

China's leading down clothing brand**China Consumer****Bosideng International Holdings (3998 HK)****Not Rated**

Company background. Founded in 1994, Bosideng International Holdings (BIH) has a portfolio of down apparel brands (88.4% of its total turnover in FY03/07A). It also is involved in the OEM management business for US and Japanese clients. It outsources production to 331 contract manufacturers (including its five affiliates). In 1994, BIH launched its flagship "Bosideng" brand, which focuses on the casual and classic mid and high-end market in China. Within a year, "Bosideng" was recognized by the China Industrial Information Issuing Centre (CIIC) as the leading down apparel brand based on sales. In 1997, BIH launched its "Snow Flying" brand, which focuses on sports apparel.

Market leader. The sales of BIH's "Bosideng", "Snow Flying" and "Kangbo" brands represented 36.1% of China's down apparel market in 2006 from 30.2% in 2004. China currently has more than 4,300 down product makers, including more than 2,800 with annual sales exceeding RMB1.0m. According to CIIC, BIH had four out of thirty largest brands by sales in 2006, Bosideng (no.1), Snow Flying (no.2), Kangbo (no.7) and Bingjie (no. 11).

Acclaimed brand. In 2006, the World Confederation of Productivity Science, Chinese Association of Productivity Science and World Productivity Congress named "Bosideng" as one of China's top ten international brands. In 2007, "Bosideng" was one of "China's Top 25 Brands (2006 –2007)", ranked by the Brand Union Association and the only apparel brand awarded this title for two consecutive years. In 2007, "Bosideng" was the only apparel brand named among China's three famous brands by the General Administration of Quality Supervision, Inspection and Quarantine. According to CIIC, "Bosideng", "Snow Flying" and "Kangbo" were among most competitive brands named by the Ministry of Commerce in 2007.

Experienced management team. BIH's chairman and chief executive officer, Gao Dekang, has over 20 years' experience in the down apparel industry, Claudia Lo Ka Wai, BIH's chief financial officer and company secretary, joined the company from Hong Kong-listed China Mengniu (2319 HK).

Corporate investors. Famous corporate investors include 1) Cenwise Investment Ltd. (Mr. Lee Shau-Kee is the substantial shareholder), 2) China Life Insurance Company Ltd., 3) Chow Tai Fook Nominee Ltd, 4) Equity Average Ltd. which is 100% owned by Dickson Poon's family and 5) Li Ka Shing Foundation Ltd. Assuming the mid-point offer price of HK\$2.92, the total number of shares subscribed by each of the corporate investors would be 66.7m or about 0.85% of the company's enlarged total issued share capital. The lock up period is six months from the first day of trading.

Table 1: Offer statistics

No. of shares offered	1,988.0m
Fund raised	HK\$5.1 – 6.5b
Price range	HK\$2.56 - 3.28
Offer P/E (Based on unaudited pro-forma estimated F.D EPS FY03/08F)	20.5x – 26.2x
Market cap	US\$2,583 – 3,309.4m
Application close	3 Oct
Listing	11 Oct

Source: Company data

Extensive distribution network. The company's products primarily comprise down jackets, vests and pants. They are distributed through an extensive retail distribution network, which as of 31 March 2007 included 6,844 retail outlets (specialty stores, concessionary outlets in department stores, supermarkets and

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hypermarkets and sales halls).

Huge growth potential. According to CIIC's 2006 report, domestic sales of down apparel increased from around 38.0m pieces in 2004 to around 50.0m pieces in 2005 and around 60.0m pieces in 2006, representing a CAGR of 25.7% from 2004 to 2006. Despite of the high growth, China's penetration rate was about 8.0%, compared with 70.0% in Japan, 45.0% in Germany and 40.0% in Northern Europe, which suggests huge growth potential.

Future payout. BIH expects to maintain its dividend payout at not less than 30.0% after the IPO.

New products. The company plans to extend its product portfolio to bedding products and other non-down apparel products.

Brand building. "Bosideng" sponsored China's first gold medallist in men's freestyle skiing during the 20th Winter Olympics Torino in 2006. BIH was invited by the Ministry of Commerce to participate in a fashion exhibition in March 2007 in Russia. The Ministry of Foreign Affairs designated "Bosideng" down apparel as gifts to leaders of foreign states.

Table 2: Use of proceeds of HK\$5,225.0m at HK\$2.92 per share

	(%)
Overseas market expansion and new product diversification, such as bedding products, home linen products to seasonality patterns.	30.0 – 40.0
Open new retail outlets (12.0 – 15.0%) and implementation an ERP system (3.0 – 5.0%)	15.0 – 20.0
Branding strategies	5.0
Product design, development of new materials, and establishment of a quality inspection center	5.0
Loans repayment	20.0 – 30.0
Total	100.0

Source: Company data

Risks:

- 1) High seasonality and sensitivity to climate changes.
- 2) Over-reliance on down products. In FY03/07A, down apparel accounted for 88.4% of its total revenue. To counter this the company is in the process of launching new non-down products.
- 3) Raw material costs - down and fabric are subject to price volatility due to external market and environmental conditions.
- 4) Outbreak of avian influenza - may result a decline in down supply and lead to increase in down prices.
- 5) High earnings volatility - net profit grew 97.0% in FY3/06A and 21.0% in FY03/07A. It is expected to grow 55.0% to RMB950.0m in FY03/08F, backed by gross margin improvement and turnover growth.

Valuation. Based on the proposed offer price of HK\$2.56-3.28 and RMB950.0m net profit estimates for FY03/08F, the counter is expected to trade at 20.5x P/E for FY03/07F and 26.2x P/E for FY03/08F. Its peer Li Ning (2331 HK, HK\$26.4, NR) is trading at FY12/07F P/E of 61.3x and a PEG of 1.6x and 42.8x for FY12/08F. Ports (589 HK, HK\$27.50, NR) are trading at FY12/07F P/E of 44.5x and a PEG of 1.39x and 33.9x P/E for FY12/08F.

Table 3: Turnover breakdown

Year to Mar (RMBm)	Ten months ended Mar 05A	06A	07A
Branded down apparel			
- Outright sales	1,287.6	2,298.4	3,487.1
1. Third party distributors	1,274.6	2,258.4	3,474.7
2. Direct retail sales	13.0	40.0	12.4
- Consignment sales	670.3	773.3	1,431.9
- Others	16.8	30.4	61.5
Branded down apparel total	1,974.7	3,102.1	4,980.5
OEM management	534.6	596.5	652.4
Total	2,509.3	3,698.6	5,632.9

Source: Company data

Table 4: Financial highlights

Year to Mar (RMBm)	Ten months ended Mar 05A	06A	07A
Turnover	2,509.3	3,698.6	5,633.0
Gross profit	806.3	1,417.0	1,987.5
Operating profit	433.0	764.1	854.9
Pre-tax profit	414.2	733.9	824.2
Net profit	252.6	500.8	617.6

Source: Company data

Table 5: Margin trends

Year to Mar (%)	05A	06A	07A
Gross	32.1	38.3	35.3
Operating	17.3	20.7	15.2
Net	10.1	13.5	11.0

Source: SBI E2-Capital