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 2020

INTERIM RESULT HIGHLIGHTS

- Turnover amounted to RMB692 million (2019: RMB1,224 million)
- Loss from core operations of the Group amounted to RMB123 million (2019: Profit of RMB63 million)
- Gross profit margin was 70.6% (2019: 73.1%)
- Loss attributable to owners of the Company amounted to RMB109 million (2019: Profit of RMB87 million)
- Loss per share was RMB0.10 (2019: Earnings per share of RMB0.08)
- Total number of restaurants was 734 as at 30 June 2020

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 2020, together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**691,785**	1,223,869
Cost of inventories consumed		**(203,161)**	(328,629)
Staff costs		**(213,202)**	(330,252)
Depreciation		**(228,272)**	(198,404)
Other operating expenses		**(170,571)**	(303,706)
(Loss) profit from operation		**(123,421)**	62,878
Other income	*4*	**40,846**	42,900
Impairment losses under expected credit loss model, net of reversal		**(9,140)**	(774)
Other gains and losses	*5*	**(35,088)**	32,205
Share of (loss) profit of associates		**(1,268)**	896
Share of loss of a joint venture		**(2,697)**	(237)
Finance costs		**(18,986)**	(18,059)
(Loss) profit before taxation	*6*	**(149,754)**	119,809
Income tax credit (expense)	*7*	**30,833**	(27,061)
(Loss) profit for the period		**(118,921)**	92,748

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**9,268**	1,817
Other comprehensive income for the period, net of income tax		**9,268**	1,817
Total comprehensive (expense) income for the period		**(109,653)**	94,565
(Loss) profit for the period attributable to:			
Owners of the Company		**(109,393)**	86,582
Non-controlling interests		**(9,528)**	6,166
		(118,921)	92,748
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(100,778)**	88,353
Non-controlling interests		**(8,875)**	6,212
		(109,653)	94,565
		RMB	*RMB*
(Loss) earnings per share	*9*		
– Basic		**(0.10)**	0.08
– Diluted		**(0.10)**	0.08

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current assets			
Investment properties		**1,031,557**	1,032,120
Property, plant and equipment		**548,232**	606,933
Right-of-use assets		**637,475**	681,683
Intangible assets		**1,659**	6,002
Interests in associates		**117,960**	134,570
Interest in a joint venture		**9,016**	11,713
Rental deposits		**106,251**	98,885
Goodwill		**1,362**	1,344
Deferred tax assets		**22,281**	9,069
Financial assets at fair value through profit and loss ("FVTPL")	*10*	**248,503**	262,708
		2,724,296	2,845,027
Current assets			
Inventories		**173,724**	126,691
Trade and other receivables	*11*	**133,579**	249,443
Taxation recoverable		**480**	716
Bank balances and cash		**1,700,896**	1,705,399
		2,008,679	2,082,249
Current liabilities			
Trade and other payables	*12*	**280,108**	325,341
Lease liabilities		**263,647**	230,231
Contract liabilities		**3,830**	10,234
Amounts due to related companies		**4,367**	4,073
Amounts due to directors		**223**	504
Amount due to a shareholder		**–**	17,525
Amounts due to non-controlling interests		**13,546**	13,434
Amounts due to associates		**2,290**	2,245
Amount due to a joint venture		**576**	2,076
Dividend payable		**53,509**	26
Taxation payable		**30,255**	51,349
Bank borrowings		**156,954**	160,155
		809,305	817,193

	Notes	**30 June 2020** *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Net current assets		**1,199,374**	1,265,056
Total assets less current liabilities		**3,923,670**	4,110,083
Non-current liabilities			
Bank borrowings		**46,702**	47,521
Lease liabilities		**406,458**	415,992
Deferred tax liabilities		**158,520**	175,355
Financial liabilities at FVTPL		**66,191**	62,776
		677,871	701,644
Net assets		**3,245,799**	3,408,439
Capital and reserves			
Share capital		**108,404**	108,404
Reserves		**3,066,905**	3,220,670
Equity attributable to owners of the Company		**3,175,309**	3,329,074
Non-controlling interests		**70,490**	79,365
Total equity		**3,245,799**	3,408,439

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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").

1A. Significant Events and Transactions in The Current Interim Period

The outbreak of the 2019 Novel Coronavirus ("Covid-19") in China and the subsequent quarantine measures imposed by the Chinese government in early 2020 have had a severe negative impact on the operations of the Group since January 2020, as most of the Group's restaurants are located in China.

The Group had to close its restaurants since January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. As the Chinese government began to ease its restrictions on the lockdown measures in mid-March 2020, the restaurants that were affected by the outbreak of COVID-19 gradually resumed operation accordingly. The overall operation of the Group's restaurants is also continuously improving on a monthly basis since then.

On the other hand, the Chinese government has announced some financial measures and supports for corporates to overcome the negative impact arising from the pandemic and certain lessors have provided rent concessions to the Group.

As such, the financial positions and performance of the Group were affected in different aspects, including reduction in revenue, impairment of property, plant and equipment, right-of-use assets and certain investments, government grants in respect of Covid-19-related subsidies and rent concessions from certain lessors as disclosed in the relevant notes.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to HKFRS 16 "Covid-19-Related Rent Concessions".

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and accounting policies on early application of Amendment to HKFRS 16 "Covid-19-Related Rent Concessions"

2.1.1 Accounting policies

Leases

Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

2.1.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period. The application has no impact to the opening retained profits at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB23,628,000 in the profit or loss for the current interim period.

3. SEGMENT INFORMATION

Information reported to Ms. Poon Wai ("Ms. Poon"), the Group's chief operating decision maker, for the purposes of resource allocation and assessment of performance, is analysed by different operating divisions and geographical locations. This is also the basis upon which the Group is organised and specifically focuses on the Group's three operating divisions, namely operation of restaurants, manufacture and sales of noodles and related products and investment holding. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

Six months ended 30 June 2020 (unaudited)

	Operation of restaurants			Manufacture and sales of noodles and related products	Investment holding	Segment total	Elimination	Total
	Mainland China	Hong Kong	Total					
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue								
– external sales	**570,528**	**67,169**	**637,697**	**54,088**	**–**	**691,785**	**–**	**691,785**
– inter-segment sales	**–**	**–**	**–**	**257,682**	**–**	**257,682**	**(257,682)**	**–**
	570,528	**67,169**	**637,697**	**311,770**	**–**	**949,467**	**(257,682)**	**691,785**
Segment (loss) profit	**(131,919)**	**(11,621)**	**(143,540)**	**2,030**	**(4,597)**	**(146,107)**	**–**	**(146,107)**
Interest income								**9,240**
Central administrative expenses								**(10,354)**
Unallocated finance costs								**(2,533)**
Loss before taxation								**(149,754)**
Income tax credit								**30,833**
Loss for the period								**(118,921)**

Six months ended 30 June 2019 (unaudited)

	Operation of restaurants			Manufacture and sales of noodles and related products	Investment holding	Segment total	Elimination	Total
	Mainland China	Hong Kong	Total					
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue								
– external sales	1,064,511	80,094	1,144,605	79,264	–	1,223,869	–	1,223,869
– inter-segment sales	–	–	–	411,028	–	411,028	(411,028)	–
	1,064,511	80,094	1,144,605	490,292	–	1,634,897	(411,028)	1,223,869
Segment profit	76,066	44	76,110	5,645	24,798	106,553	–	106,553
Interest income								9,532
Gain on disposal of a subsidiary								29,396
Central administrative expenses								(23,002)
Unallocated finance costs								(2,670)
Profit before taxation								119,809
Income tax expense								(27,061)
Profit for the period								92,748

Segment (loss) profit represents the loss incurred from/profit earned by each segment without allocation of interest income, gain on disposal of a subsidiary, central administrative expenses, unallocated finance costs and income tax credit (expense). This is the measure reported to the chief operating decision maker, Ms. Poon, for the purposes of resource allocation and assessment of segment performance.

Measures of total assets and total liabilities are not reported as these financial information is not reviewed by the Group's chief operating decision maker for the assessment of performance and resources allocation of the Group's business activities.

All of the Group's non-current assets (other than loan to an associate, rental deposits, deferred tax assets and financial assets at FVTPL), including investment properties, property, plant and equipment, right-of-use assets, intangible assets, interests in associates, interest in a joint venture and goodwill are located in the Group's entities' countries of domicile, Mainland China and Hong Kong at the end of each reporting period.

All of the Group's revenue from external customers are attributed to the location of the relevant group entities, which are Mainland China and Hong Kong, during the both periods.

None of the customers accounted for 10% or more of the total revenue of the Group during the both periods.

4. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Royalty and other income from sub-franchisees	**3,646**	12,642
Property rental income, net of direct outgoings	**11,546**	13,218
Bank interest income	**9,240**	9,532
Government grant *(note)*	**9,508**	3,273
Others	**6,906**	4,235
	40,846	42,900

Note: During the current interim period, the Group recognised government grants of RMB6,549,000 in respect of Covid-19-related subsidies, of which RMB2,121,000 relates to Employment Support Scheme and RMB4,428,000 relates to Subsidy Schemes under Anti-epidemic Fund, both of which were provided by the Hong Kong government. The remaining 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	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gain on disposal of a subsidiary	**–**	29,396
Loss on disposal of property, plant and equipment	**(6,533)**	(958)
Fair value (loss) gain on investment properties	**(8,499)**	2,509
Fair value (loss) gain on financial assets at FVTPL	**(14,205)**	2,657
Fair value loss on financial liabilities at FVTPL	**(3,415)**	–
Net foreign exchange loss	**(1,300)**	(1,399)
Gain on termination of leases, net	**1,606**	–
Compensation in relation to a prior year financial asset at FVTPL	**32,545**	–
Impairment loss recognised in respect of		
– intangible assets	**(4,616)**	–
– right-of-use assets	**(10,183)**	–
– property, plant and equipment	**(5,119)**	–
– interest in an associate	**(15,369)**	–
	(35,088)	32,205

6. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories consumed	**203,161**	328,629
Advertising and promotion expenses	**4,432**	17,102
Depreciation of property, plant and equipment	**81,545**	76,088
Depreciation of right-of-use assets	**146,727**	122,316
Total depreciation	**228,272**	198,404
Covid-19 related rent concessions	**(23,628)**	–
Fuel and utility expenses	**33,869**	57,363
Gross rental income from investment properties	**(12,205)**	(14,030)
Less: Direct operating expenses incurred for investment properties that generated rental income during the period	**659**	812
Property rentals in respect of		
– Variable lease payment	**13,039**	28,343
– Short-term lease payment	**5,257**	27,364

7. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Hong Kong Profits Tax		
– current period	**1,507**	942
– under (over) provision in prior periods	**297**	(77)
	1,804	865
PRC Enterprise Income Tax ("EIT")		
– current period	**1,032**	31,904
– over provision in prior periods	**(4,707)**	(6,174)
	(3,675)	25,730
Withholding tax	**–**	2,671
Deferred taxation credit	**(28,962)**	(2,205)
	(30,833)	27,061

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. During the current period, the tax rates for Hong Kong Profits Tax and the PRC EIT are 16.5% (six months ended 30 June 2019: 16.5%) and 25% (six months ended 30 June 2019: 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 2016, 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, the PRC, applied a preferential tax rate of 15% from 2016 to 2020. According to the Chongqing STB, the preferential tax rate needs to be applied by Chongqing Weiqian and approved year by year. As such, the Group applied the standard enterprise income tax rate of 25% for Chongqing Weiqian and reduced the income tax liability only after obtaining the written approval.

During the current period, Chongqing Weiqian was granted a preferential tax rate of 15% for 2019 (six months ended 30 June 2019: 15% for 2018), the Group reversed the income tax liability of approximately RMB4.9 million (six months ended 30 June 2019: RMB5.8 million) which was previously recognised.

Under relevant tax law and implementation regulations in the PRC, dividends paid out of the net profits derived by the PRC operating subsidiaries after 1 January 2008 are subject to the PRC withholding tax at a rate of 10% or a lower treaty rate in accordance with relevant tax laws in the PRC. Under the relevant tax treaty, withholding tax rate on distributions to Hong Kong resident companies is 5%. Withholding tax has been provided based on the anticipated level of dividend payout ratio of the PRC entities.

8. DIVIDENDS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period: Final, declared – RMB0.049 (HK5.3 cents) per share for 2019 (six months ended 30 June 2019: declared – RMB0.10 (HK12.00 cents) per share for 2018)	**53,485**	109,154

Subsequent to the end of the current interim period, the directors of the Company have determined that an interim dividend of RMB0.02 (HK2.20 cents) per share (subsequent to six months ended 30 June 2019: an interim dividend of RMB0.02 (HK2.20 cents) per share and a special dividend of RMB0.023 (HK2.50 cents) per share) will be paid to the owners of the Company.

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss) earnings for the purposes of basic and diluted earnings per share, being (loss) profit for the period attributable to owners of the Company	**(109,393)**	86,582
	Number of shares	
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	**–**	2,248
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,091,538,820**	1,091,541,068

During the six months ended 30 June 2020, the computation of diluted loss per share does not assume the exercise of outstanding share options of the Company as this would result in the increase in the loss per share.

During the six months ended 30 June 2019, certain 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 Group's earnings per share because the exercise prices of these share options were higher than the average market prices of the Company's shares during the period.

10. FINANCIAL ASSETS AT FVTPL

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Unlisted equity investments and fund investments *(note)*	**248,503**	262,708

Note: The above unlisted equity investments and fund investments represent the Group's investments in certain private entities and funds established in the PRC.

The management of the Group, by reference to the valuation model formulated by the external independent qualified valuer engaged by the Group for the year ended 31 December 2019, revisited and determined the appropriate assumptions and inputs for fair value measurement for these unlisted equity investments and fund investments.

11. TRADE AND OTHER RECEIVABLES

	30 June 2020 *RMB'000* (Unaudited)	31 December 2019 *RMB'000* (Audited)
Trade receivables		
– third parties	**18,380**	23,494
	18,380	23,494
Less: allowance for credit losses	**(3,183)**	(3,183)
	15,197	20,311
Other receivables		
Rental and utility deposits	**11,213**	19,127
Prepaid management fee	**–**	9,462
Advance to suppliers	**35,468**	70,088
Deductible value added tax	**45,224**	40,694
Compensation receivable in relation to a prior year financial asset at FVTPL	**–**	3,850
Receivable from disposal of an investment property	**–**	47,064
Others	**35,905**	39,135
	127,810	229,420
Less: allowance for doubtful debts on other receivables	**(9,428)**	(288)
	118,382	229,132
	133,579	249,443

Customers relating to manufacture and sales of noodles and related products are normally granted nil to 90 days (year ended 31 December 2019: 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 (year ended 31 December 2019: 180 days), while there is no credit period for customers relating to sales from operation of restaurants.

The following is an analysis of trade receivables by age, net of expected credit losses, presented based on the invoice date which approximated the revenue recognition date.

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 30 days	**10,352**	17,057
31 to 60 days	**1,548**	873
61 to 90 days	**1,815**	1,348
91 to 180 days	**1,482**	1,033
	15,197	20,311

12. TRADE AND OTHER PAYABLES

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables		
– related parties *(note)*	**19,602**	26,809
– third parties	**82,813**	105,129
	102,415	131,938
Payroll and welfare payables	**42,005**	49,614
Customers' deposits received	**17,798**	19,467
Payable for acquisition of property, plant and equipment	**38,097**	52,073
Payable for variable lease payments	**8,410**	9,335
Other taxes payable	**9,262**	17,098
Deferred income	**4,269**	–
Others	**57,852**	45,816
	280,108	325,341

Note: The related parties are the companies in which Mr. Katsuaki Shigemitsu, who is a director and shareholder of the Company, or Ms. Poon has controlling interests.

The average credit period for the purchase of goods is 60 days (year ended 31 December 2019: 60 days). The following is an analysis of trade payables by age, presented based on the invoice date.

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 30 days	**63,227**	95,038
31 to 60 days	**21,812**	27,514
61 to 90 days	**3,071**	1,113
91 to 180 days	**6,307**	568
Over 180 days	**7,998**	7,705
	102,415	131,938

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

During the six months ended 30 June 2020 (the "Period"), facing the severe challenges caused by the novel coronavirus pneumonia (COVID-19) pandemic, all regions and departments in China actively cooperated with each other and seriously implemented various measures, decisions and arrangements of governments, and coordinated the promotion of pandemic prevention and control as well as economic and social development, resulting in a continuously improved situation of pandemic prevention and control. Along with the orderly promotion of resumption of work, production, business and markets, benefiting from the lingering effects of macro policies, economic growth has reversed from negative to positive, and the overall economy is showing an obvious trend toward steady recovery. According to the National Bureau of Statistics of China, during the Period, China's gross domestic product (GDP) amounted to RMB45.6614 trillion, representing a decrease of 1.6% year-on-year (corresponding period of 2019: an increase of 6.3%); and the total retail sales of social consumer goods in the first half of the year amounted to RMB17.2266 trillion, representing a decrease of 11.4% year-on-year, indicating that the market and sales have gradually improved. In the first half of the year, the national per capita disposable income was RMB15,666, an actual decrease of 1.3% over the corresponding period last year.

The outbreak of the COVID-19 pandemic caused a slump in the catering industry of China. According to the National Bureau of Statistics of China, during the Period, the revenue of the catering industry was RMB1,460.9 billion, representing a decrease of 32.8% year-on-year (corresponding period of 2019: an increase of 9.4%). Through actively responding to and implementing various government policies, and steadily promoting the resumption of work and production in the catering industry, the catering market economy is gradually overcoming the adverse impact of the pandemic, and the operation is trending towards recovery growth and steady recovery. According to iResearch Consulting, as at the end of 2019, China's takeaway consumption sector had a market of approximately 460 million population, representing an increase of 12.7% as compared to the end of 2018. Due to the impact of the COVID-19 pandemic, the "stay-at-home economy" rapidly heated up, and the "door-to-door economy" such as takeaway sector grew against the trend while the sales and customer flow of traditional catering dropped significantly. According to iiMedia Research, China's online takeaway market size is expected to grow by 15.0% to RMB664.62 billion in 2020.

As the pandemic has stabilized, the catering industry is expected to further recover in the second half of the year. According to the National Bureau of Statistics of China, the revenue of China's catering industry in 2018 reached RMB4,271.6 billion, representing an increase of 9.5% year-on-year, and the revenue of the catering industry in 2019 was RMB4,672.1 billion, representing an increase of 9.4% year-on-year, which is expected to reach RMB6 trillion in 2022. The catering industry will undoubtedly become an important industry for China to establish a strong market and release the potential of domestic demand. According to the China Catering Report 2019 (《中國餐飲報告2019》), the future development trend of the catering industry will be the industrial structure transformation, supply-side digitalization, business model upgrading in dimension, intelligent commerce, catering retail, and refined operations. At the time of reform, intelligence technology will penetrate into the catering industry to a large extent, thus affecting the entire industry. Through online and offline integration, digitization and technicalization, a restaurant can turn every customer into a user and every user into a member, and the store manager can understand each customer through big data and provide personalized services in the future.

In 2020, facing the impact of the COVID-19 pandemic and the significantly mounting risks and challenges around the globe, the Group will adopt a prudent strategy, conduct lean management, strictly control the quality and safety of food, and take effective measures to ensure the safety of employees and customers. Meanwhile, the Group will continue to strengthen customer relationship management and upgrade the membership system to enhance customer experience, and continue to optimize brand strategy upgrading and strive to promote internal organizational reform, with a view to grasping development opportunities arising from industry reform and bringing better return on investment for the shareholders by fully leveraging the advantages of adequate cash flows.

Business Review

For the six months ended 30 June 2020, due to the impact of the COVID-19 pandemic, the Group's turnover was approximately RMB691,785,000, representing a decrease of approximately 43.5% from approximately RMB1,223,869,000 for the corresponding period in 2019; and the gross profit was approximately RMB488,624,000, representing a decrease of approximately 45.4% from approximately RMB895,240,000 for the corresponding period in 2019.

Due to the impact of the decrease in sales of the Group and the provision for asset impairment, the loss attributable to the owners of the Company reached approximately RMB109,393,000, and the basic loss per share was approximately RMB0.10 per ordinary share, while the profit attributable to the owners of the Company reached approximately RMB86,582,000, and the basic earnings per share was approximately RMB0.08 per ordinary share for the corresponding period last year.

Due to the worldwide outbreak of the COVID-19 pandemic, mainland China and Hong Kong have implemented different levels of crowd control measures to prevent the spread of the pandemic, which reduced the number of people dining out and impacted the catering industry. The Group expects that the catering business will gradually recover in the second half of the year. However, as the global economic outlook is still uncertain, the Group will adopt a prudent strategy in opening new stores and focus on streamlining the existing stores. As at 30 June 2020, the Group had a total of 734 fast casual chain restaurants, a decrease of 36 from 770 for the corresponding period in 2019; the Group's restaurant network extended its reach to 169 cities in 31 provinces and municipalities nationwide.

The Group's six major production bases, including six major factories in Shanghai, Chengdu, Tianjin, Qingdao, Wuhan and Dongguan, have been put into operation, which guaranteed the steady growth and food quality of the Group's chain restaurant network.

During the period, due to rising raw material cost, the Group's cost of inventories as a proportion to turnover was approximately 29.4%, representing an increase of approximately 2.5 percentage points as compared with the corresponding period last year. Accordingly, the gross profit margin decreased to approximately 70.6%. Due to the decrease of turnover during the period, the Group's labour costs accounted for approximately 30.8% of the turnover, which was approximately 3.8 percentage points higher than that of the corresponding period last year. During the period, rent and related costs as a proportion to turnover of the Group was approximately 7.5%, which was approximate to 6.8% for the corresponding period last year. The Group maintained stringent criteria in location selection for new restaurants to ensure the rate of success of the new establishment and enhance the output per unit area. With our branding effect becoming stronger, the Group has secured fixed leases on a long-term basis.

The operation of 734 restaurants under the Group is dependent upon the efficacy of our management and staff training. During the Period, in addition to enhancing the guidance and training of restaurant managers, the Group also strengthened cost-benefit analysis to improve operational efficiency.

Retail Chain Restaurants

During the period, the Group's major business and primary source of income continued to stem from the retail chain restaurant business. During the period, the Group's restaurant business income recorded approximately RMB637,697,000 (2019: approximately RMB1,144,605,000), accounted for approximately 92.2% (2019: approximately 93.5%) of the Group's total revenue, a decrease of approximately 44.3% from the corresponding period last year.

As at 30 June 2020, the Group's restaurant portfolio consisted of 734 Ajisen chain restaurants, comprising the following:

By provinces/cities:	**30 June 2020**	30 June 2019	+/–
Shanghai	**123**	124	-1
Beijing	**41**	45	-4
Tianjin	**7**	8	-1
Guangdong (excluding Shenzhen)	**55**	53	+2
Shenzhen	**17**	21	-4
Jiangsu	**84**	91	-7
Zhejiang	**83**	79	+4
Sichuan	**14**	17	-3
Chongqing	**12**	13	-1
Fujian	**17**	25	-8
Hunan	**13**	18	-5
Hubei	**13**	13	–
Liaoning	**23**	26	-3
Shandong	**48**	50	-2
Guangxi	**16**	13	+3
Guizhou	**4**	3	+1
Jiangxi	**18**	18	–
Shaanxi	**13**	16	-3
Yunnan	**9**	10	-1
Henan	**15**	15	–
Hebei	**16**	11	+5
Anhui	**15**	19	-4
Xinjiang	**2**	3	-1
Hainan	**8**	7	+1
Shanxi	**4**	4	–
Neimenggu	**5**	4	+1
Heilongjiang	**16**	14	+2
Ningxia, Qinghai	**3**	5	-2
Jilin	**15**	15	–
Tibet	**1**	1	–
Gansu	**1**	1	–
Hong Kong	**21**	26	-5
Others:			
Rome	**1**	1	–
Finland	**1**	1	–
Total	**734**	770	-36

By geographical region:	**30 June 2020**	30 June 2019	+/–
Northern China	**170**	173	-3
Eastern China	**305**	313	-8
Southern China	**152**	164	-12
Central China	**105**	118	-13
Europe	**2**	2	–
Total	**734**	770	-36

Financial Review

Turnover

For the six months ended 30 June 2020, the Group's turnover decreased by approximately 43.5%, or approximately RMB532,084,000 to approximately RMB691,785,000 from approximately RMB1,223,869,000 for the corresponding period in 2019. Such decrease was mainly due to the outbreak of Covid-19, the catering industry was affected by the travel bans and community lockdowns and some stores were temporarily shut down during the period.

Cost of inventories consumed

For the six months ended 30 June 2020, the Group's cost of inventories decreased by approximately 38.2%, or approximately RMB125,468,000 to approximately RMB203,161,000 from approximately RMB328,629,000 for the corresponding period in 2019. During the period, the ratio of inventories cost to turnover was approximately 29.4%, which increased by 2.5 percentage points from approximately 26.9% for the corresponding period in 2019 due to the increase in material cost for the period.

Gross profit and gross profit margin

Driven by the above factors, gross profit for the six months ended 30 June 2020 decreased by approximately 45.4%, or approximately RMB406,616,000 to approximately RMB488,624,000 from approximately RMB895,240,000 for the corresponding period in 2019.

Gross profit margin of the Group for the period also decreased to approximately 70.6% from approximately 73.1% for the corresponding period in 2019.

Staff costs

For the six months ended 30 June 2020, staff costs of the Group decreased by approximately 35.4% to approximately RMB213,202,000 from approximately RMB330,252,000 for the corresponding period in 2019. Staff costs as a proportion to turnover increased to approximately 30.8% from approximately 27.0% in the corresponding period in 2019, the increase in staff cost proportion was caused by the decrease of turnover.

Depreciation

For the six months ended 30 June 2020, depreciation of the Group increased by approximately 15.1% or approximately RMB29,868,000 to approximately RMB228,272,000 from approximately RMB198,404,000 for the corresponding period in 2019. Some short term leases were swapped into long term lease during the six months ended 30 June 2020, thus the lease depreciation increased.

Other operating expenses

Other operating expenses mainly included expenses for property rentals, fuel and utility, consumables, advertising and promotion and franchise fee. For the six months ended 30 June 2020, other operating expenses decreased by approximately 43.8%, or approximately RMB133,135,000, to approximately RMB170,571,000 from approximately RMB303,706,000 for the corresponding period in 2019. Its proportion to turnover remained relatively stable at approximately 24.7% (2019: approximately 24.8%).

Other income

For the six months ended 30 June 2020, other income of the Group decreased by approximately 4.8%, or approximately RMB2,054,000, to approximately RMB40,846,000 from approximately RMB42,900,000 for the corresponding period in 2019. The decrease was mainly originated from the significant decrease in royalty and sub-franchise income, the effect of which was partly offset by the increase in government grant.

Other gains and losses

For the six months ended 30 June 2020, other gains and losses of the Group decreased to a loss of approximately RMB35,088,000 from a gain of approximately RMB32,205,000 for the corresponding period in 2019. The loss was mainly attributable to the fair value losses on financial assets at FVTPL and impairment losses recognised in respect of right of use assets and interest in an associate.

Finance costs

For the six months ended 30 June 2020, finance costs increased by approximately 5.1%, or approximately RMB927,000 to approximately RMB18,986,000 from approximately RMB18,059,000 for the corresponding period in 2019. The increase in finance cost was mainly due to the increase in average loan balance during the period.

Loss before taxation

Being affected by the factors referred to above, the Group recorded a loss before taxation of approximately RMB149,754,000 for the six months ended 30 June 2020 (30 June 2019: gain of approximately RMB119,809,000).

Loss attributable to owners of the Company

Being affected by the factors referred to above, loss attributable to owners of the Company for the six months ended 30 June 2020 amounted to RMB109,393,000. (30 June 2019: gain of approximately RMB86,582,000).

Liquidity and financial resources

The liquidity and financial position of the Group as at 30 June 2020 remained healthy and strong, with bank balances amounting to RMB1,700,896,000 (31 December 2019: RMB1,705,399,000) and a current ratio of 2.5 (31 December 2019: 2.5).

As at 30 June 2020, the Group had bank borrowings of RMB203,656,000 (31 December 2019: RMB207,676,000) and therefore the gearing ratio (expressed as a percentage of total borrowings over total assets) was 4.3 (31 December 2019: 4.2).

Contingent liabilities

As of 30 June 2020, the Group did not have any significant contingent liabilities.

Assets and liabilities

The Group's net current assets were approximately RMB1,199,374,000 and the current ratio was 2.5 as at 30 June 2020 (31 December 2019: 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.

Cash flows

Net cash inflow from operations of the Group for the six months ended 30 June 2020 was approximately RMB54,435,000 while the Group recorded loss before taxation of approximately RMB149,754,000 for the current period. The difference was primarily due to depreciation of property, plant and equipment and right-of-use assets.

Capital expenditure

For the six months ended 30 June 2020, the Group's capital expenditure was approximately RMB49,300,000 (corresponding period in 2019: approximately RMB81,265,000), which was due to the decrease in purchase of property, plant and equipment during the six months ended 30 June 2020.

Subsequent events

Subsequent to 30 June 2020, no material events affecting the Company and its subsidiaries have occurred.

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. 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.

Key operating ratios for restaurant operations

	Hong Kong			Mainland		
	1-6/2020	1-12/2019	1-6/2019	**1-6/2020**	1-12/2019	1-6/2019
Comparable restaurant sales growth	**-24.0%**	-27.9%	-18.3%	**-49.9%**	7%	5.4%
Per capita spending	**HK$71.9**	HK$66.1	HK$65.3	**RMB48.5**	RMB48.0	RMB53.8
Table turnover per day (times per day)	**3.85**	5.0	4.0	**3.4**	3.4	3.4

RISK MANAGEMENT

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 2020 and 31 December 2019 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.

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 2020 and 31 December 2019, 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.

OTHER INFORMATION

Compliance with the Corporate Governance Code

The Company has complied with all applicable code provisions under the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2020, save and except for the deviation from the code provision A.2.1 of the Code. Under the code provision A.2.1, the roles of Chairman and Chief Executive Officer ("CEO") should be separate and should not be performed by the same individual. Currently, the Company does not comply with code provision A.2.1, i.e., 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 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 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 2020, 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, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, risk management and internal controls, and financial reporting matters. The Company’s unaudited interim results for the six months ended 30 June 2020 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 2020.

Employee’s Remuneration and Policy

As at 30 June 2020, the Group employed 8,748 persons (30 June 2019: 11,797 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 performances.

The total remuneration payment of the Group for the six months ended 30 June 2020 was approximately RMB213,202,000 (30 June 2019: approximately RMB330,252,000).

Dividend

An interim dividend of RMB0.02 (HK2.20 cents) per ordinary share for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB0.02 (HK2.20 cents) per share) has been declared by the Board to shareholders and such interim dividend will be paid on 30 November 2020 to shareholders whose names appear on the register of members of the Company on 18 September 2020.

Closure of the Register of Members

The register of members of the Company will be closed from 16 September 2020 to 18 September 2020 (both days inclusive), during which period no share transfers will be registered.

In order to qualify for the aforesaid 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 15 September 2020.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2020 will be dispatched to all 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 website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk in due course.

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

Hong Kong, 26 August 2020

As at the date of this announcement, the Board comprises Ms. Poon Wai and Mr. Poon Ka Man, Jason and Ms. Minna Ng 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.