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## Basic Report Update

### Analyst

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### Evaluation result

## BUY

(previously BUY)

### Fair value

## € 37.46

(previously € 42.00)

## Paving the Way to Margin Hill

On April 27, 2012, KINGHERO AG published financial results for the FY 2011 and, on May 7, 2012, presented its operational performance on the occasion of the Entry and General Standard Conference, held in Frankfurt.

Again, the Company impressed with strong figures, which are the result of its declared strategy to gradually move into a higher quality fashion segment.

- Revenues up to € 101.4 Mill. (+39.6% yoy); EBIT € 24 Mill. (+32%); net profit € 18.3 Mill. (+27%); fraction of flagship store (direct) sales increased to 6.3%
- Operating margins by yoy comparison:
  - Gross profit: +5.2%-age points
  - EBIT: -1.3%-age points
  - Net profit: -1.8%-age points
- Liquid funds at period end amount to ca. € 52 Mill. (+ € 19.9 Mill.)
- Solid balance sheet with a sound equity ratio of 86% and no bank loans
- The Company reiterates its trading-up strategy via the extension of its retail base (flagship stores)

During FY 2011 the number of flagship stores (direct sales) increased significantly from 7 to 58. This enabled the Company to sell its products at higher prices as well as to create an exclusive retail platform for the launch of the premium women's fashion line, "Auvadis". Compared to the distributor channel, direct sales provide almost a twice as high gross margin (67.5% vs. 35.3%). In 2011, retail sales contributed 6.3% to total sales, only; based on the Company's strategy to further develop the flagship store concept, this proportion will increase in the future and hence improve gross margins. According to management, KINGHERO plans to have a total of 100 flagship stores operating at the end of 2012.

Considering the comfortable liquidity of ca. € 52 Mill., as well as the continuous cash flow from operations, the Company is able to finance its flagship store expansion strategy. In addition, the Company announced to pay a dividend for FY 2012 in the range of 10 - 15% of the year's after tax profit. For the purpose of our forecast, we assume a ratio of 10% and extrapolate this ratio also for the future.

**Based on the FY report and discussion with management, we adjust our forecasts and update our DCF and Peer group analysis. We calculate a fair value of € 37.46 and reiterate our "Buy" rating. To reflect the current, cautious sentiment vis-à-vis Chinese companies, we - for informational purposes - complement our valuation result with a multiple analysis based solely on non-peer "China companies" listed in Germany.**

### Key data / Earnings

Year	Sales (mln €)	EBITDA (mln €)	EBIT (mln €)	EBT (mln €)	adj. net (mln €)	adj. EPS (€)	DPS (€)	EBIT- Margin	Net- Margin
2011a	101.5	25.5	24.0	24.3	18.3	2.80	0.00	23.7%	18.0%
2012e	123.8	29.5	28.0	28.3	21.2	3.13	0.31	22.6%	17.1%
2013e	150.8	35.7	33.9	34.3	25.8	3.80	0.38	22.5%	17.1%
2014e	176.9	43.9	42.0	42.5	31.9	4.70	0.47	23.7%	18.0%
2015e	201.6	52.9	50.9	51.4	38.5	5.69	0.57	25.2%	19.1%

Source: BankM Research

<b>Sector</b>	Clothing & Footwear
<b>WKN</b>	A0XFMW
<b>ISIN</b>	DE000A0XFMW8
<b>Bloomberg/Reuters</b>	KH6 GY Equity
<b>Accounting standard</b>	IFRS
<b>Financial year</b>	Dec 31
<b>Financial report Q1/2012</b>	May 30, 2012
<b>Market segment</b>	Open Market
<b>Transparency standard</b>	Entry Standard

Financial ratios	2012e	2013e	2014e
EV/Sales	0.2	0.2	0.1
EV/EBITDA	0.8	0.6	0.5
EV/EBIT	0.8	0.7	0.5
P/E adj.,	3.5	2.9	2.3
Price/Bookvalue	0.6	0.5	0.4
Price/FCF	417	27.9	20.4
ROE	19.8%	19.8%	20.4%
Dividend yield	2.9%	3.5%	4.3%

<b>Number of shares</b> (million)	6.775
<b>Market cap / EV</b> (million €)	73.92 / 22.62
<b>Free float</b>	37.9%
<b>Ø daily trading vol.</b> (3M, in T€)	3115
<b>12 months high/low</b> (XETRA-close)	€ 23.75 / 9.90
<b>Price May 17, 2012</b> (XETRA-close)	€ 10.91
<b>Performance</b>	1M 6M 12M
absolute	-6.4% -12.0% -52.8%
relative	-4.0% -26.8% -60.5%
<b>Benchmark index</b>	DAXsubsector Clothing & Footwear



KINGHERO AG (red/grey), Performance 12 months vs. DAXsubsec. Clothing & Footwear (black)

Source: Bloomberg

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## Discussion of Operations

During 2011, total revenues amounted to ca. € 101 Mill. reflecting a growth rate of almost 40% by yoy comparison. Compared to the previous reporting period, the Company was able to improve gross margin by 5.2%-age points. This improvement was achieved through the Company's trading-up strategy which resulted in an average selling price increase of approx. € 4.2 per unit sold (from € 10.2 to € 14.4). In order to further pursue its trading-up strategy, KINGHERO intends to increase the proportion of the higher-margin distribution channel via flagship stores to 50% of total sales within the next three years. Although this strategy entails higher gross margins, we are wondering whether future mark-ups can be permanently passed on to end consumers. In addition, we perceive the goal of segment sales parity within the next three years as rather ambitious and therefore have applied a more conservative approach in our forecast, implying a slower pace regarding flagship store expansion.

EBIT margin decreased by 1.3%-age points due to a significant increase in selling and distribution costs (up 160%), including advertising as well as rental costs for flagship stores. Administrative costs increased by 2.4 %-age points due to one-off expenses in the context of the capital increase in May, 2011. As a result of the increased operating costs, net profit decreased by 1.8%-age points.

Although KINGHERO showed a strong performance during FY 2011, the Company has not met all of its previously announced targets. For instance, only 51 of the initially planned 58 new flagship stores were opened in 2011; we perceive this shortcoming as a result of the lagging implementation regarding the agreement with PCD stores. A specific issue may be the "quality" of the location within the PCD stores and high inherent rent prices for premium locations. It seems that KINGHERO pursues the cooperation with PCD in a more opportunistic way, which implies some uncertainty regarding sales and earnings development. However, KINGHERO is confident to achieve its target of 100 flagship stores in 2012.

Compared to previous year end balance sheet, liquid funds advanced from € 32 Mill. to € 52 Mill. This increase considers net proceeds of € 14.6 Mill. in the context of the recent rights issue and a strong operating cash flow of € 13 Mill. We regard the current cash position as comfortable in order to realize the envisaged growth.

## Valuation

For the analysis of Free Cash Flows we have applied a 3-stage model:

- Phase I            2012 – 2015 (short-term planning)  
 This phase integrates a detailed analysis of the valuation-relevant figures and margins
- Phase II           2016 – 2019 (mid-term prognosis)  
 During phase II we gradually fade the EBIT margin each year; the rationale for is the increasing likelihood of accruing competition within KINGHERO's price segment
- Phase III          Terminal Value  
 For the derivation of this critical valuation component, we presume a "terminal EBIT margin" of 17%. We perceive this margin as an economically meaningful assumption, which is substantiated by the peer group's median EBIT margin (see table)

	EBIT Margin in %			
	2011	2012	2013	2014
Gerry Weber International AG	14.33	14.22	14.81	15.23
Ahlers AG	6.80	6.25	6.72	-
China Lilang Ltd	23.34	25.27	26.11	26.63
Fujian Septwolves Industry Co	15.18	17.21	17.74	18.56
Zhejiang Baoxiniao Garment Co	22.31	-	-	-
Ports Design Ltd	29.00	30.99	29.98	30.75
Tom Tailor Holding AG	1.43	6.00	6.84	7.97
Wet Seal Inc/The	4.49	5.07	4.66	4.75
China Xiniya Fashion Ltd	32.02	24.36	19.97	-
<b>Median</b>	<b>15.18</b>	<b>15.71</b>	<b>16.27</b>	<b>16.90</b>
Mean	16.54	16.17	15.85	17.31

The forecasting of future cash flows used in our model is based on the following sources:

- Financial reporting 2011
- Discussions with KINGHERO AG's Executive Directors and Management
- Company presentation on May 7, 2012 on the occasion of the Entry & General Standard Conference, Frankfurt
- Analysis of the relevant markets

### Model assumptions:

Regarding risk, we account for the current Country Specific Risk for China with 1.05% (*Damodaran, Country Default Spreads and Risk Premiums, Jan 2012*); further, we apply a company-specific risk of 2% in order to account for the challenges inherent to the management of the envisaged expansion of the flagship store network (execution risk).

We calculate the Company's Beta by the regression of weekly returns over a 2-year period against the MSCI World as a proxy for the hypothetical market portfolio. For the future, we adhere to KINGHERO's current capital structure of 100% equity / 0% debt.

### Assumptions and remarks to our DCF analysis

## DCF analysis based on future free cash-flows 2012-2019 + Terminal Value

	2011a	Phase 1				Forecast				Terminal Value
		2012e	2013e	2014e	2015e	2016e	2017e	2018e	2019e	
in T€										
	<b>Basis</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	
Growth	40%	22%	22%	17%	14%	8%	5%	3%	2%	1.0%
Revenues	101,542.0	123,752.1	150,788.1	176,902.0	201,591.9	217,719.2	228,605.2	235,463.4	240,172.6	
EBIT	24,020.0	27,965.6	33,940.1	42,009.7	50,865.9	51,125.1	49,680.7	47,050.6	43,788.6	41,237.6
- Tax	6,036.0	6,991.4	8,485.0	10,502.4	12,716.5	12,781.3	12,420.2	11,762.6	10,947.1	
+ Depreciation	1,514.0	1,534.9	1,723.7	1,903.5	2,074.8	2,240.8	2,352.8	2,423.4	2,471.9	
+ change in long-term provisions	8.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	
- changes in net working capital	7,525.0	3,606.2	4,389.7	4,240.0	4,008.8	2,618.5	1,767.5	1,113.5	764.6	
- other non-cash items	185.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Capex	11,085.0	6,700.0	5,500.0	5,500.0	5,500.0	1,080.0	1,134.0	1,168.0	1,191.4	
<b>= Free Cash Flow</b>	<b>711.0</b>	<b>12,212.9</b>	<b>17,299.1</b>	<b>23,680.8</b>	<b>30,725.4</b>	<b>36,896.1</b>	<b>36,721.9</b>	<b>35,439.8</b>	<b>33,367.3</b>	<b>31,853.5</b>
Terminal Value										264,344.3
Discount factor	n.a.	0.84	0.71	0.60	0.51	0.43	0.36	0.30	0.26	
<b>NPVs of Free Cash Flows</b>	<b>n.a.</b>	<b>10,304.7</b>	<b>12,315.7</b>	<b>14,224.9</b>	<b>15,572.8</b>	<b>15,778.5</b>	<b>13,250.4</b>	<b>10,789.8</b>	<b>8,571.5</b>	
<b>NPV of Terminal Value</b>										<b>67,905.9</b>
<b>Valuation</b>		<b>Proportion of TV</b>								
Result of Future Cash Flows	100,808.2	60%								
+ Result of Terminal Value	67,905.9	40%								
<b>= Value of the Entity</b>	<b>168,714.2</b>									
cash (as of Dec 31, 2011)	51,995.0									
- Debt (as of Dec 31, 2011)	0.0									
<b>Value of Equity</b>	<b>220,709.2</b>									
Price per Share	33.86									

Source: BankM Research

### Sensitivity analysis NPV Terminal Value

		Discount rate of TV						
		11.0%	12.0%	13.0%	13.05%	14.0%	15.0%	16.0%
Growth Terminal Value	0.00%	34.87	33.92	33.11	33.08	32.42	31.82	31.30
	0.50%	35.41	34.36	33.49	33.45	32.75	32.10	31.55
	<b>1.00%</b>	35.99	34.85	33.90	<b>33.86</b>	33.10	32.41	31.81
	1.50%	36.64	35.38	34.34	34.30	33.47	32.73	32.09
	2.00%	37.36	35.97	34.83	34.78	33.88	33.08	32.39
		EBIT margin in TV						
		14.0%	15.0%	16.0%	17.00%	18.0%	19.0%	20.0%
Growth Terminal Value	0.00%	31.44	31.99	32.53	33.08	33.62	34.16	34.71
	0.50%	31.75	32.31	32.88	33.45	34.02	34.59	35.16
	<b>1.00%</b>	32.07	32.67	33.26	<b>33.86</b>	34.45	35.05	35.64
	1.50%	32.43	33.05	33.67	34.30	34.92	35.54	36.17
	2.00%	32.81	33.47	34.12	34.78	35.43	36.09	36.74

Key Model Assumptions	
Riskfree Return	1.41%
Government bond 10 years (D)	
Market Beta (24M, vs. MSCI World)	1.57
Beta im Terminal Value = 1	
Market Return	10.00%
Country Risk Premium China*	1.05%
Company-specific risk	2.00%
<b>Cost of Equity</b>	<b>18.52%</b>
Target weight	100%
<b>Cost of Debt</b>	<b>8.00%</b>
Target weight	0%
Tax shield	25.00%
<b>WACC</b>	<b>13.05%</b>
Growth Rate Terminal Value	1.00%

\*Country Default Spreads and Risk Premiums.  
Damodaran, Jan 2012

Source: BankM Research

### DCF-derived value:

€ 33.86

### Peer Group Analysis

In addition to our sector-specific peer group, we have extended our multiple analysis to selected Chinese Companies, listed in the Prime Standard of Deutsche Boerse. In our opinion, this best reflects the current market sentiment towards Chinese companies listed in Germany. We show this second peer group analysis for informational purposes only and do not include it in our calculation of the fair value.

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# KINGHERO AG

May 18, 2012

Valuation - 5/11 -

## Sector-specific peer group

Peer Group	Mkt Cap	EV	Revenues				EBITDA				Net Profit			
	prev. Day	prev. Day*	2011a	2012e	2013e	2014e	2011a	2012e	2013e	2014e	2011a	2012e	2013e	2014e
EUR (Mill.)														
Gerry Weber International AG	1391.41	1357.45	702.73	794.89	891.83	976.08	114.54	130.82	151.29	170.55	67.04	77.28	90.52	103.39
Ahlers AG	137.68	163.03	256.21	-	-	-	22.86	-	-	-	9.81	-	-	-
China Lilang Ltd	754.82	603.51	301.32	409.65	495.34	589.96	80.50	111.17	136.74	162.43	69.34	87.58	101.59	119.78
Fujian Septwolves Industry Co	1320.12	1300.64	322.20	442.94	555.23	685.88	63.32	89.79	114.94	144.53	45.88	64.48	84.79	106.23
Zhejiang Baoxiniao Garment Co	906.30	970.98	222.82	317.97	407.03	526.93	55.54	72.52	93.00	120.82	40.98	58.71	78.16	100.25
Ports Design Ltd	656.40	629.85	244.75	289.09	340.64	-	83.59	96.16	114.08	-	56.82	64.56	75.92	-
Tom Tailor Holding AG	209.66	287.26	411.65	480.78	551.75	620.14	46.37	52.77	66.60	78.46	9.82	14.28	22.16	29.03
Wet Seal Inc/The	208.28	84.66	441.31	447.12	490.55	518.73	35.15	35.24	36.33	41.48	9.54	10.87	13.11	16.12
China Xiniya Fashion Ltd	62.71	-63.43	131.30	168.64	202.84	-	34.62	-	-	-	28.01	26.71	33.17	-
<b>Kinghero AG Consensus</b>	<b>73.92</b>	<b>22.62</b>	<b>101.54</b>	<b>123.00</b>	<b>142.50</b>	<b>-</b>	<b>25.53</b>	<b>30.75</b>	<b>35.20</b>	<b>-</b>	<b>18.25</b>	<b>21.05</b>	<b>24.15</b>	<b>-</b>

\*If EV prev. day is not available, the EV current day is displayed without further notice

Peer Group	Mkt Cap	EV	EV/Revenues				EV/EBITDA				P/E			
	prev. Day	prev. Day*	2011a	2012e	2013e	2014e	2011a	2012e	2013e	2014e	2011a	2012e	2013e	2014e
<b>Multiples</b>														
Gerry Weber International AG	1391.41	1357.45	1.44	1.71	1.51	1.38	8.84	10.30	8.90	7.90	16.14	18.00	15.37	13.46
Ahlers AG	137.68	163.03	0.44	-	-	-	4.92	-	-	-	10.30	-	-	-
China Lilang Ltd	754.82	603.51	2.16	1.48	1.22	1.03	8.10	5.45	4.43	3.73	11.68	8.62	7.43	6.30
Fujian Septwolves Industry Co	1320.12	1300.64	3.88	2.94	2.34	1.90	19.73	14.49	11.32	9.00	26.66	20.47	15.57	12.43
Zhejiang Baoxiniao Garment Co	906.30	970.98	4.06	3.05	2.38	1.84	16.29	13.36	10.42	8.02	20.79	15.44	11.59	9.04
Ports Design Ltd	656.40	629.85	2.60	2.20	1.87	-	7.62	6.61	5.57	-	11.68	10.17	8.65	-
Tom Tailor Holding AG	209.66	287.26	0.63	0.66	0.57	0.51	5.57	5.98	4.74	4.02	20.70	14.69	9.46	7.22
Wet Seal Inc/The	208.28	84.66	0.29	0.20	0.18	0.17	3.61	2.55	2.47	2.17	23.89	19.15	15.89	12.92
China Xiniya Fashion Ltd	62.71	-63.43	neg.	neg.	neg.	-	neg.	-	-	-	2.78	2.35	1.89	-
<b>Median</b>	<b>656.40</b>	<b>603.51</b>	<b>1.80</b>	<b>1.71</b>	<b>1.51</b>	<b>1.20</b>	<b>7.86</b>	<b>6.61</b>	<b>5.57</b>	<b>5.96</b>	<b>16.14</b>	<b>15.06</b>	<b>10.53</b>	<b>10.73</b>
Mean (for information purposes, only)	627.49	592.66	1.94	1.75	1.44	1.14	9.34	8.39	6.84	5.81	16.07	13.61	10.73	10.23
<b>KINGHERO AG (Consensus)</b>	<b>73.92</b>	<b>22.62</b>	<b>-</b>	<b>0.18</b>	<b>0.16</b>	<b>-</b>	<b>-</b>	<b>0.74</b>	<b>0.64</b>	<b>-</b>	<b>4.05</b>	<b>3.51</b>	<b>3.06</b>	<b>-</b>

<b>Enterprise Value</b>	<b>210.05</b>	<b>215.21</b>	<b>-</b>	<b>203.36</b>	<b>196.22</b>	<b>-</b>
<b>- net debt</b>	<b>-52.00</b>	<b>-52.00</b>	<b>-52.00</b>	<b>-52.00</b>	<b>-52.00</b>	<b>-52.00</b>
<b>Value of the Equity</b>	<b>262.05</b>	<b>267.21</b>	<b>-</b>	<b>255.36</b>	<b>248.22</b>	<b>-</b>

Year	2012e	2013e
<b>Implicit Price</b>	<b>41.06</b>	<b>37.87</b>

	2012	2013
Equity value based on EV/Revenues (Mill. €)	262.05	267.21
Equity value based on EV/EBITDA (Mill. €)	255.36	248.22
Equity value based on P/E (Mill. €)	317.06	254.24
Mean	278.16	256.55
No. of shares ('000)	6,775	6,775
Price/share (€)	41.06	37.87

Source: Bloomberg / BankM Research

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## China-operating companies listed in the Prime Standard (for information purposes, only)

Peer Group	Mkt Cap	EV	Revenues				EBITDA				Net Profit			
	prev. Day	prev. Day*	2011a	2012e	2013e	2014e	2011a	2012e	2013e	2014e	2011a	2012e	2013e	2014e
EUR (Mill.)														
Asian Bamboo AG	154.25	134.25	89.84	107.50	138.50	121.00	48.87	42.95	53.80	56.70	16.19	37.00	40.00	43.10
Joyou AG	192.75	160.78	287.09	326.00	344.50	377.00	52.30	58.67	64.45	70.80	38.53	35.33	38.45	43.25
Powerland AG	105.50	54.61	146.95	195.50	264.00	327.50	36.87	47.15	69.35	85.40	18.34	30.75	45.20	53.85
United Power Technology AG	40.77	22.02	100.28	110.00	121.00	-	13.76	20.30	22.00	-	9.58	14.40	15.60	-
Vtion Wireless Technology AG	56.49	-68.59	77.09	80.00	77.00	77.00	8.40	8.80	7.90	7.40	5.28	6.50	6.80	6.30
Youbisheng Green Paper AG	62.84	42.62	92.21	97.00	106.00	114.00	-	25.70	28.20	30.50	15.31	17.70	19.60	21.30
Zhongde Waste Technology AG	32.18	-39.22	25.20	90.75	88.85	106.00	-2.05	4.75	9.85	-	-6.60	1.50	4.85	-
Ultrasonic AG	92.49	19.96	119.41	134.00	152.00	175.00	34.55	36.60	39.80	44.70	24.92	26.30	28.50	31.90
China Specialty Glass AG	56.11	1.09	76.90	101.00	133.00	-	26.70	39.90	-	-	20.80	30.30	40.50	-
<b>Kinghero AG (Consensus)</b>	<b>73.92</b>	<b>22.62</b>	<b>101.54</b>	<b>123.00</b>	<b>142.50</b>	<b>-</b>	<b>25.53</b>	<b>30.75</b>	<b>35.20</b>	<b>-</b>	<b>18.25</b>	<b>21.05</b>	<b>24.15</b>	<b>-</b>

\*If EV prev. day is not available, the EV current day is displayed without further notice

Peer Group	Mkt Cap	EV	EV/Revenues				EV/EBITDA				P/E			
	prev. Day	prev. Day	2011a*	2012e	2013e	2014e	2011a*	2012e	2013e	2014e	2011a*	2012e	2013e	2014e
<b>Multiples</b>														
Asian Bamboo AG	154.25	134.25	2.20	1.25	0.97	1.11	4.04	3.13	2.50	2.37	14.18	4.17	3.86	3.58
Joyou AG	192.75	160.78	0.43	0.49	0.47	0.43	2.36	2.74	2.49	2.27	4.91	5.46	5.01	4.46
Powerland AG	105.50	54.61	0.86	0.28	0.21	0.17	3.43	1.16	0.79	0.64	6.54	3.43	2.33	1.96
United Power Technology AG	40.77	22.02	0.36	0.20	0.18	-	2.63	1.08	1.00	-	5.74	2.83	2.61	-
Vtion Wireless Technology AG	56.49	-68.59	neg.	9.38	8.69	8.31	8.97							
Youbisheng Green Paper AG	62.84	42.62	0.58	0.44	0.40	0.37	-	1.66	1.51	1.40	3.62	3.55	3.21	2.95
Zhongde Waste Technology AG	32.18	-39.22	neg.	neg.	neg.	neg.	11.72	neg.	neg.	-	neg.	21.45	6.63	-
Ultrasonic AG	92.49	19.96	0.47	0.15	0.13	0.11	1.64	0.55	0.50	0.45	3.81	3.52	3.25	2.90
China Specialty Glass AG	56.11	1.09	0.34	0.01	0.01	-	0.98	0.03	-	-	3.83	1.85	1.39	-
<b>Median</b>	<b>62.84</b>	<b>22.02</b>	<b>0.47</b>	<b>0.28</b>	<b>0.21</b>	<b>0.37</b>	<b>2.63</b>	<b>1.16</b>	<b>1.26</b>	<b>1.40</b>	<b>5.33</b>	<b>3.55</b>	<b>3.25</b>	<b>3.26</b>
Mean (for information purposes, only)	88.15	36.39	0.75	0.40	0.34	0.44	3.83	1.48	1.47	1.42	6.50	6.11	4.07	4.14
<b>Kinghero AG (Consensus)</b>	<b>73.92</b>	<b>22.62</b>	<b>-</b>	<b>0.18</b>	<b>0.16</b>	<b>-</b>	<b>-</b>	<b>0.74</b>	<b>0.64</b>	<b>-</b>	<b>4.05</b>	<b>3.51</b>	<b>3.06</b>	<b>-</b>

\*Multiple based on historical price as of Dec 31 prev. year (not shown); as of publication date, some figures for 2011 may still be estimates

Enterprise Value Haikui Seafood AG	n.a.	34.36	29.48	-	n.a.	35.62	44.22	-						
- net debt	n.a.	-52.00	-52.00	-52.00	n.a.	-52.00	-52.00	-52.00						
Value of the Equity	n.a.	86.36	81.48	-	n.a.	87.62	96.22	-	n.a.	74.73	78.37	-		

Year	2012e	2013e		2012	2013
Implicit Price	12.24	12.60			
Equity value based on EV/Revenues (€ Mill.)				86.36	81.48
Equity value based on EV/EBITDA (€ Mill.)				87.62	96.22
Equity value based on P/E (€ Mill.)				74.73	78.37
Mean				82.90	85.35
No. of shares ('000)				6,775	6,775
Price/share (€)				12.24	12.60

Source: Bloomberg / BankM Research

## Valuation Summary

**Fair value: € 37.46**

Our DCF analysis returns € 33.86 per share; the multiple analysis (sector-specific peer group) results in € 41.06. Equally weighted, KINGHERO's stock is fairly valued at € 37.46 and we therefore reiterate our BUY rating.

Regarding a 2012 P/E of 3.5 we consider the stock as significantly undervalued regarding the future growth potential and considering the peer group's median P/E of 15.1.

### For information purposes:

The result of the multiple analysis of Chinese companies listed in the Prime Standard of Deutsche Boerse clearly deviates from our fundamental DCF value as well as from the sector-specific peer group. Considering the current cautious sentiment vis-à-vis Chinese companies in general, KINGHERO - solely based on the China-specific peer group analysis - should be valued at € 12.24 implying a price potential of 12.2% (as of May 17).

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## Tables

### Profit & Loss Account

Fiscal Year 31/12 • IFRS	11a	12e	13e	14e	15e	11a	12e	13e	14e	15e	4y - CAGR
in T€						y-o-y changes (%)					
<b>Total Sales</b>	<b>101,542.0</b>	<b>123,752.1</b>	<b>150,788.1</b>	<b>176,902.0</b>	<b>201,591.9</b>	<b>39.6</b>	<b>21.9</b>	<b>21.8</b>	<b>17.3</b>	<b>14.0</b>	<b>18.7</b>
Cost of Sales	64,472.0	75,714.1	89,009.2	100,664.5	110,151.8	29.0	17.4	17.6	13.1	9.4	14.3
<i>% of Sales</i>	63.5	61.2	59.0	56.9	54.6						
<b>Gross Profit</b>	<b>37,070.0</b>	<b>48,038.0</b>	<b>61,778.8</b>	<b>76,237.5</b>	<b>91,440.1</b>	<b>62.6</b>	<b>29.6</b>	<b>28.6</b>	<b>23.4</b>	<b>19.9</b>	<b>25.3</b>
Selling and Distribution expenses	9,380.0	16,349.9	23,305.1	28,910.7	34,516.4	160.6	74.3	42.5	24.1	19.4	38.5
<i>% of Sales</i>	9.2	13.2	15.5	16.3	17.1						
Admin. expenses	4,177.0	3,712.6	4,523.6	5,307.1	6,047.8	242.7	-11.1	21.8	17.3	14.0	9.7
<i>% of Sales</i>	4.1	3.0	3.0	3.0	3.0						
Other income	515.0	0.0	0.0	0.0	0.0						
Other expenses	8.0	10.0	10.0	10.0	10.0						
<b>EBIT</b>	<b>24,020.0</b>	<b>27,965.6</b>	<b>33,940.1</b>	<b>42,009.7</b>	<b>50,865.9</b>	<b>32.0</b>	<b>16.4</b>	<b>21.4</b>	<b>23.8</b>	<b>21.1</b>	<b>20.6</b>
<i>% of Sales</i>	23.7	22.6	22.5	23.7	25.2						
Finance result	267.0	325.4	396.5	465.2	530.1						
<b>EBT</b>	<b>24,287.0</b>	<b>28,291.0</b>	<b>34,336.6</b>	<b>42,474.9</b>	<b>51,396.0</b>	<b>32.9</b>	<b>16.5</b>	<b>21.4</b>	<b>23.7</b>	<b>21.0</b>	<b>20.6</b>
Taxes on Income (Exp./Inc.)	6,036.0	7,072.7	8,584.2	10,618.7	12,849.0						
<i>t/o deferred taxes (Exp./Inc.+)</i>	<i>-481.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>						
<b>Net Profit</b>	<b>18,251.0</b>	<b>21,218.2</b>	<b>25,752.5</b>	<b>31,856.2</b>	<b>38,547.0</b>	<b>27.0</b>	<b>16.3</b>	<b>21.4</b>	<b>23.7</b>	<b>21.0</b>	<b>20.6</b>
<i>% of Sales</i>	18.0	17.1	17.1	18.0	19.1						
<i>For Information purposes</i>											
Depreciation & Amortization	1,514.00	1,534.91	1,723.72	1,903.54	2,074.80	840.4	1.4	12.3	10.4	9.0	8.2
<i>% of Sales</i>	1.5	1.2	1.1	1.1	1.0						
<b>EBITDA</b>	<b>25,534.0</b>	<b>29,500.5</b>	<b>35,663.8</b>	<b>43,913.3</b>	<b>52,940.7</b>	<b>39.0</b>	<b>15.5</b>	<b>20.9</b>	<b>23.1</b>	<b>20.6</b>	<b>20.0</b>
No. of Shares (Ø outstanding)	6,519.00	6,775.00	6,775.00	6,775.00	6,775.00	17.9	3.9	0.0	0.0	0.0	n.a.
<b>Net Profit/Share (EPS)</b>	<b>2.80</b>	<b>3.13</b>	<b>3.80</b>	<b>4.70</b>	<b>5.69</b>	<b>7.8</b>	<b>11.9</b>	<b>21.4</b>	<b>23.7</b>	<b>21.0</b>	<b>19.4</b>

Source: BankM Research

### Cash Flow Statement

Fiscal Year 31/12 • IFRS	11a	12e	13e	14e	15e	11a	12e	13e	14e	15e	4y - CAGR
in T€						y-o-y changes (%)					
<b>EBT</b>	<b>24,287.0</b>	<b>28,291.0</b>	<b>34,336.6</b>	<b>42,474.9</b>	<b>51,396.0</b>	<b>32.9</b>	<b>16.5</b>	<b>21.4</b>	<b>23.7</b>	<b>21.0</b>	<b>20.6</b>
+ Depreciation & Amortisation	1,514.0	1,534.9	1,723.7	1,903.5	2,074.8	840.4	1.4	12.3	10.4	9.0	8.2
+ Chg. in long-term Provisions	8.0	10.0	10.0	10.0	10.0						5.7
<b>= Cash Earnings</b>	<b>25,809.0</b>	<b>29,835.9</b>	<b>36,070.3</b>	<b>44,388.4</b>	<b>53,480.8</b>	<b>39.5</b>	<b>15.6</b>	<b>20.9</b>	<b>23.1</b>	<b>20.5</b>	<b>20.0</b>
- Income tax paid	5,596.0	7,516.6	8,206.3	10,110.1	12,291.4						
+/- other non-cash items	185.0	0.0	0.0	0.0	0.0						
- Chg. in Net Working Capital	7,525.0	3,606.2	4,389.7	4,240.0	4,008.8						
<b>= Operating Cash Flow</b>	<b>12,873.0</b>	<b>18,713.1</b>	<b>23,474.3</b>	<b>30,038.3</b>	<b>37,180.5</b>	<b>-30.4</b>	<b>45.4</b>	<b>25.4</b>	<b>28.0</b>	<b>23.8</b>	<b>30.4</b>
- Capex	11,085.0	6,700.0	5,500.0	5,500.0	5,500.0	127.3	-39.6	-17.9	0.0	0.0	-16.1
<b>= Free Cash Flow</b>	<b>1,788.0</b>	<b>12,013.1</b>	<b>17,974.3</b>	<b>24,538.3</b>	<b>31,680.5</b>	<b>n.a.</b>	<b>n.a.</b>	<b>49.6</b>	<b>36.5</b>	<b>29.1</b>	<b>105.2</b>
+ Net Other Items	347.0	0.0	0.0	0.0	0.0						
- Dividends (Previous Year)	0.0	0.0	2,121.8	2,575.2	3,185.6						
- Payout minorities	0.0	0.0	0.0	0.0	0.0						
+ Increase in Share Capital	14,636.0	0.0	0.0	0.0	0.0						
- Outflow from Share Buy Backs	0.0	0.0	0.0	0.0	0.0						
+/- Bank Loans	0.0	0.0	0.0	0.0	0.0						
<b>= Incr. in Cash (+)/Decr. in Cash (-)</b>	<b>16,771.0</b>	<b>12,013.1</b>	<b>15,852.5</b>	<b>21,963.1</b>	<b>28,494.9</b>						

Source: BankM Research

## Balance Sheet

Fiscal Year 31/12 • IFRS in T€	11a	12e	13e	14e	15e	11a	12e	13e	14e	15e
<b>Assets</b>						<b>% of Balance Sheet Total</b>				
Tangible Assets	25,533.0	31,837.7	34,846.1	37,701.2	40,425.8	23%	23%	21%	19%	17%
Intangible Assets	382.0	374.0	366.0	358.0	350.0	0%	0%	0%	0%	0%
Other Fixed Assets/ Deferred Tax	1,769.0	0.0	0.0	0.0	0.0	2%	0%	0%	0%	0%
<b>Total Fixed Assets</b>	<b>27,684.0</b>	<b>32,211.7</b>	<b>35,212.1</b>	<b>38,059.2</b>	<b>40,775.8</b>	<b>24%</b>	<b>24%</b>	<b>21%</b>	<b>19%</b>	<b>17%</b>
Inventories	4,645.0	5,661.0	6,897.7	8,092.3	9,221.7	4%	4%	4%	4%	4%
Accounts Receivable	25,899.0	31,563.8	38,459.6	45,120.1	51,417.4	23%	23%	23%	23%	22%
Other Current Assets	2,914.0	3,551.4	4,327.2	5,076.6	5,785.2	3%	3%	3%	3%	2%
Total Liquid Funds	51,995.0	64,008.1	79,860.6	101,823.7	130,318.6	46%	47%	48%	51%	55%
<b>Total Current Assets</b>	<b>85,453.0</b>	<b>104,784.4</b>	<b>129,545.2</b>	<b>160,112.8</b>	<b>196,743.0</b>	<b>76%</b>	<b>76%</b>	<b>79%</b>	<b>81%</b>	<b>83%</b>
<b>Balance Sheet Total</b>	<b>113,137.0</b>	<b>136,996.0</b>	<b>164,757.3</b>	<b>198,172.0</b>	<b>237,518.8</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Shareholder's Equity / Liabilities</b>						<b>% of Balance Sheet Total</b>				
Subscribed Capital	6,775.0	6,775.0	6,775.0	6,775.0	6,775.0	6%	5%	4%	3%	3%
Share Premium	29,770.0	29,770.0	29,770.0	29,770.0	29,770.0	26%	22%	18%	15%	13%
Retained Earnings & Other Reserves	60,250.0	81,468.2	105,098.9	134,379.8	169,741.2	53%	59%	64%	68%	71%
<b>Shareholders Equity</b>	<b>96,795.0</b>	<b>118,013.2</b>	<b>141,643.9</b>	<b>170,924.8</b>	<b>206,286.2</b>	<b>86%</b>	<b>86%</b>	<b>86%</b>	<b>86%</b>	<b>87%</b>
<b>LT Liabilities</b>	<b>73.0</b>	<b>83.0</b>	<b>93.0</b>	<b>103.0</b>	<b>113.0</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
<i>t/o Provisions</i>	73.0	83.0	93.0	103.0	113.0	0%	0%	0%	0%	0%
<i>t/o Pension Provisions</i>	0.0	0.0	0.0	0.0	0.0	0%	0%	0%	0%	0%
<b>ST Liab. &lt;1Y</b>	<b>16,269.0</b>	<b>18,899.8</b>	<b>23,020.4</b>	<b>27,144.2</b>	<b>31,119.6</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>13%</b>
<i>t/o Acc Payable &amp; Adv. Paymts.</i>	14,057.0	17,131.7	20,874.4	24,489.5	27,907.4	12%	13%	13%	12%	12%
<i>t/o Tax Payable</i>	2,212.0	1,768.2	2,146.0	2,654.7	3,212.2	2%	1%	1%	1%	1%
<i>t/o Bank Loans</i>	0.0	0.0	0.0	0.0	0.0	0%	0%	0%	0%	0%
<b>Total Liabilities</b>	<b>16,342.0</b>	<b>18,982.8</b>	<b>23,113.4</b>	<b>27,247.2</b>	<b>31,232.6</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>13%</b>
<b>Balance Sheet Total</b>	<b>113,137.0</b>	<b>136,996.0</b>	<b>164,757.3</b>	<b>198,172.0</b>	<b>237,518.8</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: BankM Research

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**Responsible for the content of this document: biw Bank für Investments und Wertpapiere AG, Willich, Germany.**

**Authors: Dr. Roger Becker, CEFA and David Szabadvari**

Regulatory authority for biw Bank für Investments und Wertpapiere AG is the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Straße 108, 53117 Bonn, Germany and Lurgiallee 12, 60439 Frankfurt am Main, Germany.

Issuer of the analyzed instrument is KINGHERO AG.

Notice according to sec. 4 §. 4 N<sup>o</sup> 4 FinAnV (previous publications regarding the issuer at least within the last 12 months):

Analyst	Date	Evaluation result	Fair value
Dr. Roger Becker	February 8, 2011	Buy	€37.33
Dr. Roger Becker	May 10, 2011	Buy	€38.00
Dr. Roger Becker	June 08, 2011	Buy	€38.00
Dr. Roger Becker	September 01, 2011	Buy	€38.00
Dr. Roger Becker	December 06, 2011	Buy	€42.00

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#### 1. Sources of information:

Main sources of information for the compilation of this document are publications in national and international media and information services (e.g. Reuters, VWD, Bloomberg, dpa-AFX and others), financial newspapers and magazines (e.g. Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times and others), specialist media, published statistics, rating agencies as well as publications by peer group companies and the company itself. Furthermore talks with the management of the issuer have been held. This document was made available to the issuer before publication according to DVFA Standards to ensure the accuracy of the information provided. This resulted in no textual changes.

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The following valuation methods are being used: Multiple-based models (Price/Earnings, Price/Cash-flow, Price/Book value, EV/Sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DDM), break-up value and sum-of-the-parts-approaches, asset-based evaluation methods or a combination of the above. The used valuation models depend on macroeconomic factors, such as interest rates, exchange rates, raw materials and on basic assumptions about the economy. Additionally, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Rendered evaluation results and fair values derived from the models might therefore change respectively. The evaluation results in general relate to a 12-month horizon. However, evaluation results are subject to changing market conditions and represent only the situation at a given point of time. The evaluation results and fair value prices may in fact be achieved more quickly or slowly than expected by the analysts. Also, the evaluation results and fair value prices might need to be revised upward or downward.

#### 3. Date of first publication of this document:

**May 18, 2012**

#### 4. Date and time of prices of the instruments quoted in this document:

**Closing prices of May 17, 2012**

## 5. Updates:

A specific date or time for an update of this document has not been set. The information given in this document reflects the author's judgement on the date of this publication and is subject to change without notice; it may be incomplete or condensed and it may not contain all material information concerning the company covered. It is in the sole responsibility of BankM – Repräsentanz der biw Bank für Investments und Wertpapiere AG to decide on a potential update of this document.

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