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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

- Turnover increased by 37.1% from RMB307.2 million for the year ended 31 December 2011 to RMB421.2 million for the year ended 31 December 2012.
- Gross profit increased by 32.9% from RMB111.9 million for the year ended 31 December 2011 to RMB148.7 million for the year ended 31 December 2012, while gross profit margin decreased from 36.4% to 35.3% as a result of the commencement of timber log and timber board trading business from 4th quarter of 2012.
- Profit attributable to equity shareholders of the Company for the year increased by 13.3% from RMB70.7 million for the year ended 31 December 2011 to RMB80.1 million for the year ended 31 December 2012.
- Basic earnings per Share remained at RMB9 cents per share for the year ended 31 December 2012.
- The Board has proposed a final dividend of HK1.30 cents (equivalent to approximately RMB1.05 cents) per Share for the year ended 31 December 2012 and total payout of HK$13.0 million (equivalent to approximately RMB10.5 million), subject to approval by the Shareholders at the Annual General Meeting.

The Board is pleased to announce the annual results of the Group for the year ended 31 December 2012.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	**2012** **RMB'000**	2011 RMB'000
Turnover	3, 4	**421,171**	307,151
Cost of sales		**(272,461)**	(195,247)
Gross profit		**148,710**	111,904
Other revenue	5(a)	**11,761**	3,504
Other net loss	5(b)	**(780)**	(1,686)
Selling and distribution expenses		**(10,146)**	(9,233)
Administrative expenses		**(47,169)**	(19,653)
Profit from operations		**102,376**	84,836
Finance costs	6(a)	**(5,620)**	(3,759)
Profit before taxation	6	**96,756**	81,077
Income tax	7	**(16,665)**	(10,370)
Profit for the year		**80,091**	70,707
Earnings per share			
Basic and diluted *(RMB)*	8	**0.09**	0.09

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012
(Expressed in Renminbi)

	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**80,091**	70,707
Other comprehensive income for the year		
Exchange differences on translation of financial statements of subsidiaries outside the People's Republic of China (the "PRC"), net of nil tax	**1,167**	1,537
Total comprehensive income for the year	**81,258**	72,244

CONSOLIDATED BALANCE SHEET
At 31 December 2012
(Expressed in Renminbi)

	Note	**2012** **RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment		**127,134**	72,011
Lease prepayments		**64,179**	37,935
Non-current prepayments for acquisitions of property, plant and equipment		**1,090**	8,947
Other financial assets		**2,495**	2,495
Deferred tax assets		**6,172**	4,815
		201,070	126,203
Current assets			
Inventories	*9*	**72,252**	51,672
Current portion of lease prepayments		**1,368**	812
Trade and other receivables	*10*	**181,891**	94,676
Pledged deposits		**9,151**	847
Cash and cash equivalents		**70,041**	8,202
		334,703	156,209
Current liabilities			
Trade and other payables	*11*	**12,810**	16,133
Bank loans		**125,682**	85,797
Current portion of deferred income		**1,295**	920
Current taxation		**10,015**	15,799
		149,802	118,649
Net current assets		**184,901**	37,560
Total assets less current liabilities		**385,971**	163,763
Non-current liabilities			
Non-current portion of deferred income		**22,670**	17,169
Deferred tax liabilities		**1,060**	–
		23,730	17,169
NET ASSETS		**362,241**	146,594
CAPITAL AND RESERVES			
Capital		**8,135**	8
Reserves		**354,106**	146,586
TOTAL EQUITY		**362,241**	146,594

Notes:

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 Stock Exchange, the Company became the holding company of the Group. Details of the Reorganisation are set out in the Prospectus. The Company's Shares were listed on the Stock Exchange on 6 July 2012.

The companies that took part in the Reorganisation were controlled by the same ultimate controlling shareholder, Mr. Wu Zheyan 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 Zhangping Kimura and Merry Garden Wooden Structure, which were the Group's operating entities before the Reorganisation of the years 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 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.

All material intra-group transactions and balances have been eliminated in preparing the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2012 but are extracted from those financial statements.

The consolidated financial statements have been prepared in accordance with 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 financial statements also comply with the applicable disclosure provisions of 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 Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Basis of preparation and presentation

These consolidated financial statements are presented in RMB, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments are stated in their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

3 TURNOVER

The principal activities of the Group are manufacturing and sales of outdoor wooden products, engaged in projects of outdoor wooden products including the provision of design and installation services, and retail sales of outdoor wooden products through self-operated retail shops.

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:

	2012	2011
	RMB'000	*RMB'000*
Trading of outdoor wooden products and timber log	**405,534**	298,490
Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services	**8,459**	8,147
Retail sales of wooden products	**7,178**	514
	421,171	307,151

No individual external customers accounted for 10% or more of the Group's revenue for the year ended 31 December 2012.

Individual external customers accounting for 10% or more of the Group's revenue for the year ended 31 December 2011 and its comparative information are as follows:

	2012	2011
	RMB'000	*RMB'000*
Customer A	**29,366**	46,668
Customer B	**29,282**	40,797
	58,648	87,465

4 SEGMENT REPORTING

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 Manufacturing and trading of wooden products, Projects of outdoor wooden products and Retail business. No operating segments have been aggregated to form the above reportable segments.

— Manufacturing and trading of wooden products: manufacturing and sales of outdoor wooden products to both domestic and overseas customers and trading of timber log.

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

— Retail business: 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 Manufacturing and trading of wooden products, Projects of outdoor wooden products and Retail business, respectively.

The measure used for reportable segment profit is "profit after taxation" of Manufacturing and trading of wooden products, Projects of outdoor wooden products and Retail business, 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 years ended 31 December 2012 and 2011 is set out below:

	2012			
	Manufacturing and trading of wooden products *RMB'000*	**Projects of outdoor wooden products** *RMB'000*	**Retail business** *RMB'000*	**Total** *RMB'000*
Revenue derived from the Group's external customers	**405,534**	**8,459**	**7,178**	**421,171**
Inter-segment revenue	**10,817**	**–**	**–**	**10,817**
Reportable segment revenue	**416,351**	**8,459**	**7,178**	**431,988**
Reportable segment profit (profit after taxation)	**81,295**	**368**	**908**	**82,571**

	2011			
	Manufacturing and trading of wooden products *RMB'000*	Projects of outdoor wooden products *RMB'000*	Retail business *RMB'000*	Total *RMB'000*
Revenue derived from the Group's external customers	298,490	8,147	514	307,151
Inter-segment revenue	7,503	–	–	7,503
Reportable segment revenue	305,993	8,147	514	314,654
Reportable segment profit (profit after taxation)	75,935	444	194	76,573

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

	2012 *RMB'000*	2011 *RMB'000*
Revenue		
Reportable segment revenue	**431,988**	314,654
Elimination of inter-segment revenue	**(10,817)**	(7,503)
Consolidated turnover	**421,171**	307,151
Profit		
Reportable segment profit derived from the Group's external customers	**82,571**	76,573
Elimination of inter-segment profits	**(682)**	(1,015)
Unallocated head office and corporate expenses	**(1,798)**	(4,851)
Consolidated profit after taxation	**80,091**	70,707

(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.

	2012 *RMB'000*	2011 *RMB'000*
The PRC	**259,779**	148,956
North America	**100,127**	101,220
Europe	**37,016**	39,613
Asia Pacific (exclusive of the PRC)	**24,249**	17,362
	421,171	307,151

5 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	2012	2011
	RMB'000	*RMB'000*
Interest income on bank deposits	**571**	87
Government subsidies	**11,190**	3,307
Rental income	**–**	110
	11,761	3,504

The Group received unconditional government subsidies of RMB10,217,000 (2011: RMB2,468,000) for the year ended 31 December 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 received conditional government subsidies of RMB6,849,000 (2011: RMB18,025,000) for the year ended 31 December 2012. The Group recognised the amounts as deferred income that compensates the Group for the cost of its land use right and the cost of infrastructure development. Government subsidies of RMB973,000 (2011: RMB839,000) were recognised as other revenue for the year ended 31 December 2012, which is on a systematic basis over the useful life of the relevant assets.

(b) Other net loss

	2012	2011
	RMB'000	*RMB'000*
Net foreign exchange loss	**(316)**	(970)
Net gain/(loss) on disposal of property, plant and equipment	**19**	(243)
Changes in fair value of derivative financial instruments	**(85)**	(161)
Others	**(398)**	(312)
	(780)	(1,686)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2012	2011
	RMB'000	*RMB'000*
(a) Finance costs		
Interest expense on bank loans wholly repayable within five years	**7,071**	4,765
Less: Interest expense capitalised into construction in progress*	**(1,451)**	(1,006)
	5,620	3,759

* The borrowing costs have been capitalised at a rate of 7.27% (2011: 7.11%) per annum for the year ended 31 December 2012.

	2012	2011
	RMB'000	*RMB'000*
(b) Staff costs		
Salaries, wages and other benefits	**22,850**	18,302
Contributions to defined contribution retirement schemes	**2,573**	1,065
	25,423	19,367

	2012	2011
	RMB'000	*RMB'000*
(c) Other items		
Cost of inventories *(note 9(b))*	**272,461**	195,247
Depreciation of property, plant and equipment	**6,002**	4,204
Amortisation of lease prepayments	**920**	606
Operating lease charges for properties	**388**	–
Research and development costs	**16,280**	9,775
Auditors' remuneration	**5,288**	1,567

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	2012	2011
	RMB'000	*RMB'000*
Current tax — PRC corporate income tax		
Provision for the year	**16,962**	15,076
Deferred tax		
Origination and reversal of temporary differences	**(297)**	(4,706)
	16,665	10,370

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 years ended 31 December 2012 and 2011.

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 qualification under the PRC Corporate Income Tax Law and its relevant regulations during 2010, and therefore is 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 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. For the year ended 31 December 2012, the Group has adopted a 10% withholding tax rate to accrue for the dividend withholding tax expected to be paid out.

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 profits are expected to be distributed through dividend payment by the Group's PRC subsidiaries in the foreseeable future. As at 31 December 2012, deferred tax liabilities not recognised relating to the undistributed profits of the Group's PRC subsidiaries to overseas holding company amounted to RMB220,158,000 (2011: RMB130,993,000).

8 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the profit attributable to equity shareholders of the Company of RMB80,091,000 (2011: RMB70,707,000) and weighted average of 910,000,000 shares (2011: 820,000,000 shares) in issue during the year ended 31 December 2012, calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2012	2011
	'000	*'000*
Effect of issue of shares upon incorporation	**10**	10
Effect of issue of shares upon subdivision	**990**	990
Effect of capitalisation issue	**819,000**	819,000
Effect of issue of shares upon initial public offering	**90,000**	–
Weighted average number of ordinary shares at 31 December	**910,000**	820,000

The weighted average number of shares in issue during the years ended 31 December 2012 and 2011 was based on the assumption that the 820,000,000 shares before the listing of shares on the Stock Exchange were in issue, as if such shares had been outstanding throughout the years ended 31 December 2012 and 2011.

There were no potential dilutive ordinary shares during the years ended 31 December 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:

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**33,115**	19,644
Work in progress	**14,894**	21,073
Finished goods	**24,243**	10,955
	72,252	51,672

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

	2012	2011
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**272,461**	195,247

10 TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**133,935**	81,892
Deposits and prepayments *(notes (i) and (ii))*	**40,795**	9,516
Amount due from a related company	**724**	508
Amount due from a director	**–**	480
Derivative financial instruments	**220**	305
Gross amount due from customers for contract work *(note (iii))*	**3,139**	276
Other receivables	**3,078**	1,699
	181,891	94,676

Notes:

(i) Included in the deposits as at 31 December 2011 were guarantee deposits of RMB3,580,000 placed with guarantee companies which provide guarantee services in relation to the Group's bank loans. There were no such guarantee deposits as at 31 December 2012.

(ii) Prepayments consist of advance payments made to suppliers for purchases of raw materials of RMB39,895,000 (2011: RMB5,200,000).

(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 31 December 2012 was RMB12,029,000 (2011: RMB7,193,000). This balance includes retention receivables at 31 December 2012 of RMB1,137,000 (2011: RMB867,000), of which RMB292,000 (2011: RMB53,000) was expected to be recovered after more than one year.

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

(a) Ageing analysis

As at 31 December 2012, the ageing analysis of trade receivables (which are included in trade and other receivables), based on invoice date and net of allowances of doubtful debts, is as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 1 month	**63,586**	47,655
1 to 2 months	**21,675**	15,832
2 to 3 months	**17,513**	9,849
Over 3 months	**31,161**	8,556
	133,935	81,892

Trade receivables are normally due within 15 to 90 days from the date of billing.

(b) Trade debtors that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2012	2011
	RMB'000	*RMB'000*
Current	**100,151**	73,040
Less than 1 month past due	**12,811**	7,616
1 to 3 months past due	**15,654**	239
More than 3 months but less than 12 months past due	**5,251**	997
More than 12 months past due	**68**	–
Amounts past due	**33,784**	8,852
	133,935	81,892

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

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**6,138**	9,723
Amount due to Ultimate Controlling Shareholder	**–**	443
Receipts in advance	**683**	167
Other payables and accruals	**5,989**	5,800
	12,810	16,133

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

As at 31 December 2012, the maturity analysis of trade payables is as follows:

	2012	2011
	RMB'000	*RMB'000*
Due within 1 month or on demand	**3,473**	2,893
Due after 1 month but within 3 months	**2,665**	6,830
	6,138	9,723

12 DIVIDENDS

Dividends payable and proposed to equity shareholders of the Company attributable to the year:

	2012	2011
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date of HK1.30 cents (equivalent to approximately RMB1.05 cents) per ordinary share (2011: $Nil)	**10,540**	–

The proposed ordinary final dividend which is declared in Hong Kong dollar is translated into RMB at the rate HK$1 = RMB0.8108, being the exchange rate on 31 December 2012 adopted by the Group.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Our Group is a wooden leisure products enterprise in the PRC covering the R&D, design, production and sale of leisure household products and timber villas, sheds and their related parts and structures. We have launched a series of wooden leisure products in order to espouse a leisure and natural lifestyle. Our own-brand of Merry Garden was recognized as "Well-known Trademark" by the State Administration for Industry & Commerce of the PRC in 2012. We offer a wide range of products and they 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 products; and (2) timber villas, sheds and their related parts and structures.

For the year ended 31 December 2012, the Group's revenue was RMB421.2 million, represented a growth of 37.1% from last year. The growth is driven by our growth in domestic sales, our expansion to timber trading business along with a stable international business.

Benefited from the PRC's development, particularly the strong domestic demand on leisure products along the urbanisation of China, the Group's sales in the PRC has boosted. Majority of our sales in the PRC are either on original design manufacturer ("ODM") basis or under our own-brand "Merry Garden". We appreciate the importance of brand awareness, and hence have established self-operated stores; placed advertisements at various media; participated local and international exhibitions; and we placed billboard roadside advertisements at major highways. Benefited from our efforts in marketing and maintaining high-quality services, our sales in own-branded products boosted and achieved an outstanding result.

After the Company's listing, we have established 2 flagship stores and 5 self-operated stores at major cities in Fujian and Jiangsu including Shanghai, Xiamen, Ningbo, Suzhou, etc, where our own-branded products are sold. The Directors believe the development of tourism and leisure activities of the above locations would be beneficial to the stores.

Expanded from our own needs on imported timber for manufacturing, we grasped the domestic demand on imported timber from timber processing factories and started trading timber log and timber board. Through the trading business, we enhanced our bargaining power to large overseas suppliers and diversified our supplier base. This enables us to stabilise our timber costs through the fluctuation in foreign exchange rates; changes in climactic conditions as well as demand and supply in the suppliers' local markets. This also enables us to ensure a more stable timber supply.

Despite the uncertainties in the global economic environment, our international business remained stable. Majority of our export sales are on original equipment manufacturer ("OEM") basis and are exported to North America, Europe and Asia Pacific (exclusive of the PRC). In the second half of 2012, we grasped the demand on timber villa products and their related parts in North America and showed significant improvement in sales of timber villa products to North America. The improvement in sales of timber villa products smoothed the unfavourable impact from lower stock level strategy adopted by our major customers on recreational products and pet-home products in North America.

FINANCIAL ANALYSIS

Our turnover increased by RMB114.0 million from RMB307.2 million to RMB421.2 million, represented a growth of 37.1% compared with last year. The increase was mainly driven by the increase in sales of timber villa products and the introduction of timber log trading business in the 4th quarter of 2012. Trading of timber log and timber board's contribution in the total sales of the Group amounted to RMB29.6 million.

Revenue analysis by product type is as follows:

	2012	2011
	RMB'000	*RMB'000*
Leisure household products		
Outdoor and indoor furniture products	**80,487**	64,532
Recreational products	**57,035**	74,750
Landscape garden products	**45,819**	46,918
Pet-home products	**20,392**	31,085
Timber villas, sheds and their related parts and structures	**172,827**	81,342
Timber log trading	**29,635**	–
Others	**14,976**	8,524
	421,171	307,151

The increase in sales of timber villa products is mainly attributable to more sales to domestic distributors who mainly distribute our own-brand products and certain existing customers in North America where the Group supplies products on OEM and ODM basis. Two of the existing distributors expanded their business in China and their contribution to our sales increased significantly in 2012. The number of distributors of the Group in the PRC also increased from 7 as at 31 December 2011 to 9 as at 31 December 2012.

The increase in sales of outdoor and indoor furniture products is attributable to the increase in orders from a major existing customer along with the expansion of the customers' business. To cope with the changing demand on our timber products, in particular the increasing demand on timber villa products and outdoor and indoor furniture products, the Group modified the product mix from time to time. As such, the Group is more focused on the production of timber villa products and outdoor and indoor furniture product during the peak season, where our production capacities were fully utilised. The sales of recreational products, landscape garden products and pet-home products decreased accordingly.

GROSS PROFIT AND GROSS PROFIT MARGIN

Our gross profit increased from RMB111.9 million for the year ended 31 December 2011 to RMB148.7 million for the year ended 31 December 2012 along the increase in sales.

The gross profit margin dropped from 36.4% for the year ended 31 December 2011 to 35.3% for the year ended 31 December 2012. The drop in gross profit margin is primarily due to the introduction of timber log trading business in 4th quarter of 2012. The Group recorded an improved gross profit margin for timber villa products and leisure household products. The improvement is a result of the increased proportion of the sales of timber villa products. We achieved a higher gross profit margin for timber villa products because some of the timber villa products were specifically designed and tailored for our customers' requirements and were sold directly to the end-users.

OTHER REVENUE

Other revenue increased by RMB8.3 million or approximately 235.6%, from RMB3.5 million for the year ended 31 December 2011 to RMB11.8 million for the year ended 31 December 2012. The significant increase was due to the recognition of unconditional government grants and subsidies income in the sum of RMB11.2 million (2011: RMB3.3 million) which comprised of subsidies received for the recognition of our own brand "Merry Garden" as "Well-known Trademark" (中國馳名商標) by the State Administration for Industry & Commerce of the PRC in 2012 of RMB4.0 million and the Group's successful listing on the Stock Exchange of RMB3.0 million.

OTHER NET LOSS

Other net loss were RMB0.8 million for the year ended 31 December 2012 (2011: RMB1.7 million) and mainly represents foreign exchange losses arising from our transactions in foreign currencies.

SELLING AND DISTRIBUTION EXPENSES

Our selling and distribution expenses were RMB10.1 million for the year ended 31 December 2012, which represented an increase of RMB0.9 million, or approximately 9.9%. The increase was primarily due to the increase in staff costs and advertising expenses. Transportation expenses and port charges were stable along with the stable performance in export business.

ADMINISTRATIVE EXPENSES

Our administrative expenses increased by RMB27.5 million, or approximately by 140%, from RMB19.7 million for the year ended 31 December 2011 to RMB47.2 million for the year ended 31 December 2012. The increase was primarily attributable to the professional fees charged in connection with the Company's listing, increase in R&D expenses and increase in staff costs along with the increase in average salary level for our managerial staff. The increased R&D expenses were mainly incurred on research activities on timber villa products.

EFFECTIVE TAX RATE

Our income tax increased by RMB6.3 million, or approximately 60.7%, from RMB10.4 million for the year ended 31 December 2011 to RMB16.7 million for the year ended 31 December 2012, primarily as a result of the increase in taxable profit from our principal PRC subsidiary, Zhangping Kimura. Zhangping Kimura is qualified as a High and New Technology Enterprise and is entitled to the preferential enterprise income tax rate of 15%.

The effective tax rate for the Group increased from 12.8% in 2011 to 17.2% in 2012, which is attributable to the Company's listing expenses which are non-deductible and the accrual of dividend withholding tax expected to be paid out.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to Shareholders increased by 13.3% to approximately RMB80.1 million (2011: RMB70.7 million). Basic earnings per Share remained stable at RMB9 cents in 2012 (2011: RMB9 cents).

LIQUIDITY AND CAPITAL RESOURCES

In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks and denominated mostly in RMB, US$ and HK$. As at 31 December 2012, the Group had net current assets of RMB184.9 million (2011: RMB37.6 million), of which cash and cash equivalents were RMB70.0 million (2011: RMB8.2 million).

The Group principally meets its working capital and other liquidity requirements through a combination of operating cash flows, capital contributions and bank borrowings. As at 31 December 2012, the Group's bank borrowings amounted to RMB125.7 million (2011: RMB85.8 million) and these bank borrowings were denominated in RMB, Euros and US$. As at 31 December 2012, the effective interest rates on the Group's bank borrowings, were 5.8% (2011: 6.2%) and 6.7% (2011: 7.4%) for fixed rate borrowings and variable rate borrowings, respectively.

	2012	2011
Current ratio[1]	**223.4%**	131.7%
Gearing Ratio[2]	**15.4%**	52.9%

(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 223.4% as at 31 December 2012. Gearing ratio also improved from 52.9% as at 31 December 2011 to 15.4% as at 31 December 2012. The improvements for both ratios were attributable to our net working capital inflow from our operating profits and the proceeds from the Company's global offering.

FOREIGN EXCHANGE RISK

The Group's sales are mainly denominated in US$ and RMB while our cost of sales and operating expenses are mainly denominated in RMB. The gross profit margin would be affected if RMB appreciates against US$ as the Group might not be able to reflect the appreciation in selling prices to overseas customers that were determined in US$. RMB against US$ was relatively stable during the year ended 31 December 2012.

The Group usually manages the fluctuations in the exchange rate of RMB against US$ by purchasing foreign currency forward contracts denominated in US$. As at 31 December 2012, the Group held outstanding US$ denominated forward foreign currency contracts of US$11 million. All the contracts are to be settled within one year. As at 31 December 2012, the Group had an unrealised fair value gain of approximately RMB0.2 million from these outstanding forward foreign currency contracts.

With the increasing level of our overseas purchases, the Group also manages the foreign exchange risks by matching the cash inflow from our export sales denominated in US$ with the cash outflow from our import of timber denominated in US$.

PLEDGE OF ASSETS

At 31 December 2012, the Group had pledged its plant and machinery, lease prepayments and buildings held for own use with net book value of RMB80.0 million and deposits with banks of RMB9.2 million mainly for the purpose of securing bank loans and financial derivative contracts issued by banks to the Group.

WORKING CAPITAL MANAGEMENT

Our Group recognises the importance of a strong and stable cash flows from operations to stay competitive and capture every business opportunity.

Our net current assets increased from RMB37.6 million as at 31 December 2011 to RMB184.9 million as at 31 December 2012, representing an increase of RMB147.3 million or 392.3%. The increase in working capital is a result of the increase in trade and other receivables, cash and cash equivalents offset by the increase in bank loans.

Trade and other receivable increased from RMB94.7 million as at 31 December 2011 to RMB181.9 million as at 31 December 2012. The balance mainly represents receivables from customers and prepayments to suppliers. Our increased proportion of domestic sales contributed to the significant increase in trade receivables. The receivables from domestic customers (included the trade receivables from timber log trading) increased by RMB49.2 million from RMB56.4 million as at 31 December 2011 to RMB105.6 million as at 31 December 2012. The outstanding trade receivables arising from domestic sales as at 31 December 2012 were mainly due from customers whose sales were made on ODM and OEM basis. The average trade receivables turnover days for the year ended 31 December 2012 increased to 85 days (2011: 69 days), primarily due to our increased proportion of sales to domestic customers who have a longer credit period compared to overseas customers. We strive to strengthen our credit control to ensure that our trade receivables are collected according to our credit terms granted to our customers which ranged from 15 to 90 days. As at 19 March 2013, approximately RMB67.7 million of total trade receivables as at 31 December 2012 have been settled.

The turnover days for inventory improved from 97 days for the year ended 31 December 2011 to 83 days for the year ended 31 December 2012 while the turnover days for trade payables decreased from 25 days to 11 days. The decrease in the turnover days for trade payables and inventory is in line with our strategy to make prepayments to our suppliers to secure our steady supply of raw materials in term of both quantity and price.

USE OF PROCEEDS

The Shares were listed on the Main Board of the Stock Exchange on 6 July 2012. Net proceeds from the global offering were approximately HK$144.3 million (after deducting the underwriting commission and relevant expenses). As at 31 December 2012, the unused proceeds were deposited in licensed banks in Hong Kong and the PRC.

Use of net proceeds from global offering

	Percentage to total amount	Net Proceeds *HK$'million*	Utilised amount as at 31 December 2012 *HK$'million*	Unutilised amount as at 31 December 2012 *HK$'million*
Establishing new production facilities	29.0%	41.8	41.8	–
Establishing own-brand self-operated stores network	27.6%	39.8	8.7	31.1
Merger and acquisitions of small to medium sized companies, other timber processing plants, and/or other resources	19.3%	27.9	–	27.9
Own-brand promotion and other marketing events	7.7%	11.1	4.1	7.0
Increasing and enhancing our R&D activities	6.8%	9.8	9.8	–
General working capital	9.6%	13.9	13.9	–
		144.3	78.3	66.0

EMPLOYEES AND EMOLUMENTS

As at 31 December 2012, we employed a total of 588 full time employees in the PRC and Hong Kong which included management staff, product designers, technicians, salespersons and workers. For the year ended 31 December 2012, the Group's total expenses on the remuneration of employees was RMB25.4 million, representing 6.0% of the turnover of the Group.

Our emolument policies are formulated based on the performance of individual employee which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or social security fund (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. Since the adoption of the share option scheme on 15 June 2012 and up to 31 December 2012, no options have been granted.

SUBSEQUENT EVENT

On 8 March 2013, the Group entered into a land resumption agreement with the Land Reserve Centre of Zhangping, Fujian province in relation to a resumption of eight parcels of land where two of our production lines are located at a consideration of RMB62.4 million. The two production lines will be relocated to a piece of land the Group acquired in August 2012, adjoining our principal production plants. The Directors believed the relocation of the two production lines would not cause significant disruption to the Group but enhanced production efficiency where management resources and production facilities could be shared. The land resumption provides a good opportunity for the Group to realise the investment in land and the consideration will enable the Group to enhance its working capital position for future opportunities that may arise. Please refer to the announcement of the Company dated 8 March 2013 for further details.

PROSPECT

Looking ahead, the Directors are optimistic towards both the domestic market and overseas market.

In February 2013, the State Council of the PRC published the "Outline of national tourism and leisure" ("國民旅遊休閒綱要") (the "Outline") which set out the direction of promoting tourism and leisure facilities with traditional Chinese characteristics so as to satisfy the increasing demand on leisure activities from the public. Measures include encouraging the building of leisure and recreational space, construction of countryside villa etc. With the Outline, more emphasis would be placed on the leisure facilities along the China's urbanization. The Directors believe that the above will stimulate the demand of our timber villa products and outdoor furniture products.

In view of the upcoming opportunities, the Group will continue setting up self-operated retail stores and flagship stores in the PRC. After setting up 8 stores in Fujian, Jiangsu and Zhejiang, the Group will expand its retail network to Guangdong, Hainan and Jiangxi in 2013. The Directors believe that the stores will provide a platform for the Group to promote its products to the end-customers and enhance its brand awareness as well as market share.

The Directors believe that the export sales would be supported by the positive North American Housing starts data which reflects the starting of construction of privately owned new houses in a given period. The Directors expect that the strong sales of timber villa product to North America will continue in 2013. With our advanced wood preservation technologies and high quality products, the Group has explored new international markets like Australia and Maldives. The Group will continue to explore opportunities in the new markets and diversify our customer base and ensure a stable growth in the international markets.

With our new production lines commencing production in early April 2013 and unification of our production facilities, the management believes that the Group is well prepared to capture the opportunity of recovery and growth, as well as to achieve the sustainable development in our business.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of the Shares during the year ended 31 December 2012. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2012 other than the initial public offering of the Shares in 2012.

CORPORATE GOVERNANCE CODE

During the Listing Period, the Company was in full compliance with the code provisions set out in the Corporate Governance Code, except for the deviation from the code provision A.2.1.

The code provision A.2.1

Pursuant to code provision A.2.1 of the Corporate Governance Code, the role of chairman and chief executive should be separated and should not be performed by the same individual. As the duties of chairman and chief executive of the Company are performed by Mr. Wu Zheyan, the Company has deviated from the code provision. The Board believes that it is necessary to vest the roles of chairman and chief executive in the same person due to its unique role, Mr. Wu Zheyan's experience and established market reputation in the industry, and the importance of Mr. Wu Zheyan 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 the 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 Corporate Governance Code and maintaining a high standard of corporate governance practices of the Company.

MODEL CODE

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors.

Specific enquiries have been made with the Directors, and all Directors confirmed in writing that they have complied with the required standards set out in the Model Code regarding their securities transactions for the Listing Period.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2012 have been reviewed by the audit committee of the Company.

SCOPE OF WORK PERFORMED BY AUDITORS

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2012 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

FINAL DIVIDENDS

The Board has proposed to declare a final dividend of HK1.30 cents (equivalent to approximately RMB1.05 cents) per Share for the year ended 31 December 2012 payable to the Shareholders whose names appear on the register of members of the Company on 21 May 2013. The total payout will amount to HK$13.0 million (equivalent to approximately RMB10.5 million).

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement to attend the Annual General Meeting, the register of members of the Company will be closed from 8 May 2013 to 10 May 2013 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for attending the Annual General Meeting, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 163 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 7 May 2013.

In order to determine the entitlement to the final dividends for the year ended 31 December 2012, the register of members of the Company will be closed from 16 May 2013 to 21 May 2013 (both days inclusive), during which period no transfer of Shares can be registered. In order to qualify for the final dividends for the year ended 31 December 2012, all transfer of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 163 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 15 May 2013.

GENERAL

A circular containing, inter alia, the information required by the Listing Rules, together with the notice of the Annual General Meeting, will be despatched to the Shareholders in due course.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the Company's and the Stock Exchange's websites. The Company's annual report for the year ended 31 December 2012 in accordance with the relevant requirements of the Listing Rules will be dispatched to the Shareholders and published on the Company's and the Stock Exchange's websites in due course.

DEFINITIONS

"Annual General Meeting"	an annual general meeting of the Company to be held on 10 May 2013 or any adjournment thereof
"Articles"	the articles of association of the Company currently in force
"Board"	the board of Directors
"Company"	Merry Garden Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Corporate Governance Code"	Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Directors"	the Directors of the Company
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Listing Period"	the period from 6 July 2012, being the first day of the listing of the Shares on the Stock Exchange, to 31 December 2012
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Merry Garden Wooden Structure"	Zhangping Kimura Merry Garden Wooden Structure Design and Installation Co., Ltd., an indirectly wholly-owned subsidiary of the Company
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"PRC or China"	the People's Republic of China, and for the purpose of this announcement, excludes Hong Kong, The Macao Special Administrative Region of the PRC and Taiwan

"Prospectus"	the prospectus of the Company dated 25 June 2012
"R&D"	research and development
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Ultimate Controlling Shareholder"	Mr. Wu Zheyan
"US$"	United States dollars, the lawful currency of United States
"Zhangping Kimura"	Fujian Zhangping Kimura Forestry Products Co., Ltd (福建省漳平木村林產有限公司), an indirect wholly-owned subsidiary of the Company
"%"	per cent.

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

Hong Kong, 22 March 2013

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.