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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 2014

HIGHLIGHTS OF THE UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Financial

- Turnover and profit for the Period increased by 37.5% and 40.9% respectively
- Turnover from overseas market increased by 55.7%, of which the turnover from North America increased significantly by 80.3%
- Completion of placing of Shares in June 2014 which raised HK\$155.0 million for expansion of production facilities and general working capital

Operational

- New biomass energy business commenced production in March 2014
- Being selected as National Key Leading Enterprise of the Forestry Industry in May 2014
- Expansion plan for the Phase III production facilities commenced in June 2014

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 STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2014 — unaudited

(Expressed in Renminbi)

	Note	Six months ended 30 June	
		2014 RMB'000	2013 RMB'000
Turnover	3, 4	307,451	223,535
Cost of sales		<u>(211,042)</u>	<u>(147,437)</u>
Gross profit		96,409	76,098
Other revenue	6(a)	11,067	2,898
Other net (loss)/gain	6(b)	(5,019)	695
Selling and distribution expenses		(9,667)	(6,653)
Administrative expenses		<u>(22,338)</u>	<u>(22,823)</u>
Profit from operations		70,452	50,215
Finance costs	7(a)	<u>(4,819)</u>	<u>(2,582)</u>
Profit before taxation	7	65,633	47,633
Income tax	8	<u>(10,292)</u>	<u>(8,366)</u>
Profit for the Period		<u>55,341</u>	<u>39,267</u>
Earnings per Share			
Basic and diluted (RMB)	9	<u>0.06</u>	<u>0.04</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

for the six months ended 30 June 2014 — unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the Period	55,341	39,267
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	<u>(3,106)</u>	<u>322</u>
Total comprehensive income for the Period	<u>52,235</u>	<u>39,589</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 — unaudited

(Expressed in Renminbi)

		At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Non-current assets			
Property, plant and equipment		203,120	198,303
Lease prepayments		50,539	51,307
Non-current prepayments for acquisitions of property, plant and equipment		63,075	51,302
Other financial assets		2,495	2,495
Deferred tax assets		6,110	4,821
		<u>325,339</u>	<u>308,228</u>
Current assets			
Inventories	10	236,849	191,709
Current portion of lease prepayments		1,242	1,096
Trade and other receivables	11	281,214	162,372
Pledged deposits		100,072	68,601
Cash and cash equivalents		133,659	75,052
		<u>753,036</u>	<u>498,830</u>
Current liabilities			
Trade and other payables	12	29,292	23,937
Bank loans		336,315	239,651
Current portion of deferred income		1,114	1,179
Current taxation		29,058	20,517
		<u>395,779</u>	<u>285,284</u>
Net current assets		<u>357,257</u>	<u>213,546</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*at 30 June 2014 — unaudited**(Expressed in Renminbi)*

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Total assets less current liabilities	682,596	521,774
Non-current liabilities		
Bank loans	20,000	25,097
Non-current portion of deferred income	17,832	18,314
Deferred tax liabilities	1,352	1,191
	39,184	44,602
NET ASSETS	643,412	477,172
CAPITAL AND RESERVES		
Capital	9,745	8,135
Reserves	633,667	469,037
TOTAL EQUITY	643,412	477,172

NOTES

1 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. 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 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to International Financial Reporting Standards (“IFRSs”) and new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC 21, *Levies*

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

Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group’s interim financial report as the Company does not qualify to be an investment entity.

Amendments to IAS 32, *Offsetting financial assets and financial liabilities*

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as the Group has no impaired non-financial assets.

Amendments to IAS 39, *Novation of derivatives and continuation of hedge accounting*

The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

IFRIC 21, *Levies*

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

3 TURNOVER

The principal activities of the Group are manufacturing and sales of outdoor wooden products and renewable energy 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	
	2014	2013
	RMB'000	RMB'000
Trading of outdoor wooden products	300,244	218,947
Retail sales of wooden products	4,561	3,768
Contract revenue derived from projects of outdoor wooden products including the provision of design and installation services	1,069	820
Sales of renewable energy products	1,577	–
	307,451	223,535

4 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 four reportable segments, namely Manufacturing and trading of wooden products, Retail business, Projects of outdoor wooden products and Renewable energy 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.
- 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.
- Renewable energy products: manufacturing and sales of biomass pellet fuel.

(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, Retail business, Projects of outdoor wooden products and Renewable energy products, respectively.

The measure used for reportable segment profit is "profit after taxation" of Manufacturing and trading of wooden products, Retail business, Projects of outdoor wooden products and Renewable energy 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 six months ended 30 June 2014 and 2013 is set out below:

	Six months ended 30 June 2014				
	Manufacturing and trading of wooden products <i>RMB'000</i>	Retail business <i>RMB'000</i>	Projects of outdoor wooden products <i>RMB'000</i>	Renewable energy products <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue derived from the Group's external customers	300,244	4,561	1,069	1,577	307,451
Inter-segment revenue	5,805	–	–	463	6,268
Reportable segment revenue	<u>306,049</u>	<u>4,561</u>	<u>1,069</u>	<u>2,040</u>	<u>313,719</u>
Reportable segment profit/(loss) (profit/(loss) after taxation)	<u>58,377</u>	<u>(461)</u>	<u>122</u>	<u>1,080</u>	<u>59,118</u>

Six months ended 30 June 2013

	Manufacturing and trading of wooden products <i>RMB'000</i>	Retail business <i>RMB'000</i>	Projects of outdoor wooden products <i>RMB'000</i>	Renewable energy products <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue derived from the Group's external customers	218,947	3,768	820	–	223,535
Inter-segment revenue	19,568	–	–	–	19,568
Reportable segment revenue	<u>238,515</u>	<u>3,768</u>	<u>820</u>	<u>–</u>	<u>243,103</u>
Reportable segment profit/(loss) (profit/(loss) after taxation)	<u>45,073</u>	<u>(3,302)</u>	<u>14</u>	<u>–</u>	<u>41,785</u>

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

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Reportable segment revenue	313,719	243,103
Elimination of inter-segment revenue	<u>(6,268)</u>	<u>(19,568)</u>
Consolidated turnover	<u>307,451</u>	<u>223,535</u>
Profit		
Reportable segment profit derived from the Group's external customers	59,118	41,785
Elimination of inter-segment profits	(1,656)	(2,074)
Unallocated head office and corporate expenses	<u>(2,121)</u>	<u>(444)</u>
Consolidated profit after taxation	<u>55,341</u>	<u>39,267</u>

(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	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
North America	138,214	76,644
The PRC	130,521	109,900
Europe	25,403	19,612
Asia Pacific (exclusive of the PRC)	13,313	17,379
	307,451	223,535

5 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.

6 OTHER REVENUE AND OTHER NET (LOSS)/GAIN

(a) **Other revenue**

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits	944	389
Government subsidies	10,123	2,509
	11,067	2,898

The Group received unconditional government subsidies of RMB9,576,000 (six months ended 30 June 2013: RMB1,862,000) for the six months ended 30 June 2014. 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 RMB547,000 (six months ended 30 June 2013: RMB647,000) were recognised as other revenue for the six months ended 30 June 2014, which is on a systematic basis over the useful life of the relevant assets.

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

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Net foreign exchange (loss)/gain	(1,756)	465
Changes in fair value of derivative financial instruments	(3,305)	234
Others	42	(4)
	(5,019)	695

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest expense on bank loans wholly repayable within five years	5,900	3,553
Less: Interest expense capitalised into construction in progress*	(1,081)	(971)
	<u>4,819</u>	<u>2,582</u>

* The borrowing costs have been capitalised at a rate of 3.69% (six months ended 30 June 2013: 4.66%) per annum for the six months ended 30 June 2014.

(b) Other items

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of inventories	211,042	147,437
Depreciation of property, plant and equipment	6,960	4,236
Amortisation of lease prepayments	622	683
Operating lease charges for properties	1,142	495
Research and development costs	6,825	6,841
	<u>6,825</u>	<u>6,841</u>

8 INCOME TAX

Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax — PRC corporate income tax	10,927	8,366
Current tax — Hong Kong Profits Tax	491	—
Deferred tax credit	(1,126)	—
	<u>10,292</u>	<u>8,366</u>

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

Provision for Hong Kong Profits Tax is calculated at 16.5% to the estimated assessable profits for the six months ended 30 June 2014.

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.

- (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%.

9 EARNINGS PER SHARE

The calculation of basic earnings per Share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB55,341,000 (six months ended 30 June 2013: RMB39,267,000) and weighted average of 1,004,420,000 Shares (six months ended 30 June 2013: 1,000,000,000 Shares) in issue during the six months ended 30 June 2014, calculated as follows:

Weighted average number of ordinary shares

	Number of Shares	
	Six months ended 30 June	
	2014	2013
	'000	'000
Number of ordinary shares at 1 January	1,000,000	1,000,000
Effect of issue of shares under placing	4,420	–
	<u>1,004,420</u>	<u>1,000,000</u>
Weighted average number of ordinary shares	<u>1,004,420</u>	<u>1,000,000</u>

There were no potential dilutive ordinary shares during the six months ended 30 June 2014 and 2013 and, therefore, diluted earnings per Share are the same as the basic earnings per Share.

10 INVENTORIES

	At	At
	30 June	31 December
	2014	2013
	RMB'000	RMB'000
Raw materials	162,365	82,925
Work in progress	41,950	26,843
Finished goods	32,534	81,941
	<u>236,849</u>	<u>191,709</u>

There was no write down of inventories during the six months ended 30 June 2014 and 2013.

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Trade receivables (note (a))	158,380	103,712
Prepayments for raw materials	99,731	27,847
Deposits and other prepayments	690	1,661
Amount due from a related company	11,887	6,155
Derivative financial instruments	597	2,071
Gross amount due from customers for contract work (note)	2,954	3,040
VAT recoverable	175	16,291
Other receivables	6,800	1,595
	<u>281,214</u>	<u>162,372</u>

Note: 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 2014 was RMB19,525,000 (31 December 2013: RMB19,477,000). This balance includes retention receivables at 30 June 2014 of RMB865,000 (31 December 2013: RMB1,533,000), of which RMBNil (31 December 2013: RMB337,000) was expected to be recovered after more than one year.

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As at 30 June 2014, 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 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 month	71,513	61,437
1 to 2 months	21,257	18,758
2 to 3 months	13,010	12,446
Over 3 months	52,600	11,071
	<u>158,380</u>	<u>103,712</u>

Trade receivables are normally due within 1 to 3 months from the date of billing.

12 TRADE AND OTHER PAYABLES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Trade payables (note (a))	7,810	10,840
Receipts in advance	2,768	2,736
Derivative financial instruments	2,053	222
Salaries, wages, bonus and other accrued benefits	2,357	2,567
Payables for the purchase of property, plant and equipment	–	2,473
Other tax payables	669	1,545
Professional fees payables	44	1,179
Dividends payable	10,317	–
Others	3,274	2,375
	<u>29,292</u>	<u>23,937</u>

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 2014, the maturity analysis of the trade payables balance is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Due within 1 month or on demand	2,527	2,317
Due after 1 month but within 3 months	5,283	8,523
	<u>7,810</u>	<u>10,840</u>

13 DIVIDENDS

- (i) The Board does not recommend the payment of an interim dividend for the Period (six months ended 30 June 2013: 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 2014 RMB'000	2013 RMB'000
Final dividend in respect of the previous financial year approved during the Period, of HK\$0.013 (equivalent to approximately RMB0.0103) per ordinary share (six months ended 30 June 2013: HK\$0.013 (equivalent to approximately RMB0.0105))	<u>10,317</u>	<u>10,540</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

The Group achieved outstanding results for the Period with its turnover and net profit having increased by 37.5% and 40.9% to RMB307.5 million and RMB55.3 million respectively, as compared to the corresponding period of the previous year (“20131H”) (20131H: turnover and net profit of RMB223.5 million and RMB39.3 million respectively). Growths were recorded in all business segments and in most of the respective market on where the Group stretches its footprints. Such increase in turnover was primarily attributable to the vigorous market demand on the Group’s products which corresponds to significantly increased production capacity.

Turnover by product category

	Six months ended 30 June		Change %
	2014 RMB’000	2013 RMB’000	
Timber villas and their related parts and structures	135,119	102,288	32.1%
Leisure household products			
Outdoor and indoor furnitures	60,534	50,752	19.3%
Recreational products	44,521	41,296	7.8%
Landscape garden products	20,428	19,095	7.0%
Pet-home designs	5,227	9,895	-47.2%
Trading of timber	40,045	209	>100.0%
Renewable energy products	1,577	–	N/A
Total	307,451	223,535	37.5%

Turnover by operating segments

The four operating segments of the Group, namely manufacturing and trading of wooden products, retail business, projects of outdoor wooden products and renewable energy products, represented 97.7%, 1.5%, 0.3% and 0.5% of the total turnover respectively for the Period. Among the others, the turnover from manufacturing and trading of wooden products surged by 37.1% to RMB300.2 million during the Period (20131H: RMB218.9 million), where the sales of most of the products within this segment has recorded a handsome growth, owing to the growing orders from the overseas markets.

The Group’s self-owned brand, “Merry Garden”, which retails a series of leisure household products, enjoys ascending reputation since its establishment in 2010. As at 30 June 2014, its sales network reached the major cities of more than 10 provinces in the PRC with 25 self-owned stores (31 December 2013: 19 stores). In July 2014, the Group revamped its online sales platform on T-mall and tailor-made its interfaces for different product range. With the self-owned brand business became more matured since its initial period of establishment and

the growing popularity of the brand among customers, during the Period, the turnover from the retail segment increased by 21.0% to RMB4.6 million (20131H: RMB3.8 million). In addition, the Group has established a new online sales brand during the Period for its retail business in the United States (the “US”) with a view to expand the Group’s own sales network to the North American market.

The new segment of renewable energy products, which commenced production and sales in March and May 2014 respectively, had generated a turnover of RMB1.6 million and a profit of RMB1.1 million to the Group during the Period. This segment recycles the residues, such as sawdust produced during the production process of wooden products, and turn them into biomass pellet fuel, which is one of the most important national development directions on new energies in the PRC. Along with the increase in overall production capacity of the Group, a corresponding increase in the scale of renewable energy business will be expected.

Turnover by location

	Six months ended 30 June			
	2014		2013	
	<i>RMB’000</i>	<i>As a percentage to total turnover</i>	<i>RMB’000</i>	<i>As a percentage to total turnover</i>
North America	138,214	45%	76,644	34%
The PRC	130,521	43%	109,900	49%
Europe	25,403	8%	19,612	9%
Asia Pacific (exclusive of the PRC)	13,313	4%	17,379	8%
	<u>307,451</u>		<u>223,535</u>	

The Group strategically positions itself “to align with the trend of the Chinese tourism and leisure market and to capture the opportunity arisen from the recovery of the US and Europe’s property market”. During the Period, the European economy was improved and the stock markets reached apexes in the US. According to the latest data from the Census Bureau of United States, new residential construction reached 396,000 dwelling units for the first five months this year, increased by 6.6% from the same period of last year. As a result, the Group’s turnover from North America was particularly impressive, with a surge of 80.3% to RMB138.2 million (20131H: RMB76.6 million). A promising increase of 29.5% from RMB19.6 million for 20131H to RMB25.4 million for the Period for the turnover from Europe. Turnover from Asia Pacific (exclusive of the PRC), on the other hand, dropped by 23.4% from RMB17.4 million in 20131H to RMB13.3 million during the Period, which is affected by the progress of the construction projects of one of the Group’s major customers in the region. Thanks to the significant growth of the Group’s self-owned brand retail business, as well as the timber trading business in the PRC, the turnover from the domestic market increased by 18.8% to RMB130.5 million (20131H: RMB109.9 million).

Gross profit and gross profit margin

The gross profit increased by RMB20.3 million to RMB96.4 million during the Period (20131H: RMB76.1 million). The gross profit margin decreased from 34.0% for 20131H to 31.4% for the Period. The primary reason for the change is the increase in sales by the timber trading business during the Period, for which the gross profit margin was lower than the other products of the Group.

Other revenue

Other revenue increased to RMB11.1 million for the Period from RMB2.9 million for 20131H which was mainly due to the unconditional government subsidies granted during the Period.

Other net (loss)/gain

The Group recorded other net loss of RMB5.0 million for the Period (20131H: net gain of RMB0.7 million). During the Period, the exchange rates of Renminbi to Euro and US\$ were slightly depreciated as part of the operations of the People's Bank of China's currency policy. Consequently, a net foreign exchange loss of RMB1.8 million (20131H: gain of RMB0.5 million) and a loss of RMB3.3 million from changes in fair value of unsettled derivative financial instruments (20131H: gain of RMB0.2 million) were incurred. The Group has its policy in managing foreign currency risks, please refer to the paragraph headed "Foreign currency risks" in this section for details.

Selling and distribution expenses

Our selling and distribution expenses reached RMB9.7 million for the Period (20131H: RMB6.7 million). The increase was primarily due to the increase in transportation charges and port charges along with the increase in export sales.

Administrative expenses

Our administrative expenses remained stable at around RMB22.3 million for the Period (20131H: RMB22.8 million), which is a result of the vigorous cost control during the Period.

Finance costs

Our finance costs increased to RMB4.8 million during the Period (20131H: RMB2.6 million). Despite an increase in bank borrowings during the Period as a result of the continuous expansion of business operation, finance costs remained at a low level due to the low effective interest rate of our borrowings.

Income tax

Our income tax reached RMB10.3 million for the Period (20131H: RMB8.4 million), 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. Effective tax rate was 15.7% for the Period (20131H: 17.6%).

Profit for the Period

As a result of the foregoing factors, profit for the Period increased by 40.9% to RMB55.3 million (20131H: RMB39.3 million), and net profit margin increased to 18.0% for the Period (20131H: 17.6%).

Dividend

The Board does not recommend the payment of an interim dividend for the Period (20131H: Nil).

Working capital

As at 30 June 2014, our working capital (excess of current assets over current liabilities) increased by RMB143.8 million (or 67.3%) to RMB357.3 million (31 December 2013: RMB213.5 million). The increase was primarily the combined effect of the increase in inventories, trade and other receivables and bank loans as part of the growth in business operations, and the increase in cash and cash equivalents as a result of the proceeds from the issue of shares of the Company upon placing.

While most of our customers are extending the period of their early purchase orders, the Group was able to maintain higher inventory levels to match their demands. At the meantime, the increase in trade and other receivables was mainly attributable to the increase in sales and increased prepayments to our suppliers so as to secure stable supply of timber at favourable prices. As at 31 July 2014, trade and other receivables amounted to RMB114.1 million are subsequently settled or recognized as cost of purchases.

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 30 June 2014, the Group had current assets of RMB753.0 million (31 December 2013: RMB498.8 million), of which bank deposits and cash (including pledged deposits) were RMB233.7 million (31 December 2013: RMB143.7 million). To better manage our funds, the Group's cash is generally deposited with banks and denominated mostly in RMB and US\$. As at 30 June 2014, total available banking facilities of the Group amounted to RMB563.7 million (31 December 2013: RMB489.3 million), banking facilities utilised as at 30 June 2014 were RMB356.3 million (31 December 2013: RMB264.7 million) and these bank borrowings were denominated in RMB and US\$. The ratio of outstanding bank loans to total assets was 33.0% (31 December 2013: 32.8%).

As at 30 June 2014, current ratio⁽¹⁾ of the Group was 1.9:1 (31 December 2013: 1.7:1). Debt-to-equity ratio⁽²⁾ was 19.1% (31 December 2013: 25.4%).

- (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

As at 30 June 2014, the Group had pledged its plant and machinery, lease prepayments and buildings held for own use with net book value of RMB148.0 million (31 December 2013: RMB114.6 million) and deposits with banks of RMB100.1 million (31 December 2013: RMB68.6 million) mainly for the purpose of securing bank loans and financial derivative contracts issued by banks to the Group.

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 RMB23.9 million (20131H: RMB78.6 million).

Contingent liabilities

There were no significant contingent liabilities for the Group as at 30 June 2014.

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. The Group 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 profit 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\$. In response to this, the Group manages the fluctuations in the exchange rate of RMB against US\$ by entering into foreign currency forward contracts denominated in US\$ with banks when sales contracts were entered with overseas customers. As at 30 June 2014, the Group held outstanding US\$ denominated forward foreign currency contracts of US\$25.0 million (31 December 2013: US\$17.2 million). All the contracts are to be settled within one year.

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 30 June 2014, the unutilised proceeds were deposited in licensed banks in Hong Kong and the PRC.

	Percentage to total amount	Net Proceeds <i>HK\$'million</i>	Utilised amount as at 30 June 2014 <i>HK\$'million</i>	Unutilised amount as at 30 June 2014 <i>HK\$'million</i>
Establishing new production facilities	29.0%	41.8	41.8	–
Establishing own-brand self-operated stores network	27.6%	39.8	30.6	9.2
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	11.1	–
Increasing and enhancing our research and development activities	6.8%	9.8	9.8	–
General working capital	9.6%	13.9	13.9	–
		<u>144.3</u>	<u>107.2</u>	<u>37.1</u>

Human resources

As at 30 June 2014, we employed a total of 632 (20131H: 525) 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 Period were RMB15.3 million (20131H: RMB13.0 million). The Group offered highly competitive salary package, as well as discretionary bonuses and contribution to social insurance to its employees.

Events after the reporting period

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

Prospects

To ensure the Group meets the continuously growing demand from customers, the Group is actively expanding its production capacities. The Group's expansion plan for the Phase III production facilities has commenced in June 2014. In June 2014, the Group has raised HK\$155.0 million through placing and issuing new shares of the Company, which provides the funds for the Group's expansion plan and general working capital.

The Group believes that, to align with trend of the Chinese tourism and leisure market and to capture the opportunity arisen from the recovery of the US and Europe's property market, will certainly benefit to Group. The Group is full of confidence in the second half of 2014, and is committed to get hold of the market opportunities and to strive for innovation, with a vision to move the Group to its new heights.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

In June 2014, the placing of 200,000,000 existing shares by the Company, and the subscription of 200,000,000 new shares by Green Seas Capital Limited, both at a price of HK\$0.8 per share, were completed. Net proceeds of the subscription amounted to approximately HK\$155.0 million. For the details of the placing and subscription, please refer to the announcements of the Company dated 18, 19 and 26 June 2014, respectively.

Save for the placing and subscription mentioned above, 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.

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 Zheyuan, 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 Zheyuan's experience and established market reputation in the industry, and the importance of Mr. Wu Zheyuan 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 (except Mr. Lee Kong Wai, Conway who was appointed after the Period) 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.

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 2014 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 2014
“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
“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 Zheyang
Chairman

Hong Kong, 26 August 2014

As at the date of this announcement, the executive Directors are Mr. Wu Zheyang, Mr. Wu Qingshan and Ms. Xie Qingmei, the non-executive Directors are Mr. Lee Kong Wai, Conway and Mr. Wu Dongping, and the independent non-executive Directors are Mr. Lam Hin Chi, Prof. Jin Zhongwei and Prof. Su Wenqiang.