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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 2022

2022 INTERIM RESULTS HIGHLIGHTS

	For the six months ended 30 June		
	2022	2021	Increase/ (Decrease)
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	%
Turnover	677,469	1,012,542	(33.1)
Sales from restaurant operation	628,250	951,011	(33.9)
Gross profit	496,329	737,995	(32.7)
(Loss) profit from operation	(99,587)	40,180	N/A
(Loss) profit before tax	(136,066)	86,228	N/A
(Loss) profit attributable to owners of the Company	(106,513)	49,658	N/A
(Loss) earnings per share (RMB)	(0.10)	0.05	N/A
Recommended interim dividend per share (RMB)	Nil	0.02	
		(HK2.40 cents)	
Total number of restaurants (as at 30 June)	669	707	

The board (the “**Board**”) of directors (the “**Directors**”) 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 2022, together with the comparative figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	677,469	1,012,542
Cost of inventories consumed		(181,140)	(274,547)
Staff costs		(211,016)	(265,160)
Depreciation		(187,855)	(195,716)
Other operating expenses		(197,045)	(236,939)
		<hr/>	<hr/>
(Loss) profit from operation		(99,587)	40,180
Other income	4	35,522	48,187
Impairment losses under expected credit loss model, net of reversal		(428)	49
Other gains and losses	5	(56,301)	13,919
Share of loss of associates		(1,430)	(17)
Share of loss of a joint venture		(1,127)	(157)
Finance costs		(12,715)	(15,933)
		<hr/>	<hr/>
(Loss) profit before tax	6	(136,066)	86,228
Income tax credit (expense)	7	15,705	(35,156)
		<hr/>	<hr/>
(Loss) profit for the period		(120,361)	51,072
		<hr/>	<hr/>
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		23,219	(10,733)
Other comprehensive income (expense) for the period, net of income tax		23,219	(10,733)
		<hr/>	<hr/>
Total comprehensive (expense) income for the period		(97,142)	40,339
		<hr/> <hr/>	<hr/> <hr/>

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(106,513)	49,658
Non-controlling interests		<u>(13,848)</u>	<u>1,414</u>
		<u>(120,361)</u>	<u>51,072</u>
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(84,340)	39,363
Non-controlling interests		<u>(12,802)</u>	<u>976</u>
		<u>(97,142)</u>	<u>40,339</u>
		RMB	RMB
(Loss) earnings per share			
– Basic	9	<u>(0.10)</u>	<u>0.05</u>
– Diluted		<u>(0.10)</u>	<u>0.05</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Investment properties		1,018,457	996,028
Property, plant and equipment		453,270	509,569
Right-of-use assets		503,496	615,458
Intangible assets		717	128
Interests in associates		44,802	56,308
Interest in a joint venture		7,363	8,490
Rental deposits		82,704	88,329
Goodwill		1,303	1,264
Deferred tax assets		58,242	37,210
Financial assets at fair value through profit and loss ("FVTPL")	10	<u>155,733</u>	<u>179,320</u>
		<u>2,326,087</u>	<u>2,492,104</u>
Current assets			
Inventories		102,407	120,387
Trade and other receivables	11	171,289	160,342
Taxation recoverable		764	846
Bank balances and cash		<u>1,528,194</u>	<u>1,527,538</u>
		<u>1,802,654</u>	<u>1,809,113</u>
Current liabilities			
Trade and other payables	12	237,133	261,168
Lease liabilities		239,758	229,974
Contract liabilities		4,362	4,625
Amounts due to related companies		6,040	4,047
Amounts due to directors		197	462
Amounts due to non-controlling interests		13,524	13,509
Amounts due to associates		2,121	2,027
Amount due to a joint venture		232	480
Dividend payable		91,480	–
Taxation payable		14,358	17,160
Bank borrowings		<u>43,537</u>	<u>41,686</u>
		<u>652,742</u>	<u>575,138</u>
Net current assets		<u>1,149,912</u>	<u>1,233,975</u>

	30 June 2022	31 December 2021
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Total assets less current liabilities	<u>3,475,999</u>	<u>3,726,079</u>
Non-current liabilities		
Bank borrowing	35,325	35,317
Lease liabilities	320,707	374,395
Deferred tax liabilities	168,731	166,198
Financial liabilities at FVTPL	<u>24,146</u>	<u>36,020</u>
	<u>548,909</u>	<u>611,930</u>
Net assets	<u>2,927,090</u>	<u>3,114,149</u>
Capital and reserves		
Share capital	108,404	108,404
Reserves	<u>2,777,444</u>	<u>2,951,701</u>
Equity attributable to owners of the Company	2,885,848	3,060,105
Non-controlling interests	<u>41,242</u>	<u>54,044</u>
Total equity	<u>2,927,090</u>	<u>3,114,149</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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**”).

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

The spread of the COVID-19 pandemic in China and the subsequent control measures and restrictions implemented by the central government and local governments during different times throughout the first half of 2022 have had a severe negative impact on the operations of the Group, as most of the Group’s restaurants are located in China, especially in the seriously affected areas, such as Shanghai and Beijing. In order to comply with the governmental control measures and restrictions, the Group temporarily suspended a number of its restaurant operations.

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 and right-of-use assets and fair value loss on certain investments 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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current interim 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.

3. OPERATING SEGMENTS

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 2022 (unaudited)

	Operation of restaurants			Manufacture and sales of noodles and related products RMB’000	Investment holding RMB’000	Segment total RMB’000	Elimination RMB’000	Total RMB’000
	Mainland China RMB’000	Hong Kong RMB’000	Total RMB’000					
Revenue								
- external sales	569,420	58,830	628,250	49,219	-	677,469	-	677,469
- inter-segment sales	-	-	-	257,865	-	257,865	(257,865)	-
	<u>569,420</u>	<u>58,830</u>	<u>628,250</u>	<u>307,084</u>	<u>-</u>	<u>935,334</u>	<u>(257,865)</u>	<u>677,469</u>
Segment (loss) profit	<u>(106,880)</u>	<u>(7,472)</u>	<u>(114,352)</u>	<u>1,797</u>	<u>(16,463)</u>	<u>(129,018)</u>	<u>-</u>	<u>(129,018)</u>
Interest income								6,589
Central administrative expenses								(13,003)
Unallocated finance costs								<u>(634)</u>
Loss before taxation								(136,066)
Income tax credit								<u>15,705</u>
Loss for the period								<u><u>(120,361)</u></u>

Six months ended 30 June 2021 (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	878,421	72,590	951,011	61,531	-	1,012,542	-	1,012,542
- inter-segment sales	-	-	-	357,981	-	357,981	(357,981)	-
	<u>878,421</u>	<u>72,590</u>	<u>951,011</u>	<u>419,512</u>	<u>-</u>	<u>1,370,523</u>	<u>(357,981)</u>	<u>1,012,542</u>
Segment profit	<u>39,724</u>	<u>6,913</u>	<u>46,637</u>	<u>2,979</u>	<u>28,611</u>	<u>78,227</u>	<u>-</u>	<u>78,227</u>
Interest income								12,073
Central administrative expenses								(2,795)
Unallocated finance costs								(1,277)
Profit before taxation								86,228
Income tax expense								(35,156)
Profit for the period								<u>51,072</u>

Segment (loss) profit represents the loss/profit incurred/earned by each segment without allocation of interest income, 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, goodwill and financial assets at FVTPL), including investment properties, property, plant and equipment, right-of-use assets, intangible assets, interests in associates and interest in a joint venture are located in Mainland China and Hong Kong at the end of each interim 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, for the current and preceding interim periods.

None of the customers accounted for 10% or more of the total revenue of the Group in each of the current and preceding interim period.

4. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Royalty and other income from sub-franchisees	2,734	3,918
Property rental income, net of direct outgoings (<i>Note i</i>)	12,307	16,787
Bank interest income	6,807	12,073
Government grants (<i>Note ii</i>)	11,216	7,730
Others	2,458	7,679
	<u>35,522</u>	<u>48,187</u>

Note i: Direct outgoings during current interim period amounted to RMB3,864,000 (six months ended 30 June 2021: RMB4,082,000).

Note ii: During the current interim period, under the Covid-19-related subsidies provided by the Hong Kong government, the Group recognised government grants of RMB8,020,000 (six months ended 30 June 2021: RMB3,250,000), of which RMB4,404,000 (six months ended 30 June 2021: RMB3,250,000) and RMB3,616,000 (six months ended 30 June 2021: Nil) are related to Subsidy Schemes under Anti-epidemic Fund and Employment Support Scheme, respectively. The remaining amounts of government grants represent the incentive subsidies received from the Mainland China local district authorities for the business activities carried out by the Group. There are no specific conditions attached to the grants.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	(6,101)	(3,627)
Fair value gain on investment properties	5,630	8,213
Fair value loss on financial assets at FVTPL	(33,587)	(22,736)
Fair value gain on financial liabilities at FVTPL	11,874	17,369
Net foreign exchange gain	1,752	2,655
Gain on termination of leases, net	1,004	4,072
Impairment loss (recognised) reversed in respect of		
– property, plant and equipment	(3,089)	(365)
– right-of-use assets	(23,654)	(814)
– interest in an associate	(10,130)	9,152
	<u>(56,301)</u>	<u>13,919</u>

6. (LOSS) PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of inventories consumed	<u>181,140</u>	<u>274,547</u>
Depreciation of property, plant and equipment	67,161	68,599
Depreciation of right-of-use assets	<u>120,694</u>	<u>127,117</u>
Total depreciation	<u><u>187,855</u></u>	<u><u>195,716</u></u>
Covid-19-related rent concessions	(5,908)	–
Fuel and utility expenses	34,960	46,060
Property rentals in respect of		
– Variable lease payment	8,408	18,968
– Short-term lease payment	<u>5,933</u>	<u>1,259</u>

7. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Hong Kong Profits Tax		
– current period	<u>1,043</u>	<u>1,744</u>
	1,043	1,744
Mainland China Enterprise Income Tax (“EIT”)		
– current period	1,537	14,754
– under (over) provision in prior periods	<u>213</u>	<u>(1,331)</u>
	1,750	13,423
Withholding tax	–	15,238
Deferred taxation	<u>(18,498)</u>	<u>4,751</u>
	<u>(15,705)</u>	<u>35,156</u>

The income tax expense in Hong Kong and Mainland China is recognised based on management’s best estimate of the annual income tax rate enacted for the full financial year. During the current period, the tax rates for Hong Kong Profits Tax and Mainland China EIT are 16.5% and 25% (six months ended 30 June 2021: 16.5% and 25%), respectively, for the period under review.

Pursuant to the relevant provincial policy in 2020, Chongqing Weiqian Food & Restaurant Management Co., Ltd. 重慶味千餐飲管理有限公司 (“Chongqing Weiqian”), successfully applied a preferential tax rate of 15% from 2021 to 2030.

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

8. DIVIDENDS

Six months ended 30 June

2022	2021
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Unaudited)

Dividends recognised as distribution during the period:

Final, declared – RMB0.08 (HK9.8 cents) per share for 2021

(six months ended 30 June 2021: declared – RMB0.08 (HK9.5 cents) per share for 2020)

<u>91,480</u>	<u>86,286</u>
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Subsequent to six months ended 30 June 2021, an interim dividend of RMB0.02 (HK2.40 cents) per share was 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

2022	2021
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Unaudited)

(Loss) earnings for the purposes of basic and diluted (loss) earnings per share, being (loss) profit for the period attributable to owners of the Company

<u>(106,513)</u>	<u>49,658</u>
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Number of shares

Number of ordinary shares for the purpose of calculating basic (loss) earnings per share

<u>1,091,538,820</u>	1,091,538,820
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Effect of dilutive potential ordinary shares relating to:

– outstanding share options

<u>–</u>	<u>74,412</u>
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Weighted average number of ordinary shares for the purpose of calculating diluted (loss) earnings per share

<u>1,091,538,820</u>	<u>1,091,613,232</u>
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During the six months ended 30 June 2022, 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 decrease in the loss per share.

During the six months ended 30 June 2021, 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 current interim period.

10. FINANCIAL ASSETS AT FVTPL

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Unlisted equity investments and fund investments (<i>Note</i>)	<u>155,733</u>	<u>179,320</u>

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

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 2021, 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 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade receivables – third parties	<u>19,202</u>	<u>19,096</u>
Less: allowance for credit losses	<u>(682)</u>	<u>(232)</u>
	<u>18,520</u>	<u>18,864</u>
Other receivables		
Rental and utility deposits	31,901	28,929
Prepaid management fee	2,915	5,729
Advance to suppliers	41,542	28,117
Value-added tax recoverable	40,676	45,093
Lease receivables	10,577	12,028
Prepayments	11,687	9,364
Staff advance	5,841	5,911
Others	<u>17,071</u>	<u>15,770</u>
Less: allowance for doubtful debts on other receivables	<u>(9,441)</u>	<u>(9,463)</u>
	<u>152,769</u>	<u>141,478</u>
	<u>171,289</u>	<u>160,342</u>

Customers relating to manufacture and sales of noodles and related products are either having no credit period or granted up to 90 days (year ended 31 December 2021: nil 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 2021: 180 days), while there is no credit period for customers relating to sales from restaurant operations.

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 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
0 to 30 days	9,767	13,988
31 to 60 days	8,294	2,599
61 to 90 days	413	1,602
91 to 180 days	46	675
	<u>18,520</u>	<u>18,864</u>

12. TRADE AND OTHER PAYABLES

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables		
– related parties (<i>Note</i>)	32,689	43,976
– third parties	52,289	73,542
	<u>84,978</u>	<u>117,518</u>
Payroll and welfare payables	34,625	38,926
Customers' deposits received	11,214	10,500
Payable for acquisition of property, plant and equipment	28,428	30,360
Payable for variable lease payments	17,100	9,190
Other taxes payable	10,804	9,292
Others	49,984	45,382
	<u>237,133</u>	<u>261,168</u>

Note: The related parties are certain associates of the Group, and 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 2021: 60 days).
The following is an analysis of trade payables by age, presented based on the invoice date.

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 <i>RMB'000</i> (Audited)
0 to 30 days	62,130	89,825
31 to 60 days	13,276	20,277
61 to 90 days	1,372	1,051
91 to 180 days	1,258	283
Over 180 days	6,942	6,082
	<u>84,978</u>	<u>117,518</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

During the six months ended 30 June 2022 (the “**Period**”), affected by certain unexpected factors such as the complex evolution of the international environment and the impact of the domestic pandemic, the downward pressure on the economy increased significantly. However, as the domestic pandemic prevention and control situation continued to improve, and a package of policies and measures for stabilizing the economy gradually came into effect, the overall economic operation showed a trend of steady recovery. According to the National Bureau of Statistics of China, during the Period, China’s gross domestic product (GDP) amounted to RMB56,264.2 billion, representing an increase of 2.5% year on year (same period in 2021: 12.7%); the total retail sales of social consumer goods amounted to RMB21,043.2 billion, representing a decrease of 0.7% year on year; the national per capita disposable income amounted to RMB18,463, representing a real growth of 3.0% over the same period last year; and the national consumer price index (CPI) increased by 1.7% year on year.

In the first half of 2022, according to the National Bureau of Statistics of China, the national revenue of the catering industry for the Period was RMB2,004.0 billion, representing a decrease of 7.7% year on year. The pandemic has accelerated the growth of the takeaway market. According to Intelligence Research Group, as of 2021, China’s takeaway market size has reached approximately RMB934.0 billion, representing a year-on-year increase of 40.5%. Meanwhile, driven by delivery platforms, the number of takeaway users in China also increased significantly. According to iiMedia Research, as at the end of 2021, the scale of takeaway users in China reached 540 million, and the proportion of takeaway revenue over the total catering revenue increased to 21.4%.

With the rapid development and popularization of the Internet, “Internet +” has become a trend of the times. Under the guidance of the dual needs of obtaining traffic and sustaining growth, retail has become a new idea for catering development. Currently, catering is dominated by the two scenarios of “offline dine-in + online takeaway”, and the combined model of the three scenarios of “offline + online + new retail” will become a new standard for catering development in the future.

In 2022, facing the complex and severe international environment and the impact of the domestic pandemic, the Group will continue to conduct lean management, and strictly control the quality and safety of food. Meanwhile, the Group will continue to optimize the membership system, increase the members’ repurchase rate by adopting a new membership strategy, speed up digital transformation, and continue to optimize brand strategy upgrading and strive to promote internal organizational reform, with a view to grasping the development opportunities arising from industry reform and bringing better return on investment for the shareholders.

Business Review

For the six months ended 30 June 2022, the catering industry encountered challenging business environment with the resurgence of the COVID-19 pandemic (the “**Pandemic**”) in Mainland China and Hong Kong, the rising inflation across the globe and the slowdown in the world economy. The Group constantly adjusted its operating strategy to strive for a stable and sustainable operation and seek new directions while maintaining stability.

The Pandemic caused some of the Group’s restaurants to fail to operate as usual, resulting in a decreased revenue, but fixed expenses such as rent and salaries still have to be paid, which put pressure on the Group’s profitability. Since the Pandemic is expected to continuously affect the catering industry, the Group will close stores of which the operating performance is not satisfactory to decrease the number of stores strategically, so as to relieve the burden on cash flow and profitability during the outbreak of the Pandemic.

Amid the high global inflation, the Group’s cost of inventories consumed as a proportion to turnover was approximately 26.7%, a slight decrease as compared with 27.1% for the same period last year, mainly due to the continuous optimization of the supply chain by the Group and the search for high-quality supplies from all over the world to supply raw materials at stable prices. The Group also has a production base in Hong Kong and six major production bases in Mainland China, including those in Shanghai, Chengdu, Tianjin, Wuhan, Qingdao and Dongguan, which guaranteed the food quality, food safety and stable supply of the Group’s restaurants during the Pandemic.

The effective operation of the existing 669 restaurants of the Group would not be achieved without our efficient management and intensive staff training. The Group also strengthened the guidance and training of restaurant managers and regional supervisors, and enhanced the operational efficiency of each restaurant through constant improvement of the management ability of frontline employees.

The Group will closely monitor market conditions, respond quickly to market changes, actively control operating costs, and adjust operating strategy to reduce the impact of various negative factors.

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 RMB628,250,000 (corresponding period in 2021: approximately RMB951,011,000), accounted for approximately 92.7% (corresponding period in 2021: approximately 93.9%) of the Group's total revenue, a decrease of approximately 33.9% from the corresponding period last year.

As at 30 June 2022, the Group's restaurant portfolio consisted of 669 chain restaurants, comprising the following:

By provinces	30-Jun 2022	30-Jun 2021	+/-
Shanghai	119	111	+8
Beijing	39	43	-4
Tianjin	3	6	-3
Guangdong (excluding Shenzhen)	64	56	+8
Shenzhen	20	16	+4
Jiangsu	78	86	-8
Zhejiang	72	81	-9
Sichuan	14	15	-1
Chongqing	11	12	-1
Fujian	12	14	-2
Hunan	13	12	+1
Hubei	14	16	-2
Liaoning	13	18	-5
Shandong	43	46	-3
Guangxi	16	17	-1
Guizhou	3	4	-1
Jiangxi	15	18	-3
Shaanxi	10	11	-1
Yunnan	11	10	+1

By provinces	30-Jun 2022	30-Jun 2021	+/-
Henan	9	16	-7
Hebei	12	14	-2
Anhui	17	16	+1
Xinjiang	2	2	-
Hainan	4	6	-2
Shanxi	4	2	+2
Neimenggu	4	6	-2
Heilongjiang	12	12	-
Ningxia	2	3	-1
Jilin	10	12	-2
Tibet	0	1	-1
Gansu	1	1	-
Hong Kong	20	22	-2
Rome	1	1	-
Finland	1	1	-
Total	669	707	-38

By geographical region:	30-Jun 2022	30-Jun 2021	+/-
Northern China	136	162	-26
Eastern China	286	291	-5
Southern China	151	146	+5
Central China	94	106	-12
Europe	2	2	-
Total	669	707	-38

Financial Review

Turnover

For the six months ended 30 June 2022, the Group's turnover decreased by approximately 33.1%, to approximately RMB677,469,000 from approximately RMB1,012,542,000 for the corresponding period in 2021. The decrease in the revenue is mainly caused by the resurgence of novel coronavirus pneumonia (COVID-19) in both Mainland China and Hong Kong during the Period. In response to the Pandemic prevention measures, some of the Group's restaurants are required to suspend operations or subject to restrictions, resulting in a decrease in the revenue.

Cost of inventories consumed

For the six months ended 30 June 2022, the Group's cost of inventories decreased by approximately 34.0% to approximately RMB181,140,000 from approximately RMB274,547,000 for the corresponding period in 2021. During the Period, the ratio of inventories cost to turnover was approximately 26.7%, which decreased by 0.4 percentage points from 27.1% for the corresponding period in 2021. The cost of inventories consumed proportion to turnover remained relatively stable despite the high inflation since the Group is committed to sourcing the food material from various suppliers to ensure the stable supply of food materials and stable prices.

Gross profit and gross profit margin

Driven by the above factors, gross profit for the six months ended 30 June 2022 decreased by approximately 32.7% to approximately RMB496,329,000 from approximately RMB737,995,000 for the corresponding period in 2021.

Gross profit margin of the Group increased to 73.3% from approximately 72.9% for the corresponding period in 2021.

Staff costs

For the six months ended 30 June 2022, staff costs of the Group decreased by approximately 20.4% to approximately RMB211,016,000 from approximately RMB265,160,000 for the corresponding period in 2021. Staff costs as a proportion to turnover increased to 31.1% from 26.2% in the corresponding period in 2021, this is because employees remuneration still incurred when the operations were suspended during the Period.

Depreciation

For the six months ended 30 June 2022, depreciation of the Group decreased by approximately 4.0% to approximately RMB187,855,000 from approximately RMB195,716,000 for the corresponding period in 2021. As a result of the decrease in the number of restaurants, the lease depreciation and fixed asset depreciation decreased.

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 2022, other operating expenses decreased by approximately 16.8% to approximately RMB197,045,000 from approximately RMB236,939,000 for the corresponding period in 2021. Other operating expenses generally decreased as a result of the decrease in the number of restaurants.

Set out below is the breakdown of the main operating expenses for the period ended 30 June 2022 and 2021.

	30 June 2022	30 June 2021	%
	<i>RMB million</i>	<i>RMB million</i>	+/-
Utilities	35.0	46.1	-24.1
Store and factory management fee	29.9	29.2	+2.4
Service charges for delivery platforms	20.3	21.9	-7.3
Consumables & utensils	18.5	24.9	-25.7
Logistics expenses	12.3	14.9	-17.5
Franchise expenses	11.8	13.4	-11.9
Rental expenses under variable lease payment	8.4	19.0	-55.8
Advertising and promotions	6.7	7.6	-11.8
Rental expenses under short-term lease	5.9	1.3	+353.8
Cleaning expenses	2.1	1.5	+40.0
Bank charges on credit card payment	1.5	2.3	-34.8
Repairment and maintenance expenses	1.5	2.6	-42.3
Travelling expenses	1.5	3.3	-54.6
Consultancy fee	0.6	0.4	+50.0

Other income

For the six months ended 30 June 2022, other income of the Group decreased by approximately 26.3% to approximately RMB35,522,000 from approximately RMB48,187,000 for the corresponding period in 2021. Other income decreased were mainly caused by the decrease in net property rental income and the decrease in bank interest income of approximately RMB4,480,000 and approximately RMB5,266,000 respectively. Property rental decreased as a result of the deterioration of market condition and some investment properties are left vacant, bank interest income decreased is caused by the overall decrease in the effective deposit rate and the decrease in the bank balance.

Other gains and losses

For the six months ended 30 June 2022, other gains and losses of the Group recorded a net loss of approximately RMB56,301,000, while the corresponding period in 2021 recorded a net gain of approximately RMB13,919,000. The losses for the Period are mainly attributable to the net fair value loss on financial assets and financial liabilities at FVTPL of approximately RMB21,713,000 and impairment loss on the interest of associate of approximately RMB10,130,000 due to the unsatisfied performance of the investees during the Period and the deterioration of market condition. Besides, impairment loss on right-of-use assets, property, plant and equipment of approximately RMB26,743,000 was recognised as a result of the unsatisfied performance of certain restaurants.

Finance costs

For the six months ended 30 June 2022, finance costs decreased by approximately 20.2% to approximately RMB12,715,000 from approximately RMB15,933,000 for the corresponding period in 2021.

Set out below is the breakdown of the finance costs:

	30 June 2022 RMB'000 (Unaudited)	30 June 2021 RMB'000 (Unaudited)
Interest on bank borrowings	634	1,277
Interest on lease liabilities	<u>12,081</u>	<u>14,656</u>
	<u>12,715</u>	<u>15,933</u>

The finance costs decreased as a result of the reduction on the bank borrowing, and the decrease in interest on lease liabilities is caused by the decline in number of shops and future lease payments.

Loss before tax

Being affected by the factors referred to above, the Group recorded a loss before tax of approximately RMB136,066,000 for the six months ended 30 June 2022 (30 June 2021: profit of approximately RMB86,228,000).

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 2022 amounted to approximately RMB106,513,000 (30 June 2021: profit of approximately RMB49,658,000).

RISK MANAGEMENT

Liquidity and financial resources

The liquidity and financial position of the Group as at 30 June 2022 remained healthy and strong, with bank balances amounting to approximately RMB1,528,194,000 (31 December 2021: approximately RMB1,527,538,000) and a current ratio of 2.8 (31 December 2021: 3.1).

As at 30 June 2022, the Group had bank borrowings of approximately RMB78,862,000 (31 December 2021: approximately RMB77,003,000) and therefore the gearing ratio (expressed as a percentage of total borrowings over total assets) was 1.9 (31 December 2021: 1.8).

Exposure to exchange rates

At present, 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 2022 and 31 December 2021 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 2022 and 31 December 2021 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 Mainland China 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 2022, the Group did not have any significant contingent liabilities.

Assets and liabilities

The Group's net current assets were approximately RMB1,149,912,000 and the current ratio was 2.8 as at 30 June 2022 (31 December 2021: 3.1). 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 2022 was approximately RMB99,978,000 while the Group recorded loss before tax for the same period of approximately RMB136,066,000. The difference was primarily due to impairment and depreciation of property, plant and equipment and right-of-use assets.

Capital expenditure

For the six months ended 30 June 2022, the Group's capital expenditure was approximately RMB24,435,000 (corresponding period in 2021: RMB52,969,000). The Group is slowing down the restaurant opening progress as the market condition in the future is unclear.

Subsequent events

Subsequent to 30 June 2022, 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 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.

Key operating ratios for restaurant operations

	Hong Kong			Mainland China		
	1-6/2022	1-12/2021	1-6/2021	1-6/2022	1-12/2021	1-6/2021
Comparable restaurant sales growth	-18.7%	13.7%	-1.0%	-23.6%	-0.9%	+30.7%
Per Capita spending	HK\$100.6	HK\$98.4	HK\$94.0	RMB43.0	RMB43.5	RMB47.0
Table turnover per day (times per day)	3.2	4.0	3.9	2.3	3.0	3.2

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 2022, save and except for the deviation from the code provision C.2.1 of the Code. Under the code provision C.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 C.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 2022, 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, risk management and internal controls, and financial reporting matters. The Company’s unaudited interim results for the six months ended 30 June 2022 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 2022.

Employee's Remuneration and Policy

As at 30 June 2022, the Group employed 7,982 persons (30 June 2021: 9,451 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 2022 was approximately RMB211,016,000 (30 June 2021: approximately RMB265,160,000).

Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB0.02 (HK2.40 cents)).

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2022 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, 23 August 2022

As at the date of this announcement, the Board comprises Ms. Poon Wai, 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.