

**Analyst: Vincent Leung**

## Main Board Listing – Research

**味千(中國)控股有限公司**
**Ajisen (China) Holdings Limited [Stock Code: 0538]**
**Global Coordinator, Sole Bookrunner, Sponsor and Lead Manager : Cazenove Asia**
**Sector : Consumer services**
**Business : Operation of Japanese-style noodle restaurants and manufacture of packaged noodles in Hong Kong and the PRC**

<p><b>Total share offer:</b> <u>300,000,000</u> shares (30% of the enlarged share capital)</p> <p><b>Public Offer:</b> 30,000,000 shares (10%)</p> <p><b>Placing:</b> *270,000,000 shares (90%)</p> <p><b>Greenshoe:</b> 45,000,000 shares</p> <p><i>*Comprising 260,722,000 New Shares and 9,278,000 Sale Shares</i></p>	<p><b><u>Business of Ajisen (China) Holdings</u></b></p> <p>Founded on 25<sup>th</sup> Dec 1995 as a factory to manufacture packaged noodles in Shenzhen, Ajisen has now become one of the leading fast casual restaurant chain operators selling Japanese ramen ("Ajisen Ramen" or "味千拉麵") and Japanese-style dishes in Hong Kong and the PRC under the "Ajisen" brand name.</p> <p>As of 12<sup>th</sup> March 2007, Ajisen has a restaurant portfolio totalling 122 Ajisen chain restaurants*, with a total saleable area (excluding sub-franchised restaurants) of 32,302 m<sup>2</sup>. The portfolio includes all 23 Ajisen restaurants (in Guangdong province, Wuhan and Chengdu) owned by Shenzhen Weiqian<sup>#</sup>, but managed by the Group.</p> <p>In addition, Ajisen has 16 noodle production lines in Shanghai and Shenzhen, as well as food processing centres in Shanghai, Beijing, Wuhan, Shandong and Hong Kong, with a total site area of approximately 9,600 m<sup>2</sup>. These facilities manufacture and process raw materials and manufacture finished &amp; semi-finished products for Ajisen restaurants. Besides supplying to the Ajisen chain restaurants, it also manufactures packaged noodles for sale in supermarkets and other Ajisen outlets outside of the PRC.</p> <p>The Group signed an agreement with Japan's Shigemitsu Industry in Feb 2006 as the sole, exclusive and perpetuate user of the "Ajisen" brand in the PRC, Hong Kong and Macau. The Group pays Shigemitsu annual franchise fees and technical fees, and buys from the latter soup essence, dressing bags and other raw materials for the soup.</p>
<p><b>Price:</b> HK\$4.47 – HK\$5.47 per share</p> <p><b>Market Cap:</b> HK\$4.47 billion – HK\$5.47 billion</p> <p><b>Pro-forma FY2006E P/E:</b> 46.1x – 56.4x</p> <p><b>Adjusted NTA per share:</b> HK\$1.36 – HK\$1.64</p> <p><b>Staffing:</b> 3,790 (as of 12<sup>th</sup> March 2007)</p>	
<p><b>HK Public Offer period:</b> 19<sup>th</sup> March 2007 – 22<sup>nd</sup> March 2007 noon</p> <p><b>Receiving banks:</b> Standard Chartered Bank (HK) ICBC (Asia)</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Ltd</p> <p><b>Listing date:</b> 30<sup>th</sup> March 2007</p>	

*Note: (\*) Of which 92 are owned and managed by the Group, 24 are managed but not owned, 3 are owned but not managed by the Group, and 3 are sub-franchised; 32 in Shanghai, 12 in Shenzhen, 8 in Beijing, 51 in other regions of the PRC and 19 in Hong Kong*

*(<sup>#</sup>) Wholly and beneficially owned by Ms. Poon Wai (founder, CEO and an executive director of Ajisen (China)).*

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### Shareholding Structure after Listing (Assuming the over-allotment option is not exercised)

Ms. Poon Wai (founder, CEO and an executive director of Ajisen (China))	53.19%
Mr. Yin Yibing (chief operating officer and an executive director of Ajisen (China))	2.84%
Mr. Cheng Wai Tao (a director of most of the Group's subsidiaries in Hong Kong until Sep 2006)	7.24%
Shigemitsu Industry Co., Ltd (the Group's franchisor; 43.6% owned by Mr. Katsuaki Shigemitsu )	1.31%
Mr. Katsuaki Shigemitsu (a non-executive director of Ajisen (China))	3.29%
Mr. Wong Hin Sun, Eugene (a non-executive director of Ajisen (China))	1.42%
Sirius Capital Holdings Ltd	0.71%
Public shareholders	30.00%
	<u>100.00%</u>

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,347.7 million (Assuming the over-allotment option is not exercised, and at an issue price of HK\$4.97 each, being the midpoint of the indicative price range)

	HK\$ million
For the expansion of the Group's chain restaurant network	612.1
For the expansion of the Group's current food manufacturing and processing facilities as well as the construction of new factories	333.9
For sales and marketing promotions as well as brand awareness activities	111.3
For operational systems (human resources, IT, logistics, training)	100.0
For the repayment of the Group's bank borrowings	55.6
For general working capital	balance

### Financial Highlights

	Year ended 31 <sup>st</sup> December			9 months ended
	2003	2004	2005	30 <sup>th</sup> September 2006
	RMB million	RMB million	RMB million	RMB million
Turnover	133.8	298.2	436.5	437.7
Gross profit	84.4	178.3	260.9	275.4
Operating profit	22.4	57.4	71.9	105.8*
<b>Attributable profit to equity holders</b>	<b>11.5</b>	<b>37.2</b>	<b>49.0</b>	<b>83.6</b>
Gross margin	63.1%	59.8%	59.8%	62.9%
Operating margin	16.7%	19.3%	16.5%	24.2%
Net margin	8.6%	12.5%	11.2%	19.1%

Remark: (\*) Includes RMB23.3 million in total management fees received from restaurants managed but not owned by Ajisen (China) (2003-2005: Nil).

### Turnover breakdown (% of Total Turnover)

	Year ended 31 <sup>st</sup> December			9 months ended
	2003	2004	2005	30 <sup>th</sup> September 2006
	RMB million	RMB million	RMB million	RMB million
Operation of restaurants^	78.8%	86.7%	86.8%	86.9%
Sub-franchising	3.7%	3.2%	2.1%	1.3%
Noodle and others	17.4%	10.1%	11.1%	11.9%
Total Turnover	100.0%	100.0%	100.0%	100.0%

**^Breakdown of revenue from operation of restaurants owned and managed by the Group**

	Year ended 31 <sup>st</sup> December			9 months ended
	2003	2004	2005	30 <sup>th</sup> September 2006
	RMB million	RMB million	RMB million	RMB million
Hong Kong	104.8	140.5	151.7	119.5
Shanghai	-	104.1	168	165.4
Beijing	-	-	7.3	21.4
Shandong	-	4.8	16.7	19
Chongqing	-	-	3.4	5.9
Jiangsu	-	3.3	24.1	41.2
Zhejiang	0.7	5.7	7.6	7.8
Total revenue from operation of restaurant	<b>105.5</b>	<b>258.4</b>	<b>378.8</b>	<b>380.2</b>

**Number of restaurants owned and managed by the Group**

	Year ended 31 <sup>st</sup> December			9 months ended
	2003	2004	2005	30 <sup>th</sup> September 2006
Hong Kong	11	14	15	15
Shanghai	-	13	21	29
Beijing	-	-	3	6
Shandong	-	2	4	6
Chongqing	-	-	3	7
Jiangsu	-	2	6	11
Zhejiang	1	1	2	3
Total	12	32	54	77

**Strengths/Opportunities**

- ✓ The per capital annual disposable income of urban households in the PRC has increased from RMB4,283 in 1995 to RMB10,493 in 2005. This robust CAGR of 9.4% demonstrates that Chinese people are becoming wealthier with a significant increase in the middle- and upper-class population. Japanese ramen and Japanese-style dishes are very popular with teenagers and the 20- to 40-year-olds who are a high-spending group, which should continue to be a key driver for the Group's business.
- ✓ The Group has three logistics centres, two processing centres and extensive production facilities to supply raw materials and manufacture finished and semi-finished products for Ajisen restaurants. Centralised raw material procurement helps lower costs. This can be reflected by the high gross margin of circa 60% achieved by the Group.
- ✓ The Group has an extensive and strategic restaurant network, comprising 122 chain restaurants in the PRC and Hong Kong. It intends to expand its restaurant network from the current 122 chain restaurants to a minimum of 200 by the end of 2007 and a total of 320 by 2008 through organic growth, sub-franchise arrangements as well as M&A or collaboration with third parties.
- ✓ The Group's Ajisen restaurants are well known in most of the big cities in the PRC and it is recognised by the China Cuisine Association (CCA) as one of the largest Japanese Fast casual restaurant chain operators in the PRC. Also, according to the "China's Top 100 F&B Enterprises" survey conducted jointly by the Department of Business Reform and Development of the Ministry of Commerce, CCA and China National Business Information Centre, the Group was ranked 7<sup>th</sup> and 5<sup>th</sup> among the fast-food operators in terms of revenue in 2004 and 2005 respectively.

**Weaknesses/Threats**

- × Entry barrier for the noodle restaurant industry is low and competition is intense. Besides noodle restaurants, the Group also competes with other fast casual restaurants, including KFC, McDonald's, Café de Coral, etc. In addition, competitor duplication of Ajisen (China)'s business model is also a concern.
- × Ajisen (China) is reliant on the franchisor of the "Ajisen" brand – Japan's Shigemitsu Industry – on its good business standing in addition to its dependence on the supply of certain materials (i.e. a special Japanese soup base and condiments).
- × Rental expenses represent 31.7% and 29.3% of the Group's total operating expenses during the year of 2005 and the 9 months ended 30<sup>th</sup> September 2006. Its profitability would be adversely affected by substantial increase in rental expenses. In particular, rapid rental increases resulting from an upturn of the retail rental market in Hong Kong, where the Group currently has 17 self-owned and managed Ajisen restaurants, will weigh on the Group's overall profitability.
- × There is no direct comparables in the mainland fast casual restaurant sector currently listed in Hong Kong. Meanwhile, Hong Kong-listed fast-food chain restaurant operator Café de Coral (stock code: 0341) and Fairwood (stock code: 0052), which derive a large portion of their business in Hong Kong, are trading at 19.3x and 16.3x FY2006/07E P/E respectively. To be priced at 46.1x to 56.4x FY2006E P/E, Ajisen (China)'s valuation is much more expensive than those of Café de Coral and Fairwood. The Group may deserve a higher premium on the back of its bigger exposure to the PRC's consumer services sector as other Chinese consumer-related stocks listed in Hong Kong are already trading at 37x-56x FY2006E P/E.

**Recommendation:     Speculative subscribe**

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