# Ajisen (China) Holdings Limited
# 味千（中國）控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 0538)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

### 2007 ANNUAL RESULTS HIGHLIGHTS

- Turnover rose by 51.1% to RMB904.4 million (2006: RMB598.4 million)
- Sales from restaurant operation grew by 59.6% to RMB844.9 million, accounting for about 93.4% of turnover
- Profit attributable to equity holders grew by 88.4% to RMB213.6 million
- Net profit margin was 24.4% (2006: 19.2%)
- Basic earnings per share amounted to RMB22.18 cents (2006: RMB15.98 cents), an increase of 38.8%
- Total number of restaurants reached 210 by the end of 2007 and 232 as at the date of this announcement

## ANNUAL RESULTS

The board of directors (the "Board" or "Directors") of Ajisen (China) Holdings Limited (the "Company" or "Ajisen (China)") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007, together with the comparative figures for 2006, as follows:

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2007*

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| Turnover | 2 | **904,353** | 598,391 |
| Cost of sales | | **(300,801)** | (219,411) |
| Gross profit | | **603,552** | 378,980 |
| Other income | | **139,072** | 41,734 |
| Property rentals | | **(126,403)** | (84,700) |
| Distribution and selling expenses | | **(259,927)** | (158,134) |
| Administrative and general expenses | | **(70,276)** | (33,683) |
| Finance costs | | **(1,823)** | (1,226) |
| Profit before taxation | 3 | **284,195** | 142,971 |
| Taxation | 4 | **(63,407)** | (27,929) |
| Profit for the year | | **220,788** | 115,042 |
| Attributable to: | | | |
| Equity holders of the Company | | **213,574** | 113,365 |
| Minority interests | | **7,214** | 1,677 |
| | | **220,788** | 115,042 |
| | | ***RMB cents*** | *RMB cents* |
| Earnings per share | | | |
| — Basic | 5 | **22.18** | 15.98 |
| — Diluted | 5 | **22.02** | N/A |

## CONSOLIDATED BALANCE SHEET

*At 31 December 2007*

| | Notes | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **297,252** | 166,695 |
| Prepaid lease payments | | **5,473** | 6,361 |
| Deposits paid for acquisition of property, plant and equipment | | **12,511** | — |
| Deposit paid for acquisition of prepaid lease payments | | **10,000** | — |
| Rental deposits | | **27,152** | — |
| Goodwill | | **37,135** | 37,135 |
| Deferred tax assets | | **3,315** | 1,340 |
| Available-for-sale investments | | **2,010** | 1,536 |
| | | **394,848** | 213,067 |
| Current assets | | | |
| Inventories | | **24,662** | 21,376 |
| Trade and other receivables | *6* | **70,554** | 64,900 |
| Amounts due from related parties | | **20,790** | 53,173 |
| Taxation recoverable | | **—** | 673 |
| Index-linked deposit | *7* | **38,423** | — |
| Bank balances and cash | | **1,682,765** | 107,473 |
| | | **1,837,194** | 247,595 |
| Current liabilities | | | |
| Trade and other payables | *8* | **129,603** | 82,400 |
| Amounts due to related companies | | **10,024** | 10,670 |
| Amounts due to directors | | **508** | 36,507 |
| Amount due to a shareholder | | **6,890** | 3,906 |
| Dividend payable | | **—** | 11,220 |
| Taxation payable | | **47,480** | 26,230 |
| Current portion of long-term bank loans | | **—** | 1,229 |
| Short-term bank loans | | **—** | 46,000 |
| Bank overdrafts | | **572** | 1,395 |
| | | **195,077** | 219,557 |
| Net current assets | | **1,642,117** | 28,038 |
| Total assets less current liabilities | | **2,036,965** | 241,105 |

| | 2007 | 2006 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Non-current liabilities | | |
| Long-term bank loans | — | 72,927 |
| Deferred tax liabilities | **4,376** | 178 |
| | **4,376** | 73,105 |
| Net assets | | |
| | **2,032,589** | 168,000 |
| Capital and reserves | | |
| Paid-in capital | **104,500** | 8 |
| Reserves | **1,906,714** | 161,972 |
| Equity attributable to equity holders of the Company | **2,011,214** | 161,980 |
| Minority interests | **21,375** | 6,020 |
| Total equity | **2,032,589** | 168,000 |

*Notes:*
*(All amounts in RMB thousands unless otherwise stated)*

**1. GENERAL**

The Company is incorporated and registered as an exempted company with limited liability on 6 April 2006 under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2007. Its controlling shareholder is Favor Choice Group Limited, a company which is incorporated in the British Virgin Islands. The addresses of the registered office and the principal place of business of the Company are disclosed in the "Corporation Information" section of the annual report.

The functional currency of the Company and its Hong Kong operating subsidiaries is Hong Kong dollars ("HK$"). The functional currency of its Mainland China (the "PRC") operating subsidiaries is Renminbi ("RMB"). The consolidated financial statements are presented in RMB as the management of the Company considers that it is more beneficial for the users of the consolidated financial statements.

## 2. GEOGRAPHICAL AND BUSINESS SEGMENTS

**Geographical segments**

The Group's operations are located in Hong Kong and the PRC. This is used as the basis on which the Group reports its primary segment information. The following table provides an analysis of the Group's segment information by geographical location of customers, irrespective of the origin of the goods:

*Income Statement*

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| TURNOVER | | |
| Hong Kong | | |
| — external sales | **208,890** | 184,747 |
| — inter-segment sales | **45,916** | 65,693 |
| | **254,806** | 250,440 |
| PRC | | |
| — external sales | **695,463** | 413,644 |
| — inter-segment sales | **97,289** | 87,314 |
| | **792,752** | 500,958 |
| Elimination of inter-segment sales | **(143,205)** | (153,007) |
| | **904,353** | 598,391 |
| RESULTS | | |
| Segment profit from operations | | |
| — Hong Kong | **44,018** | 49,122 |
| — PRC | **181,898** | 100,656 |
| | **225,916** | 149,778 |
| Unallocated income | **90,674** | 2,484 |
| Unallocated expenses | **(30,572)** | (8,065) |
| Finance costs | **(1,823)** | (1,226) |
| Profit before taxation | **284,195** | 142,971 |
| Taxation | **(63,407)** | (27,929) |
| Profit for the year | **220,788** | 115,042 |

*Balance Sheet*

| | Segment assets | |
|---|---|---|
| | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* |
| By location of customers which is also where the assets locate: | | |
| **Segment assets** | | |
| Hong Kong | **87,216** | 98,816 |
| PRC | **395,800** | 261,590 |
| | **483,016** | 360,406 |
| Unallocated | **1,749,026** | 100,256 |
| Total assets | **2,232,042** | 460,662 |

| | Segment liabilities | |
|---|---|---|
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| **Segment liabilities** | | |
| Hong Kong | **16,543** | 9,594 |
| PRC | **112,801** | 83,473 |
| | **129,344** | 93,067 |
| Unallocated | **70,109** | 199,595 |
| Total liabilities | **199,453** | 292,662 |

*Other Information*

For the year ended 31 December 2007

| | **Hong Kong** | **PRC** | **Unallocated** | **Total** |
|---|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Depreciation | **7,062** | **34,975** | **76** | **42,113** |
| Capital addition | **17,504** | **166,257** | **1,360** | **185,121** |
| Allowance for doubtful debts | **—** | **132** | **—** | **132** |
| Loss on disposal of property, plant and equipment | **523** | **1,486** | **—** | **2,009** |
| Operating lease rentals in respect of prepaid lease payments | **—** | **1,639** | **—** | **1,639** |

For the year ended 31 December 2006

| | Hong Kong | PRC | Unallocated | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation | 4,731 | 22,129 | — | 26,860 |
| Capital addition | 10,810 | 64,862 | — | 75,672 |
| Loss on disposal of property, plant and equipment | — | 2,009 | — | 2,009 |
| Operating lease rentals in respect of prepaid lease payments | — | 871 | — | 871 |

**Business segments**

The Group is currently organised into two operating divisions, namely operation of restaurants and the manufacture and sales of noodle and related products.

The following table provides an analysis of the Group's turnover from external customers, the carrying amount of segment assets and capital additions by business segments:

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| TURNOVER | | |
| Operation of restaurants | | |
| — external sales | **844,874** | 529,337 |
| Sales of noodles and related products | | |
| — external sales | **59,479** | 69,054 |
| — inter-segment sales | **143,205** | 153,007 |
| | **202,684** | 222,061 |
| Elimination of inter-segment sales | **(143,205)** | (153,007) |
| | **904,353** | 598,391 |

| | **Capital additions** | | **Carrying amount of assets** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Operation of restaurants | **174,431** | 72,664 | **392,817** | 200,598 |
| Sales of noodles and related products | **9,330** | 3,008 | **90,652** | 106,940 |
| | **183,761** | 75,672 | **483,469** | 307,538 |
| Unallocated | **1,360** | — | **1,748,573** | 153,124 |
| | **185,121** | 75,672 | **2,232,042** | 460,662 |

## 3. PROFIT BEFORE TAXATION

| | 2007 | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration | **4,489** | 966 |
| Other staff costs | **123,881** | 63,685 |
| Other staff's retirement benefits scheme contributions | **9,547** | 1,318 |
| Other staffs' share-based payment expenses | **826** | — |
| | **138,743** | 65,969 |
| Allowance for doubtful debts | **132** | — |
| Auditor's remuneration | | |
| — Current year | **2,898** | 2,300 |
| — Underprovision in prior year | **63** | — |
| | **2,961** | 2,300 |
| Non-audit services | **773** | — |
| | **3,734** | 2,300 |
| Depreciation | **42,113** | 26,860 |
| Loss on disposal of property, plant and equipment | **2,009** | 2,009 |
| Operating lease rentals in respect of | | |
| — prepaid lease payments | **1,639** | 871 |
| — rented premises | **124,764** | 83,829 |

## 4. TAXATION

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Hong Kong Profits Tax | | |
| — current year's | **3,913** | 5,242 |
| — overprovision in prior years | **(442)** | — |
| | **3,471** | 5,242 |
| PRC income tax | | |
| — current year's | **58,986** | 22,938 |
| — overprovision in prior years | **(1,273)** | — |
| | **57,713** | 22,938 |
| | **61,184** | 28,180 |
| Deferred taxation | | |
| — current year | **1,927** | (251) |
| — attributable to a change in tax rate | **296** | — |
| | **2,223** | (251) |
| | **63,407** | 27,929 |

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

PRC income tax is calculated at the applicable tax rates in accordance with the relevant law and regulations in the PRC.

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises of the PRC, Weiqian Noodle (Shenzhen) Co., Ltd. is entitled to preferential tax relief by reducing the Foreign Enterprise Income Tax ("FEIT") rate to 15%, as it operates in Shenzhen Special Economic Zone. Lead Food (Shanghai) Development Co., Ltd., being qualified as a manufacturing enterprise according to the relevant tax rules, is entitled to exemption from PRC corporate income tax for two years commencing from its first profit making year in 2005, followed by 50% tax rate reduction for PRC corporate income tax for the subsequent three years.

On 16 November 2006 and 26 July 2007, Shanghai Lead Food & Restaurant Management Co., Limited ("Shanghai Lead Food"), a subsidiary of the Company established in Shanghai Pudong New Area in the PRC, relocated its business and tax registration to Huangpu District of Shanghai respectively. Shanghai Lead Food was previously registered as operating in Shanghai Pudong New Area, where the applicable FEIT rate was 15%. On the other hand, the applicable FEIT rate for business registered as operating in Huangpu District of Shanghai is 33%. Shanghai Lead Food did not report its assessable profit to the Huangpu District bureau since November 2006, the time when it relocated its business registration, to the date of relocation of tax registration ("the intervening period", which covers the period from 16 November 2006 to 26 July 2007) and did not pay its FEIT on assessable profit for the intervening period at 33%. Should Shanghai Lead Food be required to pay its FEIT at 33% during the intervening period, the

Company would be required to recognise an additional amount of tax liabilities of RMB12.5 million at 31 December 2007 (2006: RMB3.2 million). The directors of the Company are of the opinion that Shanghai Lead Food will not be required to pay such additional taxes and accordingly, no provision for this possible tax liability has been made in the consolidated financial statements.

## 5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to equity holders of the Company | **213,574** | 113,365 |
| | **Number of shares** | **Number of shares** |
| Weighted average number of ordinary shares for the purposes of calculating basic earnings per share | **962,703,000** | 709,278,000 |
| Effect of dilutive potential ordinary shares relating to: | | |
| — share options | **7,380,000** | |
| Weighted average number of ordinary shares for the purpose of calculating diluted earning per share | **970,083,000** | |

In calculating the weighted average number of ordinary shares for the purpose of calculating basic earnings per share, the shares that were in issue immediately prior to the listing of the Company's shares on the Stock Exchange, which were issued pursuant to the Group Reorganisation and adjustment for the effect of the capitalisation issue of shares, are treated as if they had been in issue throughout both periods.

No dilutive earnings per share was presented for the year ended 31 December 2006 as the Company had no outstanding share options throughout that year.

## 6. TRADE AND OTHER RECEIVABLES

| | 2007 | 2006 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | | |
| — related companies | **4,502** | 11,475 |
| — others | **16,467** | 13,285 |
| | **20,969** | 24,760 |
| Less: allowance for doubtful debts | **(132)** | — |
| | **20,837** | 24,760 |
| Rental and utility deposits | **13,088** | 29,341 |
| Property rentals paid in advance for restaurants | **6,991** | 3,645 |
| Advance to suppliers | **295** | 1,726 |
| Other receivables and prepayments | **29,243** | 5,428 |
| | **70,554** | 64,900 |

The related companies are companies in which certain directors of the Company, Ms. Poon Wai, Mr. Poon Ka Man, Jason and Mr. Katsuaki Shigemitsu, have significant beneficial interests or a shareholder of the Company, Mr. Cheng Wai Tao, has significant beneficial interest.

Payment terms with customers of independent third parties and related companies for sales of noodles and related products are mainly on credit after receiving deposits. Customers are normally granted 60 to 90 days credit period upon issuance of invoices, except for certain well established customers for which the credit terms are up to 180 days. There was no credit period for sales from restaurant operations. The following is an aged analysis of trade receivables net of allowance for doubtful debts as at the balance sheet date:

| | 2007 | 2006 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Age** | | |
| 0 to 30 days | **10,392** | 11,808 |
| 31 to 60 days | **3,280** | 2,626 |
| 61 to 90 days | **1,746** | 1,623 |
| 91 to 180 days | **379** | 7,972 |
| Over 180 days | **5,040** | 731 |
| | **20,837** | 24,760 |

## 7. INDEX-LINKED DEPOSIT

During the year, the Group entered into a contract of index-linked deposit with a bank for a period of one year. The significant terms and conditions relating to the deposit are as follows:

| **Notional amount** | **Contract date** | **Maturity date** | **Yield rate** |
|---|---|---|---|
| HK$40,000,000 | 1 August 2007 | 1 August 2008 | variable |

The deposit is a principal-protected deposit with guaranteed yield of 2% on its notional amount. Yield rate is related to the United States Dollars ("USD") forward exchange rates and forward interest rates in comparison to Turkish Lira/ South African Rand/ Brazilian Real/ New Zealand Dollars/ Australia Dollars/ South Korean Won/ Japanese Yen/ Swiss Franc/ Singaporean Dollars and Taiwan Dollars (the "bracket of currencies"). In accordance with the relevant terms of the agreement, when the yield rate was greater than zero, the amount payable by the bank to the Group would be 102% plus 60% of the yield rate of the notional amount of the deposit. However, when the yield rate was less than zero, the amount payable by the bank to the Group would be 102% of the notional amount of the deposit. The deposit will be settled at principal amount plus yield at maturity.

The index-linked deposit is designated at fair value through profit or loss upon initial recognition as the deposit forms part of a contract containing an embedded derivative. It is stated at fair value, which mainly depends on the forward exchange and interest rates of the bracket of currencies, on each balance sheet date provided by the counterparty financial institution.

During the year ended 31 December 2007, the change in fair value of the index-linked deposit is RMB1,160,000 and has been credited to the consolidated income statement.

## 8. TRADE AND OTHER PAYABLES

| | **2007** | 2006 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | | |
| — related companies | **4,386** | 480 |
| — others | **49,615** | 30,374 |
| | **54,001** | 30,854 |
| Payroll and welfare payables | **10,228** | 5,398 |
| Customers' deposits received | **1,677** | 3,856 |
| Payable for acquisition of property, plant and equipment | **20,039** | 6,674 |
| Payable for property rentals | **15,913** | 7,764 |
| Other tax payable | **14,751** | 13,058 |
| Others | **12,994** | 14,796 |
| | **129,603** | 82,400 |

The related companies are companies in which Mr. Katsuaki Shigemitsu has significant beneficial interest.

The following is an aged analysis of trade payables as at the balance sheet date:

| | 2007 | 2006 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Age** | | |
| 0 to 30 days | **41,268** | 25,483 |
| 31 to 60 days | **8,770** | 4,496 |
| 61 to 90 days | **1,687** | 437 |
| 91 to 180 days | **1,479** | 37 |
| Over 180 days | **797** | 401 |
| | **54,001** | 30,854 |

## DIVIDENDS

A final dividend of RMB5.2 cents per ordinary share for the year ended 31 December 2007 (2006: nil) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting to be held on 6 June 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview

In 2007, China's economy featured a continuing fast growth in consumption demands, with actual growth in retail sales leading a ten-year high. It is expected that the retail sales of consumptions in the year of 2007 will amount to RMB8,950.7 billion, representing an increase of 16.2% over last year, recording the fastest growth since 1997, and consumption demands were contributing to the growth incrementally. According to market experts, growth in consumption will become the main driver of China's economy.

As a pillar industry in the PRC's consumption sector, food and beverage ("F&B") is growing at an even faster rate, out pacing the growth of the retail industry. For the year 2007, total sales nationwide for lodging and F&B reached RMB1,235.2 billion, representing an increase of 19.4% over last year, contributing 13.8% to the total retail sales and 15.6% to the total retail sales growth. The fast growing F&B industry has become the main engine in domestic demands and consumption.

F&B in the PRC recorded a double-digit growth over a decade on a continuous basis. However, according to Euromonitor, with a population of 1.3 billion, China's expenditure per capita on F&B is only USD131. This is far lower than that of developed countries, with USD1,598 for Japan, USD1,822 for the United States and USD1,356 for the United Kingdom. With its huge population and the rapidly improved affluence of people, China's F&B industry has a huge growth potential. Amid such a promising market prospect, the Group is embracing a great opportunity for fast expansion.

Currently, Ajisen (China) is the only FCR operator who has a nationwide restaurant network in the PRC and a listed company on the Hong Kong Stock Exchange. The Group has established a well recognized brand name across the nation, and enjoys a strong reputation among consumers. The Group has an industrialized and standardized operational model, with a dedicated and professional team to develop products that meet the palates of customers across the nation. We also have a unique Japanese style décor, an elegant dining environment and an increasingly powerful brand loyalty. All these have been instrumental in ensuring our Group's continuous leading position among the peers of the industry.

**Business Review**

During the year, the Group achieved remarkable growth. For 2007, turnover increased from RMB598.4 million to RMB904.4 million, representing a growth of 51.1% over the corresponding period of last year. Gross profit grew to RMB603.6 million from RMB379.0 million in 2006. Profit attributable to shareholders of the Company increased by 88.4% to RMB213.6 million. Basic earnings per share was RMB22.18 cents (2006: RMB15.98 cents). The Board resolved to propose the payment of a final dividend of RMB5.2 cents per ordinary share for the year ended 31 December 2007.

The remarkable results we achieved are attributable to the further enhancement of our Ajisen brand name and the rapid expansion of our FCR network. The expansion of our restaurants is the main driver of our results, while the booming F&B industry has provided the Group with sufficient room to grow. At the end of 2007, the Group's number of restaurants increased to 210. The Group's distribution network covers the East, South, North and Central parts of China. Average daily visits per restaurant and spending per capita for these regions are approximately 475 persons and RMB34 respectively.

In 2007, the Group gradually strengthened its marketing strategy, such as placing advertisements on different culinary magazines in both Beijing and Shanghai, as well as promoting its brand through advertising on more than 10,000 buses with mobile media, which targets at one of the largest audiences in Shanghai. The Group also implemented a series of nationwide promotions through its own restaurants, such as the launching of seasonal set menus and distribution of souvenirs. Due to the effective marketing strategies, together with the update of menu and the upward adjustment of prices, the average consumption per ticket raised to a record high of RMB66, which promoted the growth of both sales and profit.

On March 28, 2008, the Board resolved to exercise the call option for the acquisition of Shenzhen Weiqian, which has a total of 22 restaurants located in the prosperous southeast China region. The Directors believe that the acquisition of Shenzhen Weiqian would enhance the operation and business of the Group.

In response to the expanding production demand of its FCR network, the Group plans to build four new production facilities, located in Shanghai, Dongguan, Tianjing and Chengdu. The new production facilities will cover the regions of Eastern and Central China. The Shanghai and Tianjing production bases occupy an area of 70 mu and 60 mu respectively, and are scheduled to commence operations around the second quarter of 2009. The Dongguan plant will occupy an area of approximately 60 mu, the first phase is scheduled to commence operations during the first half of 2008. The Chengdu plant will occupy an area of 88 mu, expected to be in operation in the first half of 2009. Upon the completion of the Group's four new production sites, on top of our existing production lines, we would be able to meet the demand of approximately 1,500 more new restaurants.

Despite the rising inflation pressure, the Group has effectively controlled all major costs to a satisfactory level through leveraging on economies of scale, our business strategies and our brand name. These costs include raw ingredients, wages and rentals, etc. In 2007, cost of sales accounted for 33.3% of the turnover, 3.4% down from 36.7% in 2006. While gross profit margin also increased to 66.7%, as compared to 63.3% in 2006.

It is evident that inflation has not caused any significant influence to the costs of raw ingredients and sales of the Group. Although the price of agricultural products increased rapidly in 2007, the Group launched new product series every half year with appropriate adjustment of the menu price, which partly offset the inflation effect. Besides, the purchasing department of the Company has managed the trend of the seasonal price for various ingredients and made purchasing decision when the price stayed in a relatively low level. Ajisen (China) also provides its customers with over 100 selections which include over 250 different types of raw ingredients, with each kind accounting for no more than 10% of the total cost of sales. Due to the aforementioned reasons, the impact of rising prices on the Group's costs was limited.

Moreover, the Group's menu is scheduled to be reviewed every Spring and Autumn. The least performing 30% of selections in the menu will be replaced by other newly developed products. New menu selections provides our customers an ongoing opportunity to taste and enjoy new products in Ajisen restaurants. When a new menu is launched, prices will also be upward adjusted by 20% to 25% generally. Extra costs for raw ingredients attributable to the rising prices in the first half of 2007 was approximately 5%. Under such circumstances, the Group raised the retail price of restaurant food approximately 9% to offset the rising prices in raw ingredients. To a large extent, the rise in retail price has actually contributed to the growth of the Group's profit margin during the first half of 2007.

The localization of the procurement of raw ingredients has significantly reduced the Group's costs, and enhanced our profit margin. For instance, white soup base, one of our key ingredients, was previously imported from Japan but it is now supplied by the mainland company set up by Shigemitsu Industry, our franchisor. By doing so, the price of white soup base has been reduced by 50%. Seafood like eel, kelp and laver can also be purchased from the coastal cities, where the prices are 40% lower than the imported goods of the same quality. Upon long-term research and development, gradually we are also able to localize the purchase of flour, one of our major raw ingredients.

Site selection is crucial to the operation of FCR. Ajisen (China) has been working with large retail chain operators such as Wal-Mart and Lotus Supermarket, to conduct systematic assessments by utilizing the Group's strong research and development (R&D) team. We also strategically entered into a basket of contracts with the expanded venues of these large retail operators. Due to our strong brand advantage, many large chain operators often take the initiative to invite us to join their new venues in order to realize the co-effect of brand interaction, jointly creating a booming retail zone. Therefore, the Group is usually awarded a fixed lease term ranging from a minimum of 7 years to a maximum of 15 years. Approximately 50% of the Group's leases are commission leases, i.e. the rent to be charged at 6% to 12% of the monthly turnover. Thus, rising property prices and rentals do not have a direct impact on our rental costs.

*Retail chain restaurants*

In 2007, our major business and primary source of income continued to be derived from our retail chain restaurants. During the year, our restaurant business contributed RMB844.9 million, or 93.4%, to the Group's total revenue.

As of 31 December 2007, the Group had a restaurant portfolio totaling 210 Ajisen restaurants, comprising the following:

| | **As of 31 December** | | |
|---|---|---|---|
| | **2007** | 2006 | +/- |
| By type: | | | |
| Owned and managed | **183** | 93 | 90 |
| Managed but not owned | **24** | 24 | 0 |
| Owned but not managed | **3** | 3 | 0 |
| Total | **210** | 120 | 90 |
| By provinces: | | | |
| Shanghai | **53** | 33 | 20 |
| Beijing | **14** | 8 | 6 |
| Guangdong (excluding Shenzhen) | **15** | 12 | 3 |
| Shenzhen | **27** | 11 | 16 |
| Jiangsu | **16** | 12 | 4 |
| Zhejiang | **7** | 3 | 4 |
| Sichuan | **10** | 3 | 7 |
| Chongqing | **4** | 4 | 0 |
| Fujian | **6** | 3 | 3 |
| Hunan | **3** | 0 | 3 |
| Hubei | **4** | 3 | 1 |
| Liaoning | **5** | 4 | 1 |
| Shandong | **14** | 9 | 5 |
| Guangxi | **1** | 0 | 1 |
| Guizhou | **2** | 0 | 2 |
| Jiangxi | **1** | 0 | 1 |
| Shan'xi | **1** | 0 | 1 |
| Yunnan | **1** | 0 | 1 |
| Hong Kong | **24** | 15 | 9 |

| | As of 31 December | | |
|---|---|---|---|
| | **2007** | 2006 | +/- |
| Taiwan* | **2** | 0 | 2 |
| Total | **210** | 120 | 90 |
| By geographical regions: | | | |
| Northern China | **34** | 21 | 13 |
| Eastern China | **76** | 48 | 28 |
| Southern China | **79** | 41 | 38 |
| Central China | **21** | 10 | 11 |
| Total | **210** | 120 | 90 |
| Total saleable area | **56,042 sq meter** | 34,329 sq meter | 21,713 sq meter |

Notes:

* Ajisen (China) holds 15% interest in the 2 restaurants.

The distribution network of Ajisen (China) can be divided into four major regions, covering East, South, North and central of China. The average traffic flow per restaurant and per capita spending of the above four regions in 2007 were approximately 475 and RMB34 respectively.

Our restaurants are classified into 3 categories: flagship, standard and economy.

The Ajisen flagship-size restaurants are set up in prime locations, such as the central business districts and business centres, in the cities. Typically, they occupy a saleable area of 400 square meters or more and have a seating capacity of 151 to 230 seats.

The Ajisen standard-size restaurants are our most common restaurants. They occupy a saleable area of 100 to 400 square metres and have a seating capacity of 71 to 150 seats. Most of our Ajisen standard-size restaurants are located in entertainment centres, shopping malls, airports and train stations.

To expand our urban footprint, we have established Ajisen economy-sized restaurants. These occupy a saleable area of approximately 100 square metres with a seating capacity of 45 to 70 seats, mostly located in Hong Kong.

The following table illustrates our restaurant breakdown by format:

| | As of 31 December | | |
|---|---|---|---|
| | **2007** | 2006 | +/- |
| By format: | | | |
| Flagship | **25** | 16 | 9 |
| Standard | **174** | 94 | 80 |
| Economy | **11** | 10 | 1 |
| Total | **210** | 120 | 90 |

*Packaged food products*

Packaged noodles under the Ajisen brand name is a beneficial complement to the overall strength of Ajisen brand and form an integral part of its multi-brand strategy. All packaged noodles are manufactured in Shanghai, Shenzhen and Hong Kong in the Group's own food manufacturing and processing facilities (total area: over 17,900 square metres), leveraging on the world-class recognized Japanese technology. Meanwhile, we are also actively engaged in the research and development of other kinds of Ajisen packaged food to sell in the supermarket, providing more choices for our customers.

For the year ended 31 December 2007, sales of packaged food products recorded RMB59.5 million, accounting for about 6.6% of the Group's total turnover.

Our packaged noodle products are supplied to Ajisen's chain restaurants, other third-party restaurant operators, Hong Kong Airport, supermarkets, as well as other independent Ajisen restaurants located in countries such as Australia, Canada, the Philippines, Singapore and the United States. Our extensive distribution network currently amounts to approximately 6,000 points-of-sale in the PRC and Hong Kong, and our major clients include Wal-Mart, Lianhua Supermarket, City Supermarket, JUSCO and Wellcome, to name just a few. By shelving our products in these well-known retail chains, we realized the linkage effect of Ajisen brand.

**Financial Review**

*Turnover*

Turnover increased by approximately RMB306 million, or by approximately 51.1% from approximately RMB598.4 million for the year ended 31 December 2006 to approximately RMB904.4 million for the year ended 31 December 2007, primarily due to the increase in the number of the chain restaurants of the Group operates from 120 as at 31 December 2006 to 210 as at 31 December 2007. Such increase was mainly due to the upward adjustment of menu prices and increase in customer flow, with a contribution rate of 5% and 6% respectively.

*Cost of sales*

Cost of sales increased by approximately RMB81.4 million, or by approximately 37.1% from approximately RMB219.4 million in 2006 to approximately RMB300.8 million in 2007, which was far below the increase of turnover. Thanks to the upward adjustment in menu prices, our effective cost control and increasing customer flow per restaurant, cost of sales as a percentage of our turnover was approximately 33.26% in 2007, as compared to 36.67% in 2006.

*Gross profit*

As a result of the above, gross profit increased by approximately RMB224.6 million, or approximately 59.3% from approximately RMB379 million in 2006 to approximately RMB603.6 million in 2007. The gross profit margin increased to 66.74% in 2007, as compared to 63.33% in 2006. Increase of gross profit was due to the followings: upward adjustment of menu prices, localization for the purchase of raw ingredients, research and development of new products, increasing in customer flow and strengthening of economies of scale and efficiency.

*Other income*

Other income increased by approximately RMB97.4 million from approximately RMB41.7 million in 2006 to approximately RMB139.1 million in 2007, primarily due to the significant increase in interest income and government subsidies.

*Distribution and selling expenses*

Distribution and selling expenses increased by approximately RMB101.8 million, or approximately 64.4% from approximately RMB158.1 million in 2006 to approximately RMB259.9 million in 2007, 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 the Company. Distribution and selling expenses as a percentage of our turnover were approximately 28.74% in 2007, compared to approximately 26.43% in 2006.

*Administrative and general expenses*

Administrative expenses increased by approximately RMB36.6 million, or approximately 113.4% from approximately RMB33.7 million in 2006 to approximately RMB70.3 million in 2007, primarily due to an increase in administrative staff salary and director's welfare. In addition, there is also an increase in professional expenses, incurred in connection with the Group's preparation of listing on the Stock Exchange on 30 March 2007. Administrative and general expenses as a percentage of our turnover were 5.63% in 2006 and 7.77% in 2007.

*Finance costs*

Finance costs increased by approximately RMB0.6 million, or approximately 48.7% from approximately RMB1.2 million in 2006 to approximately RMB1.8 million in 2007, primarily due to the interest expense arising from financing in the beginning of the year, of which the proceeds were used as the dividends declared prior to the Listing.

*Profit before taxation*

Profit before taxation increased by approximately RMB141.2 million, or approximately 98.7% from approximately RMB143 million in 2006 to approximately RMB284.2 million in 2007, as a result of the cumulative effect of the foregoing factors.

*Assets and liabilities*

Net current assets were approximately RMB1,641.2 million and current ratio was 9.4 as at 31 December 2007. As we are primarily engaged in the restaurant business, most of our sales are settled by cash. As a result, we are able to maintain a relatively low current ratio to achieve better use of our working capital.

*Cash flow*

Net cash inflow from operations for the year ended 31 December 2007 was approximately RMB184.6 million while our profit before taxation for the same period was approximately RMB220.8 million. The difference was primarily due to the increase in inventories and the increase in trade and other receivables, partially offset by an increase in trade and other payables. 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 the Group during the year. The increase in trade and other receivables was primarily due to the higher sales volume in the sale of noodles and related products and an increase in rental deposits due to the increase in the number of chain restaurants managed and owned by us during the year.

*Capital expenditure*

Capital expenditures was approximately RMB185.1 million in 2007 (RMB75.7 million in 2006) which was primarily related to the fast growth of our purchase of property, plant, equipment and new restaurants.

*Key operating ratios for restaurant operations*

| | Hong Kong | PRC |
|---|---|---|
| Comparable restaurant | | |
| Sales growth | 2.6% | 7.3% |
| Turnover per GFA | HK$326/day | RMB52/day |
| Turnover per day per restaurant: | HK$27,695 /day/restaurant | RMB15,085 /day/restaurant |
| Traffic flow per day | 484 persons | 475 persons |
| Per capita spending | HK$57 | RMB34 |
| Table turnover per day | 8/day | 6/day |

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

Neither Ajisen (China) nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of Ajisen (China) during the year ended 31 December 2007.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has, throughout the year ended 31 December 2007, complied with all applicable code provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), save and except for the deviation from the Code Provision A.2.1. Under the Code Provision A.2.1, the roles of chairman and CEO should be separated and should not be performed by the same individual. Currently, the Company does not comply with such Code Provision, namely, the roles of the chairman and CEO have not been separated.

Although Ms. Poon Wai performs both the roles of Chairman and CEO, the division of responsibilities between the Chairman and CEO are clearly established and set out in writing. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the CEO is responsible for the management of the business of the Group. The two roles are performed by Ms. Poon distinctly. The Board believes that at the current stage of development of the Group, vesting the roles of both Chairman and CEO in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It also considers that the current structure does not impair the balance of power and authority between the Board and the management of the Company. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

Details of the Company's corporate governance practices will be set out in the Company's 2007 annual report (the "Annual Report").

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard (the "Required Standard") of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry to all Directors, and all Directors have confirmed that, throughout the year under review, they were in compliance with the Required Standard.

In addition, the Board has adopted written guidelines (the "Employees' Guidelines for Securities Transactions") for securities transactions by employees (the "Relevant Employees") who are likely to be in possession of unpublished price sensitive information of the Company on no less exacting terms than the Model Code. Having made specific enquiry of all the Relevant Employees, the Company confirmed that all the Relevant Employees have complied with the Employees' Guidelines for Securities Transactions throughout the year ended 31 December 2007. The Company will review the "Employees Guidelines for Securities Transaction" from time to time.

## AUDIT COMMITTEE

The Audit Committee was set up on 8 March 2007 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules.

Currently, the Audit Committee comprises three independent non-executive directors and one non-executive director as follows:

Mr. Jen Shek Voon *(Chairman)*, an independent non-executive director
Mr. Lo Peter, an independent non-executive director
Mr. Yan Yu, an independent non-executive director
Mr. Wong Hin Sun, Eugene, a non-executive director

The Audit Committee is satisfied with their review of the auditor's remuneration, the independence of the auditor, Deloitte Touche Tohmatsu ("Deloitte"), and recommended the Board to re-appoint Deloitte as the Company's auditor in 2008, which is subject to the approval of the shareholders at the forthcoming annual general meeting.

The Company's annual results for the year ended 31 December 2007 have been reviewed by the Audit Committee, which opines that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

## CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 2 June 2008 to Friday, 6 June 2008, both days inclusive, during which period no share transfers will be registered.

In order to qualify for the final dividend and to attend the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 30 May 2008.

## ANNUAL GENERAL MEETING AND DESPATCH OF 2007 ANNUAL REPORT

The annual general meeting ("AGM") of the Company will be held on Friday, 6 June 2008. A notice convening the AGM will be published on the Company's websites at www.ajisen.com.hk and www.ajisen.com.cn and the Stock Exchange's website at www.hkex.com.hk and will be dispatched to the shareholders together with the Annual Report in due course.

The Annual Report of the Company will be despatched to shareholders of the Company and will also be published on the Company's websites at www.ajisen.com.hk and www.ajisen.com.cn and the Stock Exchange's website at www.hkex.com.hk in due course.

As at the date of this announcement the Board comprises, Ms. Poon Wai, Mr. Yin Yibing and Mr. Poon Ka Man, Jason as executive Directors; Mr. Katsuaki Shigemitsu and Mr. Wong Hin Sun, Eugene as non- executive Directors; and Mr. Lo Peter, Mr. Jen Shek Voon and Mr. Yan Yu as independent non-executive Directors.

By order of the Board
**Ajisen (China) Holdings Limited**
**Poon Wai**
*Chairman*

Shanghai, The PRC, 24 April, 2008