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 2013

HIGHLIGHTS

Financial

— Turnover increased by 12.8% to RMB475.1 million.

— Turnover from North America and Asia Pacific (exclusive of the PRC) markets increased significantly by 65% and 98% respectively.

— Gross profit increased to RMB151.7 million, while gross profit margin maintained at above 30%.

— Profit for the year increased by 55.3% to RMB124.4 million.

— Earnings per share increased by 33% to RMB0.12.

— Final dividend of HK$0.013 (equivalent to approximately RMB0.0103) per share is recommended by the Board.

Operational

— Phase II production facilities in full operation since December 2013 which increased the Group's total annual production capacities significantly by 70% to 110,000 cubic meters.

— Further expansion of market coverage to Maldives.

— Number of self-operated stores increased to 19 across the major cities in the PRC.

— Maintained gross profit margin stable notwithstanding the rapid increase in global timber prices.

Prospects

— Analysis from the United Nations expects further growth from the U.S. and European economies, pulling up market demand on timber villas and their related parts and structures.

— The "Outline of national tourism and leisure" published by the State Council of the PRC will further encourage the investment of recreational facilities across the PRC, pulling up the demand of our wooden products.

— Further expansion of production facilities to increasing the total capacity to 230,000 cubic meters by 2015.

The Board is pleased to announce the annual results of the Group for the year ended 31 December 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2013
(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 *RMB'000*
Turnover	*3*	**475,051**	421,171
Cost of sales		**(323,317)**	(272,461)
Gross profit		**151,734**	148,710
Other revenue	*4(a)*	**23,070**	11,761
Other net gain/(loss)	*4(b)*	**48,683**	(780)
Selling and distribution expenses		**(13,818)**	(10,146)
Administrative expenses		**(46,979)**	(47,169)
Profit from operations		**162,690**	102,376
Finance costs	*5(a)*	**(5,463)**	(5,620)
Profit before taxation	*5*	**157,227**	96,756
Income tax	*6(a)*	**(32,806)**	(16,665)
Profit for the year		**124,421**	80,091
Earnings per share			
Basic and diluted (RMB)	*7*	**0.12**	0.09

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013
(Expressed in Renminbi)

	2013	2012
	RMB'000	*RMB'000*
Profit for the year	**124,421**	80,091
Other comprehensive income for the year, net of tax		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside the PRC, net of nil tax	**1,050**	1,167
Total comprehensive income for the year	**125,471**	81,258

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013

(Expressed in Renminbi)

	Note	**2013** **RMB'000**	2012 *RMB'000*
Non-current assets			
Property, plant and equipment		**198,303**	127,134
Lease prepayments		**51,307**	64,179
Non-current prepayments for acquisitions of property, plant and equipment		**51,302**	1,090
Other financial assets		**2,495**	2,495
Deferred tax assets		**4,821**	6,172
		308,228	201,070
Current assets			
Inventories	*8*	**191,709**	72,252
Current portion of lease prepayments		**1,096**	1,368
Trade and other receivables	*9*	**162,372**	181,891
Pledged deposits		**68,601**	9,151
Cash and cash equivalents		**75,052**	70,041
		498,830	334,703
Current liabilities			
Trade and other payables	*10*	**23,937**	12,810
Bank loans		**239,651**	125,682
Current portion of deferred income		**1,179**	1,295
Current taxation		**20,517**	10,015
		285,284	149,802
Net current assets		**213,546**	184,901

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013 *(CONTINUED)*
(Expressed in Renminbi)

	Note	2013	2012
		RMB'000	*RMB'000*
Total assets less current liabilities		**521,774**	385,971
Non-current liabilities			
Bank loans		**25,097**	–
Non-current portion of deferred income		**18,314**	22,670
Deferred tax liabilities		**1,191**	1,060
		44,602	23,730
NET ASSETS		**477,172**	362,241
CAPITAL AND RESERVES			
Capital		**8,135**	8,135
Reserves		**469,037**	354,106
TOTAL EQUITY		**477,172**	362,241

NOTES:

1 GENERAL INFORMATION

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 was listed on the Stock Exchange on 6 July 2012.

2 BASIS OF PREPARATION AND PRESENTATION

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2013 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. The consolidated financial statements also comply with the applicable disclosure provisions of the Listing Rules.

The IASB has issued certain new and revised 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*

— 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.

Impacts of the adoption of the new or amended IFRSs are discussed below:

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

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in the financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in the financial statements.

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. 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. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. The Group has provided the applicable disclosures in its consolidated financial statements.

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. The Group has provided the applicable disclosures in its consolidated financial statements. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

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 financial statements 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 during the periods presented.

The 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 at their fair value.

3 TURNOVER AND SEGMENT REPORTING

(a) 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:

	2013	2012
	RMB'000	*RMB'000*
Trading of outdoor wooden products	**465,826**	405,534
Retail sales of wooden products	**8,360**	7,178
Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services	**865**	8,459
	475,051	421,171

No individual external customers accounted for 10% or more of the Group's revenue for the years ended 31 December 2013 and 2012.

(b) 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, Retail business and Projects of outdoor wooden products. 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.

— Retail business: retail sales of outdoor wooden products through self-operated retail shops.

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

(i) 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, Retail business and Projects of outdoor wooden products, respectively.

The measure used for reportable segment profit/(loss) is "profit/(loss) after taxation" of Manufacturing and trading of wooden products, Retail business and Projects of outdoor wooden products, 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 2013 and 2012 is set out below:

	2013			
	Manufacturing and trading of wooden products *RMB'000*	**Retail business** *RMB'000*	**Projects of outdoor wooden products** *RMB'000*	**Total** *RMB'000*
Revenue derived from the Group's external customers	**465,830**	**8,356**	**865**	**475,051**
Inter-segment revenue	**5,984**	**–**	**–**	**5,984**
Reportable segment revenue	**471,814**	**8,356**	**865**	**481,035**
Reportable segment profit/(loss) (profit/(loss) after taxation)	**134,433**	**(4,384)**	**(193)**	**129,856**

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

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

	2013	2012
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**481,035**	431,988
Elimination of inter-segment revenue	**(5,984)**	(10,817)
Consolidated turnover	**475,051**	421,171
Profit		
Reportable segment profit derived from the Group's external customers	**129,856**	82,571
Elimination of inter-segment profits	**(1,885)**	(682)
Unallocated head office and corporate expenses	**(3,550)**	(1,798)
Consolidated profit after taxation	**124,421**	80,091

(iii) 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.

	2013	2012
	RMB'000	*RMB'000*
The PRC (place of domicile)	**231,616**	259,779
North America	**165,141**	100,127
Europe	**30,205**	37,016
Asia Pacific (exclusive of the PRC)	**48,089**	24,249
	243,435	161,392
	475,051	421,171

4 OTHER REVENUE AND OTHER NET GAIN/(LOSS)

(a) Other revenue

	2013	2012
	RMB'000	*RMB'000*
Interest income on bank deposits	**833**	571
Government subsidies	**22,237**	11,190
	23,070	11,761

The Group received unconditional government subsidies of RMB17,765,000 (2012: RMB10,217,000) for the year ended 31 December 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.

The Group recognised government subsidies as deferred income which compensates the Group for the cost of its land use right and the cost of infrastructure development. Government subsidies (deferred income) of RMB4,472,000 (2012: RMB973,000) were recognised as other revenue for the year ended 31 December 2013, which is on a systematic basis over the useful life of the relevant assets.

(b) Other net gain/(loss)

	2013	2012
	RMB'000	*RMB'000*
Gain from land resumption (note)	**44,802**	–
Net foreign exchange gain/(loss)	**2,722**	(316)
Net gain on disposal of land use right	**146**	–
Net (loss)/gain on disposal of property, plant and equipment	**(4)**	19
Changes in fair value of derivative financial instruments	**1,629**	(85)
Others	**(612)**	(398)
	48,683	(780)

Note: On 8 March 2013, Zhangping Kimura entered into a land resumption agreement with Land Reserve Centre, in relation to the land resumption of eight parcels of land at Fushan Industrial Zone (the "Land") for a consideration of RMB62,390,000 (the "Consideration"). Upon the completion of the land resumption transaction in July 2013, the Group recognised a gain of RMB44,802,000, which represented the Consideration received less the aggregate carrying value of the Land and immovable structures erected on the Land totalling RMB17,588,000.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2013	2012
	RMB'000	*RMB'000*
(a) Finance costs		
Interest expense on bank loans wholly repayable within five years	**8,495**	7,071
Less: Interest expense capitalised into construction in progress*	**(3,032)**	(1,451)
	5,463	5,620

* The borrowing costs have been capitalised at a rate of 4.14% (2012: 7.27%) per annum for the year ended 31 December 2013.

(b) Staff costs

Salaries, wages and other benefits	**24,896**	22,850
Contributions to defined contribution retirement schemes	**4,224**	2,573
	29,120	25,423

Pursuant to the relevant labour rules and regulations in the PRC, the Group's entities in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local authorities whereby the entities are required to make contributions to the Schemes based on a percentage of the eligible employees' salaries during the years ended 31 December 2013 and 2012. Contributions to the Schemes vest immediately. Under the Schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators and the Group has no further obligations beyond the annual contributions.

	2013	2012
	RMB'000	*RMB'000*
(c) Other items		
Cost of inventories[#]	**323,317**	272,461
Depreciation of property, plant and equipment	**10,142**	6,002
Amortisation of lease prepayments	**1,337**	920
Operating lease charges for properties	**2,090**	388
Research and development costs	**19,572**	16,280
Auditors' remuneration	**1,597**	5,288

[#] Cost of inventories includes RMB28,749,000 (2012: RMB24,333,000) for the year ended 31 December 2013 relating to staff costs, depreciation and research and development costs, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2013	2012
	RMB'000	*RMB'000*
Current tax — PRC corporate income tax		
Provision for the year	**30,803**	16,962
Withholding tax — the PRC		
Dividend withholding tax	**521**	–
Deferred tax		
Origination and reversal of temporary differences	**1,482**	(297)
	32,806	16,665

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

	2013	2012
	RMB'000	*RMB'000*
Profit before taxation	**157,227**	96,756
Notional tax on profit before taxation, calculated at the rates applicable in the tax jurisdictions concerned *(note (i))*	**41,197**	25,881
Effect of PRC tax concession *(note (ii))*	**(9,776)**	(11,218)
PRC dividend withholding tax *(note (iv))*	**131**	1,060
Effect of non-deductible expenses	**3,004**	2,981
Effect of research and development expense bonus deduction *(note (iii))*	**(1,750)**	(2,039)
Actual tax expense	**32,806**	16,665

Notes:

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

Taxation for subsidiaries in other jurisdictions is charged at the appropriate current rates of taxation ruling in relevant jurisdictions respectively.

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 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.

(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 corporate investors from PRC resident enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Under the tax arrangement between the Mainland of China and Hong Kong Special Administrative Region and the relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds a 25% equity interest or more of a PRC enterprise is entitled to a reduced tax rate of 5%. The Group's subsidiary in Hong Kong is a qualified Hong Kong tax resident and therefore entitled a reduced withholding tax rate of 5%.

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 recognised 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 2013, deferred tax liabilities not recognised relating to the undistributed profits of the Group's PRC subsidiaries to overseas holding company amounted to RMB204,336,000 (2012: RMB154,111,000).

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2013 is based on the profit attributable to equity shareholders of the Company of RMB124,421,000 (2012: RMB80,091,000) and weighted average of 1,000,000,000 shares (2012: 910,000,000 shares) in issue during the year ended 31 December 2013, calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2013	2012
	'000	*'000*
Issued ordinary shares at 1 January	**1,000,000**	10
Effect of issue of shares upon subdivision	**–**	990
Effect of capitalisation issue	**–**	819,000
Effect of issue of shares upon initial public offering	**–**	90,000
Weighted average number of ordinary shares at 31 December	**1,000,000**	910,000

The weighted average number of shares in issue during the year ended 31 December 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 year ended 31 December 2012.

There were no potential dilutive ordinary shares during the years ended 31 December 2013 and 2012 and, therefore, diluted earnings per share are the same as the basic earnings per share.

8 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2013	2012
	RMB'000	*RMB'000*
Raw materials	**82,925**	33,115
Work in progress	**26,843**	14,894
Finished goods	**81,941**	24,243
	191,709	72,252

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2013	2012
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**323,317**	272,461

9 TRADE AND OTHER RECEIVABLES

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**103,712**	133,935
Prepayments for raw materials	**27,847**	39,895
Deposits and other prepayments	**1,661**	900
Amount due from a related company	**6,155**	724
Derivative financial instruments	**2,071**	220
Gross amount due from customers for contract work *(note (i))*	**3,040**	3,139
VAT recoverable	**16,291**	810
Other receivables	**1,595**	2,268
	162,372	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 31 December 2013 was RMB19,477,000 (2012: RMB12,029,000). This balance includes retention receivables at 31 December 2013 of RMB1,533,000 (2012: RMB1,137,000), of which RMB337,000 (2012: RMB292,000) was expected to be recovered after more than one year.

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

(a) Ageing analysis

As at 31 December 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:

	2013	2012
	RMB'000	*RMB'000*
Within 1 month	**61,437**	63,586
1 to 2 months	**18,758**	21,675
2 to 3 months	**12,446**	17,513
Over 3 months	**11,071**	31,161
	103,712	133,935

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:

	2013	2012
	RMB'000	*RMB'000*
Current	**91,609**	100,151
Less than 1 month past due	**11,948**	12,811
1 to 3 months past due	**3**	15,654
More than 3 months but less than 12 months past due	**–**	5,251
More than 12 months past due	**152**	68
Amounts past due	**12,103**	33,784
	103,712	133,935

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.

10 TRADE AND OTHER PAYABLES

	2013	2012
	RMB'000	*RMB'000*
Trade payables	**10,840**	6,138
Receipts in advance	**2,736**	683
Derivative financial instruments	**222**	–
Other payables and accruals	**10,139**	5,989
	23,937	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 31 December 2013, the maturity analysis of the trade payables balance is as follows:

	2013	2012
	RMB'000	*RMB'000*
Due within 1 month or on demand	**2,317**	3,473
Due after 1 month but within 3 months	**8,523**	2,665
	10,840	6,138

11 DIVIDENDS

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

	2013	2012
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of HK$0.013 (equivalent to approximately RMB0.0103) per ordinary share (2012: HK$0.013 (equivalent to approximately RMB0.0105) per ordinary share)	**10,317**	10,540

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2013	2012
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.013 (equivalent to approximately RMB0.0105) per ordinary share (2012: Nil)	**10,540**	–

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the year ended 31 December 2013, the Group continued to engage in the production and sale of leisure household products, timber villas and their related parts and structures. Our operations have been affected by a number of factors, including (i) our ability to design, research and develop new timber processing technologies; (ii) our ability to continually generate more turnover from our customers alongside with the growth in the global market; (iii) price surge of raw materials; and (iv) our production capacity. We have adopted appropriate strategies in response to these factors, whereby we maintain long-term partnerships with our existing customers while actively tapping into new markets. In addition, we are dedicated to research and development, cost control and expansion of production capacity, these measures enabled the Group to achieve satisfactory results.

Steady revenue growth

During the year ended 31 December 2013, the Group recorded handsome growth in revenue generated from its operations in North America and Asia Pacific (exclusive of the PRC), represented an increase of 65% and 98% respectively from the year ended 31 December 2012. The growth in revenue was mainly attributable to the improvement of the U.S. economy and our expanded customers base to new overseas markets, such as Maldives. Given the enormous market demand of our products from overseas' customers, the Group has adjusted the proportion of sales in order to balance the needs of customers from different regional markets. However, in view of the limited production capacity, the Group's domestic sales decreased slightly while overseas sales recorded robust growth as compared with last year. The Group has also invested in the expansion of the Phase III production facilities, in order to ensure that future production capacity of the Group can satisfy the growing demand from our customers (For details, please refer to the paragraph headed "Management discussion and analysis — Business review — Integration and expansion of production capacity" in this announcement). During the year ended 31 December 2013, the Group continued to invest in the retail business of its own brand. The Group has established a total of 19 flagship stores and self-operated stores at cities including Shanghai, Guangzhou, Xiamen, Ningbo, Suzhou, Meizhou, Quanzhou and Ganzhou, an addition of 12 stores compared with last year. Sales revenue contributed by retail business of the Group also increased by 16.4% from last year.

Controlling costs vigorously

Timber is the Group's key raw material and its price has increased significantly during the year ended 31 December 2013. The Group has taken measures through diversifying its supplier base, making prepayments to its suppliers and increasing stock level to stabilise its cost of timber during the year ended 31 December 2013. In addition, we strived to eliminate the adverse impact of the surge in raw material cost by improving product design and enhancing the raw material utilisation. As a result, we managed to maintain our gross profit margin for the year ended 31 December 2013 at above 30%.

Integration and expansion of production capacity

As mentioned above, the Group has been investing to expand production facilities to ensure that the production capacity of the Group can satisfy the demand from our customers. With the commencement of full operation of the Phase II production facilities of the Group, our production capacity for timber villas and their related parts and structures has increased significantly by 70% to approximately 110,000 cubic meters per annum. In order to achieve the Group's objective to further increase its annual production capacity by 120,000 cubic meters by the year 2015, the Group has already commenced dwelling and leveling activities for the Phase III production facilities on a piece of land adjacent to the Phase II production facilities. 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 statement of financial position. 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. This subsidiary had no activity during the year ended 31 December 2013.

Financial review

Results of operation

During the year ended 31 December 2013, the Group recorded turnover and profit before taxation of RMB475.1 million and RMB157.2 million respectively. Turnover increased by RMB53.9 million as a result of the increase in export sales. The Group's profit before taxation increased by RMB60.5 million as compared with last year.

Turnover

Our turnover increased by RMB53.9 million from RMB421.2 million to RMB475.1 million, represented a growth of 12.8% compared with last year. The increase was mainly driven by the increase in export sales to North America and Asia Pacific (exclusive of the PRC) by RMB65.0 million and RMB23.8 million respectively.

In terms of product category, sale of timber villas and their related parts and structures remained as the largest source of income for the Group. Also, it was the Group's major driver for sales growth during the year ended 31 December 2013. Sales derived from this product category increased by RMB33.1 million compared with last year, accounted for 43.3% of total revenue of the Group for the year ended 31 December 2013.

Revenue analysis by product category is as follows:

	2013 *RMB'000*	2012 *RMB'000*	*Change in %* *Increase/* *(decrease)*
Timber villas and their related parts and structures	205,916	172,827	19.1%
Leisure household products			
Outdoor and indoor furniture products	90,323	80,487	12.2%
Recreational products	61,841	57,035	8.4%
Landscape garden products	40,047	45,819	(12.6%)
Pet-home designs	22,183	20,392	8.8%
Timber log trading	43,663	29,635	47.3%
Others	11,078	14,976	(26.0%)
	475,051	**421,171**	**12.8%**

Revenue analysis by region is as follows:

	2013 *RMB'000*	2012 *RMB'000*	*Change in %* *Increase/* *(decrease)*
The PRC	231,616	259,779	(10.8%)
North America	165,141	100,127	64.9%
Europe	30,205	37,016	(18.4%)
Asia Pacific (exclusive of the PRC)	48,089	24,249	98.3%
	475,051	**421,171**	**12.8%**

Gross profit and gross profit margin

Gross profit of the Group increased by RMB3 million from RMB148.7 million for last year to RMB151.7 million alongside with the increase in turnover. Owing to the vigorous cost control measures adopted by the Group, gross profit margin for the year ended 31 December 2013 was managed to maintain at above 30% despite the surge in the timber prices in 2013.

Other revenue

Other revenue increased by RMB11.3 million from RMB11.8 million for last year to RMB23.1 million for the year ended 31 December 2013. The significant increase was primarily due to additional financial incentives granted by the government.

Other net gain/(loss)

Other net gain was RMB48.7 million for the year ended 31 December 2013 (2012: loss RMB0.8 million), which mainly represents the gain recognised in respect of the consideration for land resumption received from the Land Reserve Centre.

Selling and distribution expenses

Our selling and distribution expenses were RMB13.8 million for the year ended 31 December 2013, which represented an increase of RMB3.7 million, or approximately 36.2% over last year. The increase was primarily due to 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 as a result of the addition of 12 self-operated retail stores in the PRC and the newly established U.S. subsidiary during the year ended 31 December 2013.

Administrative expenses

Our administrative expenses decreased slightly by RMB0.2 million, from RMB47.2 million for the year ended 31 December 2012 to RMB47.0 million for the year ended 31 December 2013, among which:

(1) Research and development expenses increased by approximately RMB3.4 million from RMB10.1 million for the year ended 31 December 2012 to RMB13.5 million for the year ended 31 December 2013;

(2) Rent and miscellaneous expenses also increased by approximately RMB5 million for the setting up outlets and offices in Xiamen, Shanghai and the U.S.; and

(3) There were no non-recurring professional fees incurred during the year ended 31 December 2013 in connection with the Company's listing (2012: RMB12.4 million).

Finance costs

Our finance costs maintained at approximately RMB5.5 million for the year ended 31 December 2013. Despite an increase in bank borrowings during the year ended 31 December 2013 as a result of the continuous expansion of business operation and production capacity, finance costs remained at a low level due to the decrease in effective interest rate of our borrowings.

Income tax

Our income tax increased by RMB16.1 million from RMB16.7 million for last year to RMB32.8 million for the year ended 31 December 2013, primarily as a result of the increase in taxable profits of the Group. As Zhangping Kimura has been granted the High and New Technology Enterprise qualification, it is entitled to the preferential corporate income tax rate of 15% from 2013 to 2015. Our effective tax rate increased to 20.9% for the year ended 31 December 2013 from 17.2% for the year ended 31 December 2012. The increase in effective tax rate was due to the fact that taxes on income outside ordinary business of the Group (e.g. land resumption income) were charged at the standard corporate income tax rate of 25%.

Profit for the year

As a result of the foregoing factors, profit for the year ended 31 December 2013 increased by 55.3% from RMB80.1 million for the year ended 31 December 2012 to RMB124.4 million, and net profit margin increased from 19.0% for the year ended 31 December 2012 to 26.2% for the year ended 31 December 2013. Basic and diluted earnings per share amounted to RMB0.12 for the year ended 31 December 2013 (2012: RMB0.09).

Dividends

The Board declared a final dividend of HK$0.013 per Share. The total payout will amount to HK$13 million, representing approximately 8% of the profit for the year ended 31 December 2013 attributable to equity shareholders of the Company.

Liquidity and capital resources

The Group principally meets its working capital and other liquidity requirements through operating cash flows and proceeds from bank borrowings. As at 31 December 2013, the Group had current assets of RMB498.8 million (2012: RMB334.7 million), of which bank deposits and cash (including pledged deposits) were RMB143.7 million (2012: RMB79.2 million). To better manage our funds, the Group's cash is generally deposited with banks and denominated mostly in RMB and US$. As at 31 December 2013, total available banking facilities of the Group amounted to RMB489.3 million (2012: RMB196.2 million), banking facilities utilised as at 31 December 2013 were RMB264.7 million (2012: RMB125.7 million) and these bank borrowings were denominated in RMB and US$, among which RMB139.6 million (2012: RMB86.1 million) bears fixed interest rates. The ratio of outstanding bank loans to total assets was 32.8% (2012: 23.5%).

As at 31 December 2013, current ratio[1] of the Group was 1.7 (2012: 2.2). Debt-to-equity ratio[2] was 25.4% (2012: 12.8%).

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

(2) Debt-to-equity ratio is calculated as net debt (i.e. total bank loans less bank deposits) divided by total equity.

Pledge of assets

At 31 December 2013, the Group had pledged its plant and machinery, lease prepayments and buildings held for own use with net book value of RMB114.6 million (2012: RMB80.0 million) and deposits with banks of RMB68.6 million (2012: RMB9.2 million) mainly for the purpose of securing bank loans and financial derivative contracts issued by banks to the Group.

Significant investment, material acquisitions and disposals of subsidiaries, future plans for material investments or acquisition of capital assets

During the year ended 31 December 2013, there was no significant investment, material acquisitions and disposal of subsidiaries by the Group except for the disposal of a subsidiary with no operation and the acquisition of two properties for office premises, research and development centre and product showroom. The Group currently has no other plan to make any substantial investment in or acquisition of capital assets.

Foreign 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$.

The Group usually manages the fluctuations in the exchange rate of RMB against US$ by purchasing foreign currency forward contracts denominated in US$. As at 31 December 2013, the Group held outstanding US$ denominated forward foreign currency contracts of US$19 million (2012: US$10 million). All the contracts are to be settled within one year. As at 31 December 2013, the Group had an unrealised fair value net gain of approximately RMB1.8 million (2012: 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$.

Use of net proceeds from the global offering

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

	Percentage to total amount	**Net proceeds** *HK$'million*	**Utilised amount as at 31 December 2013** *HK$'million*	**Unutilised amount as at 31 December 2013** *HK$'million*
Establishing new production facilities	29.0%	41.8	41.8	–
Establishing own-brand self-operated stores network	27.6%	39.8	19.0	20.8
Merger and acquisition 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	9.2	1.9
Increasing and enhancing our research and development activities	6.8%	9.8	9.8	–
General working capital	9.6%	13.9	13.9	–
		144.3	**93.7**	**50.6**

Human resources

As at 31 December 2013, we employed a total of 534 (2012: 588) full time employees in mainly the PRC and Hong Kong which included management staff, product designers, technicians, salespersons and workers. The Group's total expenses on the remuneration of employees for the year ended 31 December 2013 were RMB29.1 million (2012: RMB25.4 million), representing 6.1% (2012: 6.0%) of the turnover of the Group. With the introduction of automated production facilities by the Group during the year ended 31 December 2013, which enhanced production capacity and replaced certain manual processes, the number of employees as at 31 December 2013 decreased as compared with the number of employees as at 31 December 2012. Meanwhile, the Group also offered highly competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees.

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 insurance (including retirement pension insurance, medical insurance, unemployment insurance, injury insurance and maternity insurance for the PRC employees), discretionary bonuses 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 2013, no options have been granted.

Events after the reporting period

Up to the date of this announcement, the Group has no material events after the reporting period.

Prospect

Market Expansion

According to the analysis of the annual report of the United Nations Department of Economic and Social Affairs — "World Economic Situation and Prospects 2014", it is expected that the growth of the U.S. economy will accelerate, while the European economy will sail back to the growth track, both economies will be the main driver of global economic development in 2014. We believe that economic growth in Europe and the U.S. will stimulate the demand for housing in the regions. Currently, over half of the houses built in North America and Europe are wooden constructions. Therefore, a substantial increase in demand for timber villas and their related parts from the European and the U.S. markets is expected. We will actively tap into overseas markets through direct sales and internet sales. In early 2014, we launched a new own-brand "Outerior Decor" in the U.S. market and commenced internet sales through the website www.outeriorproducts.com. We are optimistic about the prospect of our overseas sales. The Group will continue to maintain a stable and long-term relationship with overseas customers to safeguard the long-term development of the Group.

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. We believe that the Outline will stimulate the developments of domestic leisure and tourism, park facilities and tourism property projects, and in turn drive the demand of our timber villa products and outdoor and indoor furniture products. With the improvement of living standards in the PRC, the domestic market will have greater demand for personal leisure home products. The Group will continue to set up self-operated retail stores at major tourist cities in the PRC. The Group will also continue to expand its distribution network and promote its "Merry Garden" brand to the domestic market.

Capacity enhancement

In anticipation of a significant growth in the market demand of our products, the Group intends to further increase its annual production capacity from the current 110,000 cubic meters to 230,000 cubic meters by the year 2015, and to introduce more automated production lines. The Group has commenced dwelling and leveling activities for Phase III production facilities on a new piece of land adjacent to the Phase II production facilities. It is expected that the first part of construction for the entire Phase III production facilities will be completed by the forth quarter of 2014. With the new production lines, we believe that the production efficiency and capacity will be significantly improved, ensuring the Group's production capacity to live up with the demand of our customers.

Acquisitions and mergers

Given the huge market and wide product variety of timber products, we will actively seek for partnerships with timber product manufacturers who owned its timber processing factories, warehouse facilities or established sales networks both in the PRC and overseas through mergers and acquisitions to achieve advancement in technology and production capacity as well as expand our sales channels, in order to boost the future development of our business.

Innovation, research and development

As a High and New Technology Enterprise, we will expand and improve our research and development activities through continuous investments, so as to maintain our leading position in the areas of wood preservation, enhancement of overall utilisation rate and values as well as research and development on original designs. Through integration of production facilities, we will recycle and reuse the residues generated from the production processes, in order to optimise the overall utilisation rate of raw materials. We have also set up new production lines to convert production residues into biomass pellet fuel and thereby achieve a 100% utilisation rate in terms of timber processing. This will not only enhance economic benefits, but also provide clean energy for the market. With reference to the Group's current annual production capacity, it is expected that these production lines will have annual production capacity of 40,000 tons, and it will bring a new source of income for the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of the Shares during the year ended 31 December 2013. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's securities during the year ended 31 December 2013.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2013, the Company was in full compliance with the code provisions set out in the Corporate Governance Code, except for the deviations from the code provisions A.1.1 and A.2.1.

The code provision A.1.1

Pursuant to code provision A.1.1 of the Corporate Governance Code, the Board meetings should be held at least four times a year at approximately quarterly intervals. The Board only held two meetings during the year ended 31 December 2013 as other matters of the Board were dealt with by written resolutions.

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 year ended 31 December 2013.

REVIEW OF ANNUAL RESULTS

The Group's annual results for the year ended 31 December 2013 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 2013 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated 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 HK$0.013 (equivalent to approximately RMB0.0103) per Share for the year ended 31 December 2013 payable to the Shareholders whose names appear on the register of members of the Company on 23 May 2014. The total payout will amount to HK$13 million (equivalent to approximately RMB10.3 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 13 May 2014 to 15 May 2014 (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, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 12 May 2014.

In order to determine the entitlement to the final dividends for the year ended 31 December 2013, the register of members of the Company will be closed from 21 May 2014 to 23 May 2014 (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 2013, 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, 183 Queen's Road East, Wan Chai, Hong Kong for registration by not later than 4:30 p.m. on 20 May 2014.

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 2013 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 15 May 2014 or any adjournment thereof
"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
"Land Reserve Centre"	Zhangping Land Reserve Centre (漳平市土地收購儲備中心), an administrative body of the local governmental authority at Zhangping, Fujian province, 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
"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
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	the shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	The United States of America
"US$"	United States dollars, the lawful currency of the United States of America
"Zhangping Kimura"	Fujian Zhangping Kimura Forestry Products Co., Ltd. (福建省漳平木村林產有限公司), an indirectly wholly-owned subsidiary of the Company
"%"	per cent.

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

Hong Kong, 24 March 2014

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.