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HONG KONG RESEARCH
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Main Board Listing – Research

寶勝國際(控股)有限公司

Pou Sheng International (Holdings) Limited [Stock Code: 3813]

Sole Global Coordinator and Sole Financial Advisor : Merrill Lynch
Joint Bookrunners, Joint Lead Managers & Joint Sponsors : Merrill Lynch Morgan Stanley

Sector : Retailing
Business : Retailer of sportswear in the Mainland China, Hong Kong and Taiwan

Total share offer: 823,378,000 shares
(23.2% of the enlarged share capital)

Public Offer: *82,338,000* shares (10%)

Placing: *741,040,000* shares (90%)

Greenshoe: *123,506,000* shares

Price: HK$2.93 – HK$3.75 per share

Market Cap: HK$10.40 billion–HK$13.31 billion

Pro forma FY2007/08E PER: 19.8x to 25.3x

Adjusted NTA per share: US$0.13 - US$0.16

Staffing: 20,087 (as of 31st December 2007)

HK Public Offer period:
26th May 2008 – 29th May 2008 noon

Receiving bank: HSBC, ICBC (Asia), Standard Chartered Bank

Share registrar: Computershare Hong Kong Investor Services Limited

Listing date: 6th June 2008

Business of Pou Sheng

Pou Sheng, a spin-off from Yue Yuen Industrial (HKEx: 0551), is a leading sportswear retailer in the PRC. As at end of 2007, the Group directly operated 1,324 retail outlets in the PRC and 79 retail outlets in Hong Kong and Taiwan.

Most of the Group's retail outlets are mono-brand stores, which are operated under the brand name of the sportswear products being distributed, with the Group's "YY Sports" logo also displayed. Pao Sheng distributes sportswear products for some of the leading international and domestic sportswear brands in the PRC, offering a wide range of sports footwear, apparel and accessories. Its brand portfolio includes leading international and domestic brands such as Nike, Adidas, Li Ning, Kappa, Reebok, PUMA, Converse, Hush Puppies, Nautica, Wolverine and Asics.

Apart from its retail business, the Group also operated a brand licensee business where it was the exclusive brand licensee for certain international brands, namely Converse, Wolverine and Hush Puppies, in the Greater China Region. In addition, the Group possessed in-house manufacturing and IT capabilities, serving five brands, namely Li Ning, ANTA, Umbro, Kappa and 361°.

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

Yue Yuen Industrial (HKEx: 0551)	56.0%
Jollyard Investments Limited *(owned by Ms. Shih Ching I, an independent 3rd party)*	10.3%
Mr Huang Tsung Jen, CEO of the Group	7.8%
JVs' partners – subject to a six-month lock-up period	2.7%
Public Investors	23.2%
	100.0%

Use of Proceeds

Net proceeds from the offer are estimated to be HK$2.568 billion *(Assuming an offer price of HK$3.34, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)*

	HK$ million
To expand the Group's retail network and geographical coverage of its retail and brand licenses businesses.	819
To repay a portion of bank borrowings	936
To repay bank loans that Pou Sheng borrowed for the purposes of providing funding to its regional joint ventures	512
To pay the cash portion of the call option premium to its Joint Ventures' partners (the Group has entered into call option agreements with its JVs' partners under which it could acquire up to the entire equity interests of these JVs)	148
To expand the Group's manufacturing capacity at the Taicang factory	102
To increase promotional and marketing activities	51

Financial Highlights

	Year ended 30th September			3 months ended	
	2005	2006	2007	31st Dec 2006	31st Dec 2007
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Revenue	207,177	372,960	555,903	101,608	185,028
Gross profit	78,822	139,167	201,010	38,077	68,037
Operating profit	10,182	32,016	58,971	10,381	21,816
Profit attributable to shareholders	**3,315**	**11,383**	**31,927**	**5,676**	**16,170**
Gross profit margin	*38.05%*	*37.31%*	*36.16%*	*37.47%*	*36.77%*
Operating profit margin	*4.91%*	*8.58%*	*10.61%*	*10.22%*	*11.79%*
Net profit margin	*1.60%*	*3.05%*	*5.74%*	*5.59%*	*8.74%*
	30/09/2005	**30/09/2006**	**30/09/2007**	**31/12/2006**	**31/12/2007**
Net debt/(cash) to Equity	184.7%	57.2%	28.7%	N/A	67.6%

Breakdown of revenue in terms of business segments

	Year ended 30th September			3 months ended	
	2005	2006	2007	31st Dec 2006	31st Dec 2007
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Sales to end customers from the Group's directly operated retail outlets	*108,711*	*174,021*	*266,188*	*47,172*	*95,408*
Sales to the Group's retail sub-distributors on a wholesale basis	*20,262*	*58,845*	*89,056*	*21,087*	*31,563*
Retail business subtotal	128,973	232,866	355,244	68,259	126,971
Brand licensee business	57,395	95,301	133,187	20,941	36,758
Manufacturing business	20,809	44,793	67,053	12,408	20,897
Property leasing & management business	-	-	419	-	402
Total	**207,177**	**372,960**	**555,903**	**101,608**	**185,028**

Strengths/Opportunities

- ✓ As at end of 2007, Pou Sheng and its regional joint ventures directly operated a retail network of more than 3,200 outlets, making it one of the leading sportswear retailers in China to ride on the booming consumption in the Mainland.
- ✓ Yue Yuen Industrial, the parent company of Pou Sheng, is a leading sports footwear manufacturer. Leveraging on Yue Yuen's established relationship with leading global sportswear brands and its well-established production scale, the Group is well positioned to extend its footstep in the Mainland, supported by a strong product line and experienced brand management.
- ✓ Management of the Group reveals that it plans to maintain a dividend payout of 20%-30% starting from the current fiscal year.

Weaknesses/Threats

- × Pou Sheng has very limited pricing power for its retail products and it has to follow the nationwide retail prices set by the relevant brand companies. It is also restricted from offering discounts for the first 60-75 days following the launch of a new product.
- × Rising oil prices has led to rising raw material costs. Brand companies may offer stricter terms in the sales agreement with retail distributors, which may lead to pressure on the Group's profit margin.
- × There would be funding needs in the future if the Group were to raise its stake in its regional JVs.
- × There may be a slowdown in sales growth in the next fiscal year (the year ending 30th Sep 2009), as consumer spending on sportswear in the Mainland may be distorted before the Beijing Olympic Games in August 2008.

Recommendation: Neutral

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