

Equity Research

E-Commerce

A leading vertical e-commerce platform serving the electronics manufacturing industry in China

Cogobuy Group operates China's largest transaction-based e-commerce platform for IC and other electronic components as measured by GMV in 2013. Cogobuy's e-commerce platform includes a direct sales platform, an online marketplace and a team of technical consultants and professional sales representatives, providing customers with comprehensive online and offline services. As of 1H14, the cogobuy.com e-commerce platform had 3,567 online customers, and fulfilled orders with a GMV of RMB3.5bn.

Riding China's IC and other electronic components e-commerce market boom and early mover advantage. The procurement market of Chinese IC and other electronic components is huge and fast growing with approx. 3 million SME manufacturers. This market is undergoing a pronounced shift from offline to online procurement and the penetration of online procurement will continue to grow over the coming years. However, the electronics manufacturing supply chain is highly fragmented. 3 million SMEs is traditionally underserved and always lack of sufficient resources to timely access high-quality brand-name components. Cogobuy presents an e-commerce solution to streamline the complex procurement system and has built an extensive reach and connection with more than 2,600 SME manufacturers in 2013.

Leading transaction-based e-commerce platform with strong competitive advantages. Compared to information-based B2B peers, Cogobuy plays a more active role in the procurement process and gains more advantages to expand its SME customer base, supported by strong relationship with supplier, high entry barrier built on deep industry know-how and strict quality control. Compared to traditional offline distributors, Cogobuy has developed an innovative e-commerce model by adding value to both customers and suppliers. Through its online and offline ecosystem, Cogobuy builds interactive relationships with key personnel of Chinese electronics manufacturers and leverages user data for better customer insights.

Initiate with BUY and target of HK\$10/share. We forecast total GMV to grow at a 67% CAGR from RMB3,971mn in FY13 to RMB18,345mn in FY16E and revenue to increase at a 80% CAGR from RMB2,417mn to RMB14,092mn, driven by increasing number of users and increasing GMV per customer. We expect adjusted net profit excludes NCI of RMB250mn/374mn/558mn in FY14/15/16E, stripping out non-cash and non-operating expenses and net of tax. Our target price of HK\$10 is based on 29x FY15 P/E.

Financials

RMB mn	2013A	2014E	2015E	2016E
Revenue	2,417	6,616	9,675	14,092
Revenue growth	1113%	174%	46%	46%
Gross profit	202	507	765	1,148
Gross profit margin	8%	8%	8%	8%
Adj. Net profit	96	250	374	558
Adj. Net profit margin	4%	4%	4%	4%
EPS	0.07	0.18	0.27	0.41

Source: Company data, CSCI

Cogobuy Group (400.hk)

Rating	Buy
Target Price	HK\$10
Price	HK\$ 5.87
Upside	70%

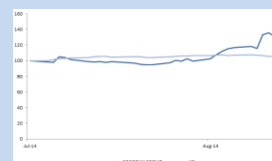
Market data	09/01/2014
52-wk range(HK\$):	3.66/5.98
Market cap.(HK\$ bn):	8.065
Shares out. (mn):	1374
Major shareholders:	
Envision Global Investments Limited	50.95%
Total Dynamic Holdings Limited	21.83%
Avg. Daily Vol. (mn):	12

Valuation	13A	14E	15E	16E
EPS (HKD)	0.07	0.18	0.27	0.41
PE (x)	66.0	25.4	17.0	11.4
PB (x)	19.3	11.4	6.8	4.2
Yield (%)	0.0	0.0	0.0	0.0

Stock rel HSI performance (%)

Since 18 Jul 2014

+46%/+5%



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1 Sep 2014

Snapshot of Cogobuy Group

Cogobuy Group operates China's largest transaction-based e-commerce platform for IC and other electronic components as measured by GMV in 2013. Cogobuy's e-commerce platform includes a direct salesⁱ platform, an online marketplaceⁱⁱ and a team of technical consultants and professional sales representatives, to better serve the complex and fast growing electronic components procurement market, providing customers with comprehensive online and offline services. Customers can access Cogobuy's e-commerce platform through website (Cogobuy.com) or mobile application (Cogobuy Cloud).

As of 2013, the cogobuy.com e-commerce platform had 19,089 registered users and 2,753 online customers. In 2013, all Cogobuy's customers are online customers. On a combined basis, Cogobuy had 95 blue-chip customers and 2,642 SME customers (96.5% of total customers). In FY13, Cogobuy fulfilled orders with a GMV of approx. RMB3.9bn. GMV from blue-chip customers and SME customers was RMB2.1bn (52.5% of total GMV) and RMB1.9bn (47.5% of total GMV), respectively. Average GMV per online customer was RMB1.4mn and average transaction value per direct sales order was RMB147,000 in FY13.

Investment highlight

Riding China's IC and other electronic components e-commerce market boom and early mover advantage

The procurement market of Chinese IC and other electronic components is huge and fast growing. Analysys International expected the market size to grow from over RMB2.0tn in 2013 to RMB3.4tn in 2016, a CAGR of 19%, driven by the strong demand from approximately 3 million SME manufacturers. Meanwhile, the electronic components market is undergoing a pronounced shift from offline to online procurement and the penetration of online procurement will continue to grow over the coming years. However, the electronics manufacturing supply chain is highly fragmented. 3 million SMEs is traditionally underserved and always lack of sufficient resources to timely access high-quality brand-name components. Cogobuy presents an e-commerce solution to streamline the complex procurement system and effectively addresses SMEs' concerns by creating an efficient channel to access authentic and high-quality branded products with reliable supply assurance. Cogobuy has built an extensive reach and connection with more than 2,600 SME manufacturers in 2013. We believe Cogobuy will significantly expand its SME customer base and is likely to enjoy a Winner-Takes-All situation in IC and other electronic components

procurement market.

Leading transaction-based e-commerce platform with strong competitive advantages

Compared to information-based B2B peers, Cogobuy plays a more active role in the procurement process and gains more advantages to expand its SME customer base, supported by strong relationship with supplier, high entry barrier built on deep industry know-how and strict quality control.

Compared to traditional offline distributors, Cogobuy has developed an innovative e-commerce model adding value to both customers and suppliers. Through its online and offline ecosystem, Cogobuy builds interactive relationships with key personnel of Chinese electronics manufacturers and leverages user data for better customer insights.

Valuation

The stock is currently trading at 25x/17x FY14/15 P/E. Cogobuy has deep industry knowhow, strong supplier network, early mover advantages in local market access to SMEs and more focus targeted user acquisition compared to its B2B peers. Our target price of HK\$10 is based on 29x FY15 P/E. We believe JD.com is the closest comparable globally in terms of business model, as both companies operate two platforms: online direct sales and online marketplace. But JD is investing heavily in logistics infrastructure that is not required by Cogobuy due to the high-value-small-in-size nature of electronic components.

Key investment risks

Unexpected drop in Chinese electronics manufacturers' demand

Cogobuy relies on purchases made by Chinese electronics manufacturers for the majority of Cogobuy's revenue, and factors that adversely affect Chinese electronics manufacturers or the Chinese electronics manufacturing industry could have a material adverse effect on Cogobuy's business and results of operation.

Intensifying competition

Cogobuy's business is subject to intense competition; If Cogobuy is unable to attract and retain a critical mass of buyers and purchases on its e-commerce platform, its revenue and profit could decrease materially. Customers may choose to shop elsewhere if Cogobuy cannot match the prices offered by other websites or by physical distributors.

Relationships with suppliers

If Cogobuy fails to manage its relationships with suppliers, its business and prospects may be adversely affected.

Short track record and execution risk

Evaluating Cogobuy's business and prospects may be difficult because Cogobuy has a short history operating its e-commerce platform. Cogobuy may not be able to efficiently manage its inventory risks. Failure to manage its liquidity and cash flows may materially and adversely affect its business, results of operations and financial condition. Cogobuy's ability to generate adequate cash inflows from operating activities in the future will depend in large part on its ability to collect receivables from its customers in a timely manner and the credit terms that Cogobuy can obtain from suppliers.

Business model

Transaction-based B2B e-commerce model

Cogobuy has developed a transaction-based e-commerce model to better serve the complex and fast growing IC and other electronic components procurement market in China.

Figure 4: Transaction-based B2B e-commerce platform



Source: Company data, CSCI

Direct sales & Marketplace

In the direct sales model, Cogobuy purchases IC and other electronic components from the suppliers, holds the inventory and then sells them to customers, earning the profit from the price difference. In the marketplace model, Cogobuy facilitates third party suppliers to complete transactions with customers and charges a commission fee for product sold, but does not hold any inventory from the suppliers.

E-commerce platform

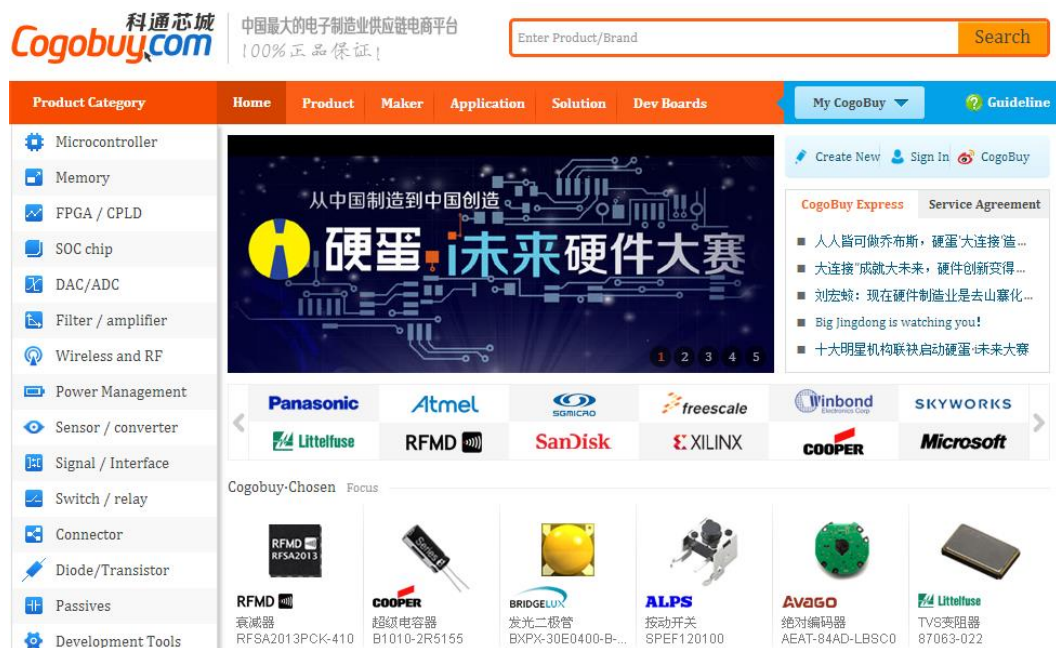
Cogobuy's e-commerce platform integrated a front-end user interface and a back-end cloud computing system.

Front-end user interface

Cogobuy.com

On the website Cogobuy displays product listings, solutions, brand recommendations, new product arrivals and promotions. Certified users of Cogobuy can complete the entire ordering process, access order history and track order status through “My Cogobuy,” a personalized area of the website.

Figure 5: Cogobuy.com webpage



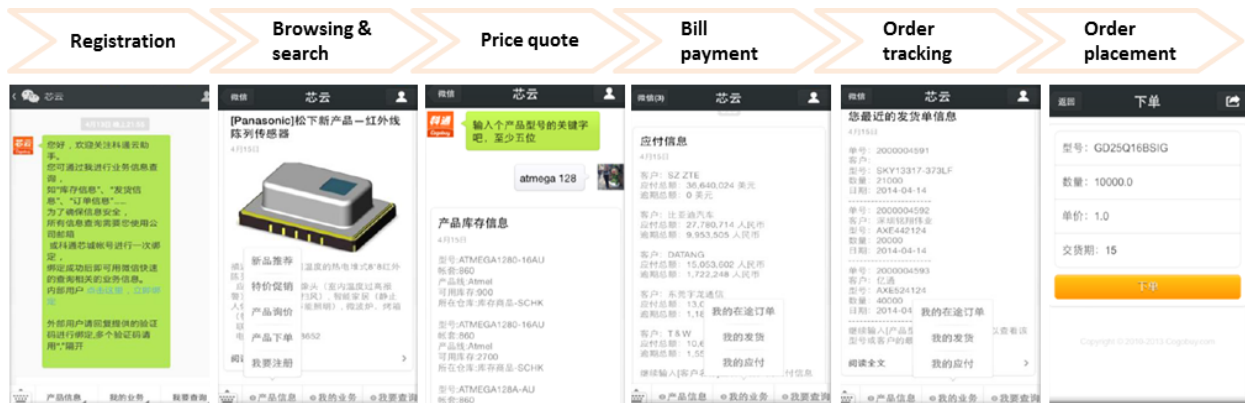
Source: Cogobuy.com, CSCSI

Cogobuy Cloud

Cogobuy also launched a mobile application, Cogobuy Cloud, in Jan 2013. Cogobuy is the first company to use WeChat as a business platform serving electronics manufacturers, embedding the user interface of Cogobuy Cloud on WeChat and use the same cloud computing system as Cogobuy’s back-end infrastructure to support both mobile application and website.

Cogobuy Cloud allows website users to access account information and execute the entire procurement process on-the-go. To use Cogobuy Cloud, a certified user of Cogobuy can add the official service account to their WeChat contact list by scanning a QR code displayed on the homepage of cogobuy.com.

Figure 6: Mobile app - Cogobuy Cloud (芯云)



Source: Company data, Cogobuy Cloud, CSCI

Back-end cloud computing system

The back-end of Cogobuy's e-commerce platform is built upon an own advanced cloud computing system and a third-party cloud service, supporting and integrating different aspects of business operation, including targeted marketing, online sales, supply chain management, fulfilment logistics and customer service.

Supported by cloud computing system, Cogobuy could provide various enterprise enablement services, including:

- Enterprise resource planning
- Customer relationship management
- Logistics management
- Order management
- Payment management
- Database management

Procurement process

Customers could execute the procurement process through both website (cogobuy.com), mobile application (Cogobuy Cloud) and sales representatives team. The online procurement process is shown below.

Figure 7: The procurement process on Cogobuy.com


Source: Company data, CSCI

Product offering

Cogobuy offers 15 product categories and over 48,000 SKUs of IC and other electronic components sourced from c.500 suppliers, including some of the top brand-name suppliers in key product categories. The five largest suppliers in 2013 have maintained business relationships with the company and its Predecessor Entitiesⁱⁱⁱ for estimated three to over seven years.

Figure 8: The 15 product categories displayed on Cogobuy.com

- | | |
|---|--|
| • Connectors | • Microcontrollers and processors |
| • Development tools | • Passives |
| • Digital-to-analog converters (DACs) and analog-to-digital converters (ADCs) | • Power management components |
| • Diodes and Transistors | • Sensors and converters |
| • Field programmable gate arrays (FPGAs) and complex programmable logic devices (CPLDs) | • Signal and interface components |
| • Filters and amplifiers | • Switches and relays |
| • Memory components | • Systems-on-a-chip (SOCs) |
| | • Wireless and radio frequency (RF) components |

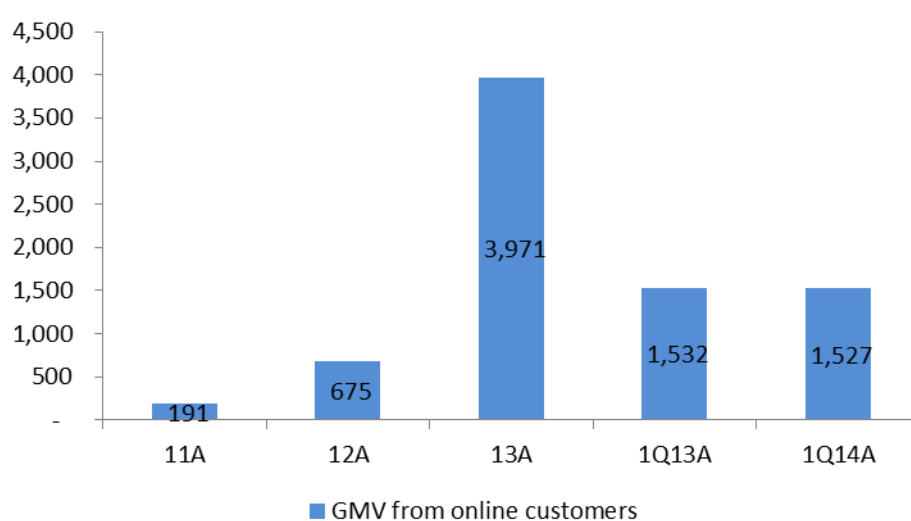
Source: Company data, CSCI

Customer base

Cogobuy's customers are primarily domestic electronics manufacturers, engaging in the manufacturing of a wide variety of electronic products, including mobile devices, consumer electronics, household electronics, medical devices, automotive electronics, telecommunication devices, energy control systems, industrial control systems and surveillance systems.

As of 2013, the cogobuy.com e-commerce platform had 19,089 registered users and 2,753 online customers^{iv}. In 2013, all Cogobuy's customers are online customers.

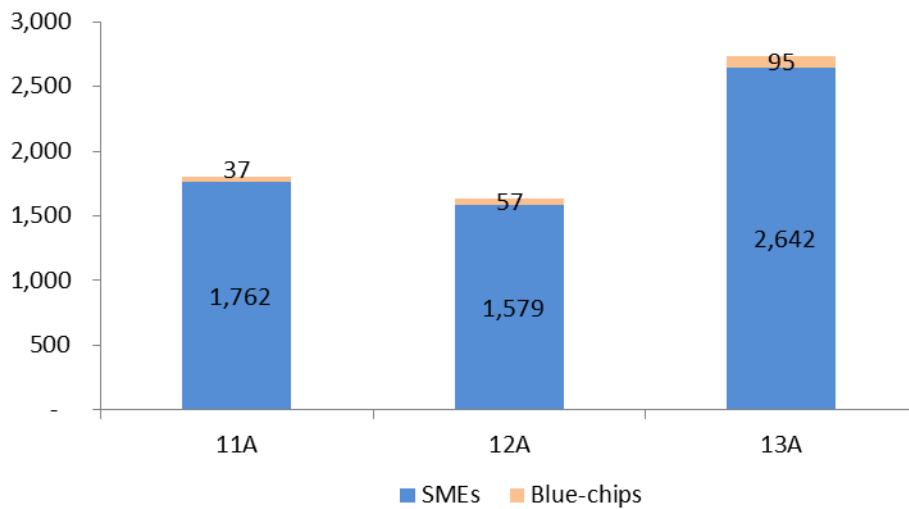
Figure 9: GMV from online customers (RMB mn)



Source: Company data, CSCI

On a combined basis^v, Cogobuy had 95 blue-chip customers^{vi} and 2,642 SME customers^{vii} (96.5% of total customers.). In FY13, GMV from blue-chip customers and SME customers was RMB2.1bn (52.5% of total GMV) and RMB1.9bn (47.5% of total GMV), respectively. Average GMV per online customer was RMB1.4mn (blue-chip customers: RMB21.7mn, SME customers: RMB0.72mn) and average transaction value per direct sales order was RMB147,000 in FY13.

Figure 10: Blue-chip and SME customer base



Source: Company data, CSCI

Cogobuy's customer base is well diversified in various segments, which ensures the company's sales normally would not be materially affected by events influencing one or two segments. In addition, Cogobuy has not encountered significant seasonality for the sale of IC and other electronic components. The top five customers contributed to 28.9%, 22.6% and 27% of total revenues and the largest customer accounted for 10.4%, 6.5% and 6.8% over FY11-13. The company does not have any long-term agreements with the customers.

Suppliers

As of 2013, Cogobuy had a strong network of c.500 suppliers, including top suppliers in key product categories, such as Freescale for automotive components, Broadcom and SanDisk for smart mobile device components and Xilinx for field-programmable gate arrays. A majority of suppliers are based in the United States; each typically has only a handful of distribution partners in China and is often the exclusive source of certain high-end electronic components that are critical for manufacturers in relevant segments.

Cogobuy's agreements with major suppliers typically have a term of one or two years and are automatically renewable. Typically they can be terminated by either party with 30 to 90 days of prior written notice. Cogobuy has not made minimum purchase commitments under these agreements.

As of 2013, Cogobuy has maintained business relationships with its five largest suppliers for an estimated range of three to over seven years. On a combined basis, the five largest suppliers accounted for 70.0%, 73.2% and 71.6% of total purchases and the largest supplier accounted for 21.0%, 26.9% and 21.8% of its total purchases

over FY11-13.

Logistics and fulfillment

Cogobuy operates leased logistics centres in Hong Kong, Shenzhen and Shanghai, backed by its own logistics network and fulfilment management system. As of 2013, logistics centres had warehouse space of c.3,000 m². Cogobuy relies on third-party courier companies to deliver components to its customers.

Quality control

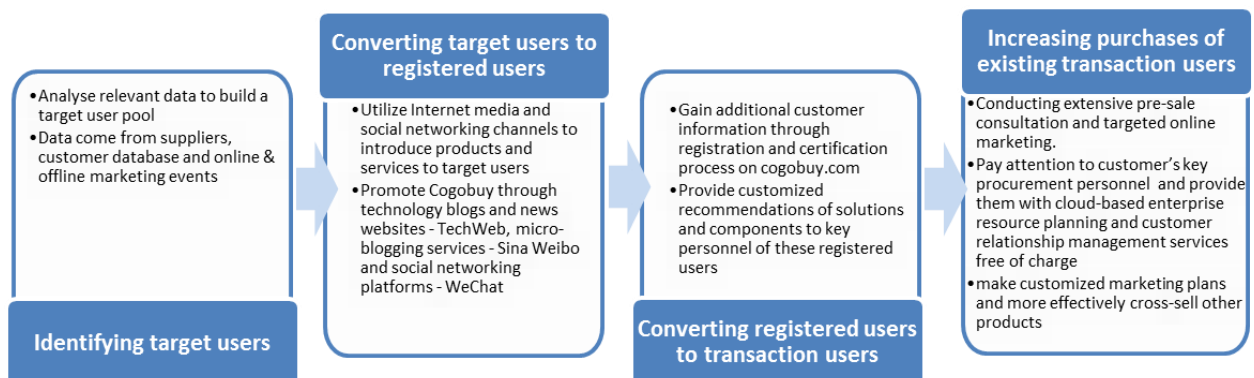
Cogobuy has set up rigorous procedures for selecting suppliers and has negotiated extensive product warranty and favourable product return terms.

Cogobuy also carefully selects third-party merchants to ensure their product are authentic and of high quality. Under their agreement with Cogobuy, merchants are generally committed to offer only authentic and quality electronic components, and are also responsible to indemnify Cogobuy for any losses Cogobuy suffer or any costs that Cogobuy incur due to their displaying of counterfeit or defective products or contents that infringe on others' intellectual property rights.

Marketing & Hardeggs community

Cogobuy adopts various marketing activities to attract more users. The sales and marketing activities are broken down into four steps: **identifying target users->converting->target users to registered users->converting registered users to transaction users->increasing purchases of existing transaction.**

Figure 11: Sales and marketing activities



Source: Company data, CSCI Research

Cogobuy always holds new media marketing events, such as product launches and technology discussion forums, on various social networking platforms, including Weibo and TechWeb.

Hardeggs, a WeChat community launched by company in Sep 2013, has become an interactive and engaging online community promoting idea and knowledge exchanges among electronics designers and engineers in China. It is also a more and more important marketing community because these engineers and technical professionals are able to contribute to the procurement decisions of electronics manufacturers.

Competitive analysis

Riding China's IC and other electronic components

e-commerce market boom

Strong demand from millions of SME customers

The procurement market of Chinese IC and other electronic components is huge and fast growing. Analysys International expected the market size to grow from over RMB2.0tn in 2013 to RMB3.4tn in 2016, a CAGR of 19%. The market boom is driven by the strong demand from approximately 3 million electronics manufacturers - mostly are SME manufacturers and only 3,000 are blue-chip manufacturers. In 2013, the average annual procurement transaction value is over RMB21,000 for small electronics manufactures and approximately RMB5mn for medium electronics manufacturers in China, according to Analysys International.

Rising online procurement penetration in China

The electronic components market in China is undergoing a pronounced shift from offline to online procurement. According to Analysys International, the number of manufacturers that engaged in online procurement increased from c.4,500 in 2011 to c.97,000 in 2013. Although the proportion is still small in the total market, it is expected that the penetration of online procurement will continue to grow over the coming years.

Highly fragmented downstream market with large underserved SME

manufacturers

China's electronics manufacturing supply chain is highly fragmented. The top 10 offline distributors contribute <5% of the aggregated market share in 2012, according to Analysys International. The electronic components industry is characterized as short product life cycles, fast-changing product trends and constantly evolving technologies. However, three million SMEs always lack of sufficient resources to timely

access high-quality brand-name components.

Early mover advantage

Cogobuy presents an e-commerce solution to streamline the complex procurement system and effectively addresses SMEs' concerns by creating an efficient channel to access authentic and high-quality branded products with reliable supply assurance.

Cogobuy has built an extensive reach and connection with more than 2,600 SME manufacturers in 2013. We believe, spurred by the increasing penetration rate of online procurement and leveraged early-mover advantage, Cogobuy will significantly expand its SME customer base and is likely to enjoy a Winner-Takes-All situation in electronic components procurement market.

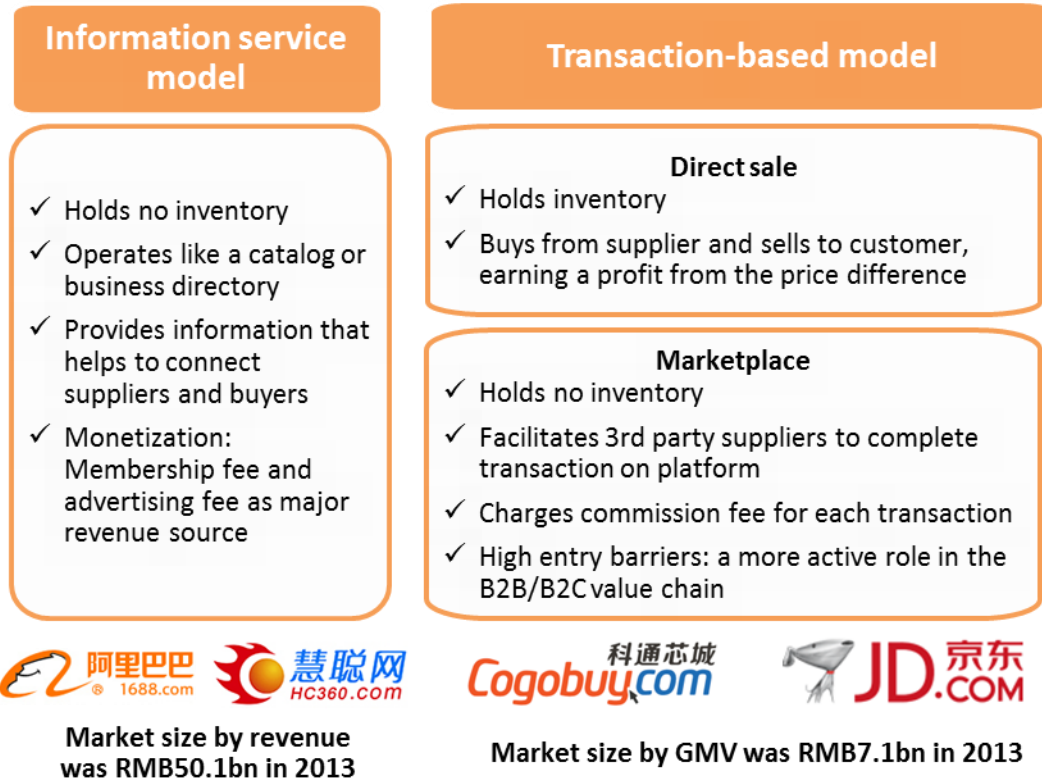
Leading transaction-based e-commerce platform with strong competitive advantages

Cogobuy is the largest transaction-based e-commerce platform for IC and other electronic components in China as measured by GMV in 2013, according to Analysys International.

Transaction-based vs. Information service

Transaction-based model and information service model are two major business models in online procurement market.

Figure 12: Transaction-based model vs. Information service model



Source: Company data, Analysys International, CSCI

Compared to information-based B2B peers, Cogobuy plays a more active role in the procurement process and gains more advantages to expand its market share and enlarge its SME customer base.

Strong relationship with supplier

Cogobuy has established close business relationships with approximately 500 suppliers. Cogobuy's huge transaction scales and ability to effectively promote new products enable it to gain more bargaining power over suppliers, and in turn to offer authentic high-quality products at competitive prices and secure favorable terms from suppliers.

In the electronics manufacturing industry, shortage of components, especially high-end components is not uncommon. Compared to Information-based B2B platform, Cogobuy sources directly from suppliers and maintains a closer relationship with suppliers. Therefore, Cogobuy could receive first-hand information on shortages and secure supply of out-of-stock components, and help customers resolve shortage issues more promptly.

High entry barrier built on deep industry know-how

Electronics manufacturers often seek high level pre-sales and post-sales services. Focusing on aggregating and processing product information, information-based platform generally does not have sales representative with industry know-how to support customer service. Cogobuy has accumulated an in-depth understanding of the electronics manufacturing and set up a team of over 120 experienced and professional sales representatives to provide customers comprehensive services. We view Cogobuy's in-depth understanding of the industry as a vital advantage that creates high entry barrier and prevents new entrants from duplicating their business model.

Strict quality control

Information-based platform provides business information rather than involving in the detailed procurement process between suppliers and manufacturer buyers. Counterfeit or defective products offered by suppliers would be a huge threat to the trustworthiness of a B2B platform. Cogobuy's transaction-based model address this problem by acting as a watchdog in the procurement process, monitoring third party inventories and providing quality control.

Peer comparison with Alibaba & HC International

Alibaba

Alibaba is the dominant online B2B & B2C marketplace in China. Alibaba's China wholesale marketplace is 1688.com. 1688.com offers membership packages (TrustPass) for sellers to establish online storefronts to market relevant product information to wholesale buyers and also provides a transaction platform as well as value-added services to wholesalers. (Source: Alibaba F-1 form)

HC360

HC International (8292.HK) is a leading information-based B2B marketplace in China, offering comprehensive online service to clients in various industries. HC also provides offline services including trade catalogues, yellow page directories and television and print periodicals. (Source: HC International data)

According to iResearch, in terms of revenue, Alibaba is the No.1 B2B e-commerce services provider with 38.2% market share, HC ranked 4th with 4.3% market share in 2013. We view these two companies as close comparables to Cogobuy and present the detailed peer comparison below.

Figure 13: Peer comparison – operating data

Platform	Cogobuy	Alibaba-1688.com	HC360.com
Business model	Transaction-based	Transferring from Information-based to Transaction-based “Meet at Alibaba”->“Work at Alibaba”	Information-based
Product coverage	Vertically-oriented: IC and other electronic components industry	Horizontally-oriented: All industries	Horizontally-oriented: >60 industries
Time established	2011	1999	2004
# of registered users	19,089	>100mn	c.20mn
# of transaction users	2,737	n/a	n/a
# of paying users	n/a	> 690,000	> 170,000
- Implied conversion rate	14.3%	> 0.69%	> 8.5%
Total GMV (RMB mn)	3,900	74,500	n/a
GMV per transaction / paying users (RMB mn)	1.4	0.11	n/a

Source: Company data, Alibaba, HC international, CSCI

Figure 14: Peer comparison – monetization, products and services

Monetization	Transaction fee Value-added services fee	Memberships fee Online marketing service fee (P4P marketing, keyword bidding, etc.) Value-added services fee	Memberships fee Marketing and Advertising Services fee (金榜题名, keyword bidding, etc.) Value-added services fee
Membership	n/a	TrustPass premium data analytics product showcase	Mai-Mai-Tong (MMT)
Value-added service	pre-sale and post-sale services Social media marketing and cloud computing service	custom clearance, VAT refund import/export business solutions Cloud Computing Micro-finance services	Cai-Gou-Tong (CGT) Micro-finance services
IM	n/a	Ali Wang Wang	HC Fa Fa
Payment	Cogobuy	Alipay	Hui Fu Tong
Mobile app	Cogobuy Cloud, Hardeggs iFuture Hardeggs	Laiwang, weitaio	慧聪资讯
Offline events	competition Hardeggs seminars & events	1688 Peixun 1688 exhibition & trade	HC exhibition & trade Trade catalogues, yellow page directories and seminars

Source: Company data, Alibaba, HC international, CSCI

Figure 15: Peer comparison - financials

	Cogobuy	Alibaba(1688.hk)	HC360.com
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RMB mn	FY12A	FY13A	FY10A	FY11A	FY12A	FY13A
Revenue	1,568	2,417	5,558	6,417	549	838
Gross profit	97	202	4,627	5,157	480	770
GPM	6%	8%	83%	80%	87%	92%
EBIT	39	121	1,537	1,817	67	170
EBIT margin	3%	5%	28%	28%	12%	20%
NPAT	33	87	1,470	1,709	65	152
NPAT margin	2%	4%	26%	27%	12%	18%

Note: Alibaba group has privatized its B2B business 1688.com (1688.hk) and delisted from HKEx in 2012.

Source: Company data, Alibaba, HC international, CSCI

Cogobuy vs. traditional offline distributors

We are aware that Cogobuy may face fierce competition from traditional offline distributors of electronic components. These distributors currently occupy more market share than Cogobuy, some of them also have online service components or plan to launch online platforms in the future. For example, the giant distributor Avnet (AVNET US) has established its asia-wide e-commerce site in 2010 and staffed by more than 250 employees focusing on Chinese market. (*Source: Avnet(China) website*)

However, we believe Cogobuy has developed an innovative e-commerce model by adding value to both customers and suppliers, and thereby differentiated itself from traditional offline competitors.

Unique value proposition to customers

An efficient e-commerce solution for China's fragmented electronics manufacturing supply chain

In China's electronic components industry, the high-end components manufacturing market is dominated by a few US and Europe-based players, namely Xilinx, Intel and Broadcom. These global branded suppliers always sell their products directly to blue-chip manufacturers through a limited number of large distributors, such as US-based Avnet, Inc., Arrow Electronics, Inc., Future Electronics, and Taiwan-based WPG Holdings. As a result these large distributors usually focus on serving the blue-chip manufacturers too.

SME customers have traditionally been underserved by the highly fragmented electronics manufacturing supply chain in China. Compared to blue-chip manufacturers, SME customers often **1) lack sufficient bargaining power to negotiate competitive purchase terms and 2) have limited resources to timely access authentic components and get the same level of service from brand-name suppliers, and 3) efficiently manage the procurement process.** Small distributors and retail stores in

Beijing Zhongguancun and Shenzhen Huaqiangbei cannot provide SMEs crucial components from branded suppliers either.

Cogobuy's direct sales platform effectively addresses SMEs' concerns by creating an efficient channel to access authentic and high-quality branded products with reliable supply assurance. Due to economies of scale, Cogobuy is able to offer SMEs optimal purchase prices while maintaining an attractive profit margin. In addition, Cogobuy's direct sales platform provides SMEs with a one-stop solution to the procurement process.

Cogobuy has in-depth understanding on the electronics manufacturing supply chain, fast-moving technology and product trends. Deep industry know-how enable Cogobuy to provide customers with customized selections from massive amount of product information and solutions. In particular, Cogobuy examines the product development objectives of SME customers and recommend solutions that fit for them.

For blue-chip customers, Cogobuy 1) charges prices comparable to prices brand-name suppliers directly offered, 2) provides pre-sale services and customized social media marketing, and 3) offers free additional online and offline value-added services which typically cannot enjoy from brand-name suppliers.

Value added service to suppliers

Effectively promoting large suppliers' new product and technologies

Cogobuy promotes suppliers' new products and new technologies through pre-sale services and social media marketing. Through sophisticated customer data analysis and In-depth understandings of customers' demands, Cogobuy can make more targeted promotions of relevant products to customers and reach more potential buyers in a customized manner. The full-scale services supplement suppliers' after-sale services and reduce their after-sale costs.

Marketplace for SME suppliers

SME suppliers of electronic components are also hindered by the fragmented electronics manufacturing supply chain in China. Their small scale has typically restricted their abilities to acquire customers in a cost-effective manner. Cogobuy's online marketplace platform allows SME suppliers to take advantage of Cogobuy's technology infrastructure and access the growing SME customer base and well-established blue-chip customer community.

Cogobuy's online and offline ecosystem

The company intends to develop an online and offline ecosystem to serve the electronics manufacturing value chain.

To ride on the rapid growth of the mobile Internet, Cogobuy launched its mobile application, Cogobuy Cloud. Cogobuy Cloud allows website users to access account information and execute the entire procurement process on-the-go. To use Cogobuy Cloud, a certified user can add the official service account to their WeChat contact list by scanning a QR code displayed on the homepage of cogobuy.com. Cogobuy is the first company to use WeChat as a business platform to serve electronics manufacturers.

Through a combination of offline and online customer engagement, the company is able to attract and retain electronics manufacturers that work with sales and customer service teams. Company's web and mobile e-commerce platforms assist customers efficiently search and define purchase order specifications, as well as execute and manage related procurement processes. Meanwhile, the company also seeks to provide more offline services, such as supply chain financing and insurance.

Professional sales representative

Cogobuy has a dedicated team of over 120 professional sales representatives. These sales representatives provide customers extensive pre-sale, sale and post-sale consultation. They also visit customers periodically to facilitate customer registration, order processing on Cogobuy's web and mobile e-commerce platform. Their offline services is vital to push the close of deal and keep customers' loyalty.

Build interactive relationships with key personnel

The procurement decision of a Chinese electronics manufacturer is often made by a handful of its key personnel, many of whom are engineers and technical professionals.

Coupled with offline events, Cogobuy utilizes targeted online marketing to grow a large community of engineers and technical professionals - key personnel who are able to influence the purchase decisions of potential SME customers. By building interactive relationships with these professionals, Cogobuy aims to get word-of-mouth referrals and achieve a high success rate of converting target users to active transaction users.

New media online events

Cogobuy holds new media marketing events, such as product launches and technology discussion forums, on various social networking platforms, including Weibo and TechWeb.

Hardeggs online to offline events

Hardeggs is Cogobuy's WeChat community aims to promote idea and exchange knowledge among electronics designers and engineers in China. Recently, Cogobuy held a Hardeggs iFuture Hardware Competition in cooperation with 11 other companies, including IC component suppliers, electronics manufacturers such as Xiaomi and Internet portals such

as Qihoo 360. Cogobuy's goal is to foster an innovative culture among Chinese hardware developers and incubate China's own cutting-edge start-ups - the next IT giants.

Figure 16: Online events: Hardeggs WeChat Community



Source: Company, Hardeggs WeChat Community, CSCI

Figure 17: Offline events: Hardeggs iFuture Hardware Competition & open course



Source: ingdan.com, CSCI

Leverage user data for better customer insights

Cogobuy collects and maintains daily massive customer data from its growing customer base and large order volume. Through customer data analysis, Cogobuy can improve inventory risk management, merchandising strategy and targeted marketing efforts. It can also leverage customer data for better customer insights to expand product offerings and adjacent complementary services.

Future strategies

Cogobuy aims to become the leading e-commerce platform serving China's electronics manufacturing industry. In order to achieve its goal, Cogobuy plans to fulfill the following strategies:

- ✓ Expand the SME customer base;
- ✓ Enhance marketplace platform to complement the existing direct sales platform;
- ✓ Further enhance customer loyalty and increase purchase per customer;
- ✓ Foster the development of an ecosystem serving the electronics manufacturing value chain.
- ✓ Pursue strategic partnerships and acquisition opportunities

Earnings forecasts

Revenue on high-growth track

Riding China's IC and other electronic components e-commerce market boom, Cogobuy's revenue increased by 54% yoy to RMB2,417mn in FY13. This increase is due to 1) a strong revenue growth in direct sales, and 2) Cogobuy's online marketplace kicked off in 2013. Its 2Q14 revenue soared 251.6% yoy to RMB1,639.1mn driven by robust sales volume growth.

Direct sales

Cogobuy's direct sales revenue grew from RMB1,568mn in FY12 to RMB2,392mn in FY13 at a 53% yoy, chiefly boosted by a 20% yoy increase in the number of customers from 1,636 to 1,967, and a 27% yoy rise in average revenues per customer from RMB1mn to RMB1.2mn.

Marketplace

Marketplace revenue consists of commission fee charged to third-party merchants that sell products on cogobuy.com. Commission fee charged is based on a fixed percentage of the sales amount. Cogobuy commenced its online marketplace in July 2013 and served 1,326 customers in FY13, achieving a total GMV of RMB1.5bn and revenue of RMB25.4mn.

We forecast total GMV to grow at a 67% CAGR from RMB3,971mn in FY13 to

RMB18,345mn in FY16E and revenue to increase at a 80% CAGR from RMB2,417mn to RMB14,092mn, based on two key drivers:

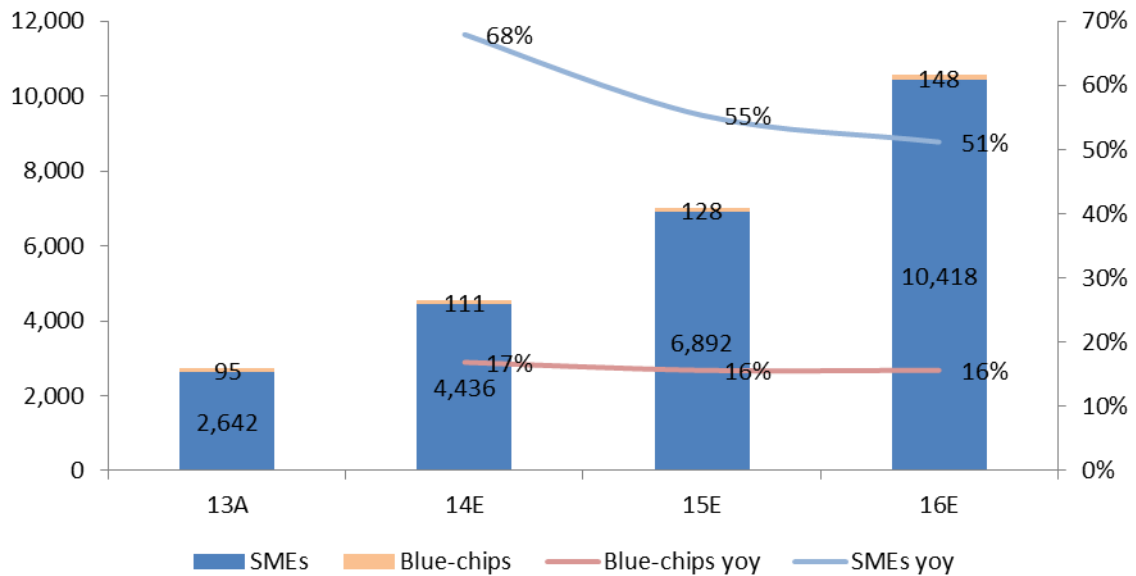
Increasing number of users

We believe increasing number of users will be driven by:

- **E-commerce adoption in China's IC and other electronic components procurement market continue to rise.** The ecommerce market in China's electronics manufacturing industry is still in the early stage of its development. According to Analysys International, China's IC and other electronic components procurement market has a huge transaction value (GMV: RMB2.0tn in 2013). However, the e-commerce market size, information service based (GMV: RMB50.1bn) and transaction-based (GMV: RMB7.1bn) both combined, only represents a less than 3% of the total market size.
- **Fast-growing SME customers.** SME customers are underserved by the highly fragmented electronics manufacturing supply chain in China. Cogobuy offers an e-commerce solution to address SMEs concerns, providing SMEs a one-stop solution to the procurement process.
- **Cogobuy's ecosystem generates virtuous cycle.** Cogobuy has built an online (Cogobuy cloud & Hardegg Wechat community) + offline (competition & events) ecosystem. Through this ecosystem, supported by customer data analysis, Cogobuy is able to 1) conduct sophisticated targeted marketing and product offering, 2) interactive with key procurement personnel of electronics manufacturers, and 3) effectively attract and convert target users to registered users and transaction users. This user converting process in turn enlarges Cogobuy's data pool and help Cogobuy gain better customer insights.

We expect Cogobuy's number of total customers to grow 66%/54%/51% yoy, driven by a steady increase in blue-chip customer base of 17%/16%/16% yoy, and rapid growth of SME customer base of 68%/55%/51% yoy in FY14/15/16E respectively.

Figure 18: Cogobuy's number of users breakdown



Source: Company data, CSCI estimates

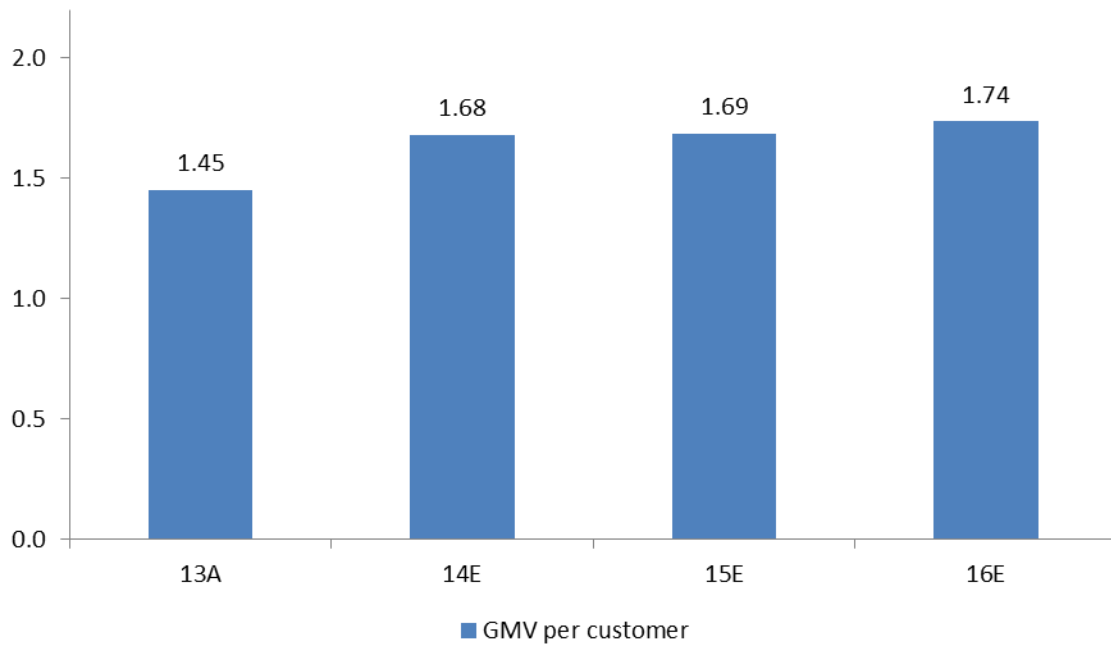
Increasing GMV per customer

We think Cogobuy's increasing GMV per customer will also become a key earnings driver, on the back of:

- The electronic component product life cycle is short (according to Analysys International, products generally upgrade every 6 months), Cogobuy's customers have the propensity to repeat purchase. In FY13, Cogobuy had 1,898 repeat customers (online customer repeating ratio: 64.7%), and those repeat customers generated a GMV of RMB3.9bn (99.2% of total GMV).
- Cogobuy conducts precision promotions and extensive pre-sale consultation, providing users customized marketing plans and effectively cross-sell other products.

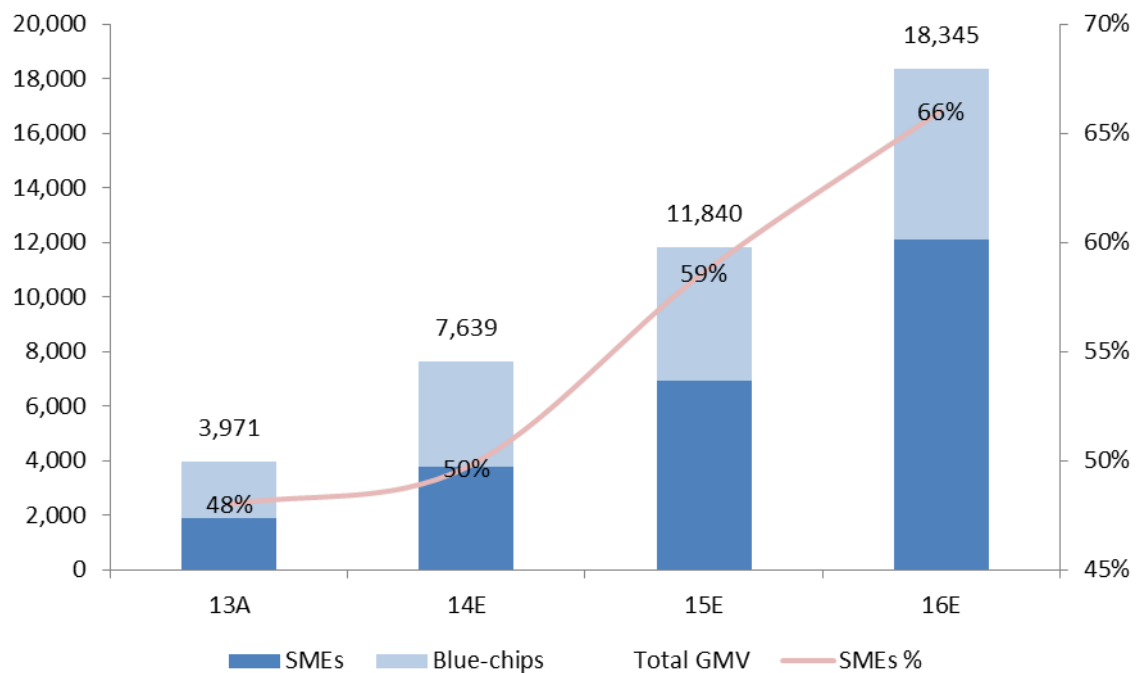
We believe Cogobuy's ecosystem that serving the electronics manufacturing value chain will create customer's stickiness and increase the repeat purchase rate, thereby increasing GMV per customer. We forecast GMV per customer to achieve a 6% CAGR from RMB1.45mn in FY13 to RMB1.74mn in FY16E. We estimate SME customers will contribute 66% (vs. 48% in FY13) of total GMV in FY16E.

Figure 19: Blended GMV per customer (RMB mn)



Source: Company data, CSCI estimates

Figure 20: Total GMV (RMB mn)



Source: Company data, CSCI estimates

Direct sales vs. marketplace

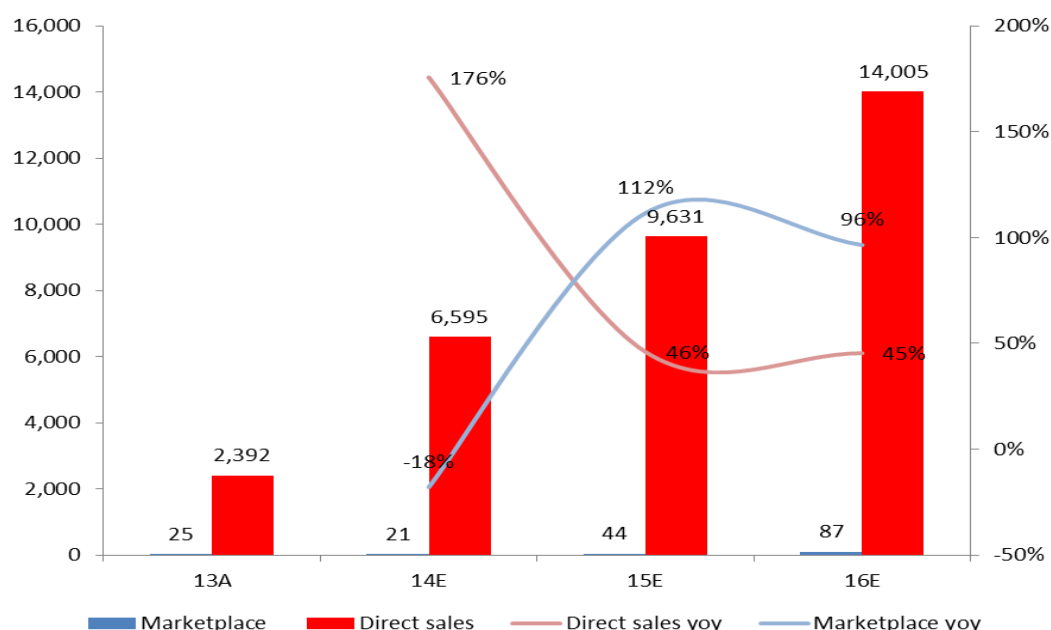
As of 2013, Cogobuy's revenue almost generated from direct sale platform, made up 99%, and marketplace platform accounted for the rest 1%. We expect direct sales to

maintain its lion's share >99% of total revenue and account for 76% of total GMV in FY16E.

We expect its marketplace GMV to drop 34% yoy in FY14E primarily because a portion of marketplace GMV in FY13 was generated from marketplace income charged by Cogobuy to the Envision Global Entities. This part of marketplace income became intercompany revenue and was eliminated after Cogobuy acquired the Envision Global Entities in Nov 2013.

After the re-organization, by leveraging direct sales platform advantages, Cogobuy would attract more channel sales vendors, suppliers and manufacturers to expand its marketplace platform, **we assume a commission fee rate of 2% and forecast revenues stemmed from marketplace to grow at a 104% 2yr-CAGR over FY14-16E.**

Figure 21: Revenue of direct sales and marketplace businesses (RMB mn)



Source: Company data, CSCI estimates

Figure 22: Cogobuy revenue drivers

RMB mn	FY13A	FY14E	FY15E	FY16E
Transaction customers				
Blue-chip	95	111	128	148
YoY growth		17%	16%	16%
SME	2,642	4,436	6,892	10,418
YoY growth		68%	55%	51%
Total Transaction customers	2,737	4,547	7,020	10,567
YoY growth		66%	54%	51%
GMV per customer				

Blue-chip	21.7	34.6	38.1	42.0
<i>YoY growth</i>		59%	10%	10%
SME	0.7	0.9	1.0	1.2
<i>YoY growth</i>		19%	18%	15%
GMV				
Blue-chip	2,065	3,842	4,898	6,230
<i>YoY growth</i>		86%	27%	27%
<i>% of total GMV</i>	52%	50%	41%	34%
SME	1,906	3,797	6,942	12,115
<i>YoY growth</i>		99%	83%	75%
<i>% of total GMV</i>	48%	50%	59%	66%
Total GMV	3,971	7,639	11,840	18,345
<i>YoY growth</i>		92%	55%	55%
Blended GMV per customer	1.45	1.68	1.69	1.74
<i>YoY growth</i>		16%	0.4%	3%
Direct sales GMV	2,392	6,595	9,631	14,005
<i>YoY growth</i>		176%	46%	45%
<i>% of total GMV</i>	60%	86%	81%	76%
Marketplace GMV	1,579	1,044	2,209	4,340
<i>YoY growth</i>		-34%	112%	96%
Revenues				
Direct sales	2,392	6,595	9,631	14,005
Marketplace	25	21	44	87
<i>- commission rate</i>	1.6%	2.0%	2.0%	2.0%
Total revenues	2,417	6,616	9,675	14,092
<i>YoY growth</i>		174%	46%	46%

Source: Company data, CSCI estimates

Cost of sales

Cost of sales comes from suppliers' charge of product procurements for direct sales business. In FY13, Cost of sales was RMB2,215mn with a gross margin profit of 8.4%. GPM decreased to 7.6% in 1Q14 (-1.4ppt qoq), primarily due to marketplace income charged by Cogobuy to the Envision Global Entities became intercompany revenue and was eliminated upon consolidation after the re-organization in Nov 2013. We forecast gross profit margin will inch up from 7.7% in FY14E to 8.1% in FY16E, driven by 1) economies of scale enable Cogobuy to enjoy better sourcing price with rebate, 2) a larger share of GP contribution by marketplace business (GMP almost 100%).

Figure 23: Recent development

RMB mn	1Q13A	4Q13A	1Q14A
Total revenues	388	1,012	1,354

Cost of sales	363	921	1,252
Gross profit	25	91	102
<i>% gross margin</i>	<i>6.3%</i>	<i>9.0%</i>	<i>7.6%</i>

Source: Company data, CSCI

Margins

We forecast Cogobuy's EBIT growth at a CAGR of 76% from RMB120mn in FY13 to RMB655mn in FY16E, fueled by 80% CAGR in sales and are slightly offset by lower GPM from 8.4% in FY13 to 8.1% in FY16E. We expect adjusted net profit excludes NCI of RMB231mn/346mn/517mn in FY14/15/16E, stripping out non-cash and non-operating expenses and net of tax.

Figure 24: Cogobuy P&L forecasts

RMB mn	FY13A	FY14E	FY15E	FY16E
Total revenues	2,417	6,616	9,675	14,092
<i>YoY growth</i>		<i>174%</i>	<i>46%</i>	<i>46%</i>
Cost of sales	(2,215)	(6,109)	(8,910)	(12,944)
Gross profit	202	507	765	1,148
<i>% gross margin</i>	<i>8%</i>	<i>8%</i>	<i>8%</i>	<i>8%</i>
Gross profit - Direct sales	177	486	721	1,061
<i>% gross margin - Direct sales</i>	<i>7%</i>	<i>7%</i>	<i>7%</i>	<i>8%</i>
Other net (loss)/income	1			
G&A and other operating expenses	(68)	(160)	(163)	(195)
<i>% of total revenue</i>	<i>2%</i>	<i>2%</i>	<i>1%</i>	<i>1%</i>
Selling and distribution expenses	(14)	(87)	(166)	(298)
<i>% of total revenue</i>	<i>1%</i>	<i>1%</i>	<i>2%</i>	<i>2%</i>
Total expenses	(82)	(247)	(328)	(493)
<i>% of total revenues</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>
EBIT	120	260	437	655
<i>% EBIT margin</i>	<i>5%</i>	<i>4%</i>	<i>5%</i>	<i>5%</i>
Finance cost	(20)	(31)	(44)	(52)
Profit before tax	100	229	393	603
Income tax	(16)	(28)	(52)	(81)
Interest income	1	3	9	12
Net income	87	203	349	534
<i>% net margin</i>	<i>4%</i>	<i>3%</i>	<i>4%</i>	<i>4%</i>
<i>YoY growth</i>		<i>135%</i>	<i>72%</i>	<i>53%</i>
Less adjustments	(10)	(47)	(24)	(24)
Adjusted NI	96	250	374	558
<i>% net margin</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>	<i>4%</i>
<i>YoY growth</i>		<i>160%</i>	<i>50%</i>	<i>49%</i>

Effect of foreign exchange rate chg	8			
Adjusted comprehensive income	104	250	374	558
Attributable to non-controlling interest	4	19	28	41
Adjusted NI attributable to Cogobuy shareholders	92	231	346	517
% net margin, ex NCI	4%	3%	4%	4%

(1) Adjustments include non-cash and non-operating expenses (net of tax): stock based compensation cost, amortization of intangible assets and IPO listing expenses

Source: Company data, CSCI estimates

Figure 25: GMV Sensitivity analysis in FY14E (RMB mn)

GMV	Revenue	Adj NI, ex NCI	Working capital
10%	7,215	255	-656
5%	6,916	243	-593
Base	6,616	231	-531
-5%	6,316	218	-468
-10%	6,017	206	-405

Source: CSCI estimates

Figure 26: COGS Sensitivity analysis in FY14E (RMB mn)

COGS	Revenue	Adj NI, ex NCI	Working capital
10%	6,616	-195	-494
5%	6,616	18	-512
Base	6,616	231	-531
-5%	6,616	443	-549
-10%	6,616	656	-567

Source: CSCI estimates

Balance sheet

Working capital management

Inventory management

Cogobuy carried inventories of RMB244mn as of 2013 increasing significantly from RMB107mn as of 2012, driven by continuously expanding of product offerings. Cogobuy's inventories are equivalent to 29 days of sales outstanding in FY13. As of 1Q14, inventories of RMB178mn (73% of the balance as of 2013) have been sold.

Cogobuy's Inventories mainly comprise electronic components. We believe Cogobuy can successfully manage their inventory risks and continually improve their inventory management as:

- Cogobuy conducts extensive pre-sale consultations to ensure customers make

informed purchase decisions that are less likely to be revoked. In FY11-13, the amounts of revoked purchase orders only represent <2% of total revenues.

- After concrete demands are secured and orders from customers are consolidated, Cogobuy places order and sources from suppliers.
- Supported by well-coordinated back end inventory management system, Cogobuy could avoid overstocking and mitigate inventory risks.
- Cogobuy further reduces their inventory risks by entering into arrangements with major suppliers that allow Cogobuy to return unsold products at their original purchase prices in exchange for other products or credit.

A/R and A/P management

Cogobuy usually has 30 days to settle accounts payables and demands SME customers' payments within 30 days or even full payment before or upon delivery. Although the credit term Cogobuy grants to Blue-chip customers is within 60-90 days, Cogobuy could use these reliable account receivables as collateral for obtaining credit and easing cash flow burden. As of 2013, Cogobuy has entered into factoring agreements with several banks (See Appendix: Factoring agreements). The costs of the factoring arrangement ranged from 3.6%~3.9% of the balance transferred.

In FY13, Cogobuy has a positive working capital cycle of 60 days (inventory: 29 days, receivable: 68 days and payable: 37 days). We expect Cogobuy's working capital cycle of 41/50/56 in FY14/15/16E.

Figure 27: Working capital management

RMB mn	FY13A	FY14E	FY15E	FY16E
Inventory	244	557	804	1,149
Inventory days	29	24	28	32
Receivables	657	1,308	1,877	2,332
Receivables days	68	54	60	60
Payables	433	805	1,072	1,294
Payables days	37	37	38	37
Cash conversion days	60	41	50	56

Source: Company data, CSCI estimates

Operating cash flow

Cogobuy is at a rapid growing stage and its business requires working capital to source components from suppliers. Taking into account the factoring agreements, we forecast Cogobuy's operating cash flow to be RMB368mn/139mn in FY14/15E and turn positive RMB28mn in FY16E.

CAPEX

Cogobuy mainly distributes high-end electronic components. As high-end electronic component has low per-unit physical size and high per-unit value, Cogobuy could maintain low-level capital expenditures in warehouses and fulfilment. The company leases rather than owns its warehouse, the main capex requirement comes from office furniture and equipment, and motor vehicles.

Cogobuy's capex was RMB0.6mn in FY13. We forecast capex to increase to RMB1.7mn in FY14E, RMB2.5mn in FY15E and RMB3.7mn in FY16E, driven by the development of logistics and fulfilment centers, and IT infrastructure.

DuPont analysis

Assuming the absence of equity capital raising, we forecast ROA to improve from 5% in FY13 to 10% in FY16E due to economies of scale and lower financial leverage. Cogobuy achieves a 28% of ROE in FY13 and we estimate ROE will rise to 35% in FY16E.

Figure 28: DuPont analysis

	2013A	2014E	2015E	2016E
Tax burden (adj. NI, ex NCI/adj. EBT)	80%	80%	80%	80%
Interest burden (adj. EBT/ adj. EBIT)	86%	91%	92%	94%
EBIT margin (adj. EBIT/revenue)	5%	5%	5%	5%
Asset turnover (revenue/assets)	1.4	2.3	2.2	2.7
ROA	5%	8%	8%	10%
Leverage ratio (Assets/Equity)	5.2	5.2	4.7	3.5
ROE	28%	41%	38%	35%

Source: Company data, CSCI estimates

Figure 29: Cogobuy Balance sheet

RMB mn	FY13A	FY14E	FY15E	FY16E
Assets				
Current assets				
Cash and cash equivalents	282	1,019	1,904	2,210
Pledged deposits	233	397	397	397
Inventories	244	557	804	1,149
Trade and other receivables	657	738	1,068	1,235
Amounts due from related parties	106	-	-	-
Total current assets	1,521	2,711	4,173	4,991
Non-current assets				
Property, plant and equipment	1	2	4	6

Intangible assets	31	23	16	8
Lease prepayments	-	-	-	-
Goodwill	154	154	154	154
Other non-current assets	1	1	1	1
Total non-current assets	187	181	175	169
Total assets	1,708	2,891	4,347	5,160
Liabilities				
Current liabilities				
Bank loans	929	1,499	2,303	2,303
Trade and other payables	433	805	1,072	1,294
Amounts due to related parties	1	-	-	-
Current taxation	10	24	40	58
Total current liabilities	1,374	2,328	3,415	3,655
Non-current liabilities				
New debt	-	-	-	-
Deferred tax liabilities	5	4	3	3
Total non-current liabilities	5	4	3	3
Total liabilities	1,379	2,332	3,417	3,657
Shareholder's equity				
Share capital	0	-	-	-
Reserves	325	532	879	1,399
Total equity attributable to Cogobuy	325	532	879	1,399
Non-controlling interests	4	27	51	104
Total equity	329	559	930	1,502
Total liabilities and equity	1,708	2,891	4,347	5,160

Source: Company data, CSCI estimates

Figure 30: Cogobuy Cash flow

RMB mn	FY13A	FY14E	FY15E	FY16E
Operating activities				
Profit before taxation	102	230	386	577
Adjustments				
Depreciation	2	0	1	2
Amortization of intangible assets	7	8	8	8
Stock based compensation	0	23	23	23
Finance cost	20	31	44	52
Interest income	-1	-6	-13	-17
Net loss/(gain) on sale of PP&E	-0	0	0	0
(Gain)/ Loss on disposal of subsidiaries	-1	0	0	0

Operating profit before changes in working capital	130	287	448	645
Change in working capital	-144	81	-310	-290
Cash generated from operations	-15	368	139	355
Income tax paid	-12	-10	-24	-40
Net cash flow from operating activities	-26	358	114	315
Investing activities				
Payment for PP&E	-1	-2	-3	-4
Proceeds from sale of PP&E	0	0	0	0
Decrease in other balance sheet items	-185	-164	0	30
Interest received	1	6	13	17
Net cash flow from investing activities	-184	-160	11	43
Financing activities				
New equity issuance	0	-0	0	0
Increase in amount due to shareholder	-43			
Proceeds from/(repayment of) new debt	0	0	0	0
Proceeds from/(repayment of) bank loans, net	506	570	803	0
Interest paid	-21	-31	-44	-52
Net cash flow from financing activities	441	539	760	-52
Net cash flow	231	737	885	306
Cash - year beginning	52	282	1,019	1,904
Effect of foreign exchange rate changes	-2	0	0	0
Cash - year end	282	1,019	1,904	2,210

Source: Company data, CSCI estimates

Appendix I: Industry overview

Electronics manufacturing market in China

According to Analysys International, China is the world's leading manufacturing hub of electronic products. Nearly 80% of the mobile phones in the world were produced in China in 2013. Electronic products, ranging from smartphones, smart TVs, telecom network equipment and automotive electronics, are generally characterized by short life cycles which generally upgrade or change model every 6 months.

The electronics manufacturing market in China is expected to continue to grow strongly over the next 5 years, mainly driven by: **1) continued economic growth, 2) an increase in disposable income across the population, and 3) strong government support in the form of financial incentives, according to Analysys International.**

IC and other electronic components market in China

A huge and fast growing market

All electronic products require a large amount of IC and other electronic components to produce, so that manufacturers tend to make repeat purchases in large volume with high purchase values per order.

China has become the largest IC and other electronic components procurement market with transaction value of over RMB2.0tn in 2013, driven by the strong demand from approximately 3 million electronics manufacturers, according to Analysys International.

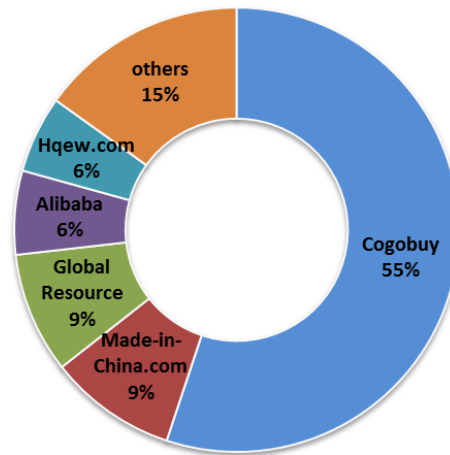
Online IC and other electronic components distribution in China

Transaction-based model

According to Analysys International, the transaction-based market size reached RMB7.1bn by GMV in 2013.

According to Analysys International, the largest transaction-based e-commerce platforms in terms of GMV for IC and other electronic components are Cogobuy (RMB3.9bn), Made-in-China.com (RMB660mn), Global Resource (RMB625mn), Alibaba (RMB437mn) and Hqew.com (RMB397mn). The transaction-based market reached RMB7.1bn as measured by GMV in 2013. The implied market shares for key players are Cogobuy (55.1%), Made-in-China.com (9.3%), Global Resource (8.8%), Alibaba (6.1%) and Hqew.com (5.6%).

Figure 31: The market shares of transaction-based market in China (2013)

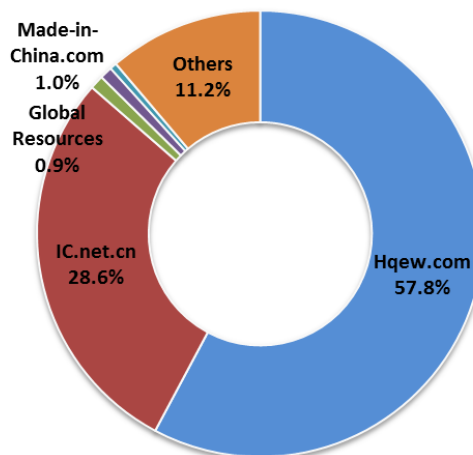


Source: Analysys International, CSCI

Information service model

According to Analysys International, the information service market size by revenue was RMB50.1bn in 2013. The largest information service e-commerce platforms in terms of revenue for IC and other electronics components are Hqew.com (RMB29bn), IC.net.cn (RMB14bn), Made-in-China.com (RMB481mn), Global Resources (RMB441mn) and Alibaba (RMB230mn). The information service market size by revenue was RMB50.1bn in 2013. The implied market shares for key players are Hqew.com (57.8%), IC.net.cn (28.6%), Made-in-China.com (1.0%), Global Resources (0.9%) and Alibaba (0.5%).

Figure 32: The market shares of information service market



Source: Analysys International, CSCI

Appendix II: Company profile

Information about Viewtran

Viewtran is listed on the NASDAQ. In 2004, Comtech Group (“Comtech”), a company incorporated in the Cayman Islands, which was formed by Mr. Kang in 2002 using his own resources for the sale of electronic components in the PRC, was merged with Trident Rowan Group, Inc. (“TRG”), a listed public company incorporated in the United States, in exchange for TRG issuing shares representing approximately 91.2% of the issued share capital of TRG to Comtech’s shareholders. TRG subsequently changed its name to Comtech Group, Inc. and then to Cogo Group, Inc. (“Cogo Group”).

On July 25, 2011 the shareholders of Cogo Group approved its merger into its indirect subsidiary, a Cayman Islands incorporated company, resulting in Cogo Group changing its domicile to the Cayman Islands. Cogo Group subsequently changed its name to Viewtran Group, Inc. in November, 2013. As of May 31, 2014, Mr. Kang held a 37.8% interest in Viewtran and is currently its chairman and chief executive officer.

History

Cogobuy started sales of IC and other electronic components in 2000. Prior to June 2011, Cogobuy’s business primarily consisted of offline distribution of IC and other electronic components. Since mid-2011, Cogobuy’s Predecessor Entities started operating direct sales platform through websites. In February 2013, Cogobuy acquired Total Dynamic Limited^{viii}, which contributed the cogobuy.com website and other website. In July 2013, Cogobuy started operating online marketplace business.

Cogobuy was incorporated as an exempted company with limited liability in the Cayman Islands on February 1, 2012. Cogobuy acquired the Predecessor Entities from Viewtran on November 15, 2012. Its core business is the trading business of IC and other electronic components and has been carried out by the Predecessor Entities since their inception. On February 1, 2013, Cogobuy acquired the Total Dynamic Entities. On November 20, 2013, Cogobuy acquired the Envision Global Entities^{ix}.

Figure 33: Cogobuy’s corporate history and major events

Date	Events
Jul 14, 2000	Comtech International (HK), the first operating subsidiary of the Group, was incorporated in

	Hong Kong to engage in the sale of electronic components and related products
Jun 2011	Cogobuy's Predecessor Entities started to provide customers with online services through websites owned by Total Dynamic Limited
Feb 2012	Cogobuy was incorporated in the Cayman Islands
Nov 2012	Cogobuy acquired the Predecessor Entities from Viewtran
Feb 2013	Cogobuy acquired the Total Dynamic Entities with its cogobuy.com e-commerce platform
Jul 2013	Cogobuy started to operate online marketplace on e-commerce platform
Sep 2013	Cogobuy launched Hardeggs WeChat community
Nov 2013	Cogobuy acquired the Envision Global Entities
Dec 2013	Cogobuy sold entire interest in Comtech China to Brilliant

Source: Company data, CSCI

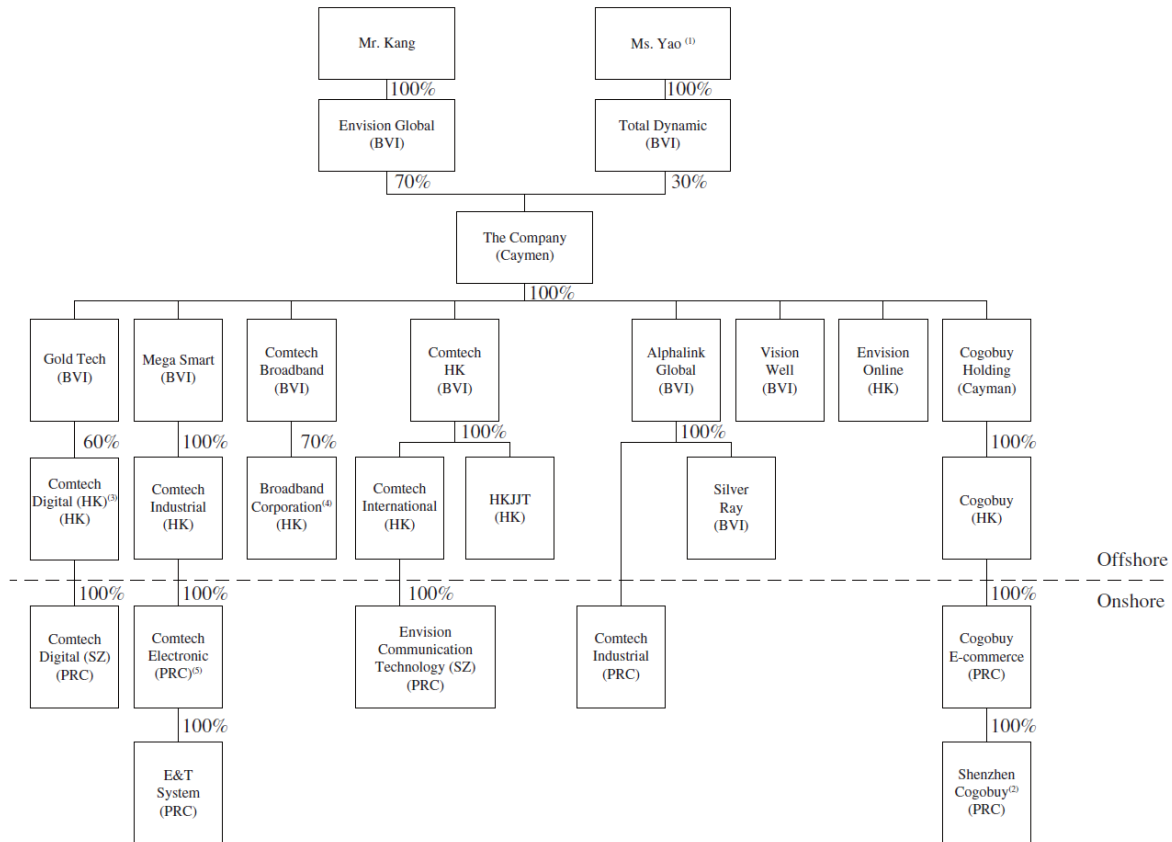
Founder & CFO background

Figure 34: profile of board members

Name	Position	Age	Profile
Executive Directors			
KANG, Jingwei (康敬伟)	Founder, Chairman & CEO	44	<p>Founder and chairman Mr. Kang is a visionary industry veteran with extensive experience in both the Internet industry and the electronic components industry in China. Mr. Kang co-founded Viewtran, a Nasdaq listed company, and has over 18 years of experience in China's electronics manufacturing supply chain.</p> <p>Mr. Wu is responsible for the overall financial operation, investor relations and secretarial matters of the Group. Mr. Wu received his bachelor of business administration degree in accounting from The HKUST in Nov 97. Mr. Wu is a Hong Kong Certified Public Accountant and an American Chartered Global Management Accountant. Mr. Wu has over 15-year experience in auditing and commercial consulting. He worked at Pricewaterhouse Coopers from 1997 to 2003, before becoming the vice president of finance at Viewtran from 2003 to 2013, where he was in charge of corporate finance, compliance and investment.</p>
WU, Lun Cheung (胡麟祥)	CFO	39	

Source: Company data, CSCI

Corporate structure as of May 2014



(1) Mr. Kang and Ms. Yao are not related to each other and Ms. Yao is the wife of Mr. Li Feng, one of Cogobuy's senior management

(2) Shenzhen Cogobuy is owned by Ms. Yao as to 100% but its results are consolidated by Cogobuy for accounting purposes.

(3) The remaining equity interest is owned by Boost Up Group Limited, and an independent third party before it became a 40% minority shareholder in Comtech Digital^x.

(4) The remaining equity interest is owned by Broad Wise Holdings Limited, which is wholly owned by Mr. Deng Xiaokun, a director of Broadband Corporation^x.

(5) Comtech Electronic was beneficially owned by Comtech Industrial pursuant to a deed of trust entered into between Comtech Industrial and MDC Tech (the then registered owner of Comtech Electronic) dated March 17, 2014, which took effect retrospectively from November 20, 2013.

Source: Company data, CSCI

Appendix III

The RSU Scheme

The RSU Scheme took effect on March 1, 2014 to reward the fidelity of the directors, executive officers, senior managers and employees of the Group and align their interests with those of the Shareholders. Each RSU is a conditional right to receive a Share at the end of the vesting period, subject to vesting conditions provided for under the RSU Scheme. In order to allow release of Shares to beneficiaries upon vesting of each RSU under the RSU Scheme, the Company will allot and issue 30,200,000 Shares to the Scheme Trustee immediately prior to its primary equity

raising event occurs, representing 2.20% of the issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). The financial impact of share-based compensation expenses in respect of the RSU Scheme is expected to be approximately RMB12.0mn, RMB6mn and RMB6mn over FY14-16E, respectively.

Figure 35: Details of the RSUs granted under the RSU Scheme

Name of Director	Number of Shares underlying the RSUs granted	Vesting Period
Mr. Kang	1,800,000	1/3 of which will vest for the year ended Dec 31, 2014 in equal quarterly installments.
Mr. Wu	1,800,000	1/3 of which will vest for the year ended Dec 31, 2015 in equal quarterly installments.
the RSUs granted to other 26 grantees	19,346,300	1/3 of which will vest for the year ended Dec 31, 2016 in equal quarterly installments.
the RSUs granted to other 395 grantees	7,253,700	At the end of Dec 31, 2014

Source: Company data, CSCI

Factoring arrangement

As of 2013, Cogobuy became subject to several factoring agreements with banks under which the banks pay an amount net of discount to the Group and collect the factored trade receivable balances directly from the Group's customers. The costs of the factoring arrangement ranged from 3.6% to 3.9% of the balance transferred and are included in "finance costs". The Group considers it has transferred the contractual rights to receive the cash flows of the trade receivables being factored and therefore records the transfers of trade receivables pursuant to the factoring agreements as sales. All of the factored trade receivables were accounted for as sales and derecognized upon transfer. As of 2013, the Group received proceeds from sales of trade receivables of RMB149,467,000 and recognized discounts of RMB929,000 in finance costs for trade receivables sold to the banks.

Figure 36: Key terms relating to factoring agreements

Duration	Factoring agreements will continue to be in force unless terminated by the parties in accordance with the relevant agreement.
Funds in Use Limit	Aggregate of US\$80 million.
Discounting Charge	Funds in use are subject to a discounting charge ranging from 1.25% to 1.8% over the Hong Kong Interbank Offered Rate, the Singapore Interbank Offered Rate or the London Interbank Offered Rate, as applicable.
Service Charge	Loan originations are subject to commission or service charges equivalent to a percentage, ranging from 0.4% to 0.6%, of the face value of each trade receivable.
Maximum Terms	Ranging from 120 to 150 days from the date of invoice.

of Payment

Prepayment Limit 90% or as otherwise specified for each receivable.

Source: Company data, CSCI

Pricing adjustment, rebates and discounts

Cogobuy receives from time to time year-end pricing adjustment, rebates and discounts. In FY12, Cogobuy's Predecessor Entities recognized pricing adjustment, rebates and discounts of RMB85.4mn by certain suppliers. Cogobuy did not identify these incentives as an acquired asset at the acquisition date, as these incentives are not subject to contractual commitments from the relevant suppliers and are granted only at the suppliers' discretion.

Related party transactions

Prior to the restructuring of the businesses operated by Viewtran, Brilliant and the Company, Viewtran used to conduct the business of module design and trading of IC and electronic components. As some parts of the business of Viewtran and the Group historically overlapped, Cogobuy recorded trade-related related party transactions with Viewtran during the Track Record Period. However, after the restructuring, Viewtran has ceased its module design and IC and electronic component trading businesses and now solely conducts the business of financial services. The related party transactions Cogobuy had with Viewtran have therefore ceased and will not continue after primary equity raising event occurs.

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- ⁱ Direct sales model means the e-commerce platform operators buy components from the suppliers, hold the inventory and then sell them to customers
- ⁱⁱ Marketplace model means the platform facilitates third party suppliers to complete transactions with customers, but does not hold any inventory from the suppliers
- ⁱⁱⁱ “Predecessor Entities”: Alphalink Global, Comtech HK and Comtech China (together with their respective subsidiaries at the time of completion of the 2012 SPA
“Alphalink Global” Alphalink Global Limited, a company incorporated in the BVI on November 23, 2004, a wholly-owned subsidiary of Cogobuy
- ^{iv} “Online customers” is defined as customers who have registered accounts at cogobuy.com and have used cogobuy.com or mobile application, Cogobuy Cloud, to manage one or more steps in the completion of the procurement process (including browsing and searching, requesting price quote, submitting and confirming order, tracking order status, and reviewing bills and invoices). In 2013, all Cogobuy’s customers are online customers.
- ^v On a combined basis means combining the results of Cogobuy and the Predecessor Entities, which, for the years ended Dec 31, 2011, 2012 and 2013, are equivalent to (i) the combined results of the Predecessor Entities for the year ended Dec 31, 2011; (ii) the combined results of the Predecessor Entities and the Group for the year ended Dec 31, 2012; and (iii) the consolidated results of the Group for the year ended Dec 31, 2013, respectively
- ^{vi} Blue-chip customers are defined as companies whose annual revenue is above RMB400 million.
- ^{vii} SME customers are defined as companies whose annual revenue is below RMB400 million.
- ^{viii} “Total Dynamic Entities”: Cogobuy Holding, Cogobuy and Cogobuy E-commerce
- ^{ix} “Envision Global Entities”: Gold Tech, Mega Smart, and Comtech Broadband (together with their respective subsidiaries)
- ^x “Comtech Broadband” Comtech Broadband Holding Limited, a limited liability company incorporated in the BVI on June 27, 2013, and Cogobuy’s directly wholly-owned subsidiary
- ^{xi} “Broadband Corporation”: Comtech Broadband Corporation Limited, a company incorporated in Hong Kong on March 23, 2005 and Cogobuy’s indirectly non wholly-owned subsidiary as to 70%

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Buy	Relative Performance >15%;
Accumulate	Relative Performance is 5% to 15%;
Neutral	Relative Performance is -5% to 5%;
Reduce	Relative Performance is -5% to -15%;
Sell	Relative Performance is <-15%;

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