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emerging markets research

CHINA

Ningbo Great Leisure

Offering price: EUR 13.73

Fair value: EUR 22.3 (post-money)

Market Cap.: EUR 16.70m

Capital increase: EUR 5.00m

Free float post IPO: 30.0%

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IDENTITY

Market	Alternext
ISIN	NA
Ticker	NA
Sector	Furniture industry

OFFERING

Price	EUR 13.73
Capital increase	EUR 5.00m
# shares post IPO	1 217 082
Market Cap.	EUR 16.70m

CALENDAR

Opening of the Offer	Aug 25, 08
Closing of the Offer	Sept 3, 08
Payment & settlement – Delivery date	Sept 9, 08
1st trading day	Sept 12, 08

EUR M	DEC08 e	DEC09 e	DEC10 e
Sales	28.5	35.9	43.2
Growth	44.2%	25.8%	20.5%
EBIT/S	10.9%	10.8%	12.0%
REBIT/S	10.9%	10.8%	12.0%
EPS	0.32	0.42	0.58
Rest. EPS	0.32	0.42	0.58
Growth	40.3%	29.6%	38.7%
EV/Sales	0.60	0.46	0.33
EV/EBIT	5.5	4.2	2.8
EV/REBIT	5.5	4.2	2.8
PER	8.4	6.5	4.7
Rest. P/E	8.4	6.5	4.7
P/CF	6.3	5.0	3.8
P/BV	1.9	1.6	1.3
Div. yield	0.00%	5.90%	7.70%

*Post money

EXECUTIVE SUMMARY

- Ningbo Great Leisure (NGL), formed in 2000, makes garden furniture and gazeboes. Launched in 2003, when management judged gazebo production's profitability as too limited, the garden furniture business came to represent the lion's share of company sales (70%) in 2007. The Company's sales advanced in 2007 by 30.3% to RMB 215M (€19.8M). The operating margin improved by 3.5 points to 12.9%, driving 79.5% growth in operating result, to RMB 27.8M (€2.6M).

- Located in Zhejiang province, NGL benefits from well developed infrastructure with two nearby ports (Ningbo and Shanghai) linked by motorways and railways, and six airports. The Company also enjoys the proximity of its plastic and aluminum suppliers, grouped within a 100 km radius. Lastly, with more than 50 million inhabitants in the province, NGL still has the supply of staff needed for its development in what is a very labor-intensive industry.

- Given NGL's small scale compared with the global outdoor furniture market (€220B worldwide), its sales growth depends little on market developments but instead and above all on its ability to expand market share with existing customers, to gain new listings and in the medium term to develop its own brand. For this purpose, the Company can count on its price competitiveness, large-scale production capacity and design efforts.

- In 2010, NGL's total sales are expected to reach RMB 470M or €43.2M (30% CAGR). Despite wage inflation, by 2012 we forecast a stable operating margin at around 12%, thanks to favorable product mix developments and better fixed overhead absorption.

- The Company would like to raise €5M to finance automation of the soldering part of production, plus capacity investments and a first establishment in Europe. Initially, NGL would like to be closer to its customers by opening a sales office with a warehouse to store inventory.

- **Based on a DCF valuation and supported by a peer group comparison, we estimate the fair value of Ningbo Great Leisure to be €22.1M pre-money, or €27.1M post-money.**

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Contents

PREAMBLE

The reasons for listing a Chinese company on Euronext are based on many elements:

- **Difficulty of listing in China**. Given the substantial number of companies which wish to be listed and the scarcity of resources on the part of the market authorities, priority is given to large-scale government companies. Thus, the waiting list for listing can reach 4 years.
- **Better access to financing.** In China, monetary policy is an extremely politicized affair, almost completely subject to the government's growth policy. Interest rates are set by the central bank but the transmission mechanisms which use the banking system are insufficient. This is one of the things which explains the difficulty for Chinese companies to find long-term financing from financial institutions with competitive rates, particularly due to high inflation.
- **Commercial interest.** Listing gives the company better awareness in the countries to which it exports.

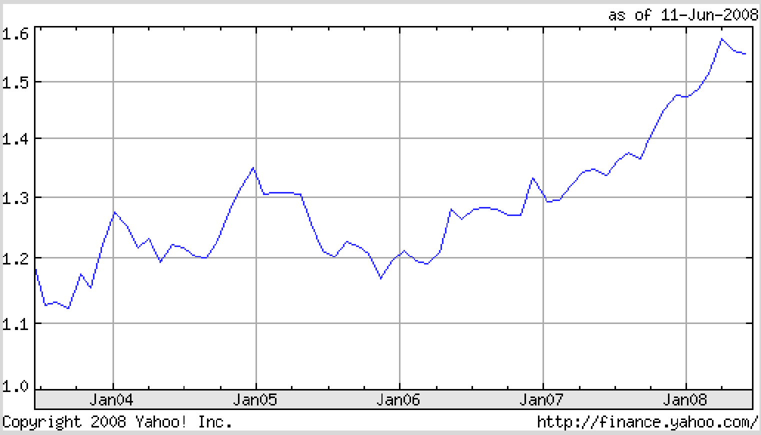
FACT SHEET ON CHINA

CURRENCY

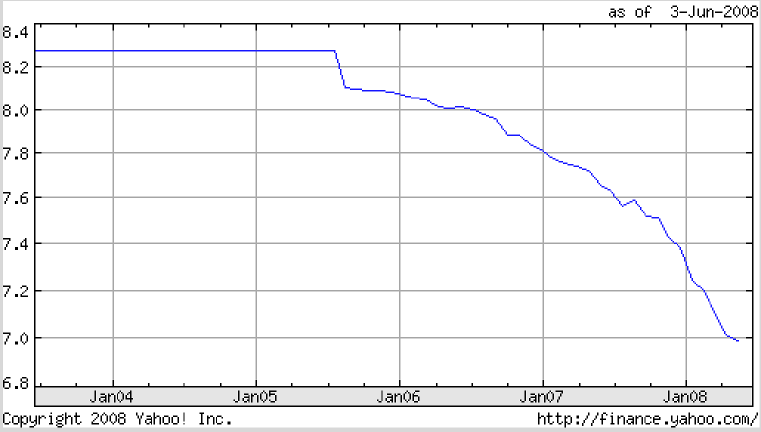
The evolution of Euro/Dollar/Yuan parity and Euro/Dollar parity are important elements to take into account within the scope of investment in a Chinese company quoted in Europe whose exports to Europe depend on the evolution of the various currencies. To recap, the Yuan's official name is RMB (stands for reminbi). Parity at 01/06 is 10.96 Yuan (RMB) to €1.

The history of the various parities is presented in the tables below.

EURO / DOLLAR



DOLLAR / YUAN



EURO / YUAN

Exchange policy

The exchange system of the People's Republic of China, laid down by the national monetary authorities, to a large extent determines the exchange rate of Chinese currency.

In 1994, a major reform unified multiple exchange rates, abolished the currency retention system, and implemented a new narrow band monitored floating exchange system linked to a new commercial system. The Yuan was thus anchored to the dollar on the basis of parity set at 8.277 Yuan to the dollar with a very narrow fluctuation margin (+/- 0.3% per day).

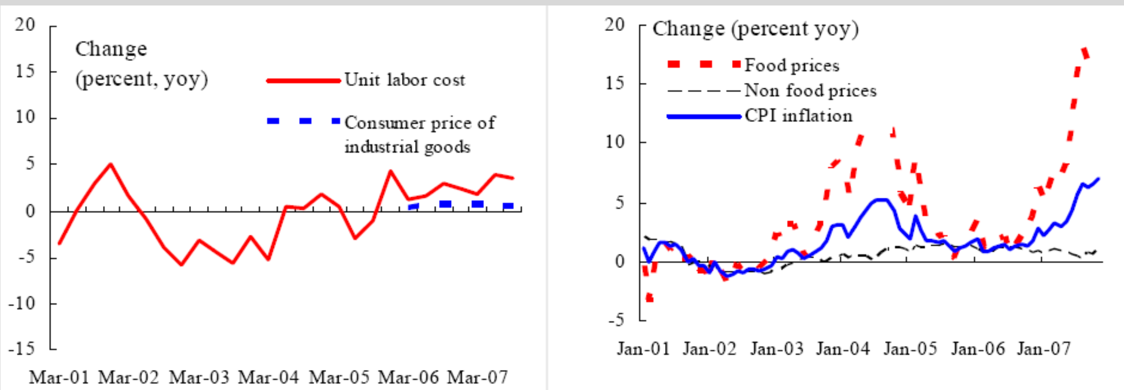
Since July 2005, China has switched to a floating system indexed on a basket of currencies (dollar, euro, yen and Korean won). The Yuan was reassessed by 2.5% at this time. The authorities still define the official exchange rate but efforts have been made to increase the role of the market in the determination of the exchange rate (broadening of the Yuan's daily fluctuation margin from 0.3% to 0.5% in respect of the dollar, introduction of a market trend system and a private transaction system on the interbank exchange market, etc.).

Despite the continued appreciation of the Yuan in respect of the dollar since 1995 (-15%), most economists consider than the Yuan is still undervalued. This element has thus been a way to steer growth of its economy whilst encouraging exports, which are the main motors of growth.

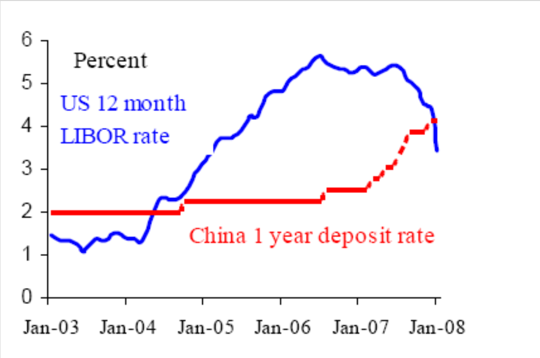
(in USD B)	2003	2004	2005	2006	2007
GDP growth	10.0%	10.1%	10.4%	11.6%	11.9%
Inflation (%)	3.2%	2.4%	1.6%	2.8%	6.5%
Exports	438	593	763	970	1219
Imports	394	534	628	752	908
Trade balance	45	59	134	218	311
Current balance	46	69	107	250	375
Source: Coface					

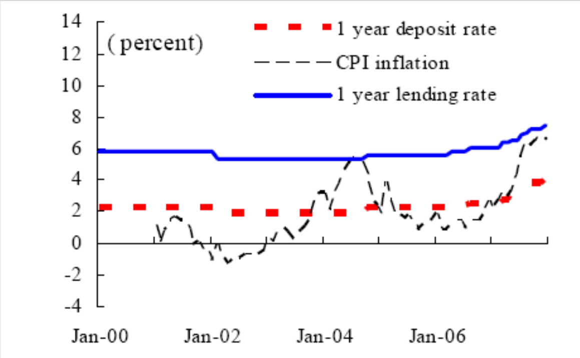
However, China is faced with many elements which make an appreciation in the Yuan seem likely, but it is still advisable to note that at a rate of appreciation of 10% per year, the Yuan would still need twelve years in order not to be undervalued on the basis of the IMF's estimation which assesses the offset parity of the Chinese currency at 1.96 Yuan to $1 compared with 7 Yuan to $1 currently.

- **Trade deficit of Western countries:** The increasing trade deficits in the United States and Europe and the implications on their economies are encouraging Western leaders to put pressure on China to revalue its currency.
- **Inflation & Interest rates:** According to the World Bank, the increase in liquidities linked to the substantial surpluses in China's current balance has not had any real impact on inflation, with the government monitoring its currency via "open market operations" and an increase in its reserve rate (ten increases in 2007 for a total of +5.5 points). Furthermore, China uses administrative measures such as price-freezing on some products.
  On the other hand, inflation sped up at the end of 2007, reaching 6.5% and in the first quarter 2008 (8%) due in the main to the effect of the increase in agricultural product prices, which will encourage an increase in rates and thus an appreciation of the Yuan. This development is encouraged by the difference between the Chinese and American rates which returned to a positive figure.
  Inflationary pressure also started to be felt on wages, but this has had no impact on overall inflation for the moment.



Source: World bank





Source: World bank

PRODUCTS QUALITY

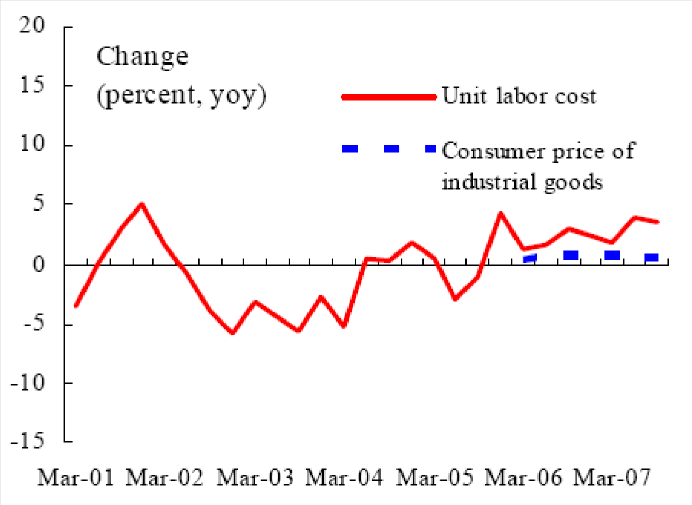
The risk regarding the sale of a product which does not respect the regulatory requirements of the importing country in terms of safety and quality is higher. As an example, a report published by the General Administration of Quality Supervision, Inspection and Quarantine indicated that almost 20% of the toys sold on the Chinese market are not in line with international standards. In the same vein, in 2007 the Chinese government blacklisted 444 companies in the food sector which did not respect local laws, thus preventing them from exporting.

The sale of products which are non-compliant comes in particular from 1) deficiencies in the monitoring system (some companies do not have licenses to carry out their trade and/or some have not carried out the certification tests or do not have the resources to do so), 2) monitoring frequency problems and in the type of monitoring which is in place with Chinese sub-contractors, since hundreds of companies may be involved in the manufacture of a single product and 3) corruption (e.g. conviction for corruption in 2007 of the former manager of the State Food and Drug Administration).

WAGE INFLATION AND LABOR LAW

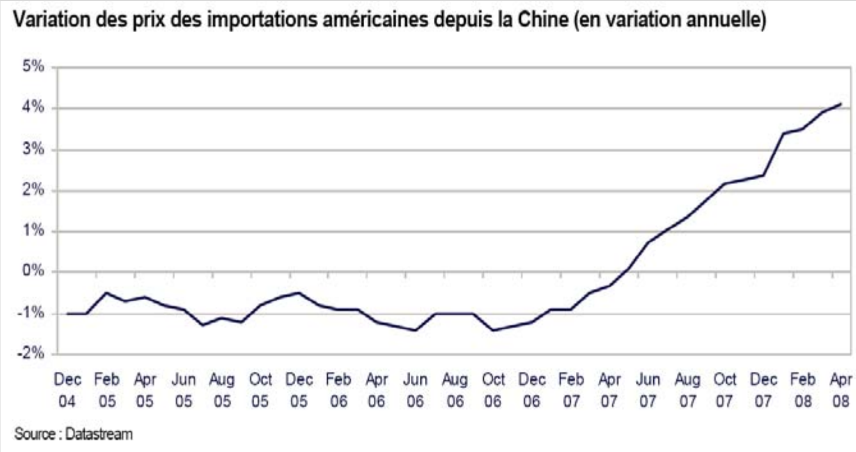
Chinese wage policy has evolved. New labor legislation, introduced in December 2007, gives new rights to workers (for example, it obliges the payment of overtime). It is also possible that demographics is starting to play a part. In fact, Chinese statistics for the 15-34 age range show a downturn from 443 to 380 million individuals between 2000 and 2005. And this trend is probably not over. According to a study from the Chinese Academy of Social Sciences, 75% of Chinese villages have "exhausted" their labor migration capacity.

According to the World Bank, signs are starting to be seen of an increase in wage inflation with a positive evolution over the period 2006-2007 in the manufacturing sector. However, it seems that the increase in wage costs has not been passed on to sale prices and for the moment it has been largely absorbed by companies.



Source: World bank

The curve below does however show that the evolution in American import prices, which is generally negative, switched to +4% (in annual variation terms) over the last two years.



This illustrates the fact that though productivity gains in China have not reached the end of the road, improvement is not quite as strong today as it was in the past, and these gains no longer suffice to fully offset the inflation in Chinese wages.

In social terms, a Local Authority Pension Fund Forum report in January 2007 indicated that:

- China did not respect some international standards in terms of labor law. Despite the fact that China is a member of the ILO, International Labour Organization, it has not signed all the agreements, particularly regarding collective bargaining. In addition, independent trade unions are practically non-existent
- Despite the passing of new laws and regulations in 2002, such as the labor safety law, the lack of application and implementation are major stumbling blocks for improved health and safety at work.

- Although the labor law (1994) defines a minimum wage and specifies the number of hours which employees must work, the weakness in terms of execution and implementation renders the system open to abuse. In addition, provinces and towns pass legislation individually for minimum wages, which vary widely across the country as a whole and are difficult to monitor.

Following several social movements in the country, the government passed a new law on employment contracts, which came into force on 1 January 2008. This law imposes an employment contract, encourages permanent contracts, limits the internship period and adds compensation clauses in the event of lay-offs. It even gives the opportunity for collective bargaining, even if the right to strike has not been included. It remains the case however that without trade union representatives elected by employees, no defense of rights can be guaranteed.

TAXATION AND ADMINISTRATIVE MEASURES

Given that monetary policy is limited by the exchange policy and the fact that the rate increase encourages capital inflows and an increase in the currency, taxation and administrative measures are playing an ever-more important role in China's monetary policy.
According to the World Bank, its measures concern in particular 1) a moratorium on price adjustments for products whose prices are managed in the energy and utilities sector, 2) price monitoring on some food products, 3) the obligation since 2008 for food product producers to submit their planned price increases to the government for official approval, 4) help for the production of certain products, 5) the setting up of taxes and quotas on the exportation of some products, 6) the reduction of import rates for fuel.

In terms of production, China continues to use various means to direct its resources towards some activities, in particular to promote investment in leading-edge technologies or to reduce energy consumption. These action resources include tax incentives, non-tax benefits, price monitoring and various forms of support, including "industrial policies" per sector. In April 2006, China notified the WTO of grant programmes from central government; these were income tax reductions and exemptions given to companies located in specific regions, carrying out specific activities or using foreign capital (companies using foreign investment). With the entry into force of the Corporate Income Tax Law in 2008, tax incentives in favor of companies using foreign investment will be gradually phased out and after a 5-year transition period, they will be given in the same way to national companies and those using foreign investment. Tax incentives offered to companies using foreign investment on the basis of export results were phased out at the end of 2007.

TVA, 2007

Taux de TVA	Article
Exemption	Produits agricoles vendus directement par les producteurs (y compris végétaux, animaux reproducteurs, produits forestiers, produits d'élevage et produits aquatiques) Contraceptifs et dispositifs de contraception Livres anciens Instruments et équipements importés pour utilisation dans la recherche scientifique, les expériences scientifiques et l'enseignement des sciences Matériaux et équipements importés donnés par des gouvernements étrangers et des organisations internationales à titre d'aide Équipements et machines devant être importés au titre d'un perfectionnement à façon, d'un montage ou d'opérations de compensation Articles importés directement par des organisations pour l'usage exclusif des handicapés Articles usagés (y compris articles usagés appartenant à des particuliers; vente d'articles d'occasion, dont le prix de vente est inférieur à la valeur originale; vente de yachts, motocyclettes et véhicules automobiles d'occasion, dont le prix de vente est inférieur à la valeur originale. Ne sont pas compris les yachts, motocyclettes et véhicules automobiles soumis à la taxe à la consommation) Autres articles précisés par le Conseil d'État
4%	Pour les petits contribuables s'occupant de commerce de gros ou de détail
6%	Pour les petits contribuables qui fabriquent des produits taxables ou fournissent des services taxables
13%	Céréales, huiles végétales comestibles Eau du robinet, chauffage central, conditionnement d'air, eau chaude, gaz de houille, gaz de pétrole liquéfié, gaz naturel, méthane et charbon ou charbon de bois destiné à l'usage domestique Livres, journaux, revues (à l'exclusion des journaux et revues distribués par le Ministère des postes) Aliments pour animaux, engrais chimiques, produits agrochimiques, machines agricoles et toiles pour l'agriculture Produits précisés par le Conseil d'État (produits agricoles, extraction de métaux, extraction de métalloïdes) Produits audio et vidéo importés, et autres formes de publications électroniques (au 15 septembre 2007)[a]
17%	Tous autres produits et services taxables, qu'ils soient importés ou d'origine nationale

China's policy has always been aimed generally at encouraging its exports to stimulate growth. The mechanisms instigated by China to promote exports include essentially tax incentives, export financing systems and export credit insurance packages.

The already-complex export system in China recently became much more restrictive. According to the WTO, several measures, including export taxes, reduced VAT discounts on exports (unlike VAT based on consumption, Chinese value-added tax is based on production. Standard VAT of 17% is levied on imported or country's own products. Some articles are subject to VAT of 13.6% or 4%; others may be exempted from VAT) as well as export bans, export licenses and export quotas, are serving to restrict, or even forbid, the export of a large and ever-growing number of products. Although some restrictions on export have been implemented to meet China's international obligations, a number of them are aimed among other things to limit the export of products which use large amounts of natural resources and energy, or to reduce the substantial trade surplus in China so as to lessen commercial friction. For example, the number of tariff lines subject to temporary export duties almost doubled over the past two years, while VAT discounts were phased out or their rates reduced for some 2,800 tariff lines in July 2007, and the number of tariff lines subject to export quotas and licences increased. In the same way, VAT discount rates are adjusted from time to time in particular to allow industrial development objectives to be met and to control the export of some products. In September 2006, they were lowered, amongst others, for some steel products, cements, and some textiles, as well as for furniture, plastics and wooden products.

At the same time, they were increased from 13 to 17% for manufacturing industry materials, medical materials, and some high-technology items, and from 5 or 11% to 13% for some items manufactured with agricultural products such as raw materials. On 1 July 2007, China phased out discounts for 553 items deemed too energy-consuming, causing high pollution and using a large amount of raw materials, and lowered discount rates for products from 2,268 lines which, according to the authorities may give rise to commercial friction, particularly textiles and steel products. On 20 December 2007, it ended VAT discount on agricultural products from 84 tariff lines such as wheat, corn, rice and soy seeds with the intention of slowing inflation.

Textile and clothing

With regard to textiles and clothing, customs duties have remained practically unchanged since the last examination of China's commercial policy. The simple average of MFN duties applied to textiles was thus 10.9% in 2007, which was the same value as in 2005; for clothing, it increased from 15.8% in 2005 to 16.0% in 2007.

China reduced VAT discounts on two occasions on textile and clothing exports so as to reduce growth in the trade surplus. In September 2006, they were dropped from 13 to 11% for textile products. In July 2007, these discounts were dropped from 13 to 11% for clothing and from 7 to 5% for fabrics.

Oil products

According to a WTO report, China has not made any major changes since the previous examination to its energy policy, which continues to be characterized by a high level of state property, regulation and limitation of competition. Oil product prices have specifically been capped since 2005. China's energy policy is broadly based on self-sufficiency. Energy product markets in China are at various stages of reform. Though generally speaking the government has adopted a more liberal economic policy, it considers energy as a strategic commodity and as such has adopted a gradual approach to reform this sector, hence commercial restrictions and regulatory obstacles which protect national producers from international competition.

Company profile

- Company profile:

The company was created in 2000 by Huajun Wang (32), the current CEO of the group (initial experience in import export) and main shareholder with 83% (17% for Gary Chow, general manager) of capital. Initially, Great Leisure had based its development on the manufacture of garden gazebos. When faced with the lack of profitability in this business and after discussions with its customers, management decided in 2003 to reposition the company in the manufacture of garden furniture. In total, its 2007 catalogue has over 1,000 references. The company was certified ISO 9000 in 2000 and ISO 14000 in 2006.

The company's repositioning in the furniture sector was born of the observation that by introducing a little design into its products, the added value markedly increases in comparison with a simple sub-contracting business. According to management, 5 kg of raw materials gives a return of 10 RMB but can generate 15 RMB depending on the design. Furthermore, this is what led the company to develop its own brand, Haohand. The group has a designers' office employing 40 people distributed over gazebos, creation and prototyping, and 4 designers with CAD software tools. This team is in charge of the new collections in connection with the purchasing department, and of the technical design specifications once the design has been accepted by the customer and catalogue creation (in August each year). Previously, about 60% of sales corresponded to products whose design was defined by the customer. In 2007, this proportion decreased and only represented 20%. The company intends to increase to 90% of sales the proportion of products created internally by its design office. On average, the timespan from design through to approval is in the region of 10 days, which provides Ningbo Great Leisure with major reactivity.

A few examples of those products manufactured by NGL for which average prices vary between €100 and 300 per set and are of course dependent on the volumes ordered:

Production is essentially manual (1,200 employees) using two main raw materials, that is to say aluminium for the structure and woven synthetic fibers. These materials have the advantage of being more resistant than natural materials like wood which in addition is subject to restrictions in terms of traceability and high price inflation. According to management's indications, an item of garden furniture can last up to 7 years outside. The choice of materials corresponds more than anything else to market trends.

The production process is based on a strict separation between the various manufacturing phases:

Shaping

Welding

Polishing

Paint

Weaving

Sewing

Packaging

Logistics

The other advantage conferred by the production model implemented by Ningbo Great Leisure is the fact that it is completely flexible. Workers are paid on a number-of-items produced per day basis, and in the event of substantial orders or under-activity, the company can adjust its workforce.

But management also understood the interest in making its workers loyal, which is reflected in a genuine social policy with in particular the provision of a library, a sport area, an IT area with 15 Internet-ready PC's, along with an area dedicated to training (1 day a week).

As is the case all over China, workers are accommodated by their employer in accommodation near the company. Bedrooms measuring 15 m² are provided either for a couple or for 2 people, which can be considered as good living conditions in China.

ESTABLISHMENT

Zhejiang province: high economic dynamism encouraged by developed infrastructures

Zhejiang province remains in 4th place in terms of Chinese provinces due to its GDP (€186.4B in 2007) and its GDP per inhabitant (€3,713). GDP rose 14.5% in 2007, that is to say a rate higher than the Chinese economy as a whole. Its economy is led by a high-performance network of private SME's which export heavily. Currently, the private economy represents over 70% of Zhejiang's GDP and over 50% of tax income for the local government.

Province	**Zhejiang**	Shanghai	Jiangsu	Anhui
Population (in millions)	**50.6**	18.6	76.0	66.8
% China total	***4.0***	*1.4*	*6.0*	*5.0*
GDP in EUR B	**186.4**	120	255.6	73.4
% China total	***7.6***	*5.0*	*10.3*	*3.0*
GDP rank	**4**	7	3	14
GDP/inhabitant	*3713*	*6535*	*3330*	*1200*

Source: Chinese national statistics office

Two major railway lines connect Hangzhou and Shanghai (high-speed line) and Zhejiang and Jiangxi. A motorway links Shanghai, Hangzhou and Ningbo, complemented by a Hangzhou-Suzhou link and a Wenzhou-Ningbo link. The province has over 99,650 km of roads, including over 2,700 km of high-speed lanes, centered around Hangzhou. An immense bridge (36 km) which crosses Hangzhou Bay has been open to traffic since May 2008 and has meant that the distance to travel between Shanghai and Ningbo has been considerably shortened. It now stands at 2 hours. Zhejiang also has 6 airports.

With 6,500 km of coastline, Zhejiang is aiming to highlight its port-based potential. The main ports of the province are Ningbo (in 4th place in the country in terms of tonnage, thanks in particular to the deep water port in Beilun), Wenzhou, Shenjiamen, Haimen, Zhapu and Zhoushan.

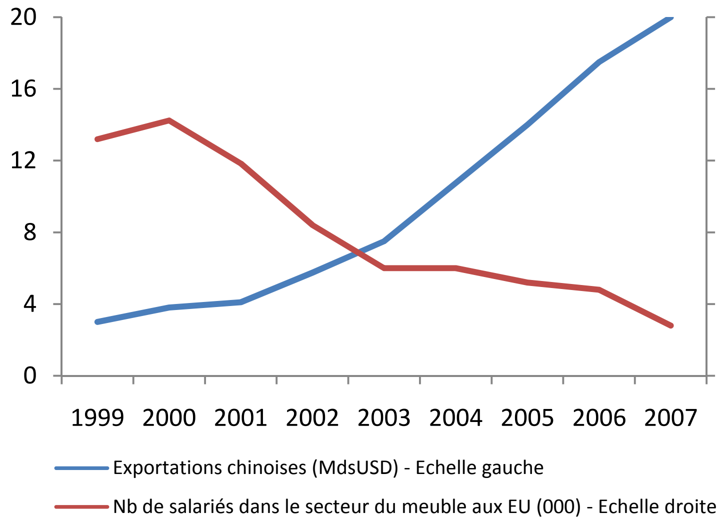
The value of annual production is close to €90.4B, or 48.5% of the province's total GDP. The main industrial centers in Zhejiang are equipped with industrial development zones. Eight zones accredited by central government already exist and are distributed between the cities of Hangzhou, Shaoxing, Ningbo and Wenzhou.

In 2007, external exchanges for the province reached €126.3B, up +14% compared to 2006. It should be noted that the export market is increasingly diversified, although Zhejiang remains a large-scale exporter of mechanical and electrical products whose value in 2007 reached a total of €40B, representing an increase of 31.2% compared to the previous year.

The United States receive 19.2% of Zhejiang's exports. Japan takes 6.9% of total exports and makes 16% of Zhejiang's imports. Furthermore, South Korea (12.4%), Taiwan (15.1%) and the United States (8%) make up over a third of total imports for the Province. In 2007, the volume of exports from France to Zhejiang stood at €394.3M (or 1.14% of total exports).

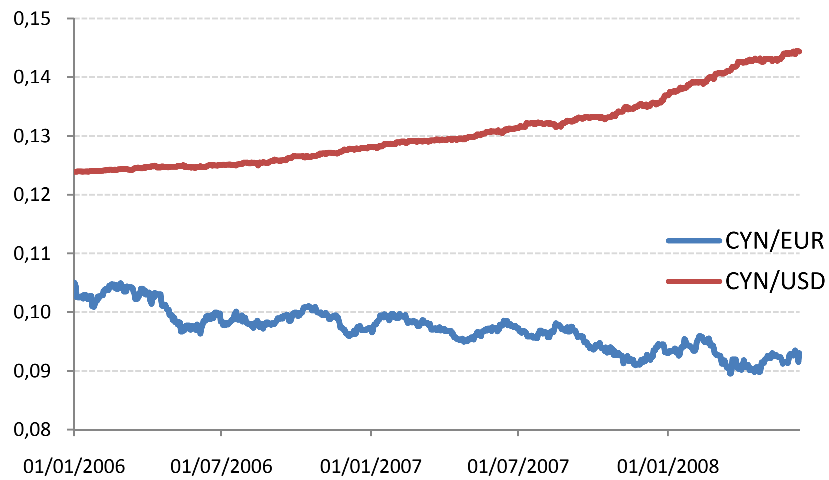
According to statistics given by the China National Furniture Association in 2003, the provinces of Eastern China make up 80% of furniture production. In 2002, the Zhejiang region represented (last statistics available) some 18% of national furniture production, in third position after the provinces of Fujian (21.5%) and Guangdong (30%). At the time, Zhejiang province represented 8% of export ($46M) while Guangdong represented 51% ($274M) of export furniture sales. In real terms, there are no studies relating to the status of competition in China. According to management, there are some 200 companies operating in the garden furniture sector, among them companies which are significantly larger than NGL. Specifically, we can mention groups such as Lynn Furniture & Co (2007 sales of over $60M) which operates on the same market and is established in Guangdong province.

It is within this dynamic economic environment that Ningbo Great Leisure (NGL) was established in the city of Yuyao. One of the direct consequences of this establishment for the company is that it is in a position to source all the raw materials (aluminium, plastic) within a radius of less than 100 kms, and that it also has access to the infrastructures necessary to export all of its production (40 containers sent per day by sea towards Europe, the Americas and Asia). Above all, this environment and the political stability which prevails in China represent a strong barrier to entry for competition from other low-cost countries such as Vietnam, Cambodia or Sri Lanka.



INVOICING

The company invoices its customers in $ and € with free on-board (FOB) payment. At the same time, the Chinese authorities are striving to achieve a reappraisal of the RMB (in the region of 5% per year). Since the beginning of 2006, Great Leisure has thus benefited from an adverse $ effect offset by a positive € effect (53% of sales in 2007).



VAT

The group is benefiting from the governmental policy which aims to encourage export companies, which can be seen in real terms by a "tax rebate" with reduced VAT of 11% on furniture and 13% on gazebos (compared with 14% previously) for sales made on export, compared with a rate of 17% for China. The standard corporation tax rate for companies in China is 25%.

RAW MATERIALS

The company's repositioning in terms of garden furniture (recycled plastic fibers, aluminium) has meant the weight of the materials cost has been reduced in the cost structure to 51% compared with 74% previously in gazebo manufacturing. The more the group is able to increase its share of original creations sold to customers, the more it’s added value will increase. Materials prices are renegotiated twice a year with suppliers who hold the stock. Furthermore, the evolution in energy cost has not directly affected the competitiveness of furniture made by NGL but it may on the other hand impact on its competitiveness in the long-term, due to the increase in transport costs for the distributor.

LABOR

One of the major problems which Chinese companies have to face is the increasing scarcity of labor, which creates substantial wage inflation with large-scale movements of employees from one company to another depending on the wage offered. It thus seems to us that this risk is limited in NGL's specific case due to the social policy with high standards applied by its management. In NGL's case, wage inflation is expected to be between 15 and 20% per year over the coming financial years. This is a decisive factor since furniture production relies essentially on workers: aluminium structures are welded by workers and furniture is covered in woven plastic fibers.

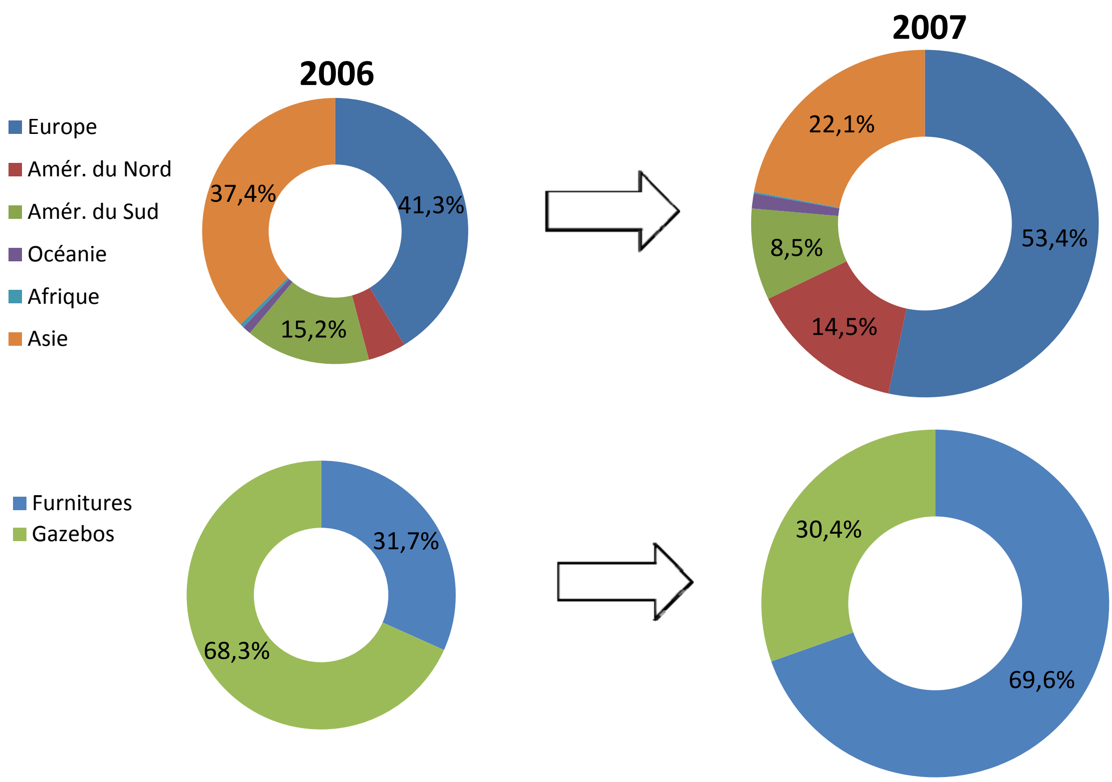
Recent Events

The 2007 financial year saw the confirmation for Great Leisure of its new direction, that is to say the manufacture of garden furniture. Launched in 2003, when management judged gazebo production's profitability as too limited, the garden furniture business came to represent the lion's share of company sales in 2007.

Though growth in sales 2007 stands at 30.3%, it hides very heterogeneous development. Sales of garden furniture increased 2.9x to reach RMB 149.6M. In geographical terms, Europe and North America led growth thanks to new catalogue references won by the group with specialists such as Home Depot, large-scale distribution and franchise groups (Hartman). Furniture sales in Europe increased 2.6x to stand at RMB 85.7M and in North America it went from RMB 7.2M to 31.2M.

At the same time, as a result of the strategic change, sales of gazebos saw a drop of 42% to stand at RMB 65.4M.

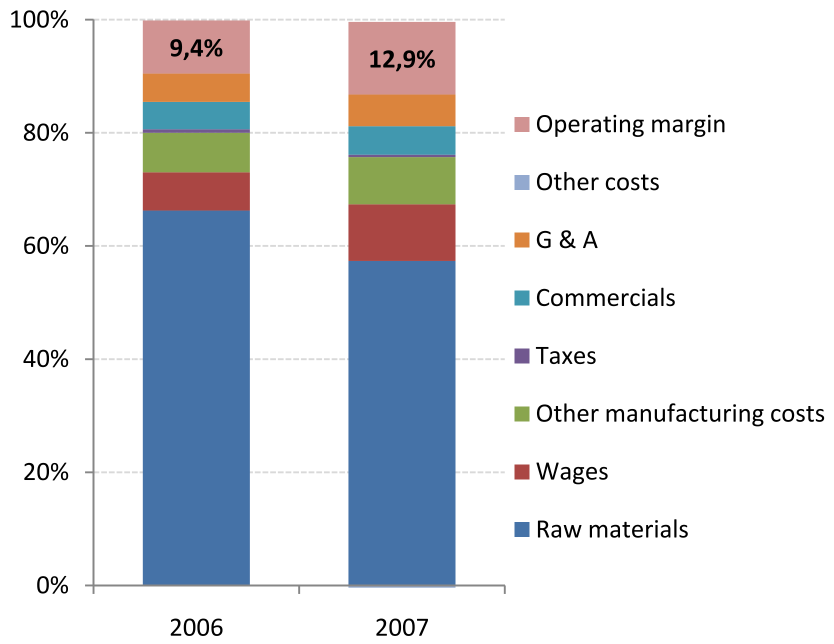
SALES BREAKDOWN BY PRODUCT AND GEOGRAPHICAL AREAS - source: company



The evolution of the product mix was logically reflected in a near 4-point improvement in gross margin rate (US GAAP) at 23.7%. The Furniture activity is characterized by a materials cost in the region of 51% compared with almost 74% for Gazebos. Although the labor cost is greater (11% compared to 5%), the Furniture business expresses profitability on direct costs of over 37% compared with 21% for gazebos. Labor costs remain very low since the wage expense of 894 workers only represents 10% of sales, expressing an average wage cost of RMB 20,000, or 1,660 RMB/month (around EUR 160/month).

Over the year, the company sped up its structuring by strengthening its administrative, sales and design workforce. In total, non-productive workforce numbers went from 86 to 122 people. This effort explains the increase in the weight of sales and administrative costs (+0.9 points). Nevertheless, the current operating margin went up 3.5 points to stand at 12.9%, leading to a 79.5% increase in recurring operating profit, to stand at RMB 27.8M.

BREAKDOWN OF OPERATING RESULT (% OF SALES)



Source: company

Regarding the bottom end of the profit and loss account, financial overheads increased RMB 3.7M to stand at RMB 4.8M, since the group used debt to finance its investments. The cost of debt stood at 7.5%. Finally, insofar as the group was not eligible for Law 10 (tax exemption), the corporation tax level stood at 33.3%. Net result 2007 stood at RMB 15.4M, or 7.2% of sales (compared with 5.7% in 2006).

Over the financial year, Great Leisure invested highly in its production tool (RMB 44.6M, or 20.7% of sales). These investments were partly self-financed, for RMB 26.4M, with the remainder financed by debt. The company generated RMB 20M in cash-flow (9.3% of sales), added to which were RMB 15M in WCR reduction. This fall came from the stock levels which were cut in half (RMB 25M, or 11.5% of sales), which is linked to supply optimization. The company can now supply all the raw materials it needs within an hour's travel, whereas previously it had to buy in Canton or even the United States. Customer accounts receivable are very limited insofar as the company is paid as soon as products are sent (FOB).

At the end of the financial year, the company expressed net debt of RMB 53.3M. Net gearing stood at 173%, bearing in mind that the company is not highly capitalized. Financial debt (RMB 72.8M) is solely in the short-term, which is a traditional situation for a Chinese company which can be explained by more attractive short-term rates and the difficulties in borrowing in the long-term from Chinese banks.

Prospects

2008 FINANCIAL YEAR

Given Great Leisure's small scale compared with the global garden furniture market and even the Chinese furniture production market, its sales growth depends little on market developments but instead and above all on its ability to expand market share with existing customers, to gain new listings and in the medium term to develop its own brand.

KEY FIGURES FOR THE FURNITURE MARKET:

- EUR 220 B in world-wide terms (of which almost 50% of production in China)
- Of which over EUR 80 B in Europe and USD 87 B in 2007 (+3.5% compared to 2006)
- in the USA, the market is expected to remain stable in 2008

Garden furniture: the segment may be estimated at EUR 10 B in world-wide terms.
In the USA, it represented USD 6.4 B in 2007 and its average annual growth is predicted to be around 4% by 2011.

In 2008, given the dynamic situation seen last year, the growth trend in the Furniture business should continue with an expected increase of 51%. Given the consumer slowdown in the United States which was reflected by a drop in orders from existing customers, furniture sales should be stable in this area. In Europe, the increased importance of customers should ensure growth of 45.5%. Finally, listings with Sodimac in South America and Keluo in South Africa will give additional sales estimated at RMB 16.5M.

The Gazebo business should get back on the road to growth thanks to development in new geographical areas. Sales achieved in North America and Africa, which were zero up until now, are expected to be over RMB 15M. Furthermore, sales in South America are benefiting from new listings (+32% in 2008).

SALES IN RMB M	2006	2007	2008e
Europe	68	115	153
North America	8	31	38
South America	25	18	34
Oceania	2	3	21
Africa	1	0	15
Asia	62	47	50
TOTAL	165	215	310
Furniture	52	150	226
Gazebos	113	65	84
Sales variation in %		***30.3%***	***44.2%***
Furniture		***186.2%***	***51.0%***
Gazebos		***-42.0%***	***28.6%***

Sources: company, IDMidCaps

The development of the product mix in favor of garden furniture will lead mechanically to a reduction in the weight of raw materials purchases and at the same time, a lesser increase in labor costs. In terms of staff costs, inflation in the region of 25% has been suggested, but this will be offset in the main by the improvement of productivity linked to new machines, in particular for welding. Over 2008, the result of these investments in automation will be an increase in depreciation and maintenance costs. From a cautious perspective, we thus expect a leveling off of gross margin to stand at 22.4% of sales (-1.3 points).

The company's evident desire to set up an office in France so as to strengthen its relations with customers and to develop its own brand in Europe will lead to a new increase in the weight of sales overheads (+0.5 points at 5.5% of sales). In the end, operating margin should stand at 10.9%, representing a recurring operating profit of RMB 33.8M, up 21.5%. Given the new Chinese legislation, the standard tax rate will be 25%, which will entail net income attributable to shareholders of RMB 21.6M, up nearly 40%.

In terms of cash flow, the self-financing capacity should stabilize at 9.3% of sales. We expect a slight increase in the WCR insofar as stock management was already optimized in 2007. In addition, Great Leisure plans to gradually give its customers access to a stock of furniture in Europe.

The group plans to invest more than RMB 20M, distributed between the purchase of machines (mainly for welding) and land, and the construction of buildings. Excluding fund raising, net financial debt should stand at the end of 2008 at RMB 49M, representing 94% of equity capital.

2009 AND 2010 FINANCIAL YEARS

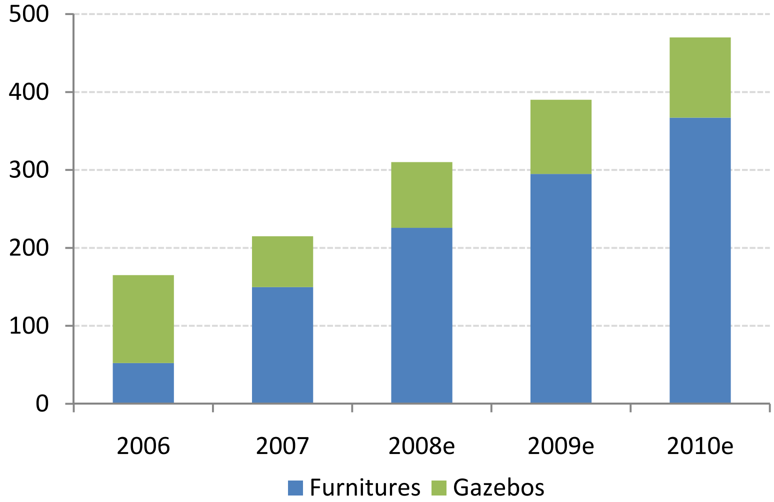
Over 2009 and 2010, sales are expected to be up 25.8% and 20.5% respectively. The Furniture business will be the main drive behind growth (+26% on average), with Europe and North America remaining the two preferred zones. In 2010, Europe's share is estimated at 53% of sales, and North America's at 13%.

These growth forecasts take into account the impact of increased sales efforts (office in Europe), but do not include the setting-up of an individual distribution network in Europe either from scratch or more likely via increased ties with an existing network (acquisition, joint venture or sales agreement). An exclusive sales contract with a franchise network seems to us to be the most relevant and feasible solution in financial terms. Such a transaction would profoundly change the company's economic model, particularly given the sale prices in stores (10x the factory price), and the cost of a network.

The Chinese domestic market should not be pursued by Great Leisure until 2010. Effectively, management considers that it is necessary to start establishing its brand in the West before it can be recognized in China.

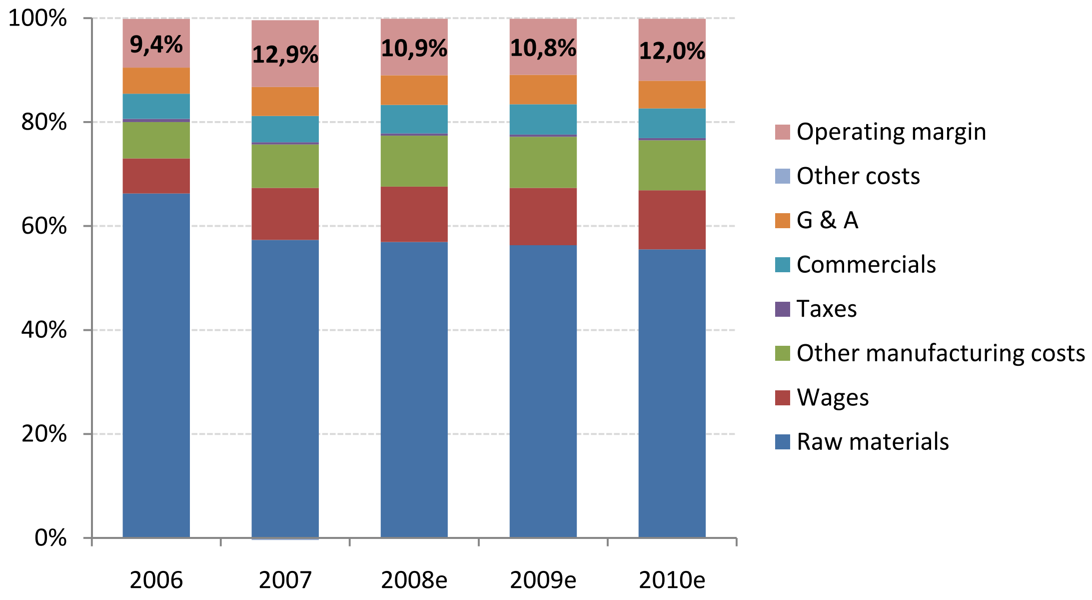
On the basis of the current structure, Great Leisure should reach sales of RMB 470M by 2010.

SALES FORECASTS BY PRODUCT



In terms of margins, investments in the production tool and in sales will weigh down once more in 2009. As from 2010, the volume effect should allow better absorption of these overheads and will allow a return to operating profitability of 12%. This level of profitability seems feasible in the long-term for the company insofar as American furniture manufacturers expressed similar margins before they had to face low-cost competition (see Valuation chapter). As an illustration in France, we can look at U10, which specializes in the supply of turnkey ranges for household, leisure and personal items to large-scale distribution, which generated an operating margin of between 10 and 14.75% over the period 2001-2007.

BREAKDOWN OF OPERATING RESULT (% OF SALES)



Sources: company, IDMidCaps

The main hypotheses selected for the forecast model are as follows:

- Stability of materials cost at 51% for furniture and 74% for gazebos. Possible inflation in raw materials should be able to be offset by the increased significance of products (thanks to the design effort in particular) and the increase in volumes purchased.
- Wage inflation of 15%/year on average and near-equivalent improvement in productivity.
- Stabilization of administrative manpower at around 140 people as from 2009.

After the 2006-2008 investment period, Great Leisure should have the buildings and tools needed for the production level suggested in the business plan. Thus in 2009-2010, investments should be limited to maintenance-renewal (around 1.5% of sales). Using conservative figures, we estimate the WCR will return to 3% of sales, the level expressed in 2006.

Valuation

- Discounted Cash Flow:

Our DCF model is based on an initial period of 12 years of activity with an annual average growth rate after the first 3 years of 5.2%. The current operating margin rate should stay at around 12% over this period. Other data (amortization and depreciation expenses excluding work-in-progress, investment rate, WCR level, etc.) is stable in relative sales value as from year 5. Nevertheless we took into account a more substantial investment in 2013 so as to meet the increase in volumes.

According to the IDMidCaps model, the average value market premium at June 1 comes out at 4.07% and the 10-year risk-free rate at 4.55%. Furthermore, we added an additional premium of 8.4% so as to take into account the company's current state of development and the risks that investment in a Chinese company entails.

EUR M	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sales	28.5	35.9	43.2	49.7	54.7	57.4	60.3	62.1	64.0	65.2	66.5	67.9
Var.	*44.2%*	*25.8%*	*20.5%*	*15.0%*	*10.0%*	*5.0%*	*5.0%*	*3.0%*	*3.0%*	*2.0%*	*2.0%*	*2.0%*
Recalculated EBIT	3.1	3.9	5.2	6.1	6.6	7.0	7.3	7.5	7.8	7.9	8.0	8.1
Op. margin	10.9%	10.8%	12.0%	12.2%	12.1%	12.2%	12.2%	12.2%	12.2%	12.1%	12.1%	12.0%
Corp. Tax rate (Corp. tax/Op. profit)	21.2%	22.1%	22.9%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
D&P exp.	0.7	0.8	0.8	0.9	0.9	1.0	1.2	1.2	1.3	1.1	1.0	1.0
Net EBITDA	**3.1**	**3.8**	**4.8**	**5.4**	**5.9**	**6.2**	**6.7**	**6.9**	**7.1**	**7.0**	**7.0**	**7.1**
% Sales	*10.9%*	*10.5%*	*11.1%*	*11.0%*	*10.7%*	*10.8%*	*11.1%*	*11.1%*	*11.1%*	*10.8%*	*10.5%*	*10.5%*
CAPEX	-1.9	-0.5	-0.6	-0.7	-0.8	-2.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0
WCR variation	-0.3	-1.0	-0.6	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
Free Cash flow	**0.9**	**2.3**	**3.7**	**4.5**	**4.9**	**3.3**	**5.7**	**5.9**	**6.1**	**6.0**	**6.0**	**6.1**

Total discounted FCF	20.5	Infinite growth rate	1.50%
Discounted terminal value	6.5	Market premium	4.07%
Enterprise value	27.0	Risk-free rate	4.55%
Net debt	4.9	Additional premium	8.40%
Value of equity capital	**22.1**	**Discount rate**	**17.00%**

Via the DCF method, we obtain a pre-money valuation of €22.1M (post-money valuation €27.1M).

In our model, we selected the current EUR/CYN rate (1 to 10.7), not speculating on the future evolution of parity.

SENSITIVITY TABLE

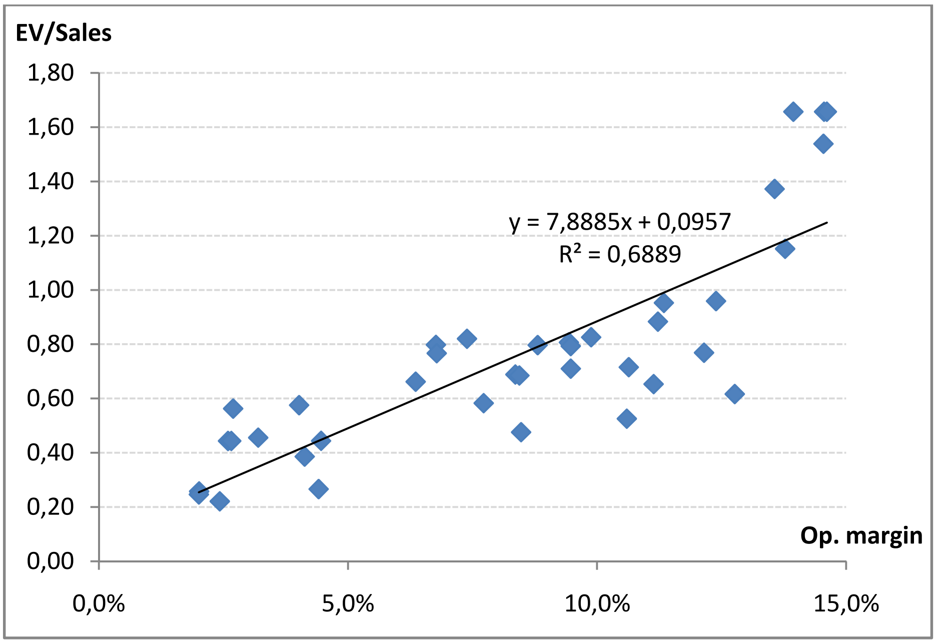
		-2.0%	-1.0%	**WACC**	1.0%	2.0%
		15.0%	16.0%	**17.0%**	18.0%	19.0%
	0.5%	26.1	23.7	21.7	19.8	18.2
Infinite	1.0%	26.4	24.0	21.9	20.0	18.4
growth	**1.5%**	26.7	24.2	**22.1**	20.2	18.5
	2.0%	27.1	24.5	22.3	20.3	18.6
	2.5%	27.5	24.8	22.5	20.5	18.8
		18.1%	*7.2%*	*-1.8%*	*-10.4%*	***-17.6%***
		19.5%	*8.6%*	*-0.9%*	*-9.5%*	*-16.7%*
		20.8%	*9.5%*	*0.0%*	*-8.6%*	*-16.3%*
		22.6%	*10.9%*	*0.9%*	*-8.1%*	*-15.8%*
		24.4%	*12.2%*	*1.8%*	*-7.2%*	*-14.9%*

- ## Peer Group:

Valuation by stock market comparison does not seem to us to be the most appropriate solution in this case. We did not identify any furniture manufacturers listed in an emerging country. In terms of European or American furniture manufacturers and distributors, their size, growth dynamic and profitability (which collapsed due to competition from low-cost producers such as Great Leisure) are not comparable.

Nevertheless, so as to validate the valuation obtained via DCF, we studied the financial performance and historical stock market ratios of the main American furniture manufacturers and distributors. Our sample is composed of: Furnitures Brands (USD 2,082M), La-Z-Boy (USD 1,617M), Ethan Allen (USD 1,005M), Flexsteel (USD 425M), Bassett (USD 295M), Hooker (USD 317M) and Stanley (USD 283M). We obtained 38 utilizable historical data items.

First of all, we studied the correlation between operating profitability for companies and the EV/Sales ratio:



Next, we obtained the average PE ratio for these companies since 1998:

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Stanley	8.8	6.8	8.7	18.9	12.2	13.1	13.6	12.7	14.9	21.4
Ethan Allen	NG	NG	14.9	20.6	16.5	21.1	18.7	16.3	14.0	13.1
La-Z-Boy	NG	NG	NG	NS	11.8	31.8	14.5	NS	31.3	NS
Furniture Brand	NG	NG	9.8	NS	11.1	17.3	15.0	20.0	15.8	NS
Hooker	NG	NG	4.1	14.8	7.0	15.7	14.3	16.2	13.2	12.7
Flexsteel	NG	NG	NG	16.1	12.1	14.0	15.9	18.1	7.9	NG
Average	14.9									
Median	14.7									

On the basis of a post-money valuation of €27.1M, Great Leisure's ratios are as follows:

EUR M	2006	2007	2008e	2009e	2010e
Sales	15.2	19.8	28.5	35.9	43.2
var.		*30.3%*	*44.2%*	*25.8%*	*20.5%*
Op. margin	9.4%	12.9%	10.9%	10.8%	12.0%
Net profit per share	1.62	2.48	3.49	4.52	6.27
var.		*52.9%*	*40.3%*	*29.6%*	*38.7%*
EV/Sales			1.11	0.86	0.67
EV/EBIT			10.2	8.0	5.6
PER			13.7	10.6	7.6

The ratios appear to be in line with (or even a little below) historical data for American companies. This confirms our pre-money valuation at EUR 22.1M before discount.

Accounts

INCOME STATEMENT (EUR M)	Dec06	Dec07	Dec08e	Dec09e	Dec010e	Dec11e
Sales	**15.2**	**19.8**	**28.5**	**35.9**	**43.2**	**49.7**
Growth		30.3%	44.2%	25.8%	20.5%	15.0%
Gross margin	19.8%	23.7%	22.0%	22.2%	22.9%	23.0%
EBITDA	1.6	2.9	3.8	4.6	6.0	7.0
EBITDA margin	10.8%	14.9%	13.2%	12.9%	13.8%	14.0%
EBIT	1.4	2.6	3.1	3.9	5.2	6.1
EBIT margin	9.4%	12.9%	10.9%	10.8%	12.0%	12.2%
Restated EBIT	**1.4**	**2.6**	**3.1**	**3.9**	**5.2**	**6.1**
Growth		79.5%	21.5%	24.6%	33.7%	17.0%
Restated EBIT margin	**9.4%**	**12.9%**	**10.9%**	**10.8%**	**12.0%**	**12.2%**
Net financial items	-0.3	-0.4	-0.5	-0.5	-0.4	-0.4
Earnings before exceptional items	1.1	2.1	2.6	3.4	4.8	5.6
Income tax	0.2	0.7	0.7	0.9	1.2	1.4
Net attributable profit	0.9	1.4	2.0	2.6	3.6	4.2
Net margin	6.1%	7.1%	7.0%	7.2%	8.2%	8.5%
EPS (EUR)	**0.15**	**0.23**	**0.32**	**0.42**	**0.58**	**0.68**
Growth		52.9%	40.4%	29.6%	38.7%	18.5%
Restated EPS (EUR)	**0.15**	**0.23**	**0.32**	**0.42**	**0.58**	**0.68**
Growth		52.9%	40.3%	29.6%	38.7%	18.6%

BALANCE SHEET (EUR M)	Dec06	Dec07	Dec08e	Dec09e	Dec010e	Dec11e
Total fixed assets	4.7	8.3				
Including goodwill	0.0	0.0				
Current assets	11.0	12.2				
Including cash	1.2	1.8	2.2	2.6	4.5	6.0
Shareholders' Equity	**1.4**	**2.8**	**4.8**	**6.4**	**8.7**	**11.1**
Financial debts	5.0	6.7	6.7	6.2	6.2	6.2
Current liabilities	9.3	11.1				
Total balance sheet	15.7	20.6				
Net debt	**3.9**	**4.9**	**4.5**	**3.7**	**1.7**	**0.2**

CASH FLOW STATEMENT (EUR M)	Dec06	Dec07	Dec08e	Dec09e	Dec010e	Dec11e
Cash flow		**1.8**	**2.6**	**3.3**	**4.4**	**4.2**
Change in WCR		1.3	-0.3	-1.0	-0.6	-0.2
Net capital expenditure		-4.1	-1.9	-0.5	-0.6	-0.7
Financial expenditure		0.0	0.0	0.0	0.0	0.0
FCF from operating activities		**-1.0**	**0.4**	**1.8**	**3.2**	**3.3**
Dividends		0.0	0.0	-1.0	-1.3	-1.8

RATIOS	Dec06	Dec07	Dec08e	Dec09e	Dec010e	Dec11e
CF / Sales	7.5%	9.3%	9.3%	9.3%	10.1%	8.5%
WCR / Sales	3.8%	-3.1%	-1.0%	2.0%	3.0%	3.0%
ROCE		25.2%	23.4%	25.6%	32.5%	35.8%
Net gearing	275.4%	173.3%	93.8%	57.1%	19.7%	1.8%

QUOTE DATA	Dec06	Dec07	Dec08e	Dec09e	Dec010e	Dec11e
Year-end price						
# shares	0.85	0.85	0.85	0.85	0.85	0.85
# diluted shares	0.85	0.85	0.85	0.85	0.85	0.85
Market Cap.						

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TERMINATION OF COVERAGE
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