China: Textile, Apparel & Footwear

China sports primer: Initiate on 3 names; Peak C-Buy, Anta C-Sell

Industry growth slowing down to mid-teens EPS growth rate

We see China's sportswear industry EPS CAGR slowing to c. 15% in 2009–11E. Store expansion, a major growth driver, is slowing. We think future growth hinges more on improving sales productivity and margins.

Why read this report?

We provide a detailed operating comparison of China sports companies, focusing on return and growth drivers. **(1)** Our return comparison shows why Chinese companies' returns are significantly above global peers. **(2)** As space expansion becomes a less important growth driver, our analysis on store size, ASP and per store sales volume reveals better growth potential for Peak, Dongxiang and Xtep. **(3)** Our sell-in volume per store analysis, when cross-checked with retail SSS, highlights potential channel inventory risk for Anta. **(4)** We also include an analysis of the profitability of sports distributors that are customers of the sports brand companies we cover.

Buy: Peak (Conv. List), Dongxiang and Xtep; Sell Anta (Conv. List)

We update our views on Dongxiang (3818.HK), Li Ning (2331.HK) and Anta (2020.HK), and initiate on three small-cap stocks: Xtep (1368.HK), Peak Sport (1968.HK) and 361 Degrees (1361.HK). We have Buy ratings on Peak (Conv. List), Dongxiang and Xtep, on attractive growth and valuation. We downgrade Anta to Sell and add it to our Conv. List, as the stock has a similar growth potential to small-cap names but is trading at the highest P/E in the sector. We initiate on 361 Degrees with a Neutral rating and maintain our Neutral on Li Ning. We revise our 12-month target prices by -14% to +5%, and 2010-12E earnings by -4% to +10%.

Valuation: Directors' Cut cross-checked with PEG

We switch our primary valuation method from P/E to Director's Cut, cross-checked with PEG. China sports stocks earn very high CROCI returns, which we believe will eventually fall. On a returns-based screen, most stocks are trading at levels reflecting normalizing CROCI, while Anta's valuation does not suggest such a trend.

Risks

Domestic brands generally have weak brand equity and little product differentiation. Stock prices can be volatile around company data points and news flow.

SUMMARY OF RATINGS AND TARGET PRICES

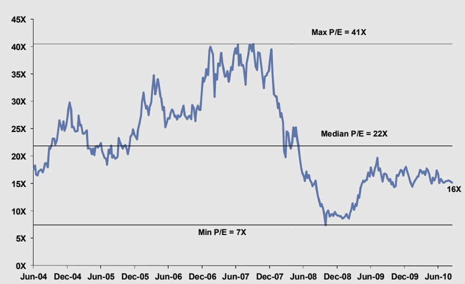
Company	Rating		Target Price(HK$)		Implied P/E
	New	Old	New	Old	on 2011E
China Dongxiang Group	Buy	Buy	6.00	5.70	15x
Li Ning Company	Neutral	Neutral	28.00	27.20	17x
Anta Sports Products	Sell*	Neutral	13.20	15.30	15x
Xtep International Holdings	Buy	NC	7.90	NA	14x
Peak Sport Products	Buy*	NC	7.80	NA	14x
361 Degrees International	Neutral	NC	8.00	NA	13x

* On our regional Conviction List.

RETURN COMPARISON

CROCI	2008	2009	2010E	2011E	2012E
Dongxiang	233%	170%	156%	132%	117%
Li Ning	51%	45%	46%	53%	57%
Anta	93%	105%	105%	106%	109%
Xtep	130%	124%	126%	111%	109%
Peak	102%	94%	72%	85%	98%
361 Degrees	106%	112%	90%	76%	72%
Median	**104%**	**109%**	**98%**	**95%**	**103%**
Nike	23%	25%	20%	22%	28%
Adidas	12%	8%	13%	15%	16%
Puma	30%	29%	31%	35%	34%
Median	**23%**	**25%**	**20%**	**22%**	**28%**

SECTOR 12-M FORWARD P/E



Source for all exhibits above: Company data, Bloomberg, Gao Hua Securities Research estimates, Goldman Sachs Research estimates.

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The prices in the body of this report are based on the market close of September 30, 2010.

The author would like to thank Source Yuan for his contribution to this report.

A China sportswear primer

In this report, we provide a detailed operating comparison of China sportswear companies (i.e. brand managers of sports apparel and footwear), focusing on return and growth drivers.

(1) Our return comparison shows why Chinese companies' returns are significantly above those of global peers.

(2) As space expansion becomes a less important growth driver, our analysis on store size, ASP, and per store sales volume reveals better growth potential for companies such as Peak, Dongxiang and Xtep.

(3) Our sell-in volume per store analysis, when cross-checked with retail SSS, highlights potential risk of excessive inventory in the channel for Anta.

(4) We also include an analysis on the profitability of sports distributors that are customers of sports brand companies we cover.

We update our views on Dongxiang, Li Ning and Anta, and initiate on three small-cap stocks: Xtep, Peak and 361 Degrees.

Exhibit 1 summarizes our ratings, target prices, and target price-implied valuations.

Exhibit 1: Target price and rating summary

Company	Rating New	Rating Old	Current Price(HK$)	Target Price(HK$) New	Target Price(HK$) Old	TP chg%	Upside/ Downside	Implied P/E on 2011E
China Dongxiang Group	Buy	Buy	4.5	6.00	5.70	5%	35%	15x
Li Ning Company	Neutral	Neutral	23.6	28.00	27.20	3%	19%	17x
Anta Sports Products	Sell*	Neutral	18.0	13.20	15.30	-14%	-27%	15x
Xtep International Holdings	Buy	NC	6.5	7.90	NA	NA	21%	14x
Peak Sport Products	Buy*	NC	5.7	7.80	NA	NA	37%	14x
361 Degrees International	Neutral	NC	7.8	8.00	NA	NA	3%	13x

* Indicates stock is on our regional Conviction list.

For important disclosures, please go to http://www.gs.com/research/hedge.html

Source: DataStream, Gao Hua Securities Research estimates.

Reiterate Buy on Dongxiang. Dongxiang's Kappa brand remains one of the most popular sports fashion brands in China. We think the company has strong growth potential in: (1) space expansion from the lowest level in the sector; and (2) an increase in per store footwear sales volume. We argue the company can sustain its sector-leading gross and operating margins, as our analysis shows that the impact of potentially higher wholesale discounts, A&P spend, and R&D investment on margins is limited.

Maintain Neutral on Li Ning. Li Ning is a leading domestic brand in the middle price segment. As a middle-priced brand, Li Ning risks being stuck in the middle between Nike/adidas and domestic brands. We estimate its distributor profitability is the lowest among peers, increasing the risk associated with its store expansion plan. On the positive side, we see GM expansion potential for Li Ning by lowering sourcing costs. Li Ning is also least likely to have an operating expense ratio hike among peers, given its R&D and A&P spending is already at a level similar to global peers.

Downgrade Anta to Sell (on Conviction List). We downgrade Anta to a Sell from Neutral, and add the stock to the Conviction List. Anta currently trades at the highest valuation on both P/E and Director's Cut, reflecting market expectations of it sustaining above-average growth and returns. We think the risk/reward proposition is unattractive. We expect Anta's growth to be in-line with small cap names (Xtep, Peak, 361 Degrees). Our analysis shows Anta's further growth could slow down, as it already has a large store base, and the highest sell-in volume per store among peers. We think further gross margin expansion will be limited, as wholesale discount reductions and production cost declines may not recur in 2010E-12E.

Initiate on Xtep with a Buy rating. Xtep is a mass market sports brand focused on fashion and entertainment, although recent brand-building efforts have expanded to include more sports sponsorship. We think the company has above-average growth potential from store additions, store size increase, ASP increase, and gross margin improvement. Xtep is trading at 12X 2011E P/E with 26% '11E EPS growth. We think the risk/reward is attractive given its growth and returns profile.

Initiate on Peak with a Buy rating and add the stock to Conviction List. We like Peak for these three key reasons. (1) Focused brand-building: Peak is positioned as a mass market basketball brand, its advertising/sponsorship investment all focuses on this category, we think this is a differentiated and cost-effective strategy to stand out in domestic mass market sports brands. (2) High growth potential from relative low base: we see growth drivers from store addition, store size increase, ASP increase, and gross margin expansion. (3) Attractive valuation: Peak is currently trading at 10X 2011E P/E with 30% '11E EPS growth.

Initiate on 361 Degrees with a Neutral rating. 361 Degrees is a mass market brand established as recently as 2004. The company's brand building has been focused on increasing brand awareness and visibility, by sponsoring various sports events to display its logo. We think it is still largely a "me too" brand needing meaningful investment and strategy to substantiate its brand equity. During FY08-10, 361 Degrees reported strong sales and earnings growth, driven by store additions and gross margin expansion (from a low base). However, it has the longest A/R days in the sector which we think underscores a potential risk that its store expansion has been financed by the company. We expect sales and earnings growth to slow down, as its store base is already large, its store size is close to the sector median, and its ASP opportunity is limited. We also expect OP margin contraction as 361 Degrees is likely to increase its A&P expense ratio. The stock is trading at 13X CY11E P/E, with single-digit EPS growth. We think its current valuation is fair relative to its growth potential, brand strength, and relative competitive position.

Valuation. We have switched from using P/E as the basis of deriving our target prices to using Director's Cut, a cash returns-based valuation framework, as our primary valuation methodology, cross-checked with PEG, a growth-based method. Going forward, we think returns will become increasingly important in determining these stocks' valuation.

Earnings. Our earnings forecasts are largely in line with Bloomberg consensus.

Exhibit 2: GS net income forecasts vs. consensus

			GS 2010E	Cons 2010E		GS 2011E	Cons 2011E		GS 2012E	Cons 2012E	
Ticker	Company name	Ccy	Net Income	Net Income	GS vs. Cons.	Net Income	Net Income	GS vs. Cons.	Net Income	Net Income	GS vs. Cons.
(Rmb mn)											
3818.HK	China Dongxiang Group	Rmb	1,612	1,615	0%	1,816	1,814	0%	2,056	2,067	-1%
2020.HK	Anta Sports Products	Rmb	1,550	1,507	3%	1,765	1,836	-4%	2,023	2,200	-8%
2331.HK	Li Ning Company	Rmb	1,146	1,125	2%	1,436	1,349	6%	1,675	1,585	6%
1968.HK	Peak Sport Products	Rmb	777	812	-4%	958	1,016	-6%	1,114	1,248	-11%
1361.HK	361 Degrees International	Rmb	915	848	8%	998	1,052	-5%	1,089	1,255	-13%
1368.HK	Xtep International Holdings	Rmb	822	775	6%	985	931	6%	1,139	1,123	1%
				Average:	**2%**			**0%**			**-4%**

Note: 361 Degrees' fiscal year ends June 30. GS 2010 reflects actual results, while consensus number has not been updated.

Source: Bloomberg data, Gao Hua Securities Research estimates.

Risks. Domestic brands generally have weak brand equity and little product differentiation. Stock prices can be volatile on company data points and news flows. For small-cap names, investors may still be reluctant to hold these as long-term investments, as they have yet to fully establish their brand equity and longevity.

Valuation: Consider both returns and growth

We use Director's Cut, a cash return-based valuation framework, as our primary valuation methodology, cross-checked with PEG, a growth-based method. Both growth and returns are potential determinants of fundamental values for the China sportswear sector. Given the sector's short trading history and multiple IPOs (two each in 2007 and 2009, one in 2008), the market has tended to be more focused on growth. However, we now think returns are becoming increasingly important in determining this sector's valuation.

Our back-testing shows that no valuation method points to conclusive outperformance in the short trading history of the sector (the sector has only had three stocks since October 2007, and now has six). Back-testing shows the returns-based Director's Cut framework's performance has continued to improve from 2007 to 2010 ytd. Growth-focused methods (PEG, sales growth and net income growth), each outperformed in certain periods.

A brief introduction to Director's Cut

The Director's Cut framework aims to capture intra-sector value by identifying undervalued and overvalued stocks on the basis of their sector-relative ValRatio, which is calculated as EV/GCI (excess market value over assets) over CROCI/WACC (excess returns over cost of capital).

A few definitions:

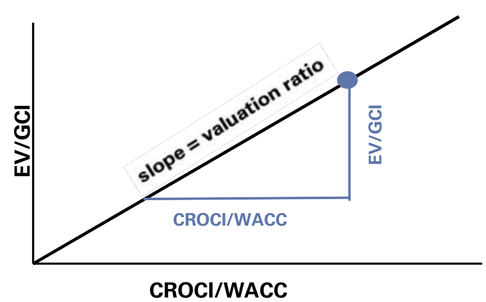
CROCI (Cash Return On Cash Invested) = DACF / GCI. GCI is the average value of the current and previous year.

DACF (Debt adjusted cash flow) = EBITDA X (1-tax rate) + other investment gain after tax. This is essentially cash earnings.

GCI (Gross cash invested) = Gross PPE + Gross Intangibles + Working capital + other investments.

ValRatio (Valuation Ratio) = (EV/GCI) / (CROCI/WACC)

Exhibit 3: Defining ValRatio



$$\text{Valuation Ratio} = \frac{\frac{EV}{GCI}}{\frac{CROCI}{WACC}} = \frac{EV}{CROCI * GCI} \times WACC = \frac{EV}{\text{Cash earnings}} \times WACC$$

Note: Cash earnings are debt-adjusted

Source: Goldman Sachs Research.

Once we calculate CROCI/WACC and EV/GCI for every company in the same sector, we plot each company to show their relative position in the sector. We also add a regression line, which represents the sector-average EV/GCI (on the y-axis) and CROCI/WACC (on the x-axis).

Stock picking using Director's Cut. This is done by ranking stocks by ValRatio. The lower the ratio, the better. Typically, stocks with the bottom 20% ValRatios are potential Buys; stocks with the top 20% ValRatios are potential Sells; the remaining 60% are Neutrals.

Pay attention to the CROCI trend. However, a few exceptions exist to the simple stock-picking rule above. For a company with sustained high CROCI, even if its stock trades above the regression line, the market could continue to reward it with a valuation premium, if it believes the stock's future returns will accelerate relative to peers. Similarly, a company may trade below the line but still not warrant a Buy rating, if its CROCI is expected to deteriorate in the years to come.

Exhibit 4: Illustration of Director's Cut stock-picking framework considering cash return on cash invested

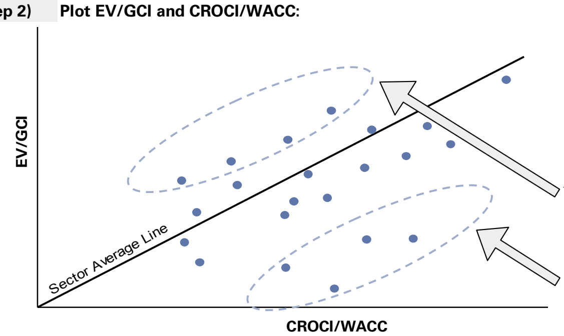
Goal: Identify under/overvalued stocks by comparing what market pays for capital invested in the business vs. the excess returns generated on these capital.

Step 1) Calculate:

a) $\frac{\text{EV}}{\text{GCI}}$ Enterprise Value / Gross Cash Invested = (Gross tangible/intangible assets + Operating Working Capital + Other investments) = "invested value"

b) $\frac{\text{CROCI}}{\text{WACC}}$ Cash Return on Cash Invested / Weighted average cost of capital

Step 2) Plot EV/GCI and CROCI/WACC:



Step 3) Compare the excess value attributed by the market with excess returns generated, for each stock relative to sector peers:

$$\frac{\text{EV/GCI}}{\text{CROCI/WACC}} = \text{Valuation Ratio}$$

Step 4) Stock-picking:

Above Sector Average Line (Top 20%) - 2 possibilities:
- Stocks overvalued by market relative to cash returns generated => good SELL opportunities
- Market is expecting future returns to accelerate relative to peers, hence stock likely to continue to trade at a premium to sector average line

Below Sector Average Line (Bottom 20%) - 2 possibilities:
- Stocks undervalued by market relative to cash returns generated => good BUY opportunities
- Market is expecting future returns to further deteriorate relative to peers, hence stock likely to continue to trade at a discount to sector average line

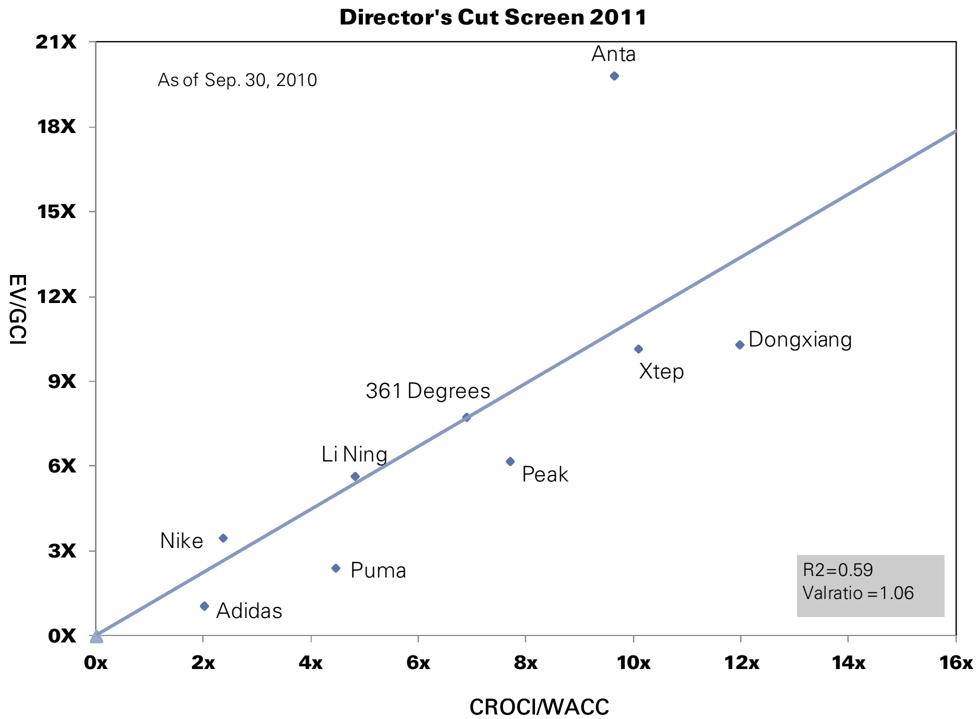
**It is important to note that the underlying assumption of the basic Director's Cut framework is that a company's valuation ratio will eventually converge to the sector average as under/overvaluations are arbitraged away. Our methodology selects an equal number of longs and shorts.

Source: Goldman Sachs Research.

Applying Director's Cut to our sector

Plotting EV/GCI vs. CROCI/WACC for each company. Below is a visual presentation of EV/GCI vs. CROCI/WACC plot for six China and three global sports stocks. The blue line is the regression line, representing the sector average. On this chart, Anta, being well above the line, represents a clear Sell signal. On the other hand, Dongxiang, Xtep, Peak all appear to be potential Buys under this framework.

Exhibit 5: Plotting 2011E EV/GCI vs. CROCI/WACC



Source: Gao Hua Securities Research estimates.

Exhibit 6: Calculation of 12-month target prices

	Current CROCI /WACC	TP V.R Premium /discount	TP ValRatio	EV/GCI	EV (HK$ mn)	NetDebt (HK$ mn)	Equity (HK$ mn)	# of shrs mn	TP HK$
Dongxiang	11.97	0%	1.30	15.6	25,503	(8,372)	33,875	5,666	**6.00**
Li Ning	4.81	10%	1.43	6.9	26,060	(3,342)	29,403	1,051	**28.00**
Anta	9.64	10%	1.43	13.8	26,915	(6,123)	33,038	2,493	**13.20**
Xtep	10.09	0%	1.30	13.1	13,609	(3,630)	17,238	2,174	**7.90**
Peak	7.70	-5%	1.24	9.5	12,699	(3,700)	16,399	2,098	**7.80**
361 Degrees	6.89	-10%	1.17	8.1	13,076	(3,545)	16,621	2,068	**8.00**

Source: Gao Hua Securities Research estimates.

We set our sector median ValRatio at 1.3 , in line with the sector's historical median level (Exhibit 6), but apply a premium/discount for each stock, considering: (1) the stock's historical ValRatio premium/discount to sector average (Exhibit 5), and (2) the stock's CROCI level (Exhibit 7).

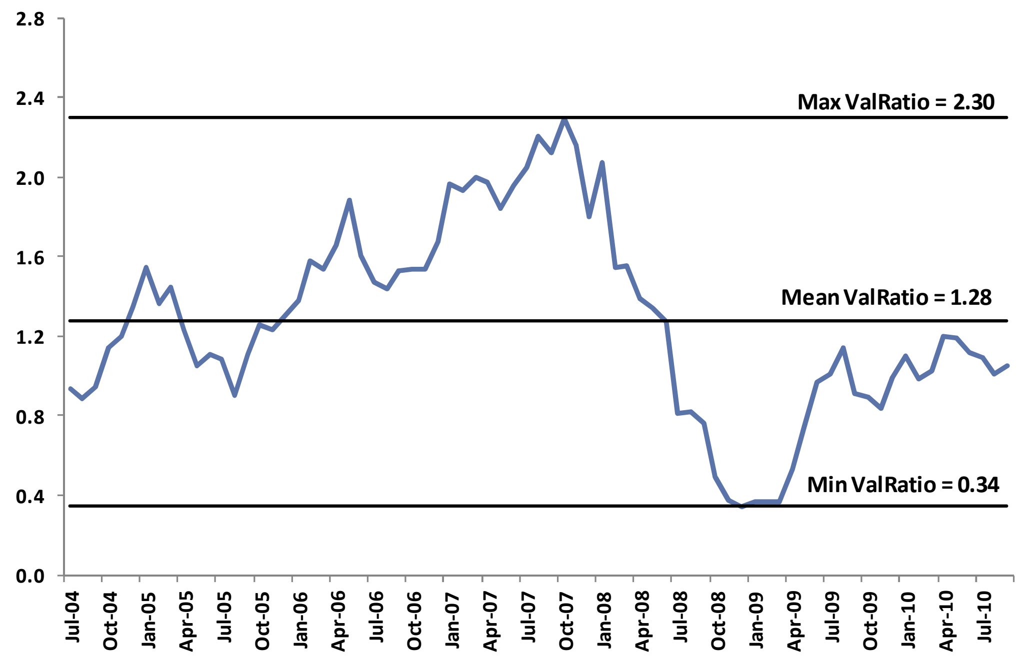
For the historical premium, we examine four time periods: Oct. 2009 to date when six stocks have been trading in the sector; July 2009 to date with five stocks trading, and so forth. We observe that Li Ning has been trading at a significant (50%-60%) premium to the sector average, while 361 Degrees has traded at a nearly 40% discount to the sector average. We consider historical context when assigning our ValRatios to our target price calculations.

Exhibit 7: TP ValRatio premium/discount vs. historical premium/discount

	Current ValRatio	Premium /discount	Target ValRatio	Historical premium/discount since Oct 09 (6 stocks)	since Jul 09 (5 stocks)	since Jul 08 (4 stocks)	since Oct 07 (3 stocks)
Dongxiang	0.86	0%	1.30	5%	10%	-5%	-12%
Li Ning	1.17	10%	1.43	46%	48%	60%	49%
Anta	2.06	10%	1.43	33%	31%	19%	7%
Xtep	1.01	0%	1.30	-26%	-27%	-41%	NM
Peak	0.80	-5%	1.24	-23%	NM	NM	NM
361 Degrees	1.12	-10%	1.17	-37%	-38%	NM	NM
Sector	**1.07**		**1.30**				

Source: Datastream, Gao Hua Securities Research estimates.

Exhibit 8: Historical ValRatio for the six China sports stocks under our coverage
Simple average since Jul 2004



Source: Datastream, Gao Hua Securities Research estimates.

We also factor in CROCI. As shown above, we assign a much smaller premium to Li Ning than it has historically commanded. This is because its CROCI is the lowest in the sector and a 50%-60% premium does not appear sustainable, in our view.

Exhibit 9: CROCI summary for the six China sports names under our coverage

	2006	2007	2008	2009	2010E	2011E	2012E
Dongxiang	178%	197%	233%	170%	156%	132%	117%
Li Ning	52%	59%	51%	45%	46%	53%	57%
Anta	41%	19%	93%	105%	105%	106%	109%
Xtep	23%	12%	130%	124%	126%	111%	109%
Peak	NA	63%	102%	94%	72%	85%	98%
361 Degrees	NA	31%	106%	112%	90%	76%	72%
Median	**47%**	**45%**	**104%**	**109%**	**98%**	**95%**	**103%**

Source: Company data, Gao Hua Securities Research estimates.

Back-testing inconclusive: Mixed performance for each method

We performed a back-test for the six sports stocks we cover, starting Oct. 2007, the first time the sector had three stocks trading.

Among the four valuation methods we tested, the stocks outperformed in 2007 (two months) on PEG. Stock picking based on 12-month forward sales growth generated the highest alpha in 2008. EV/EBITDA outperformed in 2009. In 2010 ytd, investors would have done the best if they had bought the stocks with the highest 12-m forward net income growth, and sold the ones with lowest net income growth.

Exhibit 10: Back-test summary

	Long stocks' alpha						Short stocks' alpha						Long+Short stocks' alpha					
	DC	EV/EBITDA	P/E	PEG	Net Income Growth	Sales Growth	DC	EV/EBITDA	P/E	PEG	Net Income Growth	Sales Growth	DC	EV/EBITDA	P/E	PEG	Net Income Growth	Sales Growth
2007	-6%	4%	-6%	11%	4%	-6%	5%	5%	5%	6%	5%	5%	-1%	9%	-1%	17%	9%	-1%
2008	-24%	-24%	4%	10%	-16%	4%	-15%	-15%	-15%	11%	-12%	9%	-38%	-38%	-16%	0%	-40%	5%
2009	-13%	-3%	-13%	-7%	13%	17%	14%	14%	14%	-16%	-16%	-22%	-2%	10%	-2%	-26%	-9%	-12%
2010 YTD	28%	24%	24%	7%	33%	7%	8%	8%	33%	7%	58%	29%	35%	31%	59%	9%	107%	37%

Note: Our return calculations are based on the Datastream total return index for each stock. An equal weighting is given to each stock in the portfolio and the monthly return is calculated as the average of all the stocks in the portfolio. The results are shown gross of transaction costs. This is based on perfect foresight. Long alpha is the performance of our long portfolio relative to our China Sportswear coverage universe. Short alpha is the inverted performance of our short portfolio relative to our China Sportswear coverage universe. Long/short alpha is the performance of our long portfolio against the performance of our short portfolio.

Source: Datastream, Gao Hua Securities Research estimates.

While back-testing does not point conclusively to one preferred valuation method, growth-focused metrics (PEG, sales and net income growth) each has outperformed one period or another. We think given the sector's short trading history, multiple IPOs during the period (two IPOs each in 2007 and 2009, one in 2008), and strong earnings growth, it is not surprising that the market has been focused more on growth. However, we noticed Director's Cut, our return-based valuation method, is getting more accurate in its measure of performance over time. We think that as industry growth normalizes, the market has begun to shift its attention away from growth and toward returns.

Sector growth slowing down; down comes P/E valuation

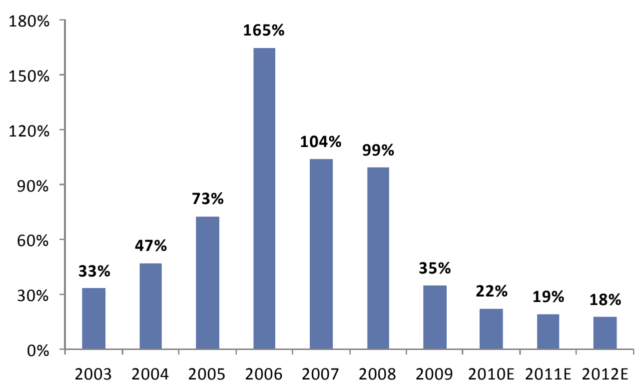
Our 12-month target prices imply a median sector 2011E P/E of 14X, below the sector's historical median of 22X. This is reasonable, in our view, as sector growth has slowed; we would not expect P/E multiple to go back to a level when the sector had high double-digit or even triple-digit growth.

Exhibit 11: Median target price-implied P/E

	12-month TP implied P/E		
	10E	**11E**	**12E**
Dongxiang	19X	15X	14X
Li Ning	23X	17X	15X
Anta	19X	15X	13X
Xtep	18X	14X	12X
Peak	19X	14X	12X
361 Degrees	15X	13X	12X
Median	**19X**	**14X**	**12X**

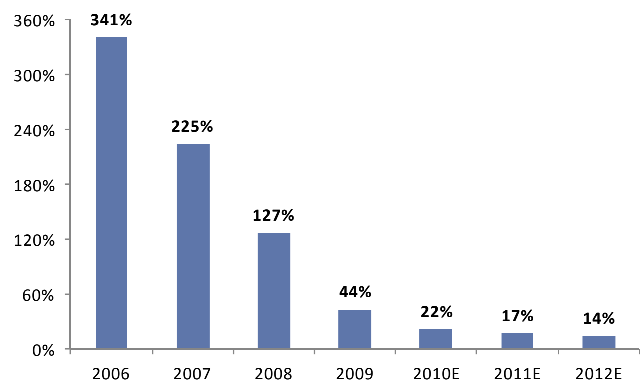
Source: Gao Hua Securities Research estimates.

Exhibit 12: Sales growth chart
Average of six companies



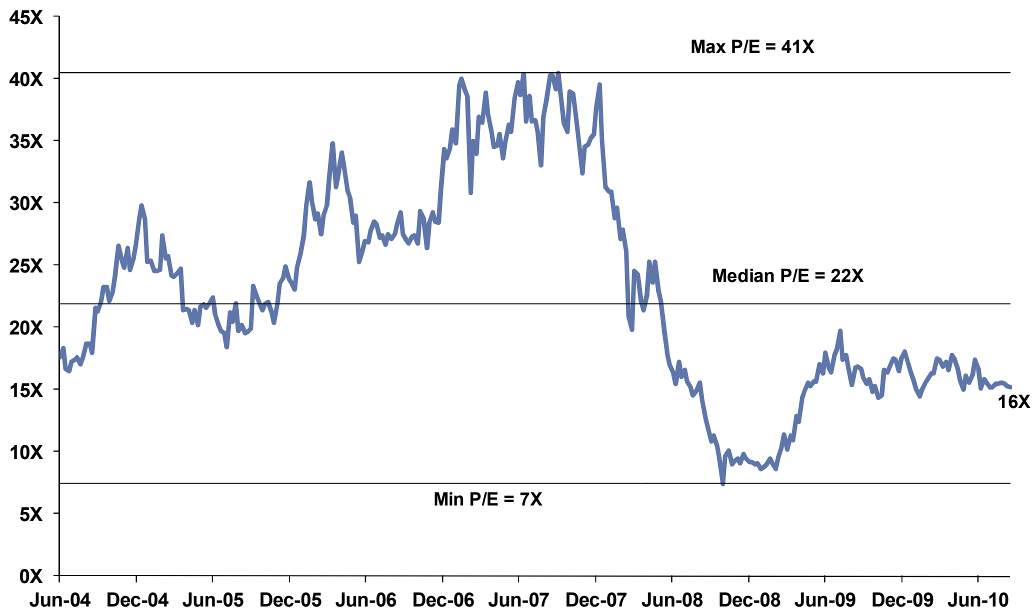
Source: Company data, Gao Hua Securities Research estimates.

Exhibit 13: Net income growth chart
Average of six companies



Source: Company data, Gao Hua Securities Research estimates.

Exhibit 14: China sports' stocks 12-m forward P/E
Market cap-weighted average



Source: Bloomberg data, Gao Hua Securities Research estimates.

Cross-check with PEG

We cross-check our Buy and Sell ratings with PEG. Overall, our ratings have been largely consistent using this method. PEG pointed to buying Peak and Xtep, and selling Anta; Director's Cut suggests the same.

Exhibit 15: PEG and suggested ratings
PEG = P/E CY11E over CY12E EPS growth

Stock	PEG	Suggested Rating
Dongxiang	0.87x	Neutral
Li Ning	0.86x	Neutral
Anta	1.43x	Sell
Xtep	0.75x	Buy
Peak	0.63x	Buy
361 Degrees	1.32x	Neutral

Source: Gao Hua Securities Research estimates.

Exhibit 16: Valuation comparison – GS China Retail coverage

Company	GS Rating	Ticker	Currency	Price 9/30/2010	12-m PT	Mkt cap (US$ mn)	P/E Calendarized (X) 10E	P/E Calendarized (X) 11E	PEG X 09	EV/EBITDA (X) 09	EV/EBITDA (X) 10E	Div yld 09	Div yld 10E	P/B (X) 10E	ROE 10E
Exporters															
Li & Fung	Buy*	0494.HK	HKD	43.65	47.50	21,482	29.9	23.1	1.1	35.9	23.6	1.8%	2.7%	8.8	29%
Esprit Holdings	Buy	0330.HK	HKD	42.10	55.00	6,990	13.1	12.4	NM	8.1	8.4	3.5%	3.8%	3.2	24%
Yue Yuen Industrial	Neutral	0551.HK	HKD	28.75	32.50	6,110	13.4	12.5	2.0	10.8	10.2	3.3%	4.0%	1.8	13%
Stella International Holdings	Buy	1836.HK	HKD	15.22	17.60	1,558	13.1	11.1	0.9	8.9	8.3	6.0%	5.3%	1.9	15%
						Median	**13.3**	**12.5**	**1.1**	**9.8**	**9.3**	**3.4%**	**3.9%**	**2.6**	**19%**
Department Stores															
Parkson Retail Group	Neutral	3368.HK	HKD	13.50	14.00	4,887	31.9	25.4	1.8	22.1	19.0	1.3%	1.5%	7.4	23%
Lifestyle International Holdings	Neutral	1212.HK	HKD	19.16	17.20	4,146	27.2	25.2	1.9	25.4	20.5	1.2%	1.5%	4.7	16%
Golden Eagle Retail Group	Neutral	3308.HK	HKD	22.00	18.20	5,509	41.1	33.0	2.1	35.8	28.5	0.6%	1.2%	10.3	26%
Maoye International Holdings	Buy	0848.HK	HKD	3.63	3.70	2,405	29.5	24.8	1.6	21.8	17.9	0.9%	1.0%	4.4	14%
New World Department Store China	Sell	0825.HK	HKD	7.98	6.70	1,734	23.0	20.1	2.3	14.5	13.5	2.0%	2.2%	2.8	12%
Intime Department Store (Group) Co.	Buy	1833.HK	HKD	10.70	10.30	2,429	27.8	23.6	1.1	32.5	23.0	1.4%	1.4%	4.3	14%
						Median	**28.7**	**25.0**	**1.9**	**23.8**	**19.8**	**1.2%**	**1.4%**	**4.5**	**15%**
CE Retailers and general retailers															
Gome Electrical Appliances Holding	RS	0493.HK	HKD	2.34	NA	5,033	17.3	14.4	NM	NA	NA	0.0%	0.0%	NA	0%
Suning Appliance Co.	Neutral	002024.SZ	CNY	15.97	10.33	16,698	38.7	32.4	2.2	34.5	26.8	0.2%	0.3%	8.1	20%
China Nepstar Chain Drugstore	Neutral	NPD	USD	4.45	3.30	467	29.3	24.3	NM	10.6	14.1	40.1%	1.7%	1.7	6%
Apparels, Footwear & Accessories															
Belle International Holdings	Buy	1880.HK	HKD	15.58	15.00	16,937	33.8	27.1	1.5	32.1	24.2	0.5%	0.7%	6.4	19%
China Dongxiang Group	Buy	3818.HK	HKD	4.46	6.00	3,257	13.5	11.4	1.0	9.4	8.0	4.7%	5.2%	2.8	21%
Anta Sports Products	Sell*	2020.HK	HKD	17.98	13.20	5,778	25.0	20.9	1.4	9.9	18.0	2.0%	2.5%	6.8	29%
Li Ning Company	Neutral	2331.HK	HKD	23.55	28.00	3,190	18.8	14.3	0.9	11.9	11.5	1.8%	2.2%	6.3	38%
Xtep International Holdings	Buy	1368.HK	HKD	6.52	7.90	1,827	14.9	11.8	0.7	5.3	9.7	3.5%	4.4%	3.6	26%
Peak Sport Products	Buy*	1968.HK	HKD	5.70	7.80	1,541	13.3	10.3	0.9	5.2	8.4	2.6%	2.7%	2.9	24%
361 Degrees International	Neutral	1361.HK	HKD	7.80	8.00	2,076	14.1	12.7	1.4	4.5	9.8	2.0%	2.1%	3.6	29%
Ports Design	Sell	0589.HK	HKD	21.45	18.00	1,566	22.0	20.0	3.4	18.4	15.9	3.9%	2.7%	6.8	32%
Bosideng International Holdings	Neutral	3998.HK	HKD	3.37	3.10	3,376	19.3	17.3	1.5	14.5	11.2	4.2%	4.9%	3.2	18%
						Median	**18.8**	**14.3**	**1.4**	**9.9**	**11.2**	**2.6%**	**2.7%**	**3.6**	**26%**
Taiwan															
Uni-President Enterprise	Neutral	1216.TW	NTD	40.55	37.30	5,591	17.2	17.6	0.2	37.6	39.1	1.8%	2.2%	2.4	14%
President Chain Store	Sell	2912.TW	NTD	132.00	92.00	4,414	23.1	23.3	2.2	9.1	8.6	2.7%	3.6%	6.6	29%
						Overall average	**22.9**	**19.5**	**1.5**	**18.2**	**16.5**	**3.8%**	**2.5%**	**4.8**	**20%**
						H-share Retail average	**22.1**	**18.6**	**1.5**	**17.2**	**15.3**	**2.3%**	**2.6%**	**4.9**	**21%**
						H-share China Retail average	**23.3**	**19.5**	**1.6**	**17.6**	**16.0**	**2.0%**	**2.3%**	**5.1**	**21%**

Note:
- EPS numbers are based fully diluted, pre-exceptional/recurring EPS
- EV are based on adjusted net debt numbers for department stores
- Gome's estimates are based on I/B/E/S consensus
- RS = Rating Suspended

* The stock is on our regional Conviction List.

For methodology and risks associated with our 12-month price targets mentioned, please refer to the analyst's previously published research. For important disclosures, please go to http://www.gs.com/research/hedge.html.

Source: Company data, Bloomberg, I/B/E/S, Goldman Sachs Research estimates, Gao Hua Securities Research estimates.

Return comparison: Why is the China sports companies' CROCI much higher?

We compare the CROCI of Chinese sports companies with global peers (Nike, Adidas, and Puma). We find that Chinese companies have higher cash margins and faster asset turnover, driven by:

- lower SG&A
- lower tax rate
- lower working capital

Decomposing CROCI to cash margin and assets turnover shows that Chinese companies are generate better metrics than global peers on both measures, with a median cash margin of 22% (global median: 12%), and median GCI turnover of 4.8X (global: 2.1X).

Exhibit 17: CROCI decomposed to cash margin and asset turnover
As of 2009

	2009		
	CROCI	DACF/Sales	Sales/GCI
Dongxiang	170%	36%	4.8X
Li Ning	45%	14%	3.2X
Anta	105%	22%	4.8X
Xtep	124%	20%	6.3X
Peak	94%	24%	3.9X
361 Degrees	112%	21%	5.3X
China Median	**109%**	**22%**	**4.8X**
NIKE	25%	12%	2.1X
Adidas	8%	7%	1.3X
Puma	29%	12%	2.3X
Global Median	**25%**	**12%**	**2.1X**

Note: Closing prices (Oct 1): Nike (NKE, Buy, Conviction list, US$80.25), Adidas (ADSG.DE, Buy, EUR45.57), Puma (PUMG.DE, Neutral, EUR240.50)

Source: Company data, Gao Hua Securities Research estimates, Goldman Sachs Research estimates.

Better cash margin (DACF/Sales) is in turn driven by lower SG&A and lower tax rate. We assume the tax rate will normalize to 25% by 2013, but still be below the median tax rate of 29% for global peers. Low SG&A ratio is probably due to: (1) low labor cost in China; (2) less investment in R&D by Chinese companies; and (3) no self-operated retail stores by Chinese companies. We think the low SG&A ratio is likely to be sustained in the next two to three years.

Exhibit 18: Higher cash margin driven by lower SGA ratio and lower tax rate
As of 2009

	2009					
	DACF/Sales	EBITDA Margin	Tax Rate	GPM	SGA as % of Sales	D&A % of sales
Dongxiang	36%	41%	19%	60%	21%	1%
Li Ning	14%	17%	24%	47%	33%	2%
Anta	22%	24%	14%	42%	19%	1%
Xtep	20%	20%	8%	39%	20%	0%
Peak	24%	23%	11%	37%	15%	0%
361 Degrees	21%	23%	13%	37%	15%	0%
Median	**22%**	**23%**	**13%**	**41%**	**19%**	**1%**
NIKE	12%	15%	25%	46%	33%	2%
Adidas	7%	8%	29%	45%	38%	3%
Puma	12%	15%	29%	51%	37%	2%
Median	**12%**	**15%**	**29%**	**46%**	**37%**	**2%**

Source: Company data, Gao Hua Securities Research estimates, Goldman Sachs Research estimates.

Chinese companies' fast assets turn is primarily driven by lower inventory. This is likely due to:

- **Low percentage of retail business.** Nike has 13% of sales from self-operated retail stores; Adidas has 19% sales from retail. In contrast, Chinese brands are 100% wholesalers, with the exception of Li Ning, which has 11% of sales from retail.
- **Close to factories.** Chinese companies either source from local suppliers, or produce in-house. Once produced, merchandise is often shipped to customers directly. Global brands' supply chains are more extensive, as they source largely from Asia but sell globally. Goods in transit could be on global companies' balance sheets as inventory.

Exhibit 19: Higher assets turnover driven by lower inventory

Inventory % of sales	2008	2009	Inventory days	2008	2009
Dongxiang	5%	6%	Dongxiang	42	53
Li Ning	9%	8%	Li Ning	61	53
Anta	8%	6%	Anta	50	38
Xtep	8%	8%	Xtep	49	47
Peak	8%	6%	Peak	43	36
361 Degrees	5%	3%	361 Degrees	29	18
China median	**8%**	**6%**	**China median**	**46**	**42**
NIKE	12%	12%	NIKE	82	80
Adidas	17%	17%	Adidas	119	112
Puma	16%	16%	Puma	121	119
Global median	**16%**	**16%**	**Global median**	**119**	**112**

Source: Company data, Gao Hua Securities Research estimates, Goldman Sachs Research estimates.

Receivable and payable ratios are similar for Chinese and global companies. However, we notice that one Chinese company, 361 Degrees, has long A/R days and even longer A/P days. This could suggest that company might have a receivables problem and is financing its operations partly by not paying its suppliers in a timely manner, in the absence of any other explanation.

Exhibit 20: Chinese and global sports companies have similar A/R and A/P turnover

A/R % of Sales	2008	2009
Dongxiang	8%	9%
Li Ning	13%	13%
Anta	11%	9%
Xtep	18%	18%
Peak	23%	22%
361 Degrees	32%	32%
China median	**15%**	**15%**
NIKE	15%	15%
Adidas	15%	16%
Puma	16%	16%
Global median	**15%**	**16%**

AR days	2008	2009
Dongxiang	28	34
Li Ning	48	47
Anta	39	33
Xtep	65	64
Peak	85	81
361 Degrees	118	117
China median	**57**	**56**
NIKE	53	54
Adidas	56	57
Puma	57	59
Global median	**56**	**57**

A/P % of Sales	2008	2009
Dongxiang	7%	8%
Li Ning	10%	10%
Anta	10%	11%
Xtep	10%	15%
Peak	19%	11%
361 Degrees	26%	26%
China median	**10%**	**11%**
NIKE	6%	6%
Adidas	10%	11%
Puma	10%	11%
Global median	**10%**	**11%**

AP days	2008	2009
Dongxiang	62	70
Li Ning	71	70
Anta	59	68
Xtep	56	90
Peak	101	67
361 Degrees	140	150
China median	**67**	**70**
NIKE	41	41
Adidas	68	77
Puma	75	81
Global median	**68**	**77**

Source: Company data, Gao Hua Securities Research estimates, Goldman Sachs Research estimates.

An alternative – and our preferred – way to look at CROCI

Since Chinese companies generally have a lot of cash (raised from recent IPOs and largely unused yet), an alternative way to calculate CROCI is to include cash in GCI. By adding cash to GCI, the resulting CROCI for Chinese sportswear companies is much lower than if we exclude cash from the GCI calculation. However, importantly, even the adjusted CROCI is higher than global peers' CROCI, driven by the same factors discussed above (i.e., tax rate, SG&A ratio, and inventory to sales ratio), partly offset by high excess cash.

Exhibit 21: Cash-adjusted CROCI looks more normal

	2007	2008	2009	2010E	2011E	2012E
Dongxiang	22%	20%	20%	21%	22%	24%
Li Ning	30%	34%	32%	30%	30%	28%
Anta	5%	22%	26%	27%	28%	28%
Xtep	9%	39%	24%	26%	27%	27%
Peak	36%	55%	37%	24%	25%	25%
361 Degrees	NA	83%	40%	31%	28%	25%
China median	**22%**	**36%**	**29%**	**27%**	**27%**	**26%**
Nike	19%	19%	20%	15%	17%	21%
Adidas	13%	12%	8%	12%	13%	14%
Puma	24%	20%	20%	21%	22%	20%
Global median	**19%**	**19%**	**20%**	**15%**	**17%**	**20%**

Source: Company data, Gao Hua Securities Research estimates, Goldman Sachs Research estimates.

Exhibit 22: China sports names' higher CROCI partly offset by higher excess cash
As of 2009

	Sals/cash
Dongxiang	0.6X
Li Ning	6.6X
Anta	1.5X
Xtep	1.4X
Peak	1.6X
361 Degrees	1.7X
China median	**1.5X**
Nike	6.9X
Adidas	13.4X
Puma	5.1X
Global median	**6.9X**

Source: Company data, Gao Hua Securities Research estimates, Goldman Sachs Research estimates.

Growth comparison (I): Sales growth

Our analysis below provides a detailed decomposition of what drives main brand wholesale revenue growth. We analyze space growth and sales per store growth, and drill down to store size, as well as volume and price. Our key conclusions are:

- **Peak and Xtep both have strong sales growth potential,** driven by store expansion, average store size increase, and ASP increase.
- **Dongxiang's growth potential is underestimated by the market, in our view.** We believe its Kappa brand has the best space growth potential with the lowest current store count of the sector. Kappa also appears to have the best volume growth potential in the footwear segment.
- **Anta brand growth could slow.** As of 1H10, its sales volume per store is more than 50% above the sector median. However, while the brand may be significantly outperforming peers at retail sell-through, there is also a chance that its inventories are building up in the channel.

Sales volume per retail store analysis underscores risk for Anta, opportunity for Dongxiang and 361 Degrees. Based on disclosed wholesale volume and retail store count, we estimate daily sales volume at retail stores assuming that sell-in equals sell-through (i.e., with no inventory build-up at the retail level). The median volume is 26 pieces per day per store, comprising 8 pairs of shoes and 18 pieces of apparel. In terms of volume growth potential relative to sector, we think Dongxiang has an opportunity in footwear, and 361 Degrees in apparel.

Exhibit 23: Wholesale volume per store per day
As of 1H10; estimates based on wholesale volume and average number of stores during the period

	Volume		Footwear volume		Apparel volume	
	pieces/day/store	vs. median	pairs/day	vs. median	pieces/day	vs. median
Dongxiang	22	-17%	4	-57%	18	-1%
Li Ning	31	19%	8	-4%	23	27%
Anta	41	54%	14	71%	26	43%
Xtep	25	-3%	8	-3%	17	-5%
Peak	27	3%	9	3%	18	1%
361 Degrees	19	-29%	11	31%	8	-58%
median	**26**		**8**		**18**	

Source: Company data, Gao Hua Securities Research estimates.

Anta leads in both footwear and apparel volume, with 14 pairs and 26 pieces per day per store. However, analysis of historical levels and 1H10 retail SSS seems to suggest the brand could potentially have a channel inventory problem.

Historically, Anta's volume per store per day has been much lower. During 1H10, Anta reported SSS of c. 10%, with ASP up c. 5%, implying volume growth of 5%. About 87% of Anta stores are same stores (see page 29 regarding definition of "same stores" for SSS calculation purposes). So, wholesale volume per store growth of 22% could point to lower sell-through than sell-in, or a channel inventory problem, in our view.

Exhibit 24: Anta's wholesale volume per store per day

	2006	2007	2008	2009	1H10
Volume	**17**	**26**	**32**	**33**	**41**
yoy growth		*53%*	*23%*	*4%*	*22%*
Footwear	10	11	14	15	14
yoy growth		*17%*	*25%*	*9%*	*-7%*
Apparel	7	15	18	18	26
yoy growth		*100%*	*22%*	*-1%*	*47%*

Source: Company data, Gao Hua Securities Research estimates.

ASP potential varies by brand. We do not expect strong pricing power for any of the companies, given their relatively low brand equity and undifferentiated products. In terms of retail ticket price, all Jinjiang brands (Anta, Xtep, Peak, 361 Degrees) are priced between Rmb200 and Rmb230 per pair on footwear. Peak, 361 Degrees, and to a lesser extent Xtep, are better positioned to raise prices, since: (1) their retail prices are lower than similarly positioned Anta, and (2) their wholesale discount is higher than Anta's, and thus could be lowered to Anta's level. Following this line of argument, Anta's ASP increase potential is relatively lower.

Dongxiang and Li Ning have a lower potential for ASP increases, according to our analysis. Dongxiang already has the highest prices and second-lowest wholesale discount. Li Ning's footwear is already priced at a 50% premium to mass-market Jinjiang brands, and is facing strong competition from Nike and Adidas in the higher-price segment. In addition, Li Ning's wholesale discount is the lowest in the group. However, Li Ning's apparel is priced similarly to Jinjiang brands. It has some potential to raise its apparel ASP, in our view.

Exhibit 25: Average wholesale price
As of 1H10

	Avg Price (Rmb)	vs. median	Footwear price Rmb/pair	vs. median	Apparel price Rmb/piece	vs. median	Footwear mix	Apparel mix
Dongxiang	131	84%	175	92%	125	124%	21%	75%
Li Ning	92	29%	154	68%	59	6%	42%	47%
Anta	72	1%	97	6%	50	-11%	50%	47%
Xtep	66	-7%	86	-6%	53	-6%	43%	55%
Peak	59	-16%	80	-12%	43	-22%	46%	52%
361 Degrees	70	-1%	80	-12%	67	19%	35%	63%
median	**71**		**91**		**56**			

Source: Company data, Gao Hua Securities Research estimates.

Exhibit 26: Retail price, calculated off wholesale price and wholesale discount
As of 1H10, Rmb

	Wholesale price % of retail	Footwear price		Apparel price	
		Wholesale	Retail	Wholesale	Retail
Dongxiang	48%	175	365	125	260
Li Ning	50%	154	307	59	119
Anta	42%	97	231	50	118
Xtep	40%	86	214	53	131
Peak	38%	80	212	43	114
361 Degrees	38%	80	211	67	175

Source: Company data, Gao Hua Securities Research estimates.

Space growth: Dongxiang best positioned. Space growth has been a major growth driver for the China sportswear sector in recent years. Collectively, the six companies under our coverage and that we focus on in this report added over 8,300 stores in 2007, and over 7,600 in 2008. Space expansion growth began to slow in 2009 and 1H10.

Exhibit 27: Store count by brand
As at period end

	2006	2007	2008	2009	1H10
Dongxiang	1,138	1,945	2,808	3,511	3,820
Li Ning	3,860	4,881	5,935	6,854	7,004
Anta	4,108	4,716	5,667	6,591	7,052
Xtep	1,568	4,380	5,056	6,103	6,579
Peak	2,340	3,661	5,179	6,206	6,796
361 Degrees	1,391	3,126	5,667	6,693	6,927
Total	**14,405**	**22,709**	**30,312**	**35,958**	**38,178**
yoy		8,304	7,603	5,646	5,143

Note: for 361 Degrees, store count for 2006/2007 is as of financial year end (June 30), for the rest, is as of Calendar year end.

Source: Company data.

We still forecast store expansion to the tune of 4,200 stores a year in 2011E and 2012E, but note that as the store base gets larger, the growth rate is naturally getting smaller. Of the group, Dongxiang currently has the lowest store count and is positioned to have the highest space growth in 2011E and 2012E, in our view.

Exhibit 28: Space growth by brand
yoy

	2006	2007	2008	2009	2010E	2011E	2012E
Dongxiang	124%	96%	54%	33%	21%	17%	14%
Li Ning	30%	27%	24%	18%	11%	7%	7%
Anta	65%	34%	18%	18%	14%	12%	10%
Xtep	56%	158%	59%	18%	17%	13%	11%
Peak	NA	64%	47%	29%	18%	13%	11%
361 Degrees	NA	148%	72%	38%	21%	12%	10%
median	**61%**	**80%**	**51%**	**24%**	**18%**	**13%**	**10%**

Source: Company data, Gao Hua Securities Research estimates.

Store size is often overlooked but can be a meaningful growth driver. Peak and Xtep have the best potential. We think brands with small stores have better growth potential, as the increase in store size could drive better wholesale revenue per store, all else being equal.

Anta's store size growth history shows that an increase in store size has been an important driver for its sales/store growth.

Exhibit 29: Anta's sales/store growth partly driven by store size increase

	2006	2007	2008	2009	1H10
Anta store size(sqm)	84	92	101	107	110
store size growth(yoy)		10%	10%	6%	5%
sales/store growth(yoy)	13%	79%	29%	4%	5%

Source: Company data, Gao Hua Securities Research estimates.

As of 1H10, Peak and Xtep's store sizes are below the sector median. Both companies' management intend to increase store size – new stores need to be 90sqm or larger according to management guidance. We think Peak and Xtep have better sales/store growth potential driven by likely store size increases.

Exhibit 30: Average retail store size in sqm
As of 1H10

	Store size (sqm)	
	sqm	vs. median
Dongxiang	104	*2%*
Li Ning	119	17%
Anta	110	8%
Xtep	84	-17%
Peak	74	-27%
361 Degrees	100	-2%
median	**102**	

Source: Company data, Gao Hua Securities Research estimates.

Total company sales growth: Contribution from non-core business. Up to now, we have been focused on the growth comparison of the core business (main brand wholesale). However, each company in fact has some non-core businesses. We summarise each company's core and non-core businesses by sales below.

Exhibit 31: Core and non-core businesses by company

	% of 1H10 sales		Non core business
	Core	non-core	description
Dongxiang	91%	9%	Japan
Li Ning	78%	22%	Li Ning retail, Li Ning non China, AIGLE, ZDO, DHS
Anta	94%	6%	kids, lifestyle, Fila
Xtep	93%	7%	Disney sports
Peak	89%	11%	Export
361 Degrees	99%	1%	kids

Source: Company data, Gao Hua Securities Research estimates.

Some non-core businesses are newly established and could have a very high growth rate from a low base. However, as non-core businesses comprise a small percentage of total company sales, their growth contribution is relatively small.

Exhibit 32: Sales growth contribution by non-core business
yoy

	2010E	2011E	2012E
Dongxiang	2%	2%	2%
Li Ning	6%	7%	5%
Anta	3%	3%	3%
Xtep	1%	1%	0%
Peak	4%	2%	2%
361 Degrees	1%	4%	2%

Source: Company data, Gao Hua Securities Research estimates.

Growth comparison (II): Gross margin expansion

Gross margin is most impacted by wholesale discount, but the ex-factory price and retail ticket price also impact gross margin. The mix of apparel and footwear could make a difference in gross margin for some companies, given apparel typically offer higher margins. But many companies with roots in manufacturing adopt a cost-plus pricing strategy; for these companies, the apparel/footwear mix does not have much of an impact on gross margin.

Gross margin determinants: retail mark-up, wholesale discount. A few steps of algebra reveal that GM has a positive correlation with retail mark-up and wholesale price (as a percentage of retail price, the flipside of wholesale discount):

$$Gross\ Margin = 1 - \frac{ex\text{-}factory\ price}{wholesale\ price} = 1 - \frac{\frac{retail\ price}{retail\ mark\text{-}up}}{retail\ price * wholesale\ price\ as\ \%\ of\ retail}$$
$$= 1 - \frac{1}{retail\ mark\text{-}up * wholesale\ price\ as\ \%\ of\ retail}$$

Exhibit 33: Gross margin decomposed: footwear
Rmb, As of 1H10

	Ex-factory Price	Wholesale Price	Retail Price	Gross margin =1-1/(AxB)	Wholesale price % of retail (B)	Retail mark-up (A)
Dongxiang	65	175	365	63%	48%	5.6X
Li Ning	80	154	307	48%	50%	3.8X
Anta	52	97	231	46%	42%	4.4X
Xtep	51	86	214	41%	40%	4.2X
Peak	50	80	212	38%	38%	4.2X
361 Degrees	50	80	211	38%	38%	4.2X
Median	**51**	**91**	**222**	**44%**	**41%**	**4.2X**

Source: Company data, Gao Hua Securities Research estimates.

Exhibit 34: Gross margin decomposed: apparel
Rmb, As of 1H10

	Ex-factory	Wholesale	Retail price	Gross margin =1-1/(AxB)	Wholesale price % of retail (B)	Retail mark-up (A)
Dongxiang	47	125	260	63%	48%	5.6X
Li Ning	31	59	119	48%	50%	3.8X
Anta	29	50	118	41%	42%	4.0X
Xtep	31	53	131	41%	40%	4.2X
Peak	27	43	114	38%	38%	4.2X
361 Degrees	40	67	175	40%	38%	4.4X
Median	**31**	**56**	**125**	**41%**	**41%**	**4.2X**

Source: Company data, Gao Hua Securities Research estimates.

Our analysis above shows:

- **Dongxiang**'s high GM is driven by retail mark-up, and to a lesser extent, wholesale price. As long as Dongxiang maintains its brand equity, its gross margin should remain the highest in the group, even if it lowers its wholesale price (as a percentage of retail).
- **Li Ning** has a significant opportunity to raise its footwear gross margin by reducing its ex-factory cost. Current retail mark-up is only 3.8X, the lowest in the sector, driven by having the highest ex-factory price. Li Ning's OEM partner is building a new factory in Hubei Province. Close partnership, economies of scale, and low production cost could potentially lower Li Ning's ex-factory cost and raise gross margin, in our view. An increase in *retail prices* is less likely for Li Ning, given: (1) its footwear already retails for over Rmb300 a pair, higher than other domestic brands; and (2) a further price increase will bring head-on competition with Nike and Adidas (whose footwear retails for Rmb400-600 a pair), which have stronger brand equity. On *wholesale prices* (as a percentage of retail), Li Ning is the highest (50% of retail). Management has already begun to lower its wholesale price ratio by 50-100 bp. While this could cause GM pressure, lower ex-factory prices could more than offset the negative impact, in our view.
- **Anta, Xtep, Peak and 361 Degrees** all have similar margin levels, with Anta slightly ahead, driven by small upside in both wholesale price (42% of retail) and retail markup (4.4X). We think Xtep, Peak and 361 Degrees all have potential to raise their gross margins to Anta's level.

Our gross margin forecast is summarized below.

Exhibit 35: Gross margin forecast
Total company

	2008	2009	2010E	2011E	2012E
Dongxiang	58.5%	60.4%	60.8%	61.1%	61.4%
Li Ning	48.1%	47.3%	47.5%	48.4%	48.9%
Anta	40.0%	42.1%	43.7%	43.7%	43.7%
Xtep	37.1%	39.1%	41.6%	41.9%	41.9%
Peak	32.7%	37.5%	38.1%	38.4%	38.4%
361 Degrees	32.4%	37.3%	39.4%	39.5%	39.5%

Source: Company data, Gao Hua Securities Research estimates.

Product mix could impact gross margin, but it varies by brand. We also highlight that for some brands, footwear and apparel GMs differ. As such, any change in product mix could have an impact on future GM.

Exhibit 36: Product mix by brand
As of 1H10

	Footwear	Apparel	Accessory
Dongxiang	21%	75%	4%
Li Ning	42%	47%	11%
Anta	50%	47%	3%
Xtep	43%	55%	2%
Peak	46%	52%	2%
361 Degrees	35%	63%	1%

Source: Company data, Gao Hua Securities Research estimates.

Exhibit 37: Gross margin by category
As of 1H10

GM	Footwear	Apparel	Accessory
Dongxiang	higher	lower	NA
Li Ning	NA	NA	NA
Anta	46%	41%	41%
Xtep	40%	41%	NA
Peak	38%	38%	36%
361 Degrees	38%	40%	33%

Source: Company data, Gao Hua Securities Research estimates.

In-house production vs. outsourced. Theoretically, having in-house production helps gross margin, as value created during the manufacturing process is captured by the brand, rather than its OEM manufacturer. However, wholesale discount and retail mark-up are the more important factors determining gross margin. Brands with some in-house production still earn lower gross margins for these reasons.

Exhibit 38: In-house vs. outsourced production
1H10, % of COGS

	In-house	Outsourced
Dongxiang	0%	100%
Li Ning	0%	100%
Anta	28%	72%
Xtep	50%	50%
Peak	27%	73%
361 Degrees	18%	82%

Source: Company data, Gao Hua Securities Research estimates.

Growth comparison (III): Operating expense

Operating expense as a percentage of sales ranges from 15%-32% for the six Chinese sports companies. Advertising & Promotion (A&P) is the largest component of operating expense for all companies. Staff and R&D are also meaningful items worth discussing. We expect sector operating expense ratio to be largely flat in 2011E and 2012E, as companies become more rational in A&P spending.

Exhibit 39: Operating expense as a % of sales
1H10

	Total	A&P	Staff	R&D	Others
Dongxiang	21%	7%	4%	3%	6%
Li Ning	32%	13%	8%	2%	8%
Anta	18%	12%	5%	2%	0%
Xtep	19%	12%	5%	1%	1%
Peak	15%	11%	2%	1%	2%
361 Degrees	15%	8%	1%	1%	6%

Source: Company data, Gao Hua Securities Research estimates.

A&P comparison

A&P generally includes three components for most companies:
(1) sponsorship of sporting events, athletes, and other spokespersons;
(2) media advertising; and
(3) support for retail stores, such as store opening/redecoration subsidies, in-store promotion materials, free gift with purchases. (Note: Peak accounts for its retail stores' subsidies as a sales discount, impacting its revenue. As a result, Peak's reported revenue and A&P expense are lower than they would be had Peak used the same accounting method as its peers).

Li Ning has spent the most absolute Rmb on A&P every year and Peak the least.

Exhibit 40: A&P spend
Rmb mn, empty space means data unavailable

	2001	2002	2003	2004	2005	2006	2007	2008	2009	1H10
Dongxiang					4	70	111	257	296	158
Li Ning	68	109	160	268	376	522	696	1,171	1,291	595
Anta				29	47	104	371	638	746	414
Xtep					23	42	76	260	419	239
Peak								154	349	204
361 Degrees					9	34	84	283	385	196
median	**68**	**109**	**160**	**148**	**23**	**70**	**111**	**271**	**402**	**222**

Note: 361 Degrees' data is based on fiscal year-ending Jun 30, except for 1H10, which is based on the calendar year.

Source: Company data, Gao Hua Securities Research estimates.

A&P as a percentage of sales peaked in 2008. This is not surprising, given 2008 was the year when China hosted the Olympic Games. Although the sector median in 2009 was higher than 2008, it was driven by catch-up spending by smaller brands such as Xtep, Peak, and 361 Degrees, as they had more cash from their IPOs in 2008 and 2009.

Exhibit 41: A&P as a percentage of sales

	2001	2002	2003	2004	2005	2006	2007	2008	2009	1H10
Dongxiang					3%	8%	6%	8%	7%	7%
Li Ning	9%	11%	13%	14%	15%	16%	16%	18%	15%	13%
Anta				9%	7%	8%	12%	14%	13%	12%
Xtep					8%	9%	6%	9%	12%	12%
Peak								8%	11%	11%
361 Degrees					3%	9%	6%	8%	9%	8%
median	**9%**	**11%**	**13%**	**12%**	**7%**	**9%**	**6%**	**9%**	**12%**	**12%**

Note: 361 Degrees' data is based on fiscal year-ending Jun 30, except for 1H10, which is based on the calendar year.

Source: Company data, Gao Hua Securities Research estimates.

Decline in A&P effectiveness started in 2008. We analyze the ratio between incremental sales and incremental A&P spend, as a proxy to assess the effectiveness of A&P investment. Although data prior to 2006 was limited, the industry trend thus revealed is still valid, in our view, as Li Ning has been a leading brand and representative of industry trends. Our analysis shows that A&P effectiveness was on the rise up to 2007, but dropped for every brand in 2008. A&P effectiveness improved in 2009, due to slower spending increase, but declined again in 1H10, driven by slower sales growth. Li Ning and Anta, the two biggest spenders of A&P, both reduced A&P ratio in 1H10.

Exhibit 42: Incremental sales/Incremental A&P
Incremental sales = current year sales – previous year sales; incremental A&P = current year A&P – previous year A&P

	2001	2002	2003	2004	2005	2006	2007	2008	2009	1H10
Dongxiang						11	21	11	17	6
Li Ning		5	6	6	5	5	7	5	14	NM
Anta				11	20	10	7	5	12	6
Xtep					13	10	26	8	4	8
Peak								7	5	18
361 Degrees						4	19	11	9	9
Median		**5**	**6**	**8**	**13**	**10**	**19**	**7**	**10**	**8**

Note: 1. Li Ning's A&P in 1H10 was smaller than that in 1H09 in absolute Rmb terms; 361 Degrees' data is based on fiscal year-ending Jun 30, except for 1H10, which is based on the calendar year.

Source: Company data, Gao Hua Securities Research estimates.

Staff expenses

Li Ning has the highest staff expense ratio. Peak and 361 Degrees' staff expense ratios are significantly below the sector average.

Exhibit 43: Staff expense as a percentage of sales

	2007	2008	2009	2010E	2011E	2012E
Dongxiang	4%	5%	5%	4%	4%	4%
Li Ning	7%	7%	8%	7%	7%	7%
Anta	4%	4%	5%	5%	5%	5%
Xtep	4%	3%	2%	5%	4%	4%
Peak	NA	2%	1%	2%	2%	2%
361 Degrees	NA	1%	1%	1%	2%	2%

Source: Company data, Gao Hua Securities Research estimates.

Breakdown to headcount and compensation per head. Li Ning has the largest non-factory headcount, while Dongxiang has the smallest. However on a compensation per head basis, Dongxiang pays the most in the group. Anta's comp/head has caught up with Li Ning since 2008, likely with the hiring of several senior executives with strong industry experience. Peak and 361 Degrees lag in comp/head, and are likely to increase their staff spend as talent is an important way of staying competitive.

Exhibit 44: Headcount breakdown
1H10

	Factory	Non factory	Total
Dongxiang	0	480	480
Li Ning	0	4,373	4,373
Anta	10,673	1,827	12,500
Xtep	5,417	1,966	7,383
Peak	8,239	1,436	9,675
361 Degrees	7,578	830	8,408

Source: Company data, Gao Hua Securities Research estimates.

Exhibit 45: Compensation per head
Rmb/year, non factory headcount

	2007	2008	2009	1H10
Dongxiang	170,516	376,534	392,796	374,258
Li Ning	112,241	118,074	142,348	157,767
Anta	89,967	121,461	170,965	175,973
Xtep	38,072	46,727	46,559	96,994
Peak	NA	NA	33,478	38,035
361 Degrees	NA	NA	31,478	51,181

Source: Company data, Gao Hua Securities Research estimates.

R&D spend

Although R&D is a relatively small component in operating expense, we think it's worth comparing, as R&D spend could be an indicator of brand's technology content and/or product quality, especially for performance-driven, shoe-centric brands.

Li Ning invests the most in R&D, and as of 1H10 its footwear wholesale price of Rmb154 was 68% above the sector median (Exhibit 25). Dongxiang has spent the second highest amount in R&D 2006 to date, despite its focus on apparel, which is normally less R&D driven. Smaller brands including Peak and 361 Degrees seem to have invested very little and are likely to need to increase their R&D spend in the future.

Exhibit 46: R&D spend as a percentage of sales

	2007	2008	2009	2010E	2011E	2012E
Dongxiang	2%	2%	2%	3%	3%	3%
Li Ning	3%	3%	3%	3%	3%	2%
Anta	2%	2%	2%	2%	2%	2%
Xtep	1%	2%	2%	1%	2%	2%
Peak	0%	0%	0%	1%	1%	2%
361 Degrees	0%	0%	0%	1%	1%	1%

Note: 361 Degrees' data is based on fiscal year-ending Jun 30, except for 1H10, which is based on the calendar year.

Source: Company data, Gao Hua Securities Research estimates.

Exhibit 47: R&D spend summary
Rmb mn

	2006	2007	2008	2009	1H10	2006 to date
Dongxiang	8	31	63	91	185	**377**
Li Ning	79	139	177	230	111	**736**
Anta	5	49	82	103	56	**296**
Xtep	6	17	45	57	27	**151**
Peak	1	2	6	9	9	**27**
361 degree	0	0	4	14	21	**39**

Note: 361 Degrees' data is based on fiscal year-ending Jun 30, except for 1H10, which is based on the calendar year.

Source: Company data, Gao Hua Securities Research estimates.

Analyzing China sports distribution model: how distributors' P/L may impact brand performance

China's sportswear brands use either exclusive or non-exclusive distributors. These distributors typically operate retail stores directly, as well as wholesale sports merchandise to authorized dealers. We compare the pros and cons of using exclusive vs. non-exclusive distributors. We also estimate and compare the profitability of distributors who represent different brands. We find our profitability estimates offer a reasonable explanation to 1H10 brand performance divergence.

Non-exclusive distributors vs. exclusive distributors. Li Ning and Dongxiang use non-exclusive, multi-brand distributors, while the Jinjiang brands (Anta, Xtep, Peak, 361 Degrees) use exclusive distributors.

- *Multi-brand distributors* carry multiple brands and operate most retail stores directly. Examples of leading multi-brand distributors are Belle (1880.HK, Buy), Pou Sheng (3813.HK, NC), Shenzhen Lingpao (unlisted), Sichuan Hiwave (unlisted). Multi-brand distributors typically carry global brands such as Nike and Adidas, and serve the mid- to high-end market. Multi-brand distributors are usually large leading regional retailers and have a strong retail capability. However, non-exclusive distributors represent competing sports brands, and pledge no royalty to any single brand.
- *Exclusive distributors* generally sign up with one brand. They operate a few stores themselves, but wholesale most of the products to small shopkeepers. Exclusive distributors are typically designated an operating region by the brand, in which each distributor acts as a brand's de facto regional sales manager. Exclusive distributors are loyal to the brand as their interests are more closely aligned. However, exclusive distributors are typically smaller in scale and less capable at retail management. They tend to act more like a wholesaler, and operate fewer retail stores directly.

Two layers of retail stores. China sportswear brands' distributors typically have both retail and wholesale businesses. Distributors usually operate retail stores directly in provincial capitals and other relatively developed cities, and wholesale to authorized dealers (often small store operators) in lower tier cities, towns, and rural areas.

Brands only deal with distributors, and do not have direct business relationship with authorized dealers. Below is a profile of stores operated by distributors vs. authorized dealers. Li Ning's distributors operate as much as 60% retail stores directly, while 361 Degrees' distributors only operate 10% of total stores. The other four brands' distributors operate 20% to 30% of their retail stores directly.

Exhibit 48: Percentage of store operated by distributors vs. authorized dealers

	Distributors	authorized dealers
Dongxiang	33%	67%
Li Ning	60%	40%
Anta	32%	68%
Xtep	20%	80%
Peak	27%	73%
361 Degrees	10%	90%

Source: Company data, Gao Hua Securities Research estimates.

From a brand's perspective, it is preferable that its distributors operate more retail stores directly, as: (1) it shortens the supply chain, and allows brand a better way to monitor and influence retail performance; and (2) distributors could develop better retail management capability that also benefits the brand.

But then why do so many brands only have their distributors operate a small percentage of total stores directly?

Distributor making more money wholesaling than retailing. As a wholesaler, distributors typically earn a 15%-20% mark-up and incur limited operating expenses. Running retail stores involves a higher expense structure (rental, staff, utilities), and as a result the EBIT margin can be negative in bad times, and mid-single-digits in good times. The retail side of the business also requires more management attention than is required for a wholesale business. We estimate distributors make more money wholesaling to authorized dealers than operating retail stores directly.

We use Li Ning as an example, to illustrate how we estimate the different profitability levels in wholesaling and retailing.

Exhibit 49: Li Ning distributors' wholesaling and retailing business profitability
As of 1H10

	Total	Wholesale	Retail
Store count	**7,004**	2,802	4,202
Store mix		40%	60%
Sales	**4,975**	1,657	3,318
COGS	**3,522**	1,409	2,113
COGS mix		40%	60%
Gross profit	**1,453**	249	1,205
GM	**29%**	15%	36%
SGA	**1,500**	0	1,500
OP	**-47**	249	-296
OPM	**-1%**	15%	-9%

**Distributor COGS = brand wholesale revenue*
***Wholesale GM of 15% is our estimate based on channel check*
****Retail Sales = COGS /(A) x retail discount*
*****Retail SG&A include rent (we assume Rmb10/day/sqm), staff, utilities*

Key assumption	
Distributor paid price / retail tick price (A)	50%
retail discount	79%
retail SGA/sqm	3,000
avg store size	119

Source:Company data, Gao Hua Securities Research estimates.

We perform similar calculations for all brands based on 1H10 numbers. Our estimates of distributors' profitability by different brands are summarized below. With 361 Degrees' distributors making the best margin (highest percentage of wholesales business), and Li

Ning's distributors loss-making (high percentage of retail business, and high COGS related to Li Ning's low wholesale discounts).

Exhibit 50: Distributors' operating profit and OP margin estimate
1H10, Rmb mn

	OP	OPM
Dongxiang	307	12%
Li Ning	-47	-1%
Anta	658	14%
Xtep	268	11%
Peak	282	12%
361 Degrees	519	16%

Source: Company data, Gao Hua Securities Research estimates.

Obviously, our estimates above are based on our assumptions, and may differ from the actual profitability of distributors. Potential differences could come from:

(1) We assume **sell-in is equal to sell-through**. So we use brand reported wholesale revenue as COGS for distributors, and use COGS to derive distributors' sales. If sell-in is higher than sell-through, our method could have overstated distributors' sales and profitability.

(2) We assume **15% gross margin for the distributors' wholesale business**. Actual gross margins could be slightly higher or lower than that (our channel checks suggest wholesale gross margins ranging from 10% to 20%).

(3) We assume a **retail operating expense of Rmb3,000/sqm** for the six-month period for all retail stores. Actual store expense could be different, with the largest swing factor being rental costs. (We assume rental of Rmb10/day/sqm, a mid-to-high level for street stores, given distributors' self-operated sports brands are typically located in prime locations).

Nevertheless, our estimates of distributors' P&L seems to explain why Li Ning had the highest percentage of unfulfilled orders in 1H10, while Anta's distributors placed additional orders in excess of order books.

Exhibit 51: Order growth vs. actual growth
1H10

	Futures growth	Actual growth growth	Future unfilfilled %	Future unfilfilled Rmb mn
Dongxiang	19%	17%	-2%	-39
Li Ning	14%	7%	-6%	-217
Anta	17%	21%	3%	105
Xtep	21%	23%	1%	27
Peak	33%	31%	-1%	-15
361 Degrees	NA	21%	NA	NA

Source: Company data, Gao Hua Securities Research estimates.

What drives stock prices: Wholesale order book and retail SSS

While fundamental values are determined by growth and returns, short-term share price fluctuations in the China sportswear sector are often related to the release of data points. China sportswear companies provide regular data releases of quarterly wholesale order book growth, and all provide retail SSS (same store sales growth), on either a quarterly or semi-annual basis.

Wholesale order book growth. Sportswear brands typically hold four sales fairs a year, usually six months ahead of the actual retail selling season. At these sales fairs, new products are displayed. Distributors and store operators view these products and place their orders at the SKU level. After the sales fairs, the total order book is tallied up, and the companies release their yoy order book growth to investors. Some brands even provide a breakdown of growth, if available, by ASP and volume.

Order book growth is a major driver of stock performance. The market focuses on both the absolute level and sector-relative level when interpreting future order growth.

Exhibit 52: Wholesale future order growth
yoy

	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11
Dongxiang	NA	NA	30+%	31%	8%	21%	16%	22%	22%	23%	12%
Li Ning	60%	68%	42%	32%	13%	15%	12%	15%	20%	20%	12%
Anta	NA	NA	40%	30%	10%	20%	18%	16%	18%	25%	23%+
Xtep	NA	NA	40%	30%	15%	16%	22%	20%	23%	25%	23%
Peak	NA	NA	NA	NA	NA	NA	30%	35%	34%	31%	not released
361 Degrees	NA	NA	NA	NA	NA	NA	NA	NA	23%	31%	20%

Note: The above are data that have been released by the companies.

Source: Company data, Gao Hua Securities Research estimates.

Order books are subject to change in the form of addition of cancellation. It provides a general trend of sports brand's wholesale growth, but should be taken with a grain of salt. Below is a summary of order growth vs. actual growth.

Exhibit 53: Future order growth vs. actual growth

	1H09		2H09		1H10	
	Order	Actual	Order	Actual	Order	Actual
Dongxiang	31%	30%	15%	13%	19%	17%
Li Ning	37%	27%	14%	16%	14%	7%
Anta	35%	22%	15%	23%	17%	21%
Xtep	35%	18%	16%	37%	21%	23%
Peak	NA	70%	NA	50%	33%	31%
361 Degrees	NA	NA	NA	30%	NA	21%

Source: Company data, Gao Hua Securities Research estimates.

Retail SSS. Dongxiang provides quarterly updates; Li Ning and Anta give semi-annual numbers. Xtep, Peak and 361 Degrees also disclose SSS in some quarters but not others. Retail inventory to sales ratio and retail mark-downs are other metrics that are often disclosed.

Exhibit 54: Retail SSS data series

	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10
Belle sports	15%	0%	-6%	-8%	-13%	3%	4%	4%
Dongxiang	18%	10%	6%	2%	-11%	1%	4%	0%
Li Ning	32%	5%	5%	5%	-8%	4%	5%	4%
Anta	20+%	20+%	hsd	hsd	msd	lsd	10%	10%
Xtep	NA	NA	2%	5%	6%	6%	lsd	7%-8%
Peak	NA	NA	NA	NA	17%	18%	15%	13%
361 Degrees	NA	NA	NA	NA	15-18%	17%	16%	17%

Note: hsd = high single digit, msd = mid single digit, lsd = low single digit.

Source: Company data, Gao Hua Securities Research estimates.

While investors are often tempted to trade on headline retail SSS, we highlight a few caveats on reading too much into self-disclosed retail data.

- **Data quality.** China sportswear brands are wholesalers, interfacing with large distributors, who in turn wholesale to small store operators, as well as operating some retail stores themselves. Sports brands do not have perfectly reliable data to analyze retail performance. At present, only a percentage of any brand's retail stores are connected with real-time data uplink.

Exhibit 55: Percentage of retail stores with real-time data uplink
As of 1H10

	% of 1H10 total POS equipped with MIS
Dongxiang	45%
Li Ning	87%
Anta	45%
Xtep	50%+
Peak	17%
361 Degrees	20%

Source: Company data, Gao Hua Securities Research estimates.

- **Calculation method difference.** There's no standard definition of how retail SSS should be calculated. Most brands treat stores open for more than 12 months as same stores, while Li Ning and Dongxiang define same stores as those open for more than 24 months. Some brands set a group of stores as "same store" at year beginning; others use a monthly rolling store basis. In the calculation itself, most brands use aggregated sales for the period to compute SSS, while Dongxiang takes monthly SSS growth average as quarterly SSS.

Despite the caveats mentioned above, retail SSS is still an important data point and has a strong impact on stock performance. Although comparison across brands may not be meaningful, comparison for the same brand over different time periods can offer a reliable reading of that brand's retail trend.

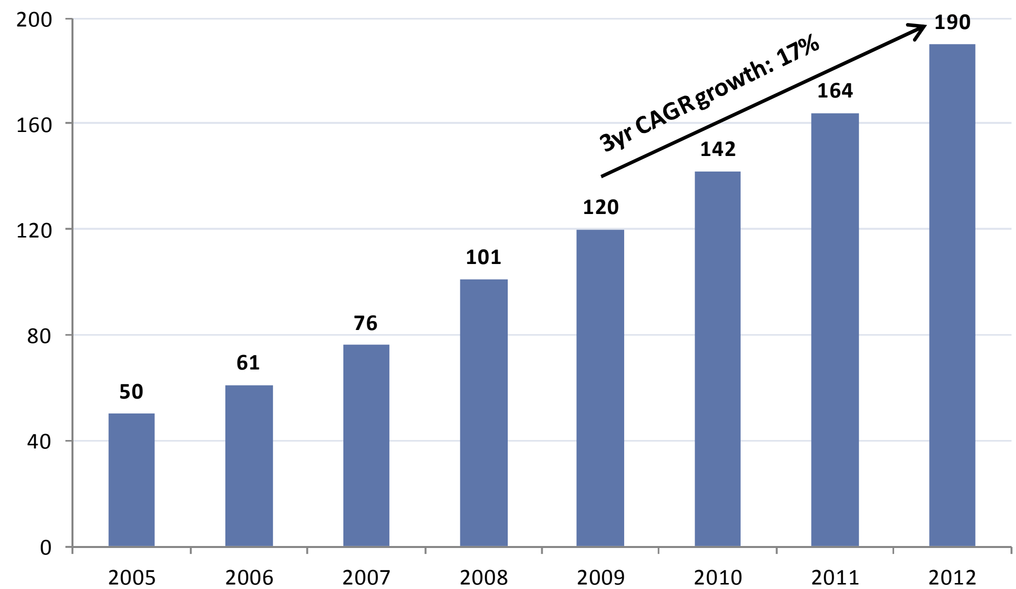
China sports industry

The China sportswear industry's growth has slowed down from 26% market size CAGR between 2005 and 2008 to 17% CAGR between 2009 and 2012E. Nike and adidas, the two global megabrands, currently have less than 30% market share, according to Euromonitor. There's still around 40% of the market that is shared by numerous tiny brands. We expect market consolidation to continue, with Nike and adidas gaining share at the expense of smaller global brands, and leading domestic brands gaining share from small mass market competitors.

Market size, growth, market share

Euromonitor estimates the China sportswear market is a Rmb120bn market by retail sales in 2009, which implies Rmb280/year spend per capita on sportswear for the potential sports participants among China's urban population, and implies Rmb1.4mn sales per store per year (Rmb 0.12mn/month) for the sports sector, per our estimates (Exhibit 53).

Exhibit 56: China sportswear industry estimated market size and growth
(Rmb bn)



Note: Sportswear market share is measured in terms of the retail sales revenue generated from end-consumers.

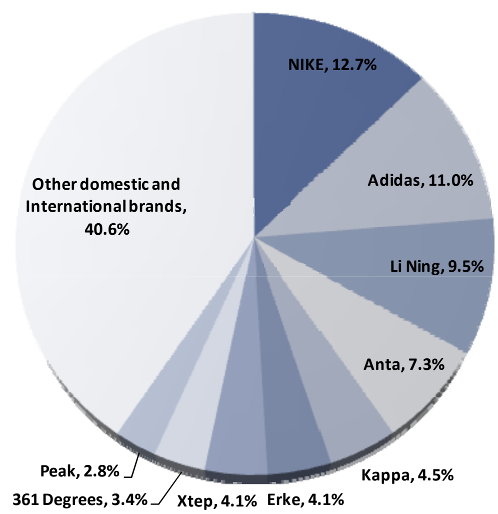
Source: Euromonitor report, company data, Gao Hua Securities Research estimates.

Exhibit 57: China sportswear industry market size breakdown

Total Population(mn) as of 2009	1,335
Urban(mn)	622
% of 15-55 years old	69%
Addressable population(mn)	428
Market size(Rmb bn)	120
Implied Spend/capita/year(Rmb)	280
Sales/store/year(Rmb mn)	1.4
Sales/store/month(Rmb mn)	0.12
Assumptions:	
Population/store/year	5,000
Population/store/day	14

Source: CEIC, Euromonitor report, Gao Hua Securities research estimates.

Exhibit 58: China sports industry market share, 2008



Note: Other domestic and international brands include all brands with a market share of less than 2.5%.

Source: Euromonitor report, Company data, Gao Hua Securities Research.

Domestic brands' sales growth outpaces that of Nike and Adidas

Revenue growth has been slowing down for China sportswear market from 2008 onwards. During this period, domestic median growth slowed down by 94% in 2008 to 19% in 1H10. Nike China's growth slowed down from 25% in 2008 to 11% in 1H10. Adidas even registered double-digit declines in both 2009 and 1H10.

Exhibit 59: Chinese brands has been growing faster than global brands
yoy brand wholesale revenue growth

	2008	2009	1H10
Dongxiang	70%	21%	17%
Li Ning	58%	21%	7%
Anta	52%	22%	21%
Xtep	117%	28%	23%
Peak	131%	58%	31%
361 Degrees	182%	63%	14%
Chinese median	**94%**	**25%**	**19%**
Nike	25%	10%	11%
adidas	24%	-16%	-16%
Global median	**25%**	**-3%**	**-3%**

Note: Growth rates for Nike and adidas are for their China operations only. Li Ning: wholesale revenue only.

Source: Company data, Gao Hua Securities Research.

Dongxiang (3818.HK, Buy): Reiterate our Buy rating

Investment view

We reiterate our Buy rating on Dongxiang. Dongxiang's Kappa brand remains one of the most popular sports fashion brands in China. We think the company has strong growth potential in: (1) space expansion from the lowest level in the sector; and (2) an increase in per store footwear sales volume. We argue the company can sustain its sector-leading gross and operating margins, as our analysis shows that the impact of potentially higher wholesale discounts, A&P spend, and R&D investment on margins is limited. YTD, the stock has underperformed peers driven by low-single-digit SSS, which is lower than domestic mass market brands, but in-line with global brands in a similar price segment. We think current valuations offer an attractive risk/reward profile.

We tweak our 2010E-12E EPS by 0.5%/3.5%/7.0% respectively, on better SSS growth and new stores sales productivity assumptions.

We forecast 10%/13%/13% net income growth in 2010E/11E/12E. Driven by 17%/18%/17% sales growth, partially offset by yoy increase in A&P and R&D expense ratios, and a higher tax rate.

Catalyst

Quarterly retail SSS and wholesale orders. Given very low market expectations on growth, we think the risk/reward is tilted to the positive side.

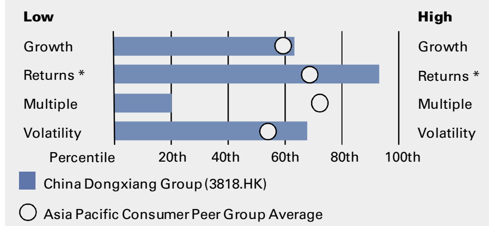
Valuation

Our 12-month target price of HK$6.00 is based on Director's Cut, implying 15X 2011E P/E. Our previous target price of HK$5.70 was based on 15X 2011E P/E.

Key risks

Less than effective A&P spend which may result in cost over-run and still sluggish revenue growth.

Investment Profile

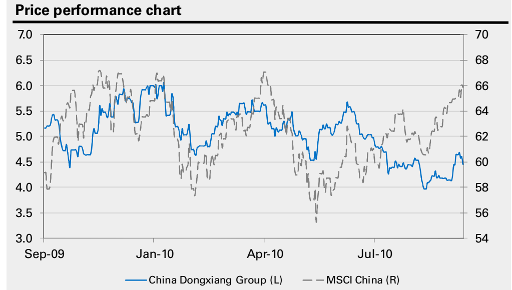


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (HK$)	4.46
12 month price target (HK$)	6.00
Market cap (HK$ mn / US$ mn)	25,270.7 / 3,255.2
Foreign ownership (%)	--

	12/09	12/10E	12/11E	12/12E
EPS (HK$) New	**0.29**	**0.32**	**0.39**	**0.44**
EPS revision (%)	0.0	0.5	3.5	7.0
EPS growth (%)	8.9	9.8	18.5	13.2
EPS (dil) (Rmb) New	**0.26**	**0.28**	**0.32**	**0.36**
P/E (X)	14.9	13.5	11.4	10.1
P/B (X)	3.0	2.8	2.6	2.4
EV/EBITDA (X)	9.4	8.0	6.2	5.0
Dividend yield (%)	4.7	5.2	6.1	6.9
ROE (%)	20.7	21.2	22.4	23.7

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(15.0)	(20.4)	(13.7)
Rel. to MSCI China	(23.0)	(21.5)	(22.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/30/2010 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy list

Coverage View: Neutral

China:
Retail

Exhibit 60: Dongxiang summary financials

Profit model (Rmb mn)	12/09	12/10E	12/11E	12/12E
Total revenue	**3,970.4**	**4,647.7**	**5,476.4**	**6,397.3**
Cost of goods sold	(1,571.0)	(1,821.0)	(2,128.9)	(2,470.8)
SG&A	(815.8)	(1,034.2)	(1,238.2)	(1,443.2)
R&D	--	--	--	--
Other operating profit/(expense)	0.0	0.0	0.0	0.0
EBITDA	**1,610.6**	**1,886.9**	**2,244.6**	**2,643.4**
Depreciation & amortization	(27.0)	(94.5)	(135.4)	(160.1)
EBIT	**1,583.6**	**1,792.4**	**2,109.3**	**2,483.3**
Interest income	107.3	112.4	116.6	122.2
Interest expense	2.4	(0.3)	0.0	0.0
Income/(loss) from uncons. subs.	(10.6)	10.6	0.0	0.0
Others	113.7	138.2	132.4	135.6
Pretax profits	**1,796.3**	**2,053.3**	**2,358.3**	**2,741.1**
Income tax	(336.4)	(441.5)	(542.4)	(685.3)
Minorities	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**1,459.8**	**1,611.9**	**1,815.9**	**2,055.8**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**1,459.8**	**1,611.9**	**1,815.9**	**2,055.8**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**1,459.8**	**1,611.9**	**1,815.9**	**2,055.8**
EPS (basic, pre-except) (Rmb)	0.26	0.28	0.32	0.36
EPS (basic, post-except) (Rmb)	0.26	0.28	0.32	0.36
EPS (diluted, post-except) (Rmb)	0.26	0.28	0.32	0.36
DPS (Rmb)	0.18	0.20	0.22	0.25
Dividend payout ratio (%)	70.0	70.0	70.0	70.0
Free cash flow yield (%)	6.7	7.7	6.4	9.9

Growth & margins (%)	12/09	12/10E	12/11E	12/12E
Sales growth	19.5	17.1	17.8	16.8
EBITDA growth	21.1	17.2	19.0	17.8
EBIT growth	25.8	13.2	17.7	17.7
Net income growth	6.7	10.4	12.7	13.2
EPS growth	6.8	10.4	12.7	13.2
Gross margin	60.4	60.8	61.1	61.4
EBITDA margin	40.6	40.6	41.0	41.3
EBIT margin	39.9	38.6	38.5	38.8

Cash flow statement (Rmb mn)	12/09	12/10E	12/11E	12/12E
Net income pre-preferred dividends	1,459.8	1,611.9	1,815.9	2,055.8
D&A add-back	27.0	94.5	135.4	160.1
Minorities interests add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	(25.0)	(21.6)	(26.8)	(29.7)
Other operating cash flow	22.4	0.0	0.0	0.0
Cash flow from operations	**1,484.1**	**1,684.7**	**1,924.5**	**2,186.2**
Capital expenditures	(128.8)	(93.0)	(614.2)	(128.0)
Acquisitions	(149.2)	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	(73.6)	0.0	0.0	0.0
Cash flow from investments	**(351.6)**	**(93.0)**	**(614.2)**	**(128.0)**
Dividends paid (common & pref)	(818.2)	(1,128.7)	(1,271.5)	(1,439.5)
Inc/(dec) in debt	1.3	0.0	0.0	0.0
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0
Other financing cash flows	0.0	0.0	0.0	0.0
Cash flow from financing	**(816.9)**	**(1,128.7)**	**(1,271.5)**	**(1,439.5)**
Total cash flow	**315.7**	**463.0**	**38.8**	**618.7**

Balance sheet (Rmb mn)	12/09	12/10E	12/11E	12/12E
Cash & equivalents	6,379.4	6,842.3	6,881.1	7,499.8
Accounts receivable	374.6	438.5	516.7	603.6
Inventory	223.3	258.8	302.6	351.2
Other current assets	96.2	112.6	132.7	155.0
Total current assets	**7,073.4**	**7,652.3**	**7,833.1**	**8,609.5**
Net PP&E	120.1	132.5	625.1	606.8
Net intangibles	338.1	324.3	310.5	296.7
Total investments	178.3	178.3	178.3	178.3
Other long-term assets	201.9	201.9	201.9	201.9
Total assets	**7,911.8**	**8,489.2**	**9,148.8**	**9,893.2**
Accounts payable	312.3	365.5	430.7	503.1
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	239.9	280.9	330.9	386.6
Total current liabilities	**552.2**	**646.4**	**761.6**	**889.7**
Long-term debt	1.3	1.3	1.3	1.3
Other long-term liabilities	4.1	4.1	4.1	4.1
Total long-term liabilities	5.4	5.4	5.4	5.4
Total liabilities	**557.6**	**651.7**	**767.0**	**895.1**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**7,354.2**	**7,837.4**	**8,381.8**	**8,998.1**
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	**7,911.8**	**8,489.2**	**9,148.8**	**9,893.2**
BVPS (Rmb)	**1.30**	**1.38**	**1.48**	**1.59**

Ratios	12/09	12/10E	12/11E	12/12E
ROE (%)	20.7	21.2	22.4	23.7
ROA (%)	19.2	19.7	20.6	21.6
ROACE (%)	156.3	154.5	138.2	130.9
Inventory days	52.9	48.3	48.1	48.3
Receivables days	34.1	31.9	31.8	32.0
Payable days	70.2	67.9	68.3	69.0
Net debt/equity (%)	(86.7)	(87.3)	(82.1)	(83.3)
Interest cover - EBIT (X)	NM	NM	NM	NM

Valuation	12/09	12/10E	12/11E	12/12E
P/E (analyst) (X)	14.9	13.5	11.4	10.1
P/B (X)	3.0	2.8	2.6	2.4
EV/EBITDA (X)	9.4	8.0	6.2	5.0
Dividend yield (%)	4.7	5.2	6.1	6.9

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Gao Hua Securities Research estimates.

Li Ning (2331.HK, Neutral): Maintain our Neutral rating

Investment view

We maintain our Neutral rating on Li Ning. Li Ning is a leading domestic brand in the middle price segment. The company has consistently invested in brand building and R&D, and maintained a price premium over other domestic brands, especially in the footwear segment. However, as a middle-priced brand, Li Ning risks being stuck in the middle between Nike/adidas and domestic brands. We estimate its distributor profitability is the lowest among peers, increasing risk for store expansion plan. On the positive side, we see GM expansion potential for Li Ning via lowering its sourcing costs; Li Ning is also least likely to have an operating expense ratio hike among peers, given its R&D and A&P spending is already at a level similar to global peers. YTD, Li Ning has underperformed due to a slow rate of wholesale growth (7% yoy) in 1H10. With low market expectations and P/E valuation in the mid to high teens, we think the stock’s risk/reward is balanced.

We tweak our 2010E-12E EPS by -4%/9%/10% respectively, driven by a higher gross margin assumption, as we now factor in the potential benefit of lower sourcing cost; as well as lower A&P expense ratio assumption.

We forecast 21%/25%/17% net income growth in 2010E/11E/12E. Driven by 15%/17%/16% sales growth, gross margin expansion, and operating leverage.

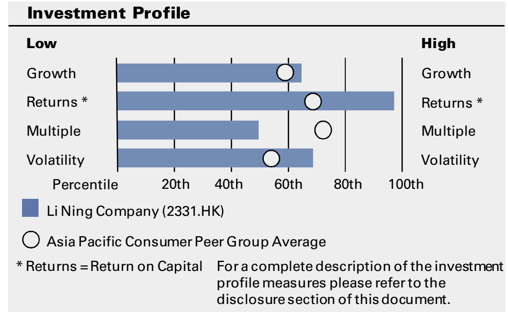
Valuation

Our 12-month target price of HK$28.00 is based on Director’s Cut, and implies 17X 2011E P/E. Our previous target price of HK$27.20 was based on 18X 2011E P/E.

Key risks

Upside: Faster-than-expected wholesale order growth recovery.

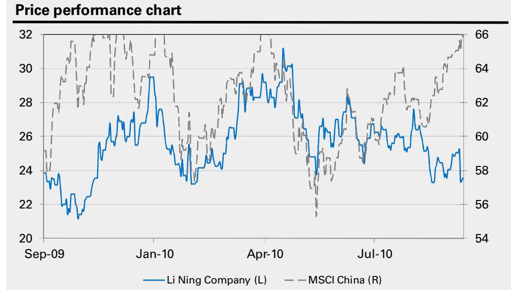
Downside: Execution risk from brand revitalization - started in 2H10 in an attempt to better connect to younger consumers. Margin pressure with the increase of self-managed retail stores.



Key data	Current
Price (HK$)	23.55
12 month price target (HK$)	28.00
Market cap (HK$ mn / US$ mn)	24,752.0 / 3,188.4
Foreign ownership (%)	--

	12/09	12/10E	12/11E	12/12E
EPS (HK$) New	**1.02**	**1.23**	**1.64**	**1.92**
EPS revision (%)	0.0	(3.5)	8.7	10.3
EPS growth (%)	33.1	19.9	31.4	16.7
EPS (dil) (Rmb) New	**0.90**	**1.08**	**1.35**	**1.58**
P/E (X)	22.6	18.8	14.3	12.3
P/B (X)	8.0	6.3	5.0	4.1
EV/EBITDA (X)	11.9	11.5	8.4	6.7
Dividend yield (%)	1.8	2.2	2.8	3.3
ROE (%)	41.3	38.0	37.9	35.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(8.7)	(16.3)	(1.3)
Rel. to MSCI China	(17.2)	(17.5)	(11.4)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/30/2010 close.

INVESTMENT LIST MEMBERSHIP
Neutral

Coverage View: Neutral
China:
Retail

Exhibit 61: Li Ning summary financials

Profit model (Rmb mn)	12/09	12/10E	12/11E	12/12E
Total revenue	**8,386.9**	**9,612.7**	**11,221.1**	**12,982.0**
Cost of goods sold	(4,417.0)	(5,045.7)	(5,790.0)	(6,635.2)
SG&A	(2,755.1)	(3,111.1)	(3,587.3)	(4,171.5)
R&D	--	--	--	--
Other operating profit/(expense)	0.0	0.0	0.0	0.0
EBITDA	**1,397.8**	**1,687.1**	**2,089.9**	**2,438.8**
Depreciation & amortization	(183.0)	(231.3)	(246.2)	(263.4)
EBIT	**1,214.8**	**1,455.9**	**1,843.8**	**2,175.3**
Interest income	7.4	11.4	17.4	24.4
Interest expense	(66.2)	(56.0)	(56.0)	(56.0)
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0
Others	127.1	156.9	156.8	147.1
Pretax profits	**1,283.1**	**1,568.1**	**1,962.0**	**2,290.9**
Income tax	(313.8)	(392.0)	(490.5)	(572.7)
Minorities	(24.8)	(29.8)	(35.7)	(42.9)
Net income pre-preferred dividends	**944.5**	**1,146.3**	**1,435.7**	**1,675.3**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**944.5**	**1,146.3**	**1,435.7**	**1,675.3**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**944.5**	**1,146.3**	**1,435.7**	**1,675.3**
EPS (basic, pre-except) (Rmb)	0.91	1.10	1.37	1.60
EPS (basic, post-except) (Rmb)	0.91	1.10	1.37	1.60
EPS (diluted, post-except) (Rmb)	0.90	1.08	1.35	1.58
DPS (Rmb)	0.36	0.44	0.55	0.64
Dividend payout ratio (%)	39.8	40.1	40.1	40.1
Free cash flow yield (%)	5.6	5.7	7.1	8.2

Growth & margins (%)	12/09	12/10E	12/11E	12/12E
Sales growth	25.4	14.6	16.7	15.7
EBITDA growth	39.0	20.7	23.9	16.7
EBIT growth	35.7	19.8	26.6	18.0
Net income growth	31.0	21.4	25.2	16.7
EPS growth	30.3	20.7	25.2	16.7
Gross margin	47.3	47.5	48.4	48.9
EBITDA margin	16.7	17.6	18.6	18.8
EBIT margin	14.5	15.1	16.4	16.8

Cash flow statement (Rmb mn)	12/09	12/10E	12/11E	12/12E
Net income pre-preferred dividends	944.5	1,146.3	1,435.7	1,675.3
D&A add-back	183.0	231.3	246.2	263.4
Minorities interests add-back	24.8	29.8	35.7	42.9
Net (inc)/dec working capital	154.4	(40.0)	(41.0)	(49.2)
Other operating cash flow	0.0	0.0	0.0	0.0
Cash flow from operations	**1,306.8**	**1,367.4**	**1,676.6**	**1,932.4**
Capital expenditures	(263.1)	(124.1)	(144.9)	(167.7)
Acquisitions	(112.3)	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	(39.0)	0.0	0.0	0.0
Cash flow from investments	**(414.4)**	**(124.1)**	**(144.9)**	**(167.7)**
Dividends paid (common & pref)	(255.9)	(459.4)	(575.4)	(671.4)
Inc/(dec) in debt	(347.4)	0.0	0.0	0.0
Common stock issuance (repurchase)	24.0	0.0	0.0	0.0
Other financing cash flows	59.8	0.0	0.0	0.0
Cash flow from financing	**(519.5)**	**(459.4)**	**(575.4)**	**(671.4)**
Total cash flow	**372.9**	**783.8**	**956.3**	**1,093.3**

Balance sheet (Rmb mn)	12/09	12/10E	12/11E	12/12E
Cash & equivalents	1,266.6	2,050.4	3,006.7	4,100.0
Accounts receivable	1,069.4	1,225.7	1,430.8	1,655.3
Inventory	631.5	721.4	827.8	948.7
Other current assets	194.4	222.9	260.2	301.0
Total current assets	**3,162.0**	**4,220.4**	**5,525.5**	**7,005.0**
Net PP&E	638.2	655.5	678.6	707.3
Net intangibles	1,256.6	1,132.2	1,007.8	883.4
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	321.1	321.1	321.1	321.1
Total assets	**5,377.9**	**6,329.1**	**7,533.0**	**8,916.7**
Accounts payable	826.4	947.2	1,105.7	1,279.2
Short-term debt	260.0	260.0	260.0	260.0
Other current liabilities	778.5	892.3	1,041.6	1,205.1
Total current liabilities	**1,864.9**	**2,099.5**	**2,407.3**	**2,744.3**
Long-term debt	0.0	0.0	0.0	0.0
Other long-term liabilities	650.8	650.8	650.8	650.8
Total long-term liabilities	650.8	650.8	650.8	650.8
Total liabilities	**2,515.8**	**2,750.3**	**3,058.1**	**3,395.1**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**2,674.5**	**3,361.4**	**4,221.8**	**5,225.7**
Minority interest	187.6	217.4	253.1	296.0
Total liabilities & equity	**5,377.9**	**6,329.1**	**7,533.0**	**8,916.7**
BVPS (Rmb)	**2.55**	**3.21**	**4.03**	**4.99**

Ratios	12/09	12/10E	12/11E	12/12E
ROE (%)	41.3	38.0	37.9	35.5
ROA (%)	19.4	19.6	20.7	20.4
ROACE (%)	53.9	66.4	85.3	102.2
Inventory days	53.0	48.9	48.8	48.9
Receivables days	47.0	43.6	43.2	43.4
Payable days	69.8	64.2	64.7	65.6
Net debt/equity (%)	(35.2)	(50.0)	(61.4)	(69.5)
Interest cover - EBIT (X)	20.7	32.6	47.7	68.8

Valuation	12/09	12/10E	12/11E	12/12E
P/E (analyst) (X)	22.6	18.8	14.3	12.3
P/B (X)	8.0	6.3	5.0	4.1
EV/EBITDA (X)	11.9	11.5	8.4	6.7
Dividend yield (%)	1.8	2.2	2.8	3.3

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Gao Hua Securities Research estimates.

Anta (2020.HK, Sell): Downgrade to Sell; add to Conviction List

Investment view

We downgrade Anta to a Sell from a Neutral rating, and add the stock to the Conviction List. YTD, Anta has outperformed, driven by higher sales growth than Li Ning and Dongxiang. On a sector-relative base, Anta's growth is in-line with small cap names (Xtep, Peak, 361 Degrees), with average returns. Our analysis shows Anta's opportunity for further growth is normalizing, with an already large store base, and the highest sell-in volume per store among peers. GM expansion has been a major growth driver for the stock; however, we think further expansion will likely be modest, as wholesale discount reductions and production cost declines may not recur in 2010E-12E. Anta currently trades at the highest valuation on both P/E and Director's Cut, reflecting market expectations of it sustaining above-average growth and returns. We think the risk/reward proposition is unattractive.

We revise our 2010E/11E/12E EPS by 4%/1%/-4%, on lower sales growth assumptions, partially offset by low A&P ratio forecast.

We forecast 24%/14%/15% net income growth in 2010E/11E/12E, driven by 23%/19%/18% sales growth, partially offset by higher tax rates in 2011E and 2012E.

Catalyst. Worse-than-expected 2H10 retail SSS and 2Q11 wholesale orders which could trigger a de-rating.

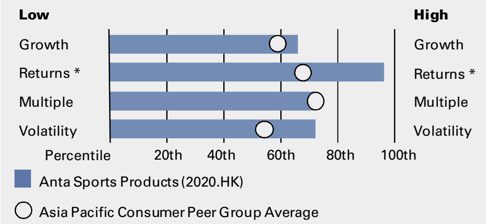
Valuation

Our 12-m target price of HK$13.20 is based on Director's Cut, and implies 15X 2011E P/E. Our previous target price of HK$15.30 was based on 18X 2011E P/E. Anta has traded between 6X and 37X 12-m fwd P/E on Bloomberg consensus since its IPO in July, 2007.

Key risks

Better-than-expected growth, although at current valuations the market is already pricing in Anta's better growth relative to Li Ning and Dongxiang. The stock remained flat upon the release of 1Q11 future order growth of 23% on September 3, 2010.

Investment Profile

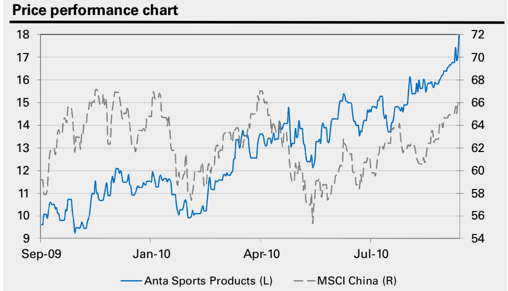


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (HK$)	17.98
12 month price target (HK$)	13.20
Market cap (HK$ mn / US$ mn)	44,831.0 / 5,774.8
Foreign ownership (%)	--

	12/09	12/10E	12/11E	12/12E
EPS (HK$) New	**0.57**	**0.71**	**0.86**	**0.98**
EPS revision (%)	0.0	3.6	0.9	(4.0)
EPS growth (%)	42.2	23.5	19.4	14.6
EPS (dil) (Rmb) New	**0.50**	**0.62**	**0.71**	**0.81**
P/E (X)	30.9	25.0	20.9	18.3
P/B (X)	7.6	6.8	6.1	5.4
EV/EBITDA (X)	9.9	18.0	14.1	11.7
Dividend yield (%)	2.0	2.5	2.9	3.4
ROE (%)	26.1	28.8	29.3	30.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	26.8	40.2	87.1
Rel. to MSCI China	15.0	38.3	68.0

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/30/2010 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Sell list

Asia Pacific Conviction Sell list

Coverage View: Neutral

China:

Retail

Exhibit 62: Anta summary financials

Profit model (Rmb mn)	12/09	12/10E	12/11E	12/12E
Total revenue	**5,874.6**	**7,212.1**	**8,578.5**	**10,112.5**
Cost of goods sold	(3,401.7)	(4,058.8)	(4,827.7)	(5,691.1)
SG&A	(1,106.8)	(1,330.6)	(1,581.9)	(1,863.8)
R&D	--	--	--	--
Other operating profit/(expense)	0.0	0.0	0.0	0.0
EBITDA	**1,429.7**	**1,902.5**	**2,254.4**	**2,658.5**
Depreciation & amortization	(68.7)	(87.5)	(85.5)	(100.8)
EBIT	**1,366.1**	**1,822.7**	**2,168.9**	**2,557.7**
Interest income	52.0	100.6	83.5	94.4
Interest expense	(0.8)	(1.8)	0.0	0.0
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0
Others	28.7	34.4	39.4	45.5
Pretax profits	**1,446.0**	**1,955.9**	**2,291.8**	**2,697.6**
Income tax	(196.7)	(405.6)	(527.1)	(674.4)
Minorities	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**1,249.3**	**1,550.3**	**1,764.7**	**2,023.2**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**1,249.3**	**1,550.3**	**1,764.7**	**2,023.2**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**1,249.3**	**1,550.3**	**1,764.7**	**2,023.2**
EPS (basic, pre-except) (Rmb)	0.50	0.62	0.71	0.81
EPS (basic, post-except) (Rmb)	0.50	0.62	0.71	0.81
EPS (diluted, post-except) (Rmb)	0.50	0.62	0.71	0.81
DPS (Rmb)	0.31	0.38	0.43	0.50
Dividend payout ratio (%)	61.4	61.4	61.4	61.4
Free cash flow yield (%)	8.8	3.8	4.5	5.1

Growth & margins (%)	12/09	12/10E	12/11E	12/12E
Sales growth	27.0	22.8	18.9	17.9
EBITDA growth	49.9	33.1	18.5	17.9
EBIT growth	50.1	33.4	19.0	17.9
Net income growth	39.6	24.1	13.8	14.6
EPS growth	39.6	24.0	13.8	14.6
Gross margin	42.1	43.7	43.7	43.7
EBITDA margin	24.3	26.4	26.3	26.3
EBIT margin	23.3	25.3	25.3	25.3

Cash flow statement (Rmb mn)	12/09	12/10E	12/11E	12/12E
Net income pre-preferred dividends	1,249.3	1,550.3	1,764.7	2,023.2
D&A add-back	63.6	79.7	85.5	100.8
Minorities interests add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	364.3	(22.4)	(10.0)	(11.3)
Other operating cash flow	11.5	0.0	0.0	0.0
Cash flow from operations	**1,688.7**	**1,607.7**	**1,840.2**	**2,112.8**
Capital expenditures	(131.9)	(208.8)	(178.4)	(210.3)
Acquisitions	(400.0)	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	9.5	0.0	0.0	0.0
Cash flow from investments	**(522.5)**	**(208.8)**	**(178.4)**	**(210.3)**
Dividends paid (common & pref)	(658.4)	(952.0)	(1,083.6)	(1,242.4)
Inc/(dec) in debt	0.0	0.0	0.0	0.0
Common stock issuance (repurchase)	7.1	0.0	0.0	0.0
Other financing cash flows	(1.8)	0.0	0.0	0.0
Cash flow from financing	**(653.1)**	**(952.0)**	**(1,083.6)**	**(1,242.4)**
Total cash flow	**513.2**	**446.9**	**578.2**	**660.1**

Balance sheet (Rmb mn)	12/09	12/10E	12/11E	12/12E
Cash & equivalents	4,006.7	4,453.6	5,031.8	5,691.9
Accounts receivable	528.9	649.4	772.4	910.5
Inventory	374.1	446.4	530.9	625.9
Other current assets	0.0	0.0	0.0	0.0
Total current assets	**4,909.8**	**5,549.3**	**6,335.1**	**7,228.2**
Net PP&E	658.3	756.5	849.4	958.9
Net intangibles	523.6	554.5	554.5	554.5
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	11.8	11.8	11.8	11.8
Total assets	**6,103.4**	**6,872.1**	**7,750.7**	**8,753.4**
Accounts payable	820.4	978.9	1,164.3	1,372.5
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	52.1	63.9	76.0	89.6
Total current liabilities	**872.5**	**1,042.8**	**1,240.3**	**1,462.1**
Long-term debt	0.0	0.0	0.0	0.0
Other long-term liabilities	93.6	93.6	93.6	93.6
Total long-term liabilities	93.6	93.6	93.6	93.6
Total liabilities	**966.1**	**1,136.4**	**1,334.0**	**1,555.8**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**5,079.9**	**5,678.3**	**6,359.4**	**7,140.2**
Minority interest	57.4	57.4	57.4	57.4
Total liabilities & equity	**6,103.4**	**6,872.1**	**7,750.7**	**8,753.4**
BVPS (Rmb)	**2.04**	**2.28**	**2.55**	**2.86**

Ratios	12/09	12/10E	12/11E	12/12E
ROE (%)	26.1	28.8	29.3	30.0
ROA (%)	22.6	23.9	24.1	24.5
ROACE (%)	103.0	122.0	127.5	135.1
Inventory days	37.9	36.9	36.9	37.1
Receivables days	32.7	29.8	30.2	30.4
Payable days	67.5	80.9	81.0	81.4
Net debt/equity (%)	(78.0)	(77.6)	(78.4)	(79.1)
Interest cover - EBIT (X)	NM	NM	NM	NM

Valuation	12/09	12/10E	12/11E	12/12E
P/E (analyst) (X)	30.9	25.0	20.9	18.3
P/B (X)	7.6	6.8	6.1	5.4
EV/EBITDA (X)	9.9	18.0	14.1	11.7
Dividend yield (%)	2.0	2.5	2.9	3.4

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Gao Hua Securities Research estimates.

Xtep (1368.HK, Buy): Initiate with a Buy rating

Investment view

We initiate on Xtep with a Buy rating. Xtep is a mass market sports brand focused on fashion and entertainment, although recent brand building efforts have expanded to include more sports sponsorship. We think the company has above-average growth potential from store additions, store size increase, ASP increase, and gross margin improvement. Xtep is trading at 12X 2011E P/E with 26% EPS growth. We think the risk/reward is attractive given its growth and returns profile.

We forecast 27%/20%/16% net income growth in 2010E/11E/12E, driven by 22%/19%/18% sales growth, gross margin expansion, operating leverage, partially offset by small increase in A&P ratio.

Catalysts

We expect the company to report 20% or better wholesale order growth for 2011E, and 10% or better retail SSS for 2H10. These data releases could be positive catalysts, driving stock price re-ratings.

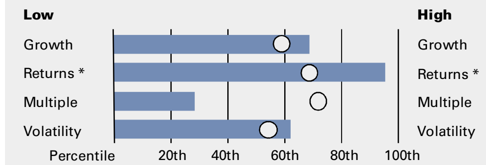
Valuation

Our 12-m target price of HK$7.90 is based on Director's Cut, and implies 14X 2011E P/E. Xtep has traded at between 3X and 14X 12-m fwd P/E on Bloomberg consensus, with a median of 11X, since its IPO in Aug. 2008.

Risk

Intensive competition in mass market segment. Xtep is somewhat differentiated by focusing on fashion and entertainment, however, there is no guarantee that competitors won't copy its marketing strategy. In addition, competition for store locations is intensifying in tier-two and -three cities, Xtep's home market. Higher rental and staff costs at the retail level could negatively impact distributors' profitability, which in turn could pressurize Xtep's margin expansion potential.

Investment Profile

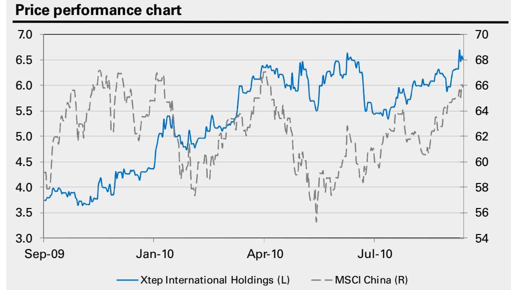


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (HK$)	6.52
12 month price target (HK$)	7.90
Market cap (HK$ mn / US$ mn)	14,172.2 / 1,825.6
Foreign ownership (%)	--

	12/09	12/10E	12/11E	12/12E
EPS (HK$)	0.34	0.43	0.55	0.64
EPS growth (%)	17.5	26.2	26.0	15.7
EPS (diluted) (Rmb)	0.30	0.38	0.45	0.52
EPS (basic pre-ex) (Rmb)	0.30	0.38	0.45	0.52
P/E (X)	18.8	14.9	11.8	10.2
P/B (X)	4.1	3.6	3.1	2.7
EV/EBITDA (X)	5.3	9.7	7.3	5.8
Dividend yield (%)	3.5	4.4	5.5	6.4
ROE (%)	23.0	25.8	27.0	27.3

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	0.9	5.3	73.9
Rel. to MSCI China	(8.5)	3.9	56.1

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/30/2010 close.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy list

Coverage View: Neutral

China:
Retail

Exhibit 63: Xtep summary financials

Profit model (Rmb mn)	**12/09**	**12/10E**	**12/11E**	**12/12E**
Total revenue	**3,545.3**	**4,342.9**	**5,157.4**	**6,091.5**
Cost of goods sold	(2,157.5)	(2,536.5)	(2,996.3)	(3,539.5)
SG&A	(697.1)	(828.0)	(996.1)	(1,150.9)
R&D	--	--	--	--
Other operating profit/(expense)	0.0	0.0	0.0	0.0
EBITDA	**706.7**	**998.0**	**1,188.3**	**1,428.3**
Depreciation & amortization	(16.1)	(19.7)	(23.4)	(27.3)
EBIT	**690.7**	**978.3**	**1,165.0**	**1,401.1**
Interest income	15.1	16.7	18.2	20.8
Interest expense	(14.2)	(10.4)	0.0	0.0
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0
Others	10.7	16.1	17.9	20.5
Pretax profits	**702.2**	**1,000.7**	**1,201.1**	**1,442.4**
Income tax	(54.7)	(178.7)	(216.2)	(302.9)
Minorities	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**647.5**	**822.0**	**984.9**	**1,139.5**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**647.5**	**822.0**	**984.9**	**1,139.5**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**647.5**	**822.0**	**984.9**	**1,139.5**
EPS (basic, pre-except) (Rmb)	0.30	0.38	0.45	0.52
EPS (basic, post-except) (Rmb)	0.30	0.38	0.45	0.52
EPS (diluted, post-except) (Rmb)	0.30	0.38	0.45	0.52
DPS (Rmb)	0.19	0.25	0.29	0.34
Dividend payout ratio (%)	65.0	65.0	65.0	65.0
Free cash flow yield (%)	12.6	4.5	7.1	8.3

Growth & margins (%)	**12/09**	**12/10E**	**12/11E**	**12/12E**
Sales growth	23.7	22.5	18.8	18.1
EBITDA growth	18.2	41.2	19.1	20.2
EBIT growth	18.0	41.6	19.1	20.3
Net income growth	27.4	27.0	19.8	15.7
EPS growth	11.0	27.0	19.8	15.7
Gross margin	39.1	41.6	41.9	41.9
EBITDA margin	19.9	23.0	23.0	23.4
EBIT margin	19.5	22.5	22.6	23.0

Cash flow statement (Rmb mn)	**12/09**	**12/10E**	**12/11E**	**12/12E**
Net income pre-preferred dividends	647.5	822.0	984.9	1,139.5
D&A add-back	16.1	19.7	23.4	27.3
Minorities interests add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	184.6	(62.3)	(59.0)	(65.4)
Other operating cash flow	32.1	0.0	0.0	0.0
Cash flow from operations	**880.3**	**779.4**	**949.3**	**1,101.4**
Capital expenditures	(92.7)	(240.0)	(100.0)	(100.0)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Cash flow from investments	**(92.7)**	**(240.0)**	**(100.0)**	**(100.0)**
Dividends paid (common & pref)	(383.2)	(411.0)	(492.4)	(569.7)
Inc/(dec) in debt	(124.0)	0.0	0.0	0.0
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0
Other financing cash flows	74.4	0.0	0.0	0.0
Cash flow from financing	**(432.8)**	**(411.0)**	**(492.4)**	**(569.7)**
Total cash flow	**354.7**	**128.4**	**356.8**	**431.6**

Balance sheet (Rmb mn)	**12/09**	**12/10E**	**12/11E**	**12/12E**
Cash & equivalents	2,497.6	2,626.1	2,982.9	3,414.5
Accounts receivable	602.3	737.8	876.1	1,034.8
Inventory	265.7	312.4	369.0	435.9
Other current assets	0.0	0.0	0.0	0.0
Total current assets	**3,365.6**	**3,676.2**	**4,228.0**	**4,885.2**
Net PP&E	193.0	414.1	491.7	565.3
Net intangibles	22.0	21.1	20.1	19.3
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	60.1	60.1	60.1	60.1
Total assets	**3,640.6**	**4,171.5**	**4,800.0**	**5,529.9**
Accounts payable	604.9	711.1	840.0	992.3
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	24.4	38.0	45.1	53.0
Total current liabilities	**629.3**	**749.2**	**885.2**	**1,045.3**
Long-term debt	0.0	0.0	0.0	0.0
Other long-term liabilities	27.3	27.3	27.3	27.3
Total long-term liabilities	27.3	27.3	27.3	27.3
Total liabilities	**656.5**	**776.4**	**912.4**	**1,072.6**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**2,984.1**	**3,395.1**	**3,887.5**	**4,457.3**
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	**3,640.6**	**4,171.5**	**4,800.0**	**5,529.9**
BVPS (Rmb)	**1.37**	**1.56**	**1.79**	**2.05**

Ratios	**12/09**	**12/10E**	**12/11E**	**12/12E**
ROE (%)	23.0	25.8	27.0	27.3
ROA (%)	18.7	21.0	22.0	22.1
ROACE (%)	117.0	130.1	115.9	115.3
Inventory days	46.9	41.6	41.5	41.5
Receivables days	64.4	56.3	57.1	57.3
Payable days	89.5	94.7	94.5	94.5
Net debt/equity (%)	(83.7)	(77.3)	(76.7)	(76.6)
Interest cover - EBIT (X)	NM	NM	NM	NM

Valuation	**12/09**	**12/10E**	**12/11E**	**12/12E**
P/E (analyst) (X)	18.8	14.9	11.8	10.2
P/B (X)	4.1	3.6	3.1	2.7
EV/EBITDA (X)	5.3	9.7	7.3	5.8
Dividend yield (%)	3.5	4.4	5.5	6.4

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Gao Hua Securities Research estimates.

Peak Sports (1968.HK, Buy): Initiate with a Buy, add to Conv. List

Investment view

We initiate on Peak with a Buy rating and add the stock to Conviction List. We like Peak for the following three key reasons. (1) Focused brand-building: Peak is positioned as a mass market basketball brand, and its advertising/sponsorship investment focuses exclusively on this category. We think this is a differentiated and cost-effective strategy to stand out in domestic mass market sports brands. (2) High growth potential from a relatively low base: we see growth drivers from store addition, store size increase, ASP increase, and gross margin expansion. (3) Attractive valuation: Peak is currently trading at 10X 2011E P/E with 30% EPS growth.

We forecast 24%/23%/16% net income growth in 10E/11E/12E. Driven by 33%/27%/24% sales growth, small gross margin expansion in 10E and 11E, partially offset by higher tax rate and higher expense ratio as we forecast company to increase spend on A&P, R&D, and staff.

Valuation

Our 12-month target price of HK$7.8 is based on Director's Cut, implying 14X 2011E P/E. Since its IPO in September 2009, Peak has traded at between 9X and 14X 12-month fwd P/E on Bloomberg consensus, with a median of 11X.

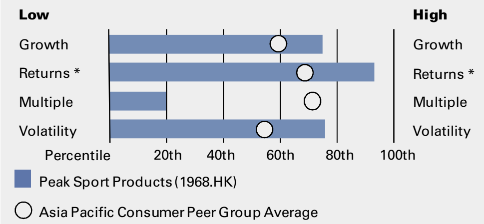
Catalyst

We expect Peak to report better than sector average wholesale order growth and retail SSS.

Risk

Peak operates in the highly competitive mass market segment. Brand and product differentiation is a common problem in this segment and Peak is no exception. Relative to peers, the company has not spent as much on A&P, R&D, and talent acquisition. Peak also needs to improve the data connectivity of its retail stores to enable a timely response to changes in retail performance.

Investment Profile

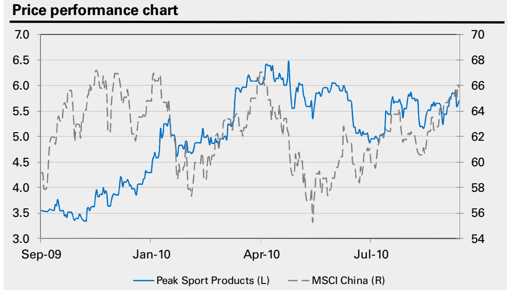


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (HK$)	5.70
12 month price target (HK$)	7.80
Market cap (HK$ mn / US$ mn)	11,958.0 / 1,540.4
Foreign ownership (%)	--

	12/09	12/10E	12/11E	12/12E
EPS (HK$)	0.41	0.42	0.56	0.65
EPS growth (%)	46.9	1.8	29.8	16.2
EPS (diluted) (Rmb)	0.36	0.37	0.46	0.53
EPS (basic pre-ex) (Rmb)	0.36	0.37	0.46	0.53
P/E (X)	13.6	13.3	10.3	8.8
P/B (X)	2.8	2.9	2.5	2.1
EV/EBITDA (X)	5.2	8.4	5.7	4.3
Dividend yield (%)	2.6	2.7	3.4	4.0
ROE (%)	33.3	23.9	25.1	24.8

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	9.8	(7.3)	60.6
Rel. to MSCI China	(0.4)	(8.6)	44.1

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/30/2010 close.

INVESTMENT LIST MEMBERSHIP
Asia Pacific Buy list
Asia Pacific Conviction Buy list
Coverage View: Neutral
Hong Kong:
Retail

Exhibit 64: Peak summary financials

Profit model (Rmb mn)	12/09	12/10E	12/11E	12/12E
Total revenue	**3,094.9**	**4,105.9**	**5,200.1**	**6,452.6**
Cost of goods sold	(1,935.2)	(2,541.7)	(3,202.9)	(3,974.4)
SG&A	(457.8)	(643.0)	(840.3)	(1,107.3)
R&D	--	--	--	--
Other operating profit/(expense)	0.0	0.0	0.0	0.0
EBITDA	**717.0**	**941.1**	**1,182.1**	**1,402.2**
Depreciation & amortization	(15.0)	(19.9)	(25.2)	(31.3)
EBIT	**702.0**	**921.2**	**1,156.8**	**1,370.9**
Interest income	4.6	8.2	10.2	12.7
Interest expense	(14.8)	0.0	0.0	0.0
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0
Others	11.2	13.8	30.9	44.5
Pretax profits	**702.9**	**943.3**	**1,197.9**	**1,428.1**
Income tax	(74.6)	(166.7)	(239.6)	(314.2)
Minorities	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**628.3**	**776.6**	**958.3**	**1,113.9**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**628.3**	**776.6**	**958.3**	**1,113.9**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**628.3**	**776.6**	**958.3**	**1,113.9**
EPS (basic, pre-except) (Rmb)	0.36	0.37	0.46	0.53
EPS (basic, post-except) (Rmb)	0.36	0.37	0.46	0.53
EPS (diluted, post-except) (Rmb)	0.36	0.37	0.46	0.53
DPS (Rmb)	0.13	0.13	0.16	0.19
Dividend payout ratio (%)	35.3	35.3	35.3	35.3
Free cash flow yield (%)	2.6	7.3	8.9	11.8

Growth & margins (%)	12/09	12/10E	12/11E	12/12E
Sales growth	51.6	32.7	26.6	24.1
EBITDA growth	74.4	31.3	25.6	18.6
EBIT growth	74.5	31.2	25.6	18.5
Net income growth	67.1	23.6	23.4	16.2
EPS growth	44.1	2.5	23.4	16.2
Gross margin	37.5	38.1	38.4	38.4
EBITDA margin	23.2	22.9	22.7	21.7
EBIT margin	22.7	22.4	22.2	21.2

Cash flow statement (Rmb mn)	12/09	12/10E	12/11E	12/12E
Net income pre-preferred dividends	628.3	776.6	958.3	1,113.9
D&A add-back	15.0	19.9	25.2	31.3
Minorities interests add-back	0.0	0.0	0.0	0.0
Net (inc)/dec working capital	(466.3)	54.0	50.1	199.1
Other operating cash flow	91.9	0.0	0.0	0.0
Cash flow from operations	**268.9**	**850.5**	**1,033.7**	**1,344.3**
Capital expenditures	(110.7)	(100.0)	(119.6)	(142.0)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	11.5	0.0	0.0	0.0
Cash flow from investments	**(99.2)**	**(100.0)**	**(119.6)**	**(142.0)**
Dividends paid (common & pref)	(112.8)	(273.8)	(337.9)	(392.8)
Inc/(dec) in debt	(202.2)	0.0	0.0	0.0
Common stock issuance (repurchase)	1,714.3	0.0	0.0	0.0
Other financing cash flows	(69.4)	0.0	0.0	0.0
Cash flow from financing	**1,329.8**	**(273.8)**	**(337.9)**	**(392.8)**
Total cash flow	**1,499.5**	**476.7**	**576.1**	**809.6**

Balance sheet (Rmb mn)	12/09	12/10E	12/11E	12/12E
Cash & equivalents	1,988.2	2,464.8	3,041.0	3,850.6
Accounts receivable	863.8	1,026.5	1,040.0	1,226.0
Inventory	210.3	276.2	348.1	431.9
Other current assets	0.0	0.0	0.0	0.0
Total current assets	**3,062.3**	**3,767.5**	**4,429.0**	**5,508.5**
Net PP&E	305.6	386.1	481.0	592.4
Net intangibles	26.1	25.6	25.1	24.4
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	6.2	6.2	6.2	6.2
Total assets	**3,400.1**	**4,185.4**	**4,941.3**	**6,131.4**
Accounts payable	339.5	613.1	738.9	1,196.8
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	27.2	36.1	45.8	56.8
Total current liabilities	**366.7**	**649.2**	**784.7**	**1,253.6**
Long-term debt	0.0	0.0	0.0	0.0
Other long-term liabilities	31.2	31.2	31.2	31.2
Total long-term liabilities	31.2	31.2	31.2	31.2
Total liabilities	**398.0**	**680.5**	**816.0**	**1,284.9**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**3,002.2**	**3,504.9**	**4,125.4**	**4,846.5**
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	**3,400.1**	**4,185.4**	**4,941.3**	**6,131.4**
BVPS (Rmb)	**1.73**	**1.67**	**1.97**	**2.31**

Ratios	12/09	12/10E	12/11E	12/12E
ROE (%)	33.3	23.9	25.1	24.8
ROA (%)	26.0	20.5	21.0	20.1
ROACE (%)	84.9	75.0	89.5	106.1
Inventory days	35.8	34.9	35.6	35.8
Receivables days	80.9	84.0	72.5	64.1
Payable days	66.9	68.4	77.0	88.9
Net debt/equity (%)	(66.2)	(70.3)	(73.7)	(79.5)
Interest cover - EBIT (X)	68.5	NM	NM	NM

Valuation	12/09	12/10E	12/11E	12/12E
P/E (analyst) (X)	13.6	13.3	10.3	8.8
P/B (X)	2.8	2.9	2.5	2.1
EV/EBITDA (X)	5.2	8.4	5.7	4.3
Dividend yield (%)	2.6	2.7	3.4	4.0

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Gao Hua Securities Research estimates.

361 Degrees (1361.HK, Neutral): Initiate with a Neutral rating

Investment view

We initiate on 361 Degrees with a Neutral rating. 361 Degrees is a mass market brand established as recent as in 2004. Company's brand building has been focused on increasing brand awareness and visibility, by sponsoring various sports events to display its logo. We think it's still largely a "me too" brand needing meaningful investment and strategy to substantiate its brand equity. During FY08-10, 361 Degrees reported strong sales and earnings growth, driven by store additions and gross margin expansion (from a low base). However, it has the longest A/R days in the sector, underscoring a potential risk that store expansion has been financed by the company. We expect sales and earnings growth to slow down, as its store base is already large, store size is close to the sector median, and ASP opportunity appears limited. We also expect OP margin contraction as 361 Degrees is likely to increase its A&P expense ratio. The stock is trading at 13X CY11E P/E, with single-digit EPS growth. We think its current valuation is fair relative to its growth potential, brand strength, and relative competitive position.

We forecast 9%/9%/10% net income growth in FY11E/12E/13E. Driven by 23%/14%/14% sales growth, partially offset by a higher tax rate and 76bps/22bps OPM contraction in FY11E/12E on higher A&P and staff spend.

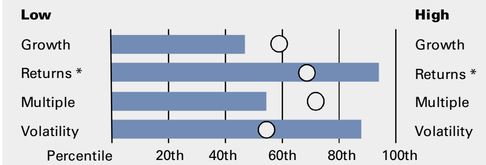
Valuation

Our 12-month target price of HK$8.00 is based on Director's Cut, implying 13X 2011E P/E. 361 Degrees traded between 7X and 12X 12-month fwd P/E on Bloomberg consensus, with a median of 10X, since its IPO in June 2009.

Risk

361 Degrees could potentially face a significant working capital increase, should its A/R and A/P days normalize to sector median level. Continued long A/R days without satisfactory explanation could potentially increase inventors' concerns on how well retail sell-through is matching wholesale sell-in. We also highlight that from a brand equity perspective, the company has a lot to do to establish a brand image beyond simple visibility.

Investment Profile

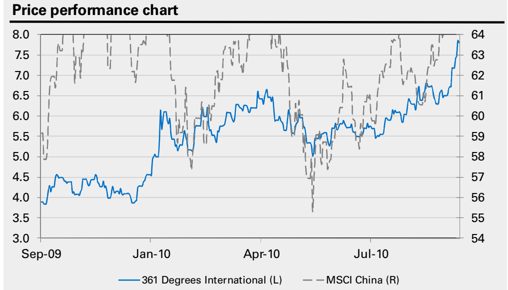


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (HK$)	7.80
12 month price target (HK$)	8.00
Market cap (HK$ mn / US$ mn)	16,132.8 / 2,078.1
Foreign ownership (%)	--

	6/10	6/11E	6/12E	6/13E
EPS (HK$)	0.50	0.59	0.64	0.70
EPS growth (%)	5.0	15.4	8.0	9.6
EPS (diluted) (Rmb)	0.44	0.48	0.53	0.58
EPS (basic pre-ex) (Rmb)	0.44	0.48	0.53	0.58
P/E (X)	15.2	13.1	12.2	11.1
P/B (X)	4.0	3.4	2.9	2.4
EV/EBITDA (X)	6.0	8.5	7.1	5.7
Dividend yield (%)	2.0	2.3	2.5	2.7
ROE (%)	31.0	26.7	24.3	22.6

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	39.3	28.1	100.5
Rel. to MSCI China	26.3	26.3	80.0

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 9/30/2010 close.

INVESTMENT LIST MEMBERSHIP

Neutral

Coverage View: Neutral

China:

Retail

Exhibit 65: 361 Degrees summary financials

Profit model (Rmb mn)	6/10	6/11E	6/12E	6/13E
Total revenue	**4,330.8**	**5,328.2**	**6,060.0**	**6,882.8**
Cost of goods sold	(2,624.5)	(3,226.0)	(3,669.1)	(4,167.3)
SG&A	(688.5)	(890.5)	(1,025.9)	(1,163.3)
R&D	--	--	--	--
Other operating profit/(expense)	0.0	0.0	0.0	0.0
EBITDA	**1,042.4**	**1,241.8**	**1,399.2**	**1,591.1**
Depreciation & amortization	(24.6)	(30.1)	(34.2)	(38.9)
EBIT	**1,017.8**	**1,211.7**	**1,365.0**	**1,552.3**
Interest income	14.4	16.3	18.7	23.6
Interest expense	(3.3)	0.0	0.0	0.0
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0
Others	17.9	20.1	12.5	15.4
Pretax profits	**1,048.5**	**1,248.1**	**1,396.2**	**1,591.3**
Income tax	(133.7)	(249.6)	(307.2)	(397.8)
Minorities	0.0	0.0	0.0	0.0
Net income pre-preferred dividends	**914.8**	**998.5**	**1,089.0**	**1,193.4**
Preferred dividends	0.0	0.0	0.0	0.0
Net income (pre-exceptionals)	**914.8**	**998.5**	**1,089.0**	**1,193.4**
Post-tax exceptionals	0.0	0.0	0.0	0.0
Net income	**914.8**	**998.5**	**1,089.0**	**1,193.4**
EPS (basic, pre-except) (Rmb)	0.44	0.48	0.53	0.58
EPS (basic, post-except) (Rmb)	0.44	0.48	0.53	0.58
EPS (diluted, post-except) (Rmb)	0.44	0.48	0.53	0.58
DPS (Rmb)	0.13	0.15	0.16	0.17
Dividend payout ratio (%)	30.0	30.0	30.0	30.0
Free cash flow yield (%)	8.9	3.2	7.1	9.2

Growth & margins (%)	6/10	6/11E	6/12E	6/13E
Sales growth	25.7	23.0	13.7	13.6
EBITDA growth	40.3	19.1	12.7	13.7
EBIT growth	39.0	19.1	12.6	13.7
Net income growth	44.7	9.1	9.1	9.6
EPS growth	5.4	9.1	9.1	9.6
Gross margin	39.4	39.5	39.5	39.5
EBITDA margin	24.1	23.3	23.1	23.1
EBIT margin	23.5	22.7	22.5	22.6

Cash flow statement (Rmb mn)	6/10	6/11E	6/12E	6/13E
Net income pre-preferred dividends	914.8	998.5	1,089.0	1,193.4
D&A add-back	24.6	30.1	34.2	38.9
Minorities interests add-back	2.0	0.0	0.0	0.0
Net (inc)/dec working capital	250.6	(281.0)	89.2	288.3
Other operating cash flow	(66.5)	0.0	0.0	0.0
Cash flow from operations	**1,125.5**	**747.6**	**1,212.4**	**1,520.6**
Capital expenditures	(358.3)	(314.7)	(236.7)	(268.9)
Acquisitions	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0
Others	(4.6)	0.0	0.0	0.0
Cash flow from investments	**(362.9)**	**(314.7)**	**(236.7)**	**(268.9)**
Dividends paid (common & pref)	(223.1)	(299.8)	(327.0)	(358.4)
Inc/(dec) in debt	(267.0)	0.0	0.0	0.0
Common stock issuance (repurchase)	200.9	0.0	0.0	0.0
Other financing cash flows	33.7	(35.1)	0.0	0.0
Cash flow from financing	**(255.5)**	**(334.9)**	**(327.0)**	**(358.4)**
Total cash flow	**507.1**	**98.0**	**648.7**	**893.4**

Balance sheet (Rmb mn)	6/10	6/11E	6/12E	6/13E
Cash & equivalents	2,490.7	2,588.7	3,237.4	4,130.8
Accounts receivable	1,114.7	1,172.2	1,030.2	825.9
Inventory	132.8	322.6	330.2	375.1
Other current assets	101.2	124.5	141.6	160.8
Total current assets	**3,839.4**	**4,208.0**	**4,739.4**	**5,492.6**
Net PP&E	651.0	935.6	1,138.1	1,368.0
Net intangibles	0.0	0.0	0.0	0.0
Total investments	0.0	0.0	0.0	0.0
Other long-term assets	73.6	73.6	73.6	73.6
Total assets	**4,564.0**	**5,217.1**	**5,951.0**	**6,934.2**
Accounts payable	1,019.8	959.1	909.0	1,032.4
Short-term debt	0.0	0.0	0.0	0.0
Other current liabilities	109.5	159.8	181.8	206.5
Total current liabilities	**1,129.4**	**1,118.9**	**1,090.8**	**1,238.9**
Long-term debt	0.0	0.0	0.0	0.0
Other long-term liabilities	3.1	3.1	3.1	3.1
Total long-term liabilities	3.1	3.1	3.1	3.1
Total liabilities	**1,132.5**	**1,122.1**	**1,093.9**	**1,242.0**
Preferred shares	**0.0**	**0.0**	**0.0**	**0.0**
Total common equity	**3,396.4**	**4,095.1**	**4,857.1**	**5,692.2**
Minority interest	35.1	0.0	0.0	0.0
Total liabilities & equity	**4,564.0**	**5,217.1**	**5,951.0**	**6,934.2**
BVPS (Rmb)	**1.66**	**1.99**	**2.36**	**2.76**

Ratios	6/10	6/11E	6/12E	6/13E
ROE (%)	31.0	26.7	24.3	22.6
ROA (%)	21.2	20.4	19.5	18.5
ROACE (%)	104.4	80.5	68.7	73.9
Inventory days	15.1	25.8	32.5	30.9
Receivables days	114.1	78.3	66.3	49.2
Payable days	156.3	111.9	92.9	85.0
Net debt/equity (%)	(72.6)	(63.2)	(66.7)	(72.6)
Interest cover - EBIT (X)	NM	NM	NM	NM

Valuation	6/10	6/11E	6/12E	6/13E
P/E (analyst) (X)	15.2	13.1	12.2	11.1
P/B (X)	4.0	3.4	2.9	2.4
EV/EBITDA (X)	6.0	8.5	7.1	5.7
Dividend yield (%)	2.0	2.3	2.5	2.7

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Source: Company data, Gao Hua Securities Research estimates.

Reg AC

I, Caroline Li, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

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Coverage group(s) of stocks by primary analyst(s)

Caroline Li, CFA: Hong Kong/China Consumer.

Hong Kong/China Consumer: 361 Degrees International, Anta Sports Products, Beijing Wangfujing Department Store (Group) Co., Belle International Holdings, Bosideng International Holdings, China Dongxiang Group, China Nepstar Chain Drugstore, Dashang Group Co, Esprit Holdings, Golden Eagle Retail Group, Gome Electrical Appliances Holding, Guangzhou Friendship Group Co, Intime Department Store (Group) Co., Li & Fung, Li Ning Company, Lifestyle International Holdings, Maoye International Holdings, New World Department Store China, Parkson Retail Group, Peak Sport Products, Ports Design, Shanghai Bailian Group Co, Shanghai Metersbonwe Fashion & Accessories Co., Suning Appliance Co., Wuhan Department Store Group Co., Xtep International Holdings, Your-Mart Co.

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Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
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Price target and rating history chart(s)

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