



# Ajisen (China) Holdings Limited

## 味千(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 0538)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

#### 2006 ANNUAL RESULTS HIGHLIGHTS

- Turnover rose by 37.1% to RMB598.4 million (2005: RMB436.5 million)
- Sales from restaurant operation grew by 39.8% to RMB529.3 million, accounting for about 88.5% of turnover
- Profit attributable to equity holders grew by 132% to RMB113 million
- Net profit margin was 19.2% (2005: 12.8%)
- Basic earnings per share amounted to RMB15.98 cents (2005: RMB7.52 cents), an increase of 112.5%
- Total number of restaurants reached 120 by the end of 2006 and 144 as at the date of this announcement

#### ANNUAL RESULTS

The board of directors (the “Board” or “Directors”) of Ajisen (China) Holdings Limited (the “Company” or “Ajisen (China)”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006, together with the comparative figures for 2005, as follows:

#### Combined Income Statement

For the year ended 31 December

	<i>Notes</i>	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
<b>Continuing operations</b>			
Turnover		<b>598,391</b>	436,478
Cost of sales		<b>(219,411)</b>	(175,588)
Gross profit		<b>378,980</b>	260,890
Other income		<b>41,734</b>	9,482
Property rentals		<b>(84,700)</b>	(63,860)
Distribution and selling expenses		<b>(158,134)</b>	(110,337)
Administrative expenses		<b>(33,683)</b>	(24,324)
Increase in fair value of investment properties		—	676
Finance costs		<b>(1,226)</b>	(589)

Profit before taxation	3	<b>142,971</b>	71,938
Taxation	4	<u><b>(27,929)</b></u>	<u>(16,433)</u>
Profit for the year from continuing operations		<b>115,042</b>	55,505
<b>Discontinued operations</b>			
Profit for the year from discontinued operations		<u>—</u>	<u>261</u>
Profit for the year		<u><b>115,042</b></u>	<u>55,766</u>
Attributable to:			
Equity holders of the Company		<b>113,365</b>	48,950
Minority interests		<u><b>1,677</b></u>	<u>6,816</u>
		<u><b>115,042</b></u>	<u>55,766</u>
Dividends to			
Equity holders of the Company		<b>96,300</b>	24,777
Minority interests		<u>—</u>	<u>15,344</u>
		<u><b>96,300</b></u>	<u>40,121</u>
From continuing and discontinued operations:			
Earnings per share — basic	5	<u><b>15.98 cents</b></u>	<u>7.56 cents</u>
From continuing operations:			
Earnings per share — basic	5	<u><b>15.98 cents</b></u>	<u>7.52 cents</u>

## Combined Balance Sheet

At 31 December

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Investment properties		—	3,068
Property, plant and equipment		<b>166,695</b>	120,498
Prepaid lease payment		<b>6,361</b>	6,472
Goodwill		<b>37,135</b>	—
Deferred tax assets		<b>1,340</b>	1,224
Available-for-sale investments		<u><b>1,536</b></u>	<u>—</u>
		<u><b>213,067</b></u>	<u>131,262</u>
Current assets			
Inventories		<b>21,376</b>	15,041
Trade and other receivables	6	<b>64,900</b>	46,790
Amounts due from related parties		<b>53,173</b>	78,305
Amount due from a director		—	97
Amounts due from shareholders		—	1,956
Taxation recoverable		<b>673</b>	193

Bank balances and cash		<u>107,473</u>	<u>73,121</u>
		<u>247,595</u>	<u>215,503</u>
Current liabilities			
Trade and other payables	7	82,400	67,674
Amounts due to related companies		10,670	5,330
Amounts due to directors		36,507	105,060
Amounts due to shareholders		3,906	—
Dividend payable		11,220	20,800
Taxation payable		26,230	16,495
Current portion of long-term bank loans		1,229	1,209
Short-term bank loans		46,000	—
Bank overdrafts		<u>1,395</u>	<u>—</u>
		<u>219,557</u>	<u>216,568</u>
Net current assets (liabilities)		<u>28,038</u>	<u>(1,065)</u>
Total assets less current liabilities		<u>241,105</u>	<u>130,197</u>
Non-current liabilities			
Long-term bank loans		72,927	14,736
Deferred tax liabilities		<u>178</u>	<u>313</u>
		<u>73,105</u>	<u>15,049</u>
Net assets		<u>168,000</u>	<u>115,148</u>
Capital and reserves			
Paid-in capital		8	41,086
Reserves		<u>161,972</u>	<u>60,755</u>
Equity attributable to equity holders of the Company		161,980	101,841
Minority interests		<u>6,020</u>	<u>13,307</u>
Total equity		<u>168,000</u>	<u>115,148</u>

**Notes:**

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

**1. GENERAL**

The Company is incorporated and registered as an exempted company with limited liability on 6 April 2006 under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 30 March 2007. The address of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

## 2. GEOGRAPHICAL AND BUSINESS SEGMENTS

### Geographical segments

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
TURNOVER		
PRC		
— External sales	413,644	256,121
— Inter-segment sales	<u>87,314</u>	<u>23,985</u>
	<u>500,958</u>	<u>280,106</u>
Hong Kong		
— External sales	184,747	180,357
— Inter-segment sales	<u>65,693</u>	<u>67,489</u>
	<u>250,440</u>	<u>247,846</u>
Elimination	<u>(153,007)</u>	<u>(91,474)</u>
	<u><u>598,391</u></u>	<u><u>436,478</u></u>
RESULTS		
Profit from operations		
— PRC	100,656	35,605
— Hong Kong	<u>49,122</u>	<u>39,977</u>
	149,778	75,582
Unallocated income	2,484	1,126
Unallocated expenses	(8,065)	(4,181)
Finance costs	<u>(1,226)</u>	<u>(589)</u>
Profit before taxation	142,971	71,938
Taxation	<u>(27,929)</u>	<u>(16,433)</u>
Profit for the year from continuing operations	<u><u>115,042</u></u>	<u><u>55,505</u></u>

### *BALANCE SHEET*

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
By location of customers which is also where the assets locate:		
<b>Segment assets</b>		
PRC	261,590	189,536
Hong Kong	98,816	66,967
Unallocated	<u>100,256</u>	<u>90,262</u>
Total assets	<u><u>460,662</u></u>	<u><u>346,765</u></u>

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
<b>Segment liabilities</b>		
PRC	83,473	55,259
Hong Kong	9,594	17,745
Unallocated	<u>199,595</u>	<u>158,613</u>
Total liabilities	<u><u>292,662</u></u>	<u><u>231,617</u></u>

#### **OTHER INFORMATION**

	Depreciation		Capital additions	
	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
PRC	22,129	12,709	64,862	53,613
Hong Kong	<u>4,731</u>	<u>4,645</u>	<u>10,810</u>	<u>5,734</u>
	<u><u>26,860</u></u>	<u><u>17,354</u></u>	<u><u>75,672</u></u>	<u><u>59,347</u></u>

#### **Business segments**

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

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>		
<b>TURNOVER</b>				
Operation of restaurants				
— external sales	<u>529,337</u>	<u>378,765</u>		
Sales of noodles and related products				
— external sales	69,054	57,713		
— intersegment sales	<u>153,007</u>	<u>91,474</u>		
	<u><u>222,061</u></u>	<u><u>149,187</u></u>		
Elimination	<u>(153,007)</u>	<u>(91,474)</u>		
	<u><u>598,391</u></u>	<u><u>436,478</u></u>		
		<b>Carrying amount of segments assets and unallocated assets</b>		
	<b>Capital additions</b>	<b>2006</b>	<b>2005</b>	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operation of restaurants	72,664	56,183	200,598	150,178
Sales of noodles and related products	3,008	2,652	106,940	112,963
Unallocated	<u>—</u>	<u>512</u>	<u>153,124</u>	<u>83,624</u>
	<u><u>75,672</u></u>	<u><u>59,347</u></u>	<u><u>460,662</u></u>	<u><u>346,765</u></u>

### 3. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operations		Total	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Profit before taxation has been arrived at after charging:						
Directors' remuneration ( <i>note 10</i> )	966	546	—	—	966	546
Other staff's retirement benefits scheme contributions	1,318	1,378	—	57	1,318	1,435
Other staff costs	63,685	55,282	—	1,105	63,685	56,387
	<u>65,969</u>	<u>57,206</u>	<u>—</u>	<u>1,162</u>	<u>65,969</u>	<u>58,368</u>
Auditor's remuneration	2,300	242	—	—	2,300	242
Depreciation	26,860	17,335	—	19	26,860	17,354
Loss on disposal of property, plant and equipment	2,009	873	—	—	2,009	873
Operating lease rentals in respect of						
— prepaid lease payment	871	527	—	—	871	527
— rented premises	83,829	63,860	—	762	83,829	64,622
and after crediting:						
Commission income	2,610	4,135	—	—	2,610	4,135
Discount on acquisition of a subsidiary	387	—	—	—	387	—
Exchange gain	1,497	719	—	—	1,497	719
Interest income	600	407	—	—	600	407
Management fee income	31,974	—	—	—	31,974	—
Property rental income, net of negligible outgoings	1,027	1,393	—	—	1,027	1,393
Royalty income from sub-franchisee	1,600	1,593	—	—	1,600	1,593

### 4. TAXATION

	2006 RMB'000	2005 RMB'000
Continuing operations:		
Hong Kong Profits Tax	(5,242)	(6,021)
PRC income tax	(22,938)	(10,885)
	<u>(28,180)</u>	<u>(16,906)</u>
Deferred taxation	251	473
	<u>(27,929)</u>	<u>(16,433)</u>
Discontinued operations:		
Hong Kong Profits Tax	—	(79)
	<u>(27,929)</u>	<u>(16,512)</u>

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

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

Pursuant to the Income Tax Law for the Foreign Investment Enterprises and Foreign Enterprises of the PRC, Weiqian Noodle (Shenzhen) Co., Ltd. is entitled to preferential tax relief by reducing the Foreign Enterprise Income Tax rate to 15%, as it operates in Shenzhen Special Economic Zone. Lead Food (Shanghai) Development Co., Ltd., being qualified as

Production Enterprises, is entitled to exemption from PRC corporate income tax for two years commencing from its first profit making year in 2005, followed by 50% tax rate reduction for PRC corporate income tax for the subsequent three years.

## 5. EARNINGS PER SHARE

### From continuing and discontinued operations

The calculation of the basic earnings per share for the year is based on the combined profit attributable to equity holders of the Company for the year and on the weighted average number of 709,278,000 (2005: 647,066,000) shares in issue during the year on the assumption that the Group Reorganisation and the capitalisation issue as more fully described in Appendix VI of the Prospectus have been effective on 1 January 2005.

### From continuing operations

The earning figures for calculation of the basic earnings per share from continuing operations attributable to the equity holders of the Company is based on the following data:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Profit for the year attributable to equity holders of the Company	113,365	48,950
Less: Profit for the year from discontinued operations	<u>—</u>	<u>261</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u><u>113,365</u></u>	<u><u>48,689</u></u>

No diluted earnings per share is presented as there were no potential dilutive shares during the year.

## 6. TRADE AND OTHER RECEIVABLES

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Trade receivables		
— related companies	11,475	8,468
— others	<u>13,285</u>	<u>11,824</u>
Rental and utility deposits	24,760	20,292
Property rentals paid in advance for restaurants	29,341	19,125
Advance to suppliers	3,645	3,950
Other receivables and prepayments	1,726	2,438
	<u>5,428</u>	<u>985</u>
	<u><u>64,900</u></u>	<u><u>46,790</u></u>

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

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

	<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>
Age		
0 to 30 days	<b>11,808</b>	14,487
31 to 60 days	<b>2,626</b>	3,911
61 to 90 days	<b>1,623</b>	1,109
91 to 180 days	<b>7,972</b>	616
Over 180 days	<b>731</b>	169
	<u><b>24,760</b></u>	<u>20,292</u>

## 7. TRADE AND OTHER PAYABLES

	<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>
Trade payables		
— related companies	<b>480</b>	4,636
— others	<b>30,374</b>	21,417
	<u><b>30,854</b></u>	<u>26,053</u>
Payable for acquisition of land use right		
Payroll and welfare payables	<b>5,398</b>	5,060
Customers' deposits received	<b>3,856</b>	4,686
Payable for acquisition of property, plant and equipment	<b>6,674</b>	5,504
Payable for property rentals	<b>7,764</b>	4,419
Other tax payable	<b>13,058</b>	11,445
Others	<b>14,796</b>	10,507
	<u><b>82,400</b></u>	<u>67,674</u>

The related companies are companies in which a director of the Company, Mr. Shigemitsu Kasuaki has a beneficial interest.

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

	<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>
Age		
0 to 30 days	<b>25,483</b>	21,116
31 to 60 days	<b>4,496</b>	3,835
61 to 90 days	<b>437</b>	862
91 to 180 days	<b>37</b>	82
Over 180 days	<b>401</b>	158
	<u><b>30,854</b></u>	<u>26,053</u>

## DIVIDEND

The Board of Directors did not recommend payment of any final dividend for the year ended 31 December 2006.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 26 June 2007 to Friday, 29 June 2007 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend the forthcoming Annual General meeting to be held on 29 June 2007, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4: 30 p.m. on Monday, 25 June 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Industry Overview**

Ajisen is one of the leading players of the Fast Casual Restaurants, or FCR, sector in the PRC. FCR is a hybrid of fast food restaurants and traditional sit-down restaurants. Standard menus include made-to-order items and table service is normally provided.

#### *The PRC Market*

With its rapid economic development and rising consumer spending power, PRC offers excellent opportunities for FCR operators such as Ajisen. As living in the PRC becomes increasingly fast-paced, especially in urban areas, consumers, in particular the white collar group, are willing to spend more money on dining out at decent environment and less time on cooking. The F&B market in the PRC is mixed with local restaurants and western food chains. However, it is found that Asian food is currently preferred over western food by the majority of consumers. All these have given rise to the popularity of Asian FCR and, in particular, Ajisen.

#### *The Hong Kong Market*

Hong Kong is ranked first in the world in terms of frequency of FCR visits, in part because home cooking is relatively less common due to limited space in Hong Kong apartments.

#### *Industry Development Trends*

Demand for fast food/fast casual food invariably increases in a modern society, as the time for preparing home cooked meals diminishes. Competitiveness solely based on price will no longer be the only way to succeed in this market. Success in the FCR industry will depend more on brand recognition and customer loyalty. Other trends developing in the FCR market include a greater focus on nutritious and healthy food, good service and appealing dining environments.

### **Business Review**

Ajisen was ranked fifth in terms of revenue in China's FCR sector in 2005, according to "China's Top 100 F&B Enterprises" survey, and maintained its position in the top 10 in 2006 (there was no ranking among the top 10 in 2006). In December 2006, Ajisen (China) secured perpetual franchise rights for the Ajisen franchise business in Hong Kong, Macao and PRC.

#### *Retail chain restaurants*

In 2006, our major business and primary source of income continued to be derived from our retail chain restaurants. During the year, our restaurant business contributed RMB529.3 million, or 88.5%, to the Group's total revenue.

As of 31 December 2006, the Group had a restaurant portfolio totalling 120 Ajisen restaurants, comprising the following:

	2005	2006	+/-
By type:			
Owned and managed	53	<b>93</b>	40
Managed but not owned	0	<b>24</b>	24
Owned but not managed	<u>3</u>	<u>3</u>	<u>0</u>
Total	<u>56</u>	<u><b>120</b></u>	<u>64</u>
By geographical:			
Northern	3	<b>20</b>	17
Eastern	31	<b>49</b>	18
Southern	19	<b>45</b>	28
Central	<u>3</u>	<u>6</u>	<u>3</u>
Total	<u>56</u>	<u><b>120</b></u>	<u>64</u>
Total Saleable area	<u>10,561 Sq Meter</u>	<u><b>34,329 Sq Meter</b></u>	<u>23,768 Sq Meter</u>

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

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

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

To expand our urban footprint, we plan to establish Ajisen economy-size restaurants. These will occupy a saleable area of approximately 100 square metres with a seating capacity of 45 to 70 seats, mostly located in hypermarkets and large-scale residential areas.

The following table illustrates our store breakdown by format:

	2005	2006	+/-
By format:			
Flagship	9	<b>16</b>	7
Standard	37	<b>94</b>	57
Economic	<u>10</u>	<u>10</u>	<u>0</u>
Total	<u>56</u>	<u><b>120</b></u>	<u>64</u>

Our strong brand name has enabled us to establish our restaurant network in strategic locations, such as prime locations with high pedestrian traffic and easy accessibility for customers, in the cities where we operate.

The success of our business is based on an innovative, evolving and wide-ranging menu, designed to suit the tastes of customers from different regions in the PRC and Hong Kong. Combining Japanese-style dishes with Chinese food culture and dining habits, the dishes we offer currently comprise more than 60 food

product offerings on a menu that is updated twice a year. We believe our focus on innovation has enabled us to differentiate our food products from our competitors and strengthened the brand awareness and market share we enjoy.

When opening a new Ajisen restaurant, we have an established set of systematic procedures and management guidelines that we apply to every outlet.

To oversee the operations of our restaurants in their respective areas, we have six autonomous divisional management offices in Beijing, ShanDong, ChongQing, NanJing, Shanghai and Shenzhen respectively. We believe this business and operational model will allow us to grow at a faster and more efficient pace, since each of these regional head offices will have the local expertise needed to expedite our expansion plans. This management model will be replicated in all of our new Ajisen chain restaurants.

### *Packaged food products*

To leverage on the Ajisen brand and complement the FCR business, the Group manufactures and sells packaged noodles under the Ajisen brand name.

For the year ended 31 December 2006, sales of packaged food products recorded RMB69 million, accounting for about 11.5% of the Group's total turnover.

Our packaged noodle products are supplied to Ajisen chain restaurants, other third-party restaurant operators, supermarkets, and other independent Ajisen restaurants located in countries such as Australia, Canada, the Philippines, Singapore and the United States. Our extensive distribution network currently amounts to approximately 6,000 points-of-sale in the PRC and Hong Kong. Our major clients include Wal-Mart, Carrefour, Lotus Supermarket, City Supermarket, JUSCO, Wellcome and Park'n Shop, to name a few.

By selling our noodles through these well-known retailers, we are able to promote the Ajisen brand name on a wider scale.

All packaged noodles are manufactured in Shanghai, Shenzhen and Hong Kong in the Group's own food manufacturing and processing facilities, which cover a total area of over 17,900 square metres. As Japanese ramen production technology is considered to be among the most advanced in the world, we have adopted Japanese techniques in the production of our ramen noodles.

According to the terms of our franchise agreement, our franchisor provides us with technical support in all aspects of our packaged food production operation. In recognition of our stringent quality control standards, we have received several international certifications, such as ISO 9001 and HACCP, attesting to our commitment to quality food products.

## **Financial review**

### *Turnover*

Turnover increased by approximately RMB162 million, or by approximately 37.09% from approximately RMB436.5 million for the year ended 31 December 2005 to approximately RMB598.4 million for the year ended 31 December 2006, primarily due to the significant growth in our turnover from operation of restaurants.

Turnover from operation of restaurants increased by approximately RMB150.5 million, or approximately 39.75% from approximately RMB378.8 million in 2005 to approximately RMB529.3 million in 2006. Such increase was mainly due to an increase in the number of chain restaurants from 56 as at 31 December 2005 to 120 as at 31 December 2006.

### *Cost of sales*

Cost of sales increased by approximately RMB43.8 million, or approximately 24.96% from approximately RMB175.6 million in 2005 to approximately RMB219.4 million in 2006, which increased in line with the growth in our turnover. The increase in cost of sales was primarily due to the increased costs of raw materials and labour cost as a direct result of the increase in the number of our chain restaurants increased. Thanks to the economies of scale, cost of sales as a percentage of our turnover was approximately 36.67% in 2006, as compared to 40.2% in 2005.

### *Gross profit*

As a result of the above, gross profit increased by approximately RMB118.09 million, or approximately 45.26% from approximately RMB260.9 million in 2005 to approximately RMB379 million in 2006. The gross profit margin increased slightly to 63.3% in 2006, as compared to 59.8% in 2005.

### *Other income*

Other income increased/decreased by approximately RMB32.2 million from approximately RMB9.5 million in 2005 to approximately RMB41.7 million in 2006, primarily due to the management fees received under the Management Agreement in respect of the Shenzhen operation. We have received management fees of approximately RMB32.0 million under the Management Agreement for 2006. In the event that Shenzhen Weiqian is merged with the Group, such management fees will no longer be chargeable. Instead, the entire net profit of Shenzhen Weiqian will be consolidated to the Group.

### *Distribution and selling expenses*

Distribution and selling expenses increased by approximately RMB47.8 million, or approximately 43.3% from approximately RMB110.3 million in 2005 to approximately RMB158.1 million in 2006, primarily due to the increase in salary and welfare expenses of restaurant staff, utility fees, costs of consumables and utensils and depreciation costs incurred in connection with the increase in the number of chain restaurants and the increase in sales volumes of the packaged noodles and other related products in 2006. Distribution and selling expenses as a percentage of our turnover were approximately 26.4% in 2006 compared with approximately 25.3% in 2005.

### *Administrative expenses*

Administrative expenses increased by approximately RMB9.4 million, or approximately 38.48% from approximately RMB24.3 million in 2005 to approximately RMB33.68 million in 2006, primarily due to an increase in administrative staff salary and director's welfare and expenses incurred in relation to the Global Offering and increase in depreciation costs. Administrative expenses as a percentage of our turnover were 5.57% in 2005 and 5.63% in 2006.

### *Finance costs*

Finance costs increased by approximately RMB0.6 million, or approximately 108% from approximately RMB589,000 in 2005 to approximately RMB1.23 million in 2006, primarily due to an increase in bank borrowings.

### *Profit before taxation*

Profit before taxation increased by approximately RMB71 million, or approximately 98.74% from approximately RMB71.9 million in 2005 to approximately RMB142.97 million in 2006, as a result of the cumulative effect of the foregoing factors.

### *Profit for the year*

Profit for the year increased by around 107% from around RMB55.5 million in 2005 to around RMB115 million in 2006.

### *Assets and liabilities*

Net current assets of approximately RMB28.04 million and a current ratio of 1.13 as at 31 December 2006. As we are primarily engaged in the restaurant business, most of our sales are cash sales. As a result, we are able to maintain a relatively low current ratio to achieve better use of our working capital.

### *Cashflow*

Net cash inflow from operating activities for the year ended 31 December 2006 was approximately RMB137 million while our profit before taxation for the same period was approximately RMB142 million. The difference was primarily due to the increase in inventories and the increase in trade and other receivables, partially offset by an increase in trade and other payables. The increase in inventories and the trade and other payables was primarily due to the increased purchase of raw materials and other goods from suppliers as a result of the increase in the number of chain restaurants managed and owned by the Group during the period. The increase in trade and other receivables was primarily due to the higher sales volume in the sale of noodles and related products and an increase in rental deposits due to the increase in the number of chain restaurants managed and owned by us during the period.

### *Capital expenditure*

Capital expenditures was approximately RMB75.6 million in 2006 which was primarily related to our purchase of property, plant and equipment.

### **Outlook for 2007 and beyond**

It is the goal of Ajisen (China) to be the number one FCR chain operator in the PRC.

In order to achieve this goal, we have a strategy that leverages on our established competitive strengths, including our renowned brand name, wide store network, professional management team and reputation for quality.

Three major growth drivers will help us realise Ajisen's growth potential:

1. *Expansion of the FCR network in the PRC.* By the end of 2007, we aim to have a minimum of 200 restaurants and by 2008 a total of 320 restaurants. This will be achieved via organic growth in existing markets such as Shanghai, Shenzhen, Hong Kong, Beijing and Chengdu. By 2008, we intend to open 35 flagship-size restaurants, 170 standard-size restaurants and 62 economy-size restaurants. As at the date of this announcement, our chain network has already expanded to 144 restaurants.

In addition to organic growth, we will expand through sub-franchising, which we believe is an efficient way to expand the Ajisen network within a short period of time, particularly in mid-tier cities or cities in which we do not yet have a presence. To develop our sub-franchising business, we have hired a professional consultant to work out a sub-franchise system to ensure Ajisen's quality and brand image are maintained. We plan to start our sub-franchising system in the second half of 2007, with a target of 10 sub-franchises established in that period and 40 more in 2008.

We will also explore the possibility of mergers and acquisitions or strategic alliances with other overseas brands.

2. *Diversification of our product offerings and distribution channels.* We will diversify and update restaurant menus as well as introduce a wider variety of packaged food products to meet the various taste buds of our growing customer base. Furthermore, we will launch other products, such as tableware and condiments for noodles, in order to further promote “the Ajisen culture” beyond our restaurants.
3. *Implementation of a multi-brand strategy.* We intend to capture potential business opportunities in the fast-growing FCR market in mainland China and Hong Kong by implementing a multi-brand strategy.

We will leverage on our know-how in Japanese food and Japanese food production technology to expand our customer base and reach new consumer segments in the casual dining value chain. Currently, the “Ajisen” brand is targeted at the mass market with an average spending of around HK\$50 per head in Hong Kong and around RMB30 in mainland China. To reach customers in higher-spending and lower-spending groups, we will cultivate other appropriate brands and products.

By following this strategy, we believe we can succeed in further enhancing the Ajisen brand, penetrating new markets and maximizing shareholder value.

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

Neither Ajisen (China) nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of Ajisen (China) during the year ended 31 December 2006.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company is committed to maintaining and upholding good corporate governance and procedures. The corporate governance principles of the Company emphasizes accountability and transparency and are adopted in the best interests of the Company and its shareholders.

For the year ended 31 December 2006, the Company has complied with all code provisions under the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). However, the only deviation of the Company is the deviation of code provision A.2 of the Code, namely, the roles of the chairman and chief executive officer have not been separated. Although Ms. Poon performs both the roles Chairman and Chief Executive Officer, the division of responsibilities between the Chairman and Chief Executive Officer are clearly established and set out in writing. In general, the Chairman is responsible for supervising the functions and performance of the Board, while the Chief Executive Officer is responsible for the management of the business of the Group. The two roles will be performed by Ms. Poon distinctly. It is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified. Therefore, at this stage, the deviation is deemed appropriate as the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies. It also considers that the current structure does not impair the balance of power and authority between the Board and the management of the Company.

Details of the Company’s corporate governance practices will be set out in the Company’s 2006 annual report (the “Annual Report”).

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

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

## AUDIT COMMITTEE

The Audit Committee was set up on 8 March 2007 with written terms of reference in compliance with the Listing Rules and the Code. The principal duties of the Audit Committee include overseeing the Company's relationship with its external auditors, reviewing the preliminary results, interim results and annual financial statements of the Group and supervising the financial reporting process and the internal control procedure of the Group.

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

Mr. Jen Shek Voon, independent non-executive Director (*Chairman*)

Mr. Lo Peter, independent non-executive Director

Mr. Yan Yu, independent non-executive Director

Mr. Wong Hin Sun, Eugene, non-executive Director

The Audit Committee is satisfied with their review of the audit fees, the independence of the Auditors and recommended the re-appointment of the Auditors in 2007 at the forthcoming Annual General Meeting.

The Company's annual results for year ended 31 December 2006 have been reviewed by the Audit Committee which opines that applicable accounting standards and requirements have been complied with and that adequate disclosures have been made.

## ANNUAL GENERAL MEETING AND DESPATCH OF 2006 ANNUAL REPORT

The annual general meeting ("AGM") of the Company will be held on Friday, 29 June 2007 at 10:00 a.m. A notice convening the AGM will be published in the South China Morning Post and the Hong Kong Economic Times on or about 30 April 2007 and will be dispatched to the shareholders together with the Annual Report.

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

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

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

Hong Kong, 25 April 2007

*"Please also refer to the published version of this announcement in **South China Morning Post.**"*