. Chang Chu Fai J. Francis

REMUNERATION COMMITTEE

Mr. Chang Chu Fai J. Francis
(*Chairman*)
Dr. Donald H. Straszheim
Mr. Yau Chung Hong

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Chan Wing Kit, CPA

AUDITORS

Ernst & Young

SOLICITORS

Dibb Lupton Alsop.

PRINCIPAL BANKER

Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 204, 2/F
Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon, Hong Kong

STOCK CODE

1198

RESULTS

The Board of Directors of Chitaly Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 together with the comparative figures for the corresponding period in 2006. The interim results had been reviewed by the audit committee of the Company and approved by the Board.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
REVENUE	4	237,809	193,581
Cost of sales		(168,177)	(140,644)
Gross profit		69,632	52,937
Other income and gains	4	21,355	19,517
Selling and distribution costs		(41,884)	(41,662)
Administrative expenses		(27,658)	(23,951)
Other expenses		(988)	(402)
Finance costs	6	(341)	(316)
Share of loss of an associate		(57)	(222)
PROFIT BEFORE TAX	5	20,059	5,901
Tax	7	(189)	—
PROFIT FOR THE PERIOD		19,870	5,901

CONDENSED CONSOLIDATED INCOME STATEMENT (Continued)

For the six months ended 30 June 2007 (Continued)

	Notes	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		18,676	5,901
MINORITY INTEREST		1,194	—
		19,870	5,901
DIVIDENDS			
	8		
Final		5,848	14,306
Proposed interim		3,509	—
		9,357	14,306
EARNINGS PER SHARE			
ATTRIBUTABLE TO EQUITY			
HOLDERS OF THE COMPANY			
DURING THE PERIOD			
Basic	9	6.4 cents	2.3 cents
Diluted		6.0 cents	2.2 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 June 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		319,152	283,098
Prepaid land lease payments		19,715	19,224
Goodwill		60,970	21,454
Other intangible assets		5,941	6,124
Interest in an associate		8,392	8,321
Available-for-sale investments		7,470	5,800
Total non-current assets		421,640	344,021
CURRENT ASSETS			
Inventories		99,938	120,639
Trade receivables	10	8,791	16,432
Prepayments, deposits and other receivables		47,664	53,152
Cash and cash equivalents		28,191	62,662
Total current assets		184,584	252,885
CURRENT LIABILITIES			
Trade payables	11	34,352	83,140
Other payables and accruals		46,603	61,170
Interest-bearing bank loan		630	638
Tax payable		59,930	59,930
Total current liabilities		141,515	204,878
NET CURRENT ASSETS		43,069	48,007
TOTAL ASSETS LESS CURRENT LIABILITIES		464,709	392,028

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	As at 30 June 2007 <i>HK\$'000</i> (Unaudited)	As at 31 December 2006 <i>HK\$'000</i> (Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank loan	10,778	11,101
Deferred tax liabilities	6,363	6,363
Total non-current liabilities	17,141	17,464
Net assets	447,568	374,564
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Issued capital	29,239	26,011
Reserves	410,631	342,705
Proposed final dividend	—	5,848
Proposed interim dividend	3,509	—
Minority interests	4,189	—
Total equity	447,568	374,564

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital HK\$'000 (Unaudited)	Share premium account HK\$'000 (Unaudited)	Share option reserve HK\$'000 (Unaudited)	Assets revaluation reserve HK\$'000 (Unaudited)	Exchange fluctuation reserve HK\$'000 (Unaudited)	Retained profits HK\$'000 (Unaudited)	Proposed dividend HK\$'000 (Unaudited)	Minority interests HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 January 2006	26,011	102,346	4,340	20,150	7,314	173,499	14,306	—	347,966
Payment of 2005 final dividend	—	—	—	—	—	—	(14,306)	—	(14,306)
Equity-settled share option arrangements	—	—	302	—	—	—	—	—	302
Net profit for the period	—	—	—	—	—	5,901	—	—	5,901
As at 30 June 2006	26,011	102,346	4,642	20,150	7,314	179,400	—	—	339,863
As at 1 January 2007	26,011	102,346	10,860	20,150	18,594	190,755	5,848	—	374,564
Exchange realignment	—	—	—	—	26,607	—	—	—	26,607
Total income and expenses for the period recognised directly in equity	—	—	—	—	—	—	—	2,995	2,995
Net profit for the period	—	—	—	—	—	18,676	—	1,194	19,870
Total income and expenses for the period	—	—	—	—	26,607	18,676	—	4,189	49,472
Issue of shares	3,228	25,172	—	—	—	—	—	—	28,400
Equity-settled share option arrangement	—	—	980	—	—	—	—	—	980
Payment of 2006 final dividend	—	—	—	—	—	—	(5,848)	—	(5,848)
Proposed interim 2007 dividend	—	—	—	—	—	(3,509)	3,509	—	—
At 30 June 2007	29,239	127,518*	11,840*	20,150*	45,201*	205,922*	3,509	4,189	447,568

* These reserve accounts comprise the consolidated reserves of HK\$410,631,000 (30 June 2006: HK\$313,852,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Net cash inflow/(outflow) from operating activities	3,211	(858)
Net cash outflow from investing activities	(90,383)	(56,022)
Net cash inflow/(outflow) from financing activities	26,094	(14,919)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(61,078)	(71,799)
Cash and cash equivalents at beginning of period	62,662	119,313
Effect of foreign exchange rate changes, net	26,607	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	28,191	47,514
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	28,191	47,514

NOTES TO FINANCIAL STATEMENTS

30 June 2007

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2007 is unaudited and has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34, “Interim financial reporting” and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The interim condensed financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2006. The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted and basis of preparation used in the preparation of these interim results are the same as those used in the annual accounts for the year ended 31 December 2006, except that the Group has changed certain of its accounting policies following its adoption of the following HKAS and Hong Kong Financial Reporting Standard (“HKFRS”) issued by the HKICPA, which are effective for accounting periods commencing on or after 1 January 2007:

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – Int 8	Scope of HKFRS 2 ³
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ⁵

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

⁵ Effective for annual periods beginning on or after 1 November 2006

The adoption of these new and revised standards and interpretation has had no material effect on these condensed consolidated interim financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these condensed consolidated interim financial statements.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2 — Group and Treasury Share Transactions ²
HK(IFRIC) – Int 12	Service Concession arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subjected to risks and returns that are different from those of other business segments.

Summary details of the business segments are as follows:

- (a) Wholesale of home furniture and
- (b) Retail of home furniture

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

3. SEGMENT INFORMATION (Continued)

(a) Business segment

The following table present revenue and profit for the Group's business segment for the six months ended 30 June 2007 and 2006.

Six months ended 30 June 2007	Wholesale	Retailing	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:				
Sales to customers	195,996	41,813	—	237,809
Intersegment sales	18,756	—	(18,756)	—
	214,752	41,813	(18,756)	237,809
Segment results	26,576	608	—	27,184
Unallocated gains				230
Unallocated expenses				(6,011)
Finance costs				(307)
Share of loss of an associate				(57)
Equity-settled share option arrangement				(980)
Profit before tax				20,059
Tax				(189)
Profit for the period				19,870

3. SEGMENT INFORMATION (Continued)

(a) Business segment (Continued)

Six months ended 30 June 2006	Wholesale	Retailing	Elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue:				
Sales to customers	159,790	33,791	—	193,581
Intersegment sales	16,407	—	(16,407)	—
	176,197	33,791	(16,407)	193,581
Segment results	12,570	(3,383)	—	9,187
Unallocated gains				1,867
Unallocated expenses				(4,313)
Finance costs				(316)
Share of loss of an associate				(222)
Equity-settled share option arrangement				(302)
Profit before tax				5,901
Tax				—
Profit for the period				5,901

3. SEGMENT INFORMATION (Continued)

(b) Geographical segment

The following table present revenue, for the Group's geographical segment for the six months ended 30 June 2007 and 2006.

	Six months ended 30 June	
	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)
Segment revenue		
Sales to the PRC	222,830	189,653
Sales to elsewhere in Asia	1,442	3,928
Sales to Europe	7,261	—
Sales to Middle East	6,276	—
	237,809	193,581

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	Six months ended 30 June	
	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)
Revenue	237,809	193,581
Other income and gains		
Bank interest income	138	242
Service income	20,987	18,412
Gain on disposal of equity investments at fair value through profit or loss	230	763
Others	—	100
	21,355	19,517
	259,164	213,098

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Cost of goods sold	168,177	140,644
Depreciation	13,020	11,899
Amortisation of licence rights of trademarks	419	598
Interest income	(138)	(242)
Service income	(20,987)	(18,412)
Equity settled share options arrangement	980	302
Gain on disposal of equity investments at fair value through profit or loss	(230)	(763)

6. FINANCE COSTS

	Six months ended 30 June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Interest on bank loan	341	316

7. TAX

Hong Kong profits tax has not been provided at the rate of 17.5% (2006: 17.5%) as the Group did not generate any assessable profits in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Group:		
Current — Hong Kong profits tax	—	—
Current — Macao profits tax	—	—
Current — PRC corporate income tax	189	—
Total tax charge for the period	189	—

On 16 March 2007, the National Peoples' Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which will become effective on 1 January 2008. The New CIT Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. At the date of approval of these financial statements, detailed implementation and administrative requirements relating to the New CIT Law have yet to be announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their transitional provisions. The Company will further evaluate the impact of the New CIT Law on its operating results and financial positions of future periods as more detailed requirements are issued.

8. DIVIDENDS

A dividend in respect of the six months ended 30 June 2007 of HK1.20 cents (2006: Nil) per share, amounting to a total dividend of approximately HK\$3,509,000 was proposed by the Board on 10 September 2007. This condensed consolidated financial statements has not reflected this dividend payable.

9. EARNINGS PER SHARE

The calculation of basic earnings per share amounts is based on the profit from ordinary activities attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings per share amount is based on the profit from ordinary activities attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2007 <i>HK\$'000</i> (Unaudited)	2006 <i>HK\$'000</i> (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:	18,676	5,901
	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	291,489,556	260,114,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	20,075,000	8,783,000
	311,564,556	268,897,000

10. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	As at 30 June 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
Within 30 days	1,358	8,902
31 days to 90 days	2,904	3,196
91 days to 180 days	3,035	2,897
Over 180 days	1,494	1,437
	8,791	16,432

11. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	As at 30 June 2007 HK\$'000 (Unaudited)	As at 31 December 2006 HK\$'000 (Audited)
Within 30 days	11,597	51,715
31 days to 90 days	19,615	26,993
91 days to 180 days	2,100	2,041
181 days to 360 days	738	2,134
Over 360 days	302	257
	34,352	83,140

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In March 2007, with the nine-month efforts made, the Group was appointed as the Official Home Furniture Exclusive Supplier for the Beijing 2008 Olympic Games by The Beijing Organizing Committee for the Games of the XXIX Olympiad. Being the exclusive supplier, we are going to supply all home furniture, over 100,000 pieces in total, including the beds, wardrobes, tables and chairs, etc., for the Olympic Village (for athletes, disabled athletes and the media) in Beijing. We are proud to be one of the contributors to the Beijing 2008 Olympic Games as this demonstrates our ability in meeting the stringent Olympic standards through the delivery of healthy, environmentally-friendly and quality products to this global event.

Associating our brand “Royal Furniture” with the Olympic Logo, the Group is symbolized as a home furniture provider featuring healthy, environmentally-friendly and quality products. Being the exclusive home furniture supplier to the Olympic Games in the industry, we believe that this status will enhance our bargaining power in securing strategic locations to expand both our retailing and franchise businesses. The Olympic concept will also enrich our brand names with healthy elements. Apart from conducting promotional activities through printed media, billboards and television commercials, we have also invited Olympic sports stars to the Group’s promotional functions in major cities in the PRC such as Changsa and Changzhou.

The home furniture market experienced a rebound in the first half of 2007. Against this positive backdrop, our business achieved improvement despite severe market competition. In addition to tightening our cost control, we also raised the prices of certain products at the end of last year. Leveraging our leading position, quality products, established brand names as well as the positive market sentiment driven by the growing PRC economy, our products were well received in the market notwithstanding the increased selling prices. This was also because the home furniture market in the PRC has entered into a new era that all players compete not only in pricing, but also in quality and branding.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

During the period under review, our turnover increased by 22.8% to HK\$238 million with the gross profit margin ratio improved from 27.3% to 29.3%. The satisfactory result was mainly attributable to our continuous investment in branding, our efforts in improving the manufacturing efficiency, our persistence of creating original design and the expansion of our network. Thanks to our stringent measures in cost control, the gross margin of wholesales to our franchisees rose from 22.3% to 23.8%, while the gross margin of our retailing business rose from 51.4% to 55.1%. The share of selling and distribution expenses in our turnover decreased from 21.5% to 17.6%. As a result, profit attributable to shareholders surged by 216% to HK\$19 million during the period.

We further strengthened our retail distribution network and recorded operating profit for the first time since its inception to our Group in 2005. Turnover from retailing business increased to HK\$41.8 million, representing a growth rate of 23.7% as compared with the corresponding period of last year. The retailing business made a profit of HK\$608,000 when compared with a loss of HK\$3,383,000 in the same period last year. At the end of May 2007, we further expanded our retailing business through retrieving the franchise right from the franchisee in Hangzhou. Therefore, currently, all our self-operated stores are located in major cities namely Beijing, Shanghai, Shenzhen and Hangzhou, and additional stores will be opened when opportunities arise.

To enhance the profit margin, we have put much effort to adjust certain product designs by using more new materials as substitutes for traditional wooden boards without compromising the quality. The new materials are more cost effective than medium density fibra ("MDF") boards, which we have been using for years. The new materials will not substitute all MDF but will serve as a choice for our design team for lowering the cost.

MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

BUSINESS REVIEW (Continued)

During the period under review, the Group further acquired 19% of Grandeur Industry Limited (“Grandeur”), who is a mattress manufacturer. Except being a mattress supplier to the Group, Grandeur also has its own franchise network for its own branded products. The consideration will be fully financed by issuance of the Company’s shares with a lock up period of one year. The reason of the acquisition is that consumers always buy mattress together with bed frames. The management believes it is a good investment opportunity and there are synergistic effect between the Group and Grandeur after the acquisition.

As at 30 June 2007, we had over 1,150 franchise outlets (2006: 1,050 outlets) spanning across China. To ensure the healthy and quality expansion of our franchise network, we will further strengthen the leading position of “Royal Furniture”, our household brand name in the home furniture market in the PRC, and launch new and trendy product series that meet the market demand.

PROSPECT

2007 is a milestone for the Group. We are honored to be appointed as the Official Home Furniture Exclusive Supplier for Beijing 2008 Olympic Games. Such appointment not only affirms our leading position in the home furniture industry in the PRC, but also our ability in meeting the most stringent requirements on quality and environmental protection. In the coming years, we will further demonstrate our commitment to social responsibility, especially concerning environmental protection, to the market.

In August 2007, a new medium-end product series named “Olympic Home” was introduced to the market. All home furniture under the Olympic Home series are designed and manufactured in accordance with Olympic standards, which require strict compliance with health and environmental standards. In view of positive comments from our franchisees, we will put our focus on Olympic Home in 2007 and 2008.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECT (Continued)

Leveraging our status as the exclusive home furniture supplier to the Olympic Games, we are welcomed by many home furniture malls in the PRC to set up stores in their malls. As at the date of this announcement, over 60 franchise stores under “Olymic Home” have been opened in various cities in the PRC, and more stores are expected to open. This will further boost the expansion of our sales network. For franchise wholesales segment, the Group expects another 150 stores will join the Group by the end of this financial year making the total number of franchise stores to over 1,300. For retailing segment, the Group expects to open over 20 self-operated stores by the end of this financial year and will increase the total number of self-operated stores to around 100.

As our extensive network continues to grow, the management believes that it is more effective to authorize our self-operated stores in major cities to manage the franchise stores surrounding them. When compared with the centralized management at the Guangzhou headquarters, self-operated stores are geographically closer to the franchise stores and thus they are more capable of providing timely management and support to the franchisees. This decentralization of franchisee management is regarded as one of the most important strategies of the Group to ensure the quality and healthy growth of our retail network.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained cash and bank balances of HK\$28.2 million as at 30 June 2007 (31 December 2006: HK\$62.7 million).

As at 30 June 2007, except for an interest-bearing bank loan amounting to HK\$11.4 million, the Group had no other bank borrowings and contingent liabilities. As at the same date, the gearing ratio was 0.025 (31 December 2006: 0.031).

As at 30 June 2007, approximately 99% of the Group's cash was denominated in Renminbi and 1% of the Group's cash was denominated in Hong Kong Dollars and US Dollars. The exposure to exchange fluctuation was minimal.

As at 30 June 2007, the current ratio (current assets/current liabilities) was 1.30 times (31 December 2006: 1.23) and the net current assets was HK\$43 million (31 December 2006: HK\$48 million).

EMPLOYMENT AND REMUNERATION POLICY

The total number of employees of the Group as at 30 June 2007 was approximately 2,900 (2006: 2,800). The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group. As at 30 June 2007, there were outstanding share options of approximately 23.1 million.

DIVIDEND

The Board of Directors recommends a payment of an interim dividend of HK1.20 cents per share for the six months ended 30 June 2007. The interim dividend will be distributed on or about 12 October 2007 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 9 October 2007.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3 October 2007 to 9 October 2007, 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 Branch Registrar and Registration Office in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on 2 October 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all of the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted for compliance by the directors the code of conduct for dealings in securities of the Company as set out in Appendix 10 — Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), of the Listing Rules on 27 August 2005.

Having made specific enquiry to all the directors of the Company, they have complied with the required standards set out in the Model Code for the period ended 30 June 2007.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities for the period ended 30 June 2007.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES

As at 30 June 2007, the interests or short positions of the directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been 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), or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange, were as follows:

Interests in the Company:

Name of Directors	Long position/ Short position	Number of shares	Number of share options ¹	Aggregate percentage of interest as at 30 June 2006 ²
Tse Kam Pang	Long position	76,602,000 ³	—	26.20%
Ma Gary Ming Fai	Long position	5,952,000 ⁴	2,900,000	2.04%
Donald H. Straszhheim	Long position	1,600,000	1,600,000	0.55%
Yau Chung Hong	Long position	600,000	600,000	0.21%
Chang Chu Fai Johnson Francis	Long position	600,000	600,000	0.21%

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES (Continued)

Notes:

1. The number of share options refers to the number of underlying shares of the Company covered by the share options granted to them.
2. This represents the percentage of aggregate long position in shares and underlying shares to the total issued share capital of the Company as at 30 June 2007.
3. Of these 76,602,000 shares, 5,152,000 shares were held by Mr. Tse Kam Pang personally and 71,450,000 shares were held by Crisana International Inc., a company which is wholly and beneficially owned by Mr. Tse Kam Pang, who is deemed to be interested in the 71,450,000 shares held by Crisana International Inc.
4. Of these 5,952,000 shares, 1,254,000 shares were held by Mr. Ma Gary Ming Fai personally, 2,900,000 shares option were granted to Mr. Ma Gary Ming Fai personally and 1,798,000 shares were held by Upwise Investments Limited, a company which is wholly and beneficially owned by Mr. Ma Gary Ming Fai, who is deemed to be interested in the 1,798,000 shares held by Upwise Investments Limited
5. Save as otherwise specified under note 3, interests disclosed hereunder were being held by each director in his capacity as beneficial owner.

Save as disclosed above, none of the directors, chief executive or any of their spouses or children under the age of 18 years had any interest or short position in the shares of the Company or any of its associated corporations as defined in the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, so far as is known to the directors or chief executive of the Company, the following persons (not being a director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which were recorded in the register maintained by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity and nature of interest	Number of Shares	Aggregate percentage of interest as at 30 June 2007 ¹
Crisana International Inc.	Directly beneficially owned	71,450,000 ²	24.44%
Assetbest Limited	Directly beneficially owned	32,272,000 ³	11.04%
Huang Wai Jei	Interest held by controlled corporation	32,272,000 ³	11.04%
Templeton Investment Counsel, LLC	Directly beneficially owned	23,898,000	8.17%
Fidelity International Limited	Directly beneficially owned	17,720,692	6.06%

Notes:

1. This represents the percentage of aggregate long position in shares and underlying shares to the total issued share capital of the Company as at 30 June 2007.
2. These 71,450,000 shares were held by Crisana International Inc., a company which is wholly and beneficially owned by Mr. Tse Kam Pang, the Chairman of the Company, who is deemed to be interested in the 71,450,000 shares held by Crisana International Inc.. In addition, Mr. Tse Kam Pang personally held 5,152,000 shares.
3. These 32,272,000 shares were held by Assetbest Limited, a company which is wholly and beneficially owned by Mr. Huang Wai Jei, who is therefore deemed to be interested in the 32,272,000 shares held by Assetbest Limited.

Save as disclosed herein, so far as is known to the directors or chief executive of the Company, as at 30 June 2007, no other person (not being a director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provision of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO.

As at the date of this announcement, Mr. Tse Kam Pang, Mr. Lam Toi and Mr. Ma Gary Ming Fai are the executive directors of the Company and, Dr. Donald H. Straszheim, Mr. Chang Chu Fai Johnson Francis and Mr. Yau Chung Hong are the independent non-executive directors of the Company.

By Order of the Board
Tse Kam Pang
Chairman

Hong Kong, 10 September 2007