

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8098 Facsimile: 3608 6132

HONG KONG RESEARCH**15th November 2005****Main Board Listing - Research**

申洲國際集團控股有限公司

Shenzhou International Group Holdings Limited [Stock Code: 2313]**Global Coordinator, Sponsor Bookrunner and Lead Manager** : BNP Paribas Peregrine**Sector** : Consumer Discretionary**Business** : Manufacture of knitwear products

Total share offer: <u>300,000,000</u> shares (25% of the enlarged share capital) Public Offer: 30,000,000 shares (10%) Placing: 270,000,000 shares (90%) Greenshoe: 45,000,000 shares	<u>Business of Shenzhou ("the Group")</u> The Group is one of the largest vertically integrated knitwear manufacturers in Mainland China. According to China Knitting Industry Association, the Group ranked 1 st in terms of profit before taxation and 2 nd in terms of turnover in China's knitwear industry in 2004. The Group was also the largest exporter of textile and apparel to Japan in terms of turnover in 2004. The Group primarily manufactures its knitwear on OEM basis. It also designs and develops new fabric to meet with the needs of its major clients. The Group's knitwear products mainly include casual wear, sports wear and other knitting products. In 2004, the Group manufactured 33,580 tonnes of different fabrics and 68.2 million pieces of knitwear apparel, and 89.1% of which was shipped to Japan. The Group's production facilities are located in Ningbo of China and Cambodia with an aggregate floor area of 567,000 square metres. As of 4 th November 2005, the Group had approximately 21,000 employees in the Mainland and 960 staff in Cambodia.
Price: HK\$2.625 per share Market Cap.: HK\$3,150 million FY2005E P/E: 9.5x (pro-forma) Adjusted NTA per share: HK\$1.08 Staffing: 21,960 (as of 4 th November 2005)	
HK Public Offer period: 15 th November 2005 – 18 th November 2005 noon Receiving bank: Bank of China (Hong Kong) & Bank of Communications Hong Kong Branch Share registrar: Computershare Hong Kong Investor Services Listing date: 24 th November 2005	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Excelbright - 74% owned by chairman Ma Jiarong, 13% by chairman's father Ma Baoxing and 13% by general manager Huang Guanlin.	75.0%
Sojitz*	0.4%
ITOCHU*	0.5%
Chori*	0.2%
	<u>76.1%</u>

Remark: (*) The respective companies, which are the major Japanese customers of the Group, agreed to subscribe for a combined 1.1% of the shares outstanding after the global offering or a combined 5.2% in the placing tranche of the offering, subject to a lock-up period of six months.

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$735.0 million.

(Assuming the over-allotment option is not exercised and at an issue price of HK\$2.625.)

	HK\$ million
For the acquisition of new dyeing and finishing equipment for the Group's production facilities in China	199
For the acquisition of new plant and equipment in China for the production of functional fabrics mainly used in sports wear	183
For the acquisition of new weaving and knitting equipment for the Group's production facilities in China	70
For the acquisition of new cutting and sewing equipment for the Group's production facilities in China	51
For the repayment of a portion of the Group's long-term bank borrowings	190
For the general working capital	42

Financial Highlights

	Year ended 31 st December			5 months ended 31 st May 2005
	2002 RMB '000	2003 RMB '000	2004 RMB '000	RMB '000
Turnover	1,249,908	1,887,848	2,116,907	896,827
Gross profit	248,504	429,978	470,333	217,020
Net profit	195,923	283,507	586,895	121,433

Strengths/Opportunities

- ✓ According to statistics from United Nations, Japan sourced more than 80% of its apparel imports from China in 2004, outpacing Italy in the second place of 5.2%. Besides, Japan's apparel imports from China showed a pleasant upward trend during the last couple of years, thanks to improved economic growth and easing deflation in Japan.
- ✓ The Group's gross profit margin surged to 24.2% in the first 5 months this year from 22.2% in 2004, 22.8% in 2003 and 19.9% in 2002, mainly due to lower cotton prices. Despite a rebound in international cotton prices in the second half of 2005, the year-to-date average remained 9% lower when compared with that in 2004.
- ✓ Pricing at 9.5x FY2005E P/E, valuation of the Group is not demanding and should be in line with its sector peers, after the offer price is revised down from the previous indicative price range between HK\$2.63-2.99 per share following a withdrawal last month amid unfavourable market conditions.

Weaknesses/Threats

- × Labour cost accounted for 17.3% of the Group's total cost of sale in the first 5 months of 2005, up from 15.0% in the same period a year earlier and 14.5% in 2004. Further rise in labour costs may depress the Group's gross margin and future earnings.

Recommendation: Trading Buy