



Research Report (IPO)



Fashion for the urban China

Fair Value: € 173.01m / € 24.54 per share

Important Information:
Please pay regard to disclaimer/risk information
as well as potential conflicts of interests according to §34b WpHG from page 18 on

Date of completion: 2010/07/23

Date of publishing: 2010/07/23

Kinghero AG ^{*5}

Rating: Buy

Price target: € 24.54

Bookbuilding range:
€ 14.50 - € 18.50

Basic data:

ISIN: DE000A0XFMW8

WKN: A0XFMW

Number of shares pre-IPO:
5,250,000
Number of shares post-IPO:
7,050,000

Marketcap³: 173.01
Enterprise Value³: 129.28
³ in EUR m

Freefloat Pre-IPO: 7.2 %
Freefloat Post-IPO: 34.7 %

Transparency Level:
Entry Standard

Market Segment:
Freiverkehr

Accounting Standard:
IFRS

Fiscal Year: 12/31

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* catalogue of potential
conflicts of interests on
page 20

Company Profile

Sector: Fashion

Focus: Menswear, Womenswear

Employees: 896 Due date: 2010/03/31

Foundation: 1986

Head Office: Munich

Management Board: Yu Zhang, Xiumung He,
Xiaoping Zhao-Moll

The Kinghero AG is a fashion company designing, manufacturing and selling primarily casual and business wear in the Chinese market. While the production facilities are located in Xiamen (Fujian Province/China), the registered office of the German holding company is located in Munich, Germany. During the past years the Kinghero brand grew to be one of the top 10 Chinese brands for men's casual fashion and was awarded several times. The company sells its products under the two brands 'Kinghero menswear' and 'Kinghero womenswear'. Within the more than 20 years of history the company could establish a wide sales network across major Chinese provinces and cities. For production Kinghero makes use of a flexible and cost-effective combination of inhouse production and outsourcing. A high emphasize is put on R&D and product quality to adequately target the consumers of the quickly growing Chinese middle class aged from 28 to 45. Uniting all steps from market research to sales in-house, Kinghero covers the whole value chain.

Data & Estimates

P&L in EURm / Due date	2008	2009	2010e	2011e
Sales	32.14	48.92	71.73	91.29
EBITDA	8.40	13.41	17.69	22.79
EBIT	8.34	13.29	17.19	21.80
Net profit	6.90	10.65	14.39	17.58

Figures in EUR				
Net Profit per share	1.37	2.11	2.04	2.49
Dividend per share	0.00	0.00	0.00	0.00

Ratios**				
EV/Sales	2.85	1.81	1.24	0.97
EV/EBITDA	10.89	6.62	5.02	3.90
EV/EBIT	10.98	6.68	5.16	4.07
P/E	13.55	8.77	9.07	7.42
P/B		1.86		

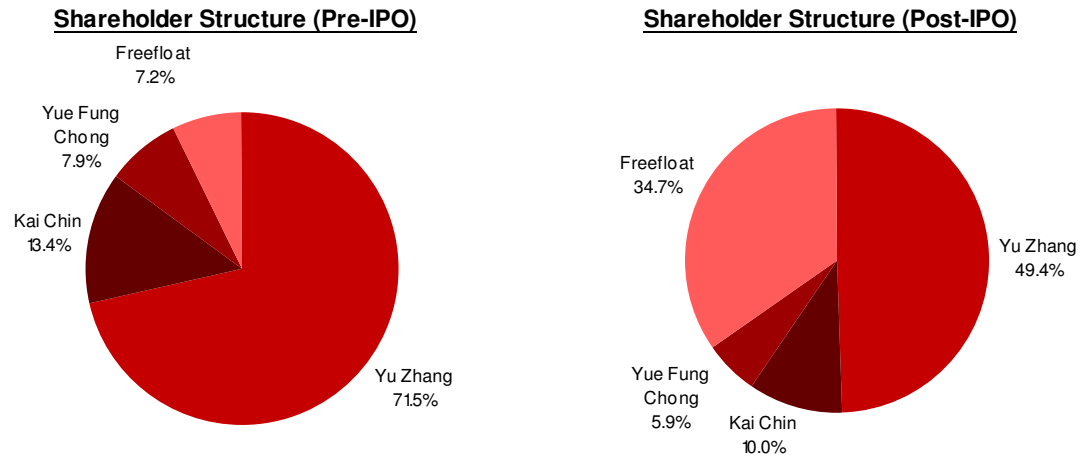
** Ratios calculated on basis of the upper bookbuilding range of € 18.50 per share

Financial Dates:

Date: Event

2010/07/27: Start of placement period
2010/08/04: End of placement period
2010/08/06: Inclusion to trading

Shareholder structure

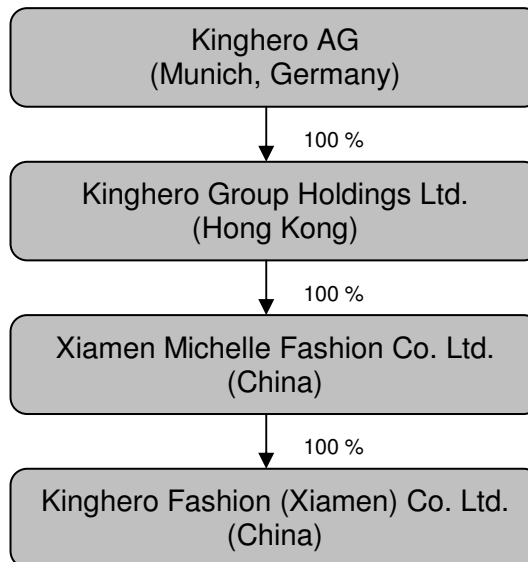


Source: Kinghero, GBC

As of 31st May, 2010 the share capital of the Kinghero AG amounted € 5,250,000, divided into as many shares. After the IPO the total number of shares will be 7,050,000, assuming a full distribution of the capital increase of 1,800,000 shares. The gross amount generated from a full placement of the capital increase would be up to €33.3m. The freefloat then, with a full distribution of the capital increase and the greenshoe option, would increase to 34,7 %.

Company + Strategy

Company Structure



Source: Kinghero, GBC

Brands - Strong emphasis on brand building

Kinghero operates in the market having two brands, "Kinghero menswear" and "Kinghero womenswear". While the menswear collection is well-established in the market for many years now, the womenswear collection was brought to the market in 2007 to address the new fashion-forward female generation in China. With both brands Kinghero desires to measure up with the fast changing demand of the Chinese population. Increasingly, the demand for qualitative high class clothing in combination with a representative brand name comes to the fore on the Chinese fashion market. Local companies therewith more and more compete with internationally well known trade chains like H&M, GAP etc.

To cope with that development Kinghero put a high emphasize on brand building during the past years. The “Kinghero” brand was nurtured and gained rising attention due to various measures and campaigns (see also Marketing and Sales) and established as one of the top 10 Chinese brands for men’s casual fashion. This aspiring development is documented by various awards. In 2006 Kinghero was awarded ‘Xiamen Top Ten Fashion Apparel Brand’, ‘China Top Ten Men’s Casual Brand’ and ‘Chinese Famous Brand’.

Products - Positioned in the mid-price segment with good price to value relation

Kinghero’s product range spans men’s and women’s wear for leisure activities as well as business purposes. In addition to a summer and a winter collection Kinghero brings three to four series to the market per month. Thereby the product portfolio of the company separates into three categories:

Product category	Products
Business formal	suits, shirts, sweaters, pants, jackets, overcoats, dresses, skirts
Business casual	suits, shirts, sweaters, pants, jackets, windbreakers, dresses, skirts
Fashion casual	polo-shirts, T-shirts, sweaters, pants, jeans, jackets, dresses, skirts

Source: Kinghero, GBC

The price segment of menswear can be seen in the mid-range, while womenswear is positioned in the mid to high price range. The pricing of Kinghero’s products does especially accommodate for the high value of the “Kinghero” brand.

Target Group - Young urban professionals with growing income

Based on constantly conducted market research Kinghero concretises its primary target customers between the ages of 28 and 45, because this target group has the highest disposable income and is willing to spend this money on brand, quality and design. Kinghero’s products, being positioned in the mid-price segment, are therefore targeted to customers seeking for fashionable styles and good quality with a fair price to value relation.

The following table shows the clear brand-positioning of Kinghero:

Target consumer group	Employed people aged 28 to 45
Income	Over RMB 3,000 per month (approx. € 300 per month)
Characteristics	Young urban professionals with increasingly individualistic demands and growing purchasing power

Source: Kinghero, GBC

Research & Development - Above average time-to-market

R&D plays a decisive role for Kinghero. Because market demand is changing rapidly, short reaction times are essential to meet the customers preferences in time.

For now, Kinghero has over 32 professional designers and specialists being responsible for designing, coloration and plate-making. Due to the high importance of R&D only internal resources are used. The designers keep themselves informed of the latest fashion trends by attending various domestic and international trade exhibitions. Also the R&D team closely cooperates with suppliers and distributors on product design, which improves the understanding of customers needs. This allows Kinghero not only to bring to the market a summer and winter collection, but also three to four series per month. The time-to-market with 100 days is much shorter than the industry average in China (approx. 180 days).

Marketing and Sales - strong sales network in 30 cities and 17 out of 22 provinces

A fundamental component of establishing a strong brand image is a wide sales network, enabling a wide perception of the brand by customers. Therefore Kinghero has expanded its sales network and formed a mature store operation model with the assistance of excellent designated distributors. The products are generally sold to distributors on a wholesale

basis who later sell the products to retailers or end customers through their own retail shops. This does not only widen the sales channels but also increases the units sold without tying own resources in working capital.

Now Kinghero's sales stretch throughout the whole country and covers most of the major cities in China. By 31st March, 2010 Kinghero has gained a wide sales network with 34 designated distributors in 30 cities and 17 out of 22 provinces in China (see also map below). By the end of 2009 Kinghero's products were available in 227 retail stores throughout China. 107 of these retail shops exclusively sell Kinghero products. Shop-in-shop concepts are used in all the other points of sale. In the future also own flagship-stores in major cities will be opened to increase the brand recognition even stronger.

The Chinese textile retail market is highly fragmented. Therefore a successful sales network is an essential basis for improving the brand recognition, which in turn is necessary to increase the market share.

The distributors are carefully selected because of their important role in Kinghero's strategic sales network. The selection concerns about certain criteria, like their financial standing, prior retail experience and geographical considerations. Besides continuing market research Kinghero conducts an analysis of each area annually to decide about advertising campaigns and promotion, that can be launched to support the brand building.

The following map shows the location of the 34 designated distributors of Kinghero's sales network:



Source: Kinghero; caption: ● location designated distributor, city, province

Production

The operating units Kinghero Xiamen and Michelle are currently leasing two next to each other situated production sites in Xiamen, Province Fujian, with a total floor area of approximately 9,000 m². For both, the purpose is for production and office use.

In September 2009 Kinghero has entered into a real estate purchase contract for a premise with an aggregate site area amounting to approximately 70,700 m². It consists of 6 buildings (1 office, 1 staff dormitory and 4 manufacturing buildings) having been constructed in Houxi Industrial Park, also located in Xiamen. The new production facilities are currently refurbished and are expected to be put in use by the beginning of 2011. The new capacity allows Kinghero to increase the producing volume corresponding with the expected dynamic growth.

Product Samples

Business menswear



Casual menswear



Casual womenswear



Source: Kinghero

Market and Market Environment - Strong growth still ahead

China is experiencing an average GDP growth rate of 10 % since the opening-up reform which was launched in 1978. In 2009 GDP had reached \$ 4.9 trillion, making China the third largest economy after the US and Japan. China's share of world gross product, measured on a purchasing power parity basis, has risen from 3.4 % in 1980 to 16.6 % in 2010.

The domestic growth momentum continued in the first months of 2010. Therefore World Bank projects 9.5 % GDP growth in 2010 with consumption growth remaining solid, while the International Monetary Fund (IMF) predicts a growth rate of 9 %. Following the successful economic strategy, the state has changed the role and achieved a substantial degree of integration in the world economy. China is moving to a more sustainable transformation of economic activity and employment with the advantage of modern infrastructure in major cities.

With a decreasing world trade due to the financial crisis domestic consumption in 2009 became an important backup for China's economy. Indeed China's consumption picked up and contributed a lot to GDP, stemming from the financial supports, institutional reform and concrete measures by the central government. Therefore the growth rate for retail sales of consumer goods measured 15.5 % in 2009, after 21.6 % in 2008. The prospects for the upcoming years however remain double digit. The annual growth rate is projected to be 15 % over the next three years.

According to the National Bureau of Statistics, China's domestic clothing consumption averaged an annual growth rate of 14.7 % from 2001 to 2008. In 2009 the growth rate of textile and apparel sales with 20 % even gained dynamic, although exposed to the international financial crisis and the industry had experienced the most difficult economic year in the new century. This data shows the rising importance of China's textile and apparel industry. Also during the first two months of 2010 sales of textile and apparel remained strong. Valuing RMB 110.5 billion, sales went up by 23.3 % compared to the same period last year. The growth rate therewith is 5.4 percentage points higher than the general rate of consumer goods.

One reason for the strong above average growth was the domestic clothing consumption, which brought a major boost to China's textile and apparel industry. In 2009 China's per capita fiber consumption was 14.6 kilograms, which is 34 % higher than the world average (*Source: China Chemical Fibers & Textiles Consultancy*).

Also this year, industry analysts generally agree, that the 2010 growth rate of the textile and garment industry in the domestic market is likely to reach 20-25 %.

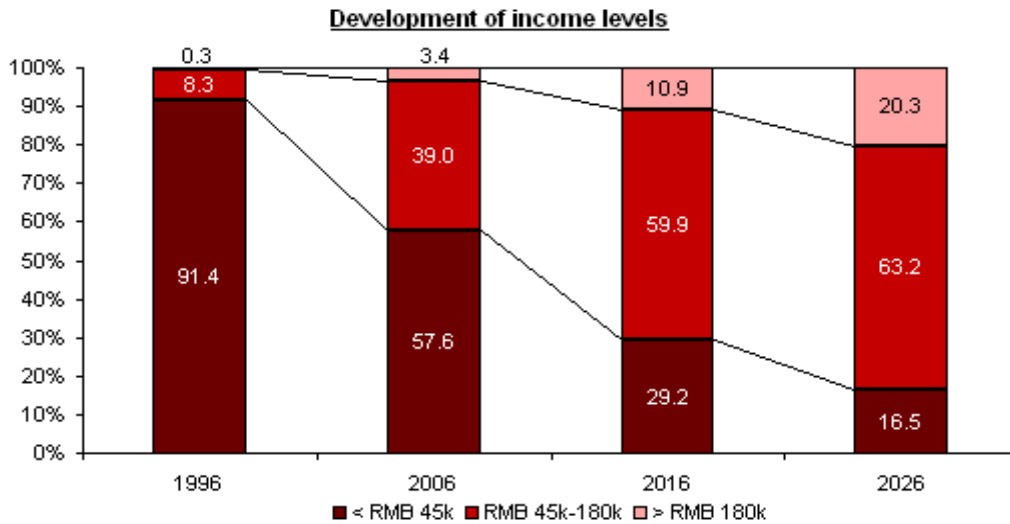
The main reason for the strong growth of the clothing consumption is the urbanization trend and the accompanying income growth. The rapid economic growth of China's economy generally provided rising income levels, especially in the urban areas, where the urbanisation trend led to a fast growing population.

Measured in absolute numbers this development led to a stronger growth of urban consumption compared to the rural consumption. In 2009 the urban consumption made up 68 % of the total consumption and showed a 1.3 % higher average growth than the rural consumption in the last couple of years.

China is no longer viewed as a monolithic country of 1.3 billion potential customers. However, capturing a small part of China's giant population makes a very attractive consumer base. The most attractive group though is the emerging and fast-growing middle class in China. As China's economy grows at double-digit annual rates, more and more people are migrating to China's booming cities to take better paid jobs. These working middle class will create a new and massive consumer base.

From 1996 to 2006, the middle class, defined by an annual income of RMB 45.000 - 180.000 (approx. € 5,000-20,000), has grown from 8.3 % to 39.0 % of China's population. Unlike the US, where income typically peaks between the ages of 45 to 54, it is predicted that the wealthiest chinese mainly fall into the age group of 25 to 45, as the younger gene-

ration tends to be more highly educated. The fast growth of the middle class is expected to accelerate during the next years. By 2016 almost 60 % of the Chinese people will fall within the showed income range (see chart below).

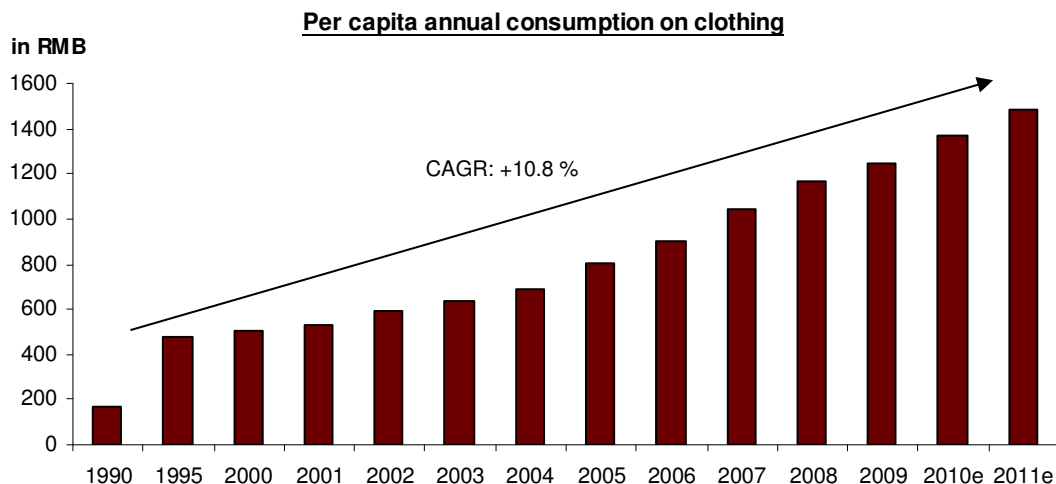


Source: Monitor Group, GBC

Personal consumption of Chinese people today is going through important structural changes in terms of quantity and quality of the goods consumed and also concerning the range of goods purchased. Structural changes are basically due to the rapid growth of the economy in China and to the accompanying increase in personal income. According to World Bank standards, the living standard of the average Shanghai citizen already reached the middle level of a European country or the United States.

All these trends did not only lead to growing overall consumption expenditures, which showed a compounded annual growth rate of 10.5 % over the last 10 years. Also the fraction of the total consumption expenditure on clothing remained stable over the last 10 years, representing a growth of 10.1 % on average.

While the growth rate of the consumption on clothing declined in 2009 due to the financial crisis, it is expected to return to a double-digit rate of 10 % in 2010. Also in 2011 further raising consumption expenditures on clothing are expected. Prospects expect the annual consumption on clothing to amount almost RMB 1.500 per capita in 2011 which is almost double the amount an average Chinese inhabitant spent just a couple of years ago in 2005.



Source: National Bureau of Statistics China, China Merchants Securities (HK) CO., LTD.

Business Development and Estimates

In € m	FY 2007	FY 2008	FY 2009	Delta 2008/2009
Sales	24.27	32.14	48.92	+52.2 %
EBITDA	5.49	8.40	13.41	+59.6 %
EBITDA-Margin	22.6 %	26.1 %	27.4 %	+1.3 Pp.
EBIT	5.43	8.34	13.29	+59.4 %
EBIT-Margin	22.4 %	26.0 %	27.2 %	+1.2 Pp.
Net Profit	4.61	6.90	10.65	+54.5 %

Source: Kinghero, GBC

Sales Development - Mean growth of 42 % during last 3 years

Due to the strong growth of the Chinese market as well as the broad sales efforts in the past couple of years Kinghero could exhibit a clear above average growth to the overall economy. The compound annual growth rate of sales during the last three years was 42 %. In particular remarkable is the sales growth of 52 % during the global year of crisis 2009. Overall the sales in the financial year 2009 summed up to € 48.92m, which were generated solely on the Chinese market.

Sales were contributed by the two segments, men's wear as well as women's wear. The sales contribution of Kinghero's original focus segment men's wear was 56.6 % in the past financial year. The segment women's wear contributed 43.4 % accordingly, which corresponds with an absolute amount of € 21.23m. The relative sales contribution of the women's wear segment, which was introduced in 2007, at the same time changed during the years 2007, 2008, 2009 and increased from 41.8 % to 43.4 % in 2009.

The growth dynamic of the women's wear segment also exceeded the men's wear growth rate in the past financial year. While the men's wear segment showed a growth of 47.9 %, the women's wear segment even grew by 58.2 %. The successful build-up of the women's wear segment underscores the strong innovational power of the company as well as the outstanding sales network.

Earnings Development - Economies of scale led to strong earnings growth of 59 %

The most significant expense position of Kinghero regards to the costs of goods sold, which made up 86.4 % of the overall operating expenses during the financial year 2009. The proportion of cost of goods sold to sales increased steadily during the past three years. While in 2007 the relation amounted 57.8 % it reached up to 63.1 % in 2009. The increase can be traced back to the fact that the sales prices declined, while in the same time increasing commodity prices had to be measured. These factors led to a decline of the gross profit margin of about two percentage points to 32.2 % in 2009.

Kinghero's second considerable cost component are labour costs. The increase comes from the general wage rate increase in China. Nevertheless the labour costs, in relation to sales, decreased from 7.8 % in 2007 to 5.7 % in 2009, which mainly was due to economies of scale. The number of employees at the same time was reduced from 1,124 in 2007 to 896 by 31st March 2010.

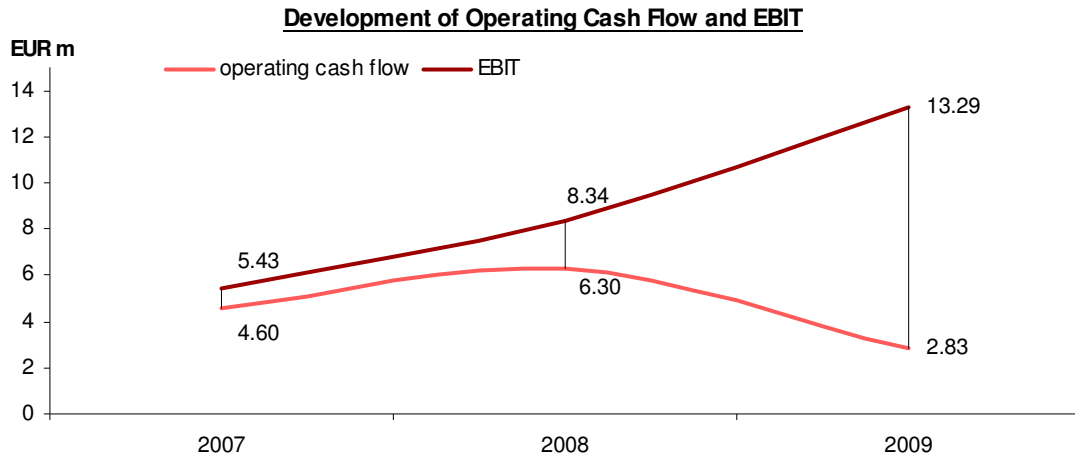
Despite the increasing purchase prices and the rising labour costs in China, Kinghero therefore could reflect the strong sales growth of the past years in earnings. The effects of the economies of scale as well as the lean and therefore cost-efficient administration allowed this development.

Hence, the EBIT in FY 2009 amounted € 13.29m, which corresponds with an EBIT-Margin of 27.2 %. Compared to the previous year the EBIT increased by 59.4 % disproportionately higher than sales growth. Equivalently the EBIT-Margin improved, compared to that of FY 2008.

Kinghero is subject to a reduced corporate income tax. According to Chinese income tax law a reduced corporate income tax rate is applicable until 2011. In 2009 the tax rate amounted 22 %, after 20 % in 2008. From 2012 on the tax rate then will be 25 %.

Bottom line Kinghero achieved a net income of € 10.65m in FY 2009, after € 6.90m in 2008, which corresponds with a gain of 54.5 %. The slightly smaller increase of net income compared to the EBIT increase is a result of the raising tax rate.

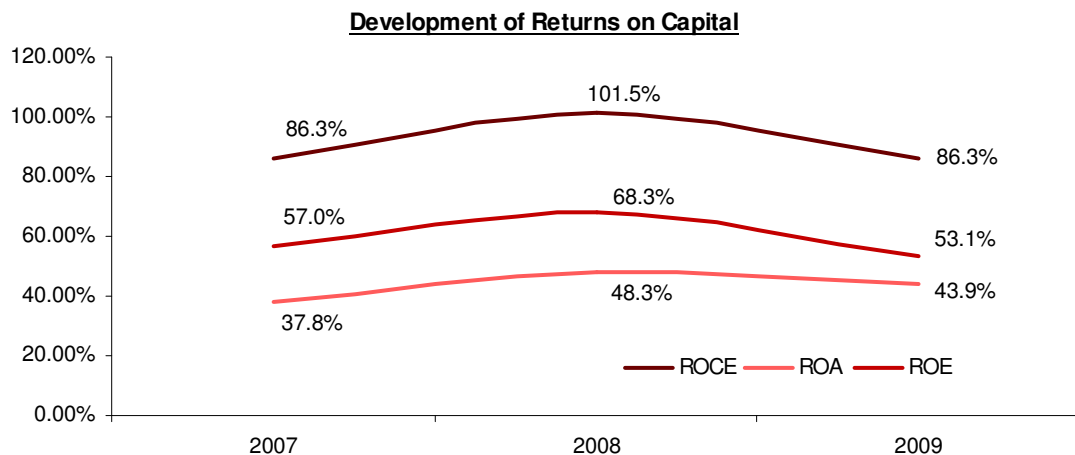
Efficiency and Earnings Quality - Strong cashflows and high earnings quality



Source: Kinghero, GBC

Additionally to the strong sales and earnings growth during the past years Kinghero has also displayed strong positive operating cash flows. Thereby the operating cash flows that could be achieved in the FY 2007 and 2008 each were close to the attained EBIT-measures. This indicates a high earnings quality. In 2009 the spread between EBIT and operating cash flow increased compared to the past years which is a result of a build-up in working capital.

The achieved returns on capital allow for the same interpretation of high efficiency, too. While the return on equity (ROE) was 53.1 %, the capital employed even yielded 86.3 % (ROCE). Both ratios from our point of view make up outstanding measures. The achieved economies of scale during the last years also become clear by means of return on assets (ROA). This ratio was increased during the last three years to now 43.9 %.



Source: Kinghero, GBC

SWOT - ANALYSIS Kinghero AG

Strengths

- Cost-efficient production and lean administration in combination with high quality standards and a strong brand image allow high operating profit margins
- Experienced management team with more than 20 years experience in the fashion industry
- Vast sales channels and high regional brand recognition in China
- Strong company focus on the fast growing middle class in China
- “Kinghero” is one of the ten best known brand names for fashion in China

Weaknesses

- High dependence on single members of management
- Placement of products in retail stores depends on success of designated distributors
- Strong growth requires a further improvement of internal reporting and controlling
- High dependence on labour cost development in China

Opportunities

- Brand awareness can be improved by establishing flagship stores, franchising and the broadening of sales channels
- Strong growth of per-capita-income and consumption expenditure, in particular on textiles, in urban areas of China
- Company growth could be accelerated by internationalisation of sales
- Brand awareness for clothing of Chinese population starts to develop increasingly

Risks

- Due to the high fragmentation of the local and international clothing market a high competition is present
- Current collections could not meet customers preferences which could cause damage of Kinghero’s image and losses in market share
- Problems to adjust the short term production capabilities and the current organisational structure fast enough to meet fast growth
- Due to the fact that the whole operations are executed in China there is a high exposure on currency floatation of the Renminbi/Euro conversion rate.
- The Chinese legal system contains uncertainties and inconsistencies

Estimates - Further strong sales and earnings growth expected in upcoming years

Note: The following estimates are based on the assumption of an exchange rate of the Chinese Renminbi to the Euro of 1:8,48 (due date: 6th June, 2010).

in € m	FY2009	FY 2010e	FY 2011e	FY 2012e
Sales	48.92	71.73	91.29	116.40
EBITDA	13.41	17.69	22.79	28.75
EBITDA-Margin	27.4 %	24.7 %	25.0 %	24.7 %
EBIT	13.29	17.19	21.80	27.46
EBIT-Margin	27.2 %	24.0 %	23.9 %	23.6 %
Net profit	10.65	14.39	17.58	21.62

Source: GBC

During the past three years Kinghero achieved a compound annual growth rate of 42 %. Because of the strong sales growth, the good positioning in the market and the strategic orientation we expect that the company can generate double-digit growth rates also in the future. We expect a compound annual growth rate of 33.5 % in the upcoming three years, which tends to be a conservative tendency. Thereby it can be expected that the growth will be demand driven on the one hand, but also will go along with a larger market share because of a strengthened brand positioning (flagship stores, marketing campaigns) as well as the broadening of the sales channels.

To counter the ongoing price erosion Kinghero wants to strengthen the recognition of the brand with a continuous high product quality. This allows the company to target customers with higher purchase power and to achieve higher margins. Furthermore also in the upcoming years there should be noticed economies of scale in case of the strong growths. These factors in combination will not only stabilize the gross profit margin, but more than that, will cause an increase.

At the same time the broadening of the sales channels and the intensified R&D-expenses will lead to higher operating costs, which is expected to cause a slight decline in EBIT-Margin in 2010 and the following years. Nevertheless Kinghero should be able to generate a sound EBIT-Margin in a dimension of about 24 %. In an absolute measure we expect an EBIT of € 17.19m for FY 2010 which corresponds with a growth rate of 29.3 % against FY 2009. In the following years, due to steady cost relations, we expect a proportional growth of the EBIT compared with sales.

Besides the higher costs for marketing and R&D also higher depreciations will cause a slight margin erosion in the upcoming years. Because of the purchase of the new production and administration facilities of 70,700 m² the depreciation expense is expected to increase from € 0.12m in 2009 to € 0.50m in 2010. In the course of the refurbishment and the new machinery that will be bought we expect another increase in depreciation expense up to then € 0.99m by 2011.

Because the company does not make use of bank liabilities and no change in that is planned for the future, we did not anticipate any interest expenses in our estimates. Rather the company should generate a positive interest income due to the existing cash, the positive cash flows and the proceeds from the IPO. We expect the financial income to amount € 1.26m and € 1.35m for 2010 and 2011, respectively. These estimates contain planned financial income of € 1.18m from the purchase of a knitwear manufactory and a zipper manufactory.

For the current as well as the upcoming FY Kinghero is subject to a reduced corporate income tax, according to Chinese income tax law. Being taxed with 18 % and 20 % in 2008 and 2009, in 2010 the company will be taxed at a rate of 22 % and 24 % in 2011. From 2012 on the highest tax rate of 25 % will be applicable.

Overall we expect Kinghero to show a strong growth of net income during the upcoming years, with net margins of about 20 %. While we estimate after tax earnings of € 14.39m in 2010, it should increase to € 17.58m in 2011.

Valuation

DCF-Valuation

Model Assumptions

We valued the Kinghero AG according to our three-phases DCF model. Starting with concrete estimates for the years 2010 to 2012 in phase 1 (also see page 12), we considered in phase two (2013-2017) constant growth rates of then 5 % with stable EBITDA-Margins of 20 %. Additionally we assumed a tax rate of 25 % in phase two. Finally, in phase three, at the end of the forecast period a residual value is calculated by perpetuity. Within the residual value we assume a growth rate of 0 %. The valuation is carried out post-money, under consideration of a full placement of 1.80m shares and a corresponding money inflow from the capital increase of € 25.0m.

Determination of Cost of Capital

The weighted averaged cost of capital (WACC) of Kinghero AG is calculated from the cost of equity and cost of debt. In order to calculate the capital cost, the risk premium, the beta as well as the risk-free interest rate are to be determined.

As risk free rate, we take the interest rate of the German 10-year Treasury bill. This is currently at 3.0 %.

Our calculation of the market premium is based on the historical risk premium of 5.5 % which is backed upon historical analysis. The market premium reflects the excess return that the overall stock market or a particular stock must provide over the rate on Treasury bills to compensate for market risk.

According to GBC estimates the fair company beta is currently 1.82. When calculating the beta we have taken into consideration a small cap risk premium.

Conclusion

Regarding the assumptions implied we calculate cost of equity of 13.0 % (beta multiplied with risk premium plus 10-year interest rate). Implying a long-term equity ratio of 100 %, the weighted cost of average will be at 13.0 %.

Discounting of future cash flows is based on the entity model. We calculated a corresponding WACC of 13.0 %. The resulting fair value at the end of the current FY 2010 is € 168.36m or € 23.88 per share, with an underlying number of shares of 7.05m.

Kinghero AG - Discounted Cashflow (DCF) model scenario

Value driver of the DCF –model after estimate Phase:

consistency - phase		final - phase	
Sales growth	5.0%	Eternal growth rate	0.0%
EBITDA-Margin	20.0%	Eternal EBITA - Margin	18.8%
Depreciation to fixed assets	10.0%	Effective tax rate in final phase	25.0%
Working Capital to sales	20.0%		

three phases DCF - Modell:

Phase in € m	estimate		consistency						final Terminal Value
	FY 2010e	FY 2011e	FY 2012e	FY 2013e	FY 2014e	FY 2015e	FY 2016e	FY 2017e	
Sales	71.73	91.29	116.4	122.22	128.33	134.75	141.48	148.56	0.00%
Sales change	46.60%	27.30%	27.50%	5.00%	5.00%	5.00%	5.00%	5.00%	
Sales to fixed assets	5.79	7.12	8.76	8.76	8.28	8.17	8.08	8.03	
EBITDA	17.69	22.79	28.75	24.44	25.67	26.95	28.3	29.71	
EBITDA-Margin	24.70 %	25.00%	24.70%	20.00%	20.00%	20.00%	20.00%	20.00%	
EBITA	17.19	21.8	27.46	23.11	24.27	25.4	26.65	27.96	
EBITA-Margin	24.00%	23.90%	23.60%	18.90%	18.90%	18.80%	18.80%	18.80%	18.80%
Taxes on EBITA	-3.79	-5.25	-6.89	-5.78	-6.07	-6.35	-6.66	-6.99	
Taxes to EBITA	22.10%	24.10%	25.10%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
EBI (NOPLAT)	13.4	16.55	20.57	17.34	18.2	19.05	19.98	20.97	
Return on capital	87.00%	61.90%	66.20%	47.40%	47.40%	46.30%	46.00%	45.80%	43.50%
Working Capital (WC)	14.35	18.26	23.28	24.44	25.67	26.95	28.3	29.71	
WC to sales	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	
Investment in WC	-4.72	-3.91	-5.02	-1.16	-1.22	-1.28	-1.35	-1.41	
Operating fixed assets (OAV)	12.39	12.81	13.29	13.96	15.5	16.5	17.5	18.5	
Depreciation on OAV	-0.5	-0.99	-1.29	-1.33	-1.4	-1.55	-1.65	-1.75	
Depreciation to OAV	4.00%	7.70%	9.70%	10.00%	10.00%	10.00%	10.00%	10.00%	
Investment in OAV	-7.11	-1.42	-1.77	-1.99	-2.94	-2.55	-2.65	-2.75	
Capital employed	26.73	31.07	36.57	38.4	41.17	43.45	45.8	48.21	
EBITDA	17.69	22.79	28.75	24.44	25.67	26.95	28.3	29.71	
Taxes on EBITA	-3.79	-5.25	-6.89	-5.78	-6.07	-6.35	-6.66	-6.99	
Total investment	-11.83	-5.33	-6.79	-3.16	-4.16	-3.83	-4.00	-4.16	
Investment in OAV	-7.11	-1.42	-1.77	-1.99	-2.94	-2.55	-2.65	-2.75	
Investment in WC	-4.72	-3.91	-5.02	-1.16	-1.22	-1.28	-1.35	-1.41	
Investment in Goodwill	0	0	0	0	0	0	0	0	
Free Cashflows	2.08	12.21	15.07	15.51	15.44	16.77	17.64	18.56	161.08
Value operating business (due date)	136.63	142.21							
Net present value explicit free Cashflows	68.24	64.91							
Net present value of terminal value	68.39	77.29							
Net debt	-31.73	-43.94							
Net present value of options	0.00	0.00							
Value of equity	168.36	186.14							
Minority interests	0.00	0.00							
Value of share capital	168.36	186.14							
Outstanding shares in m	7.050	7.050							
Fair value per share in €	23.88	26.40							
Cost of capital									
Risk free rate		3.0%							
Market risk premium		5.5%							
Beta		1.82							
Cost of equity		13.0%							
Target weight		100.0%							
Cost of debt		6.0%							
Target weight		0.0%							
Taxshield		25.0%							
WACC		13.0%							

Sensitivity analysis - fair value per share in €

Return on Capital	WACC				
	12.0%	12.5%	13.0%	13.5%	14.0%
39.5%	24.33	23.63	22.99	22.40	21.87
41.5%	24.85	24.11	23.43	22.82	22.26
43.5%	25.36	24.59	23.88	23.24	22.65
45.5%	25.88	25.06	24.33	23.65	23.04
47.5%	26.39	25.54	24.77	24.07	23.43

Peer-Group-Valuation

As Kinghero's peer-group we have chosen several companies being active in the international fashion industry. Thereby we not have only taken into consideration internationally operating chains, but also companies with a strong focus on own brands. Additionally we have accounted for direct competitors of Kinghero on the Chinese market. Therewith the peer-group represents a broad average of the international apparel industry.

Company	Share price due 2010/07/06 in €	Market-capitalisation in € m	EV in € m	EV/Sales 2010e	EV/Sales 2011e	EV/ EBITDA 2010e	EV/ EBITDA 2011e	P/E 2010e	P/E 2011e
Hennes & Mauritz	22.39	33585.00	33582.76	2.97	2.65	11.28	10.03	16.94	15.03
Inditex	48.21	30034.83	27507.81	2.21	2.01	10.13	8.95	19.71	17.37
Benetton Group	5.50	1006.50	1580.85	0.78	0.76	5.10	4.87	8.96	8.00
GAP	15.04	10031.68	10029.77	0.93	0.91	5.42	5.33	11.30	10.77
Abercrombie & Fitch	24.21	2130.48	1846.95	0.78	0.71	5.22	4.17	17.68	12.60
American Eagle Outfitters	9.23	1929.07	1370.67	0.59	0.56	3.49	3.02	10.68	8.87
Esprit Holdings	4.27	5551.00	5550.54	1.62	1.41	8.25	6.89	11.85	9.98
Polo Ralph Lauren	56.57	3167.92	2863.88	0.80	0.74	4.72	4.08	9.84	8.75
Timberland	12.67	544.81	331.69	0.34	0.32	4.08	3.64	12.54	11.55
Urban Outfitters	27.44	4637.36	408958	2.45	2.14	10.34	8.97	22.26	18.82
Gerry Weber	24.25	557.75	588.05	0.94	0.89	6.48	5.95	11.17	10.10
Ahlers	6.90	99.36	124.20	0.50	0.49	5.67	5.50	11.97	10.14
Hugo Boss	32.25	2270.40	2695.17	1.68	1.60	10.10	9.29	17.21	15.19
Fast Retailing Co. Ltd.	115.27	12226.69	10840.35	1.46	1.31	8.03	7.48	19.41	17.22
China Lilang Ltd.	0.72	864.00	871.25	3.57	2.74	15.72	11.72	17.60	13.13
Fujian Septwolves Industry Co.	3.47	981.66	921.40	3.31	2.66	18.57	14.35	30.29	23.34
Zhejiang Baoxiniao Garment Co. Ltd.	2.79	808.21	704.26	3.91	3.23	17.88	13.50	27.43	21.30
Median				1.46	1.31	8.03	6.89	16.94	12.60
Mean				1.70	1.48	8.85	7.51	16.28	13.66

Source: Thomson Reuters

From the above observation result the following fair multiples on an enterprise value (EV) basis:

Fair Multiples (Median)	EV/ Sales	EV/ EBITDA	P/E	Fair Multiples (Mean)	EV/ Sales	EV/ EBITDA	P/E
2010e	1.46	8.03	16.94	2010e	1.70	8.85	16.28
2011e	1.31	6.89	12.60	2011e	1.48	7.51	13.66

As a basis for the peer-group valuation we consider the estimated sales, EBITDAs and net profits of the Kinghero AG for the estimated financial years 2010 and 2011. According to the calculated multiples the following fair valuations result. The calculation of the fair value of the Kinghero AG is made on an enterprise value basis and were conducted by weighting the above calculated fair multiples:

Fair value according to median in € m	EV/ Sales	weight in %	EV/ EBITDA	weight in %	Value P/E	weight in %
2010e	108.88	8.33%	147.99	8.33%	253.88	8.33%
2011e	124.96	8.33%	163.45	8.33%	230.69	8.33%

Fair value according to mean in € m	EV/ Sales	weight in %	EV/ EBITDA	weight in %	Value P/E	weight in %
2010e	126.78	8.33%	163.15	8.33%	244.08	8.33%
2011e	140.61	8.33%	178.31	8.33%	250.06	8.33%

On the basis of equally weighted median and mean multiples a weighted fair value for Kinghero of € 177.66m is calculated.

Valuation Conclusion

With equal representation of the peer-group-valuation and the DCF-valuation an averaged fair value of € 173.01m and € 24.54 per share, respectively, is calculated, taking a number of shares outstanding of 7.05m as a basis.

Valuation according to multiple valuation	€ 177.66m
Valuation according to DCF-valuation	€ 168.36m
Averaged fair value	€ 173.01m
Averaged fair value per share	€ 24.54

Conclusion - A Strong Chinese Fashion Company

Not only the overall Chinese economy showed a strong growth during the past years, also the Chinese clothing market developed dynamically. With the background of an ongoing migration to the cities and increasing economic wealth, especially in urban areas, the demand for clothing increases. First of all the strongly growing middle class in the cities puts gradually increasing emphasis on high quality products and a strong brand image. Since the year 2005 the average amount spent on clothing increased from RMB 800 to almost RMB 1,500.

With an expected average growth of the Chinese economy of 10 % in the upcoming years the market for consumer goods should keep developing well. It is to be expected, that the textile and clothing market still develops above average of the overall consumer goods market, as it did during the last couple of years.

Kinghero notably benefited from the dynamic development of the Chinese economy. During the last three FYs Kinghero showed a compound annual growth rate of 42 %. The above average growth rates to the market are a result of the successful establishment of the women's wear segment as well as increased sales activities.

At the same time Kinghero could increase earnings strongly. Even though shrinking price levels on the clothing market and higher commodity prices led to a slightly lower gross profit margin, the flat cost structure and the achieved economies of scale allowed significant EBIT-increases. In FY 2009 the EBIT amounted € 13.29m, corresponding to an EBIT-Margin of 27.2 %. Also on the bottom line a double-digit growth of net profit was displayed.

However, the outlook on the upcoming years keeps to be very dynamic. We estimate a predominantly constant speed of growth. The establishment of nationwide flagship stores, advertising campaigns and the broadening of sales channels will support this tendency. Accordingly we expect sales and earnings to be improved further.

According to our DCF-model we calculated a fair company value for the Kinghero AG of € 168.36m. This result is also supported by the peer-group-valuation, which came up with a fair value of € 177.66m. With equal consideration of both valuation methods, the resulting fair value of the Kinghero AG is € 173.01m or € 24.54 per share, respectively, with 7.05m shares taken as a basis.

On the valuation level of the upper bookbuilding range of € 18.50 the Kinghero AG is assessed with a estimated P/E-ratio of 9.0 for 2010 and 7.4 for 2011. The EV/EBITDA measures 5.0 and 3.9 for the FY 2010 and FY 2011, respectively. Given the high growth rate and the good profitability of the company we appraise the valuation of the company as very attractive. Comparable companies, as the Japanese Fast Retailing Co. Ltd. or the Chinese competitor China Lilang Ltd., are currently valued with significantly higher ratios.

Annex

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