AJISEN RAMEN
味千拉麵

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 538)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

INTERIM RESULTS HIGHLIGHTS

- Turnover decreased by 2.5% to RMB1,152 million (corresponding period of 2016: RMB1,181 million)
- Profit from core operations of the Group increased by 36.0% to RMB135 million (corresponding period of 2016: RMB99 million)
- Gross profit margin increased by 2.3 percentage points to 73.1% (corresponding period of 2016: 70.8%)
- Profit attributable to owners of the Company decreased by 80.9% to RMB109 million (corresponding period of 2016: RMB568 million)
- Basic earnings per share decreased by RMB0.42 to RMB0.10, representing a decrease of 80.8% (corresponding period of 2016: RMB0.52)
- Total number of restaurants was 649 by 30 June 2017

The board of directors (the “Board”) of Ajisen (China) Holdings Limited (the “Company” or “Ajisen”) announces the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	NOTES	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**1,151,734**	1,180,812
Cost of inventories consumed		**(310,130)**	(344,832)
Staff costs		**(291,300)**	(289,045)
Depreciation and amortisation		**(76,440)**	(82,216)
Property rentals and related expenses		**(186,821)**	(199,666)
Other operating expenses		**(152,143)**	(165,841)
Profit from operation		**134,900**	99,212
Other income	*4*	**42,016**	47,299
Other gains and losses	*5*	**(3,015)**	622,929
Share of loss of associates		**(2,158)**	(751)
Finance costs		**(2,735)**	(5,691)
Profit before taxation	*6*	**169,008**	762,998
Taxation	*7*	**(49,665)**	(103,135)
Profit for the period		**119,343**	659,863
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Reclassification adjustment of cumulative gain on fair value change previously recognised in other comprehensive income to profit or loss on an available-for-sale investment		**(1,626)**	–
Exchange differences arising on translation of financial statements of foreign operations		**(41,776)**	15,737

	NOTES	Six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Other comprehensive (expense) income for the period, net of income tax		**(43,402)**	15,737
Total comprehensive income for the period		**75,941**	675,600
Profit for the period attributable to:			
Owners of the Company		**108,603**	567,946
Non-controlling interests		**10,740**	91,917
		119,343	659,863
Total comprehensive income attributable to:			
Owners of the Company		**71,579**	582,095
Non-controlling interests		**4,362**	93,505
		75,941	675,600
		RMB	*RMB*
Earnings per share	*9*		
– Basic		**0.10**	0.52
– Diluted		**0.10**	0.52

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Non-current assets			
Investment properties		**465,638**	474,228
Property, plant and equipment		**838,617**	849,173
Prepaid lease payments		**74,119**	75,603
Intangible assets		**5,555**	5,725
Interests in associates		**148,174**	94,014
Loan to an associate		**1,298**	1,337
Rental deposits		**79,339**	82,748
Goodwill		**7,061**	7,277
Deferred tax assets		**1,678**	1,712
Available-for-sale investments		**6,906**	52,428
Financial assets designated as at fair value through profit and loss ("FVTPL")	*10*	**1,248,261**	1,272,943
		2,876,646	2,917,188
Current assets			
Inventories		**69,069**	82,356
Trade and other receivables	*11*	**123,152**	101,024
Amounts due from a related party		**12**	12
Taxation recoverable		**736**	1,261
Pledged bank deposits		**380**	380
Bank balances and cash		**1,404,363**	1,313,304
		1,597,712	1,498,337

	NOTES	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Current liabilities			
Trade and other payables	*12*	**238,141**	274,550
Amounts due to related companies		**4,306**	5,168
Amounts due to directors		**153**	471
Amount due to a shareholder		**32,307**	27,564
Amounts due to non-controlling interests		**13,528**	13,943
Amount due to associates		**7,588**	4,602
Dividend payable		**88,126**	26
Taxation payable		**46,759**	46,703
Bank loans		**231,855**	237,552
		662,763	610,579
Net current assets		**934,949**	887,758
Total assets less current liabilities		**3,811,595**	3,804,946
Non-current liabilities			
Long-term bank loans		**52,777**	57,388
Deferred tax liabilities		**129,908**	128,505
		182,685	185,893
Net assets		**3,628,910**	3,619,053
Capital and reserves			
Share capital		**108,404**	108,404
Reserves		**3,222,629**	3,239,384
Equity attributable to owners of the Company		**3,331,033**	3,347,788
Non-controlling interests		**297,877**	271,265
Total equity		**3,628,910**	3,619,053

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the Group's financial year beginning on 1 January 2017.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments.

For the period ended 30 June 2017 (unaudited)

	Operation of restaurants							
	The Peoples' Republic of China (the "PRC") *RMB'000*	**Hong Kong** *RMB'000*	**Total** *RMB'000*	**Manufacture and sales of noodles and related products** *RMB'000*	**Investment holding** *RMB'000*	**Segment total** *RMB'000*	**Elimination** *RMB'000*	**Total** *RMB'000*
Revenue								
– external sales	**970,205**	**96,942**	**1,067,147**	**84,587**	**–**	**1,151,734**	**–**	**1,151,734**
– inter-segment sales	**–**	**–**	**–**	**315,851**	**–**	**315,851**	**(315,851)**	**–**
	970,205	**96,942**	**1,067,147**	**400,438**	**–**	**1,467,585**	**(315,851)**	**1,151,734**
Segment profits	**174,110**	**2,102**	**176,212**	**6,934**	**13,298**	**196,444**	**–**	**196,444**
Unallocated income								**5,527**
Unallocated expenses								**(30,228)**
Finance costs								**(2,735)**
Profit before taxation								**169,008**
Taxation								**(49,665)**
Profit for the period								**119,343**

For the period ended 30 June 2016 (unaudited)

	Operation of restaurants							
	PRC *RMB'000*	Hong Kong *RMB'000*	Total *RMB'000*	Manufacture and sales of noodles and related products *RMB'000*	Investment holding *RMB'000*	Segment total *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue								
– external sales	1,024,526	101,850	1,126,376	54,436	–	1,180,812	–	1,180,812
– inter-segment sales	–	–	–	288,162	–	288,162	(288,162)	–
	1,024,526	101,850	1,126,376	342,598	–	1,468,974	(288,162)	1,180,812
Segment profits	132,374	4,070	136,444	4,878	641,635	782,957	–	782,957
Unallocated income								16,394
Unallocated expenses								(30,662)
Finance costs								(5,691)
Profit before taxation								762,998
Taxation								(103,135)
Profit for the period								659,863

Segment profits represent the profits earned by each segment without allocation of central administrative costs and directors' salaries, investment income and finance costs. This is the measure reported to the chief operating decision maker, Ms. Poon Wai ("Ms. Poon"), for the purposes of resource allocation and assessment of segment performance.

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grant *(note)*	**11,651**	16,202
Bank interest income	**5,527**	16,394
Property rental income, net of negligible outgoings	**11,672**	10,859
Royalties from sub-franchisees	**10,535**	2,514
Others	**2,631**	1,330
	42,016	47,299

Note: The amount of government grant represents the incentive subsidies received from the PRC local district authorities for the business activities carried out by the Group in the district. There are no specific conditions attached to the grant.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**(3,861)**	(1,807)
Net foreign exchange loss	**(780)**	(6,040)
Reclassification adjustment of cumulative gain on fair value change previously recognised in other comprehensive income to profit or loss on an available-for-sale investment	**1,626**	–
Impairment loss on available-for-sale investments	**–**	(455)
Gain from changes in fair value of financial asset designated as at FVTPL	**–**	631,231
	(3,015)	622,929

6. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging:		
Cost of inventories consumed *(note a)*	**310,130**	344,832
Advertising and promotion expenses	**7,945**	12,195
Fuel and utility expenses	**52,518**	59,601
Operating lease rentals in respect of		
– land lease	**1,013**	1,395
– rented premises *(note b)*	**161,691**	173,572

Notes:

a. This represents costs of raw materials and consumables used.

b. For the six months ended 30 June 2017, the amount included in the operating lease rentals in respect of rental premises are minimum lease payments of approximately RMB115,318,000 (for the six months ended 30 June 2016: RMB124,356,000) and contingent rent of approximately RMB46,373,000 (for the six months ended 30 June 2016: RMB49,216,000).

7. TAXATION

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax		
– current period	**2,426**	2,225
PRC Enterprise Income Tax ("EIT")		
– current period	**47,759**	38,042
– over-provision in prior periods	**(4,384)**	(4,211)
	43,375	33,831
Deferred taxation	**3,864**	67,079
	49,665	103,135

The income tax expense in Hong Kong and the PRC is recognised based on management's best estimate of the annual income tax rate expected for the full financial year. The estimated annual tax rates for Hong Kong Profits Tax and the PRC EIT are 16.5% (for the six months ended 30 June 2016: 16.5%) and 25% (for the six months ended 30 June 2016: 25%), respectively, for the period under review.

Pursuant to the relevant provincial policy and written approval obtained from the State Tax Bureau in Chongqing ("Chongqing STB") in year 2009, Chongqing Weiqian Food & Restaurant Management Co., Ltd. 重慶味千餐飲管理有限公司 ("Chongqing Weiqian"), which is located in Chongqing, China, applied a preferential tax rate of 15%.

According to the Chongqing STB, the preferential tax rate needs to be applied by Chongqing Weiqian and approved year by year after year 2013. As such, the Group applied the standard enterprise income tax rate of 25% for Chongqing Weiqian from year 2013 onwards and reversed the income tax liability after obtaining the written approval.

During the six months ended 30 June 2017, Chongqing Weiqian was granted a preferential tax rate of 15% for year 2016, the Group reversed the income tax liability of approximately RMB4.4 million which was previously recognised for year 2016.

During the six months ended 30 June 2016, Chongqing Weiqian was granted a preferential tax rate of 15% for year 2015, the Group reversed the income tax liability of approximately RMB4.2 million which was previously recognised for year 2015.

8. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period:		
Final, declared – RMB0.08 (HK9.30 cents) per share for 2016 (2016: declared – RMB0.10 (HK12.0 cents) per share for 2015)	**89,455**	110,842

At a meeting of the board of directors held on 23 August 2017, the directors of the Company resolved to declare an interim dividend of RMB0.02 (HK2.50 cents) per ordinary share for the six months ended 30 June 2017 (for the six months ended 30 June 2016: RMB0.04 (HK4.90 cents) per ordinary share).

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	**108,603**	567,946
	Number of shares	
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,091,538,820**	1,091,538,820
Effect of dilutive potential ordinary shares relating to:		
– outstanding share options	**–**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,091,538,820**	1,091,538,820

All outstanding share options of the Company have not been included in the computation of diluted earnings per share as they did not have a dilutive effect to the Company's earnings per share during the six months ended 30 June 2017 and 30 June 2016 because the exercise prices of these Company's share options were higher than the average market prices of the Company's shares during both periods.

10. FINANCIAL ASSETS DESIGNATED AS AT FVTPL

	RMB'000
At 1 January 2016	454,496
Exchange alignment	15,462
Gain on fair value change	631,231
At 30 June 2016 (Unaudited)	1,101,189
At 1 January 2017	1,272,943
Exchange alignment	(34,260)
Addition	9,578
At 30 June 2017 (Unaudited)	1,248,261

The components of financial assets designated as at FVTPL are as follow:

	30 June 2017 *RMB'000* **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
Baidu Takeout Delivery *(note)*	**1,118,261**	1,152,521
Yunxi	**70,000**	50,000
Jiahua Anyuan Fund	**60,000**	70,422
	1,248,261	1,272,943

During the period, certain other investors made a cash capital contribution of RMB28,000,000 in Shanghai JingJing Investment Center (Limited Partnership) ("JingJing"), a consolidated subsidiary towards the end of 2016, and as such the equity interest of Jingjing held by the Group was diluted from 99.99% to approximately 64.1%. In 2016, JingJing invested RMB50,000,000 in Guangzhou Yunxi Information Technology Co., Ltd. ("Yunxi") and an additional RMB20,000,000 during the six months ended 30 June 2017. Therefore, as at 30 June 2017, Jingjing invested RMB70,000,000 in Yunxi, which represents approximately 6.36% equity interest of Yunxi.

During the period, certain other investors made a cash capital contribution of RMB10,000,000 Jiahua Mingde (Tianjin) Enterprise Management and Consulting Partnership (Limited Partnership) ("Jiahua Mingde"), a consolidated subsidiary towards the end of 2016, and as such the equity interest of Jiahua Mingde held by the Group was diluted from 99.99% to approximately 83.32%. In 2016, Jiahua Mingde invested RMB70,422,000 in Anhui Jiahua Anyuan Investment Fund Partnership (Limited Partnership) ("Jiahua Anyuan Fund"). During the six months ended 30 June 2017, Jiahua Mingde withdrew an investment of RMB20,422,000 and made a new investment of RMB10,000,000 in Jiahua Anyuan Fund. Therefore, as at 30 June 2017, Jiahua Mingde invested RMB60,000,000 in Jiahua Anyuan Fund, which represents approximately 19% equity interest of Jiahua Anyuan Fund.

Note

According to the information recently in the market, there is a certain degree of uncertainty on the financial asset designated FVTPL in relation to Baidu Takeout Delivery. However, the Company is unable to make a reasonable new estimate on the fair value of such financial asset designated as at FVTPL at present due to a lack of clarity of publicly available information, therefore the fair value of such financial asset designated as at FVTPL in the Group's unaudited consolidated management account for the six months ended 30 June 2017 would remain unchanged, as compared to 31 December 2016.

11. TRADE AND OTHER RECEIVABLES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables		
– a related company	**935**	1,075
– others	**21,228**	17,803
	22,163	18,878
Rental and utility deposits	**15,724**	12,805
Property rentals paid in advance for restaurants	**24,363**	22,000
Advance to suppliers	**24,278**	16,795
Other receivables and prepayments	**36,624**	30,546
	123,152	101,024

The related company is a company in which Ms. Poon has controlling interests.

Customers including both independent third parties and related companies of noodles and related products are normally granted 60 to 90 days (for the year ended 31 December 2016: 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 (for the year ended 31 December 2016: 180 days). There was no credit period for customers relating to sales from operation of restaurants. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	30 June 2017	31 December 2016
	RMB'000	*RMB'00000*
	(Unaudited)	(Audited)
Age		
0 to 30 days	**17,929**	15,040
31 to 60 days	**728**	739
61 to 90 days	**268**	9
91 to 180 days	**–**	91
181 to 365 days	**–**	1
Over 365 days	**3,238**	2,998
	22,163	18,878

12. TRADE AND OTHER PAYABLES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables		
– a related company	**6,665**	5,336
– others	**81,515**	88,715
	88,180	94,051
Payroll and welfare payables	**41,385**	38,969
Customers' deposits received	**13,722**	10,190
Payable for acquisition of property, plant and equipment	**21,483**	28,687
Payable for property rentals	**28,250**	30,540
Other taxes payable	**22,862**	25,308
Others	**22,259**	46,805
	238,141	274,550

The related company is a company in which Mr. Katsuaki Shigemitsu, who is a director and shareholder of the Company, has controlling interests.

The average credit period for the purchase of goods is 60 days (for the year ended 31 December 2016: 60 days). The following is an aged analysis of trade payables presented based on invoice dates at the end of the reporting period:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 30 days	**53,656**	61,956
31 to 60 days	**29,751**	23,133
61 to 90 days	**1,079**	1,072
91 to 180 days	**571**	4,532
Over 180 days	**3,123**	3,358
	88,180	94,051

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

In the first half of 2017, China's economy showed modest momentum of growth with GDP growing by 6.9% year-on-year (the corresponding period last year: 6.7%) to RMB38,149 billion. With the deepening of the supply-side reform, we have witnessed synchronized growth in the household income and the economy, as well as the accelerated upgrading of consumption structure and further expansion in the scale of the market of consumer goods as consumption continued to serve as the main driver of economic growth.

According to the data released by the National Bureau of Statistics, in the first half of 2017, the catering industry delivered steady overall performance and recorded a revenue of RMB1,854.6 billion, representing an increase of 11.2% on a year-on-year basis (the corresponding period last year: 11.2%). The revenue of the catering industry grew at a fast pace, leading the growth of total retail sales of social consumer goods by 0.8 percentage points, while the proportion of amount to the total retail sales of social consumer goods increased by 0.1 percentage point over the same period last year.

On the one hand, competition in the catering industry has intensified with high opening rate and high closure rate emerging as the new norm across the industry. For instance, in the four major cities, namely Beijing, Shanghai, Guangzhou and Shenzhen, the surge in the number of new restaurants was accompanied by the higher rate of take-over with a monthly closure rate of 10% and a compound annual closure rate of over 100%. "Shopping center + catering business" model was also under pressure as a result of reduced flow aggregation effect and insufficient source of customers due to the homogenization of shopping centers. According to the "Report on the Catering Industry in China (White Paper 2017)", among 15 cities, i.e. Beijing, Shanghai, Guangzhou, Shenzhen, Nanjing, Qingdao, Chongqing, Chengdu, Wuhan, Shenyang, Xiamen, Zhengzhou, Hangzhou, Tianjin and Xi'an, catering outlets in shopping malls in 10 cities recorded a closure rate of more than 30%.

On the other hand, as the post-80 and post-90 generations became the major force of consumers in the catering industry, the industry was ushering in a diversified era. Driven by the needs of consumers, the catering industry is developing towards fast fashion, healthy diet as well as with intelligent features. In addition, the proportion of takeaway in the catering industry is also growing rapidly. According to relevant statistics, in the year 2016, the overall transaction amount of the takeaway industry recorded a sharp increase and grew to more than RMB150 billion, accounting for 4% of the total transaction amount of the catering industry. Upgrade in consumption will become the key to the future competition in the catering industry. The players in the industry need to keep up with the changes in consumer needs, while the application of new technologies and the needs of consumer groups have also created new opportunities for development. Looking into the future, the catering industry will be more intelligent and healthy, and will see the general trend of placing orders and paying the bills online. With the growing trend of healthy diet, light catering will also become the future development trend of the catering industry.

In a relatively favorable environment in terms of economic and policy conditions, in the second half of 2017, the catering industry will be presented with both opportunities and challenges. Amidst the trend of transformation of the industry, players in the catering industry boasting high brand awareness and extensive sales networks are better positioned to seize the opportunities for development by adopting a proactive approach to adapting to the development trend of the catering industry, and developing intelligent technologies actively to meet consumers' diversified needs.

The management of the Group will actively explore and seek the opportunities for the transformation of the Group, and adopt a lean management approach, establish smart stores to enhance customer experience, and strive to provide new impetus to the Group's growth and promote business development. In addition, taking into account the Group's sufficient cash flow, the management is currently seeking targets of investment actively, with a view to achieving synergy of operation and bringing better return on investment for shareholders.

Business Review

For the six months ended 30 June 2017, the Group's turnover decreased from approximately RMB1,180,812,000 during the corresponding period in 2016, by approximately 2.5% to approximately RMB1,151,734,000. The gross profit of the Group reached approximately RMB841,604,000, an increase of approximately 0.7% from approximately RMB835,980,000 during the corresponding period in 2016; the profit attributable to the owners of the Company reached approximately RMB108,603,000, a decrease of approximately 80.9% from approximately RMB567,946,000 in 2016. The basic earnings per share decreased to RMB0.10 from RMB0.52 per ordinary share during the corresponding period in the previous year.

During the current reporting period, the Group focused on streamlining the existing stores, adopting a prudent strategy in opening new stores. The Group adopted more focused strategies in its development, and continued to expand the restaurant network and deepened the density in mature markets, such as Beijing, Jiangsu, Zhejiang and Shanghai. As at 30 June 2017, the Group had a total of 649 fast casual chain restaurants, a decrease of 13 from 662 during the corresponding period in 2016; the Group's restaurant network extended its reach to 31 provinces and municipalities nationwide, amounting to 133 cities in aggregate, increasing 11 cities as compared with the corresponding period in 2016.

The construction and operation of the four major production bases in China guaranteed the steady growth and food quality of the Group's chain restaurant network. The Group's four major factories in Shanghai, Chengdu, Tianjin and Dongguan have been put into operation, to support the Group's network expansion.

During the current reporting period, the Group's cost of inventories as a proportion to turnover was approximately 26.9%, representing a decrease of approximately 2.3 percentage points as compared with the corresponding period last year. Accordingly, the gross profit margin increased to approximately 73.1% from approximately 70.8% during the corresponding period last year, which was attributable to the stability in raw material costs and benefit from value added tax ("VAT") reform in the PRC effective from 1 May 2016. The Group will properly control the raw material costs, and is therefore confident in achieving the expected gross profit margin.

During the current reporting period, the Group's labour costs accounted for approximately 25.3% of the turnover, which was approximately 0.8 percentage point higher than that of the corresponding period last year. During the current reporting period, the level of minimum wage was raised in a number of provinces and cities in China successively, and the Group has adjusted its employee wages in compliance with the relevant law and regulations.

During the current reporting period, rent and related costs as a proportion to turnover of the Group was approximately 16.2%, which was approximately 0.7 percentage point lower than that of the corresponding period last year. During the current reporting period, the Group applied stringent criteria in location selection, so as to guarantee the success rate of new stores. Also, a large number of medium-size and small-size restaurants were developed to enhance the output per unit area. The Group was able to secure long-term fixed lease terms as it expands the restaurant network.

The operation of over 640 restaurants under the Group is dependent upon the efficacy of our management and staff training. During the current reporting period, the Group placed emphasis on the guidance and training of restaurant managers and regional supervisors. The operation efficiency of each restaurant was enhanced through constant upgrading of its basic management level. During the current reporting period, the Group continued to host the inter-restaurant competition to fully mobilize its staff, thus making prominent contribution to the Group's turnover.

Retail Chain Restaurants

During the first half of 2017, the Group's major business and primary source of income continued to stem from the retail chain restaurant business. During the current reporting period, the Group's restaurant business income recorded approximately RMB1,067,147,000 (2016: RMB1,126,376,000), accounted for approximately 92.7% (2016: 95.4%) of the Group's total revenue, a decrease of 5.3% from the corresponding period last year.

As at 30 June 2017, the Group's restaurant portfolio consisted of 649 Ajisen chain restaurants, comprising the following:

	30 June 2017	30 June 2016	+/–
By provinces:			
Shanghai	**132**	140	-8
Beijing	**43**	41	2
Tianjin	**5**	6	-1
Guangdong (excluding Shenzhen)	**48**	54	-6
Shenzhen	**24**	28	-4
Jiangsu	**78**	80	-2
Zhejiang	**60**	52	8
Sichuan	**15**	21	-6
Chongqing	**13**	17	-4
Fujian	**22**	22	0
Hunan	**17**	15	2
Hubei	**12**	15	-3
Liaoning	**15**	13	2
Shandong	**35**	35	0
Guangxi	**8**	7	1
Guizhou	**2**	2	0
Jiangxi	**14**	10	4
Shaanxi	**12**	14	-2
Yunnan	**8**	7	1
Henan	**6**	5	1
Hebei	**5**	4	1
Anhui	**10**	12	-2
Gansu	**0**	1	-1
Xinjiang	**2**	2	0
Hainan	**7**	3	4
Shanxi	**1**	1	0
Neimenggu	**5**	5	0
Heilongjiang	**10**	7	3
Ningxia, Qinghai	**3**	3	0
Jilin	**6**	3	3
Tibet	**1**	0	1
Hong Kong	**29**	37	-8
Rome	**1**	0	1
Total	**649**	662	-13
Total saleable area (sq. meters)	**150,312**	151,842	-1,530

	30 June 2017	30 June 2016	+/–
By geographical region:			
Northern China	**128**	118	10
Eastern China	**270**	272	-2
Southern China	**138**	151	-13
Central China	**112**	121	-9
Italy	**1**	0	1
Total	**649**	662	-13

Sales of packaged noodle and related products

The manufacturing and sales of packaged noodle products under the Ajisen brand is one of the Group's two main businesses and is a beneficial complement to the major business of fast casual restaurant ("FCR") network operation. These packaged noodle products are manufactured solely by the Group. Besides, they are supplied to the chain restaurants of the Group and also sold through diversified channels, including supermarkets and department stores, which further enhanced the awareness of the Ajisen brand.

For the six months ended 30 June 2017, revenue from the sales of packaged noodle and related products was approximately RMB84,587,000 (2016: RMB54,436,000), accounted for approximately 7.3% (2016: 4.6%) of the Group's total revenue.

The Group has an extensive distribution network for the packaged noodle and related products in China. As of 30 June 2017, the total number of points-of-sale in this network reached approximately 8,000, which was the same compared to the corresponding period last year. The distribution network covers over 30 cities in China. These distributors include nationwide retailers such as Wal-Mart, Carrefour and Metro, and regional retailers such as China Resources Vanguard, Sanjiang in Ningbo and Century Lianhua, as well as reputable convenient chain stores such as Alldays, Kedi and C-Store.

Financial Review

Turnover

For the six months ended 30 June 2017, the Group's turnover decreased by approximately 2.5%, or approximately RMB29,078,000 to approximately RMB1,151,734,000 from approximately RMB1,180,812,000 for the corresponding period in 2016. Such decrease was mainly due to the decrease in the same store growth and number of stores of the Group during the current reporting period.

Cost of inventories consumed

For the six months ended 30 June 2017, the Group's cost of inventories decreased by approximately 10.1%, or approximately RMB34,702,000, to approximately RMB310,130,000 from approximately RMB344,832,000 for the corresponding period in 2016. During the current reporting period, the ratio of inventories cost to turnover was approximately 26.9%, lower than 29.2% for the corresponding period in 2016. Such decrease was attributable to the stability in the purchasing cost and benefit from VAT reform in PRC effective from 1 May 2016 for the period.

Gross profit and gross profit margin

Driven by the above factors, gross profit for the six months ended 30 June 2017 increased by approximately 0.7%, or approximately RMB5,624,000 to approximately RMB841,604,000 from approximately RMB835,980,000 for the corresponding period in 2016. Gross profit margin of the Group also further increased from approximately 70.8% for the corresponding period in 2016 to approximately 73.1%.

Property rentals and related expenses

For the six months ended 30 June 2017, property rentals and related expenses of the Group decreased by approximately 6.4% from approximately RMB199,666,000 for the corresponding period in 2016 to approximately RMB186,821,000. Its proportion to turnover decreased by 0.7 percentage point from approximately 16.9% for the corresponding period in 2016 to approximately 16.2%. Such decrease was mainly attributable to the decrease in number of stores of the Group for the period.

Staff costs

For the six months ended 30 June 2017, staff costs of the Group increased by approximately 0.8% from approximately RMB289,045,000 for the corresponding period in 2016 to approximately RMB291,300,000. Staff costs as a proportion to turnover increased from approximately 24.5% for the corresponding period in 2016 by 0.8 percentage point to approximately 25.3%, which reflected the raise in level of minimum wage in a number of provinces and cities in China for the period.

Depreciation

For the six months ended 30 June 2017, depreciation of the Group decreased by approximately 7.0% or approximately RMB5,776,000 from approximately RMB82,216,000 for the corresponding period in 2016 to approximately RMB76,440,000. Such decrease was mainly attributable to the decrease in number of stores in first half of 2017.

Other operating expenses

Other operating expenses mainly included expenses for fuel and utility, consumables, advertising and promotion and franchise fee. For the six months ended 30 June 2017, other operating expenses decreased by approximately 8.3%, or approximately RMB13,698,000, to approximately RMB152,143,000 from approximately RMB165,841,000 for the corresponding period in 2016. Its proportion to turnover was decreased by 0.8 percentage point from 14.0% to approximately 13.2%, which was mainly attributable to the decrease in expenses spent on consumables, and fuel and utility for the period, while expenses spent on advertising and promotion had decreased to approximately RMB7,945,000 from approximately RMB12,195,000 for the corresponding period in 2016.

Other income

For the six months ended 30 June 2017, other income of the Group decreased by approximately 11.2%, or approximately RMB5,283,000, to approximately RMB42,016,000 from approximately RMB47,299,000 for the corresponding period in 2016. The decrease was mainly originated from the decrease in government grant and bank interest income during the period.

Other gains and losses

For the six months ended 30 June 2017, other gains and losses of the Group decreased by approximately 100.5% or approximately RMB625,944,000, to a loss of approximately RMB3,015,000 from a gain of approximately RMB622,929,000 for the corresponding period in 2016. The decrease was due to change in the fair value of approximately RMB631,231,000 of financial asset designated as at FVTPL for the corresponding period in 2016.

Finance costs

For the six months ended 30 June 2017, finance costs decreased by approximately 51.9%, or approximately RMB2,956,000 to approximately RMB2,735,000 from approximately RMB5,691,000 for the corresponding period in 2016. The decrease was mainly due to repayment of certain loans during the second half of 2016.

Profit before taxation

Being affected by the factors referred to above, the Group's profit before taxation for the six months ended 30 June 2017 decreased by approximately 77.8%, or approximately RMB593,990,000 to approximately RMB169,008,000 from approximately RMB762,998,000 for the corresponding period in 2016.

Profit attributable to owners of the Company

Being affected by the factors referred to above, profit attributable to owners of the Company for the six months ended 30 June 2017 decreased by approximately 80.9%, or approximately RMB459,343,000, to approximately RMB108,603,000 from approximately RMB567,946,000 for the corresponding period in 2016.

Assets and liabilities

The Group's net current assets were approximately RMB934,949,000 and the current ratio was 2.4 as at 30 June 2017 (31 December 2016: 2.5). As the Group is primarily engaged in the restaurant business, most of the sales are settled in cash. As a result, the Group was able to maintain a relatively high current ratio. The decrease in current ratio was mainly attributable to the increase in dividend payable as at 30 June 2017.

Cash flows

Net cash inflow from operations of the Group for the six months ended 30 June 2017 was approximately RMB168,062,000 while profit before taxation for the same period was approximately RMB169,008,000. The operating cash inflow was mainly due to increase in profitability of FCR operated by the Group which the increase in size of operation of the Group strengthened the bargaining power of the Group with the suppliers and slowed down settlement of purchases.

Liquidity and financial resources

The liquidity and financial position of the Group as at 30 June 2017 remained healthy and strong, with bank balances amounting to RMB1,404,363,000 (31 December 2016: RMB1,313,304,000) and a current ratio of 2.4 (31 December 2016: 2.5).

As at 30 June 2017, the Group had bank borrowings of RMB284,632,000 (31 December 2016: RMB294,940,000) and therefore the gearing ratio (expressed as a percentage of total borrowings over total assets) was 6.4 (31 December 2016: 6.7).

Exposure to exchange rates

Presently, most of the Group's business transactions, assets and liabilities are denominated in RMB and settled in RMB. The Group's exposure to currency risk is minimal as the Group's assets and liabilities as at 30 June 2017 and 31 December 2016 were denominated in the respective Group companies' functional currencies. The Group does not have any currency hedging policy and has not entered into any hedging or other instrument to reduce currency risks. However, the management will closely monitor the Group's exposure to the fluctuation of exchange rates and take appropriate measures as necessary to minimise any adverse impact that may be caused by such fluctuation.

Significant investments held, material acquisitions and disposals of subsidiaries, and future plans for material investments or capital assets

Save for those disclosed in this announcement, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review. Apart from those disclosed in this announcement, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this announcement.

Interest rate risk

As the Group has no significant interest-bearing assets (other than pledged bank deposits and bank balances and cash), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amounts of trade receivables, deposits and other receivables, bank balances and cash and pledged bank deposits included in the condensed consolidated statement of financial position represent the maximum exposure to credit risk in relation to the Group's financial assets. The Group typically does not require collaterals from customers. Provisions are made for the balance that is past due when the management considers the loss from non-performance by the customers is likely. Sales to retail customers are settled in cash or by major credit cards. The Group also makes deposits to the relevant landlords for lease of certain of the self-managed outlets. The management does not expect to incur any loss from non-performance by these counterparties.

As of 30 June 2017 and 31 December 2016, all of the bank balances and pledged bank deposits were deposited with highly reputable and sizable banks and financial institutions without significant credit risk in the PRC and Hong Kong. The management does not expect to incur any loss from non-performance by these banks and financial institutions.

Contingent liabilities

As of 30 June 2017, the Group did not have any significant contingent liabilities.

Capital expenditure

For the six months ended 30 June 2017, the Group's capital expenditure was approximately RMB103,874,000 (corresponding period in 2016: RMB49,400,000), which was due to the increase in purchase of property, plant and equipment, acquisition of investment in an associate and purchase of financial assets designated as at FVTPL during the six months ended 30 June 2017.

Key operating ratios for restaurant operations

	Hong Kong			PRC		
	1-6/2017	1-12/2016	1-6/2016	**1-6/2017**	1-12/2016	1-6/2016
Comparable restaurant sales growth:[Note]	**-3.3%**	-1.3%	-1.4%	**-2.2%**	-8.1%	-7.7%
Comparable restaurant sales growth:[Note] (not deducted of VAT)*	**N/A**	N/A	N/A	**2.1%**	-4.9%	-6.1%
Per capita spending:	**HK$64.7**	HK$66.2	HK$65.3	**RMB47.8**	RMB46.7	RMB46.7
Table turnover per day (times per day):	**4.8**	4.9	4.9	**3.4**	3.4	3.4

* For illustration purpose only

Note: On 23 March 2016, the Ministry of Finance and the State Administration of Taxation of the PRC jointly issued the 財稅[2016]36號通知 (Caishui [2016] No. 36 (Circular)) which provides the Business Tax to Value-Added Tax Transformation Pilot Program (the "Program") for, among others, 生活服務 (lifestyle services) which covers the catering services provided by the Group, effective from 1 May 2016. Under the Program, the 5% business tax ("BT") rate formerly applicable to the sale of the FCR business was replaced by VAT at the rate of 3% or 6% levied on the sales since 1 May 2016. Before the implementation of the Program, the same store sales growth rate in the PRC was reported on a BT-inclusive basis. After such implementation, the same store sales growth rate in the PRC is reported on a net of VAT basis.

OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has complied with all applicable code provisions under the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2017, save and except for the deviation from the code provision A.2.1, namely, the roles of the Chairman and chief executive officer ("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 is 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. The relevant deviation is therefore considered reasonable at the current stage. It is also considered that the current structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors (number of which exceeds one-third of the members of the Board). However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted a code of conduct regarding securities transactions by the 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 to the Listing Rules.

The Company has made specific enquiry to all Directors, and all Directors have confirmed that, throughout the six months ended 30 June 2017, they were in compliance with the Required Standard.

Audit Committee Review

The audit committee of the Company (the "Audit Committee"), which comprises three independent non-executive Directors, namely Mr. Jen Shek Voon, Mr. Lo Peter and Mr. Wang Jincheng, reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters. The Company's unaudited interim results for the six months ended 30 June 2017 have been reviewed by the Audit Committee.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2017.

Employee's Remuneration and Policy

As at 30 June 2017, the Group employed 10,252 persons (30 June 2016: 10,339 persons), most of the Group's employees work in the chain restaurants of the Group in the PRC. The number of employees will vary from time to time as necessary and the remuneration will be determined by reference to the practice of the industry.

The Group conducted regular reviews on its remuneration policy and overall remuneration payment. Besides retirement scheme and internal training courses, employees may be granted discretionary bonuses and/or share options based on their performance.

The total remuneration payment of the Group for the six months ended 30 June 2017 was approximately RMB291,300,000 (30 June 2016: RMB289,045,000).

Dividend

An interim dividend of RMB0.02 (HK2.50 cents) per ordinary share for the six months ended 30 June 2017 (for six months ended 30 June 2016: RMB0.04 (HK4.90 cents)) has been declared by the Board to shareholders and such interim dividend will be paid on 30 November 2017 to shareholders whose names appear on the register of members of the Company on 15 September 2017.

Closure of the Register of Members

The register of members of the Company will be closed from 13 September 2017 to 15 September 2017 (both days inclusive), during which period no share transfers will be registered.

In order to qualify for the interim dividend, all transfer documents 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 12 September 2017.

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

Hong Kong, 23 August 2017

As at the date of this announcement, the Board comprises Ms. Poon Wai and Mr. Poon Ka Man, Jason as executive Directors; Mr. Katsuaki Shigemitsu as non-executive Director and Mr. Lo Peter, Mr. Jen Shek Voon and Mr. Wang Jincheng as independent non-executive Directors.