You should read this section in conjunction with our audited combined financial statements, including notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. The financial statements have been prepared in accordance with HKFRS.

Our Directors confirm that they have performed sufficient due diligence to ensure that, to the date of this prospectus, there has been no material adverse change in our financial position or prospects since 30th September 2006 and there has been no event since 30th September 2006 that would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

OVERVIEW OF OUR OPERATIONS

The Group operates a leading FCR chain selling Japanese ramen and Japanese-style dishes in Hong Kong and the PRC. As at the Latest Practicable Date, the Group had a restaurant portfolio totaling 122 Ajisen chain restaurants, of which 92 are owned and managed by us, 24 are managed but not owned by us, 3 are owned but not managed by us, and 3 are sub-franchised. These 122 restaurants comprise 32 in Shanghai, 12 in Shenzhen, 8 in Beijing, 51 in other regions of the PRC and 19 in Hong Kong. Except for the three sub-franchise agreements which we have entered into in respect of the two franchised "Ajisen Ramen" restaurants in the Hong Kong International Airport and one in Meilan Airport in Haikou, Hainan (PRC), all the restaurants are managed and/or owned by the Group. Under the Franchise Agreements, as supplemented by the Novation Agreement, we were granted a sole, exclusive and perpetual franchise to operate, and the right to sub-franchise the operation of, Japanese style ramen restaurants under the trade name of "Ajisen" in the PRC, Hong Kong and Macao. Our target customers are between the ages of 20 and 40, who are looking to dine in a comfortable and aesthetically pleasing environment at affordable prices.

The Group also manufactures packaged noodles under the "Ajisen Ramen" brand in its factories in Shenzhen and Shanghai. These packaged noodles are distributed via distribution companies and supermarkets in the PRC and Hong Kong, and to our sub-franchised Ajisen restaurants and chain restaurants operated and managed by us, other third party restaurant operators and other independent Ajisen restaurant outlets located in other countries.

Under our experienced management team, we have substantially grown our business since our inception in 1995. For each of the three years ended 31st December 2003, 2004 and 2005 and the nine months ended 30th September 2006, our turnover was approximately RMB133.8 million, approximately RMB298.2 million, approximately RMB436.5 million and approximately RMB437.7 million, respectively. For each of the three years ended 31st December 2003, 2004 and 2005 and the nine months ended 30th September 2006, our profit attributable to the equity holders of the Company was approximately RMB11.5 million, approximately RMB37.2 million, approximately RMB49.0 million and approximately RMB83.6 million, respectively.

BASIS OF PRESENTATION

The following discussion should be read in conjunction with our audited combined financial statements set out in the Accountants' Report in Appendix I to this prospectus. The audited combined financial statements for each of the three years ended 31st December 2003, 2004 and 2005 and the nine months ended 30th September 2006, to which the following discussions relate, have been prepared in accordance with HKFRS. The following discussion contains certain forward-looking statements that involve risks and uncertainties and that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors which we believe are appropriate. Investors should be aware that we may experience cyclical, seasonal and other fluctuations in our results of operations within any financial year. As a result of these fluctuations, comparisons of financial data between different periods within a single financial year, between corresponding periods in different financial years or between different periods in different financial years, are not necessarily meaningful and may not be indicative of our performance. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this prospectus.

BASIC CONTENTS OF ACCOUNTANTS' REPORT FOR THE PROSPECTUS

We have applied to the Stock Exchange for a waiver from strict compliance with the disclosure requirements under Rule 4.04(1) of the Listing Rules in relation to the basic contents of Accountants' Report for this prospectus. The Stock Exchange has granted this waiver on the condition that listing of the Shares will commence on or before 31st March 2007. Further details of such waiver are set out in the section headed "Waiver in relation to Rule 4.04(1) of the Listing Rules and exemption from strict compliance with Paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance" in Appendix VI to this prospectus.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and our financial condition have been and will continue to be affected by a number of factors, including those set out below.

Economic Growth in China

We conduct the majority of our operations in China. Economic growth in China therefore has a direct impact on virtually all aspects of our operations, including:

- the level of demand for our food products;
- the availability and prices of our food products; and
- the level of our operating expenses.

China has experienced significant economic growth in recent years, achieving a CAGR in GDP of approximately 10.5% from 1995 to 2005. We believe that the growth of the economy of the PRC will lead to a rise in living standards and consumer spending on food. The total revenue generated by the F&B industry in China reached approximately RMB1,607.3 billion in 2004, compared to approximately RMB1,317.2 billion in 1999, representing a CAGR of approximately 4.1%. The growth rate in the results of our operations during the three years ended 31st December 2005 has significantly exceeded the growth rate in the F&B industry in China. In 2005, our turnover was approximately RMB436.5 million, representing a CAGR of approximately 80.6% when compared to our turnover of approximately RMB133.8 million in 2003. Our gross profit in 2005 was approximately RMB260.9 million, representing a CAGR of 75.8% when compared to our gross profit of approximately RMB84.4 million in 2003. More significantly, our profit attributable to equity holders of the Company in 2005 was approximately RMB49.0 million in 2005, representing a CAGR of approximately 106.2% when compared to our profit attributable to equity holders of the Company of approximately RMB11.5 million in 2003. In general, we expect continuing growth of the economy in China to have a positive impact on our business prospects.

Growth of the PRC F&B and Fast Food Markets

We believe that dining out has become increasingly popular in the PRC as a result of rising level of disposable income. According to the National Bureau of Statistics, PRC households spent an average of approximately 36.7% of their disposable income on food in the year 2005. We were ranked the 5th in terms of revenue among the fast food restaurant companies in the PRC for the year 2005. The market statistics collated by Euromonitor also show that Asian fast food (i.e. noodles, dumplings, sushi and similar food products) is preferred over western fast food in the PRC. The total sales of the PRC fast food market reached approximately RMB109,712.5 million in the year 2005, compared to approximately RMB48,513.7 million in the year 2000. The total sales for Asian fast food represented approximately 70.4% of the total sales of the PRC fast food market in 2005. We believe that we, as a FCR chain serving Japanese ramen and Japanese dishes, will continue to benefit as the PRC fast food market continues to develop and expand.

We face intense competition from large and diverse groups of restaurant chains and individual restaurant operators (in particular, local and international FCR companies), and food manufacturers who are engaged in the production of products similar to ours. We compete on the basis of taste, quality, price of food offered, customer service, ambience and the overall dining experience. We also compete with other restaurants and other retailers for site locations and resources. Our business will be adversely affected if we are unable to compete effectively in the FCR and food manufacturing markets. In order to maintain our competitiveness, it is important for us to keep the price levels of our products affordable and competitive. We also continuously strive to expand and improve our product offerings.

Expansion of Our Network of Restaurants

Our ability to increase sales directly correlates with the number of restaurants in our network. In addition, a suitable location is critical to the results of operation of a restaurant. In selecting a suitable location for a new restaurant, we evaluate a number of factors including population density and pedestrian flow of the proposed location, and purchasing power of the target population in such proposed location. The table below illustrates how our turnover has grown as the number of restaurants owned and managed by us has increased:

	Year ended 31st December						Nine months ended 30th September			
	2003		2004		2005		2005		2006	
	Hong Kong	PRC	Hong Kong	PRC	Hong Kong	PRC	Hong Kong	PRC	Hong Kong	PRC
							(unaudited)			
Turnover from operation of restaurants *(RMB millions)*	104.8	0.7	140.5	117.9	151.7	227.1	112.1	158.4	119.5	260.7
Average daily turnover from operation of restaurants *(RMB millions) (Note 1)*	0.3	0.0	0.4	0.3	0.4	0.6	0.4	0.6	0.4	1.0
Number of restaurants owned and managed by us at period end	11	1	14	18	15	39	14	36	15	62
Same store sales growth rate *(Note 2)*	N/A	N/A	4.3%	N/A	(6.8%)	9.4%	N/A	N/A	9.1%	5.1%
Sales per sqm per day *(RMB) (Note 3)*	5,012	24	5,520	1,307	5,774	2,499	5,603	2,428	5,580	3,923
Restaurant rental as a percentage of turnover from operation of restaurants *(Note 4)*	18.1%	0.0	17.3%	14.7%	19.4%	14.7%	18.9%	14.0%	18.2%	14.2%

Notes:

(1) Calculated based on the actual number of days in the particular period.

(2) Same store sales growth rate is calculated by ascertaining the percentage change between the sum of the annualized turnover of the stores that have been operating in a region during a period (disregarding its temporary suspension of business during such period) and the sum of the annualized turnover of the same stores that have also been operating in that region in the next following period (disregarding its temporary suspension of business during such period). The sum of the annualized turnover of such stores is derived by adding up the annualized turnover of each of such stores. The annualized turnover of a store is derived by dividing the turnover generated by such store during a period by the number of days in the period that such store has operated (disregarding its temporary suspension of business during such period) and then multiplying the quotient by 365. No comparison on the same store sales growth in the PRC between the years 2003 and 2004 is available because there was only one restaurant in the PRC in 2003. The same store sales growth in the PRC between the years 2003 and 2004 as represented by the same store sales growth of that restaurant between the years 2003 and 2004 could not meaningfully reflect the growth of our restaurant operation in the PRC during the Track Record Period.

(3) Sales per sqm per day represents the sum of the sales per sqm per day of the stores that have been operating in a region during a period. Sales per sqm per day of each store is derived by dividing the sales generated by such store during that period by (i) the saleable area of such store and (ii) the number of days in the period that such store has operated (disregarding its temporary suspension of business during such period).

(4) Calculated by dividing the rental expenses incurred for restaurant operations in a region for a period by the turnover from operation of restaurants in that region for the same period.

Our turnover from operation of restaurants in Hong Kong has increased by approximately 44.8% during the three years ended 31st December 2005, and our average daily turnover has increased slightly by approximately RMB0.1 million from 2003 to 2004 and remained stable from 2004 to 30th September 2006. Our turnover from operation of restaurants in the PRC has increased by approximately RMB226.4 million, and our average daily turnover from operation of restaurants in the PRC has increased by approximately RMB0.6 million, during the three years ended 31st December 2005.

The same store sales growth rate in our restaurant operations in Hong Kong and the PRC fluctuates during the Track Record Period. We had a positive same store sales growth rate in Hong Kong for the year ended 31st December 2004, because in 2004 the Hong Kong economy recovered from the 2003 recession caused by the outbreak of SARS. Our same store sales growth rate in Hong Kong was negative for the year ended 31st December 2005, primarily due to the renovation of some of our key restaurants in Hong Kong which led to their temporary cessation of operation. We had a positive same store sales growth rate in Hong Kong for the nine months ended 30th September 2006, primarily due to the completion of renovation, and hence the restoration of operation, of such key restaurants in Hong Kong and our proactive advertising campaign in Hong Kong. We had a positive same store sales growth rate in the PRC for the year ended 31st December 2005, primarily due to the increase in turnover of restaurants situated in major locations. We also had a positive same store sales growth rate in the PRC for the nine months ended 30th September 2006. Although the same store sales growth rate in the PRC for the nine months ended 30th September 2006 was not as high as that for the year ended 31st December 2005, the increase in the annualized turnover of the respective same stores, in terms of amount, remained relatively stable for these two periods.

The sales per sqm per day in Hong Kong has steadily increased from approximately RMB5,012 for the year ended 31st December 2003 to approximately RMB5,774 for the year ended 31st December 2005 and remained relatively stable at approximately RMB5,603 for the nine months ended 30th September 2005 and approximately RMB5,580 for the nine months ended 30th September 2006. The sales per sqm per day in the PRC has increased substantially from approximately RMB24 for the year ended 31st December 2003 to approximately RMB1,307 for the year ended 31st December 2004 and approximately RMB 2,499 for the year ended 31st December 2005 and from approximately RMB2,428 for the nine months ended 30th September 2005 to approximately RMB3,923 for the nine months ended 30th September 2006.

The restaurant rental as a percentage of turnover from operation of restaurants in Hong Kong remained stable through the Track Record Period and fell within the range from approximately 17% to approximately 19%. The restaurant rental as a percentage of turnover from operation of restaurants in the PRC also remained fairly stable throughout the Track Record Period and fell within the range from approximately 14% to approximately 15%.

The positive correlation between the increase in number of chain restaurants and the increase in our revenue is a significant factor in the management's decision to substantially expand the network of chain restaurants by using a portion of the net proceeds of the Global Offering as more fully described in the section headed "Use of Proceeds".

Raw Materials

Our operations require certain raw materials including white soup base, wheat flour, raw meat and vegetables. The primary source of the white soup base is from the Franchisor whereas the primary source of the wheat flour is from Japan and various PRC suppliers. The price and supply of raw materials are subject to a number of factors that are beyond our control, such as quality, availability and demand. The costs of raw materials and price fluctuations in raw materials have direct impact on our net profit from operations. In order to minimise the risk of reliance upon a single or limited number of suppliers, except for the white soup base and condiments, which are exclusively supplied by the Franchisor, we choose an average of two to three suppliers for each kind of major raw materials, including wheat flour, raw meat and vegetables. Our supplier base is therefore relatively diverse. The total purchases from our five largest suppliers in aggregate accounted for approximately 64.9%, 43.6%, 34.3% and 31.9% of our Group's purchases during the three financial years ended 31st December 2005, and the nine months ended 30th September 2006, with our largest supplier, the Franchisor, accounting for 36.5%, 24.8%, 15.5% and 16.6% respectively.

Taxes

Our results of operations are affected by the taxes to which our operating Subsidiaries are subject and the tax concessions or the preferential tax treatments the operating Subsidiaries may enjoy, as well as by any changes in the rates of such taxes, tax concessions and preferential tax treatments.

As an exempted company incorporated in the Cayman Islands, the Company is exempted from the Cayman Islands income tax. Please also refer to the section headed "Taxation" on page App V-26 in Appendix V to this prospectus for details. The profits from our Hong Kong operation are subject to Hong Kong profits tax, which are calculated at the rate of 17.5% on the estimated assessable profits arising in Hong Kong for each of the three years ended 31st December 2005 and the nine months ended 30th September 2006.

The rate of income tax chargeable on companies in the PRC may vary depending on the availability of preferential tax treatments, which is based on the location or the nature of the business of the companies. Our Subsidiaries established in the PRC are subject to PRC corporate income tax. The current FEIT rate in the PRC is 33% under the relevant PRC laws. However, certain types of companies, including companies located in special economic zones, enjoy preferential tax treatments. Shanghai Lead Food currently enjoys a preferential FEIT of 15%. Shanghai Lead Food was originally established in the Shanghai Pudong New Area, but it has changed its registered address to the Shanghai Huangpu District. However, its tax registration address is still in Shanghai Pudong New Area. We have been advised by our PRC legal counsel that enterprises of a non-financial nature registered in the Shanghai Pudong New Area generally enjoy a preferential FEIT of 15%. However, such tax incentive is not consistent with the PRC FEIT laws and regulations and, therefore, may be revoked or revised by the PRC government or the relevant tax authorities at any time. In addition, we have been further advised by our PRC legal counsel that since Shanghai Lead Food has already changed its registered address to the Shanghai Huangpu District, Shanghai Lead Food is required to change its tax registration address to the Shanghai Huangpu District under the relevant PRC laws. The relevant tax authorities in Shanghai Pudong New Area have accepted and are processing our application in respect of such change of tax registration address. As advised by our PRC legal counsel, the delay in change of the tax registration address by Shanghai Lead Food will not result in any significant legal consequence in this regard. Once Shanghai Lead Food has completed its change of tax registration address, Shanghai Lead Food will cease to enjoy such preferential tax treatment. We have been complying with the guidance of the Pudong tax authorities when applying for the aforementioned FEIT rate, and we have proactively planned to remove the uncertainty by relocating its business registration to the Huangpu District of Shanghai Puxi, where we shall be subject to a FEIT rate of 33%. Deloitte Touche Tohmatsu, our reporting accountants, consider the assessment and provision of 15% FEIT for the Track Record Period to be reasonable and the requirement for a tax provision in excess thereof would be unnecessary in light of the prevailing methodology of implementation of the relevant legislation.

The FEIT currently applicable to Shanghai Factory is 16.5%. Shanghai Factory is a wholly foreign owned enterprise of a production nature with a licence to operate for more than 10 years. We have been advised by our PRC legal counsel that according to the relevant PRC laws, Shanghai Factory was exempted from FEIT for two years commencing from the first year when it started generating profits, which were years 2005 and 2006. For the three subsequent years, i.e. from years 2007 to 2009, Shanghai Factory enjoys a 50% reduction of the applicable tax rate, which is equivalent to a preferential FEIT of 16.5%. Thereafter, it will be liable to a FEIT of 33%. Shenzhen Factory currently enjoys a preferential FEIT of 15%. We have been advised by our PRC legal counsel that Shenzhen Factory is eligible to enjoy such preferential tax treatment under the relevant PRC laws because it is a foreign enterprise located in an area designated by the PRC Government as a special economic zone. The corporate income tax payable by our Subsidiaries in Shandong is 11% of their total sales.

There is an indication that the PRC tax authorities will modify the preferential tax treatment currently enjoyed by foreign investment enterprises, including our Group. For more details in this respect, please refer to “Risk Factors” section in this prospectus.

A deed of indemnity dated 8th March 2007 was given by Poon Wai in favour of the Company and its Subsidiaries containing certain indemnities given in connection with any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued, or received or deemed to have been earned, accrued or received on or before the date on which Global Offering becomes unconditional; or (ii) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Global Offering becomes unconditional. The deed of indemnity does not prescribe any time limit for claims to be made under the tax indemnity. However, Poon Wai will not be liable under the deed of indemnity for taxation in certain circumstances. Please refer to the paragraph headed “Tax indemnity” in the section headed “Other information” in “Statutory and General Information” section on Appendix V to this prospectus for more details regarding such deed of indemnity.

Force Majeure Events Affecting Consumer Demands

Our operating results have in the past been affected by certain force majeure events such as the outbreak of SARS in 2003. The recurrence of such events in the future may adversely affect the operating results of the Group.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our audited combined financial statements as set out in the Accountants' Report in Appendix I to this prospectus. Our significant accounting policies, which are important for an understanding of our financial condition and results of operations, are set out in detail in Note 3 to our audited combined financial statements in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition and inventory provision. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our combined financial statements.

Basis of combination

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest. The combined income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

On acquisition of additional interest in Subsidiaries, the difference between the fair value of the consideration and the goodwill and the carrying values of the underlying asset and liabilities attributable to the additional interests in Subsidiaries are recognised directly to special reserve. On subsequent disposal of a Subsidiary, the attributable special reserve is transferred to accumulated profits.

Goodwill

Goodwill arising on an acquisition of a Subsidiary or acquisition of additional interest in Subsidiaries represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses and is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a Subsidiary the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and related sales taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service revenue is recognised when the services are provided.

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income from operating leases is recognised in the income statement on a straight line basis over the term of the relevant lease.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefit is expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period in which the item is derecognised.

The cost of buildings is depreciated over 20 years using the straight line method.

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	15% – 20%
Motor vehicles	20%
Plant and machinery	15% – 20%

Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Loans and receivables (including trade and other receivables and amounts due from related parties/directors/shareholders) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties/ directors/shareholders and bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded as the proceeds received, net of direct issue costs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange gain or loss is also recognised directly in equity.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are expressed in the Company's functional currency, Renminbi, using exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis. Contingent rentals, if any, are charged to income statement in the accounting period in which they are incurred.

SUMMARY OF RESULTS OF OPERATIONS

The following table, as extracted from the Accountants' Report set out in Appendix I to this prospectus, sets forth, for the periods indicated, our combined income statements which include contributing and offsetting factors to the results of our operations:

	Year ended 31st December			Nine months ended 30th September	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Continuing operations					
Turnover	133,809	298,187	436,478	305,502	437,735
Cost of sales	(49,364)	(119,881)	(175,588)	(119,393)	(162,362)
Gross profit	84,445	178,306	260,890	186,109	275,373
Other income	4,187	11,741	9,482	6,881	31,003
Property rentals	(19,619)	(42,738)	(63,860)	(44,613)	(60,300)
Distribution and selling expenses	(39,739)	(76,429)	(110,337)	(79,829)	(113,914)
Administrative expenses	(6,901)	(13,470)	(24,324)	(17,461)	(26,392)
(Decrease) increase in fair value of investment properties	(191)	636	676	–	–
Finance costs	(89)	(100)	(589)	(348)	(815)
Profit before taxation	22,093	57,946	71,938	50,739	104,955
Taxation	(4,419)	(11,534)	(16,433)	(9,228)	(19,846)
Profit for the period from continuing operations	17,674	46,412	55,505	41,511	85,109
Discontinued operations					
Profit for the period from discontinued operations	790	289	261	140	–
Profit for the period	18,464	46,701	55,766	41,651	85,109
Attributable to:					
Equity holders of the Company	11,518	37,189	48,950	36,961	83,615
Minority interests	6,946	9,512	6,816	4,690	1,494
	18,464	46,701	55,766	41,651	85,109
Dividends to					
Equity holders of the Company	6,018	9,854	24,777	11,817	40,000
Minority interests	3,840	6,046	15,344	7,304	–
	9,858	15,900	40,121	19,121	40,000
From continuing and discontinued operations:					
Earnings per share – Basic	6.6 cents	16.1 cents	7.6 cents	5.8 cents	11.8 cents
From continuing operations:					
Earnings per share – Basic	6.1 cents	16.0 cents	7.5 cents	6.4 cents	11.8 cents

Revenue by Product Lines

The table below sets forth our revenue by main product lines for the periods indicated:

	Year ended 31st December						Nine months ended 30th September			
	2003		2004		2005		2005		2006	
	RMB millions	*% of sales*	*RMB millions*	*% of sales*	*RMB millions*	*% of sales*	*RMB millions* (unaudited)	*% of sales*	*RMB millions*	*% of sales*
Income from operation of restaurants	105.5	78.8	258.4	86.7	378.8	86.8	270.5	88.5	380.2	86.9
Income from sub-franchising from sub-franchisee	5.0	3.8	9.6	3.2	9.3	2.1	6.4	2.1	5.6	1.3
Income from sales of noodles and related products (excluding income from sub-franchising from sub-franchisee)	23.3	17.4	30.2	10.1	48.4	11.1	28.6	9.4	51.9	11.8
Total revenue	133.8	100.0	298.2	100.0	436.5	100.0	305.5	100.0	437.7	100.0

Revenue of Restaurant Business by Geographic Markets

The table below sets forth our revenue by main geographic markets for the periods indicated:

	Year ended 31st December						Nine months ended 30th September			
Cities/Provinces	2003		2004		2005		2005		2006	
	RMB millions	*Number of restaurants (note)*	*RMB millions*	*Number of restaurants (note)*	*RMB millions*	*Number of restaurants (note)*	*RMB millions* (unaudited)	*Number of restaurants (note)*	*RMB millions*	*Number of restaurants (note)*
Hong Kong	104.8	11	140.5	14	151.7	15	112.1	14	119.5	15
Shanghai	0	0	104.1	13	168.0	21	119.0	20	165.4	29
Beijing	0	0	0	0	7.3	3	3.6	3	21.4	6
Shandong	0	0	4.8	2	16.7	4	11.9	4	19.0	6
Chongqing	0	0	0	0	3.4	3	2.1	2	5.9	7
Jiangsu	0	0	3.3	2	24.1	6	16.6	5	41.2	11
Zhejiang	0.7	1	5.7	1	7.6	2	5.2	2	7.8	3
Total revenue from restaurant business	105.5	12	258.4	32	378.8	54	270.5	50	380.2	77

Note: Represents the number of restaurants owned and managed by us which were operating as at the end of the respective periods.

Principal Income Statement Components

Turnover

Turnover consists of turnover from operation of restaurants and turnover from sales of packaged noodles and related products. The turnover from operation of restaurants in PRC is revenue before taxation.

Cost of sales

Cost of sales consists of direct materials, direct labour, overhead, depreciation and business tax.

The table below sets forth the breakdown of our cost of sales for the periods indicated:

	Year ended 31st December						Nine months ended 30th September			
	2003		2004		2005		2005		2006	
	RMB millions	%	*RMB millions*	%	*RMB millions*	%	*RMB millions* (unaudited)	%	*RMB millions*	%
Direct materials	44.2	89.5	109.2	91.1	158.5	90.3	109.1	91.4	143.5	88.4
Direct labour	1.2	2.4	1.2	1.0	1.5	0.8	1.3	1.1	2.4	1.5
Overhead	2.4	4.9	1.9	1.6	0.3	0.2	0.5	0.4	1.8	1.1
Depreciation	0.8	1.6	0.8	0.6	0.7	0.4	0.6	0.5	0.7	0.4
Business Tax	0.8	1.6	6.8	5.7	14.6	8.3	7.9	6.6	14.0	8.6
Total cost of sales	49.4	100.0	119.9	100.0	175.6	100.0	119.4	100.0	162.4	100.0

Margin analysis

	Year ended 31st December			Nine months ended 30th September	
	2003	**2004**	**2005**	**2005**	**2006**
				(unaudited)	
Gross profit margin	63.1%	59.8%	59.8%	60.9%	62.9%
Operating profit margin	16.7%	19.3%	16.5%	16.7%	24.2%
Net profit margin	13.8%	15.7%	12.8%	13.6%	19.4%

Gross profit represents our turnover less cost of sales. Gross profit margin is equal to gross profit as a percentage of turnover. Operating profit represents our turnover less all operating expenses before change in fair value of investment properties, finance costs and taxation. Operating profit margin is equal to operating profit as a percentage of turnover. Net profit represents our turnover less cost of sales and all other expenses and taxation. Net profit margin is equal to net profit as a percentage of turnover.

Other income

Other income consists of management fee income from related parties, commission fee income, royalty income from sub-franchisee, exchange gain, property rental income and interest income, among other things.

The table below sets forth the breakdown of our other income for the periods indicated:

	Year ended 31st December			Nine months ended 30th September	
	2003	**2004**	**2005**	**2005**	**2006**
		(RMB'000)		*(RMB'000)*	
				(unaudited)	
Management fee income from related parties	–	–	–	–	23,299
Commission income	1,591	6,651	4,135	3,777	2,227
Royalty income from sub-franchisee	903	1,483	1,593	1,197	1,909
Exchange gain	414	1,061	719	35	1,172
Property rental income	471	440	1,393	724	979
Interest income	37	272	407	256	496
Others	771	1,834	1,235	892	921
Total	4,187	11,741	9,482	6,881	31,003

Property rentals

Property rentals consist of the lease payment made by the Group for the rental of premises under operating leases entered into by the Group.

Distribution and selling expenses

Distribution and selling expenses consist of salaries, advertising, sundry expenses, electricity and depreciation, among other things.

Administrative expenses

Administrative expenses consist primarily of salaries of administrative and management staff, professional service fees, depreciation and other expenses.

Minority interests

Minority interests consist of the interests of minority shareholders in the net profits or losses of our Subsidiaries.

REVIEW OF HISTORICAL OPERATING RESULTS

Nine months ended 30th September 2006 compared to nine months ended 30th September 2005

Turnover

Our turnover increased by approximately RMB132.2 million, or approximately 43.3% from approximately RMB305.5 million for the nine months ended 30th September 2005 to approximately RMB437.7 million for the nine months ended 30th September 2006 primarily due to the significant growth in our turnover from operation of restaurants.

Turnover from operation of restaurants increased by approximately RMB109.7 million, or approximately 40.5% from approximately RMB270.5 million in the nine months ended 30th September 2005 to approximately RMB380.2 million in the nine months ended 30th September 2006. This increase is primarily attributable to the significant increase in the number of chain restaurants managed and owned by us from 50 as at 30th September 2005 to 77 as at 30th September 2006.

Cost of sales

Our cost of sales increased by approximately RMB43.0 million, or approximately 36.0% from approximately RMB119.4 million for the nine months ended 30th September 2005 to approximately RMB162.4 million for the nine months ended 30th September 2006, which was lower than the overall growth in turnover. The increase in cost of sales is primarily due to increased costs of raw materials and labour cost as a direct result of the increase in the number of chain restaurants managed and owned by us from 50 as at 30th September 2005 to 77 as at 30th September 2006. Cost of sales as a percentage of our turnover was approximately 39.1% and approximately 37.1% in the nine months ended 30th September 2005 and 2006 respectively.

Gross profit

Our gross profit increased by approximately RMB89.3 million, or approximately 48.0% from approximately RMB186.1 million in the nine months ended 30th September 2005 to approximately RMB275.4 million in the nine months ended 30th September 2006, primarily due to an increase in the number of chain restaurants managed and owned by us from 50 as at 30th September 2005 to 77 as at 30th September 2006. The gross profit margin remained relatively stable at 60.9% in the nine months ended 30th September 2005 and at 62.9% in the nine months ended 30th September 2006.

Other income

Our other income increased by approximately RMB24.1 million, or approximately 350.6% from approximately RMB6.9 million in the nine months ended 30th September 2005 to approximately RMB31.0 million in the nine months ended 30th September 2006, primarily due to the increase in management fees received under the Management Agreement. We have received management fees of approximately RMB23.3 million under the Management Agreement for the nine months ended 30th September 2006. If the management fees had not been booked into our audited accounts for the nine months ended 30th September 2006, our net profit margin for this period would have been approximately 14.1%.

Property rentals

Our property rentals increased by approximately RMB15.7 million, or approximately 35.2% from approximately RMB44.6 million in the nine months ended 30th September 2005 to approximately RMB60.3 million in the nine months ended 30th September 2006, primarily due to the increase in the number of chain restaurants managed and owned by us from 50 as at 30th September 2005 to 77 as at 30th September 2006.

Distribution and selling expenses

Our distribution and selling expenses increased by approximately RMB34.1 million, or approximately 42.7% from approximately RMB79.8 million in the nine months ended 30th September 2005 to approximately RMB113.9 million in the nine months ended 30th September 2006. The increase was primarily due to the increase in costs of consumables and utensils, utility fees, sundry expenses, advertising expenses, salary and welfare expenses of restaurant staff and depreciation costs incurred in connection with the increase in the number of chain restaurants managed and owned by us from 50 as at 30th September 2005 to 77 as at 30th September 2006. Distribution and selling expenses as a percentage of our turnover were approximately 26.1% in the nine months ended 30th September 2005 compared with approximately 26.0% in the nine months ended 30th September 2006.

Administrative expenses

Our administrative expenses increased by approximately RMB8.9 million, or approximately 51.1% from approximately RMB17.5 million in the nine months ended 30th September 2005 to approximately RMB26.4 million in the nine months ended 30th September 2006, primarily due to an increase in administrative staff salary and director's welfare and expenses incurred in relation to the Global Offering and an increase in depreciation costs. Administrative expenses as a percentage of our turnover were 5.7% in the nine months ended 30th September 2005 compared with 6.0% in the nine months ended 30th September 2006.

Finance costs

Finance costs increased by approximately RMB467,000, or approximately 134.2% from approximately RMB348,000 in the nine months ended 30th September 2005 to approximately RMB815,000 in the nine months ended 30th September 2006, primarily due to an increase of borrowings from banks since late 2005.

Profit before taxation

Our profit before taxation increased by approximately RMB54.3 million, or approximately 106.9% from approximately RMB50.7 million in the nine months ended 30th September 2005 to approximately RMB105.0 million in the nine months ended 30th September 2006, as a result of the cumulative effect of the foregoing factors.

Income tax

Our income tax expenses increased by approximately RMB10.6 million, or approximately 115.1% from approximately RMB9.2 million in the nine months ended 30th September 2005 to approximately RMB19.8 million in the nine months ended 30th September 2006, primarily due to an increase in profit as a result of an increase in the number of chain restaurants managed and owned by us from 50 as at 30th September 2005 to 77 as at 30th September 2006, and an increase in the effective tax rate applicable to the Group from approximately 18.2% for the nine months ended 30th September 2005 to approximately 18.9% for the nine months ended 30th September 2006.

Minority interests

Minority interests decreased by approximately RMB3.2 million, or approximately 68.1%, from approximately RMB4.7 million in the nine months ended 30th September 2005 to approximately RMB1.5 million in the nine months ended 30th September 2006, primarily due to the acquisition of interests in certain non-wholly owned Subsidiaries from minority shareholders pursuant to the Reorganisation.

Profit attributable to equity holders of the Company

Our profit attributable to the equity holders of the Company increased by approximately RMB46.6 million, or approximately 126.2% from approximately RMB37.0 million in the nine months ended 30th September 2005 to approximately RMB83.6 million in the nine months ended 30th September 2006, for the reasons stated above.

Year ended 31st December 2005 compared to year ended 31st December 2004

Turnover

Our turnover increased by approximately RMB138.3 million, or by approximately 46.4% from approximately RMB298.2 million for the year ended 2004 to approximately RMB436.5 million for the year ended 2005 primarily due to the significant growth in our turnover from operation of restaurants.

Turnover from operation of restaurants increased by approximately RMB120.4 million, or approximately 46.6% from approximately RMB258.4 million in 2004 to approximately RMB378.8 million in 2005. Such increase is mainly due to an increase in the number of chain restaurants managed and owned by us from 32 as at 31st December 2004 to 54 as at 31st December 2005.

Cost of sales

Our cost of sales increased by approximately RMB55.7 million, or approximately 46.5% from approximately RMB119.9 million in 2004 to approximately RMB175.6 million in 2005, which increased in line with the growth in our turnover. The increase in cost of sales was primarily due to the increased costs of raw materials and labour cost as a direct result of the increase in the number of our chain restaurants managed and owned by us from 32 as at 31st December 2004 to 54 as at 31st December 2005. Cost of sales as a percentage of our turnover was approximately 40.2% in both 2004 and 2005.

Gross profit

Our gross profit increased by approximately RMB82.6 million, or approximately 46.3% from approximately RMB178.3 million in 2004 to approximately RMB260.9 million in 2005, primarily due to increase in the number of chain restaurants managed and owned by us from 32 as at 31st December 2004 to 54 as at 31st December 2005. The gross profit margin remained stable at 59.8% in both 2004 and 2005.

Other income

Our other income decreased by approximately RMB2.2 million, or approximately 19.2% from approximately RMB11.7 million in 2004 to approximately RMB9.5 million in 2005, primarily due to a decrease in the commission income from purchases by related companies. Since 2003, the related companies have been required to pay us a commission equal to 10% of the total purchase price of the goods purchased from us. The commission income received by us was approximately RMB6.7 million and approximately RMB4.1 million in 2004 and 2005, respectively. However, Independent Third Parties did not have to pay us such commission when they purchased goods from us. The 10% commission represented the mark-up generated by a Subsidiary incorporated outside China, centralizing the procurement and logistics of supplies to our restaurants, where the supplies were solicited outside the Group. Since the activities were generally carried out in the PRC, this Subsidiary was liable for PRC tax, irrespective of the fact that it was incorporated in an overseas jurisdiction. The gross services income, i.e. 110% of the costs (including purchase prices of goods) were reported as taxable in the PRC. Both Business Tax and FEIT were paid according to the PRC tax legislation.

The centralization of procurement and logistics of supplies has yet to be extended to Independent Third Parties, since it remains as an in-house function. It may be developed to that extent, when the Group moves to provide this service to unrelated parties. In any event, the 10% mark-up should be no less than the benchmark of the open market conditions, as if the transactions were carried out between unrelated or independent parties.

Property rentals

Our property rentals increased by approximately RMB21.2 million, or approximately 49.4% from approximately RMB42.7 million in 2004 to approximately RMB63.9 million in 2005, which was mainly due to the increase in rental payments made by the Group as a result of the increase in the number of chain restaurants managed and owned by us from 32 as at 31st December 2004 to 54 as at 31st December 2005.

Distribution and selling expenses

Our distribution and selling expenses increased by approximately RMB33.9 million, or approximately 44.4% from approximately RMB76.4 million in 2004 to approximately RMB110.3 million in 2005, primarily due to the increase in salary and welfare expenses of restaurant staff, utility fees, costs of consumables and utensils and depreciation costs incurred in connection with the increase in the number of chain restaurants managed and owned by us from 32 as at 31st December 2004 to 54 as at 31st December 2005 and the increase in sales volumes of the packaged noodles and other related products in 2005. Distribution and selling expenses as a percentage of our turnover were approximately 25.3% in 2005 compared with approximately 25.6% in 2004.

Administrative expenses

Our administrative expenses increased by approximately RMB10.8 million, or approximately 80.6% from approximately RMB13.5 million in 2004 to approximately RMB24.3 million in 2005, primarily due to an increase in administrative staff salary and welfare expenses, professional advisors' fees, depreciation costs and general expenses in 2005. Administrative expenses as a percentage of our turnover were 4.5% in 2004 and 5.6% in 2005.

Finance costs

The finance costs increased by approximately RMB489,000, or approximately 489.0% from approximately RMB100,000 in 2004 to approximately RMB589,000 in 2005, primarily due to an increase in bank borrowings.

Profit before taxation

Our profit before taxation increased by approximately RMB14.0 million, or approximately 24.1% from approximately RMB57.9 million in 2004 to approximately RMB71.9 million in 2005, as a result of the cumulative effect of the foregoing factors.

Income tax

Our income tax expenses increased by approximately RMB4.9 million, or approximately 42.5% from approximately RMB11.5 million in 2004 to approximately RMB16.4 million in 2005, as a result of the expansion of our restaurant business and an increase in the effective tax rate applicable to the Group from 19.8% for the year ended 31st December 2004 to 22.8% for the year ended 31st December 2005.

Minority interests

Minority interests decreased by approximately RMB2.7 million, or approximately 28.3% from approximately RMB9.5 million in 2004 to approximately RMB6.8 million in 2005, primarily due to a decrease in the aggregate amount of profits made by our non-wholly owned Subsidiaries.

Profit attributable to equity holders of the Company

Our profit attributable to the equity holders of the Company increased by RMB11.8 million, or approximately 31.6% from approximately RMB37.2 million in 2004 to approximately RMB49.0 million in 2005, for the reasons stated above.

Year ended 31st December 2004 compared to year ended 31st December 2003

Turnover

Our turnover increased by approximately RMB164.4 million, or by approximately 122.8%, from approximately RMB133.8 million in 2003 to approximately RMB298.2 million in 2004, primarily due to the significant growth in the number of chain restaurants managed and owned by us in the PRC from 12 as at 31st December 2003 to 32 as at 31st December 2004.

Our turnover from operation of restaurants increased by approximately RMB152.9 million, or approximately 144.9% from approximately RMB105.5 million in 2003 to approximately RMB258.4 million in 2004. This reflected a significant increase in the number of chain restaurants managed and owned by us from 12 as at 31st December 2003 to 32 as at 31st December 2004.

Cost of sales

Our cost of sales increased by approximately RMB70.5 million, or approximately 142.9% from approximately RMB49.4 million for the year ended 31st December 2003 to approximately RMB119.9 million for the year ended 31st December 2004, which was higher than the overall growth in turnover. The increase in cost of sales is primarily due to the increased business tax as a result of an increase in the number of chain restaurants managed and owned by us from 12 as at 31st December 2003 to 32 as at 31st December 2004 and due to an increase in the cost of raw materials as a direct result of the expansion of our business. Cost of sales as a percentage of our turnover was approximately 36.9% and approximately 40.2% in 2003 and 2004 respectively.

Gross profit

Our total gross profit increased by approximately RMB93.9 million, or approximately 111.2% from approximately RMB84.4 million in 2003 to approximately RMB178.3 million in 2004, primarily due to the increase in the number of chain restaurants managed and owned by us from 12 as at 31st December 2003 to 32 as at 31st December 2004. The gross profit margin decreased from 63.1% in 2003 to 59.8% in 2004, primarily due to the increase in cost of raw materials.

Other income

Our other income increased by approximately RMB7.5 million, or approximately 180.4% from approximately RMB4.2 million in 2003 to approximately RMB11.7 million in 2004, primarily due to an increase in exchange gain, income from membership subscription, royalty income from our sub-franchised operations and commission income from purchases by related companies.

Property rentals

Our property rentals increased by approximately RMB23.1 million, or approximately 117.8% from approximately RMB19.6 million in 2003 to approximately RMB42.7 million in 2004, which was mainly due to the increase in rental payments made by the Group as a result of the increase in the number of chain restaurants managed and owned by us from 12 as at 31st December 2003 to 32 as at 31st December 2004.

Distribution and selling expenses

Our distribution and selling expenses increased by approximately RMB36.7 million, or approximately 92.3% from approximately RMB39.7 million in 2003 to approximately RMB76.4 million in 2004, primarily due to the increase in staff salary and welfare expenses which was contributed by the increase in number of staffs in restaurants in 2004, utility fees, costs of consumables and utensils and sundry expenses, advertising and promotion expenses and depreciation costs which was contributed by the increase in number of chain restaurants managed and owned by us from 12 as at 31st December 2003 to 32 as at 31st December 2004. Distribution and selling expenses as a percentage of our turnover were approximately 29.7% in 2003 compared with approximately 25.6% in 2004.

Administrative expenses

Our administrative expenses increased by approximately RMB6.6 million, or approximately 95.2% from approximately RMB6.9 million in 2003 to approximately RMB13.5 million in 2004, primarily due to an increase in salary and welfare expenses of administrative staff which was caused by an increase in the number of administrative staff in 2004, insurance payment, travelling expenses, professional advisors' fees, depreciation costs and general expenses. Administrative expenses as a percentage of our turnover were approximately 5.2% in 2003 compared with approximately 4.5% in 2004.

Profit before taxation

Our profit before taxation increased by approximately RMB35.8 million, or approximately 162.3%, from approximately RMB22.1 million in 2003 to approximately RMB57.9 million in 2004, as a result of the cumulative effect of the foregoing factors.

Income tax

Our income tax expense increased by approximately RMB7.1 million, or approximately 161.0% from approximately RMB4.4 million in 2003 to approximately RMB11.5 million in 2004, as a result of an increase in profit before taxation due to the expansion of our business and an increase in the effective tax rate from 19.3% in 2003 to 19.8% in 2004.

Minority interests

Minority interests increased by approximately RMB2.6 million, or approximately 36.9% from approximately RMB6.9 million in 2003 to approximately RMB9.5 million in 2004, primarily due to the establishment of joint ventures in PRC in Nanjing, Shandong and Beijing during the year ended 31st December 2004, and the increase in net profit of the Group from approximately RMB18.5 million in 2003 to approximately RMB46.7 million in 2004.

Profit attributable to equity holders of the Company

Our profit attributable to the equity holders of the Company increased by approximately RMB25.7 million, or approximately 222.9% from approximately RMB11.5 million in 2003 to approximately RMB37.2 million in 2004, primarily due to the increase in net profit of the Group.

ANALYSIS OF FINANCIAL POSITION

Major Balance Sheet Items

Below are the major items extracted from our audited combined balance sheet as at 31st December 2003, 2004, 2005 and 30th September 2006 as set forth in the Accountants' Report in Appendix I to this prospectus:

	At 31st December			At 30th September
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Inventories	8,507	14,463	15,041	18,562
Trade and other receivables	14,314	30,830	46,790	61,728
Amounts due from related parties	30,110	36,368	78,305	48,821
Amounts due from directors	1,768	3,581	97	551
Amounts due from shareholders	8,949	10,749	1,956	–
Taxation recoverable	–	–	193	634
Bank balances and cash	39,894	55,537	73,121	55,600
	103,542	151,528	215,503	185,896

	At 31st December			At 30th September
	2003	**2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Trade and other payables	17,369	38,380	67,674	72,170
Amounts due to related companies	39,045	43,298	5,330	7,614
Amounts due to directors	39,398	46,531	105,060	57,483
Amounts due to shareholders	–	–	–	4,521
Dividend payable	3,922	15,900	20,800	–
Taxation payable	4,646	9,449	16,495	23,669
Secured short-term bank loans	–	12,720	1,209	7,528
	104,380	166,278	216,568	172,985
Net current assets (liabilities)	(838)	(14,750)	(1,065)	12,911

Key Financial Ratios

	Year ended 31st December			Nine months ended 30th September
	2003	2004	2005	2006
Inventories turnover (days) *(Note 1)*	67.2	35.0	30.7	28.3
Trade receivables turnover (days) *(Note 2)*	114.8	92.7	111.3	118.0
Trade payables turnover (days) *(Note 3)*	41.9	37.2	47.0	54.0
Current ratio *(Note 4)*	1.0	0.9	1.0	1.1
Gearing *(Note 5)*	0.4%	5.5%	4.6%	5.6%
Return on equity *(Note 6)*	65.9%	87.7%	59.7%	66.9%
Debt to equity *(Note 7)*	1.8%	24.8%	17.1%	13.7%
Interest coverage ratio *(Note 8)*	249.2	580.5	123.1	129.8

Notes:

(1) Average inventory equals inventory at the beginning of the period plus inventory at the end of the period divided by two. Turnover of inventory (days) for the years ended 31st December 2003, 2004 and 2005 equals average inventory for the period divided by cost of sales and multiplied by 365. Turnover of inventory (days) for the nine-month period ended 30th September 2006 equals average inventory for the period divided by cost of sales and multiplied by 273.

(2) Average trade receivables equal trade receivables at the beginning of the period plus trade receivables at the end of the period and divided by two. Turnover of trade receivables (days) for the years ended 31st December 2003, 2004 and 2005 equal average trade receivables for the period divided by revenue from sales of packaged noodles and other related products (including income from sub-franchising from sub-franchisee) and multiplied by 365. Turnover of trade receivables (days) for the nine-month period ended 30th September 2006 equals average trade receivables for the period divided by revenue from sales of packaged noodles and other related products (including income from sub-franchising from sub-franchisee) and multiplied by 273.

(3) Average trade payables equal trade payables at the beginning of the period plus trade payables at the end of the period and divided by two. Turnover of trade payables (days) for the three years ended 31st December 2003, 2004 and 2005 equals average trade payables for the period divided by cost of sales and multiplied by 365. Turnover of trade payables (days) for the nine-month period ended 30th September 2006 equals average trade payables for the period divided by cost of sales and multiplied by 273.

(4) Current ratio equals current assets divided by current liabilities as at the end of each year/period.

(5) Gearing equals total interest-bearing debt divided by total assets as at the end of each year/period.

(6) Return on equity equals net profit for each year divided by the average balance of total equity as at the beginning of each year and as at the end of each year. Return on equity for the nine months ended 30th September 2006 is calculated by dividing the annualized net profit for the nine-month period by the average balance of total equity as at 1st January 2006 and the total equity (after deducting the net profit for the nine-month period ended 30th September 2006 and adding the annualized net profit for the nine-month period ended 30th September 2006) as at 30th September 2006.

(7) Debt to equity equals interest-bearing debt for each year/period divided by the average balance of the total equity as at the beginning of each year/period and as at the end of each year/period.

(8) Interest coverage ratio is calculated by dividing earnings before interest and income tax expenses by interest expenses for each year/period.

Nine months ended 30th September 2006 compared to year ended 31st December 2005

Return on equity increased from 59.7% for the year ended 31st December 2005 to 66.9% for the nine months ended 30th September 2006, primarily due to improvement in the result of our operations in some of the regions such as Nanjing and Beijing. Debt to equity decreased from 17.1% for the year ended 31st December 2005 to 13.7% for the nine months ended 30th September 2006, primarily due to the improvement in the result of our operations during the period.

Year ended 31st December 2005 compared to year ended 31st December 2004

Return on equity decreased from 87.7% in 2004 to 59.7% in 2005, primarily due to the opening of new restaurants in new regions in the PRC. Since such regions were new to our restaurant operation, the new restaurants opened in there generally contributed a lower net profit margin. Debt to equity ratio decreased from 24.8% in 2004 to 17.1% in 2005, primarily due to the increase of our total equity at a rate higher than the increase of our total borrowing in 2004. Interest coverage ratio decreased from 580.5 times in 2004 to 123.1 times in 2005, primarily due to a loan obtained in late 2004, the interest accrued thereon being payable throughout 2005.

Year ended 31st December 2004 compared to year ended 31st December 2003

Return on equity increased from 65.9% in 2003 to 87.7% in 2004, primarily due to the increase of both our operating profit margin and net profit margin and the increase of average balance of total equity at a rate not as high as the increase in our net profit. Debt to equity ratio increased from 1.8% in 2003 to 24.8% in 2004, primarily due to the increase in our bank borrowings in 2004. Interest coverage ratio increased from 249.2 times in 2003 to 580.5 times in 2004 primarily due to the fact that the finance costs remained relatively stable while the net profit was increasing.

Our current ratios remained relatively stable during the Track Record Period as our current assets and current liabilities increased at approximately the same rates.

WORKING CAPITAL

Taking into account the net proceeds of the Global Offering (see section headed “Use of Proceeds” in this prospectus for more information) and other financing sources (including net cash flow from operating activities and cash received from bank borrowings) in relation to our planned capital expenditure, the Directors confirmed that we have sufficient working capital for our present requirements that is for at least the next 12 months from the date of this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our capital requirements principally from cash provided by operations. The remainder of our capital requirements were met by short and long term bank loans of approximately RMB0.5 million, approximately RMB13.2 million and approximately RMB15.9 million and approximately RMB21.2 million as of 31st December 2003, 2004 and 2005 and as of 30th September 2006, respectively. Our capital requirements relate primarily to network expansion through the opening of new chain restaurants and the purchase of additional equipment.

We had cash and cash equivalents of approximately RMB39.9 million, approximately RMB55.5 million, approximately RMB73.1 million and approximately RMB55.6 million as of 31st December 2003, 2004 and 2005 and as of 30th September 2006, respectively. Our cash and cash equivalents are held in Renminbi, Hong Kong dollars and Japanese Yen. Our cash position has been affected primarily by the results of our business operations.

Current Assets and Liabilities

Our current assets primarily consist of inventories, trade and other receivables, amounts due from related parties, shareholders and directors, bank balances and cash. Our current liabilities primarily consist of trade and other payables, amounts due to related companies, shareholders and directors, dividend and tax payables and bank loans.

Net current assets

We had net current assets of approximately RMB12.9 million and a current ratio of 1.1 as at 30th September 2006, net current liabilities of approximately RMB1.1 million and a current ratio of 1.0 as at 31st December 2005, net current liabilities of approximately RMB14.8 million and a current ratio of 0.9 as at 31st December 2004 and net current liabilities of approximately RMB0.8 million and a current ratio of 1.0 as at 31st December 2003. As we are primarily engaged in the restaurant business, most of our sales are cash sales. As a result, we are able to maintain a relatively low current ratio to achieve better use of our working capital. It is also an industry practice for a restaurant business to keep a low level of current ratio. Therefore, we believe our low current ratios as at 31st December 2003, 2004 and 2005 and 30th September 2006 were normal.

Our net current assets were approximately RMB57.7 million as at 31st January 2007, being the latest practicable date for ascertaining our net current assets. Our current assets and current liabilities as at 31st January 2007 are as follows:

	As at 31st January 2007 *(RMB'000)* (Unaudited)
Current assets	230,132
Current liabilities	(172,481)
Net current assets	57,651

Cash Flow

The following table sets out selected cash flow data from our combined cash flow statements, as set out in the Accountants' Report in Appendix I to this prospectus, for the periods indicated.

	Year ended 31st December			Nine months ended 30th September
	2003	**2004**	**2005**	**2006**
	(RMB millions)			
Net cash inflow/(outflow) from operating activities	49.4	54.6	92.5	95.8
Net cash inflow/(outflow) from investing activities	(42.7)	(65.1)	(90.4)	(16.0)
Net cash inflow/(outflow) from financing activities	16.1	26.2	15.8	(97.1)
Cash and cash equivalents at beginning of year/period	17.1	39.9	55.5	73.1
Cash and cash equivalents at the end of year/period	39.9	55.5	73.1	55.6

Operating activities

Net cash inflow from operating activities for the nine months ended 30th September 2006 was approximately RMB95.8 million while our profit before taxation for the same period was approximately RMB105.0 million. The difference of approximately RMB9.2 million was primarily due to the increase in inventories of approximately RMB3.5 million and the increase in trade and other receivables of approximately RMB14.9 million, partially offset by an increase in trade and other payables of approximately RMB4.4 million. The increase in inventories and the trade and other payables was primarily due to the increased purchase of raw materials and other goods from suppliers as a result of the increase in the number of chain restaurants managed and owned by us during the period. The increase in trade and other receivables was primarily due to the higher sales volume in the sale of noodles and related products which were mainly on credit terms which varied from 60 days to 90 days, and an increase in rental deposits due to the increase in the number of chain restaurants managed and owned by us during the period.

Net cash inflow from operating activities for the year ended 31st December 2005 was approximately RMB92.5 million while our profit before taxation for the same period was approximately RMB71.9 million. The difference of approximately RMB20.6 million was primarily due to the increase in inventories of approximately RMB0.6 million and the increase in trade and other receivables of approximately RMB15.5 million, partially offset by an increase in trade and other payables of approximately RMB28.2 million. The increase in inventories and the trade and other payables was primarily due to the increased purchase of raw materials and other goods from suppliers as a result of the increase in the number of chain restaurants managed and owned by us during the period. The increase in trade and other receivables was primarily due to the higher sales volume and the increase in receivables from related companies.

Net cash inflow from operating activities for the year ended 31st December 2004 was approximately RMB54.6 million while our profit before taxation for the same period was approximately RMB57.9 million. The difference of approximately RMB3.3 million was primarily due to the increase in inventories of approximately RMB6.0 million and the increase in trade and other receivables of approximately RMB16.5 million, partially offset by an increase in trade and other payables of approximately RMB16.7 million. The increase in inventories and the trade and other payables was primarily due to the increased purchase of raw materials and other goods from suppliers as a result of the increase in the number of chain restaurants managed and owned by us during the period. The increase in trade and other receivables was primarily due to the higher sales volume and the increase in receivables from related companies.

Net cash inflow from operating activities for the year ended 31st December 2003 was approximately RMB49.4 million while our profit before taxation for the same period was approximately RMB22.1 million. The difference of approximately RMB27.3 million was primarily due to the decrease in trade and other receivables of approximately RMB14.7 million, a decrease in inventories of approximately RMB1.2 million and an increase in trade and other payables of approximately RMB7.9 million. The increase in trade and other payables was primarily due to the increased purchase of raw materials and other goods from suppliers as a result of the increase in the number of chain restaurants managed and owned by us during the period. The decrease in trade and other receivables was primarily due to a relatively low sales volume as a result of the outbreak of SARS in 2003. The relatively low inventories was a result of the adoption of an inventory management policy for the Hong Kong operation.

Investing Activities

We had a net cash outflow from investing activities of approximately RMB16.0 million for the nine months ended 30th September 2006, primarily contributed by the purchase of property, plant and equipment of approximately RMB44.5 million, partially offset by repayment from related parties of approximately RMB29.5 million.

We had a net cash outflow from investing activities of approximately RMB90.4 million for the year ended 31st December 2005, primarily due to the purchase of property, plant and equipment of approximately RMB58.2 million, advances made to related parties of approximately RMB41.6 million and prepaid lease payments of approximately RMB3.1 million, partially offset by repayment from shareholders of approximately RMB11.5 million.

We had a net cash outflow from investing activities of approximately RMB65.1 million for the year ended 31st December 2004, primarily due to the purchase of property, plant and equipment of approximately RMB55.6 million, advances made to related parties of approximately RMB6.3 million, advances made to the Directors of approximately RMB1.8 million and advances made to the Shareholders of approximately RMB1.8 million.

We had a net cash outflow from investing activities of approximately RMB42.7 million for the year ended 31st December 2003, primarily due to advances made to related parties of approximately RMB30.1 million, the purchase of property, plant and equipment of approximately RMB9.9 million and prepaid lease payments of approximately RMB4.9 million, partially offset by proceeds of approximately RMB3.3 million from disposal of investment properties.

Financing Activities

We had a net cash outflow from financing activities of approximately RMB97.1 million in the nine months ended 30th September 2006, primarily as a result of approximately RMB60.8 million dividends paid and the repayment to Directors of approximately RMB47.6 million, offset by approximately RMB11.4 million bank loans raised.

We had a net cash inflow from financing activities of approximately RMB15.8 million in the year ended 31st December 2005, primarily as a result of proceeds of approximately RMB28.3 million from capital contribution to Subsidiaries, borrowings of approximately RMB58.5 million from directors and approximately RMB2.7 million net bank loan, offset by approximately RMB35.2 million dividends paid and repayment to related companies of approximately RMB38.0 million.

We had a net cash inflow from financing activities of approximately RMB26.2 million in the year ended 31st December 2004, primarily as a result of proceeds of approximately RMB6.1 million from capital contribution to Subsidiaries, borrowings of approximately RMB4.3 million from related companies, borrowings of approximately RMB7.1 million from directors and approximately RMB12.7 million net bank loans, partly offset by approximately RMB3.9 million dividends paid.

We had a net cash inflow from financing activities of approximately RMB16.1 million in the year ended 31st December 2003, primarily as a result of proceeds of approximately RMB4.8 million from capital contribution to Subsidiaries and borrowings of approximately RMB26.5 million from directors and approximately RMB5.4 million bank loans raised, partly offset by approximately RMB9.9 million dividends paid, repayment of bank loans of approximately RMB6.7 million and repayment of approximately RMB3.9 million to related companies.

OFF BALANCE SHEET ARRANGEMENT

Over the Track Record Period and up to the Latest Practicable Date, we did not have any off-balance sheet transactions.

REAL PROPERTIES

According to the "Property Valuation" section in Appendix IV to this prospectus, we owned 6 properties as of 31st January 2007. Such interests as valued by CB Richard Ellis Limited, an independent property valuer, as of 31st January 2007 were RMB54.9 million. Investors should be aware that there are differences among the classification of properties used by the Group, the classification used by CB Richard Ellis Limited as set forth in the "Property Valuation" in Appendix IV to this prospectus, and the classification of properties used by Deloitte Touche Tohmatsu, our reporting accountants, in the Accountants' Report in Appendix I to this prospectus.

The reconciliation of properties from the audited combined financial statements as at 30th September 2006 to the valuation certificates as at 31st January 2007 is set out below:

	(RMB millions)
Net book value as of 30th September 2006	
Group I – Property interests held by the Group for occupation in Hong Kong	3.1
Group II – Property interests held by the Group for occupation in the PRC	41.5
	44.6
Movement for the period from 30th September 2006 to 31st January 2007	(3.9)
Net book value as of 31st January 2007	40.7
Valuation surplus	14.2
Valuation as of 31st January 2007	54.9

The premises on which we operate our chain restaurants are rented from third party landlords. According to the "Property Valuation" section in Appendix IV to this prospectus, the majority of our real property leases are for a period of 6 to 10 years for leases of real property in the PRC and a period of 2 to 3 years for leases of real property in Hong Kong, while tenancy agreements for leased property located in Hong Kong may also provide for an option to renew for an additional 2 to 3 years.

INDEBTEDNESS

Bank Borrowings and Other Borrowings

Our borrowings are denominated in Renminbi and Hong Kong dollars. The table below sets out our bank borrowings as at 31st December 2003, 2004 and 2005, 30th September 2006 and 31st January 2007.

	31st December			30th September	31st January
	2003	**2004**	**2005**	**2006**	**2007**
	(RMB millions)				
Current:					
Short-term bank borrowings	0	12.7	1.2	7.5	41.3
Non-current:					
Long-term bank borrowings	0.5	0.5	14.7	13.7	72.8
Total borrowings	0.5	13.2	15.9	21.2	114.1

During the Track Record Period, the borrowings set forth above are short and long-term bank loans from two financial institutions. The long-term bank loans were secured by a property owned by Poon Wai and Gary Ng, the husband of Poon Wai, and, in addition, personally guaranteed by each of Poon Wai and Gary Ng. The short-term bank loans at 31st December 2004 were secured by certain buildings of the Group, whereas the short-term bank loans at 31st December 2005 and 30th September 2006 were secured by a property owned by and guarantees given by Poon Wai and Gary Ng. The bank has agreed in principle to the release of the personal guarantees by Poon Wai and Gary Ng, subject to the successful listing of the Company and the execution of a corporate guarantee by the Company in favour of the bank. The Group has also pledged certain of its buildings with an aggregate net book value of approximately RMB3.6 million, RMB7.8 million, RMB7.3 million and RMB7.1 million as at 31st December 2003, 31st December 2004, 31st December 2005 and 30th September 2006 respectively to certain banks to secure the credit facilities granted to the Group. The bank loans as at 31st December 2003, 2004 and 2005 and 30th September 2006 bore interest at fixed rates of approximately 6.2% or at floating rates of Hong Kong prime rates minus 2.5% or 1% above the Hong Kong Interbank Offered Rate.

During the Track Record Period, our bank borrowings increased to cope with the increased capital requirements for our sales growth and business expansion. The proceeds of outstanding loans as at 31st December 2003, which were obtained in 1999, were used for acquisition of a building. As at 31st December 2004 our borrowings substantially increased, and proceeds of such borrowings were used as general working capital. As at 31st December 2005, our borrowings increased and the proceeds of such borrowings were used as general working capital. As at 30th September 2006, our borrowings increased, and proceeds of such borrowings were used primarily for general working capital. As at 31st January 2007, being the latest practicable date for determining our indebtedness, our total borrowings amounted to approximately RMB114.1 million, which was primarily used for dividend payment, repayment of amounts due to our Directors and Shareholders, and as general working capital, all of which was secured.

Contingent Liabilities

As at the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against our Group which could have a material adverse effect on our business or operations. Please refer to Note 37 of the Accountants' Report set out at Appendix I. As at 31st January 2007, being the latest practicable date for determining our indebtedness, we did not have any material contingent liabilities or guarantees.

Prepaid Lease Payment and Operating Lease Commitment

During the Track Record Period, the maximum amount of operating lease commitments made by the Group were approximately RMB360.2 million for the nine months ended 30th September 2006. During the Track Record Period, the maximum amount of prepaid lease payment incurred by the Group was approximately RMB7.3 million for the year ended 31st December 2005.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

Our capital expenditures were approximately RMB9.9 million, approximately RMB59.9 million, approximately RMB59.3 million and approximately RMB44.5 million for each of the three years ended 31st December 2003, 2004 and 2005 and the nine months ended 30th September 2006, respectively. Capital expenditures during these periods were primarily related to our purchase of property, plant and equipment.

The following table summarises the breakdown of our capital expenditures during the Track Record Period:

	Year ended 31st December			Nine months ended 30th September
	2003	2004	2005	2006
		(RMB millions)		
Operation of restaurants	7.7	57.6	56.2	43.2
Sales of noodles and related products	2.2	2.1	2.6	1.3
Others	0	0.2	0.5	0
Total	9.9	59.9	59.3	44.5

Except the bank borrowings amounted to approximately RMB114.1 million as disclosed in the section "Financial Information — Indebtedness — Bank Borrowings and Other Borrowings", as at 31st January 2007, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued or agreed to be issued, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or have purchase commitments, finance lease commitments, guarantees, indemnities or other material contingent liabilities.

Inventory Analysis

Our inventories primarily consist of frozen food, wheat flour and food additives. The perishable nature of the inventory makes it impracticable to be stored for long periods. We calculate average cost of inventories on a monthly and a weighted average basis.

The following table sets forth a summary of our average inventory turnover for the periods indicated:

	Year ended 31st December			Nine months ended 30th September
	2003	2004	2005	2006
Turnover of inventory (days)	67.2	35.0	30.7	28.3

Total inventory turnover days remained relatively stable at 28.3 days in the nine months ended 30th September 2006 as compared to 30.7 days in 2005. The inventory turnover days decreased from approximately 35.0 days in 2004 to approximately 30.7 days in 2005, mainly due to better management of the inventory system contributed by the recruitment of staff with inventory management experience in international FCR in 2005. Our inventory turnover days decreased from approximately 67.2 days in 2003 to approximately 35.0 days in 2004, which was primarily attributable to the adoption of an inventory management policy, including regular stock-taking.

ANALYSIS OF TRADE AND OTHER RECEIVABLES

Our trade and other receivables primarily consist of rental and utility deposits, advances to suppliers, prepayments for rental expenses and trade receivables. The vast majority of our chain restaurant end-consumers pay in cash at the time of purchase. Trade receivables are more significant to our package noodle business. We do not make general provisions for bad and doubtful debt.

Turnover of Trade Receivables

The following table sets forth the turnover of our trade receivables for the periods indicated:

	Year ended 31st December			Nine months ended 30th September
	2003	**2004**	**2005**	**2006**
Trade receivable turnover day (days)	114.8	92.7	111.3	118.0

Trade receivables turnover days in the nine months ended 30th September 2006 increased to 118.0 days from 111.3 days in the year ended 31st December 2005, primarily due to the fact that the repayment period of the customers has increased during the year. Trade receivable turnover days increased from 92.7 days in 2004 to 111.3 days in 2005, primarily due to the increase in repayment period of the customers during the year. Trade receivable turnover days decreased from 114.8 days in 2003 to 92.7 days in 2004, primarily due to the shorter credit terms granted to customers of Shanghai Factory as compared to the credit terms granted by Shenzhen Factory.

Aging Analysis of Trade and Other Receivables

An aging analysis of the trade and other receivables for the periods indicated, which is extracted from our audited combined financial information included in the Accountants' Report set out in Appendix I to this prospectus, is as follows:

	At 31st December			At 30th September
	2003	**2004**	**2005**	**2006**
		(RMB millions)		
Age				
0 to 30 days	3.4	11.1	14.5	19.8
31 to 60 days	1.5	2.4	3.9	6.2
61 to 90 days	0.3	0.9	1.1	1.0
91 to 180 days	0.1	0.5	0.6	2.1
Over 180 days	–	–	0.2	0.3
	5.3	14.9	20.3	29.4

The payment terms with our customers of our noodles and related products are mainly on credit after receiving deposits. Our trade and other receivables increase as our revenue grows.

We generally grant credits to our customers of our noodles and related products with terms ranging from 60 days to 90 days, except for certain long term customers for which the credit terms are up to 180 days. The increase in trade receivables with credit terms of 91 to 180 days between 31st December 2005 and 30th September 2006 was primarily due to the extension of credit terms granted to customers with long term relationships and better credit history.

The following table sets forth an analysis of the amounts due from Shareholders, Directors and other related parties:

	31st December			30th September
	2003	**2004**	**2005**	**2006**
		(RMB millions)		
Shareholders	8.9	10.7	2.0	–
Directors	1.8	3.6	0.1	0.6
Other related parties	30.1	36.4	78.3	48.8
Total	40.8	50.7	80.4	49.4

The amount due from other related parties increased from approximately RMB36.4 million as at 31st December 2004 to approximately RMB78.3 million as at 31st December 2005, primarily due to the extended credit terms given by the Group to such related parties. The amount due from other related parties decreased from approximately RMB78.3 million as at 31st December 2005 to approximately RMB48.8 million as at 30th September 2006, primarily due to the repayment of amounts due from related parties. The Directors confirm that all outstanding balances which are of non-trade nature with related parties will be fully settled prior to the commencement of trading in the Shares on the Stock Exchange.

ANALYSIS OF TRADE AND OTHER PAYABLES

Our trade and other payables primarily consist of trade payables, payables for acquisition of land use rights, property, plant and equipment, payroll and welfare payables and other tax payables. We are generally granted credit period by our suppliers with terms ranging from 30 days to 60 days. All trade payables as at 30th September 2006 have been settled subsequently and there is no dispute between us and our suppliers relating to payables.

Turnover of Trade Payables

The following table sets forth the turnover of our trade payables for the periods indicated:

		Year ended 31st December		Nine months ended 30th September
	2003	**2004**	**2005**	**2006**
Trade payable turnover day (days)	41.9	37.2	47.0	54.0

The trade payable turnover days decreased from 41.9 days in 2003 to 37.2 days in 2004, mainly due to our procurement of raw materials from new suppliers as a result of the expansion of our PRC operation in 2004. The credit terms granted by these new suppliers are relatively less favourable than those provided by our then existing suppliers. The trade payable turnover days increased from 37.2 days in 2004 to 47.0 days in 2005, and to 54.0 days for the nine months ended 30th September 2006, primarily due to the longer credit period granted by our suppliers which was due to the continuity of our business relationship.

Aging Analysis of Trade and Other Payables

An aging analysis of trade and other payables for the periods indicated, which is extracted from our audited combined financial information included in the Accountants' Report set out in Appendix I to this prospectus, is as follows:

	At 31st December			At 30th September
	2003	2004	2005	2006
	(RMB millions)			
Age				
0 to 30 days	4.9	14.8	21.1	21.5
31 to 60 days	0.2	3.9	3.8	14.8
61 to 90 days	–	0.2	0.9	0.2
91 to 180 days	0.1	0.3	0.1	0.2
Over 180 days	–	–	0.2	1.5
	5.2	19.2	26.1	38.2

The following table sets forth an analysis of the amounts due to Shareholders, Directors and other related companies:

	31st December			30th September
	2003	2004	2005	2006
	(RMB millions)			
Shareholders	–	–	–	4.5
Directors	39.4	46.5	105.1	57.5
Other related companies	39.0	43.3	5.3	7.6
Total	78.4	89.8	110.4	69.6

There were amounts due to Shareholders in the amount of approximately RMB4.5 million as at 30th September 2006, primarily due to the outstanding franchise fees that remained payable to the Franchisor under the Franchise Agreements as at 30th September 2006.

The amount due to Directors increased from approximately RMB46.5 million as at 31st December 2004 to approximately RMB105.1 million as at 31st December 2005, primarily due to the advance from Poon Wai. The amount due to Directors decreased from approximately RMB105.1 million as at 31st December 2005 to approximately RMB57.5 million as at 30th September 2006, primarily due to the repayment to Poon Wai. The advance from Poon Wai was used for the expansion of our business. The advance was interest free with no definite repayment terms. The Directors confirm that all outstanding balances which are of non-trade nature with related companies will be fully settled prior to the commencement of trading in the Shares on the Stock Exchange.

MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including the following:

Interest Rate Risk

Our exposure to changes in interest rates relates primarily to the effect of interest rate fluctuations on our interest bearing loans. Our total interest-bearing bank loans outstanding in the amount of RMB21.2 million as of 30th September 2006 were short and long-term in nature. We do not currently have an interest rate hedging policy. As a result, higher interest rates may affect our net income.

Credit Risk

Most of our sales from the restaurants are settled by cash. Our credit risk is primarily attributable to our trade receivables and amounts due from related parties. We review the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. We are also exposed to credit risks in relation to our deposits with banks. However, our cash and cash equivalents are mainly deposited with banks with high credit-ratings assigned by international credit-ratings agencies and state owned banks, therefore the credit risk on liquid funds is limited.

Foreign Exchange Rate Risk

A significant portion of our operating activities are carried out in China and denominated in Renminbi. Part of our financial assets and liabilities are also denominated in Renminbi. However, we import some of our equipment and raw materials from Japan. The Group does not have a foreign currency hedging policy in respect of foreign currency debt. Therefore, the price of imported products from our suppliers may be adversely affected by foreign currency fluctuations.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted net tangible assets, as set forth in Appendix II to this prospectus, is based on our audited combined net assets as of 30th September 2006 as set out in the Accountants' Report in Appendix I to this prospectus, adjusted as shown below:

	Net tangible assets attributable to equity holders of the Company as at 30th September 2006	**Estimated net proceeds from the Offering**	**Pro forma adjusted net tangible assets attributable to equity holders of the Company**	**Pro forma adjusted net tangible asset value per Share**
	RMB'000	*RMB'000*	*RMB'000*	*RMB*
	(note 1)	*(note 2)*		*(note 3)*
Based on the Offer Price of HK$5.47 per Share	153,134	1,473,314	1,626,448	1.63
Based on the Offer Price of HK$4.47 per Share	153,134	1,195,283	1,348,417	1.35

Notes:

1. Net tangible assets attributable to equity holders of the Company as at 30th September 2006 arrived from the net assets as disclosed on page App I-10 in Appendix I to this prospectus after deducting the intangible assets and minority interests.

2. The estimated net proceeds from the International Offering are based on the Offer Price of HK$3.2 and HK$5.6 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. It has not taken into account any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may be issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as referred to in the paragraph headed "Written resolutions of all the Shareholders of the Company passed on 8th March 2007" in Appendix VI to this prospectus. If the Over-allotment Option is exercised in full, the unaudited pro forma adjusted net tangible asset value per Share will be increased and the unaudited pro forma estimated earning per Share will be diluted correspondingly.

3. The pro forma adjusted net tangible asset value per Share has been arrived at after making the adjustments set forth in this paragraph and on the basis of a total of 1,000,000,000 Shares expected to be in issue immediately following the completion of the Global Offering but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or which may be allotted and issued pursuant to the exercise of the Over-allotment Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as referred to in the paragraph headed "Written resolutions of all the Shareholders of the Company passed on 8th March 2007" in Appendix VI to this prospectus.

4. By comparing the valuation of the Group's property interests of RMB54.9 million as set out in Appendix IV of this prospectus and the unaudited net book value of these properties of RMB40.7 million as at 31st January 2007, the net valuation surplus is approximately RMB14.2 million, which has not been included in the above net tangible assets of the Group. The revaluation of the Group's property interests will not be incorporated in the Group's financial statements. If the revaluation surplus is to be included in the Group's financial statements, an additional depreciation charge of approximately RMB0.9 million per annum would be charged.

PROFIT ESTIMATE FOR THE YEAR ENDED 31ST DECEMBER 2006

The following sets forth certain estimated data for our Company for the year ended 31st December 2006, which should be read in conjunction with Appendices II and III to this prospectus:

Estimated profit attributable to equity holders of the Company *(note 1)*	not less than RMB111 million (HK$112 million)
Recognition of share-based payments as expenses *(note 2)*	RMB12.5 million (HK$12.6 million)
Estimated earnings per Share Pro forma fully diluted *(note 3)*	RMB0.097 (HK$0.097)

Notes:

(1) The bases and assumptions on which the estimated profit attributable to equity holders of the Company for the year ended 31st December 2006 has been prepared are set out in Appendix III to this prospectus.

(2) Recognition of share-based payments as expenses for the year ended 31st December 2006 of approximately RMB12.5 million which represents the estimated fair value of the options as if all the options that have been conditionally granted under the Pre-IPO Share Option Scheme were granted on and fully vested on 1st January 2006.

The estimated fair value of the options determined as if the options have been granted on 1st January 2006 using the Black-Scholes option pricing model is approximately HK$12.6 million (equivalent to RMB12.5 million).

The following assumptions were used to calculate the estimated fair values of share options:

Share price	HK$4.02 *(Note a)*
Exercise price	HK$3.80 *(Note b)*
Expected life of options	4.25 years *(Note c)*
Expected volatility	19.73% *(Note d)*
Expected dividend yield	4% *(Note e)*
Risk free rate	4.09%

For the purpose of calculating of estimated fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. The changes in subjective input assumptions can materially affect the fair value estimate.

Notes:

(a) The price of the Company's share at 1st January 2006 is assumed to be HK$4.02 per share, which is equal to 90% of the estimated offer price HK$4.47.

(b) The exercise price is HK$3.8, assuming 85% of the Offer Price at HK$4.47.

(c) The expected life of option ranges from 4.25 years from the date of grant.

(d) Expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group.

(e) Expected dividend yield is determined by the directors based on the historical record and the expected future performance of the Group.

(3) The calculation of the unaudited pro forma estimated earnings per Share on a fully diluted basis is based on the estimated combined profit attributable to the equity holders of the Company for the year ended 31st December 2006 adjusted for share-based payments expenses as described in note (2) assuming a total of 1,000,000,000 Shares is issued during the entire year adjusted with the effect of dilutive potential ordinary shares in respect of options that have been conditionally granted under the Pre-IPO Share Option Scheme of 20,000,000 Shares. It takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares as referred to in the paragraph headed "Written resolutions of all the Shareholders of the Company passed on 8th March 2007" in Appendix VI to this prospectus.

There can be no assurance that such estimates will ultimately be realised, or if not realised, that the failure to realise such results will not have a material and adverse impact on the financial condition or the results of our operations.

DISTRIBUTABLE RESERVE

As at 30th September 2006, there was no distributable reserve available for distribution to the shareholders of the Company.

DIVIDEND AND DIVIDEND POLICY

The Group has declared dividends of approximately RMB9.9 million, RMB15.9 million, RMB40.1 million, RMB19.1 million and RMB40.0 million for the years ended 31st December 2003, 2004 and 2005, for the nine months ended 30th September 2005 and for the nine months ended 30th September 2006, respectively, representing approximately 53.4%, 34.0%, 71.9%, 45.9% and 47.0% of the net profit of the Group for the respective periods, all of which have been paid during the Track Record Period. We also declared a special dividend of approximately HK$56.0 million in November 2006, which will be paid prior to the Listing Date and the source of which will be from the cash inflow generated from our operating activities and bank borrowings.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. In addition, by virtue of her large shareholding, our Controlling Shareholder will be able to influence our dividend policy. Because of such factors and because the payment of dividends is at the discretion of our Board, which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be paid in respect of the year ended 31st December 2007 or for any other period in the future.

Subject to the factors above, which may have the effect of changing our plans regarding the payment of dividends, it is our present plan to distribute dividends to our Shareholders approximately 25% of our profits attributable to equity holders of the Company in respect of the year ending 31st December 2007. Cash dividends on our Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means which our Directors deem legal, fair and practicable. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

NO MATERIAL CHANGE

We confirm that there has been no material adverse change in our financial or trading position since 30th September 2006.