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 2013

HIGHLIGHTS OF THE UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

- Turnover increased by 3.5% from RMB215.9 million for the six months ended 30 June 2012 to RMB223.5 million for the Period.
- Gross profit decreased by 8.3% from RMB83.0 million for the six months ended 30 June 2012 to RMB76.1 million for the Period.
- Profit attributable to equity shareholders of the Company decreased by 14.3% from RMB45.8 million for the six months ended 30 June 2012 to RMB39.3 million for the Period.
- Basic and diluted earnings per Share for the Period was RMB0.04 per Share (for the six months ended 30 June 2012: RMB0.06 per Share).

The Board is pleased to announce the unaudited interim results of the Group for the Period, together with the comparative figures for the previous financial periods.

The interim financial results set out in this announcement do not constitute the Group's interim financial report for the Period, but are extracted from the Group's interim financial report.

CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Turnover	*4, 5*	**223,535**	215,918
Cost of sales		**(147,437)**	(132,927)
Gross profit		**76,098**	82,991
Other revenue	*7(a)*	**2,898**	3,193
Other net gain	*7(b)*	**695**	54
Selling and distribution expenses		**(6,653)**	(4,476)
Administrative expenses		**(22,823)**	(23,358)
Profit from operations		**50,215**	58,404
Finance costs	*8(a)*	**(2,582)**	(2,840)
Profit before taxation	*8*	**47,633**	55,564
Income tax	*9*	**(8,366)**	(9,726)
Profit for the Period		**39,267**	45,838
Earnings per Share			
Basic and diluted (RMB)	*10*	**0.04**	0.06

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2013 — unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Profit for the Period	**39,267**	45,838
Other comprehensive income for the Period (after tax and reclassification adjustments):		
Items that may be classified subsequently to profit or loss:		
— Exchange differences on translation of financial statements of subsidiaries outside the PRC, net of nil tax	**322**	(390)
Total comprehensive income for the Period	**39,589**	45,448

CONSOLIDATED BALANCE SHEET

at 30 June 2013 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment		**170,713**	127,134
Lease prepayments		**55,816**	64,179
Non-current prepayments for acquisitions of property, plant and equipment		**24,837**	1,090
Other financial assets		**2,495**	2,495
Deferred tax assets		**6,172**	6,172
		260,033	201,070
Current assets			
Inventories	*11*	**89,024**	72,252
Current portion of lease prepayments		**1,179**	1,368
Trade and other receivables	*12*	**211,852**	181,891
Pledged deposits		**33,127**	9,151
Cash and cash equivalents		**126,475**	70,041
		461,657	334,703
Non-current assets classified as held for sale	*14*	**17,588**	–
		479,245	334,703
Current liabilities			
Trade and other payables	*13*	**77,057**	12,810
Bank loans		**224,821**	125,682
Current portion of deferred income		**1,295**	1,295
Current taxation		**11,192**	10,015
		314,365	149,802
Net current assets		**164,880**	184,901

CONSOLIDATED BALANCE SHEET (CONTINUED)
at 30 June 2013 — unaudited
(Expressed in Renminbi)

	At 30 June 2013 *RMB'000*	At 31 December 2012 *RMB'000*
Total assets less current liabilities	**424,913**	385,971
Non-current liabilities		
Non-current portion of deferred income	**22,023**	22,670
Deferred tax liabilities	**1,060**	1,060
	23,083	23,730
NET ASSETS	**401,830**	362,241
CAPITAL AND RESERVES		
Capital	**8,135**	8,135
Reserves	**393,695**	354,106
TOTAL EQUITY	**401,830**	362,241

NOTES

1 INDEPENDENT REVIEW

The interim financial report for the Period is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), whose unmodified review report is included in the interim report to be sent to Shareholders. The interim financial report has also been reviewed by the audit committee of the Company.

2 REPORTING ENTITY AND BASIS OF PREPARATION

(a) Reporting entity

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.

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

(b) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Listing Rules, including compliance with International Accounting Standard ("IASs") 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue by the Board on 26 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— Amendments to IAS 1, *Presentation of financial statements — Presentation of items of other comprehensive income*

— IFRS 10, *Consolidated financial statements*

— IFRS 12, *Disclosure of interests in other entities*

— IFRS 13, *Fair value measurement*

— *Annual Improvements to IFRS 2009–2011 Cycle*

— Amendments to IFRS 7, *Financial Instruments: Disclosures — Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The adoption does not change the Group's presentation of other comprehensive income in the interim financial report.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC-12 *Consolidated — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in the interim financial report as a result of adopting IFRS 12.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial report. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to IFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group had not disclosed segment assets and liabilities in its previous financial statements as such information is not prepared and provided to the Group's CODM for regular review.

Amendments to IFRS 7, Financial Instruments: Disclosures — Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7.

4 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:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Trading of outdoor wooden products	**218,947**	204,091
Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services	**820**	7,520
Retail sales of wooden products	**3,768**	4,307
	223,535	215,918

5 SEGMENT REPORTING

In a manner consistent with how the Group manages its business and 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: retail sales of outdoor wooden products through self-operated retail shops.

(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 six months ended 30 June 2013 and 2012 is set out below:

	Six months ended 30 June 2013			
	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	218,947	820	3,768	223,535
Inter-segment revenue	19,568	–	–	19,568
Reportable segment revenue	238,515	820	3,768	243,103
Reportable segment profit/(loss) (profit/(loss) after taxation)	45,073	14	(3,302)	41,785

	Six months ended 30 June 2012			
	Manufacturing and trading of wooden products	Projects of outdoor wooden products	Retail business	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	238	1,210	57,811

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

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**243,103**	221,236
Elimination of inter-segment revenue	**(19,568)**	(5,318)
Consolidated turnover	**223,535**	215,918
Profit		
Reportable segment profit derived from the Group's external customers	**41,785**	57,811
Elimination of inter-segment profits	**(2,074)**	(164)
Unallocated head office and corporate expenses	**(444)**	(11,809)
Consolidated profit after taxation	**39,267**	45,838

(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	
	2013	2012
	RMB'000	*RMB'000*
The PRC	**109,900**	137,580
North America	**76,644**	48,036
Europe	**19,612**	18,742
Asia Pacific (exclusive of the PRC)	**17,379**	11,560
	223,535	215,918

6 SEASONALITY OF OPERATIONS

The Group's operations are not subject to significant seasonal fluctuations. Sales revenue recorded in the first and second half of the financial year is not affected by seasonal fluctuations.

7 OTHER REVENUE AND OTHER NET GAIN

(a) Other revenue

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Interest income on bank deposits	**389**	20
Government subsidies	**1,862**	2,713
Amortisation of deferred income	**647**	460
	2,898	3,193

The Group received unconditional government subsidies of RMB1,862,000 (six months ended 30 June 2012: RMB2,713,000) for the six months ended 30 June 2013. These government subsidies were granted to Zhangping Kimura for subsidising various expenses already incurred and were recognised as other revenue when they became receivable.

(b) Other net gain

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Net foreign exchange gain	**465**	524
Net gain on disposal of property, plant and equipment	**–**	19
Changes in fair value of derivative financial instruments	**234**	(479)
Others	**(4)**	(10)
	695	54

8 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Interest expense on bank loans wholly repayable within five years	**3,553**	3,300
Less: Interest expense capitalised into construction in progress*	**(971)**	(460)
	2,582	2,840

* The borrowing costs have been capitalised at a rate of 4.66% (30 June 2012: 7.52%) per annum for the six months ended 30 June 2013.

(b) Other items

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Cost of inventories	**147,437**	132,927
Depreciation of property, plant and equipment	**4,236**	2,751
Amortisation of lease prepayments	**683**	405
Operating lease charges for properties	**495**	91
Research and development costs	**6,841**	7,761
Listing expenses	**–**	12,405

9 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Current tax — PRC corporate income tax	**8,366**	9,399
Deferred tax expense	**–**	327
	8,366	9,726

(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 2013 and 2012.

(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 2013, and therefore is entitled to the preferential income tax rate of 15% for a period of three years from 2013 to 2015.

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

10 EARNINGS PER SHARE

The calculation of basic earnings per Share for the six months ended 30 June 2013 is based on the profit attributable to equity shareholders of the Company of RMB39,267,000 (30 June 2012: RMB45,838,000) and weighted average of 1,000,000,000 Shares (30 June 2012: 820,000,000 Shares) in issue during the six months ended 30 June 2013, calculated as follows:

Weighted average number of ordinary shares

	Number of Shares Six months ended 30 June	
	2013	2012
	'000	*'000*
Number of ordinary shares at 1 January	**1,000,000**	–
Effect of issue of shares upon incorporation	**–**	10
Effect of issue of shares upon subdivision	**–**	990
Effect of capitalisation issue	**–**	819,000
Weighted average number of ordinary shares	**1,000,000**	820,000

The weighted average number of Shares in issue during the six months ended 30 June 2012 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 six months ended 30 June 2012.

There were no potential dilutive ordinary shares during the six months ended 30 June 2013 and 2012 and, therefore, diluted earnings per Share are the same as the basic earnings per Share.

11 INVENTORIES

	At 30 June 2013	At 31 December 2012
	RMB'000	*RMB'000*
Raw materials	**62,857**	33,115
Work in progress	**15,066**	14,894
Finished goods	**11,101**	24,243
	89,024	72,252

There was no write down of inventories during the six months ended 30 June 2013 and 2012.

12 TRADE AND OTHER RECEIVABLES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Trade receivables (note (a))	**109,382**	133,935
Prepayments for raw materials	**92,653**	39,895
Deposits and other prepayments	**3,552**	900
Amount due from a related company	**1,847**	724
Derivative financial instruments	**453**	220
Gross amount due from customers for contract work (note (i))	**3,221**	3,139
Other receivables	**744**	3,078
	211,852	181,891

Note:

(i) 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 2013 was RMB12,849,000 (31 December 2012: RMB12,029,000). This balance includes retention receivables at 30 June 2013 of RMB1,183,000 (31 December 2012: RMB1,137,000), of which RMB337,000 (31 December 2012: RMB292,000) was expected to be recovered after more than one year.

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

(a) Ageing analysis

As at 30 June 2013, 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:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 month	**36,189**	63,586
1 to 2 months	**21,681**	21,675
2 to 3 months	**11,109**	17,513
Over 3 months	**40,403**	31,161
	109,382	133,935

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

13 TRADE AND OTHER PAYABLES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Trade payables (note (a))	**3,445**	6,138
Receipts in advance	**2,213**	683
Salaries, wages, bonus and other accrued benefits	**1,707**	1,698
Payables for the purchase of property, plant and equipment	**3,048**	331
Other tax payables	**1,916**	1,107
Professional fees payables	**618**	1,216
Consideration received from land resumption (note 14)	**62,390**	–
Others	**1,720**	1,637
	77,057	12,810

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

(a) A maturity analysis of the trade payables is as follows:

As at 30 June 2013, the maturity analysis of the trade payables balance is as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Due within 1 month or on demand	**2,015**	3,473
Due after 1 month but within 3 months	**1,430**	2,665
	3,445	6,138

14 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 8 March 2013, Zhangping Kimura entered into a land resumption agreement with Zhangping Land Reserve Centre (the "Land Reserve Centre"), an administrative body of the local government authority at Zhangping, Fujian province, in relation to the land resumption of eight parcels of land at Fushan Industrial Zone (the "Land" and the "Land Resumption") for a consideration of RMB62,390,000 (the "Consideration"). Zhangping Kimura had two of its seven production lines located on the Land as at 8 March 2013.

The Land Resumption is expected to be completed in the second half of 2013 when Zhangping Kimura completes its relocation from the Land. The aggregate carrying value of the Land and immovable structures erected on the Land expected to be disposed of as a result of the Land Resumption totalling approximately RMB17,588,000 was classified as non-current assets held for sale as at 30 June 2013.

Zhangping Kimura received the Consideration from the Land Reserve Centre in June 2013, and such amount was included in trade and other payables as at 30 June 2013.

15 DIVIDENDS

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

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year approved during the Period.

	Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year approved during the Period, of 1.30 HK cents (equivalent to approximately 1.05 RMB cents) per ordinary share (six months ended 30 June 2012: Nil)	**10,540**	–

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded a stable growth in revenue for the Period as compared to the six months ended 30 June 2012, but a drop in gross profit and operating profit. The growth in revenue was driven by the increase in export sales. The drop in gross profit and operating profit was a result of the change in customer portfolio, increase in timber price and operating costs.

Supported by our advanced wood processing technologies and the positive North American housing starts data which reflects the starting of construction of privately owned new houses in North America, the Group achieved an encouraging improvement in export sales of timber villa products to North America in the Period. During the Period, the Group set up a wholly-owned subsidiary in the United States (the "U.S.") ("U.S. Subsidiary") which diversified the Group's customer portfolio in North America and established a direct sales channel to retailers in the region. The U.S. Subsidiary enables the Group to provide better services for the customers in the North America. The Directors believe that the business development of the U.S. Subsidiary will bring in more export sales to the Group and enlarge the Group's customer portfolio.

The Group's relationship with overseas customers has been stable and long-term. For the long-term development of the Group and in order to maintain the long-term relationship with the overseas customers, the Group has been placing more focus on export sales. The Group will continue to expand its production capacity to meet the demand from overseas markets. As for the domestic market, the Group continued to set up self-operated retail stores in the PRC during the Period to boost our sales and promote brand awareness. The stores are located at premier tourist spots in cities like Guangzhou.

The drop in gross profit margin was mainly attributable to the increase in timber price. Timber is the Group's key raw material. Timber price has been increasing during the Period. The Group will continue to manage raw material costs by diversifying our supplier base, making prepayments to suppliers to stabilise timber price, improving product design and improving the raw material utilisation.

Export sales generally commands a lower gross profit margin as the order size is usually larger and the majority of the products are sold on ODM and OEM basis. The increased proportion of export sales lowered the overall gross profit margin of the Group. Taking into account the long-term relationship and order size from our overseas customers, the Directors believe that a balanced customer portfolio would be beneficial to the Group's long-term development.

To focus on the production of our key products and allow more flexibility on production, the Group may consider to outsource the production of certain products to other local manufacturers. Thus, the Group established a wholly-owned subsidiary, Zhangping Merry Garden Import and Export Co, Ltd, in February 2013 to handle transactions with local manufacturers. The subsidiary had no activity during the Period.

Production Capacities

The construction of our new automatic production lines on the timber villas, sheds and their related parts and structures on the piece of land acquired by the Group in August 2012 ("Phase II") was substantially completed during the Period. With the commencement of the production lines in July 2013, the production capacity for timber villas, sheds and their related parts and structures of the Group increased by 70% to approximately 110,000 meter cube per annum.

Concerning the land resumption agreement the Group entered into on 8 March 2013 ("Land Resumption"), the Group will relocate the existing production facilities on the land concerned to Phase II. Phase II has sufficient capacity to accommodate the new production lines and the existing production lines. The existing production facilities will be suspended from production for six weeks during the relocation and we expect it will not cause any significant disruption to the Group's operation and production. We expect the relocation to be completed by the end of 2013.

Given the positive indication in the markets, the Group intends to further expand the production capacities on the production of timber villas, sheds and their related parts and structure by 60,000 meter cube by 2015 ("Phase III"). The Group had commenced dwelling and leveling activities for Phase III on a new piece of land adjacent to Phase II. Prepayments were made to the relevant contractors for the dwelling and leveling activities which are included in "Non-current prepayments for acquisitions of property, plant and equipment" in the consolidated balance sheet.

Outlook

Along with the positive North American housing starts data, the gradually stabilised economy in Europe and our expanded customers base to new overseas markets like Maldives, the Directors are optimistic towards the export sales in the second half of 2013, in particular, the export of timber villa products and outdoor and indoor furnitures to North America. The Group will continue to explore new overseas markets and diversify our customer base. 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. The Directors believe the Outline will stimulate the demand of our timber villa products and outdoor furniture product. The Group will continue to set up self-operated retail stores at selected major cities in the PRC. The Group will also continue to expand the distribution network and promote "Merry Garden" brand to the domestic market.

With the new production lines, the Directors believe the automatic production lines will significantly improve the production efficiency and production capacity and prevent the Group from having insufficient capacity to capture the demand. To further improve the utilisation rate of our timber, the Group targets to acquire facilities that could utilise the scrap materials from production. The Group will continue to put our focus on R&D, product design and staff development to maintain our competitiveness in the market.

Financial Review

During the Period, the Group recorded revenue and operating profit of RMB223.5 million and RMB50.2 million. Revenue increased by RMB7.6 million as a result of the increase in export sales, as compared to the six months ended 30 June 2012, operating profit dropped by RMB8.2 million as a result of the decrease in gross profit of RMB6.9 million and increase in selling and distribution expenses of RMB2.2 million.

Turnover

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

	Six months ended 30 June		
	2013	2012	Growth
	RMB'000	*RMB'000*	rate
Timber villas, sheds and their related parts and structures	**95,306**	93,978	1.4%
Leisure household products	**121,038**	111,636	8.4%
Outdoor and indoor furnitures	**50,752**	46,868	8.3%
Recreational products	**41,296**	27,246	51.6%
Landscape garden products	**19,095**	25,928	–26.4%
Pet-home designs	**9,895**	11,594	–14.7%
Trading of timber log	**209**	–	N/A
Others	**6,982**	10,304	–32.2%
Total	**223,535**	215,918	3.5%

The growth in revenue was mainly due to the significant increase in our sales of recreational products as well as outdoor and indoor furnitures. The increase in sales of our recreational products was supported by recovery of economy in North America where there were more orders from several key existing customers. The Group also expanded the customer portfolio for these products. The increase in the sales of outdoor and indoor furniture was a result of the increased sales to trading companies in the PRC. Following the Group's change in customer portfolio, there were decreases in sales of pet-home designs products and landscape garden products.

The volume of timber log trading was insignificant during the Period as a result of the increase in the price of import timber and our increased demand on timber for production. The imported timber is less attractive to the local timber processing factories and to the Group at times when their prices are high. The Group purchased timber from local suppliers and the imported timber are reserved for the Group's production.

	Six months ended 30 June		
	2013	2012	Growth
	RMB'000	*RMB'000*	rate
The PRC	**109,900**	137,580	–20.1%
North America	**76,644**	48,036	59.6%
Europe	**19,612**	18,742	4.6%
Asia Pacific (exclusive of the PRC)	**17,379**	11,560	50.3%
	223,535	215,918	3.5%

We secured new international customers in 2013 through participation in various exhibitions and sales conventions. The increase in sales at North America was a result of the increased sales of timber villa products and recreational products in the region. The increase in sales at Asia Pacific (exclusive of the PRC) is contributed by the increase in sales to a customer in Hong Kong. The sales in the PRC was adversely affected by the Group's strategy of having a balanced customer portfolio.

Gross profit and gross profit margin

The gross profit decreased by RMB6.9 million from RMB83.0 million for the six months ended 30 June 2012 to RMB76.1 million for the Period. The gross profit margin decreased from 38.4% for the six months ended 30 June 2012 to 34.0% for the Period. The major reasons for the change are the increase in timber prices and change in customer portfolio during the Period.

Export sales generally commands a lower gross profit margin as the order size is usually larger and the majority of the products are sold on ODM and OEM basis. The increased proportion of export sales lowered the overall gross profit margin of the Group. Taking into account the long-term relationship and order size from our overseas customers, the Directors believe that a balanced customer portfolio would be beneficial to the Group's long-term development.

Other revenue

Other revenue decreased by RMB0.3 million, or approximately 9.2%, from RMB3.2 million for the six months ended 30 June 2012 to RMB2.9 million for the Period. The decrease was primarily due to the drop of government subsidies during the Period.

Other net gain

This increase was primarily due to the unrealised fair value gain on outstanding forward foreign currency contracts.

Selling and distribution expenses

Our selling and distribution expenses were RMB6.7 million for the Period, which represented an increase of RMB2.2 million, or approximately 48.6%. It is a result of the increase in transportation charges and port charges along with the increase in export sales. The increase was also attributable to more selling and distribution expenses incurred at self-operated retail stores and commission expenses paid to an agent on sales of landscape garden products by the U.S. Subsidiary.

Administrative expenses

Our administrative expenses decreased by RMB0.6 million, or approximately 2.3%, from RMB23.4 million for the six months ended 30 June 2012 to RMB22.8 million for the Period. The decrease was primarily attributable to the non-recurring professional fees charged in connection with the Company's listing in the six months ended 30 June 2012 offset by the increase in staff costs along with the increase in average salary for the Period. There was also an increase in R&D expenses and miscellaneous expenses for setting up offices in Xiamen, Shanghai and the U.S.

Finance costs

Our finance costs decreased by approximately 9.1% for the Period. It was due to a decrease in effective interest rate, despite an increase in bank borrowings over the Period as a result of the continuous expansion of business operations and production volume.

Income tax

Our income tax decreased by RMB1.3 million, or approximately 14.0%, from RMB9.7 million for the six months ended 30 June 2012 to RMB8.4 million for the Period, primarily as a result of the decrease in profit before taxation from Zhangping Kimura, our principal PRC subsidiary. Zhangping Kimura applied for and was granted the High and New Technology Enterprise qualification and is entitled to the preferential enterprise income tax rate of 15% from 2013 to 2015.

Our effective tax rate remained stable at 17.6% for the Period.

Profit for the period

As a result of the foregoing factors, profit for the Period decreased by 14.3% from RMB45.8 million for the six months ended 30 June 2012 to RMB39.3 million for the Period, and net profit margin decreased from 21.2% for the six months ended 30 June 2012 to 17.6% for the Period.

Working capital

Our net current assets decreased from RMB184.9 million as at 31 December 2012 to RMB164.9 million as at 30 June 2013, representing a decrease of RMB20.0 million or 10.8%. The decrease was mainly due to the increase in trade and other payables and bank loans, which was partially offset by the increase in trade and other receivables and cash and cash equivalents. The increase in trade and other receivables was attributable to the increased prepayments to our suppliers so as to secure favourable timber prices.

The increase in cash and cash equivalents was resulted from Consideration received from Land Resumption and net proceeds from bank loans which was partially offset by capital expenditure during the Period. The increase in trade and other payables mainly represented the Consideration received from Land Resumption. The transaction is expected to be completed by the end of 2013 upon the completion of the Group's relocation.

Financial Ratios

	At 30 June 2013	At 31 December 2012
Current Ratio (1)	**1.52**	2.23
Gearing Ratio (2)	**24.5%**	15.4%

(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 decreased from 2.23 as at 31 December 2012 to 1.52 as at 30 June 2013. Gearing ratio increased from 15.4% as at 31 December 2012 to 24.5% as at 30 June 2013. The change in both ratios is mainly due to the capital expenditure incurred on the construction of Phase II production facilities and the purchase of relevant machineries. The construction was financed by proceeds from the Company's global offering and bank loans.

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 30 June 2013, the unutilised proceeds were deposited in licensed banks in Hong Kong and the PRC.

	Percentage to total amount	Net Proceeds *HK$'million*	Utilised amount as at 30 June 2013 *HK$'million*	Unutilised amount as at 30 June 2013 *HK$'million*
Establishing new production facilities	29.0%	41.80	41.80	–
Establishing own-brand self-operated stores network	27.6%	39.80	12.27	27.53
Merger and acquisition of small to medium sized companies, other timber processing plants, and/or other resources	19.3%	27.90	–	27.90
Own-brand promotion and other marketing events	7.7%	11.10	5.23	5.87
Increasing and enhancing our R&D activities	6.8%	9.80	9.80	–
General working capital	9.6%	13.90	13.90	–
		144.30	83.00	61.30

The Group intends to utilise the net proceeds balance in the same manner and proportion as set out in the Prospectus.

LIQUIDITY AND FINANCIAL 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 and US$. As at 30 June 2013, the Group had net current assets of RMB164.9 million (31 December 2012: RMB184.9 million), of which cash and cash equivalents and various bank deposits were RMB159.6 million (31 December 2012: RMB79.2 million).

The Group has always been pursuing a prudent treasury management policy and is in a strong liquidity position with sufficient available banking facilities to cope with daily operations and future development demands for capital. As at 30 June 2013, total available banking facilities of the Group amounted to RMB380.8 million, among which the outstanding bank loans were RMB224.8 million (31 December 2012: available banking facilities were RMB196.2 million and outstanding bank loans were RMB125.7 million). The ratio of outstanding bank loans to total assets was 30.4% (31 December 2012: 23.5%).

The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the Period.

CAPITAL EXPENDITURE

During the Period, the Group's total expenditure in respect of property, plant and equipment and non-current prepayments for acquisitions of property, plant and equipment amounted to RMB57.5 million and RMB23.7 million, respectively.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, FUTURE PLANS FOR MATERIAL INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

During the Period, there was no significant investment, material acquisitions and disposal of subsidiaries by the Company. Save as the disposal of a subsidiary with no operation and the acquisition of two properties for office premises, R&D centre and product showroom, details of which are set out in the section headed "Subsequent Event" in this announcement, the Group has no other plan to make any substantial investment in or acquisition of capital assets.

CONTINGENT LIABILITIES

There were no significant contingent liabilities for the Group as at 30 June 2013.

HUMAN RESOURCES

As at 30 June 2013, the Group employed approximately 525 employees (as at 30 June 2012: 595 employees) with total staff costs of RMB13.0 million incurred for the Period (six months ended 30 June 2012: RMB10.3 million). The Group offered competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees.

MANAGING CURRENCY RISKS

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 Period.

The Group usually manages the fluctuations in the exchange rate of RMB against US$ by purchasing foreign currency forward contracts denominated in US$. As at 30 June 2013, the Group held outstanding US$ denominated forward foreign currency contracts of US$17.2 million. All the contracts are to be settled within one year. As at 30 June 2013, 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$.

CHARGE ON ASSETS

As at 30 June 2013, the Group had pledged its plant and machinery, lease prepayments and buildings held for own use with aggregate net carrying value of RMB65.8 million and deposits with banks of RMB33.1 million for the purposes of securing bank loans and entering into forward foreign currency contracts with banks.

SUBSEQUENT EVENT

On 22 July 2013, the Group entered into a sale and purchase agreement in relation to the acquisition of the two pieces of properties occupying gross floor area of approximately 2,300 square metres and 3,000 square metres respectively and the corresponding land use rights. The properties are designated for commercial use and the Group intends to use them as office premises, R&D centre and product showrooms. Further details were disclosed in the Company's announcement dated 22 July 2013.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of the Shares during the Period. 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 Period.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the Period, the Company complied with the principles set out in the Corporate Governance Code except code provision A.2.1 of Corporate Governance Code as explained below:

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 Corporate Governance Code. 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 FOR SECURITIES TRANSACTIONS BY DIRECTORS

Pursuant to a resolution passed by the Board on 15 June 2012, 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 Period.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management the accounting principles and policies adopted by the Group and discussed auditing, internal control and financial reporting matters, and also reviewed the unaudited interim financial report for the Period. The interim financial report for the Period is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA, whose unmodified review report is included in the interim report to be sent to Shareholders.

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 2013 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 Period will be dispatched to the Shareholders in due course.

DEFINITIONS

"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 Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"Period"	the six months ended 30 June 2013
"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$0.01 each in the share capital of the Company
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	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, 26 August 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.