MERRY GARDEN HOLDINGS LIMITED
美麗家園控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1237)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

- Successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on 6 July 2012.
- Turnover increased by 36.8% from RMB157.8 million for the six months ended 30 June 2011 to RMB215.9 million for the six months ended 30 June 2012.
- Gross profit increased by 47.1% from RMB56.4 million for the six months ended 30 June 2011 to RMB83.0 million for the six months ended 30 June 2012.
- Profits attributable to equity shareholders of the Company increased by 15.9% from RMB39.5 million for the six months ended 30 June 2011 to RMB45.8 million (after taking into account the non recurring listing expenses charged to income statement of approximately RMB12.4 million) for the six months ended 30 June 2012.
- Profit for the six months ended 30 June 2012 of RMB45.8 million outperformed the forecasted profit as included in the prospectus of the Company of RMB40.2 million.
- Basic and diluted earnings per share of the Group for the six months ended 30 June 2012 was RMB0.06 (for the six months ended 30 June 2011: RMB0.05).

The board (the "Board") of directors (the "Directors") of Merry Garden Holdings Limited (the "Company") is pleased to announce the interim results of the Company and its subsidiaries (collectively the "Group" or "we") for the six months ended 30 June 2012 (the "Period"). The interim financial information for the Period is extracted from the Company's consolidated interim financial statements which have been audited by KPMG and reviewed by the audit committee of the Company.

Consolidated income statement
for the six months ended 30 June 2012
(Expressed in Renminbi)

		Six months ended 30 June	
	Notes	**2012**	**2011**
		RMB'000	*RMB'000*
Turnover	3	215,918	157,782
Cost of sales		(132,927)	(101,382)
Gross profit		82,991	56,400
Other revenue	5(a)	3,193	1,763
Other net income/(loss)	5(b)	54	(369)
Selling and distribution expenses		(4,476)	(4,452)
Administrative expenses		(23,358)	(7,977)
Profit from operations		58,404	45,365
Finance costs	6(a)	(2,840)	(985)
Profit before taxation	6	55,564	44,380
Income tax	7(a)	(9,726)	(4,843)
Profit for the period		45,838	39,537
Earnings per share			
Basic and diluted (RMB)	8	0.06	0.05

Consolidated statement of comprehensive income for the six months ended 30 June 2012
(Expressed in Renminbi)

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Profit for the period	45,838	39,537
Other comprehensive income for the period		
Exchange differences on translation of financial statements of subsidiaries outside the People's Republic of China (the "PRC"), net of nil tax	(390)	697
Total comprehensive income for the period	45,448	40,234

Consolidated balance sheet at 30 June 2012
(Expressed in Renminbi)

	Notes	**At 30 June 2012** *RMB'000*	**At 31 December 2011** *RMB'000*
Non-current assets			
Property, plant and equipment		75,974	72,011
Lease prepayments		37,530	37,935
Non-current prepayments for acquisitions of property, plant and equipment		14,369	8,947
Other financial assets		2,495	2,495
Deferred tax assets		4,488	4,815
		134,856	126,203
Current assets			
Inventories	9	56,019	51,672
Current portion of lease prepayments		812	812
Trade and other receivables	10	140,274	94,676
Pledged deposits		510	847
Cash and cash equivalents		22,748	8,202
		220,363	156,209
Current liabilities			
Trade and other payables	11	31,662	16,133
Bank loans		101,206	85,797
Current portion of deferred income		920	920
Current taxation		12,680	15,799
		146,468	118,649
Net current assets		73,895	37,560

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Total assets less current liabilities	208,751	163,763
Non-current liabilities		
Non-current portion of deferred income	16,709	17,169
NET ASSETS	192,042	146,594
CAPITAL AND RESERVES		
Capital	8	8
Reserves	192,034	146,586
TOTAL EQUITY	192,042	146,594

Notes to the interim financial information

(Expressed in Renminbi unless otherwise indicated)

1 **General information and group reorganisation**

The Company was incorporated in the Cayman Islands on 17 October 2011 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries hereinafter are collectively referred to as the "Group".

Pursuant to a group reorganisation completed on 16 April 2012 (the "Reorganisation") to rationalise the group structure in preparation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of all of its subsidiaries.

The companies that took part in the Reorganisation were controlled by the same ultimate controlling shareholder, Mr Wu Zheyan (referred to as "the Ultimate Controlling Shareholder" or "Mr. Wu") before and after the Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of the Group. The Reorganisation only involved inserting newly formed entities with no substantive operations as new holding companies of Fujian Zhangping Kimura Forestry Products Co., Ltd. ("Zhangping Kimura") and Zhangping Kimura Merry Garden Wooden Structure Design and Installation Co., Ltd. ("Merry Garden Wooden Structure"), which were the Group's operating entities for each of the periods presented. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition as set out in International Financial Reporting Standard 3, Business combinations, with Zhangping Kimura treated as the acquirer for accounting purposes. The consolidated interim financial statements have been prepared and presented as a continuation of the financial statements of Zhangping Kimura and Merry Garden Wooden Structure with the assets and liabilities of Zhangping Kimura and Merry Garden Wooden Structure recognised and measured at their historical carrying amounts prior to the Reorganisation.

2 **Basis of preparation and presentation**

The interim financial information set out in this announcement does not constitute the Group's consolidated interim financial statements for the six months ended 30 June 2012, but is extracted from the Group's consolidated interim financial statements.

The consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim financial reporting*, all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated interim financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. However, the directors consider that none of these developments are relevant to the Group.

The consolidated interim financial statements for the six months ended 30 June 2012 comprise the results of operations and state of affairs of all companies comprising the Group. All material intra-group transactions and balances have been eliminated in preparing the consolidated interim financial statements.

The comparatives of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement in respect of the six months ended 30 June 2011 and the related notes disclosed in the consolidated interim financial statements were derived from the Group's management accounts and have not been audited.

3 **Turnover**

The principal activities of the Group are manufacturing and sales of outdoor wooden products and engaged in projects of outdoor wooden products including the provision of design and installation services.

Turnover represents

(i) the sales value of goods sold to customers less returns, discounts, and value added taxes and other sales tax; and

(ii) contract revenue derived from projects of outdoor wooden products including the provision of design and installation services.

The amount of each significant category of revenue recognised in turnover is analysed as follows:

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Sales of outdoor wooden products	208,398	157,287
Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services	7,520	495
	215,918	157,782

Individual external customers accounting for 10% or more of the Group's revenue for the six months ended 30 June 2012 are as follows:

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Customer A	23,440	31,966
Customer B	16,845	22,736
Customer C	16,180	16,166
Customer D	14,678	5,111
	71,143	75,979

4 **Segment reporting**

The Group manages its businesses by its operating units in the PRC, which are engaged in the manufacture and sales of outdoor wooden products and projects of outdoor wooden products including the provision of design and installation services. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments, namely Zhangping Kimura, Merry Garden Wooden Structure and Merry Garden Flagship Store. No operating segments have been aggregated to form the above reportable segments.

— Zhangping Kimura: manufacturing and sales of outdoor wooden products to both domestic and overseas customers.

— Merry Garden Wooden Structure: engaged in projects of outdoor wooden products including the provision of design and installation services to domestic customers.

— Merry Garden Flagship Store: domestic retail sales of outdoor wooden products.

(a) ***Segment results***

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Reportable segment revenue represents the revenue derived from the Group's external customers by Zhangping Kimura, Merry Garden Wooden Structure and Merry Garden Flagship Store, respectively.

The measure used for reportable segment profit is "profit after taxation" of Zhangping Kimura, Merry Garden Wooden Structure and Merry Garden Flagship Store, respectively.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2012 and 2011 is set out below:

	Six months ended 30 June 2012			
	Zhangping Kimura	**Merry Garden Wooden Structure**	**Merry Garden Flagship Store**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue derived from the Group's external customers	204,091	7,520	4,307	215,918
Inter-segment revenue	5,318	—	—	5,318
Reportable segment revenue	209,409	7,520	4,307	221,236
Reportable segment profit (profit after taxation)	56,363	1,210	238	57,811

	Six months ended 30 June 2011			
	Zhangping Kimura	**Merry Garden Wooden Structure**	**Merry Garden Flagship Store**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue	157,287	495	—	157,782
Reportable segment profit/(loss) (profit/(loss) after taxation)	39,627	(90)	—	39,537

(b) ***Reconciliations of reportable segment revenue and reportable segment profit***

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	221,236	157,782
Elimination of inter-segment revenue	(5,318)	—
Consolidated turnover	215,918	157,782
Profit		
Reportable segment profit derived from the Group's external customers	57,811	39,537
Elimination of inter-segment profits	(164)	—
Unallocated head office and corporate expenses	(11,809)	—
Consolidated profit after taxation	45,838	39,537

(c) ***Geographic information***

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods were delivered or the services were provided.

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
The PRC	137,580	57,180
North America	48,036	68,143
Europe	18,742	20,371
Asia Pacific (exclusive of the PRC)	11,560	12,088
	215,918	157,782

5 **Other revenue and other net income/(loss)**

(a) ***Other revenue***

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Interest income on bank deposits	20	72
Government subsidies	3,173	1,691
	3,193	1,763

The Group was entitled to unconditional government subsidies of RMB2,713,000 (30 June 2011: RMB1,347,000) for the six months ended 30 June 2012. These government subsidies were granted to Zhangping Kimura for subsidising various expenses already incurred and were recognised as other revenue when they became receivable.

The Group was not entitled to nor has received any conditional government subsidies during the six months ended 30 June 2012 (30 June 2011: RMB16,077,000 recognised as deferred income that compensates the Group for the cost of its land use right and the cost of infrastructure development). Government subsidies of RMB460,000 (30 June 2011: RMB344,000) were recognised as other revenue for the six months ended 30 June 2012, which is on a systematic basis over the useful life of the relevant asset.

(b) ***Other net income/(loss)***

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Net foreign exchange gain	524	52
Net gain on disposal of property, plant and equipment	19	46
Changes in fair value of derivative financial instruments	(479)	(466)
Others	(10)	(1)
	54	(369)

6 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
(a) ***Finance costs***		
Interest expense on bank loans wholly repayable within five years	3,300	1,650
Less: Interest expense capitalised into construction in progress*	(460)	(665)
	2,840	985

* The borrowing costs have been capitalised at a rate of 7.52% (30 June 2011: 6.08%) per annum for the six months ended 30 June 2012.

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
(b) ***Staff costs***		
Salaries, wages and other benefits	9,343	8,328
Contributions to defined contribution retirement schemes	918	492
	10,261	8,820

Pursuant to the relevant labour rules and regulations in the PRC, the Group's entities in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the six months ended 30 June 2012 and 2011. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income subject to a cap of monthly relevant income of HK$20,000. The cap has been increased to HK$25,000 effective from June 2012. Contributions to the plan vest immediately.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and the PRC. In the opinion of the directors of the Company, the Group did not have any significant liabilities beyond the above contributions in respect of the retirement benefits of its employees.

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
(c) ***Other items***		
Cost of inventories#	132,927	101,382
Depreciation of property, plant and equipment	2,751	1,869
Amortisation of lease prepayments	405	221
Operating lease charges for properties	91	—
Research and development costs	7,761	2,887
Auditors' remuneration	4,046	7
Listing expenses	12,405	—

\# Cost of inventories includes RMB17,056,000 (30 June 2011: RMB10,308,000) for the six months ended 30 June 2012 relating to staff costs, depreciation and research and development costs, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 **Income tax in the consolidated income statement**

(a) ***Taxation in the consolidated income statement represents:***

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Current tax - PRC corporate income tax		
Provision for the Period	9,399	8,893
Deferred tax		
Origination and reversal of temporary differences	327	(4,050)
	9,726	4,843

(b) ***Reconciliation between tax expense and accounting profit at applicable tax rates:***

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Profit before taxation	55,564	44,380
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned (note (i))	14,888	11,117
Effect of PRC tax concession (note (ii))	(6,165)	(5,928)
Effect of non-deductible expenses	1,973	15
Effect of research and development expense bonus deduction (note (iii))	(970)	(361)
Actual tax expense	9,726	4,843

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2012 and 2011. The payments of dividends by the subsidiary incorporated in Hong Kong are not subject to any Hong Kong withholding tax.

The Group's PRC subsidiaries are subject to PRC corporate income tax at the statutory rate of 25% unless otherwise specified.

(ii) Zhangping Kimura applied and was approved for the High and New Technology Enterprise ("HNTE") qualification under the PRC Corporate Income Tax Law and its relevant regulations during 2010, and is therefore entitled to the preferential income tax rate of 15% for a period of three years from 2010 to 2012.

(iii) According to the PRC Corporate Income Tax Law and its relevant regulations, qualified research and development expenses are subject to income tax deductions at 150% on the amount actually incurred.

(iv) According to the PRC Corporate Income Tax Law and its relevant regulations, dividends receivable by non-PRC resident investors from PRC resident enterprises are subject to withholding income tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008.

Since the Group can control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, deferred tax liabilities are only provided to the extent that such profit are expected to be distributed in the foreseeable future.

8 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to equity shareholders of the Company of RMB45,838,000 (30 June 2011: RMB39,537,000) and weighted average number of 820,000,000 shares during the six months ended 30 June 2012 (30 June 2011: 820,000,000 shares). The weighted average number of shares comprise 1,000,000 shares in issue at 30 June 2012 and 819,000,000 shares issued pursuant to the capitalisation issue which took place immediately before the Company's listing of its shares on the Stock Exchange on 6 July 2012 as if the shares were outstanding throughout the entire six months ended 30 June 2012 and 2011.

There were no potential dilutive ordinary shares during the six months ended 30 June 2012 and 2011 and, therefore, diluted earnings per share are the same as the basic earnings per share.

9 **Inventories**

(a) ***Inventories in the consolidated balance sheet comprise:***

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Raw materials	28,007	19,644
Work in progress	9,378	21,073
Finished goods	18,634	10,955
	56,019	51,672

(b) ***The analysis of the amount of inventories recognised as an expense and included in the consolidated income statement is as follows:***

	Six months ended 30 June 2012	2011
	RMB'000	*RMB'000*
Carrying amount of inventories sold	132,927	101,382

10 **Trade and other receivables**

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Trade receivables	95,313	81,892
Deposits and prepayments (notes (i) and (ii))	37,809	9,516
Amount due from a related company	1,676	508
Amount due from a director	480	480
Derivative financial instruments	29	305
Gross amount due from customers for contract work (note (iii))	3,201	276
Other receivables	1,766	1,699
	140,274	94,676

Notes:

(i) Included in the deposits as at 30 June 2012 were guarantee deposits of RMB1,000,000 (31 December 2011: RMB3,580,000) with guarantee companies providing guarantee services in relation to the Group's bank loans and rental and utility deposits of RMB164,000 (31 December 2011: RMB Nil) in relation to rental of an office. The rental and utility deposits were expected to be recovered after more than one year.

(ii) Prepayments consist of advance payments made to suppliers for purchases of raw materials. At 30 June 2012, the balance also included prepaid professional fees in relation to the issuance of new shares in the initial public offering of RMB6,654,000 (31 December 2011: RMB281,000), which will be recognised in the share premium account in equity upon the issuance of new shares on 6 July 2012.

(iii) The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from customers for contract work at 30 June 2012 was RMB9,047,000 (31 December 2011: RMB7,193,000). This balance includes retention receivables at 30 June 2012 of RMB867,000 (31 December 2011: RMB53,000), of which RMB87,000 (31 December 2011: RMB Nil) was expected to be recovered after more than one year.

All of the trade and other receivables, apart from those balances specified in (i) and (iii) above, are expected to be recovered or recognised as expense within one year.

Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 June 2012 *RMB'000*	**At 31 December 2011** *RMB'000*
Current	78,225	73,040
Less than 1 month past due	12,813	7,616
1 to 3 months past due	3,673	239
More than 3 months but less than 12 months past due	602	997
Amounts past due	17,088	8,852
	95,313	81,892

Trade receivables are normally due within 60 to 90 days from the date of billing. Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

11 Trade and other payables

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Trade payables (note 11(a))	7,577	9,723
Amount due to the Ultimate Controlling Shareholder	1,246	443
Receipts in advance	1,565	167
Other payables and accruals (note 11(b))	21,274	5,800
	31,662	16,133

All of the above balances are expected to be settled within one year or repayable on demand.

(a) ***An ageing analysis of the trade payables of the Group is analysed as follows:***

	At 30 June 2012	At 31 December 2011
	RMB'000	*RMB'000*
Due within 1 month or on demand	3,221	2,893
Due after 1 month but within 3 months	4,356	6,830
	7,577	9,723

(b) ***An analysis of the other payables and accruals of the Group is analysed as follows:***

	At 30 June 2012 *RMB'000*	At 31 December 2011 *RMB'000*
Salaries, wages, bonus and other accrued benefits	1,296	1,733
Payables for the purchase of property, plant and equipment	2,270	919
Other tax payables	3,754	639
Professional fees payable	12,719	1,068
Derivative financial instruments	203	—
Others	1,032	1,441
	21,274	5,800

12 **Dividends**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

I Business Review

Since 2012, benefited from the PRC economic development, particularly the strong domestic consumer demand along with the improving leisure and tourism business, the demand of the Group leisure household products, timber villas and their related parts has boosted. The Group closely grasped the growth in domestic demand and strengthened its brand promotion and products exhibition. Our own-brand of Merry Garden was recognised as "Well-known Trademark" (中國馳名商標) by the State Administration for Industry & Commerce of the PRC in 2012.

Majority of our domestic sales are either on original design manufacturer ("ODM") basis or in connection with products sold under our own-brand "Merry Garden". We sold our products to trading companies, end-users, distributors and department stores. As one of the key strategies to enhance our PRC sales, efforts had been spent on promotion of our own-branded products. For instance, we opened our first self-operated store in Zhangping, Fujian province on 23 November 2011, where our own-branded products are sold. We constantly introduce innovative products, and identify new distributors. Benefited from our efficient marketing initiatives and good services, both of our ODM sales and own branded product sales grew rapidly and achieved an outstanding result.

In the first half of 2012, the global market has fluctuated significantly as affected by a number of factors. In this regard, the Group's major customers adopted operating measures, such as clearing stocks and reducing procurement activities while at the same time, actively developed and designed innovative products. Majority of our export sales are on original equipment manufacturer basis and are exported to North America and Europe. While the stringent operating measures adopted by our major customers affected our sales to North America and Europe in the first half of 2012, the Group intently coped with them and will try to capture the opportunities of any newly designed products in the second half of 2012.

In view of the opportunities and challenges in the market, the Group will constantly adjust our business focus according to the economic development and changes of its major markets, stive to remain competitive under the changing environment and achieve sustainable development of our business.

II Future Outlook

2012 is an important year in the development history of the Group. On 6 July 2012, the Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited, which provides a solid capital and development platform for the Group. The Group raised approximately RMB117.6 million after the deduction of related listing expenses. The Company's next mission is to rapidly expand the Group's business through utilising such resources and create more values to our shareholders.

For the domestic market, "Certain Opinions regarding the 'National Tourism and Leisure Plan'" (關於國民旅遊休閒計畫的若干意見) of the Twelfth Five-year Plan of the PRC aims to introduce various measures to encourage the PRC residents to participate in travel and leisure activities. This stimulates the consumption, increasing the domestic demand and driving the industry development. With such policies, we expect that in the coming two years, the strong demand of tourism and leisure products will bring our leisure household products, timber villas and their related parts a huge room for growth. The PRC government imposed tourism and leisure industry development policies in the past few years. Currently, the expenditure of travel and leisure activities increases with the increasing income of the PRC residents. It is expected that the tourism and leisure industry will grow rapidly in the future, and the development of the leisure household products, timber villas and their related parts will also step into the golden age. We expect that the future travel and leisure market will still be a huge market with energetic demand.

For our international business, starting from the second quarter of 2012, the United States ("US") recorded a better economic performance and demonstrated a strong recovery momentum. The positive Housing starts data from North America will gear up the demand and business growth of the Group's leisure household products, timber villas and their related parts. Apart from consolidating and developing the Asia Pacific markets and European markets, the Group will strengthen its capacity in research and development, design and sales, so as to grasp the increasing demand in the US market and capture the opportunities from the growth of our major customers. Meanwhile, the Group will put more effort on identifying new customers and new markets to capture the increasing demand from the market. The Group will also pay attention to the change of economic situation of every region of global market, with a view to capture the opportunity of recovery and growth, as well as to achieve the sustainable development of the international business.

(1) Housing starts is the number of privately owned new houses (technically housing units) on which construction has been started in a given period. This data is divided into three types: single-family houses, townhouses or small condos, and apartment buildings with five or more units.

As prescribed in the prospectus of the Company dated 25 June 2012, the Group intended to acquire a piece of land of approximately 57,000 square meters for expanding production capacities. On 27 August 2012, the Group obtained a sales confirmation from the Land and Resources Bureau of Zhangping and the Group is entitled to acquire the piece of land. Looking forward, the Group plans to add production lines in the second half of 2012, to further expand production capacity and satisfy the increasing demand of our products from the markets. Up to the date of this announcement, the Group used approximately RMB3.0 million raised from the global offering of the shares of the Company for expanding production capacity. The Group acquired machineries which enhance our current production lines which included polishing machineries that could process 7,000m^3 of timber annually. The Group intends to commence the construction of two production lines in September 2012. It is expected that the production lines will commence production before March 2013. Apart from expanding our production capacity, the Group will continue our establishment of own-brand self-operated stores; as well as increase and enhance our research and development capacities in the manner as prescribed in the prospectus of the Company dated 25 June 2012. We expect that our next two self-owned stores will be established in Fujian Province. We are identifying suitable locations for five more self-operated stores. We will acquire more equipment for research and development activities. Our research and development will focus on wood preservation and enhancing the utilisation of timber.

The Group will consistently innovate and improve its marketing strategy and service model, to enhance the comprehensive competitiveness and the ability to withstand the market risks of the business through numerous product portfolios, unique design and the development model related to new technology application.

Financial Review

Revenue

Our major products are broadly divided into two main categories: (1) leisure household products: this category is subdivided into four sub-categories: (i) recreational products, such as play swings and play houses for children; (ii) landscape garden products, such as wooden terraces and fences; (iii) outdoor and indoor furniture products; and (iv) pet-home designs; and (2) timber villas, sheds and their related parts and structures.

The following table sets forth the revenue recorded by product categories for the periods indicated.

	Six months ended 30 June		
	2012	**2011**	
	RMB'000	*RMB'000*	*Growth rate*
Timber villas, sheds and their related parts and structures	93,978	26,893	249.5%
Leisure household products	111,636	123,112	-9.3%
Outdoor and indoor furniture	46,868	33,378	40.4%
Recreational products	27,246	45,396	-40.0%
Landscape garden products	25,928	26,562	-2.4%
Pet-home designs	11,594	17,776	-34.8%
Others	10,304	7,777	32.5%
Total	215,918	157,782	36.8%

The growth in revenue was mainly due to the significant increase in our sales of timber villas, sheds and their related parts and structures. The increase in sales of our timber villa products was supported by the additional production line and other production facilities which improved the production capacity of the Group.

The sales to our existing customers increased with the expansion of our domestic distributors' business following the commencement of their operation with the Group in 2010. Our domestic distributors assist the Group on sales and promotion of our timber-villa products and their related parts. There was an increase in number of distributors from 4 as at 30 June 2011 to 9 as at 30 June 2012.

We also secured new domestic and international customers in 2012 through participation in various exhibitions and sales conventions and direct and indirect involvement in the development of scenic spots and municipal projects.

Our sales of leisure household products decreased from RMB123.1 million for the six months ended 30 June 2011 to RMB111.6 million for the six months ended 30 June 2012. The decrease was mainly attributable to the drop in the sales of recreational products and pet-home designs products, which outweighed the increase in the sales of outdoor and indoor furniture. The increase in the sales of outdoor and indoor furniture was a result of the increased sales order from one of our major customers. The drop in the sales of recreational products was a result of the shift of orders from a major customer to second half of 2012; while the decrease in sales of pet-home designs products was affected by the drop in number of orders from overseas customers as a result of their strategy to lower stock level.

Gross profit and gross profit margin

Our gross profit increased by RMB26.6 million, or approximately 47.1%, from RMB56.4 million for the six months ended 30 June 2011 to RMB83.0 million for the six months ended 30 June 2012. Our gross profit margin increased from 35.7% for the six months ended 30 June 2011 to 38.4% for the six months ended 30 June 2012. The primary reason for the improvement is the increased proportion for the sales of timber-villa products and their related parts. We achieved a higher gross profit margin for the sales of timber-villa products and their related parts because some of the timber villas were specifically designed and tailored for our customers' requirements and were sold directly to the end-users.

Other revenue

Other revenue increased by RMB1.4 million, or approximately 81.1%, from RMB1.8 million for the six months ended 30 June 2011 to RMB3.2 million for the six months ended 30 June 2012. The increment was primarily due to receipt of unconditional government subsidies in the sum of RMB2.7 million (30 June 2011: RMB1.3 million) granted to the Group for subsidising various expenses during the six months ended 30 June 2012.

Other net income/(loss)

We had other net income of RMB54,000 for the six months ended 30 June 2012, as compared to other net loss of RMB0.4 million for the six months ended 30 June 2011. This was primarily due to the foreign exchange gain arising from our transactions in United States Dollars and Euros.

Selling and distribution expenses

Our selling and distribution expenses were RMB4.5 million for the six months ended 30 June 2012, which represented a drop of RMB24,000, or approximately 0.5%. It is a result of the decrease in transportation charges along with the decrease in export sales, net with the increase in advertising charges for brand promotion.

Administrative expenses

Our administrative expenses increased by RMB15.4 million, or approximately 192.8%, from RMB8.0 million for the six months ended 30 June 2011 to RMB23.4 million for the six months ended 30 June 2012. The increase was primarily attributable to the RMB12.4 million professional fees charged in connection with the Company's listing as well as the increase in staff costs along with the increase in headcount.

Finance costs

Our finance costs increased by approximately 188.3% from RMB1.0 million for the six months ended 30 June 2011 to RMB2.8 million for the six months ended 30 June 2012. It was due to an increase in bank borrowings over the period as a result of the continuous expansion of business operation and production volume, and an increase in the effective interest rate for bank borrowings.

Income tax

Our income tax increased by RMB4.9 million, or approximately 100.8%, from RMB4.8 million for the six months ended 30 June 2011 to RMB9.7 million for the six months ended 30 June 2012, primarily as a result of the increase in profit before taxation from our principal PRC subsidiary, Zhangping Kimura. Zhangping Kimura is qualified as a HNTE and is entitled to the preferential enterprise income tax rate of 15%.

Our effective tax rate increased from 10.9% for the six months ended 30 June 2011 to 17.5% for the corresponding period of 2012. The increase in effective tax rate is attributable to the Company's listing expenses which are treated as tax non-deductible expenses.

Profit for the period

As a result of the foregoing factors, profit for the period increased by 15.9% from RMB39.5 million for the six months ended 30 June 2011 to RMB45.8 million (after taking into account the non recurring listing expenses charged to income statement of approximately RMB12.4 million) for the six months ended 30 June 2012, and net profit margin decreased from 25.1% for the six months ended 30 June 2011 to 21.2% for the six months ended 30 June 2012. This is mainly due to our IPO expenses incurred for the Company's listing.

Profit for the six months ended 30 June 2012 of RMB45.8 million outperformed our forecasted profit of RMB40.2 million as included in the prospectus of the Company dated 25 June 2012.

Cash Flow

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated from our operations; and (ii) proceeds from new bank loans. The table below sets out selected cash flow data from our consolidated cash flow statement.

	Six months ended 30 June	
	2012	**2011**
	RMB'000	*RMB'000*
Net cash generated from operating activities	11,904	29,825
Net cash used in investing activities	(10,285)	(38,666)
Net cash generated from financing activities	12,912	16,603
Net increase in cash and cash equivalents	14,531	7,762
Cash and cash equivalents at beginning of the period	8,202	2,584
Effect of foreign exchange rate changes	15	(3)
Cash and cash equivalents at end of the period	22,748	10,343

Net cash generated from operating activities

Net cash generated from operating activities decreased by RMB17.9 million from RMB29.8 million for the six months ended 30 June 2011 to RMB11.9 million for the six months ended 30 June 2012. The change was mainly attributable to the increased prepayments made to suppliers in the current period.

Net cash used in investing activities

Net cash used in investing activities in the six months ended 30 June 2012 represented the purchase of property, plant and equipment. Apart from the purchase of property, plant and equipment, the net cash used in investing activities in the six months ended 30 June 2011 also included the acquisition of land use right in respect of land located in the PRC, on which we built our production premises and buildings. This led to a significant net cash used in investing activities in the six months ended 30 June 2011.

Net cash generated from financing activities

Net cash generated from financing activities for both periods mainly represent the net cash generated from bank borrowings.

Net current assets

Our net current assets increased from RMB37.6 million as at 31 December 2011 to RMB73.9 million as at 30 June 2012, representing an increase of RMB36.3 million or 96.7%. The increase was mainly due to the increase in trade and other receivables as well as cash and cash equivalents, net of the increase in trade and other payables and bank loans. The increase in trade and other receivables was attributable to our increase in sales to domestic customers which have a longer credit period compared to overseas customers; and increased prepayments to our suppliers.

The increase in cash and cash equivalents resulted from our net operating cash inflows and net proceeds from bank loans. The increase in trade and other payables mainly represented the fees accrued and payable to professional parties in connection with the Company's listing.

Financial Ratios

	At 30 June 2012	At 31 December 2011
Current Ratio (1)	150.5%	131.7%
Gearing Ratio (2)	40.9%	52.9%

Notes:

(1) Current ratio is the ratio of current assets to current liabilities

(2) Gearing ratio is calculated as net debt (i.e. total bank loans less cash and cash equivalents) divided by total equity.

Current ratio improved from 131.7% as at 31 December 2011 to 150.5% as at 30 June 2012. Gearing ratio also improved from 52.9% as at 31 December 2011 to 40.9% as at 30 June 2012. The improvements for both ratios were attributable to our net working capital inflow from our operating profits.

Use of Proceeds from the Global Offering

In July 2012, the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. A total of 180,000,000 shares were issued at HK$1.00 per share for a total of approximately HK$180 million. The net proceeds raised from the abovementioned global offering of the Company, which were approximately RMB117.6 million after the deduction of related listing expenses, are expected to be used in accordance with the purpose disclosed in the prospectus of the Company dated 25 June 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Directors recognise the importance of good corporate governance in the management of the Group. As a private company during the Reporting Period, the Company was not required to comply with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the Reporting Period. The Board will review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

Under the code provision A.2.1 of the Code, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. As the duties of chairman and chief executive officer of the Company are performed by Mr. Wu, the Company has deviated from the Code. The Board believes that it is necessary to vest the roles of chairman and chief executive officer in the same person due to its unique role, Mr. Wu's experience and established market reputation in the industry, and the importance of Mr. Wu in the strategic development of the Company. The dual role arrangement provides strong and consistent market leadership and is critical for efficient business planning and decision making of the Company. As all major decisions are made in consultation with members of the Board, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board. The Board will also continue to review and monitor the practices of the Company for the purpose of complying with the Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities of the Company by the Directors. As a private company during the Period, the Model Code was not applicable to the Company for the six months ended 30 June 2012. However, having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the Period.

PURCHASES, SALE AND REDEMPTION OF LISTED SECURITIES

Since the Company was only listed on the Stock Exchange on 6 July 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities listed on the Stock Exchange during the six months ended 30 June 2012.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Set out below is an extract of the independent auditor's report from KPMG on the Group's consolidated interim financial statements for the six months ended 30 June 2012:

"**OPINION**

In our opinion, the consolidated interim financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2012 and of the Group's profit and cash flows for the six months ended 30 June 2012 in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

Without qualifying our opinion, we draw your attention to note 2(b) to the consolidated interim financial statements which states that the comparative amounts of the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended 30 June 2011 and the related notes disclosed in the consolidated interim financial statements were derived from the Group's management accounts. Those comparative amounts have not been audited and we therefore do not express an audit opinion on them."

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2012.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Code. As at the date of this announcement, the Audit Committee consists of the three members who are all independent non-executive Directors. Mr Lam Hin Chi has been appointed as the chairman of Audit Committee. The Audit Committee has reviewed and discussed the interim results of the Group for the six month ended 30 June 2012.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The Group's interim results for the six months ended 30 June 2012 have been published on the websites of the Stock Exchange and of the Company at http://www.merrygardenholdings.com. The Company's interim report for the six months ended 30 June 2012 will be dispatched to the Company's shareholders in due course.

By order of the board of
Merry Garden Holdings Limited
Wu Zheyan
Chairman

Hong Kong, 27 August 2012

As at the date of this announcement, the executive Directors are Mr. Wu Zheyan, Mr. Wu Qingshan and Ms. Xie Qingmei, the non-executive Director is Mr. Wu Dongping, and the independent non-executive Directors are Mr. Lam Hin Chi, Mr. Jin Zhongwei and Mr. Su Wenqiang.